

Appendix 4E

(Rule 4.3A)

Baby Bunting Group Limited

ABN 58 128 533 693

For the year ended: 52 weeks ended 24 June 2018

Previous corresponding period: 52 weeks ended 25 June 2017

Results for announcement to the market

	2018 \$'000	2017 \$'000	Mvmt \$'000	up/(down) %
Statutory Financial Results				
Revenue from ordinary activities	303,093	278,027	25,066	9.0%
Net profit from ordinary activities after tax attributable to members	8,686	12,247	(3,561)	(29.1%)
Net profit attributable to members	8,686	12,247	(3,561)	(29.1%)
Earnings before interest, tax, depreciation and amortisation	17,549	22,138	(4,589)	(20.7%)
Pro Forma Financial Results				
Revenue from ordinary activities	303,093	278,027	25,066	9.0%
Net profit from ordinary activities after tax attributable to members	9,607	12,957	(3,350)	(25.9%)
Net profit attributable to members	9,607	12,957	(3,350)	(25.9%)
Earnings before interest, tax, depreciation and amortisation	18,620	22,972	(4,352)	(18.9%)

Pro forma financial results have been calculated to exclude employee equity incentive expenses for the current and previous reporting periods. Equity incentive expenses have been excluded 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.

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 \$'000	Sales	EBITDA	EBIT	NPAT
Statutory results	303,093	17,549	13,186	8,686
Performance rights ¹	–	572	572	572
Employee share plan offer ²	–	499	499	499
Tax impact from pro forma adjustments	–	–	–	(150)
Underlying statutory results	303,093	18,620	14,257	9,607
Pro forma results	303,093	18,620	14,257	9,607

1. Expense reflects the cost amortisation of performance rights (LTI) granted and outstanding in the current reporting period.

2. 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.

Appendix 4E

(Rule 4.3A)

Results for announcement to the market (continued)

Pro Forma Financial Results (continued)

The following table reconciles the statutory to pro forma financial results for the year ended 25 June 2017 (noting that this financial information has not been audited in accordance with Australian Auditing Standards):

Year ended 25 June 2017 \$'000	Sales	EBITDA	EBIT	NPAT
Statutory results	278,027	22,138	18,110	12,247
Performance rights ¹	–	419	419	419
Employee share plan offer ²	–	415	415	415
Tax impact from pro forma adjustments	–	–	–	(124)
Underlying statutory results	278,027	22,972	18,944	12,957
Pro forma results	278,027	22,972	18,944	12,957

1. Expense reflects the cost amortisation of performance rights (LTI) granted and outstanding in the reporting period.

2. The Company issued 132,368 shares (334 shares per eligible employee) under its General Employee Share Plan in the reporting period with no monetary consideration payable by participating eligible employees who each received approximately \$1,000 worth of shares.

Dividends

	Amount per security (cps)	Franked amount
Dividends paid		
Final 2017 dividend – paid 15 September 2017	4.3	100%
Interim dividend – current period	2.8	100%
Dividends determined		
Final 2018 dividend	2.5	100%
Record date for determining entitlements to the dividend	24 August 2018	
Date dividend is payable	14 September 2018	

The Company does not currently offer a dividend reinvestment plan.

Commentary on results for the period

For further explanation of the statutory figures above refer to the accompanying financial report for the year ended 24 June 2018, which includes the Directors' Report. The Full Year Results Presentation released in conjunction with this Results Announcement provides further analysis of the results.

Adjustments from statutory to pro forma financial results have been made to exclude employee equity incentive expenses.

Pro forma financial results have been prepared on a consistent basis with previously issued guidance for FY2018. Equity incentive expenses have been excluded 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.

Net tangible assets per ordinary share

	2018 \$	2017 \$
Net tangible asset per ordinary share		
Net tangible asset per ordinary share	0.35	0.36

Other information

Independent Audit by Auditor

This report is based on the consolidated financial statements which have been audited by Ernst & Young.



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The 2018 Baby Bunting Annual Report reflects Baby Bunting's performance for the 52 week period from 26 June 2017 to 24 June 2018.

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 2018 Annual General Meeting
10.00am (Melbourne time)
Monday, 19 November 2018
Level 26, 181 William Street
Melbourne VIC 3000

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**



Chairman and CEO's Report

The 2018 financial year saw Baby Bunting strengthen and consolidate its market leading position as the largest specialty baby goods retailer in Australia. In an ever changing retail environment, Baby Bunting has remained focused on providing the best products, services and advice as well as making investments in its strategies to deliver ongoing market share growth.

Baby Bunting was able to grow sales and transaction volumes in a difficult retailing environment characterised by significant price deflation that resulted from unprecedented sector consolidation during the year.

The focus for the year ahead is to grow our business by continuing to deliver to our customers the broadest range, at the best value, conveniently across multiple channels while providing excellent service and advice. By doing this we will be well placed to generate future growth and profitability for our shareholders.

This strategy is underpinned by the dedication of our passionate Team Members across the entire organisation who are all committed to making Baby Bunting the most loved baby retailer for every family, everywhere.



The 2018 financial year saw some unprecedented changes in the baby goods sector. These changes created some short term challenging market conditions for Baby Bunting, which impeded earnings in the financial year but bode well for Baby Bunting's growth strategy in the years ahead.

Despite the challenges, the business delivered another year of good revenue growth. It has been a year of significant achievement for the business. Baby Bunting expanded our store network to almost 50 stores, grew private label and exclusive products to be over 20% of sales, grew online sales by more than 63% and click and collect sales by 66%. Baby Bunting's focus on customer service has seen customer satisfaction measured by Net Promoter Score (NPS) increase to 70. Finally, important executive appointments have been made in the key growth areas of digital, marketing and loyalty, and supply chain.

Industry consolidation

Baby Bunting's four largest specialty baby goods competitors entered external administration during the year and have either ceased trading or are expected to shortly cease trading. The largest of these competitors was Babies R Us/Toys R Us, with a network of 45 stores across Australia. A large number of its stores are located in the same catchment as a Baby Bunting store. The external administrations of Bubs Baby Stores, Baby Bounce and Baby Savings also saw a number of specialty baby goods stores close, in particular in New South Wales, Queensland and Western Australia.

These closures had an effect on Baby Bunting's sales and gross margin performance during the year, as distressed retailers in the market lowered retail prices to generate sales and clear inventory. In maintaining our focus on providing great value to our customers, Baby Bunting's pricing took account of external conditions.

During the year, Amazon commenced operations in Australia. It joined a number of other online marketplaces offering an assortment of baby goods. The growth of online marketplaces has been a key development in Australian retail over the last few years.

With these sector changes, Baby Bunting's strategy is evolving to meet these changes (see below). We believe that to continue to be a successful specialty baby goods retailer, Baby Bunting must remain focused on providing our customers with a seamless shopping experience across our physical store and online channels.

FY2018 financial results overview

The sector consolidation created a challenging trading environment. Baby Bunting grew its market share, as evidenced by both its total sales and transaction volume growth. However, price deflation through market discounting affected margins and, ultimately, resulted in earnings and profit ending the year below the levels that were targeted.

In FY2018:

- total sales were \$303.1 million, up 9.0% on the prior corresponding period;
- total number of transactions was up 12.5% and comparable store sales transactions were up 2.6%;
- comparable store sales were flat on the prior corresponding period;
- gross profit increased 5.9% on the prior corresponding period to \$100.9 million;
- gross profit as a percentage of sales declined 100 basis points to 33.3%, reflecting the price deflation in the period.

Statutory NPAT was \$8.7 million, down 29.1% on the prior corresponding period and the Company finished the financial year with net debt of \$3.5 million.

On a pro forma basis excluding the non-cash impact of employee equity incentive expenses:

- pro forma earnings before interest, tax, depreciation, and amortisation (EBITDA) were \$18.6 million, down 18.9% on the prior corresponding period. Pro forma EBITDA margin decreased by 210 basis points to 6.1%; and
- pro forma net profit after tax (NPAT) was \$9.6 million, down 25.9% on the prior corresponding period.

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

Dividends

The Board has approved a final dividend of 2.5 cents per share fully franked. Together with the interim dividend of 2.8 cents per share, the total dividend payment for the year is 5.3 cents per share.

This is equivalent to approximately 70% of the Company's FY2018 pro forma NPAT.

Operational highlights

FY2018 was a year when the Company continued to focus on improving the execution of the retail experience for our customers as well as working to give effect to the Company's broader strategy.

Growing the store network

During the year, new Baby Bunting stores were opened in Munno Para (SA), Albury (NSW), Aspley (Qld), Rutherford (NSW) and Browns Plains (Qld). A further store was opened in Toowoomba (Qld) in July 2018, bringing Baby Bunting's store network to forty-eight stores.

In the financial year ahead, Baby Bunting will be opening a number of exciting new stores in strategic markets, including in Chatswood in Sydney and our first store in Tasmania at Hobart.

Towards the end of the first half, Baby Bunting also expects to open a store at Chadstone Shopping Centre in Melbourne, its first in a major shopping centre. The circa 1,500 square metre store will enable Baby Bunting to showcase a range of brands and products at Australia's premier retail destination, while still providing services our customers expect such as a car seat fitting service and convenient bulky goods collection.

Digital and online

In FY2018, a focus was on enhancing the existing digital offering while also looking to prepare for future expansion and investment. Total online sales grew 63%, and click and collect sales grew 66%, on the prior financial year. Online sales now represent 9.5% of total sales. The growth of the store network has complemented the growth in online sales, with online sales in relevant catchments consistently increasing following the establishment of a Baby Bunting store in that area.

Chairman and CEO's Report

An exciting and significant achievement during the year was the launch of the Baby Bunting gift registry app for mobile devices. The gift registry app enables parents and parents-to-be to create gift registries consisting of products selected from Baby Bunting's range. The gift registry can be easily shared with family and friends and provides a very convenient way for gifts to be selected and purchased.

The website re-platform project commenced in the second half of FY2018 with the objective of deploying a new e-commerce platform, to provide a step change in Baby Bunting's digital channel and to deliver engaging content and experiences for our customers at

every stage of their journey as parents or parents-to-be. The deployment of the new e-commerce platform is expected to be complete towards the end of the first half of FY2019.

Merchandise and private label

The expansion of Baby Bunting's range of private label and exclusive products continued during the year, with sales increasing by 100% and sales of these products now representing 20.9% of total sales. This growth has come primarily from the support of key suppliers expanding the range of their products sold exclusively through Baby Bunting in particular in the prams and strollers, cots and furniture and the car safety categories.

In July 2017, Baby Bunting commenced offering everyday low prices for our Best Buy range of products. In conjunction with this, the Best Buy range was expanded to cover our core range of car seats. This was a market leading move in what turned out to be a year of significant change in the market.

Supply chain strategy

In the second half of FY2018, the Company finalised its supply chain strategy, which consists of a number of projects and initiatives with the objective of improving both the efficiency and flow of product from source to customer. Marcus Robinson was appointed as General Manager of Supply Chain in December 2017 to lead this strategy.



To date, completed initiatives include consolidation of outbound transport services providers into a single national provider, improvements in upstream supply arrangements as well as greater efficiency in online store fulfilment. Work has also commenced on planning for future distribution arrangements recognising the future growth in the Company's store network throughout Australia.

Other achievements

Other achievements and highlights for the year include:

- delivering a high level of customer satisfaction and building loyalty to the Baby Bunting brand, as measured by a Net Promoter Score for the year of 70;

- introducing buy now, pay later products such as Afterpay, zipMoney and zipPay, to provide customers with increased payment and finance flexibility;
- appointing Sue Dawson, as General Manager of Marketing, to lead and enhance Baby Bunting's marketing, brand, loyalty and customer engagement efforts, across all channels.

Evolving Baby Bunting's strategy

Our core purpose is to support new and expectant parents in navigating the early years of parenthood. We aim to do this by providing a range of services, great advice, the widest selection of products and at low prices every day.

