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# Baby Bunting

*the one stop baby shop*

WELCOME

GRAND OPENING  
SAT 20th AUGUST

-  Click & Collect
-  Gift Registry
-  Shop Online
-  Best Price Guaranteed
-  Easy Returns

**BABY BUNTING  
GROUP LIMITED**

ABN 58 128 533 693

**ANNUAL  
REPORT  
2016**

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**AUSTRALIA'S  
LARGEST ONE  
STOP BABY  
SHOP**

The 2016 Baby Bunting Annual Report reflects Baby Bunting's performance for the 52 week period from 29 June 2015 to 26 June 2016.

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

**Baby Bunting Group Limited** ABN 58 128 533 693



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**ALL THE  
BEST BRANDS  
AT LOW PRICES**

**IN STOCK AND  
AVAILABLE**

**CAR SEAT  
FITTING**

**LAY BY**

**PERSONALISED  
SERVICE**

**EXCLUSIVE  
PRODUCTS AND  
BRANDS**

**GIFT  
REGISTRY**

# CHAIRMAN AND CEO'S REPORT

Baby Bunting Group Limited (Baby Bunting or the Company) is very excited to announce its first full year results as an ASX-listed company.

The 2016 financial year was a significant one for Baby Bunting with the Company's listing on the Australian Securities Exchange (ASX) in October 2015. On behalf of the Board, we welcome all of the new shareholders and thank all shareholders for supporting Baby Bunting to reach this important milestone.

## RESULTS OVERVIEW

As a result of the efforts of the Baby Bunting Team, during the year the business performed exceptionally well. The Company's audited annual financial statements for the year ended 26 June 2016 were released to ASX on 12 August 2016 and they are reproduced in this Annual Report (see page xviii). Some of the key financial highlights for FY2016 include:

- total sales of \$236.8 million, up 31.4% on the prior corresponding period;
- strong comparable store sales growth of 12.5%;
- gross profit of \$81.2 million, up 31.2% on the prior corresponding period. Gross profit as a percentage of sales was consistent with the prior financial year at 34.3%;
- statutory NPAT of \$8.3 million, up 38.0% on the prior corresponding period;
- net cash of \$7.4 million; and
- final fully franked dividend of 6.3 cents per share.

The statutory results are impacted by the effect of one-off transaction costs associated with the IPO and the costs to include the additional costs to conduct the business as an ASX-listed company from 14 October 2015 onwards. These significant events and changes during the reporting period make comparisons to the previous year more difficult. Therefore, further discussion on the results focuses on the pro forma results for 2016 and the comparative period. A reconciliation between the statutory and pro forma financial results is set out in Section 2.6 on page 3 of the Directors' Report.

On a pro forma basis:

- pro forma earnings before interest, tax, depreciation, and amortisation (EBITDA) of \$18.7 million, up 51.1% on the prior corresponding period. Pro forma EBITDA margin expanded 102 basis points to 7.9%; and
- pro forma net profit after tax (NPAT) of \$10.6 million, up 55.8% on the prior corresponding period.

## OTHER RESULTS HIGHLIGHTS

Baby Bunting had a number of other highlights which contributed to the record sales and profit results in FY2016 including:

- opening five new stores, being Booval, North Lakes, Burleigh Waters and Capalaba in Queensland and Campbelltown in New South Wales. On 20 August 2016 the Company opened its 37th store at Preston, Victoria;
- implementing a new warehouse management system;
- launching a new website for the online store;

- enabling "Click & Collect" services for customers to purchase items online for collection at one of the Company's stores in a location convenient for the customer;
- expanding the range of private label and exclusive products;
- implementing a new online learning and development platform that will support the development of the growing team and help the Company continue to deliver high levels of service to its customers; and
- migrating IT infrastructure to an external data centre and upgrading communications infrastructure.

## GROWTH STRATEGIES

The Company's current strategy is focused on growing its existing business and continuing to improve its execution and financial performance. This strategy has the following key elements:

- growth from existing stores and online;
- new store roll-out; and
- EBITDA margin improvement.

In the 2016 financial year, we were very happy with the Company's progress in implementing these elements and the resulting improvement in the Company's financial performance. The Board remains committed to pursuing these strategies in FY2017. Further detail about these strategies and elements is set out in the Operating and Financial Review in the Directors' Report.

In relation to new store roll-out, the Company has recently updated its network plan which is a plan developed to identify new store opportunities based on demographic data in defined catchments spanning major markets and regional centres. The updated network plan has a revised target of growing the store network to over 80 stores (up from the previous plan's target of more than 70 stores). The expected rate of new store openings is between four and eight new stores per year.

## THE BOARD

In the lead up to the Company's IPO, there was a focus on ensuring that the composition of the Board was appropriate for an ASX-listed company. The Board, consisting of Directors with diverse backgrounds and significant retail experience, led the Company's IPO and its transition to an ASX-listed environment.

During the year, Tamalin Morton resigned and the Board thanks her for her efforts and contribution. Melanie Wilson was appointed in February 2016 and brings extensive management and online retail experience to the Board. 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.

## DIVIDENDS

The Board has approved a final dividend in relation to the 2016 financial year of 6.3 cents per share (fully franked). This represents approximately 75% of pro forma net profit after tax. A pre-IPO special dividend of 15 cents per share fully franked was also paid during the year.

## FY2017 OUTLOOK

The 2017 financial year is a year where the Company will continue to focus on its existing growth strategy.

We expect to open between four and eight new stores during the year. In addition to Preston, Victoria (which opened on 20 August 2016) we have plans to open three additional stores before February 2017.

For FY2017, EBITDA is expected to be in the range of \$21.5 million to \$24.5 million (before employee equity incentive expenses), which represents growth of between 15% to 31%.\*

All up, the Baby Bunting team is looking forward to another successful year in FY2017.

Yours sincerely,



Barry Saunders  
Chairman



Matt Spencer  
CEO and Managing Director

21 September 2016



Barry



Matt



### Note

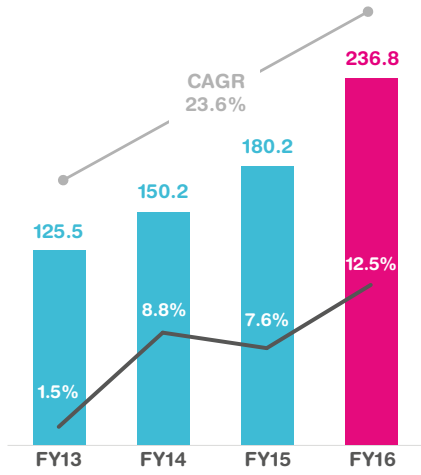
\* Please refer to Section 4 of the Directors' Report which describes some of the key risks and uncertainties that may have an effect on the Company's ability to execute its business strategies.

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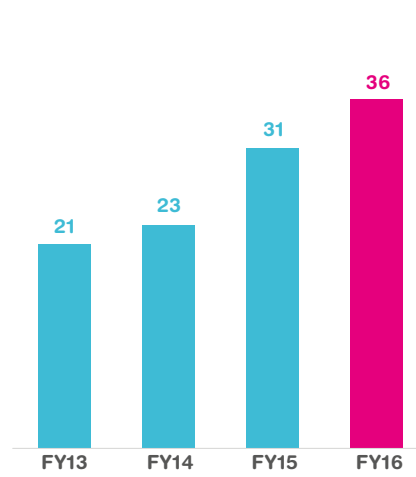
# FY2016 FINANCIAL HIGHLIGHTS

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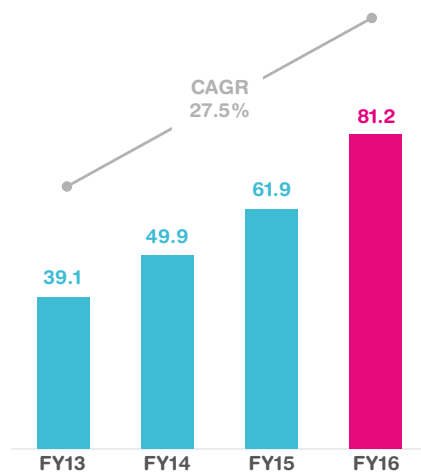
**Sales**  
(\$ millions) — Comparable store sales growth



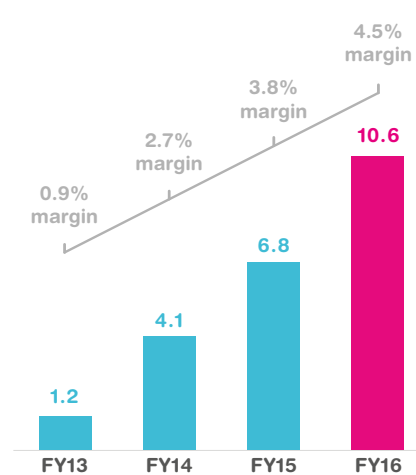
**Number of stores at year end**



**Gross Margin**  
(\$ millions)

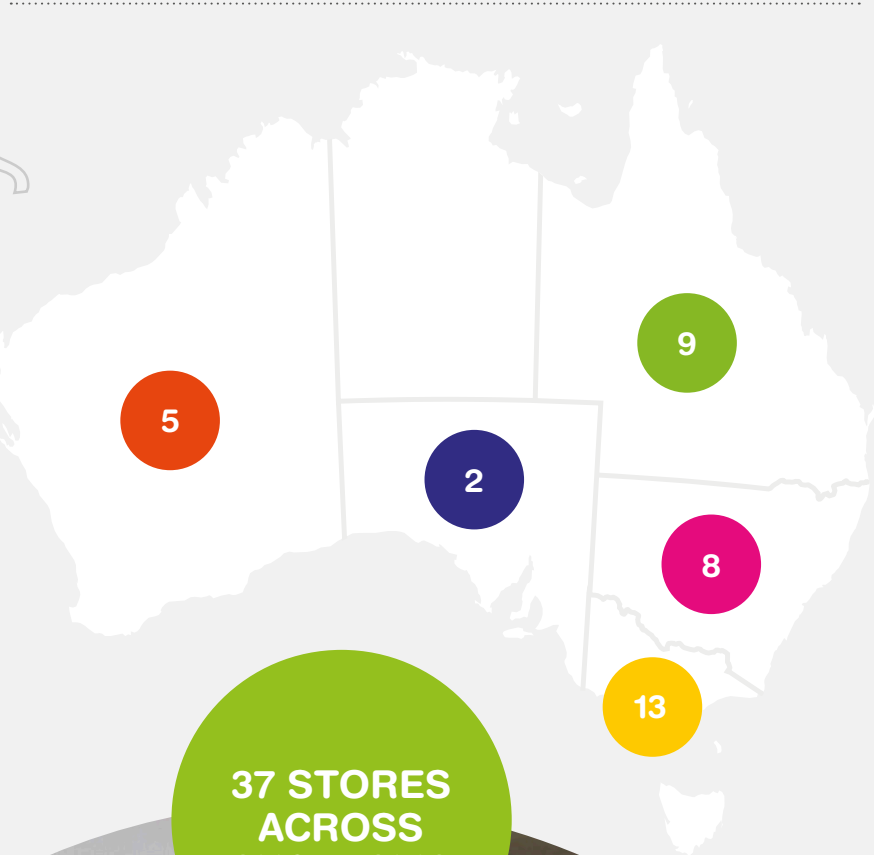


**Pro forma NPAT**  
(\$ millions)



**FY2016 FULLY  
FRANKED FINAL  
DIVIDEND OF  
6.3 CENTS  
PER SHARE**

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**37 STORES  
ACROSS  
AUSTRALIA**

**QUEENSLAND**

Helensvale  
Fortitude Valley  
Macgregor  
North Lakes  
Capalaba  
Kawana  
Townsville  
Booval  
Burleigh Waters

**NEW SOUTH WALES AND ACT**

Penrith  
Taren Point  
Moore Park  
Campbelltown  
Warners Bay  
Auburn  
West Gosford  
Fyshwick (ACT)

**VICTORIA**

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

**SOUTH AUSTRALIA**

Gepps Cross  
Melrose Park

**WESTERN AUSTRALIA**

Cannington  
Myaree  
Joondalup  
Midland  
Osborne Park



**STORE  
NETWORK  
PLAN REVISED  
TO OVER  
80 STORES**

**(TARGETING A ROLL OUT  
OF BETWEEN 4 AND 8  
STORES PER ANNUM)**

# MANAGEMENT TEAM



*Back row: Scott Teal, Caine Groves, Michael Pane, Corey Lewis, Sandy Nikakis and Catherine Power.*

*Front row: Darin Hoekman and Matt Spencer.*

## **MATT SPENCER** *CEO and Managing Director*

Matt joined Baby Bunting as CEO and Managing Director in February 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.

## **DARIN HOEKMAN** *Chief Financial Officer*

Darin joined Baby Bunting as CFO in January 2014.