These are all key elements that will help us work towards our vision of being the most loved baby retailer for every family, everywhere.

The Board is continually reviewing the Company's strategy. As a result, Baby Bunting's growth strategy to grow market share has been refined to reflect the changing circumstances in the Australian baby goods retail market.

The key elements of the strategy are:

- to invest in digital to deliver the best possible customer experience across all channels;
- to invest to grow sales from existing stores;
- to be more accessible to our customers by opening stores in new markets, with a store roll-out plan that targets a network of more than 80 stores (with between four to eight new stores a year); and

- achieving EBITDA margin improvement including through expanding the range of private label and exclusive products and building a more efficient supply chain from source to the customer.

The Board believes these elements will assist in growing market share and in generating future growth and profitability for our shareholders.

Further information on the Company's strategy is in the Operating and Financial Review.

The Board

At the end of the year, Stephen Roche retired as Non-executive Director. The Board has commenced a process to identify appropriate candidates for appointment as a Non-executive Director. In doing so, the Board is focused to ensure that it collectively reflects the mix of skills and diversity appropriate for the Company's stage of development and having regard to the Board skills matrix.

You can read more about the Board and the Board's mix of skills and diversity in the Corporate Governance Statement included in this Annual Report.

To close, we would like to thank all of Baby Bunting's nearly 1,000 Team Members for their continuing commitment to make Baby Bunting the most loved baby retailer for every family, everywhere.



Ian Cornell
Chairman

Ian Cornell



Matt Spencer
CEO and Managing Director

Matt Spencer

Baby Bunting's strategy is to grow market share through investing in digital to deliver the best possible customer experience across all channels, investing to grow sales from existing stores, to grow from opening new stores in new markets and achieving EBITDA margin improvement.

These elements are supported by building the Best Team, investing in cloud-based business systems and customer-led business processes and establishing best in class supply chain and customer fulfilment processes.

By pursuing this strategy, Baby Bunting aims to achieve its vision to be the most loved baby retailer for every family, everywhere.

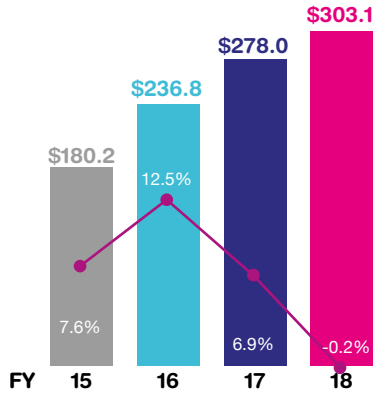
OUR STRATEGY

**OUR CORE
PURPOSE IS TO
SUPPORT NEW AND
EXPECTANT PARENTS
IN NAVIGATING THE
EARLY YEARS OF
PARENTHOOD.**



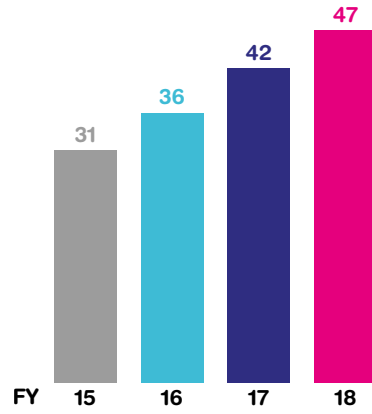
SALES (\$m)

—●— Comparable store sales growth (%)



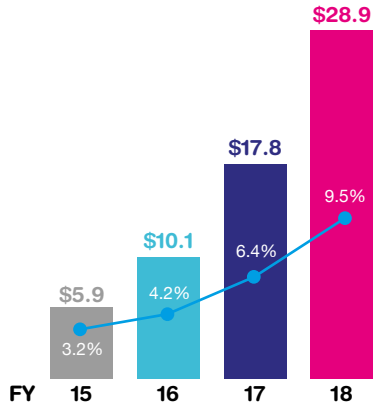
STORES

Number of stores at year end



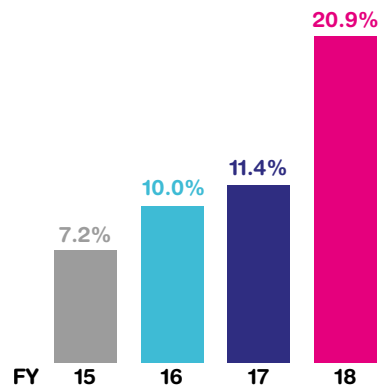
ONLINE SALES (\$m)

—●— % Total sales



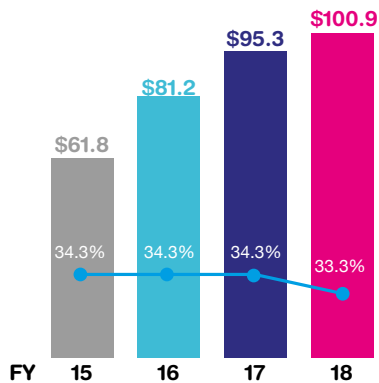
PRIVATE LABEL & EXCLUSIVE PRODUCTS

% of Total Sales

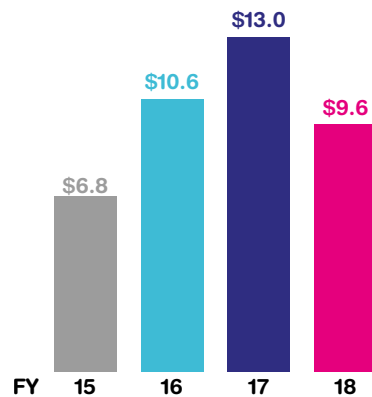


GROSS PROFIT (\$m)

—●— Gross margin (%)



PRO FORMA NPAT (\$m)



The financial year saw unprecedented industry changes with Baby Bunting's four largest specialty baby goods competitors either ceasing to trade or announcing that they will shortly exit the market.

This industry consolidation adversely affected Baby Bunting's financial results for the year. There was significant price deflation as a result of market discounting which affected margins and ultimately resulted in earnings and profit ending the year below the levels targeted at the start of the year.

Notwithstanding these conditions, Baby Bunting was able to grow sales and transaction volumes and gross profit.



This year we grew our network through the addition of new stores in Munno Para (SA), Albury (NSW), Aspley (Qld), Rutherford (NSW) and Browns Plains (Qld). The first store for FY19 has recently opened at Toowoomba (Qld). With our 48 stores, Baby Bunting is Australia's largest specialty baby goods retailer.

Baby Bunting aims to grow from opening stores in new markets, with a store roll-out plan that targets a network of more than 80 stores (with between four and eight new stores a year).

In the year ahead, Baby Bunting will be opening exciting new stores in strategic markets. Among others, these include a new store at Chatswood in Sydney, our first store in Tasmania at Hobart and a new store at Chadstone Shopping Centre in Melbourne.

As part of our store strategy, our nearly 1,000 passionate Team Members are committed to delivering the best products, service and advice in our stores to achieve our vision to be the most loved baby retailer for every family, everywhere.

**48 STORES
ACROSS
AUSTRALIA**

**OUR
STORES**

**ROLL-OUT
TO OVER
80 STORES**

QLD

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

NSW/ACT

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

VIC

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

SA

- Gepps Cross
- Melrose Park
- Mile End
- Munno Para

WA

- Baldivis
- Cannington
- Joondalup
- Midland
- Myaree
- Osborne Park





Baby Bunting

**MAKES
CREATING AND
MANAGING A
GIFT REGISTRY
EASY**

Log in

or Sign up

Our new Baby Bunting Gift Registry App has launched. It enables parents-to-be and new parents to help family and friends choose the perfect gift for their baby shower, birthday or any other special occasion.

Gift registries can be created with the app by scanning items in store, or browsing online from Baby Bunting's extensive range of prams, car seats, carriers, furniture, babywear, toys, feeding and much more.

Baby Bunting gift registries work seamlessly across our website and in-store and can be shared easily via social media, email and sms. It allows customers to track items that have been purchased for them.

An exciting new initiative delivered as part of Baby Bunting's digital road map to bring together our customers' online and in-store experience.

**OUR
APP**

**DOWNLOAD
NOW**

**AVAILABLE
FROM THE APP
STORE AND
GOOGLE PLAY**



OUR BOARD



**STRONG AND
EXPERIENCED
TEAM**

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

Ian Cornell

1

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). Ian was a non-executive director of Goodman Fielder Limited (appointed February 2014 and ceasing in March 2015).

Matt Spencer

2

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

3

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

4

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

5

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).

Stephen Roche

Non-Executive Director
BBus, FAICD

Stephen was a Non-executive Director during the year. He retired as a director on 24 June 2018. Stephen was a member of the Audit and Risk Committee.

From August 2006 to February 2017, Stephen was Managing Director and Chief Executive Officer of Australian Pharmaceutical Industries Limited (API). Before joining API, he was Group General Manager, Health Services for Mayne Group Limited. He has also had held senior management roles at FH Faulding & Co Limited and CSR Limited.



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 Focused

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 VALUES

Sustainability

ENVIRONMENT

Our focus is on targeting ways to conserve energy, reduce waste and lower our environmental footprint across our network of stores and our Store Support Office and Distribution Centre, in order to operate on a sustainable basis.

Some of our environmental sustainability initiatives include:

Store lighting upgrade project

The Company has continued with a program of replacing and upgrading lighting in Baby Bunting's stores. This project has seen Baby Bunting replacing existing store lighting with energy efficient LED lighting. The program has recently been extended to Baby Bunting's Store Support Office. This project has reduced significantly the electricity consumed by lighting in the Company's stores.

Solar powered extraction vents

Baby Bunting has continued with its program of installing solar powered extraction vents in some of our stores for use in the "back-of-house" parts of the store. These vents are designed to reduce the temperatures for our teams in store during the warmer months, while also reducing the amount of warm air that might circulate throughout the store – which can result in increased energy consumption through air conditioning use.

Store standard scope of works

Baby Bunting has a standard scope of works for its stores to be used for the development of a new store. Our standard scope of works stipulates:

- energy efficient LED lighting (as described above);
- lighting control systems to ensure that all non-essential lighting is switched off when not required. Simply put, when a store alarm is turned on at night, all non-essential lighting circuits are switched off;
- motion-sensor lighting to non-retail areas in our stores;
- rain water harvesting for use in store toilets to reduce the amount of mains water that is used in store.

Waste packaging harvesting

We operate a "harvest recycling program" at our stores. This program significantly reduces the amount of waste from stores going to landfill. This program involves collecting cardboard, paper, plastic film, pallet shrink wrap and polystyrene. Waste products in these bins are then collected for recycling.

Australian packaging covenant

Baby Bunting is a signatory to the Australian Packaging Covenant. This is a voluntary program involving both Government and industry to ensure the environmental impact from packaging is reduced, measured and understood. Each signatory to the Australian Packaging Covenant is required to have an action plan which sets out what the signatory proposes to do to contribute to the Australian Packaging Covenant's objectives and goals.

CUSTOMERS

Providing our customers with great products, service and advice is critical to ensuring Baby Bunting's business is sustainable.

Measuring customer satisfaction can be done in many ways. Baby Bunting has processes for customers to provide feedback following each transaction. This feedback includes Net Promoter Score feedback, where customers are categorised as "promoters", "passives" or "detractors" based on how likely they would be to recommend Baby Bunting to a friend or colleague. The Net Promoter Score is measured by subtracting the percentage of detractors from the percentage of promoters.

For the 2018 financial year, Baby Bunting's overall NPS was 70. This was a very pleasing result. However, Baby Bunting does not merely consider the overall NPS score. Qualitative feedback is assessed with a view to always continuing to improve the quality of the service and advice provided to Baby Bunting customers.

PEOPLE

Passionate Team

Baby Bunting is committed to investing in developing and retaining talented and passionate Team Members. This involves building capabilities to provide training and leadership to Team Members in stores to grow and nurture talent.

During the year, 35 Team Members were promoted into store management and key Store Support Office positions. This meant 41% of key opportunities that arose during the year were filled by internal candidates.

In the financial year, Team Members' completed over 45,000 hours of training in courses developed and deployed by Baby Bunting's Learning and Development Team. These courses included training on new products to ensure Team Members' product knowledge remains high, as well as courses on leadership, safety and compliance.

Building the best team is a key goal at Baby Bunting – not only to ensure that 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. In 2016, Baby Bunting conducted its first employee engagement survey. A second employee engagement survey was conducted during the year. Both surveys revealed high levels of engagement and alignment among Baby Bunting Team Members and highlighted areas for further development.

Around 47% of Baby Bunting Team Members are shareholders (up from 43% in the prior year). This is largely due to the operation of the Company's General Employee Share Plan. This plan provides employees with an opportunity to own Baby Bunting shares and participate in the benefits of share ownership.



Sustainability

Diversity and Inclusion

The Company has a Diversity and Inclusion 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 addressed in the policy include a commitment to diversifying sources of recruitment and merit-based appointments, as well as recognition that the Company will not tolerate unlawful discrimination, bullying, harassment or victimisation. (See the Corporate Governance Statement for further information.)

Safety

Safety is a key focus for Baby Bunting. During the FY2018 year, the number of employees increased by 8%. At the same time, the Company's lost time injury frequency rate reduced by 33% on the previous year. Baby Bunting has programs and procedures intended to ensure that all employees are aware of the importance of safety and of safe ways of working.

COMMUNITY

Life's Little Treasures Foundation

Baby Bunting has been a Major Corporate Partner of the Life's Little Treasures Foundation for the past two years. In 2018, Baby Bunting renewed its commitment for a further two years. 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 over 48,000 babies are admitted to neonatal intensive care units and special care nurseries.

Baby Bunting will continue as the presenting partner for the Life's Little Treasures Foundation annual "Walk for Prems" event. This year, the event will be held on 28 October 2018 at locations throughout Australia. Further information about the Foundation and how to contribute is available at lifeslittletreasures.org.au.

As part of its commitment to corporate volunteering, Baby Bunting supported Team Members who wished to volunteer at Life's Little Treasures Foundation during the year. This provided valuable assistance to the Foundation in the lead up to the "Walk for Prems" event.

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, counselling 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 to 2020.

Support for not-for-profit organisations

Baby Bunting supports not-for-profit organisations involved in providing new and pre-loved baby goods and nursery equipment to families in need. This is an area that the Company will be building upon in future years. We recognise that this not only assists families and children, but can also result in more efficient use of resources through ensuring products have continued use throughout their effective life.





Baby Bunting

The one stop baby shop



WELCOME



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 24 June 2018 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). 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

The Board has adopted a Diversity and Inclusion Policy which sets out Baby Bunting's commitment to recognising the importance of diversity and inclusion for its business. This is described on page 20.

Measurable objectives

The Board has adopted the following measurable objectives in respect of gender diversity and inclusion:

Objectives	Progress
Develop training for Leaders in the Company to ensure we continue to build capability at the top to drive a culture of supporting diversity and inclusion goals	Continuing development during FY2019
Increase the proportion of female managers in Regional or Area Managers roles	An additional female Area Manager was promoted from a Store Manager role during the year bringing the proportion of female Area Managers to 33%
Further integrate diversity and inclusion into our regular business activities	Progress made with leaders valuing diversity as demonstrated through managing workplace flexibility and ensuring a focus on a diverse team
Maintain contact with Team Members on parental leave	Promote keeping in touch program for employees on parental leave, with relevant managers required to regularly keep in touch with Team Members on parental leave
Achieve and maintain a high return rate for Team Members returning from parental leave	96% of Team Members who went on parental leave returned to work at the end of their parental leave
Develop diversity educational framework to provide management with capability to lead and manage diversity and diverse teams	Continuing development during FY2019

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 24 June 2018	Total number in category at 24 June 2018	% of females	Number of females in category at 25 June 2017	Total number in category at 25 June 2017	% of females
Board (including CEO and Managing Director)	2	5	40%	2	6	33%
Senior Executives	2	8	25%	2	7	29%
Regional, Store and Area Managers	35	53	66%	35	47	74%
All Team Members	775	971	80%	715	897	80%

In May 2018, the Company lodged its Workforce Profile report with the Workplace Gender Equality Agency (WGEA).

Corporate Governance Statement

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 page 15. 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. Following the retirement of Stephen Roche at the end of the financial year, the Board has commenced a process to identify candidates to be considered for appointment to the Board.

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 four 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 role	4
Logistics Knowledge and experience in retail logistics and distribution	2
Information technology Knowledge and experience in the use and governance of information technology and applications in a retail environment	4
Digital disruption Current experience with digital and online retailing, including a familiarity with changes in technology, applications and changing consumer habits	3
Executive leadership Demonstrated success at CEO or senior executive level in a major business	4
Commercial and financial acumen Demonstrated success in sustainably managing the financial performance of a large retail business or commercial undertaking	4
People Experience with managing people and teams, including the ability to appoint and evaluate senior executives, manage talent development and oversee organisational change	3
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)	2
ASX board experience and investor advocacy Experience as either a non-executive director of an ASX listed company, including an ability to articulate the expected views of all categories of investors	4

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

Corporate Governance Statement

Independent Directors

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

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

Stephen Roche, who retired as a director on 24 June 2018, had been appointed on 1 May 2017. He was assessed to be an independent director.

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

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).

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 Stephen Roche (retired 24 June 2018) Ian Cornell (appointed 16 July 2018)

Details of the qualifications and experience of Committee members are set out in the Company's Annual Report.

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 31 December 2017 and the full year ended 24 June 2018, 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 19 November 2018.

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 Company has also adopted a Securities Trading Policy that imposes certain restrictions on officers, employees and related persons trading in the Company's securities.

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.

Corporate Governance Statement

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 24 June 2018 will be held on 19 November 2018. The Board intends that general meetings be held 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.

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.

The Audit and Risk Committee considers and reviews the risk management framework during 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 37 and 38. 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.

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.

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for the year ended 24 June 2018

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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 24 June 2018.

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 navigating 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 48 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.
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.

Directors' Report

Drivers of competitive advantage	Comment
Competitively priced	<p>Baby Bunting's approach to pricing is centred on offering customers value every visit, every day. As the customer journey evolves in a digital world, transparency on pricing is very important.</p> <p>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.</p> <p>Baby Bunting also has a "Best Buy" range, with everyday low prices. The Best Buy range includes our core range of car seats.</p>
Comprehensive range of ancillary services	<p>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.</p>
Cost effective marketing	<p>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 approximately 2% of sales.</p> <p>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.</p>

2.2 Store network

The Company currently operates a network of 48 stores across all Australian states and territories, except Northern Territory and Tasmania. The location and layout of stores is designed to deliver customers a consistent retail experience across the network.

The Company opened its forty-eighth store at Toowoomba, Queensland in July 2018. Toowoomba is the first of between five and eight stores the Company plans to open in FY2019.

2.3 People

At the end of the financial year, the Company employed 971 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 FY2018 included:

- finishing the year with a Net Promoter Score at 70;
- opening five new stores, being Munno Para (SA), Albury (NSW), Aspley (Qld), Browns Plains (Qld) and Rutherford (NSW);
- undertaking the second annual employee engagement survey, showing continuing high levels of employee engagement and alignment;
- continuing to expand the range of private label and exclusive products – together these categories made up 20.9% of sales (23.2% in the second half). This is a demonstration of the work undertaken by Baby Bunting's merchandise team in building and enhancing relationships with key suppliers;
- investing in systems to deliver better information and operational efficiencies in stores, including third party logistics integration; and
- providing customers with flexible payment solutions via Afterpay, zipMoney and zipPay.

2.5 Review of the Company's financial performance

Summary

- Total sales up 9.0% to \$303.1 million, with comparable store sales growth flat for the year;
- Gross profit of \$100.9 million up 5.9%. Gross profit as a percentage of sales was 33.3%, a reduction from 34.3%;
- Statutory net profit after tax (NPAT) of \$8.7 million, a decrease of 29.1% on the prior financial year;
- Statutory basic earnings per share (EPS) of 6.9 cents; and
- Net debt of \$3.5 million (versus net cash of \$1.6 million at the end of FY2017).

In relation to the 2018 and 2017 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.

On a pro forma basis, the FY2018 financial results were:

- pro forma* earnings before interest, tax, depreciation, and amortisation (EBITDA) of \$18.6 million down 18.9% on the prior year;
- pro forma* earnings before interest and tax (EBIT) of \$14.3 million, down 24.7% on the prior year;
- pro forma* NPAT of \$9.6 million, down 25.9% on the prior year; and
- pro forma* costs of doing business (CODB) were \$82.3 million or 27.1% of sales, an increase of 113 basis points on the prior year (CODB of 26.0% of sales in FY2017).

* Pro forma financial results exclude the impact of employee equity incentive expenses for FY2018 and for FY2017.

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.

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	Sales	EBITDA	EBIT	NPAT
Statutory results	303,093	17,549	13,186	8,686
Performance rights ¹	–	572	572	572
Employee share plan offer ²	–	499	499	499
Tax impact from pro forma adjustments	–	–	–	(150)
Underlying statutory results	303,093	18,620	14,257	9,607
Pro forma results	303,093	18,620	14,257	9,607

1. Expense reflects the cost amortisation of performance rights (LTI) granted and outstanding in the current reporting period.

2. 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.

Directors' Report

The following table reconciles the statutory to pro forma financial results for the year ended 25 June 2017 (noting that this financial information has not been audited in accordance with Australian Auditing Standards):

Year ended 25 June 2017	Sales	EBITDA	EBIT	NPAT
Statutory results	278,027	22,138	18,110	12,247
Performance rights ¹	–	419	419	419
Employee share plan offer ²	–	415	415	415
Tax impact from pro forma adjustments	–	–	–	(124)
Underlying statutory results	278,027	22,972	18,944	12,957
Pro forma results	278,027	22,972	18,944	12,957

1. Expense reflects the cost amortisation of performance rights (LTI) granted and outstanding in the reporting period.

2. The Company issued 132,368 shares (334 shares per eligible employee) under its General Employee Share Plan in the reporting period with no monetary consideration payable by participating eligible employees who each received approximately \$1,000 worth of shares.

Revenue

The FY2018 sales of \$303.1 million represented an increase of 9.0% on FY2017. This sales growth was achieved through:

- growth from the opening of five new stores during FY2018;
- the annualising benefit of six stores opened in FY2017, trading for a full financial year in FY2018.

Comparable store sales growth for the year was flat. 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. Price deflation of 3.6% acted to constrain comparable stores sales growth. (Price deflation is a measure of change in average sale price of all items (excluding clearance and new items)). The price deflation primarily arose due to significant price discounting across the year by distressed retailers, a large number of whom either ceased trading or have announced that they will shortly exit the market. These competitors included Babies R Us/Toys R Us with a network of 45 stores across Australia, Baby Bounce (stores in New South Wales and Queensland), Baby Savings (stores in New South Wales) and Bubs Baby Stores (stores in Queensland and New South Wales).

Sales from private label and exclusive products grew by 100% on the prior year, and were 20.9% of total sales in FY2018, up from 11.4% in FY2017. 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 was expanded to include the core range of car seats in July 2017.