Prior to Baby Bunting, Darin spent over five years with Godfreys as Group Financial Controller. His previous experience includes Finance Manager of Chemnet Australia, a division of Orica with turnover of approximately \$350 million (2005 to 2008). Darin previously had a six year career with Ernst & Young, focusing on the retail and manufacturing sectors.

## **SCOTT TEAL** *General Manager – Merchandise and Marketing*

Scott joined Baby Bunting as General Manager Merchandise and Marketing in May 2013.

Prior to Baby Bunting, Scott was General Manager of General Merchandise Buying at Harris Scarfe from 2008 to 2012, as well as a member of the Harris Scarfe Board from 2009 to 2012. Scott's previous roles have included 17 years at Coles Group where he held a number of merchandise buying and buying manager roles within various departments.

## **MICHAEL PANE** *General Manager – Operations*

Michael joined Baby Bunting in December 2005.

Michael has more than 25 years of retailing experience in the baby goods market having joined Pram City (later renamed BabyCo) in 1988. During his career with BabyCo, Michael gained broad retail experience through a number of leadership roles including Operations Manager, National Buyer, and Warehouse and Logistics Manager. At the time, BabyCo was the largest specialty retailer in the baby goods market with approximately 30 stores nationally.

## **CAINE GROVES** *General Manager – Logistics*

Caine joined Baby Bunting in July 2012.

Caine has over 10 years of experience in senior supply chain and logistics roles, most recently as National Business Manager at CEVA Logistics from 2009 to 2012. His previous roles include National New Business Implementation Manager at Post Logistics and National Logistics Manager at King Island Dairies covering many areas of the supply chain.

## **CATHERINE POWER** *General Manager – IT*

Catherine joined Baby Bunting in March 2015.

Catherine has over 15 years of experience in IT and systems management, specialising in business and IT strategies, project management, business analysis and solution architecture.

Prior to joining Baby Bunting, Catherine spent five years at Toll Holdings including as Manager of Business Analysis and Customer Deployment and most recently as Business Solution Architect for the Strategy and Architecture Team. Catherine has also held positions in IT and systems management at Fusion Retail Brands, Godfreys and Mitre10.

## **SANDY NIKAKIS** *General Manager – Human Resources*

Sandy joined Baby Bunting in June 2014.

Sandy has over 15 years of experience in human resources management roles including at Pharmore Pharmacies, AWPL, and The Perfume Connection. Sandy brings a broad human resources background with a specialised focus on training and development, talent management and culture.

## **COREY LEWIS** *Group Legal Counsel & Company Secretary*

Corey joined Baby Bunting as Group Legal Counsel and Company Secretary in February 2016.

Before joining Baby Bunting, Corey worked for over 15 years as a corporate lawyer at the law firm Ashurst.

In that role, Corey advised a range of ASX listed companies and unlisted companies on corporate governance and head office matters, equity capital markets transactions and mergers and acquisitions.



# BOARD OF DIRECTORS



*Back row: Ian Cornell, Melanie Wilson, Gary Levin and Tom Cowan.*

*Front row: Barry Saunders and Matt Spencer.*

**BARRY SAUNDERS**  
*Chairman, Non-executive Director*

Barry has over 50 years of retailing experience in Australia across a variety of categories. He was previously the CEO of The Reject Shop from 2000 to 2007, a period of strong growth for the company that included its listing on ASX in 2004.

Barry's past roles have included CEO of Target Australia, Managing Director of Myer, and Chief General Manager of BIG W.

Barry has previously served on the boards of The Myer Emporium, Coles Myer, Woolworths and The Reject Shop.

**MATT SPENCER**  
*CEO and Managing Director*

Matt joined Baby Bunting as CEO and Managing Director in February 2012.

See page vi for Matt's profile.

**IAN CORNELL**  
*Non-executive Director*

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).

**TOM COWAN**  
*Non-executive Director*

Tom is a partner at TDM Asset Management, a Sydney-based private investment firm. TDM Asset Management invests in public and private companies globally. Tom has over 15 years of financial markets experience, including roles in corporate finance and investment banking at Investec Wentworth and KPMG Australia.

Tom is currently a non-executive director of CSG Limited (appointed in February 2012).

**GARY LEVIN**  
*Non-executive Director*

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 Photos Holdings Limited.

He is currently a non-executive director of JB Hi-Fi Limited, having joined the board of that company in November 2000.

**MELANIE WILSON**  
*Non-executive Director*

Melanie has more than 12 years' international 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) and Shaver Shop Group Limited (appointed in June 2016).

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# SUSTAINABILITY AT BABY BUNTING

Baby Bunting was founded in 1979 and has grown to become Australia's largest speciality retailer of baby goods with 37 stores across Australia. Baby Bunting remains committed to providing great products and great service to our customers through having the widest range of products, high levels of service and low prices every day.

As part of pursuing the Company's growth strategies, the Board recognises that success of those strategies depends in part on being committed to continuing to build a sustainable business for our shareholders, our Team Members, the customers we serve and the communities in which we operate. In that context, sustainability is considered through the following framework:



ENVIRONMENT



CUSTOMERS



PEOPLE



COMMUNITY

Some of the Company's sustainability initiatives undertaken in FY2016, as well as initiatives for FY2017, are described below.

Our Preston, Victoria store opened in August 2016. The store design incorporates a number of features to lower our environment footprint such as rain water harvesting and energy efficient LED lighting.

## Solar powered extraction vents

Baby Bunting has been trialling 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.

## Rain water harvesting

Our new Preston store is our first store to use rain water for toilet flushing from tanks installed on site. This is a great initiative which we will seek to specify as a requirement for all newly built stores as well as seeking to install it retrospectively, where possible.

## New 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



## CUSTOMERS

Providing our customers with great products, service and advice is critical to ensuring Baby Bunting's business is sustainable. Customer satisfaction is measured in many ways to ensure that we understand what we are doing right and what things need to be improved. One way it is measured is by measuring "Net Promoter Score" or "NPS". To calculate NPS, 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 percentage of detractors is then subtracted from the percentage of promoters.

For the 2017 financial year, continuing to improve the Company's NPS score remains a focus – the Company has tracked NPS for a number of years now. Management incentives are partly based on improving the Company's NPS through the year.

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 (as described above).

## Waste packaging harvesting

During the 2016 financial year, we have moved all of our stores to a "harvest recycling program" that has seen a significant reduction in the amount of waste from stores going to landfill. This program involves having multiple bins for 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.



## ENVIRONMENT

We continue to explore ways in which we can operate our business in a sustainable way. Our focus is on targeting ways to conserve energy, reduce waste and lower our environmental footprint across our network of stores and our Support Office and Distribution Centre.

Some of our environmental sustainability initiatives include:

### Store lighting upgrade project

During FY2016, the Company commenced a program of replacing and upgrading lighting in some of Baby Bunting's existing stores. This project has involved replacing existing lighting with energy efficient LED lighting. This project is expected to reduce significantly the electricity consumed by lighting in the Company's stores. We expect to continue this roll-out over the coming years.



## COMMUNITY

### 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 wishes to explore further in future years, recognising that this not only assists families and children, but can also more efficiently use resources through ensuring products have continued use throughout their effective life.

### Life's Little Treasures Foundation – 2016 Presenting Partner

In 2016, the Company was very pleased to become the presenting partner for the seventh annual “Walk for Pregs”, an event to raise funds for Life's Little Treasures Foundation. Life's Little Treasures 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. Life's Little Treasures provides support to parents and families of premature babies to assist them during what can be an uncertain and emotional journey. The event will be held on 23 October 2016 at locations throughout Australia.



**2016**  
**AWARD WINNER**  
Freddy Mawire

Freddy Mawire, Outbound Manager (Logistics) winner of the 2016 CEO's Award for Outstanding Contribution to the business.



## PEOPLE

### Recognising outstanding performance

Each year, the Company holds an Awards night to recognise outstanding contributions by stores and individual Team Members to the success of the Company. Awards recognise not only financial performance, but also outstanding performance in areas such as safety and innovation as well as overall contribution to the business. Freddy Mawire (pictured above) was the winner of the 2016 CEO Award for Outstanding Contribution to the business.

### Diversity and Inclusion

The Company adopted a Diversity and Inclusion Policy during FY2016. 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. During FY2017, the Company will be working to achieve measurable objectives established by the Board (see the Corporate Governance Statement for further information).



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# CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement describes the corporate governance practices of Baby Bunting Group Limited (Baby Bunting or the Company) for the period from the Company's listing on ASX on 14 October 2015 to the end of the financial year on 26 June 2016. It is current as at 21 September 2016. 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 [www.babybuntingcorporate.com.au](http://www.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

At the time of its IPO, the Company undertook criminal and bankruptcy checks on all of its Directors. Since the IPO, the Company's process has been to undertake checks on any person appointed by the Board as a Director.

Potential new directors will be subject to appropriate screening and background checks prior to appointment or putting forward a candidate for election as a director. 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 ix.

### MEASURABLE OBJECTIVES

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

Objective	Key outcomes sought
<b>Leadership</b>	
<b>Leadership engagement:</b> engage the senior executives as leaders to convey the Company's commitment to diversity and inclusion throughout the Team	<ul style="list-style-type: none"> <li>Engage the senior executives as leaders to convey the Company's commitment to diversity and inclusion throughout the Team</li> <li>Leadership accountabilities for diversity strategy, plan objectives and guiding principles adopted and communicated</li> </ul>
<b>Communication and Education</b>	
<b>Communication:</b> develop engagement framework to raise knowledge and understanding of diversity	<ul style="list-style-type: none"> <li>Develop a communications plan, including branding, key messages, and educational material</li> <li>Improve employee access to information on diversity and inclusion</li> <li>Imbed communication of diversity and inclusion into our recruitment processes</li> </ul>
<b>Education:</b> Develop diversity educational framework to provide management with capability to lead and manage diversity and diverse teams	<ul style="list-style-type: none"> <li>Respectful workplace behaviour training implemented as part of annual training program</li> <li>Equal Employment Opportunity training implemented as part of annual training program</li> </ul>

### PROPORTION OF MEN AND WOMEN

The proportion of women engaged by the Company across the organisation as at 26 June 2016 was:

- Board:** 17%, being one out of six Directors (including the CEO and Managing Director);
- Senior Executive (excluding the CEO and Managing Director):** 29%, being 2 of 7 employees. For these purposes, Senior Executive includes the Chief Financial Officer and the executives who report to the CEO and Managing Director;
- Group:** 79%, being 612 of 778 employees.

In May 2016, the Company lodged its Workforce Profile report with the Workplace Gender Equality Agency (WGEA).

### BOARD PERFORMANCE EVALUATION

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

After the end of the reporting period, 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.

After the end of the reporting period, the 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).

# CORPORATE GOVERNANCE STATEMENT

## 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	Tom Cowan
Members	Ian Cornell Barry Saunders

Tom Cowan is a Non-executive Director and is considered by the Board to be independent (see “Independent directors” at page xiii below). Tom Cowan is a partner of TDM Asset Management, a substantial shareholder of the Company. Notwithstanding this, the Board considers that Mr Cowan has the appropriate skills and experience to chair this Committee and his association with TDM Asset Management in no way diminishes his ability to act independently from management in remuneration and nomination matters.

Details of the qualifications and experience of Committee members are set out on page 8 of the Directors’ Report. The number of meetings of the Committee and attendances by members during the reporting period are set out on page 9 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. The Board will consider expanding its size over the medium term as the Company grows and the complexity of its operations increase.

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, are set out below:

Skill or experience	Number of Non-executive Directors
<b>Retail</b> Experience at a consumer / retail business obtained through an executive or leadership role	5
<b>Logistics</b> Knowledge and experience in retail logistics and distribution	4
<b>Information technology</b> Knowledge and experience in the use and governance of information technology and applications in a retail environment	4
<b>Executive leadership</b> Demonstrated success at CEO or senior executive level in a major business	5
<b>Commercial and financial acumen</b> Demonstrated success in sustainably managing the financial performance of a large retail business or commercial undertaking	5
<b>People</b> Experience with managing people and teams, including the ability to appoint and evaluate senior executives, manage talent development and oversee organisational change	5
<b>Recent parenting experience</b> Recent consumer experience in the retail baby goods sector (eg, as a parent to small children)	2
<b>ASX board experience</b> Experience as either a non-executive director of an ASX listed company or an executive reporting to the Board of an ASX-listed company	5

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

## INDEPENDENT DIRECTORS

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

Name	Position	Appointed	Approximate length of service
Barry Saunders	Chairman Independent Non-executive Director	7 December 2007	8 years 10 months
Matt Spencer	CEO and Managing Director	23 April 2012	4 years 5 months
Ian Cornell	Independent Non-executive Director	1 January 2015	1 year 9 months
Tom Cowan	Independent Non-executive Director (see explanation below)	19 June 2009	7 years 3 months
Gary Levin	Independent Non-executive Director	25 August 2014	2 years 1 month
Melanie Wilson	Independent Non-executive Director	15 February 2016	7 months

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

The Board has assessed each Non-executive Director to be independent. In assessing independence, the Board has had regard to the factors set out in the ASX Principles and Recommendations. One of those factors is whether a Director has a substantial holding in the Company (a relevant interest of 5% or more) or is otherwise associated with a substantial holder. Tom Cowan is a partner of TDM Asset Management, a substantial shareholder of the Company. Accordingly, for the purpose of the ASX Principles and Recommendations, Tom Cowan has an interest that may affect his characterisation as an independent Director. Notwithstanding this, the Board considers that Tom is an independent director. His interest in the Company's shares (through TDM Asset Management) works to align his interests with those of other shareholders and the Board believes that this does not impede his ability to bring an independent judgement to bear on issues before the Board and to act in the best interests of the Company.