Online sales continued to see strong annual growth. Total online sales (including click & collect) grew 63% on the prior financial year and click & collect sales grew 66%. Online sales now represent 9.5% 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 113 basis points to be 27.1% of sales (versus 26.0% of sales in FY2017). In FY2018, pro forma CODB expenses were \$82.3 million, up 13.8% on the prior year pro forma CODB expenses of \$72.3 million. The increase in business expenses was driven by:

- six stores opened in FY2017 trading for a full financial year in FY2018;
- five new stores opened in FY2018; 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 debt position of \$3.5 million, down \$5.1 million on the prior year net cash position of \$1.6 million. The \$5.1 million movement was driven by \$2.7 million less of cash generated from operations less the following significant cash outflows:

- payment of \$8.9 million in dividends, relating to the FY2017 final dividend of \$5.4 million (paid on 15 September 2017) and the FY2018 interim dividend of \$3.5 million (paid on 16 March 2018); and

- capital expenditure of \$6.7 million in FY2018,

less cash inflows of \$6.0 million from debt draw-down.

Maintaining appropriate inventory levels to fulfil customer needs continues to be a key focus of the business. In FY2018, inventory increased by \$6.7 million to be \$54.6 million at the end of FY2018. The increase was driven by a combination of five new stores opened in FY2018 plus the Toowoomba store that opened shortly after the year end (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. Inventory turn-over for FY2018 was 4.0 times per annum, consistent with the prior year at 4.1 times per annum.

Trade and other payables increased from \$28.0 million in FY2017 to \$31.8 million in FY2018, 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 2.5 cents per share fully franked. Together with the interim dividend of 2.8 cents per share, the total dividend to be paid in respect of FY2018 is 5.3 cents per share, equivalent to approximately 70% of the Company's FY2018 pro forma NPAT. The dividend payment date for the final dividend is 14 September 2018.

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 believes that the online experience and store experience for customers is complementary. This understanding has been confirmed by customer journey mapping undertaken during the year. Baby Bunting's website is an extension of the in-store experience. Successful execution requires engaging and retaining the customer through their journey as a parent.

Baby Bunting's goal is to create a seamless shopping experience across all channels. The website re-platform project commenced in the year and involves replacing existing Baby Bunting's e-commerce platform with the Sitecore Experience Commerce™ 9 platform. This platform was chosen to allow delivery of expanded content and more engaging experiences for customers at every stage of their journey as parents and parents-to-be. The project will involve creating a new website platform and is expected to be complete towards the end of the first half of FY2019.

Following the investments made during FY2017 in the Customer Relationship Management (CRM) system, considerable progress has been made in building and refining processes to provide a single view of the customer and their shopping preferences across the store network and online.

The Baby Bunting gift registry mobile app (available for iOS and Android devices) was launched during the year. It enables parents and parents-to-be to create gift registries which can be easily shared with family and friends to provide a convenient way for gifts to be selected and purchased. Over time, the mobile app will be enhanced to improve the customer experience and provide additional features and services.

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. A focus will be on making investments in fulfilment to improve stock availability and delivery times for customers, recognising that hard goods and bulky items represent a large proportion of goods purchased online.

Directors' Report

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 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 70.
- 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.
- focus on building brand awareness. During the year, a new role of General Manager of Marketing was created. Sue Dawson was appointed to that role and commenced in the second half to lead and enhance Baby Bunting's marketing and branding efforts, across all channels of the business.
- leveraging the store network to grow the services offered to customers which currently include services like car seat fittings.

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 34% of stores less than three years old.

The Company's "click & collect" service is a key feature and click & collect sales grew 66% during the year. Click & collect sales are fulfilled in store, providing very convenient fulfilment times for customers. During the year, Baby Bunting also implemented a "click & collect" service for purchases made on the Company's eBay store, enabling customers who purchase Baby Bunting goods on eBay to collect those goods in a Baby Bunting store.

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. In July 2018, the Company opened its forty-eighth store in Toowoomba, Queensland. 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 the following criteria:

- local market size;
- proximity to existing stores (cannibalisation is assessed using postcode analysis of sales at existing stores);
- demographic profile;
- site type (assessed by convenience, visibility, parking availability, parcel pick-up and other factors);
- store size and layout (the Company targets a store size of approximately 1,500 to 2,000 square metres, or 1,000 to 1,200 square metres in regional areas);
- available lease term;
- required upfront capital expenditure;
- relevant market conditions; and
- expected return on investment performance.

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.

In the financial year ahead, Baby Bunting will be opening a number of exciting new stores in strategic markets. A store at Chatswood in Sydney will be opened in the first half, in a strategically significant catchment where large format retail opportunities are limited. In the first half, Baby Bunting's first store in Tasmania (location Hobart) will be opened. This will be a milestone store, as it will be the 50th store in the Baby Bunting network.

Towards the end of the first half, Baby Bunting also expects to open a store at Chadstone Shopping Centre in Melbourne, its first in a major shopping centre. The circa 1,500 square metre store will enable Baby Bunting to showcase a range of brands and products at Australia's premier retail destination, while still providing services our customers expect such as a car seat fitting service and convenient bulky goods collection.

EBITDA margin improvement

In the prior period, the Company improved its pro forma EBITDA margin from 7.9% in FY2016 to 8.3% in FY2017. However, due to sales and earnings levels being lower than expected for the year (due to market conditions), pro forma EBITDA margin for FY2018 was 6.1%. In the current year, full year gross margin declined to 33.3% from 34.3% in the prior year. This decline was a consequence of the price deflation experienced during the year. The pro forma cost of doing business increased by 113 basis points in FY2018.

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 20.9% of sales, an increase of 100% 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.

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.

During FY2018, a supply chain review was undertaken, to ensure that Baby Bunting is over the years ahead maximising efficiencies in all elements of its supply chain and to improve the efficiency and flow of product from source to customer. Marcus Robinson was appointed as General Manager of Supply Chain to lead this strategy. This strategy will involve pursuing the benefits of the Company's investments in its Distribution Centre. Towards the end of the year, a single national outbound freight services provider was appointed. Previously, these services were provided by a range of providers. Targeted investments will also be made to improve online fulfilment. The supply chain strategy will also target upstream supplier efficiencies and savings. In addition, looking ahead into the future as our store network expands in Queensland and New South Wales, establishing a new store fulfilment distribution centre located to service these stores will be assessed. This is expected to eliminate significant line haul distances from the existing Distribution Centre located in Dandenong South (Vic).

Investments will continue to be made in the customer contact centre to deliver a better customer experience across all channels. Other areas of focus include core IT systems replacement work, digital investments and 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 28 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 key 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 the retail environment may cause consumers to reduce their level of consumption of discretionary items.

Directors' Report

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 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.

During the year, the Australian Competition and Consumer Commission (ACCC) has been investigating a possible contravention of the Australian Consumer Law arising from the sale of convertible tricycles. These products have been widely sold by specialty baby goods and toy retailers as well as discount department stores. The Company has withdrawn the products from sale. The Company has co-operated, and continues to co-operate, with the ACCC's investigation.

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 Cyber and technology 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, 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.

5. Significant changes in the state of affairs in FY2018

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 24 June 2018, 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 25 June 2017 (4.3 cents per share fully franked)	5,406
Interim dividend in respect of the half year ended 31 December 2017 (2.8 cents per share fully franked)	3,527

The Board has determined to pay a final dividend in respect of the financial year ended 24 June 2018 of 2.5 cents per share. This dividend is franked to 100% at the 30% corporate income tax rate. The record date for this final dividend is 24 August 2018 and the dividend payment date is 14 September 2018. The final dividend of 2.5 cents per share, when combined with the interim dividend of 2.8 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	–
Stephen Roche	Non-executive Director	1 May 2017	24 June 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 page 15 of the Annual Report.

Directors' Report

9. Meetings of Directors and Board Committees

The number of meetings of the Board and each Board Committee held during the period ended 24 June 2018 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.

Director	Meetings of directors		Audit and Risk Committee		Remuneration and Nomination Committee	
	Attended	Held	Attended	Held	Attended	Held
Ian Cornell	12	12	–	–	4	4
Matt Spencer	12	12	–	–	–	–
Gary Levin	12	12	5	5	–	–
Melanie Wilson	12	12	5	5	4	4
Donna Player	11	12	–	–	4	4
Stephen Roche ¹	12	12	5	5	–	–

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 = Stephen Roche retired on 24 June 2018.

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	1,387,132	1,981,714
Gary Levin	388,000	nil
Melanie Wilson	20,000	nil
Donna Player	16,000	nil
Stephen Roche (retired 24 June 2018)	35,000	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 46 to 48 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 514,000 performance rights under the LTI Plan. In addition, 348,620 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 the same performance conditions (see pages 46 to 48 of the Remuneration Report for more details).

Performance rights event	Issue price	Number of performance rights
Opening balance (26 June 2017)		5,295,904
Grant of rights under the LTI Plan (20 September 2017)	nil	214,000
Grant of rights under the LTI Plan (21 May 2018)	nil	300,000
Lapse of rights (28 July 2017)	n/a	(348,619)
Closing balance		5,461,285

The Board will determine whether the relevant performance conditions have been satisfied. Any performance rights that have not vested at the end of the third performance period (which occurs following the release of the Company's financial results for the 2020 financial year), will lapse.

Since the end of the financial year, the Company has agreed to grant 200,000 performance rights under the LTI Plan to a recently appointed executive reporting to the CEO and Managing Director. Having regard to these movements, the total number of performance rights granted and outstanding will be 5,661,285.

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 identify 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.

Directors' Report

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 (\$110,000) and non-audit (\$nil) services provided during the year are set out in the Financial Statements (at Note 27).

As no non-audit services were provided during the year, the Board has not needed to consider whether the provision of non-audit services was compatible with the general standard of auditor independence for auditors imposed by the Corporations Act.

19. Auditor's Independence Declaration

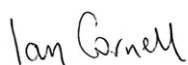
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is attached to this Directors' Report on page 52.

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 Class Order 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
Chairman

Melbourne: 10 August 2018

Remuneration Report

Dear shareholders

On behalf of your Board, I am pleased to present Baby Bunting's 2018 Remuneration Report.

The Company's remuneration strategy seeks to recognise performance and appropriately reward, incentivise and retain key employees. The Board aims to achieve this by setting competitive remuneration packages that include a mix of fixed, short term and long term incentives.

Recognising the responsibility of the disclosed executives and other executives for the Company's operating and financial performance, their remuneration continues to be structured to provide (relative to comparable organisations) for a lower level of base salary combined with a higher proportion of "at-risk" remuneration. The "at-risk" remuneration consists of short term incentives and performance rights granted under the LTI Plan (described further in the Remuneration Report).

We regularly review the remuneration framework to ensure that it appropriately balances shareholder outcomes, executive performance and our ability to attract and retain key employees. There were no significant changes to the Company's remuneration policies and practices during the year. However this year I am delighted to report that we have continued to strengthen the skills and the experience of the executive group with the addition of executives in the areas of digital, marketing and loyalty, and supply chain. These are areas that are critical to delivering our strategy and meeting the challenges of the evolving retail industry.

External market conditions in FY2018 were challenging. Earlier in this Annual Report, the Chairman and the CEO and Managing Director described the unprecedented industry consolidation that has occurred and the immediate effect this had. The Company's financial performance and earnings and profitability for FY2018 were below the targets set by the Board. Consequently, the variable remuneration of disclosed executives and other executives and Team Members was affected.

In relation to the Company's short term incentives, while non-financial key performance indicators were achieved, no STI payments were paid as the year on year pro forma EBIT growth was below the threshold required. This reflects the principle that there must be a relationship between performance and reward and that no significant benefit is to be paid where the Company's financial results do not justify it.

For the Company's Long Term Incentive Plan (LTI Plan), the conclusion of FY2018 marked the end of the first of the three performance periods that apply to performance rights granted to participating executives. At the end of the first performance period, 20% of each participating executive's performance rights are tested to assess whether the two performance conditions have been satisfied. Based on the earnings per share achieved for FY2018, the absolute EPS compound annual growth rate hurdle will not be achieved for the first testing period (although the relevant rights do not lapse and remain available for vesting if the condition is met in future periods). The Remuneration and Nomination Committee will meet in October 2018 to assess whether the absolute TSR condition has been satisfied for the first performance period. Further details are contained in the Remuneration Report.