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.

# CORPORATE GOVERNANCE STATEMENT

## 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 ([www.babybuntingcorporate.com.au](http://www.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	Ian Cornell
	Tom Cowan

Details of the qualifications and experience of Committee members is set out in the Company's Annual Report. As noted above (see "Independent directors" at page xiii), the Board considers Tom Cowan to be an independent Non-executive Director notwithstanding his position as a partner of TDM Asset Management, a substantial shareholder of the Company.

The number of meetings of the Committee and attendances by members during the reporting period are set out on page 9 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 27 December 2015 and the full year ended 26 June 2016, 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 first annual general meeting as a listed company will be held on 21 November 2016.

### **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.

Copies of the Continuous Disclosure Policy and the Securities Trading Policy are available on the "Governance" section of the Company's corporate website [www.babybuntingcorporate.com.au](http://www.babybuntingcorporate.com.au).

### **PRINCIPLE 6:**

#### **RESPECT THE RIGHTS OF SECURITY HOLDERS**

#### **THE COMPANY'S WEBSITE**

The Company's corporate website ([www.babybuntingcorporate.com.au](http://www.babybuntingcorporate.com.au)) has information about the Company and its governance.

#### **INVESTOR RELATIONS PROGRAMME**

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

The Company is required by law to communicate to shareholders through the lodgement of all relevant financial and other information with ASX and, in some instances, mailing information to shareholders. It will also publish information (including information released to ASX) on the Company's website. The Company's website will also contain 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.

# CORPORATE GOVERNANCE STATEMENT

## SHAREHOLDER PARTICIPATION AT MEETINGS

The Company's first Annual General Meeting as a listed company will be held on 21 November 2016. 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 xiv above (see "Audit and Risk Committee") and details of the meetings of the Committee and the attendance of members are set out on page 9 of the Directors' Report.

#### RISK MANAGEMENT FRAMEWORK REVIEW

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 Company will regularly undertake reviews of its risk management procedures to ensure that it complies with its legal obligations.

During the reporting period, the Board reviewed the Company's risk management framework. This process included reviewing the Company's risk register, the methods used to identify, categorise and assess risk and management's responsibilities for development strategies to manage identified risks.

#### 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 6 to 7. 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	Tom Cowan
Members	Ian Cornell
	Barry Saunders

As noted above (see "Independent directors" on page xiii), the Board considers Tom Cowan to be an independent Non-executive Director notwithstanding his position as a partner of TDM Asset Management, a substantial shareholder of the Company.

Details of the qualifications and experience of Committee members are set out on page 8 of the Directors' Report. The number of meetings of the Committee and attendances by members during the reporting period are set out on page 9 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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# 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 26 June 2016.

## 1. PRINCIPAL ACTIVITIES

During the financial period, the principal activities of the Company and its consolidated entities was the operation of Baby Bunting retail stores and its online store [www.babybunting.com.au](http://www.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.

## 2. OPERATING AND FINANCIAL REVIEW

### 2.1 SUMMARY – FY2016 FINANCIAL RESULTS

- Total sales up 31.4% to \$236.8 million with comparable store sales growth of 12.5%;
- Gross profit of \$81.2 million up 31.2%. Gross profit as a percentage of sales consistent with prior year at 34.3%;
- Statutory net profit after tax (NPAT) of \$8.3 million, an increase of 38.0% on the prior financial year;
- Statutory basic earnings per share (EPS) of 7.0 cents, and Pro Forma basic EPS of 8.9 cents;
- Net cash of \$7.4 million (versus net debt of \$4.4 million at the end of FY2015); and
- Final dividend of 6.3 cents per share for FY2016.

During the 2016 financial year, the Company undertook an initial public offering (IPO). It was admitted to the official list of the Australian Securities Exchange (ASX) on 14 October 2015. The statutory results are impacted by the effect of one-off transaction costs associated with the IPO and the costs to include the additional costs to conduct the business as an ASX-listed company from 14 October 2015 onwards. These significant events and changes during the reporting period make comparisons to the previous year more difficult. Therefore, discussion on the results also includes pro forma results for 2016 and the comparative period.

- Pro forma\* earnings before interest, tax, depreciation, and amortisation (EBITDA) up 51.1% on the prior year to \$18.7 million;
  - Pro forma\* earnings before interest and tax (EBIT) up 55.1% on the prior year to \$15.5 million;
  - Pro forma\* NPAT of \$10.6 million, up 55.8% on the prior year; and
  - Pro forma\* costs of doing business (CODB) were \$62.5 million or 26.4% of sales, an improvement of 109 basis points on the prior year (CODB of 27.5% of sales in FY2015).
- \* Pro forma financial results exclude the impact of IPO transaction costs expense, and estimate the impact on the financial results for the year and previous corresponding period as if the Company had undertaken an IPO and become a listed company at the beginning of each financial period. Refer to Section 2.6 for a reconciliation between statutory and pro forma financial results.

The above overview of the FY2016 financial results is discussed in detail below.

### 2.2 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 website. 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.

# DIRECTORS' REPORT

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

Drivers of competitive advantage	Comment
Scale platform	Baby Bunting is the largest specialty retailer in the Australian baby goods market. 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 website	The Company currently operates 36 stores across Australia. The Company's website, <a href="http://www.babybunting.com.au">www.babybunting.com.au</a> , is Australia's leading specialty baby goods website as measured by number of visits. The Company is focused on delivering customers a consistent and excellent shopping experience across all channels, providing flexibility on how, when and where they transact.
Customer centric team culture	Baby Bunting has a dedicated team of well trained and knowledgeable staff to service customers' individual needs.
Consistent retail format	<p>Baby Bunting is focused on providing customers with a consistent retail experience across its network. The Company's major market stores 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.</p> <p>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.</p> <p>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.</p>
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, Baby Bunting aims to have its product range in-stock and available at the time of the customer's purchase.
Competitively priced	Baby Bunting's scale enables it to maintain low prices and deliver value to customers with a national pricing policy backed by a price match 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.
Comprehensive range of ancillary services	Across its entire store network, Baby Bunting provides additional services to its customers, including lay-by, car seat fitting, parenting rooms which include baby weigh scales, and an in-store/online gift registry. During FY2016, the Company introduced a click & collect service.
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>

## 2.3 STORE NETWORK

The Company currently operates a network of 36 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 will open its thirty-seventh store at Preston, Victoria in August 2016. Preston is the first of between four and eight stores the Company plans to open in FY2017.

## 2.4 PEOPLE

The Company currently employs approximately 778 staff throughout Australia with approximately 700 employed at the Company's stores, 20 in logistics (including at the Distribution Centre at Dandenong South) and 58 at the Company's Support Office at Dandenong South.

## 2.5 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 FY2016 included:

- opening five new stores, being Booval, North Lakes, Burleigh Waters and Capalaba in Queensland and Campbelltown in New South Wales;
- implementing a new warehouse management system;
- launching a new website for the online store;
- enabling "click & collect" services for customers to purchase items online for collection at one of the Company's stores in a location convenient for the customer;
- expanding the range of private label and exclusive products;
- implementing a new online learning and development platform that will support the development of the growing team and help the Company continue to deliver high levels of service to its customers; and
- migrating IT infrastructure to an external data centre and upgrading communications infrastructure.

## 2.6 REVIEW OF THE COMPANY'S FINANCIAL PERFORMANCE

### Summary

The Board was pleased that the Company exceeded the sales, EBITDA and NPAT forecasts included in the prospectus released in September 2015 for the Company's IPO.

Key highlights from the results include:

- sales of \$236.8 million, up 31.4% on the prior year, and 8.3% above the prospectus forecast;
- pro forma EBITDA of \$18.7 million, up 51.1% on the prior year and 14.4% above the prospectus forecast;
- pro forma EBIT up 55.1% on the prior year to \$15.5 million;
- pro forma NPAT of \$10.6 million, up 55.8% on the prior year, and 17.3% above the prospectus forecast;
- pro forma CODB as a percentage of sales improved 109 basis points to 26.4% in FY2016. Pro forma CODB increased 26.2% on the prior year; and
- gross profit increased 31.2% on the prior year. Gross profit margin was consistent year on year, at 34.3% of sales.

### Non-IFRS 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 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 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, change in fair value of interest rate swap 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 reflect the result of the consolidated entity for the year ended 26 June 2016 and the comparative period as if the Company was publicly listed for the full year.

The following table reconciles the statutory to pro forma financial results for the year ended 26 June 2016 (noting that this financial information has not been audited in accordance with Australian Auditing Standards):

# DIRECTORS' REPORT

## Year ended 26 June 2016

\$'000	Sales	EBITDA	EBIT	NPAT
<b>Statutory results</b>	<b>236,840</b>	<b>15,743</b>	<b>12,564</b>	<b>8,334</b>
Adjusted for non-recurring Initial Public Offering (IPO) related items:				
IPO transaction costs	–	1,876	1,876	1,876
Historical share options plan <sup>1</sup>	–	786	786	786
Employee gift offer <sup>2</sup>	–	416	416	416
Tax impact from IPO related items	–	–	–	(688)
<b>Underlying statutory results</b>	<b>236,840</b>	<b>18,821</b>	<b>15,642</b>	<b>10,724</b>
Other pro forma adjustments:				
Listed public company costs <sup>3</sup>	–	(148)	(148)	(148)
Net finance costs	–	–	–	65
Tax impact from other pro forma adjustments	–	–	–	(14)
<b>Pro forma results</b>	<b>236,840</b>	<b>18,673</b>	<b>15,494</b>	<b>10,627</b>

1. Expense reflects the cost amortisation of the historical share options plan which was accelerated when the IPO of shares in the Company became probable and the Directors and senior executives committed to exercising their share options. Indirect tax costs of \$0.311 million associated with the historical share options plan have been recognised in the current reporting period.

2. The Company issued a total of 283,458 shares (714 shares per eligible employee) in "the Employee Gift Offer" in the IPO with no monetary consideration payable by participating eligible employees. Indirect tax costs of \$0.019 million associated with the offer have been recognised in the current reporting period.

3. The Listed public company costs adjustment is made to actual costs incurred to better reflect a full year of costs in a listed environment (noting Baby Bunting was admitted to quotation on the ASX on 14 October 2015).

The following table reconciles the statutory to pro forma financial results for the year ended 28 June 2015 (noting that this financial information has not been audited in accordance with Australian Auditing Standards):

## Year ended 28 June 2015

\$'000	Sales	EBITDA	EBIT	NPAT
<b>Statutory results</b>	<b>180,175</b>	<b>11,982</b>	<b>9,610</b>	<b>6,040</b>
Adjusted for non-recurring Initial Public Offer (IPO) related items:				
Historical share options plan	–	877	877	877
Tax impact from IPO related items	–	–	–	–
<b>Underlying statutory results</b>	<b>180,175</b>	<b>12,859</b>	<b>10,487</b>	<b>6,917</b>
Other pro forma adjustments:				
Listed public company costs	–	(499)	(499)	(499)
Net finance costs	–	–	–	343
Tax impact from other pro forma adjustments	–	–	–	62
<b>Pro forma results</b>	<b>180,175</b>	<b>12,360</b>	<b>9,988</b>	<b>6,823</b>

## Revenue

The FY2016 sales of \$236.8 million represented an increase of 31.4% on FY2015. This sales growth was achieved through:

- 12.5% comparable store sales growth which was achieved through higher than expected sales growth in both the Company's store network and in its online store;
- the annualising benefit of eight stores opened in FY2015, trading for a full financial year in FY2016; and
- growth from the opening of five new stores during FY2016.

Baby Bunting stocks in excess of 6,000 individual stock keeping units (SKU's). In FY2016, the Company saw particularly strong sales growth from the core categories including prams, car safety, feeding, consumables, as well as nappies.