The Company has operated the General Employee Share Plan (GES Plan) since it was first listed in 2015. The GES Plan is part of the Company's employee alignment strategy as it provides employees with an opportunity to own a part of Baby Bunting and receive financial benefits as shareholders. During the year, the Company made its third offer under this plan, providing eligible employees with \$1,000 worth of Baby Bunting shares for no monetary consideration. At the end of the financial year, around 47% of the Company's employees were shareholders. The Board intends making grants under the GES Plan in the future to eligible employees to reward sustainable financial performance.

The Board reviews its remuneration policy annually and it remains confident that the Company's remuneration policies and practices are well designed and serve to attract, retain and motivate our Team Members to grow long term shareholder value.



Melanie Wilson

Chairman of the Remuneration and Nomination Committee

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 24 June 2018.

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

Former Non-executive Directors

Stephen Roche (retired 24 June 2018)	Non-executive Director
--------------------------------------	------------------------

Disclosed Executives

Matt Spencer	CEO and Managing Director
Darin Hoekman	Chief Financial Officer

In the 2017 financial year, Barry Saunders was Non-executive Chairman (retired 21 November 2016) and Tom Cowan was a Non-executive Director (retired 21 March 2017).

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 on the Company's website 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. Remuneration policy and practices

The Company's remuneration policy seeks to appropriately reward, incentivise and retain key employees. The remuneration practices adopted by the Company include the use of fixed and variable remuneration, and short term and long term performance based indicators.

3.1 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).

3.2 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 principles 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.

Performance criteria

The size of each participating executive's actual STI payment is determined by applying financial and non-financial criteria. For the disclosed executives, the weighting of the performance criteria was:

Disclosed executive	Financial criteria weighting	Non-financial criteria weighting
Matt Spencer	70%	30%
Darin Hoekman	70%	30%

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

- employee engagement initiatives and achievement of reductions in lost time injury frequency rates;
- a significant improvement in the "Net Promotor Score" provided throughout the financial year by the Company's customers;
- enhancement of internal reporting and business processes, including risk management processes; and
- property and supply chain 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. There is a large weighting to the Company's financial result (70%), reflecting the principle that benefits under the STI Plan are to be provided primarily when the Company has performed well.

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.

Remuneration Report

STI outcome for the 2018 financial year

For the 2018 financial year, non-financial performance criteria were achieved. However, pro forma EBIT declined 24.7% from the level achieved in the 2017 financial year. This was below the “threshold” year on year pro form EBIT growth target. Consequently, the gateway for STI payments was not met and participating executives did not become eligible for an STI payment and no STI payment was made.

For the disclosed executives, the extent to which the financial criteria and non-financial criteria were achieved and the resulting STI award for the 2018 financial year was:

Disclosed executive	% of financial criteria achieved	% of non-financial criteria achieved	% of maximum STI awarded	% of STI forfeited
Matt Spencer	0%	0%	0%	100%
Darin Hoekman	0%	0%	0%	100%

3.3 Long Term Incentive Plan

Introduction

The 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 “performance rights”. Upon vesting, each performance right entitles the participant to one fully paid ordinary share in the Company. Participation in the LTI Plan is by invitation. The Board may determine which executives or other employees are eligible.

In the first three years of its operation, the number of rights to be granted and outstanding will be limited to a maximum of 5% of the number of the Company’s shares on issue upon completion of the IPO.

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).

In relation to the rights that have previously been granted to the CEO and Managing Director, the Chief Financial Officer and certain other participating executives, the performance periods and the number of rights that vest if the relevant performance condition is satisfied are as follows:

EPS Rights	TSR Rights
Performance periods	
<p>Three separate performance periods apply to the EPS Rights:</p> <ul style="list-style-type: none"> • 20% of the EPS Rights will be assessed against EPS growth measured in 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 measured in 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 measured in the four year period from the end of FY2016 to the end of FY2020. <p>If an EPS 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 an EPS Right has not vested at the end of the third performance period, it will lapse. There is no further re-testing after the third performance period.</p>	<p>Three separate performance periods apply to the TSR Rights:</p> <ul style="list-style-type: none"> • 20% of the TSR Rights will be assessed against TSR growth measured in the period from the Company's listing on ASX to a period following the release of the Company's financial results for FY2018; • 30% of the TSR Rights will be assessed against TSR growth measured in the period from the Company's listing on ASX to a period following the release of the Company's financial results for FY2019; and • 50% of the TSR Rights will be assessed against TSR growth measured in the period from the Company's listing on ASX to a period following the release of the Company's financial results for FY2020. <p>If a TSR 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 TSR Right has not vested at the end of the third performance period, it will lapse. There is no further re-testing after the third performance period.</p>
Number of rights to vest	
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • 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.

LTI outcome for the 2018 financial year

For participating executives, up to 20% of the EPS Rights held by them were eligible to vest after the end of FY2018.

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 the 2018 financial year was negative 5.1%. On this basis, none of the first tranche of EPS Rights held by participating executives will vest. These rights do not lapse but will remain available for vesting at the end of the next subsequent performance period.

For participating executives, up to 20% of the TSR Rights held by them are eligible to vest after the end of FY2018.

The compound annual growth rate in the Company's TSR will be measured in October 2018, 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. If any of the TSR Rights vest at that time, shares will be provided to participating executives.

Remuneration Report

Additional comment on performance conditions and performance periods

Performance rights were first granted in the 2016 financial year. The first performance period concludes after the end of the 2018 financial year. This presents participants with an opportunity to have a small proportion of their rights vest (ie up to 20% only). Given its philosophy of favouring a smaller proportion of fixed remuneration (relative to comparable ASX companies) and a large proportion of “at-risk” remuneration, the Board considers it appropriate that participating executives have the potential to earn a small part of their LTI benefit in the first period ending after FY2018, especially where EPS CAGR or TSR CAGR of at least 15% has been achieved over that period.

The LTI Plan also provides 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 investments 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.

Treatment on cessation of employment

Upon resignation, a participant’s unvested rights will lapse. In addition, in instances where the participant’s employment was terminated for cause or as a result of unsatisfactory performance, 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 2018 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.

3.4 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 47% 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 third offer under this plan and issued 260,108 shares to 477 eligible employees who each received \$1,000 worth of Baby Bunting shares for no monetary consideration.

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.

4. Relationship between remuneration and the Company's performance

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

	2018 \$'000	2017 \$'000	2016 \$'000	2015 \$'000	2014 \$'000
EBITDA (statutory)	17,549	22,138	15,743	11,982	8,573
Net profit after tax (statutory)	8,686	12,247	8,334	6,040	4,064
Net profit after tax (pro forma)	9,607	12,957	10,627	–	–
Dividends per share – ordinary (cps)	5.3	7.2	6.3	–	–
Dividends per share – special (cps)	–	–	15.0	–	–
Basic earnings per share (cents) (statutory)	6.9	9.7	7.0	6.2	4.2
Earnings per share (cents) (pro forma)	7.6	10.3	8.4	–	–

5. Non-executive Director

Remuneration Policy

Under the Company's Constitution, the Directors decide the total amount paid to all Non-executive Directors as remuneration for their services as a Director, but the total amount paid to all Non-executive Directors 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).

Annual Non-executive Directors' fees (inclusive of superannuation contributions) currently agreed to be paid by the Company are \$120,000 to the Chairman and \$65,000 to each of the remaining Non-executive Directors. In addition, chairmen of the two Board committees each receive \$15,000 annually. Other committee members receive \$5,000 per annum for their role as a committee member. Superannuation contributions provided by the Company are included in these amounts.

For the financial year ended 24 June 2018, the fees paid and superannuation contributions to all Non-executive Directors were approximately \$430,000 in aggregate.

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.

Remuneration Report

6. 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 tables.

Year	Short term employee benefits			Post-employment benefits	Long term benefits	Share based payments ³				TOTAL ⁶ \$	Performance related %
	Salary & fees ² \$	STI and other fees \$	Non-monetary benefits \$	Super-annuation \$	Long service leave \$	LTI Plan rights ⁴ \$	Historical share options \$	Employee share plan ⁵ \$			
Non-executive Directors											
Ian Cornell	2018	114,155	–	–	10,845	–	–	–	–	125,000	–
	2017	96,839	–	–	9,200	–	–	–	–	106,039	–
Gary Levin	2018	73,086	–	–	6,914	–	–	–	–	80,000	–
	2017	73,860	–	–	6,140	–	–	–	–	80,000	–
Melanie Wilson	2018	77,625	–	–	7,374	–	–	–	–	84,999	–
	2017	63,225	–	–	6,006	–	–	–	–	69,231	–
Donna Player	2018	63,927	–	–	6,073	–	–	–	–	70,000	–
	2017	27,046	–	–	2,539	–	–	–	–	29,585	–
Former Non-executive Directors											
Stephen Roche <i>(retired 24 June 2018)</i>	2018	63,926	–	–	6,072	–	–	–	–	69,998	–
	2017	9,385	–	–	934	–	–	–	–	10,769	–
Barry Saunders <i>(retired 21 November 2016)</i>	2018	–	–	–	–	–	–	–	–	–	–
	2017	46,540	–	–	4,421	–	–	–	–	50,961	–
Tom Cowan ¹ <i>(retired 21 March 2017)</i>	2018	–	–	–	–	–	–	–	–	–	–
	2017	61,153	–	–	–	–	–	–	–	61,153	–
Disclosed executives											
Matt Spencer	2018	475,209	–	10,878	20,047	21,998	158,041	–	–	686,173	23.0%
	2017	450,538	93,255	5,905	19,615	12,630	115,289	–	–	697,232	29.9%
Darin Hoekman	2018	295,658	–	7,500	20,047	9,766	61,909	–	999	395,879	15.6%
	2017	280,638	60,202	7,500	19,615	3,198	42,273	–	999	414,425	24.7%

1. Fees payable to Tom Cowan were paid to TDM Asset Management Pty Ltd. Accordingly, Tom was responsible for his own superannuation arrangements.

2. Amount includes the value of annual leave accrued during the financial year and salary sacrifice arrangements.

3. The value of share based payments has been calculated in accordance with applicable accounting standards.

4. There were no LTI plan rights awarded during FY2018. 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.

5. The Company issued 260,108 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 \$1,000 worth of shares.

6. There were no termination benefits paid or payable during the current financial year.

7. 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 executive	Termination – notice by Executive	Termination – notice by Company or payment in lieu
Matt Spencer	12 months	12 months
Darin Hoekman	6 months	6 months

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.

Director	Balance at start of the year	Net change	Balance at the end of year
<i>Non-executive Directors</i>			
Ian Cornell	900,000	–	900,000
Gary Levin	388,000	–	388,000
Melanie Wilson	20,000	–	20,000
Donna Player	–	16,000	16,000
<i>Former Non-executive Director</i>			
Stephen Roche (retired 24 June 2018)	35,000	–	35,000
<i>Disclosed executives</i>			
Matt Spencer	1,387,132	–	1,387,132
Darin Hoekman	337,000	–	337,000

Performance rights

Neither, Matt Spencer and Darin Hoekman were granted performance rights during the year.

Disclosed executive	Value of rights granted during the year	Number of rights granted as compensation	Number of rights held at end of year (all unvested)
Matt Spencer	–	–	1,981,714
Darin Hoekman	–	–	739,962

Details of the performance conditions and performance periods for those rights are set out in section 3.3 (Long term incentive plan) above.

Options

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

9. Loans to key management personnel

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 24 June 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Baby Bunting Group Limited and the entities it controlled during the financial year.