Sales from private label and exclusive products grew approximately 80% on the prior year, and were 10.0% of total sales in FY2016, up from 7.2% in FY2015.

### **Expenses**

Pro forma CODB expenses as a percentage of sales improved 109 basis points to be 26.4% of sales (versus 27.5% of sales in FY2015). In FY2016, pro forma CODB expenses were \$62.5 million, up 26.2% on the prior year pro forma CODB expenses of \$49.5 million. The increase in business expenses was driven by:

- eight stores opened in FY2015 trading for a full financial year in FY2016;
- five new stores opened in FY2016; 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.

## **2.7 REVIEW OF THE COMPANY'S FINANCIAL POSITION**

The Company finished the financial year in a net cash position of \$7.4 million, relative to a net debt position of \$4.4 million at the end of FY2015. The \$11.8 million improvement in the Company's net cash/debt position was achieved through:

- \$21.4 million of net cash funds generated through the issue of new equity, as part of the IPO in October 2015;
- \$3.7 million of cash proceeds received from the exercise of historical share options prior to the IPO; and
- \$9.0 million of cash generated from operations (excluding IPO costs),

less the following significant cash outflows:

- payment of \$16.1 million in the pre-IPO dividend in October 2015; and
- capital expenditure of \$6.2 million in FY2016.

Maintaining appropriate inventory levels to fulfil customer needs continues to be a key focus of the business. In FY2016, inventory increased from \$35.5 million in the prior year to \$41.0 million at the end of FY2016. The increase was driven by a combination of five new stores opened in FY2016 (each new store requires an inventory investment of approximately \$0.8 million), and the need for further investment in inventory to support the significant increase in sales volumes experienced by the existing store network. Inventory turn-over for FY2016 was 4.1 times per annum, an improvement on the prior year of 3.6 inventory turns.

Trade and other payables increased from \$19.6 million in FY2015 to \$23.8 million in FY2016, 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 6.3 cents per share. This is equivalent to approximately 75% of the Company's FY2016 pro forma NPAT. The dividend payment date is 16 September 2016.

## **3. BUSINESS STRATEGIES AND FUTURE DEVELOPMENT**

The Company's current strategy is focussed on growing its existing business and continuing to improve its execution and financial performance. This strategy has the following key elements:

### **Growth from existing stores and online**

The Company's store network includes a significant proportion of "immature" stores, with 45% of stores less than three years old as at 26 June 2016. The Company's stores historically take an average of four years to mature and 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.

Online sales are included in the calculation of comparable store sales growth. During FY2016, online sales continued to grow strongly and now make up approximately 4.2% of sales (including both online sales and "click & collect" sales), up from 3.5% of sales in FY2015. Reflecting on global trends in online shopping and the general growth in digital sales, the Company has launched a new responsive website and introduced "click & collect" service to ensure customers are provided with convenient ways to shop and the best possible customer experience.

Baby Bunting's management team has identified a number of strategies to allow existing stores and online to capture greater market share. Key strategies include:

- growing brand awareness, with the aim of replicating the strong first-to-mind awareness of the Company's brand in Victoria and South Australia across other parts of Australia;
- improving customer experience. In this regard, management are focussed on investments in customer programs, in-store technology and remodelling of the loyalty program. Investments in inventory and logistics also remain a priority in order to continue to improve stock availability; and
- performing targeted and effective marketing campaigns. The Company continues to explore ways to use its customer analytics to drive highly targeted digital marketing. In addition, the Company has commenced the process to identify customer relationship management (CRM) systems to provide improved service for, and better engagement with, customers.

### **New store roll-out**

The Company is looking to grow the network of stores to over 80 stores and the Company plans to open four to eight new stores per year. The Company expects to open between four and eight stores in FY2017. 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);

# DIRECTORS' REPORT

- 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; and
- required upfront capital expenditure.

## **EBITDA margin improvement**

Over recent years, the Company has invested significantly in its capabilities to improve gross profit margin. Whilst the Company enjoyed improved gross profit margins in its key categories in FY2016, due to above average sales growth in lower gross profit margin earning products, overall gross profit was consistent with the prior year at 34.3% of sales. The Company's strategy is to continue the following initiatives:

- support for the Company's merchandise team to enable reshaped supplier relationships, focusing on developing better strategies in range and product mix and expanding private label and exclusive product sales;
- growing 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; and

- continuing to achieve efficiencies in logistics. This will involve pursuing the benefits of the Company's investments in its Distribution Centre as well as working with third party logistics providers, suppliers and distributors to achieve price, transport and related supply chain efficiencies.

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.

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 structured risk management and internal control systems in place to manage material risks. 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 RISKS**

The Company faces competition from specialty retailers as well as department stores, discount department stores and online only retailers. Competition is based on a variety of factors

including merchandise range, price, advertising, store location, store presentation, product presentation, new store roll-out and customer service. Ultimately, the Company seeks to address competitive risks by focussing on providing customers with the widest range of products, high levels of service and low prices every day.

### **4.2 STRATEGIC AND BUSINESS PLAN RISKS**

A failure to achieve the Company's strategies relating to growth from existing stores and online, new store roll-out and EBITDA margin improvement, could impact the Company's financial performance and position. By way of example, the Company's ability to successfully open stores as planned may be affected by a number of factors, including the ability to find and acquire rights to suitable locations, negotiations with landlords and the ability to find and retain suitable employees.

### **4.3 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.

Less than 10% of goods sourced by the Company are purchased directly in a foreign currency. However, the Company's Australian-based suppliers have exposure to foreign currency, most notably the USD, providing the Company with a secondary foreign currency exposure. The Company has historically elected to pass on changes to the cost of goods from foreign exchange movements without adversely impacting sales or gross profit margin. Where the Company does make direct purchases in a foreign currency, the Company may for large exposures enter into arrangements to conservatively manage the risk associated with adverse foreign currency movements.

### **4.4 OPERATIONAL RISKS**

As described above, 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.

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.

#### 4.5 TECHNOLOGY RISKS

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 cyber-security violation could adversely impact Baby Bunting's ability to trade and to satisfy the needs of its customers. The Company has a continuing focus on IT systems and security (including migration of IT infrastructure to an external data centre), 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 related events.

#### 4.6 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 is continuing to make investments in training and development to further expand the skills of the Company's employees.

#### 4.7 REGULATORY RISKS

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 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.

### 5. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS IN FY16

The Company was admitted to the official list of the Australian Securities Exchange (ASX) on 14 October 2015. A diversified group of retail and institutional shareholders acquired shares in Baby Bunting Group Limited at the listing.

Transaction costs of \$1.876 million (pre-tax) attributable to the listing were recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the current reporting period. Transaction costs of \$1.754 million were recognised directly in equity (\$1.228 million, net of tax) which represent the portion of transaction costs attributable to the issuance of new shares.

### 6. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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:

Pre-IPO dividend (special dividend)	\$'000
Special dividend of 15 cents per share (fully franked) paid to each shareholder of the Company at 29 September 2015 and paid on 14 October 2015	16,117

The Board has determined to pay a final dividend in respect of the financial year ended 26 June 2016 of 6.3 cents per share. This dividend is franked to 100% at the 30% corporate income tax rate. The record date for this final dividend is 26 August 2016 and the dividend payment date is 16 September 2016. The final dividend for the financial year of 6.3 cents per share represents a payout ratio of approximately 75% 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
Barry Saunders	Chairman	7 December 2007
Matt Spencer	CEO and Managing Director	23 April 2012*
Ian Cornell	Non-executive Director	1 January 2015
Tom Cowan	Non-executive Director	19 June 2009
Gary Levin	Non-executive Director	25 August 2014
Melanie Wilson	Non-executive Director	15 February 2016

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

During the financial year, Tamalin Morton was also a Non-executive Director of the Company (retired 12 February 2016).

In addition, during the financial year (and prior to the Company's ASX listing), Arnold Nadelman was a non-executive director (retired 24 July 2015), Grant Nadelman (retired 24 July 2015) was an alternate director for Arnold Nadelman and Hamish Corlett (retired 11 August 2015) was an alternate director for Tom Cowan.

# DIRECTORS' REPORT

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

Name	Particulars
<p><b>Barry Saunders</b>  <i>Chairman</i>  <i>Non-executive Director</i>                      B.Comm                      Member of the Remuneration and Nomination Committee</p>	<p>Barry has over 50 years of retailing experience in Australia across a variety of categories. He was previously the CEO of The Reject Shop from 2000 to 2007, a period of strong growth for the company that included its listing on ASX in 2004.</p> <p>Barry's past roles have included CEO of Target Australia, Managing Director of Myer, and Chief General Manager of BIG W.</p> <p>Barry has previously served on the boards of The Myer Emporium, Coles Myer, Woolworths and The Reject Shop.</p>
<p><b>Matt Spencer</b>  <i>CEO and Managing Director</i>                      B.Bus</p>	<p>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).</p> <p>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.</p> <p>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.</p>
<p><b>Ian Cornell</b>  <i>Non-executive Director</i>                      Fellow of the Australian Institute of Management,                      Fellow of the Australian Human Resources Institute                      Member of the Audit and Risk Committee                      Member of the Remuneration and Nomination Committee</p>	<p>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.</p> <p>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.</p> <p>Ian has also been Chairman and CEO of Franklins.</p> <p>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).</p>
<p><b>Tom Cowan</b>  <i>Non-executive Director</i>                      B.Comm (Hons)                      Chairman of the Remuneration and Nomination Committee                      Member of the Audit and Risk Committee</p>	<p>Tom is a partner at TDM Asset Management, a Sydney-based private investment firm. TDM Asset Management invests in public and private companies globally. Tom has over 15 years of financial markets experience, including roles in corporate finance and investment banking at Investec Wentworth and KPMG Australia.</p> <p>Tom is currently a non-executive director of CSG Limited (appointed in February 2012).</p>
<p><b>Gary Levin</b>  <i>Non-executive Director</i>                      B.Comm, LLB                      Chairman of the Audit and Risk Committee</p>	<p>Gary has over 30 years' management, executive and non-executive experience in public and private companies including in the retail, investment and property industries.</p> <p>Gary was previously the founder and managing director of TLC Dry Cleaners Pty Limited and joint managing director of Rabbit Photos Holdings Limited.</p> <p>He is currently a non-executive director of JB Hi-Fi Limited, having joined the board of that company in November 2000.</p>
<p><b>Melanie Wilson</b>  <i>Non-executive Director</i>                      MBA, B.Comm (Hons),                      GAICD</p>	<p>Melanie has more than 12 years' international retail experience in senior management roles. Her appointments included Limited Brands (Victoria's Secret, Bath &amp; 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.</p> <p>Prior to her retail experience, Melanie performed roles at Bain and Company (Boston) and Goldman Sachs (Hong Kong and Sydney).</p> <p>Melanie has an MBA from the Harvard Business School and is a graduate of the Australian Institute of Company Directors.</p> <p>She is currently a non-executive director of iSelect Limited (appointed in April 2016) and Shaver Shop Group Limited (appointed in June 2016).</p>

## 9. MEETINGS OF DIRECTORS AND BOARD COMMITTEES

The number of meetings of the Board and each Board Committee held during the period ended 26 June 2016 are set out below.

All directors are invited to attend Board Committee meetings. 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	
	A	B	A	B	A	B
Barry Saunders	14	14	–	–	2	2
Matt Spencer	14	14	–	–	–	–
Ian Cornell	14	14	2	2	2	2
Tom Cowan	14	14	2	2	2	2
Gary Levin	14	14	2	2	–	–
Melanie Wilson	4	4	–	–	–	–
Tamalin Morton*	6	9	–	–	–	–

Notes:

A = Number of meetings attended.

B = Number of meetings held during the time the director held office or was a member of the Committee during the year.

\* = Tamalin Morton retired on 12 February 2016.

During the financial year, while he remained a director, Arnold Nadelman attended one meeting of directors. Neither Grant Nadelman nor Hamish Corlett (in their capacities as alternate directors) attended any meetings of directors.

## 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
Barry Saunders	3,227,291	nil
Matt Spencer	2,487,132	1,881,714
Ian Cornell	610,000	nil
Tom Cowan	36,901,303*	nil
Gary Levin	488,000	nil
Melanie Wilson	nil	nil

\* Tom Cowan is a partner of TDM Asset Management. It holds shares directly and has an indirect interest in the shares held by its clients by virtue of the control it exercises in relation to the shares under its investment management arrangements with its clients.

# DIRECTORS' REPORT

## 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 for over 15 years 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

During the financial year, the Company granted 5,331,524 performance rights under the Company's long term incentive plan (LTI Plan). The CEO and Managing Director was the only Director eligible to participate in the LTI Plan. Further details of the LTI Plan are set out on pages 14 and 15 of the Remuneration Report.

Upon vesting, each right entitles the participant to one fully paid ordinary share in the Company.

No performance rights have been granted since the end of the financial year.

All of the performance rights granted during the financial year are subject to the same performance conditions (see pages 14 and 15 of the Remuneration Report for more details).

Date performance rights granted	Issue price	Number of performance rights
14 October 2015 (grant under the LTI Plan)	nil	5,017,905
10 June 2016 (grant under the LTI Plan)	nil	313,619
<b>Closing balance</b>		<b>5,331,524</b>

Each performance right entitles the holder to receive one fully paid share in the Company, subject to the satisfaction of the applicable performance conditions.

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.

## 13. DETAILS OF OPTIONS

There are no options over shares on issue as at the date of this Directors' Report. Details of shares issued during the year as a result of options exercised are set out in the Financial Statements (at Note 19c).

## 14. REMUNERATION REPORT

The Remuneration Report, which forms part of this Directors' Report, is presented separately from page 12.

## 15. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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.

## 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 (Deloitte Touche Tohmatsu) for audit and assurance (\$314,500) and non-audit (\$32,920) services provided during the year are set out in the Financial Statements (at Note 27).

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

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure that they do not impact on the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

## 19. AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is attached to this Directors' Report on page 19.

## 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



**Barry A E Saunders**  
*Chairman*

Melbourne: 12 August 2016

# REMUNERATION REPORT

Dear Shareholders

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

The Board recognises that the performance of Baby Bunting depends on the quality and motivation of its people. The Company's remuneration strategy seeks to appropriately reward, incentivise and retain key employees. This Report is intended to provide you with an understanding of a number of elements of the Company's remuneration strategy. It discloses the remuneration of the Non-executive Directors and certain other executives (referred to as "disclosed executives"). In addition, it also describes key elements of the remuneration practices for the other executives and Team Members who all play a key role in contributing to the Company's performance and success.

In connection with the Company's ASX listing, the Company established two new equity incentive schemes, being the General Employee Share Plan (GES Plan) and the Long Term Incentive Plan (LTI Plan).

The GES Plan was established to reward Baby Bunting employees as part of the Company's overall remuneration policy. Under the first offer made under this plan, eligible employees each received 714 shares for no monetary consideration in conjunction with the Company's IPO. The Board intends making grants under the GES Plan in the future to eligible employees to reward sustainable financial performance.

The second equity incentive scheme is the LTI Plan, which is designed to align the interests of executives and senior managers more closely with the interests of the Company's shareholders. It does this by providing an opportunity for eligible employees to receive an equity interest in the Company through the grant of performance rights to receive shares in the Company. Grants made under the LTI Plan during the financial year are subject to performance conditions that are assessed over periods of between three and five years and are described further in this Remuneration Report. Initial grants under the LTI Plan were made in FY2016.

The Board believes that providing incentives is a very important and meaningful way of improving business performance, for rewarding success and for recognising an individual's performance and their contribution to the Company's overall success. Accordingly, eligible employees (in addition to executives) may be provided with an opportunity to receive an annual short term incentive payment based on the individual's and the Company's performance.

Recognising the responsibility of the disclosed executives and other executives for the Company's operating and financial performance, their remuneration has been 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).

The Board is confident that the Company's remuneration policies and practices are well designed having regard to the interests of our Team Members and the Company as a whole.



Tom Cowan  
*Chairman of the Remuneration and Nomination Committee*



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 26 June 2016.

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

Barry Saunders	Non-executive Chairman
Ian Cornell	Non-executive Director
Tom Cowan	Non-executive Director
Gary Levin	Non-executive Director
Melanie Wilson	Non-executive Director (appointed 15 February 2016)

### Former Non-executive Directors

Tamalin Morton	Retired 12 February 2016 – Non-executive Director
Arnold Nadelman	Retired 24 July 2015 – Non-executive Director
Grant Nadelman	Retired 24 July 2015 – Alternate director for Arnold Nadelman
Hamish Corlett	Retired 11 August 2015 – Alternate director for Tom Cowan

### Disclosed executives

Matt Spencer	CEO and Managing Director
Darin Hoekman	Chief Financial Officer

## 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 of increasing shareholder wealth over the long term.

A copy of the Committee's Charter is available on the Company's website at [www.babybuntingcorporate.com.au](http://www.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 9 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 concessional 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 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.

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 by a participant 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 in the 2016 financial year (including the disclosed executives) the size of the 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 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 potential STI payment increases proportionally. To encourage and reward participants for extraordinary performance, there is no maximum potential STI payment.

# REMUNERATION REPORT

For the 2016 financial year, pro forma EBIT growth relative to the 2015 financial year was 55.1%. This resulted in a potential STI payment for participating executives equal to 35% of their base remuneration.

The size of each participating executive's actual STI payment was 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%

Achievement of year on year pro forma EBIT growth of 55.1% (and after allowing for the payments to be made under the STI plans) meant that the financial criteria was satisfied in its entirety.

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

- successful completion of the Company's IPO;
- property related initiatives;
  - development of internal reporting and business processes;
- successful implementation of IT initiatives and projects; and
- employee engagement 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.

For the disclosed executives, the extent to which the financial criteria and non-financial criteria were achieved and the resulting STI award for the 2016 financial year was:

Disclosed executive	% of financial criteria achieved	% of non-financial criteria achieved	% of maximum STI awarded	% of STI forfeited
Matt Spencer	100%	73%	92%	8%
Darin Hoekman	100%	90%	97%	3%

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

## 3.3 LONG TERM INCENTIVE PLAN

### Introduction

The LTI Plan is designed to align the interests of executives and senior 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 senior employees are eligible. In FY2016, rights have been granted to the CEO and Managing Director, the Chief Financial Officer and other executives. In the first three years of its operation, the number of rights to be granted 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. 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 condition (TSR Rights). Broadly, TSR is a measure of the increase in the Company's share price (assuming dividends are reinvested). Both of these conditions are expressed as a compound annual growth rate (CAGR) percentage.

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 with the base level EPS calculated by dividing the Company's 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. The TSR growth performance condition is a measure of the compound annual growth of the Company's TSR measured over the relevant performance period with \$1.40 (being the price at which shares were issued in the Company's IPO) used as the base level (and with no allowance for the "pre-IPO dividend" paid by the Company at the time of the IPO).

The 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>There are three separate performance periods that apply to the EPS Rights:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• 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</li> <li>• 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.</li> </ul> <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>There are three separate performance periods that apply to the TSR Rights:</p> <ul style="list-style-type: none"> <li>• 20% of the TSR Rights will be assessed against TSR growth measured in the period from the Company's listing on ASX to shortly following the release of the Company's financial results for FY2018;</li> <li>• 30% of the TSR Rights will be assessed against TSR growth measured in the period from the Company's listing on ASX to shortly following the release of the Company's financial results for FY2019; and</li> <li>• 50% of the TSR Rights will be assessed against TSR growth measured in the period from the Company's listing on ASX to shortly following the release of the Company's financial results for FY2020.</li> </ul> <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"> <li>• 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;</li> <li>• 100% of the EPS Rights will vest if the EPS growth hurdle of 25% EPS CAGR is achieved over the relevant performance period; and</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• 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;</li> <li>• 100% of the TSR Rights will vest if the TSR growth hurdle of 25% TSR CAGR is achieved over the relevant performance period; and</li> <li>• 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.</li> </ul>

#### **Treatment on cessation of employment**

Upon resignation, a participant's vested 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.

# REMUNERATION REPORT

## 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. The GES Plan provides for grants of shares to eligible employees of the Company up to a value determined by the Board. The first offer made under this plan occurred in conjunction with the Company's IPO and eligible employees each received 714 shares for no monetary consideration in conjunction with the Company's IPO.

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

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).

## 4. RELATIONSHIP BETWEEN REMUNERATION AND THE COMPANY'S PERFORMANCE

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

	2016 \$'000	2015 \$'000	2014 \$'000
EBITDA (statutory)	15,743	11,982	8,573
Net profit after tax (statutory)	8,334	6,040	4,064
Dividends per share – ordinary (cps)	6.3	–	–
Dividends per share – special (cps)	15.0	–	–
Basic Earnings per share (cents)	7.0	6.2	4.2

## 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, Barry Saunders, and \$65,000 to each of the remaining Non-executive Directors.

In addition, the Chairman of the Audit and Risk Committee is entitled to \$15,000 annually and the Chairman of the Remuneration and Nomination Committee is entitled to \$15,000 annually. Other committee members receive \$5,000 per annum for serving on each of the Audit and Risk Committee and the Remuneration and Nomination Committee. The remuneration must not include a commission on, or a percentage of, operating revenue. Superannuation contributions provided by the Company are included in these amounts.

For the financial year ended 26 June 2016, the fees paid and superannuation contributions to all Non-executive Directors were approximately \$400,000 in aggregate.

The Non-Executive Directors are not entitled to participate in any of the Company's employee incentive plans.

## 6. DETAILS OF REMUNERATION FOR NON-EXECUTIVE DIRECTORS AND DISCLOSED EXECUTIVES

Details of the remuneration of the Directors and other key management personnel of the Company are set out in the following tables. In line with Corporations Regulation 2M.3.03, the Company has elected not to disclose comparative amounts, as it was not listed on ASX during the previous financial year.

2016	Short term employee benefits			Post-employment benefits	Long term benefits	Share based payments <sup>4</sup>		TOTAL <sup>7</sup>	Performance related %	Options and rights as proportion of remuneration %
	Salary & fees <sup>3</sup>	STI and other fees	Non-monetary benefits	Super-annuation	Long service leave	LTI Plan rights <sup>5</sup>	Historical share options <sup>6</sup>			
<b>Non-executive Directors</b>										
Barry Saunders	112,179	–	2,164	10,657	–	–	48,707 <sup>8</sup>	<b>173,707</b>	28.0%	28.0%
Ian Cornell	60,590	–	–	5,756	–	–	–	<b>66,346</b>	–	–
Tom Cowan <sup>1</sup>	74,792	–	–	–	–	–	–	<b>74,792</b>	–	–
Gary Levin	63,839	–	–	6,065	–	–	–	<b>69,904</b>	–	–
Melanie Wilson (appointed 15 February 2016)	21,690	–	–	2,061	–	–	–	<b>23,751</b>	–	–
Tamalin Morton (retired 12 February 2016)	32,403	–	–	3,078	–	–	–	<b>35,481</b>	–	–
Arnold Nadelman (retired 24 July 2015)	2,308	–	–	219	–	–	–	<b>2,527</b>	–	–
Grant Nadelman <sup>2</sup> (retired 24 July 2015)	–	–	–	–	–	–	–	–	–	–
Hamish Corlett <sup>2</sup> (retired 11 August 2015)	–	–	–	–	–	–	–	–	–	–
<b>Disclosed executives</b>										
Matt Spencer	427,838	124,656	8,754	19,549	12,388	47,756	212,448	<b>853,389</b>	45.1%	30.5%
Darin Hoekman	264,028	81,993	7,500	19,308	1,082	17,511	71,357	<b>462,779</b>	36.9%	19.2%

1. Fees payable to Tom Cowan were paid to TDM Asset Management Pty Ltd. Accordingly, Tom is responsible for his own superannuation arrangements.
2. Grant Nadelman (retired 24 July 2015) was an alternate director for Arnold Nadelman and Hamish Corlett (retired 11 August 2015) was an alternate director for Tom Cowan. Alternate directors were not remunerated directly by the Company during the financial year.
3. Amount includes the value of annual leave accrued during the financial year.
4. The value of the LTI Plan rights and Historical share options has been calculated in accordance with applicable accounting standards.
5. The value of the LTI Plan rights included as remuneration in the table represents the aggregate of amounts determined for both market based and non-market based performance hurdles.
6. The value reflects the cost of the historical share options plan which was accelerated when the IPO of shares of the Company became probable and holders committed to exercising their share options.
7. There were no termination benefits paid or payable during the current financial year.
8. Options had been granted to Barry Saunders in connection with his service as executive chairman in the period before the appointment of Matt Spencer as CEO and Managing Director.

## 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.

Executive	Annual Base Salary including superannuation	Termination – notice by Executive	Termination – notice by Company or payment in lieu
Matt Spencer	\$446,490	12 months	12 months
Darin Hoekman	\$278,240	6 months	6 months

Note: the base salaries (including superannuation) quoted above are those in effect as at 26 June 2016.