Ernst & Young

Glenn Carmody
Partner
10 August 2018

Consolidated Financial Statements

Baby Bunting Group Limited
for the year ended 24 June 2018

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 24 June 2018

	Note	2018 \$'000	2017 \$'000
Revenue	3	303,093	278,027
Cost of sales		(202,203)	(182,735)
Gross profit		100,890	95,292
Other revenue	3	17	17
Store expenses	4	(64,788)	(56,762)
Marketing expenses		(5,606)	(4,919)
Warehousing expenses	4	(4,319)	(3,748)
Administrative expenses	4	(12,990)	(11,753)
Finance costs	4	(651)	(432)
Profit before tax		12,553	17,695
Income tax expense	5	(3,867)	(5,448)
Profit after tax		8,686	12,247
Other comprehensive income for the year			–
Total comprehensive income for the year		8,686	12,247
Profit for the year attributable to:			
Equity holders of Baby Bunting Group Limited		8,686	12,247
Earnings per share			
From continuing operations			
Basic (cents per share)	26(a)	6.9	9.7
Diluted (cents per share)	26(b)	6.9	9.6

Notes to the consolidated financial statements are included in pages 58 to 84.

Consolidated Statement of Financial Position

as at 24 June 2018

	Note	24 June 2018 \$'000	25 June 2017 \$'000
Current Assets			
Cash and cash equivalents	23(b)	7,233	6,425
Other receivables	6	11,091	9,559
Inventories	7	54,584	47,882
Other assets	8	1,277	1,169
Total Current Assets		74,185	65,035
Non-Current Assets			
Plant and equipment	9	21,030	20,006
Intangibles	10	2,554	1,224
Goodwill	10	44,180	44,180
Deferred tax assets	11	3,640	3,434
Total Non-Current Assets		71,404	68,844
Total Assets		145,589	133,879
Current Liabilities			
Trade and other payables	12	31,845	28,031
Current tax liabilities		914	851
Provisions	14	3,256	2,755
Total Current Liabilities		36,015	31,637
Non-Current Liabilities			
Borrowings	13	10,770	4,800
Provisions	14	3,987	3,314
Total Non-Current Liabilities		14,757	8,114
Total Liabilities		50,772	39,751
Net Assets		94,817	94,128
Equity			
Issued capital	15	85,292	84,816
Share based payments reserve	19	912	451
Retained earnings	17	8,613	8,861
Total Equity		94,817	94,128

Notes to the consolidated financial statements are included in pages 58 to 84.

Consolidated Statement of Changes in Equity

for the year ended 24 June 2018

	Issued Capital \$'000	Share Based Payments Reserve \$'000	Retained Earnings \$'000	Total Equity \$'000
Balance at 26 June 2016	84,420	132	8,172	92,724
Profit for the year	–	–	12,247	12,247
Other comprehensive income	–	–	–	–
Total comprehensive income for the year	–	–	12,247	12,247
Issue of shares (Note 15,19)	396	–	–	396
Dividends (Note 16)	–	–	(11,558)	(11,558)
Share based payment (Note 19)	–	319	–	319
Balance at 25 June 2017	84,816	451	8,861	94,128
Balance at 25 June 2017	84,816	451	8,861	94,128
Profit for the year	–	–	8,686	8,686
Other comprehensive income	–	–	–	–
Total comprehensive income for the year	–	–	8,686	8,686
Issue of shares (Note 15,19)	476	–	–	476
Dividends (Note 16)	–	–	(8,933)	(8,933)
Share based payment (Note 19)	–	461	–	461
Balance at 24 June 2018	85,292	912	8,613	94,818

Notes to the consolidated financial statements are included in pages 58 to 84.

Consolidated Statement of Cash Flows

for the year ended 24 June 2018

	Note	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Receipts from customers		332,203	304,090
Payments to suppliers and employees		(317,154)	(285,017)
Income tax paid		(4,010)	(5,513)
Interest received		17	17
Finance costs paid		(567)	(406)
Net cash from operating activities	23(a)	10,489	13,171
Cash flows from investing activities			
Payments for plant and equipment and intangibles	9,10	(6,718)	(7,352)
Proceeds on sale of plant and equipment		–	1
Net cash used in investing activities		(6,718)	(7,351)
Cash flows from financing activities			
Proceeds from issue of shares	15,19	–	–
Transaction costs for issue of shares		–	–
Dividends paid	16	(8,933)	(11,558)
Proceeds from/(Repayment of) borrowings		5,970	4,800
Net cash (used in)/provided by financing activities		(2,963)	(6,758)
Net (decrease)/increase in cash and cash equivalents		808	(938)
Cash and cash equivalents at beginning of the financial year		6,425	7,363
Cash and cash equivalents at end of the financial year	23(b)	7,233	6,425

Notes to the consolidated financial statements are included in pages 58 to 84.

Notes to the Consolidated Financial Statements

for the year ended 24 June 2018

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 24 June 2018 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'.

Note 2: 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 10 August 2018.

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 Class Order 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 requires the directors to estimate the future cash flows expected to arise from the cash generating unit and a suitable 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

Post-tax weighted average cost of capital: 11.8%

Baby Bunting Group Limited as a whole is considered its own cash generating unit. The recoverable amount of the consolidated entity's goodwill 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.

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

Acquisitions of subsidiaries and businesses are accounted for using the purchase 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.

Notes to the Consolidated Financial Statements

for the year ended 24 June 2018

Note 2: Significant accounting policies (continued)

f. Income tax

Income tax expense represents the sum of the tax currently payable and deferred 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the consolidated entity is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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.

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

Revenue from the sale of goods is recognised at the point of sale. All revenue is stated net of the amount of goods and services tax (GST), returns and discounts. Revenue from layby sales is recognised at the point of sale. This approach is taken as experience indicates that most layby sales are consummated, the customer has paid a significant deposit and the goods are on hand, identified and ready for delivery to the customer. The balance owing on outstanding layby sales is recognised as a receivable at balance date.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Notes to the Consolidated Financial Statements

for the year ended 24 June 2018

Note 2: Significant accounting policies (continued)

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 as follows depending on the nature and purpose of the financial assets and are determined at the time of initial recognition.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Investments in subsidiaries

Investments in subsidiaries are measured at cost less impairment.

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

Financial liabilities are classified as either financial liabilities at fair value through profit and loss (FVTPL) or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and AASB 139 'Financial Instruments: Recognition and Measurement' permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of profit or loss and other comprehensive income.

Other financial liabilities

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Notes to the Consolidated Financial Statements

for the year ended 24 June 2018

Note 2: Significant accounting policies (continued)

Derecognition of financial liabilities

The consolidated entity derecognises financial liabilities when, and only when, the consolidated entity's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

t. Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

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 19.

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 27 June 2016 to 25 June 2017. Where appropriate, comparative information has been reformatted to allow comparison with current year information.

x. New and amended Standards and Interpretations adopted

The Group has applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any standards, interpretations or amendments that have been issued but not yet effective.

The nature and the impact of each amendment is described below:

Amendments to AASB 107 – Statement of Cash Flows: Disclosure Initiatives

This amendment requires entities to provide disclosure of changes in their liabilities from financing activities, including both changes arising from cash flows and non-cash changes. All changes in financial liabilities arising from financing activities during the year relate to the borrowings as shown in the Consolidated Statement of Cash Flows.

Other new and amended Standards and Interpretations effective for the current reporting period did not have any financial impact on the current reporting period or the prior comparative reporting period.

y. Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below which may be relevant to the consolidated entity were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	June 2019
AASB 15 'Revenue from Contracts with Customers' and the relevant amending standards	1 January 2018	June 2019
AASB 16 'Leases'	1 January 2019	June 2020
AASB 2016-5 'Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions'	1 January 2018	June 2019
Interpretation 22 'Foreign Currency Transactions and Advance Consideration'	1 January 2018	June 2019
Interpretation 23 'Uncertainty over Income Tax Treatments'	1 January 2019	June 2020

The impact of AASB 15, AASB 9 and AASB 16 is discussed below. The Group is currently assessing the impact of the application of the other revised new standards/interpretations. Based on an initial assessment, the Group does not anticipate a material impact to the financial position or performance of the Group.

AASB 9 Financial Instruments – Effective date: 1 January 2018 (Application date: 1 July 2018)

AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement*.

AASB 9 includes a single approach for the classification and measurement of financial assets, based on cash flow characteristics and the business model used for the management of the financial instruments. It introduces the expected credit loss model for impairment of financial assets which replaces the incurred loss model used in AASB 139. The standard also amends the rules on hedge accounting to align the accounting treatment with the risk management practices of the Group.

The Group is currently assessing the impact of the application of the new standard. Based on an initial assessment, the Group does not anticipate a material impact to the financial position or performance of the Group.

AASB 15 Revenue from Contracts with Customers – Effective date: 1 January 2018 (Application date: 1 July 2018)

AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 *Construction Contracts*, AASB 118 *Revenue*, AASB Interpretation 13 *Customer Loyalty Programmes*, AASB Interpretation 15 *Agreements for the Construction of Real Estate*, AASB Interpretation 18 *Transfers of Assets from Customers* and AASB Interpretation 131 *Revenue – Barter Transactions Involving Advertising Services*) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 *Leases* (or AASB 16 *Leases*, once applied).

The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Notes to the Consolidated Financial Statements

for the year ended 24 June 2018

Note 2: Significant accounting policies (continued)

The Group is currently finalising its assessment to determine the impact of adopting AASB 15. The assessment performed to date has identified key areas of the business that may have potential risk of impact and may require a greater level of work effort to quantify the financial impact of AASB 15. This includes identifying changes to accounting policies, reporting requirements, business processes and associated internal controls with the objective of quantifying the expected first time adoption impacts as well as supporting ongoing compliance with the new accounting requirements.

As a result of the assessment performed to date, the Group is focusing on the Layby sales revenue recognition and is continuing to complete a detailed impact assessment. The ongoing detailed impact assessment will further establish the transition approach and to ensure readiness to quantify any impacts of AASB 15 in the 30 December 2018 interim financial statements.

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

AASB 16 replaces existing lease requirements in Australian Accounting Standards (AASB 117 *Leases*, Interpretation 4 *Determining whether an Arrangement contains a Lease*, SIC – 15 *Operating Leases – Incentives*, SIC – 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*).

AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (eg, personal computers) and short-term leases (ie, leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (ie, the lease liability) and an asset representing the right to use the underlying asset during the lease term (ie, the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to re-measure the lease liability upon the occurrence of certain events (eg, a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The Group is currently continuing to assess the impact of the change in standard which it expects to be material. The new standard is expected to result in an increase in assets and liabilities, change in the timing in which lease expenses are recognised, a classification shift in earnings categories from operating expense to depreciation and interest expense, and an increase in gearing levels.

Note 3: Revenue

An analysis of the consolidated entity's revenue for the year, is as follows:

	2018 \$'000	2017 \$'000
Revenue from sale of goods	303,093	278,027
Other revenue		
Interest revenue	17	17
Profit on sale of equipment	–	–
Total other revenue	17	17
Total revenue	303,110	278,044

Note 4: Profit for the year

	2018 \$'000	2017 \$'000
Profit before income tax expense includes the following expenses:		
Interest and finance charges paid/payable	651	432
Depreciation and amortisation	4,362	4,028
Rental expenses relating to operating leases:		
Minimum lease payments	20,452	17,409
Employee benefits expense	46,015	40,874

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:

	As reported \$'000	Depreciation and amortisation \$'000	Excluding depreciation and amortisation \$'000
For the year ended 25 June 2017			
Store expenses	(56,762)	3,452	(53,310)
Warehousing expenses	(3,748)	183	(3,565)
Administrative expenses	(11,753)	393	(11,360)
Total	(72,263)	4,028	(68,235)

	As reported \$'000	Depreciation and amortisation \$'000	Excluding depreciation and amortisation \$'000
For the year ended 24 June 2018			
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)

Notes to the Consolidated Financial Statements

for the year ended 24 June 2018

Note 5: Income tax

	2018 \$'000	2017 \$'000
Current tax in respect of the current year	4,163	5,521
Current tax in respect of the prior year	(91)	–
Deferred tax	(205)	(73)
Total tax expense	3,867	5,448

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:

Profit before tax from continuing operations	12,553	17,695
Income tax expense calculated at 30% (2018: 30%)	(3,766)	(5,308)
Non-deductible expenditure	(192)	(140)
Income tax in respect of the prior year	91	–
Income tax expense recognised in profit or loss	(3,867)	(5,448)

The tax rate used for 2018 and 2017 in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

Note 6: Other receivables

Current		
Layby receivables	7,762	7,448
Other receivables	3,329	2,111
	11,091	9,559

The average layby period is 3 months. No interest is charged on layby accounts. There are no customers who represent more than 5% of the total balance of receivables. There are no material receivables past due date.