# REMUNERATION REPORT

## 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.

2016	Balance at the start of the year	Net change	Balance at the end of year
<b>Non-executive Directors</b>			
Barry Saunders	3,419,818	777,291	4,197,109
Ian Cornell	610,000	–	610,000
Tom Cowan	45,474,846*	(8,573,543)	36,901,303*
Gary Levin	610,000	(122,000)	488,000
Melanie Wilson (appointed 15 February 2016)	–	–	–
Tamalin Morton (retired 12 February 2016)	49,193	–	49,193
Arnold Nadelman (retired 24 July 2015)	14,658,781	(9,500,000)	5,158,781
<b>Disclosed executives</b>			
Matt Spencer	122,848	2,364,284	2,487,132
Darin Hoekman	37,000	400,000	437,000

\* Tom Cowan is a partner of TDM Asset Management. It holds shares directly and has an indirect interest in the shares held by its clients by virtue of the control it exercises in relation to the shares under its investment management arrangements with its clients.

### Performance rights

The CEO and Managing Director and the Chief Financial Officer were granted performance rights on 14 October 2015. These were granted under the Company's LTI Plan.

2016	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	\$1,430,103	1,881,714	1,881,714
Darin Hoekman	\$524,371	689,962	689,962

Under the LTI Plan, Matt Spencer and Darin Hoekman were each granted performance rights in FY2016. Details of the performance conditions and performance periods for those rights are set out in section 3.3 (Long term incentive plan) above.

Half of the performance rights in the table above are subject to the TSR performance condition and the other half are subject to the EPS performance condition. The fair value of the TSR performance rights granted to the disclosed executives is \$0.12. The fair value of the TSR component of performance rights is determined at grant date using a Monte-Carlo simulation. For the EPS performance rights, the fair value is determined with reference to the share price of ordinary shares at grant date (\$1.40).

### Options

During the financial year, details of the options held by members of the key management personnel are set out in the table below. These options had been granted in the period from 2011 to 2015 in accordance with the Company's former remuneration and incentive arrangements. All of the options held by key management personnel were exercised during the financial year prior to the Company's IPO.

2016	Balance at the start of the year	Net change	Value of options exercised	Balance at the end of the year
<b>Non-executive Director</b>				
Barry Saunders	2,338,924 <sup>1</sup>	(2,338,924)	\$1,640,636	–
<b>Disclosed executives</b>				
Matt Spencer	2,350,000	(2,350,000)	\$1,657,500	–
Darin Hoekman	400,000	(400,000)	\$280,000	–

1. Options were granted to Barry Saunders in connection with his service as executive chairman in the period before the appointment of Matt Spencer as CEO and Managing Director.

The value of the options exercised during the year is calculated based on the value of the option at the time it is exercised multiplied by the number of options exercised.

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

## 9. LOANS TO KEY MANAGEMENT PERSONNEL

The Company has entered into agreements with Matt Spencer and Darin Hoekman (and certain other executives) to, if requested, provide a loan on a limited recourse basis. Further details of the loans are set out in the Financial Statements (at Note 20). As at the date of this report, no amounts have been advanced under these loans.

This is the end of the Remuneration Report.

# AUDITOR'S INDEPENDENCE DECLARATION



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12 August 2016

The Board of Directors  
Baby Bunting Group Limited  
955 Taylors Rd  
Dandenong South VIC 3175

Dear Board Members

## **Baby Bunting Group Limited**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Baby Bunting Group Limited.

As lead audit partner for the audit of the financial statements of Baby Bunting Group Limited for the financial year ended 26 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

DELOITTE TOUCHE TOHMATSU

Gerard Belleville  
Partner  
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.  
Member of Deloitte Touche Tohmatsu Limited

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# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 26 June 2016

	Note	2016 \$'000	2015 \$'000
Revenue	3	236,840	180,175
Cost of sales		(155,678)	(118,314)
<b>Gross profit</b>		81,162	61,861
Other revenue	3	21	45
Store expenses	4	(48,305)	(37,833)
Marketing expenses		(3,983)	(3,054)
Warehousing expenses	4	(3,540)	(3,316)
Administrative expenses	4	(10,895)	(8,073)
IPO transaction costs expensed	15	(1,876)	–
Finance costs	4	(397)	(807)
Change in fair value of interest rate swap		–	205
<b>Profit before tax</b>		12,187	9,028
Income tax expense	5	(3,853)	(2,988)
<b>Profit after tax</b>		8,334	6,040
Other comprehensive income for the year		–	–
<b>Total comprehensive income for the year</b>		8,334	6,040
<b>Profit for the year attributable to:</b>			
Equity holders of Baby Bunting Group Limited		8,334	6,040
<b>Earnings per share</b>			
From continuing operations			
Basic (cents per share)	26(a)	7.0	6.2
Diluted (cents per share)	26(b)	7.0	6.2

Notes to the consolidated financial statements are included in Pages 25 to 50.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 26 June 2016

	Note	26 June 2016 \$'000	28 June 2015 \$'000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	23(b)	7,363	3,568
Other receivables	6	8,135	5,834
Inventories	7	41,042	35,492
Other assets	8	771	281
<b>TOTAL CURRENT ASSETS</b>		<b>57,311</b>	<b>45,175</b>
<b>NON-CURRENT ASSETS</b>			
Plant and equipment	9	17,005	14,902
Intangibles	10	903	–
Goodwill	10	44,180	44,180
Deferred tax assets	11	3,361	2,071
<b>TOTAL NON-CURRENT ASSETS</b>		<b>65,449</b>	<b>61,153</b>
<b>TOTAL ASSETS</b>		<b>122,760</b>	<b>106,328</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12	23,828	19,566
Current tax liabilities	14	844	2,439
Provisions	14	2,267	1,667
Operating lease provision	12	135	45
<b>TOTAL CURRENT LIABILITIES</b>		<b>27,074</b>	<b>23,717</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	13	–	7,950
Provisions	14	260	261
Operating lease provision	12	2,702	2,386
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>2,962</b>	<b>10,597</b>
<b>TOTAL LIABILITIES</b>		<b>30,036</b>	<b>34,314</b>
<b>NET ASSETS</b>		<b>92,724</b>	<b>72,014</b>
<b>EQUITY</b>			
Issued capital	15	84,420	55,070
Share based payments reserve	19	132	989
Retained earnings	17	8,172	15,955
<b>TOTAL EQUITY</b>		<b>92,724</b>	<b>72,014</b>

Notes to the consolidated financial statements are included in Pages 25 to 50.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 26 June 2016

	Issued Capital \$'000	Share Based Payments Reserve \$'000	Total Equity \$'000	Total Equity \$'000
Balance at 29 June 2014	53,538	76	9,915	63,529
Profit for the year	–	–	6,040	6,040
Other comprehensive income	–	–	–	–
Total comprehensive income for the year	–	–	6,040	6,040
Issue of shares (Note 15)	1,532	–	–	1,532
Dividends (Note 16)	–	–	–	–
Share based payment (Note 19)	–	913	–	913
<b>Balance at 28 June 2015</b>	<b>55,070</b>	<b>989</b>	<b>15,955</b>	<b>72,014</b>
Balance at 28 June 2015	55,070	989	15,955	72,014
Profit for the year	–	–	8,334	8,334
Other comprehensive income	–	–	–	–
Total comprehensive income for the year	–	–	8,334	8,334
Issue of shares (Note 15, 19)	29,350	(1,464)	–	27,886
Dividends (Note 16)	–	–	(16,117)	(16,117)
Share based payment (Note 19)	–	607	–	607
<b>Balance at 26 June 2016</b>	<b>84,420</b>	<b>132</b>	<b>8,172</b>	<b>92,724</b>

Notes to the consolidated financial statements are included in Pages 25 to 50.

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 26 June 2016

	Note	2016 \$'000	2015 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		258,418	196,899
Payments to suppliers and employees		(242,851)	(188,583)
Income tax paid		(6,213)	(2,673)
Interest received		20	18
Finance costs paid		(420)	(880)
Transaction costs for listing	15	(1,876)	–
<b>Net cash (used in)/from operating activities</b>	23(a)	<b>7,078</b>	<b>4,781</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for plant and equipment and intangibles	9, 10	(6,185)	(6,047)
Proceeds on sale of plant and equipment		6	25
<b>Net cash used in investing activities</b>		<b>(6,179)</b>	<b>(6,022)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares	15, 19	28,717	1,532
Transaction costs for issue of shares	15	(1,754)	–
Dividends paid	16	(16,117)	–
(Repayment of)/Proceeds from borrowings		(7,950)	(100)
<b>Net cash provided by financing activities</b>		<b>2,896</b>	<b>1,432</b>
<b>Net increase in cash and cash equivalents</b>		<b>3,795</b>	<b>191</b>
Cash and cash equivalents at beginning of the financial year	23(b)	3,568	3,377
<b>Cash and cash equivalents at end of the financial year</b>	23(b)	<b>7,363</b>	<b>3,568</b>

Notes to the consolidated financial statements are included in Pages 25 to 50.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 26 June 2016

## 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 26 June 2016 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 statement, the Company is a for-profit entity.

The financial statements were authorised for issue by the directors on 12 August 2016.

### 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. All amounts are presented in Australian dollars, unless otherwise noted. 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.

#### 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	2.5%
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 during the forecast period. The values assigned to the key assumption are consistent with external sources of information
Post-tax weighted average cost of capital	11.8%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 26 June 2016

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (continued)

The recoverable amount of the consolidated entity's goodwill currently exceeds its carrying value. Reasonable possible changes that may occur to the assumptions used would not result in impairment.

### D. Basis of Consolidation

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

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

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

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

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

### E. Business Combinations

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.

### 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.

#### **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 (Computer Software) that are acquired separately 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 lay by sales is recognised at the point of sale. This approach is taken as experience indicates that most lay by 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 lay by 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 26 June 2016

## 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 using the effective interest method 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. Financial liabilities

#### Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit & 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.

#### **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.

#### **S. Borrowing Costs**

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

#### **T. 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.

#### **U. Store opening costs**

Costs associated in the setup of a new store are expensed in the period in which they are incurred.

#### **V. Comparative amounts**

The comparative figures are for the period 30 June 2014 to 28 June 2015.

#### **W. New and amended Standards and Interpretations adopted**

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.

#### **X. 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 AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15'	1 January 2018	June 2019
AASB 16 'Leases'	1 January 2019	June 2020
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1 January 2016	June 2017
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1 January 2016	June 2017

The consolidated entity has not yet determined the potential effect, if any, of the new and amending standards and interpretations on the consolidated entity's financial report.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 26 June 2016

## NOTE 3: REVENUE

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

	2016 \$'000	2015 \$'000
Revenue from sale of goods	236,840	180,175
<b>Other revenue</b>		
Interest revenue	20	20
Profit on sale of equipment	1	25
<b>Total other revenue</b>	21	45
	<b>236,861</b>	<b>180,220</b>

## NOTE 4: PROFIT FOR THE YEAR

	2016 \$'000	2015 \$'000
<i>Profit before income tax expense includes the following expenses:</i>		
Interest and finance charges paid/payable	397	807
Depreciation and amortisation	3,179	2,372
Rental expenses relating to operating leases:		
Minimum lease payments	14,911	12,010
Employee benefits expense	36,619	26,845
Loss on disposal of fixed assets	-	-

### 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 mortisation \$'000
<b>For the year ended 28 June 2015</b>			
Store expenses	(37,833)	1,859	(35,974)
Warehousing expenses	(3,316)	139	(3,177)
Administrative expenses	(8,073)	374	(7,699)
<b>Total</b>	<b>(49,222)</b>	<b>2,372</b>	<b>(46,850)</b>
<b>For the year ended 26 June 2016</b>			
Store expenses	(48,305)	2,657	(45,648)
Warehousing expenses	(3,540)	183	(3,357)
Administrative expenses	(10,895)	339	(10,556)
<b>Total</b>	<b>(62,740)</b>	<b>3,179</b>	<b>(59,561)</b>

## NOTE 5: INCOME TAX

	2016 \$'000	2015 \$'000
Current tax	3,747	3,089
Deferred tax	106	(101)
<b>Total tax expense</b>	<b>3,853</b>	<b>2,988</b>

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:

	2016 \$'000	2015 \$'000
Profit before tax from continuing operations	12,187	9,028
Income tax expense calculated at 30% (2015: 30%)	(3,656)	(2,708)
Non-deductible expenditure	(197)	(280)
Income tax expense recognised in profit or loss	(3,853)	(2,988)

The tax rate used for 2016 and 2015 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

	2016 \$'000	2015 \$'000
<b>Current</b>		
Lay by receivables	6,514	4,612
Other receivables	1,621	1,222
	<b>8,135</b>	<b>5,834</b>

The average lay by period is 3 months. No interest is charged on lay by 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

	2016 \$'000	2015 \$'000
Finished goods	41,042	35,492

## NOTE 8: OTHER ASSETS

	2016 \$'000	2015 \$'000
Prepayments	771	281

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 26 June 2016

## NOTE 9: PLANT AND EQUIPMENT

	Leasehold improvements \$'000	Plant and equipment \$'000	Total \$'000
<b>Cost</b>			
Balance at 29 June 2014	2,641	16,428	19,069
Additions	794	5,253	6,047
Disposals	(3)	(219)	(222)
Transfers	–	–	–
<b>Balance at 28 June 2015</b>	<b>3,432</b>	<b>21,462</b>	<b>24,894</b>
<b>Accumulated depreciation</b>			
Balance at 29 June 2014	(944)	(6,898)	(7,842)
Depreciation	(257)	(2,115)	(2,372)
Disposals	3	219	222
Transfers	–	–	–
<b>Balance at 28 June 2015</b>	<b>(1,198)</b>	<b>(8,794)</b>	<b>(9,992)</b>
<b>Carrying amount as at 28 June 2015</b>	<b>2,234</b>	<b>12,668</b>	<b>14,902</b>

	Leasehold improvements \$'000	Plant and equipment \$'000	Total \$'000
<b>Cost</b>			
Balance at 28 June 2015	3,432	21,462	24,894
Additions	1,229	4,268	5,497
Disposals	–	(26)	(26)
Transfers	–	(673)	(673)
<b>Balance at 26 June 2016</b>	<b>4,661</b>	<b>25,031</b>	<b>29,692</b>
<b>Accumulated depreciation</b>			
Balance at 28 June 2015	(1,198)	(8,794)	(9,992)
Depreciation	(398)	(2,577)	(2,975)
Disposals	–	21	21
Transfers	–	259	259
<b>Balance at 26 June 2016</b>	<b>(1,596)</b>	<b>(11,091)</b>	<b>(12,687)</b>
<b>Carrying amount as at 26 June 2016</b>	<b>3,065</b>	<b>13,940</b>	<b>17,005</b>

## NOTE 10: INTANGIBLE ASSETS AND GOODWILL

	Goodwill \$'000	Computer Software \$'000	Total \$'000
<b>Cost</b>			
Balance at 29 June 2014	44,180	–	44,180
<b>Balance at 28 June 2015</b>	<b>44,180</b>	<b>–</b>	<b>44,180</b>
<b>Amortisation and impairment losses</b>			
Balance at 29 June 2014	–	–	–
<b>Balance at 28 June 2015</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Carrying amount as at 28 June 2015</b>	<b>44,180</b>	<b>–</b>	<b>44,180</b>
	Goodwill \$'000	Computer Software \$'000	Total \$'000
<b>Cost</b>			
Balance at 28 June 2015	44,180	–	44,180
Additions	–	688	688
Transfers	–	673	673
<b>Balance at 26 June 2016</b>	<b>44,180</b>	<b>1,361</b>	<b>45,541</b>
<b>Amortisation and impairment losses</b>			
Balance at 28 June 2015	–	–	–
Amortisation	–	(204)	(204)
Transfers	–	(254)	(254)
<b>Balance at 26 June 2016</b>	<b>–</b>	<b>(458)</b>	<b>(458)</b>
<b>Carrying amount as at 26 June 2016</b>	<b>44,180</b>	<b>903</b>	<b>45,083</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 26 June 2016

## NOTE 11: DEFERRED TAX ASSETS

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

	2016 \$'000	2015 \$'000
Deferred tax assets	3,522	2,218
Deferred tax liability	(161)	(147)
	<b>3,361</b>	<b>2,071</b>

	Opening balance (\$'000)	Recognised in profit or loss (\$'000)	Recognised in other compreh- ensive income (\$'000)	Recognised directly in equity (\$'000)	Reclassified from equity to profit or loss (\$'000)	Acquisitions /disposals (\$'000)	Other (\$'000)	Closing balance (\$'000)
<b>2015 – Consolidated</b>								
Employee benefits	435	144	–	–	–	–	–	579
Non-deductible accruals	133	77	–	–	–	–	–	210
Non-assessable lay by gross profit	128	(275)	–	–	–	–	–	(147)
Inventories	385	74	–	–	–	–	–	459
Gift vouchers	184	57	–	–	–	–	–	241
Operating lease provision	644	85	–	–	–	–	–	729
Interest rate swap	61	(61)	–	–	–	–	–	–
<b>Total</b>	<b>1,970</b>	<b>101</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2,071</b>

	Opening balance (\$'000)	Recognised in profit or loss (\$'000)	Recognised in other compreh- ensive income (\$'000)	Recognised directly in equity (\$'000)	Reclassified from equity to profit or loss (\$'000)	Acquisitions /disposals (\$'000)	Other (\$'000)	Closing balance (\$'000)
<b>2016 – Consolidated</b>								
Employee benefits	579	179	–	–	–	–	–	758
Non-deductible accruals	210	57	–	–	–	–	–	267
Non-assessable lay by gross profit	(147)	(14)	–	–	–	–	–	(161)
Inventories	459	17	–	–	–	–	–	476
Gift vouchers	241	58	–	–	–	–	–	299
Operating lease provision	729	122	–	–	–	–	–	851
Interest rate swap	–	–	–	–	–	–	–	–
IPO transaction costs – listing	–	450	–	–	–	–	–	450
IPO transaction costs – issuance of new shares	–	–	–	421	–	–	–	421
<b>Total</b>	<b>2,071</b>	<b>869</b>	<b>–</b>	<b>421</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3,361</b>

## NOTE 12: PAYABLES

	2016 \$'000	2015 \$'000
<b>Current</b>		
Trade payables	17,889	14,318
Gift voucher payables	998	802
Sundry payables and accruals	4,941	4,446
	<b>23,828</b>	<b>19,566</b>
<b>Operating lease provision</b>		
Operating lease provision – Current	135	45
Operating lease provision – Non-current	2,702	2,386
	<b>2,837</b>	<b>2,431</b>

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

## NOTE 13: LOANS AND BORROWINGS

	2016 \$'000	2015 \$'000
<b>Non-current – Secured</b>		
Bank Loan	–	7,950

The ongoing funding requirements of the consolidated entity are provided by the National Australia Bank (“NAB”). The secured multi option facility matures on 31 December 2017. 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 \$26,000,000, consisting of \$20,000,000 market rate facility and \$6,000,000 bank guarantee facility. The market rate facility can be drawn to the lesser of \$20,000,000 or 2.00 times the last 12 months historical rolling EBITDA. Interest on the facility is charged at a variable rate.

The consolidated entity is in compliance with its facility agreement at 26 June 2016. The current facility does not require the consolidated entity to amortise borrowings.

## NOTE 14: PROVISIONS

	2016 \$'000	2015 \$'000
<b>Current</b>		
Current tax liability	844	2,439
Employee benefits	2,267	1,667
	<b>3,111</b>	<b>4,106</b>
<b>Non-current</b>		
Employee benefits	260	261

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 26 June 2016

## NOTE 15: ISSUED CAPITAL

	26 June 2016		28 June 2015	
	No.	\$'000	No.	\$'000
<b>Fully paid ordinary shares</b>				
Balance at beginning of the year	97,528,411	55,070	95,659,943	53,538
Issue of shares – IPO	17,857,073	25,000	–	–
Issue of shares – Options exercised	9,919,178	5,181	1,868,468	1,532
Issue of shares – Employee Gift Offer	283,458	397	–	–
Transaction costs recognised in equity, net of tax	–	(1,228)	–	–
<b>Balance at end of the year</b>	<b>125,588,120</b>	<b>84,420</b>	<b>97,528,411</b>	<b>55,070</b>

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

### Initial Public Offering

On 14 October 2015, the Company was admitted to the official list of the Australian Securities Exchange (ASX). The settlement of the issue or transfer of shares as part of the Company's initial public offering on 14 October 2015 resulted in the issue of 17.857 million ordinary shares at the offer price of \$1.40 per ordinary share. Transaction costs of \$1.754 million were recognised directly in equity (\$1.228 million, net of tax) which represent the portion of transaction costs attributable to the issuance of new shares. Transaction costs of \$1.876 million attributable to the listing were recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income in the current reporting period.

## NOTE 16: DIVIDENDS

	2016		2015	
	\$ per ordinary share	\$'000	\$ per ordinary share	\$'000
<b>Recognised amounts</b>				
Special fully franked dividend – 14 October 2015	0.150	16,117	–	–
<b>Unrecognised amounts</b>				
Final fully franked dividend	0.063	7,912	–	–

During the current reporting period, a special fully franked dividend of 15.0 cents per ordinary share was declared for the existing shareholders immediately prior to the Initial Public Offering and paid at the completion of the Initial Public Offering.

On 12 August 2016, the directors determined to pay a fully franked final dividend of 6.3 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 26 June 2016, to be paid to shareholders on 16 September 2016. The dividend has not been included as a liability in these consolidated financial statements. The record date for determining entitlements to the dividend is 26 August 2016. The total estimated dividend to be paid is \$7.912 million.

	Company	
	2016 \$'000	2015 \$'000
Adjusted franking account balance	5,226	5,874



## NOTE 17: RETAINED EARNINGS

	2016 \$'000	2015 \$'000
<b>Retained earnings</b>		
Balance at beginning of year	15,955	9,915
Profit attributable to owners of the Company	8,334	6,040
Payment of dividends – special fully franked dividend	(16,117)	–
<b>Balance at end of year</b>	<b>8,172</b>	<b>15,955</b>

## 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	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Revenue	236,840	180,175	236,840	180,175
Operating EBIT	15,774	10,493	15,774	10,493
Total segment assets	122,760	106,328	122,760	106,328
Additions to plant and equipment and intangibles	6,185	6,047	6,185	6,047
Depreciation and amortisation	3,179	2,372	3,179	2,372
Total non-current assets <sup>1</sup>	62,088	59,082	62,088	59,082
Total segment liabilities	30,036	34,314	30,036	34,314

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 (2015: 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 26 June 2016

## NOTE 18: SEGMENT INFORMATION (continued)

### Operating EBIT

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

	2016 \$'000	2015 \$'000
Operating EBIT	15,774	10,493
Interest revenue	20	20
Finance costs	(397)	(807)
Change in fair value of interest rate swap	–	205
IPO transaction costs recognised in consolidated statement of profit or loss and other comprehensive income (Note 15)	(1,876)	–
Employee share based payments (inclusive of indirect tax)	(1,334)	(883)
<b>Profit before tax</b>	<b>12,187</b>	<b>9,028</b>

### 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:

	26 June 2016 \$'000	28 June 2015 \$'000
Segment assets	122,760	106,328
<b>Total assets as per the balance sheet</b>	<b>122,760</b>	<b>106,328</b>
Segment liabilities	30,036	34,314
<b>Total liabilities as per the balance sheet</b>	<b>30,036</b>	<b>34,314</b>

## NOTE 19: SHARE BASED PAYMENTS

	2016 \$'000	2015 \$'000
<b>Share based payments reserve</b>		
Balance at beginning of year	989	76
Historical share options – expense (Note 19c)	475	913
Historical share options – exercised	(1,464)	–
Performance rights – expense (Note 19a)	132	–
<b>Balance at end of year</b>	<b>132</b>	<b>989</b>

### A. Performance rights

In the current reporting period, the consolidated entity 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 under the LTI Plan is \$0.17 (2015: nil). 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)	14 October 2015	\$0.12	nil	(1)
2016 – Series 1 (EPS CAGR)	14 October 2015	\$1.40	nil	(1)
2016 – Series 2 (TSR)	10 June 2016	\$1.03	nil	(1)
2016 – Series 2 (EPS CAGR)	10 June 2016	\$2.45	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.

	Performance rights Series	
	2016 – Series 1 TSR	2016 – Series 2 TSR
Grant date share price	\$1.40 (IPO offer price)	\$2.45
Exercise price	nil	nil
Expected volatility	25%	25%
Expected life	3,4,5 years	2.3,3.3,4.3 years
Dividend yield	4.50%	4.50%
Risk-free interest rate (p.a)	1.90%	1.90%

### Movements in performance rights during the year

The consolidated entity recorded a share based payments expense for performance rights of \$0.132 million (2015: nil) 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 2016	
	TSR Number of rights	EPS Number of rights
Balance at beginning of year	–	–
Granted during the year	2,665,762	2,665,762
Forfeited during the year	–	–
Exercised during the year	–	–
Lapsed during the year	–	–
Balance at end of year	2,665,762	2,665,762
Exercisable at end of year	–	–

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 26 June 2016

## NOTE 19: SHARE BASED PAYMENTS (continued)

### B. General Employee Share Plan (“GESP”)

In the current reporting period, the consolidated entity 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 current reporting period, the Board issued a total of 283,458 shares (714 shares per eligible employee) in “the Employee Gift Offer” with no monetary consideration payable by participating eligible employees. Shares issued were subject to a disposal restriction in accordance with current Australian tax legislation. The fair value of \$0.397 million was fully expensed at the time of granting, as there are no performance or service conditions.

The GESP was established in the 2016 financial year. The plan did not operate, and no Shares were granted under it, in the 2015 financial year.