Note 7: Inventory

Finished goods	55,155	48,536
Less: Provision for shrinkage, obsolescence and mark-down	(571)	(654)
	54,584	47,882

The cost of inventories recognised as an expense during the current reporting period in respect of continuing operations was \$202.203 million (2017: \$182.735 million).

Note 8: Other assets

Prepayments	1,277	1,169
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Note 9: Plant and equipment

Cost	Leasehold improvements \$'000	Plant and equipment \$'000	Total \$'000
Balance at 26 June 2016	4,661	25,031	29,692
Additions	1,801	4,915	6,716
Disposals	–	(2)	(2)
Transfers	–	–	–
Balance at 25 June 2017	6,462	29,944	36,406
Accumulated depreciation			
Balance at 26 June 2016	(1,596)	(11,091)	(12,687)
Depreciation	(612)	(3,101)	(3,714)
Disposals	–	–	–
Transfers	–	–	–
Balance at 25 June 2017	(2,208)	(14,192)	(16,400)
Carrying amount as at 25 June 2017	4,254	15,752	20,006

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

Notes to the Consolidated Financial Statements

for the year ended 24 June 2018

Note 10: Intangible assets and goodwill

	Goodwill \$'000	Computer Software \$'000
Cost		
Balance at 26 June 2016	44,180	1,361
Additions	–	636
Transfers	–	–
Balance at 25 June 2017	44,180	1,997
Amortisation and impairment losses		
Balance at 26 June 2016	–	(458)
Amortisation	–	(315)
Transfers	–	–
Balance at 25 June 2017	–	(773)
Carrying amount as at 25 June 2017	44,180	1,224

	Goodwill \$'000	Computer Software \$'000
Cost		
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

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

Note 11: Deferred tax assets

Deferred tax balances are presented in the consolidated statement of financial position as follows:

	2018 \$'000	2017 \$'000
Deferred tax assets	3,640	3,437
Deferred tax liability	–	(3)
	3,640	3,434

2017 – Consolidated	Opening balance (\$'000)	Recognised in profit or loss (\$'000)	Recognised in other comprehensive income (\$'000)	Recognised directly in equity (\$'000)	Reclassified from equity to profit or loss (\$'000)	Acquisitions/disposals (\$'000)	Other (\$'000)	Closing balance (\$'000)
Employee benefits	758	135	–	–	–	–	–	893
Non-deductible accruals	267	107	–	–	–	–	–	374
Non-assessable layby gross profit	(161)	41	–	–	–	–	–	(120)
Inventories	476	26	–	–	–	–	–	502
Gift vouchers	299	(95)	–	–	–	–	–	204
Operating lease provision	851	77	–	–	–	–	–	928
Interest rate swap	–	–	–	–	–	–	–	–
IPO transaction costs – listing	450	(113)	–	–	–	–	–	337
IPO transaction costs – issuance of new shares	421	(105)	–	–	–	–	–	316
Total	3,361	73	–	–	–	–	–	3,434

2018 – Consolidated	Opening balance (\$'000)	Recognised in profit or loss (\$'000)	Recognised in other comprehensive income (\$'000)	Recognised directly in equity (\$'000)	Reclassified from equity to profit or loss (\$'000)	Acquisitions/disposals (\$'000)	Other (\$'000)	Closing balance (\$'000)
Employee benefits	893	175	–	–	–	–	–	1,068
Non-deductible accruals	374	(13)	–	–	–	–	–	361
Non-assessable layby gross profit	(120)	8	–	–	–	–	–	(112)
Inventories	502	(24)	–	–	–	–	–	478
Gift vouchers	204	100	–	–	–	–	–	304
Operating lease provision	928	178	–	–	–	–	–	1,106
Interest rate swap	–	–	–	–	–	–	–	–
IPO transaction costs – listing	337	(113)	–	–	–	–	–	224
IPO transaction costs – issuance of new shares	316	(105)	–	–	–	–	–	211
Total	3,434	206	–	–	–	–	–	3,640

Notes to the Consolidated Financial Statements

for the year ended 24 June 2018

Note 12: Payables

	2018 \$'000	2017 \$'000
Current		
Trade payables	25,807	22,333
Gift voucher payables	1,014	682
Sundry payables and accruals	5,024	5,016
	31,845	28,031

Note 13: Loans and borrowings

	2018 \$'000	2017 \$'000
Non-current – Secured		
Bank Loan	10,770	4,800

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 2020. 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 \$36,000,000, consisting of \$30,000,000 Corporate Market Loan (“CML”) facility and \$6,000,000 bank guarantee facility. The CML facility can be drawn to the lesser of \$30,000,000 or 2.00 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 24 June 2018. The current facility does not require the consolidated entity to amortise borrowings.

Note 14: Provisions

	2018 \$'000	2017 \$'000
Current		
Employee benefits	3,206	2,636
Operating lease provision	50	119
	3,256	2,755
Non-current		
Employee benefits	353	341
Operating lease provision	3,634	2,973
	3,987	3,314

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

Note 15: Issued capital

	24 June 2018		25 June 2017	
	No.	\$'000	No.	\$'000
Fully paid ordinary shares				
Balance at beginning of the year	125,720,488	84,816	125,588,120	84,420
Issue of shares:				
– Employee Gift Offer	260,108	476	132,368	396
Balance at end of the year	125,980,596	85,292	125,720,488	84,816

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

Note 16: Dividends

	2018		2017	
	\$ per ordinary share	\$'000	\$ per ordinary share	\$'000
Recognised amounts				
Final 2017 dividend	0.043	5,406	0.063	7,912
Interim 2018 dividend	0.028	3,527	0.029	3,646

On 11 August 2017, the Directors determined to pay a fully franked final dividend of 4.3 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 25 June 2017. The dividend was subsequently paid to shareholders on 15 September 2017 totalling \$5.406 million.

On 16 February 2018, the Directors determined to pay an interim fully franked dividend of 2.8 cents per share to the holders of fully paid ordinary shares in respect of the half-year ended 31 December 2017. The dividend was subsequently paid to shareholders on 16 March 2018 totalling \$3.527 million.

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, to be paid to shareholders on 14 September 2018. The dividend has not been included as a liability in these consolidated financial statements. The record date for determining entitlements to the dividend is 24 August 2018. The total estimated dividend to be paid is \$3.150 million.

	Company	
	2018 \$'000	2017 \$'000
Adjusted franking account balance	5,970	5,786

Notes to the Consolidated Financial Statements

for the year ended 24 June 2018

Note 17: Retained earnings

	2018 \$'000	2017 \$'000
Retained earnings		
Balance at beginning of year	8,861	8,172
Profit attributable to owners of the Company	8,685	12,247
Payment of dividends	(8,933)	(11,558)
Balance at end of year	8,613	8,861

Note 18: 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	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Revenue	303,093	278,027	303,093	278,027
Profit before tax	12,553	17,695	12,553	17,695
Total segment assets	145,589	133,879	145,589	133,879
Additions to plant and equipment and intangibles	6,718	7,352	6,718	7,352
Depreciation and amortisation	4,362	4,028	4,362	4,028
Total non-current assets ¹	67,765	65,410	67,765	65,410
Total segment liabilities	50,772	39,751	50,772	39,751

1. Non-current assets exclude financial instruments, deferred tax assets and deferred tax liabilities.

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current reporting period (2017: 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.

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:

	24 June 2018 \$'000	25 June 2017 \$'000
Segment assets	145,589	133,879
Total assets as per the balance sheet	145,589	133,879
Segment liabilities	50,772	39,751
Total liabilities as per the balance sheet	50,772	39,751

Note 19: Share based payments

	2018 \$'000	2017 \$'000
Share based payments reserve		
Balance at beginning of year	451	132
Historical share options – expense (Note 19(c))	–	–
Historical share options – exercised	–	–
Performance rights – expense (Note 19(a))	461	319
Balance at end of year	912	451

The total share based payment expense recorded in the Consolidated Statement of Profit or Loss and Other Comprehensive Income is \$0.572 million (2017: \$0.419 million).

Notes to the Consolidated Financial Statements

for the year ended 24 June 2018

Note 19: Share based payments (continued)

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 in a grant that vest will be determined by reference to two performance conditions. Half of the rights granted are subject to an earnings per share (EPS) growth performance condition (EPS Rights). The other half of the rights granted are subject to a total shareholder return (TSR) growth performance condition (TSR Rights).

Fair value of performance rights granted during the year

The weighted average fair value of the performance rights TSR component granted during the reporting period under the LTI Plan is \$0.34 (2017: \$1.26). 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
2016 – Series 1 (TSR CAGR)	14 October 2015	\$0.12	nil	(1)
2016 – Series 1 (EPS CAGR)	14 October 2015	\$1.40	nil	(1)
2016 – Series 2 (TSR CAGR)	10 June 2016	\$1.03	nil	(1)
2016 – Series 2 (EPS CAGR)	10 June 2016	\$2.45	nil	(1)
2017 – Series 1 (TSR CAGR)	24 November 2016	\$1.26	nil	(1)
2017 – Series 1 (EPS CAGR)	24 November 2016	\$2.65	nil	(1)
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)

1. These performance rights vest and are automatically exercised at the end of the relevant service and performance period, subject to meeting the relevant performance condition. The Board will determine whether the relevant performance conditions have been satisfied. Any performance rights that have not vested at the end of the third performance period (which occurs following the release of the Company's financial results for the 2020 financial year), will lapse.

	2017 – Series 1 TSR CAGR	2018 – Series 1 TSR CAGR	2018 – Series 2 TSR CAGR
Grant date share price	\$2.65	\$1.72	\$1.45
Exercise price	nil	Nil	Nil
Expected volatility	25%	39%	45%
Expected life	1.6, 2.6, 3.6 years	1.8, 2.8 years	1.1, 2.1 years
Dividend yield	4.50%	4.50%	4.50%
Risk-free interest rate (p.a.)	1.60%	2.15%	2.05%

a. Performance rights**Movements in performance rights during the year**

The consolidated entity recorded a share based payments expense for performance rights of \$0.461 million (2017: \$0.319 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:

	June 2018		June 2017	
	TSR Number of rights	EPS Number of rights	TSR Number of rights	EPS Number of rights
Balance at beginning of year	2,647,950	2,647,954	2,811,259	2,811,264
Granted during the year	257,000	257,000	–	–
Forfeited during the year	–	–	–	–
Exercised during the year	–	–	–	–
Lapsed during the year	(174,309)	(174,310)	(163,309)	(163,310)
Balance at end of year	2,730,641	2,730,644	2,647,950	2,647,954
Exercisable at end of year	–	–	–	–

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 260,108 shares (2017: 132,368 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 \$0.476 million (2017: \$0.396 million) was fully expensed at the time of granting, as there are no performance or service conditions.

Note 20: 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 (2017: nil), no loans were outstanding to or from key management personnel or Directors of the consolidated entity.

b. Key management personnel compensation

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

	2018 \$	2017 \$
Short-term employment benefits	1,181,965	1,276,536
Post-employment benefits	77,372	68,470
Other long-term benefits	31,763	15,828
Termination benefits	–	–
Share-based payments	220,949	158,561
	1,512,049	1,519,395

Notes to the Consolidated Financial Statements

for the year ended 24 June 2018

Note 21: Commitments for expenditure

Operating lease commitments

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

	2018 \$'000	2017 \$'000
Not later than one year	18,817	16,763
Later than one year and not later than five years	56,761	51,145
Later than five years	21,999	24,157
	97,577	92,065

The consolidated entity enters into operating leases for its retail outlets and related equipment such as forklifts.

Capital commitments

The consolidated entity has capital commitments totalling nil (2017: nil).

Note 22: 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:

	2018 \$'000	2017 \$'000
Financial assets		
Cash and cash equivalents	7,233	6,425
Other receivables	11,091	9,559
	18,324	15,984
Financial liabilities	31,845	28,031
Trade and other payables	10,770	4,800
Borrowings	42,615	32,831

a. Market risk

i. Foreign exchange risk management

The majority of the consolidated entity's operations are transacted in the functional currency of the country of operation and are therefore not significantly exposed to foreign currency risk. Less than 10% of goods sourced by the consolidated entity are purchased directly in a foreign currency. However, the consolidated entity's Australian-based suppliers have exposure to foreign currency, most notably the USD, providing the consolidated entity with a secondary currency exposure.

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.

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
	Carrying amount \$'000	Profit \$'000	Profit \$'000
At 25 June 2017			
Financial liabilities			
Borrowings – CML Facility	4,800	24	(24)
Total increase/(decrease)		24	(24)

	Interest rate risk		
		-50bps	+50 bps
	Carrying amount \$'000	Profit \$'000	Profit \$'000
At 25 June 2018			
Financial liabilities			
Borrowings – CML Facility	10,770	54	(54)
Total increase/(decrease)		54	(54)

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:

	2018		2017	
	Limit \$'000	Utilised \$'000	Limit \$'000	Utilised \$'000
CML Facility	30,000	10,770	30,000	4,800
Bank Guarantee Facility	6,000	3,766	6,000	3,668
Total Facility	36,000	14,536	36,000	8,468

Notes to the Consolidated Financial Statements

for the year ended 24 June 2018

Note 22: Financial instruments – Fair values and risk management (continued)

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.

At 25 June 2017	Maturity					Total	Weighted average effective interest rate %
	Less than 6 months \$'000	6–12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years		
Financial assets							
Cash and cash equivalents	6,425	–	–	–	–	6,425	0.17%
Other receivables	9,559	–	–	–	–	9,559	–
	15,984	–	–	–	–	15,984	
Financial liabilities							
Trade and other payables	28,031	–	–	–	–	28,031	–
Borrowings – CML Facility	–	–	–	4,800	–	4,800	3.40%
	28,031	–	–	4,800	–	32,831	

At 24 June 2018	Maturity					Total	Weighted average effective interest rate %
	Less than 6 months \$'000	6–12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years		
Financial assets							
Cash and cash equivalents	7,233	–	–	–	–	7,233	0.21%
Other receivables	11,091	–	–	–	–	11,091	–
	18,324	–	–	–	–	18,324	
Financial liabilities							
Trade and other payables	31,847	–	–	–	–	31,845	–
Borrowings – CML Facility	–	–	–	10,770	–	10,770	3.44%
	31,847	–	–	10,770	–	42,615	

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 23: Notes to the statement of cash flows**a. Reconciliation of profit/(loss) for the year to net cash flows from ordinary activities**

	2018 \$	2017 \$
Profit after income tax	8,686	12,247
Non-cash expenses and other adjustments:		
Depreciation and amortisation	4,362	4,028
Share based payments	938	715
Changes in assets and liabilities:		
Decrease/(Increase) in other receivables	(1,533)	(1,424)
Decrease/(Increase) in prepayments	(107)	(398)
Decrease/(Increase) in inventories	(6,702)	(6,839)
Decrease/(Increase) in tax assets	(205)	(73)
Increase/(Decrease) in trade and other payables	3,815	4,203
Increase/(Decrease) in provisions	580	450
Increase/(Decrease) in income tax liability	63	7
Increase/(Decrease) in other financial liabilities	–	–
Increase/(Decrease) in operating lease provision	592	255
Net cash provided by operating activities	10,489	13,171

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:

	2018 \$'000	2017 \$'000
Cash on hand	66	60
Cash at bank	7,167	6,365
	7,233	6,425

Notes to the Consolidated Financial Statements

for the year ended 24 June 2018

Note 24: Parent entity disclosures

As at, and throughout, the financial year ended 24 June 2018 the parent entity of the consolidated entity was Baby Bunting Group Limited.

	Parent Entity	
	2018 \$'000	2017 \$'000
Result of parent entity:		
Profit for the year	8,527	13,246
Other comprehensive income	–	–
Total comprehensive income for the year	8,527	13,246
Financial position of parent entity at year end:		
Current assets	–	–
Non-current assets	94,064	93,931
Total assets	94,064	93,931
Current liabilities	914	851
Non-current liabilities	–	–
Total liabilities	914	851
Total equity of the parent entity comprising of:		
Issued capital	85,292	84,816
Reserves	451	451
Retained earnings	7,407	7,813
Total equity	93,150	93,080

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

Note 25: 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

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Company	
			June 2018	June 2017
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 26: Earnings per share

	2018 cents per share	2017 cents per share
Basic earnings per share from continuing operations ¹	6.9	9.7
Diluted earnings per share from continuing operations ¹	6.9	9.6

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:

	2018 \$'000	2017 \$'000
Earnings used in the calculation of basic earnings per share from continuing operations ¹	8,686	12,247

	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	125,980,596	125,720,488

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:

	2018 \$'000	2017 \$'000
Earnings used in the calculation of basic earnings per share from continuing operations ¹	8,686	12,247

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	125,980,596	125,720,488
Shares deemed to be issued for no consideration in respect of:		
– Performance rights	–	1,375,040
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	125,980,596	127,095,528

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

Notes to the Consolidated Financial Statements

for the year ended 24 June 2018

Note 27: Remuneration of auditors

	2018 \$	2017 \$
Assurance Services		
Review of the financial report for the half-year	30,000	30,000
Audit of the year-end financial report	80,000	95,000
	110,000	125,000
Tax and Consulting Services		
Taxation services	–	14,420
Other advisory services	–	4,000
	–	18,420
Total remuneration	110,000	143,420

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.

Prior year (FY2017) auditors of the consolidated entity and the Company were Deloitte Touche Tohmatsu.

Note 28: Contingent liabilities

During the year, the Australian Competition and Consumer Commission (ACCC) has been investigating a possible contravention of the Australian Consumer Law arising from the sale of convertible tricycles. These products have been widely sold by specialty baby goods and toy retailers as well as discount department stores. The Company has withdrawn the products from sale. The Company has co-operated and continues to co-operate with the ACCC's investigation.

Note 29: Subsequent events

Dividends on the Company's ordinary shares

A final dividend of 2.5 cents per fully paid ordinary shares has been determined for the year ended 24 June 2018 – refer Note 16.

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 24 June 2018.

Directors' Declaration

The Directors declare that:

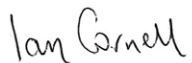
- a. in their opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- b. in their opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 2 to the 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.

At the date of this declaration, the Company is within the class of companies affected by ASIC Corporations (Wholly-Owned Companies) Instrument 2016/785 ("Instrument"). The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the Directors' opinion, there are reasonable grounds to believe that the Company and the company to which the Instrument applies, as detailed in Note 25 to the financial statements will, as a consolidated entity, 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: 10 August 2018

Independent Auditor's Report



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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 24 June 2018, the consolidated statement of 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 24 June 2018 and of its consolidated financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

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

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

Key Audit Matters

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



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

Accounting for supplier rebates

Why significant	How our audit addressed the key audit matter
<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> ▶ 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. <p>Disclosure relating to the measurement and recognition of rebates can be found in Note 2(g).</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> ▶ 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.

Independent Auditor's Report



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Carrying value of inventories

Why significant

As at 24 June 2018, the Group held \$54.6 million in inventories representing 38% 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.

How our audit addressed the key audit matter

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 2018 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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



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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report



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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 51 of the directors' report for the year ended 24 June 2018.

In our opinion, the Remuneration Report of Baby Bunting Group Limited for the year ended 24 June 2018, complies with section 300A of the Corporations Act 2001.

Responsibilities

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

Ernst & Young

Glenn Carmody
Partner
Melbourne
10 August 2018

Shareholder Information

as at 18 July 2018

Baby Bunting Group Limited has one class of shares on issue (being fully paid ordinary shares). There are 125,980,596 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	Number of shares	% of shares
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	26,037,805	20.67
2	J P MORGAN NOMINEES AUSTRALIA LIMITED	24,428,692	19.39
3	CITICORP NOMINEES PTY LIMITED	13,988,133	11.10
4	NATIONAL NOMINEES LIMITED	10,605,980	8.42
5	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	4,655,397	3.70
6	BNP PARIBAS NOMS PTY LTD <DRP>	4,598,987	3.65
7	OAKLEYTOWER PTY LIMITED	2,658,781	2.11
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2	2,232,471	1.77
9	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	1,441,000	1.14
10	MATTHEW SPENCER	1,372,848	1.09
11	MR GRAEME JOHN HAINES + MRS SHARNI GAY HAINES <G & S HAINES S/F A/C>	1,049,364	0.83
12	COOLUM OAK PTY LTD <THE CORNELL SUPER FUND A/C>	900,000	0.71
13	AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	814,517	0.65
14	AUST EXECUTOR TRUSTEES LTD <GFFD>	762,023	0.60
15	MR RICHARD MARTIN HAINES + MRS TUULA SINIKKA HAINES <BENARA S/F A/C>	570,000	0.45
16	FIDDIAN TEAL NOMINEES PTY LTD <FIDDIAN TEAL FAMILY A/C>	529,948	0.42
17	FERGUS & CO PTY LTD <FERGUS INVESTMENT A/C>	496,974	0.39
17	KARALIA PTY LTD <KARALIA INVESTMENT A/C>	496,974	0.39
19	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAIL CLIENT DRP>	469,040	0.37
20	EVERCITY PTY LTD <VELLA SUPER FUND A/C>	445,838	0.35
	Total	98,554,772	78.23

UNMARKETABLE PARCELS

There were 265 holdings of less than a marketable parcel (less than \$500 in value or less than 339 shares) based on the closing market price of \$1.475 per share at 18 July 2018.

Shareholder Information

as at 18 July 2018

DISTRIBUTION OF SHAREHOLDERS AND SHAREHOLDINGS

Range	Total holders	% of holders	Number of shares	% of shares
1 – 1,000	765	26.8	377,770	0.30
1,001 – 5,000	1,022	35.8	2,877,670	2.28
5,001 – 10,000	488	17.1	3,794,818	3.01
10,001 – 100,000	524	18.3	13,078,095	10.38
100,001 and over	59	2.1	105,852,243	84.02
Total	2,858	100.0	125,980,596	100.0

SUBSTANTIAL SHAREHOLDERS

As at 18 July 2018, 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	8 May 2018	13,186,199	10.47%
TDM Asset Management Pty Limited	18 August 2016	13,020,496	10.37%
Commonwealth Bank of Australia	4 June 2018	9,186,251	7.29%
Copia Investment Partners Ltd	8 May 2017	7,175,364	5.71%

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 18 July 2018, there were 8 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 Levin
Donna Player
Matt Spencer
Melanie Wilson

COMPANY SECRETARY

Corey Lewis
Group Legal Counsel and Company Secretary
(03) 8795 8169

INVESTOR RELATIONS

Darin Hoekman
Chief Financial Officer
(03) 8795 8113

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



babybunting.com.au