### C. Share options

In the current reporting period, existing share options for executives and senior employees were exercised prior to the initial public offering of the Company. In accordance with the terms of the plan, each employee share option converted into one ordinary share of the Company on exercise. No amounts were payable by the recipient on grant date of the option. The options carried neither rights to dividends nor voting rights until exercise and conversion into ordinary shares of the Company.

The following share options were in existence during the current and prior reporting periods:

Options series	Grant date	Grant date fair value	Exercise price	Expiry date	Date exercised
2011 – Series 1	29 April 2011	\$0.03	\$0.29	30 November 2015	12 August 2015
2011 – Series 2	12 May 2011	\$0.03	\$0.29	30 November 2015	12 August 2015
2012 – Series 1	25 October 2011	\$0.02	\$0.55	25 October 2016	12 August 2015
2013 – Series 1	14 September 2012	\$0.07	\$0.30	14 October 2016	12 August 2015
2013 – Series 2	14 September 2012	\$0.10	\$0.25	14 October 2016	12 August 2015
2013 – Series 3	14 September 2012	\$0.07	\$0.30	14 October 2016	12 August 2015
2014 – Series 1	19 August 2013	\$0.07	\$0.29	17 September 2017	12 August 2015
2015 – Series 1	14 November 2014	\$0.53	\$0.30	14 November 2017	12 August 2015
2015 – Series 2	14 November 2014	–	\$0.82	19 December 2014	12 August 2015
2015 – Series 3	28 February 2015	\$0.55	\$0.30	1 March 2019	12 August 2015
2016 – Series 1	10 July 2015	\$0.50	\$0.50	11 July 2020	12 August 2015

### Fair value of share options granted during the year

The fair value of the share options granted during the year was \$0.50 (2015 weighted average: \$0.55). Options were priced using a Black-Scholes-Merton pricing model. Service and non-market performance conditions attached to the transactions were not taken into account in measuring fair value.

Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility was based on an evaluation of the historical volatility of other comparable companies based on publicly available information.

	Options Series
	2016 – Series 1
Grant date share price	\$1.00
Exercise price	\$0.50
Expected volatility	25%
Expected option life (years)	1
Dividend yield	–
Risk-free interest rate (p.a.)	1.9%

### Movements in shares options during the year

The consolidated entity recorded a share based payments expense for options of \$0.475 million (2015: \$0.913 million) disclosed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income under "Administrative expenses". The prior reporting period expense reflects the cost of the historical share options plan which was accelerated when the initial public offering of the Company became probable and the directors and senior executives committed to exercising their share options.

All outstanding share options in existence (number of options: 9.9 million; exercise price: \$0.25 to \$0.55) were exercised prior to completion of the Initial Public Offering in October 2015.

The following reconciles the share options outstanding at the beginning and end of the year:

	June 2016		June 2015	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of year	9,819,178	\$0.37	7,869,178	\$0.39
Granted during the year	100,000	\$0.50	3,818,468	\$0.55
Forfeited during the year	–	–	–	–
Exercised during the year	(9,919,178)	\$0.37	(1,868,468)	\$0.82
Lapsed during the year	–	–	–	–
Balance at end of year	–	–	9,819,178	\$0.37
Exercisable at end of year	–	–	–	–

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 26 June 2016

## NOTE 19: SHARE BASED PAYMENTS (continued)

### C. Share options (continued)

#### Share options exercised during the year

The following share options were exercised during the year:

Option series	Number exercised	Exercise date	Share price at exercise date \$
2011 – Series 1	355,064	12 August 2015	1.00
2011 – Series 2	554,114	12 August 2015	1.00
2012 – Series 1	3,000,000	12 August 2015	1.00
2013 – Series 1	2,000,000	12 August 2015	1.00
2013 – Series 2	250,000	12 August 2015	1.00
2013 – Series 3	1,050,000	12 August 2015	1.00
2014 – Series 1	660,000	12 August 2015	1.00
2015 – Series 1	1,550,000	12 August 2015	1.00
2015 – Series 3	400,000	12 August 2015	1.00
2016 – Series 1	100,000	12 August 2015	1.00
	<b>9,919,178</b>		

## 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. Consultancy fee – Initial public offering

Tom Cowan, a Baby Bunting Director, is a partner at TDM Asset Management. TDM Asset Management was engaged by the Company to provide advisory and other services in relation to the IPO. The Company has paid \$300,000 (excluding disbursements and GST) for services provided in relation to the IPO.

### B. Loans to and from key management personnel and directors

As at the end of the current reporting period (2015: nil), no loans were outstanding to or from key management personnel or directors of the consolidated entity.

### C. Historical option holder loans

During the current reporting period, the Company provided limited recourse loans totalling \$3,477,562 to historical option holders (including loans totalling \$1,636,357 to key management personnel and other executives) to enable holders to exercise their options prior to the IPO. These loans were provided on a limited recourse and interest free basis. Loans were repaid immediately prior to the settlement of the IPO through the application of proceeds from the special dividend (refer Note 16), cash settlement and/or sale of shares into the IPO to satisfy the balance outstanding.

#### D. Loan arrangement with executives

The Company has entered into an agreement with certain executives to, if requested by an executive, provide a loan to the person on a limited recourse basis. The maximum amount that may be advanced by the Company is \$3 million.

The request can be made during the period following the end of the escrow period for executives (being three days after the Company's half-year results for the period ending 1 January 2017 or thereabouts are released to the ASX) until 30 April 2017. If the loan is requested and made, the money advanced can only be used to meet the tax liabilities of the executive that arose in connection with the executive acquiring shares before the date of the Prospectus for the IPO (as part of pre-existing equity incentives). Any loan is to be repaid as soon as practicable and no later than six months after the date of the advance (or such longer period as the Board may determine).

Interest will be payable on any amount advanced equivalent to the interest rate payable on the Company's finance facilities at that time. Funds will not be advanced where an executive has ceased to be an employee. Shareholders approved the entry into these arrangements in respect of the CEO and Managing Director before the date of the Prospectus for the initial public offering.

#### E. Key management personnel compensation

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

	2016 \$	2015 \$
Short-term employment benefits	1,284,734	1,811,439
Post-employment benefits	66,693	133,154
Other long-term benefits	13,470	17,482
Termination benefits	–	–
Historical options and long term incentive plan benefit	397,779	849,847
	<b>1,762,676</b>	<b>2,811,922</b>

#### NOTE 21: COMMITMENTS FOR EXPENDITURE

##### Operating Lease Commitments

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

	2016 \$'000	2015 \$'000
Not later than one year	12,922	12,204
Later than one year and not later than five years	33,115	33,802
Later than five years	12,215	10,442
	<b>58,252</b>	<b>56,448</b>

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 (2015: nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 26 June 2016

## 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:

	2016 \$'000	2015 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	7,363	3,568
Other receivables	8,135	5,834
	<b>15,498</b>	<b>9,402</b>
<b>Financial liabilities</b>		
Trade and other payables	23,828	19,566
Borrowings – Market Rate Facility	–	7,950
	<b>23,828</b>	<b>27,516</b>

### 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		
	Carrying amount \$'000	-50bps Profit \$'000	+50bps Profit \$'000
<b>At 28 June 2015</b>			
<b>Financial liabilities</b>			
Borrowings – Market Rate Facility	7,950	37	(37)
<b>Total increase/(decrease)</b>		<b>37</b>	<b>(37)</b>



## Interest rate risk

		-50bps	+50 bps
	Carrying amount \$'000	Profit \$'000	Profit \$'000
<b>At 26 June 2016</b>			
<b>Financial liabilities</b>			
Borrowings – Market Rate Facility	–	24	(24)
<b>Total increase/(decrease)</b>		<b>24</b>	<b>(24)</b>

**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:

	2016		2015	
	Limit \$'000	Utilised \$'000	Limit \$'000	Utilised \$'000
Market Rate Facility	20,000	–	20,000	7,950
Bank Guarantee Facility	6,000	3,482	6,000	3,220
<b>Total Facility</b>	<b>26,000</b>	<b>3,482</b>	<b>26,000</b>	<b>11,170</b>

**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.

<b>At 28 June 2015</b>	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		
<b>Financial assets</b>							
Cash and cash equivalents	3,568	–	–	–	–	3,568	0.30%
Other receivables	5,834	–	–	–	–	5,834	–
	<b>9,402</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>9,402</b>	
<b>Financial liabilities</b>							
Trade and other payables	19,566	–	–	–	–	19,566	–
Borrowings – Market Rate Facility	–	–	–	7,950	–	7,950	4.22%
	<b>19,566</b>	<b>–</b>	<b>–</b>	<b>7,950</b>	<b>–</b>	<b>27,516</b>	

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 26 June 2016

## NOTE 22: FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (continued)

### B. Liquidity risk (continued)

#### Maturities of financial assets and financial liabilities (continued)

At 26 June 2016	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		
<b>Financial assets</b>							
Cash and cash equivalents	7,363	–	–	–	–	7,363	0.28%
Other receivables	8,135	–	–	–	–	8,135	–
	<b>15,498</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>15,498</b>	
<b>Financial liabilities</b>							
Trade and other payables	23,828	–	–	–	–	23,828	–
Borrowings – Market Rate Facility	–	–	–	–	–	–	3.69%
	<b>23,828</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>23,828</b>	

### 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

	2016 \$	2015 \$
Profit after income tax	8,334	6,040
Non-cash expenses and other adjustments:		
Depreciation and amortisation	3,174	2,372
Share based payments	1,004	913
(Profit)/Loss on disposal of equipment	(1)	(25)
Tax effect of transaction costs recognised directly in equity	526	–
Changes in assets and liabilities:		
Decrease/(Increase) in other receivables	(2,301)	(1,318)
Decrease/(Increase) in prepayments	(489)	(20)
Decrease/(Increase) in inventories	(5,550)	(7,597)
Decrease/(Increase) in tax assets	(1,291)	(101)
Increase/(Decrease) in trade and other payables	4,263	3,542
Increase/(Decrease) in provisions	598	478
Increase/(Decrease) in income tax liability	(1,595)	417
Increase/(Decrease) in other financial liabilities	–	(205)
Increase/(Decrease) in operating lease provision	406	285
<b>Net cash provided by operating activities</b>	<b>7,078</b>	<b>4,781</b>

### 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:

	2016 \$'000	2015 \$'000
Cash on hand	56	49
Cash at bank	7,307	3,519
	<b>7,363</b>	<b>3,568</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 26 June 2016

## NOTE 24: PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ended 26 June 2016 the parent entity of the consolidated entity was Baby Bunting Group Limited.

	Parent Entity	
	2016 \$'000	2015 \$'000
<b>Result of parent entity:</b>		
Profit for the year	24,065	-
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<b>24,065</b>	<b>-</b>
<b>Financial position of parent entity at year end:</b>		
Current assets	-	-
<b>Total assets</b>	<b>91,521</b>	<b>56,675</b>
Current liabilities	844	2,439
<b>Total liabilities</b>	<b>844</b>	<b>2,439</b>
<b>Total equity of the parent entity comprising of:</b>		
Issued capital	84,420	55,070
Reserves	132	989
Retained earnings	6,125	(1,823)
<b>Total equity</b>	<b>90,677</b>	<b>54,236</b>

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 Class Order 98/1418 (as amended), 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 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 2016	June 2015
Baby Bunting Pty Ltd <sup>1</sup>	Retailing of baby merchandise	Australia	100%	100%
Baby Bunting EST Pty Ltd <sup>2</sup>	Trustee of the trust established in connection with the Company's employee share plans	Australia	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 party to the deed of cross guarantee.

## NOTE 26: EARNINGS PER SHARE

	2016 cents per share	2015 cents per share
Basic earnings per share from continuing operations <sup>1</sup>	7.0	6.2
Diluted earnings per share from continuing operations <sup>1</sup>	7.0	6.2

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:

	2016 \$'000	2015 \$'000
Earnings used in the calculation of basic earnings per share from continuing operations <sup>1</sup>	8,334	6,040
Weighted average number of ordinary shares for the purposes of basic earnings per share	119,174	96,646

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:

	2016 \$'000	2015 \$'000
Earnings used in the calculation of basic earnings per share from continuing operations <sup>1</sup>	8,334	6,040

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:

	2016 \$'000	2015 \$'000
Weighted average number of ordinary shares used in the calculation of basic earnings per share	119,174	96,646
Shares deemed to be issued for no consideration in respect of:		
– employee share options and performance rights	349	926
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	119,523	97,572

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 26 June 2016

## NOTE 27: REMUNERATION OF AUDITORS

	2016 \$	2015 \$
<b>Assurance Services</b>		
Review of the financial report for the half-year	19,500	19,000
Audit of the year-end financial report	85,000	70,000
IPO due diligence	210,000	–
	314,500	89,000
<b>Tax and Consulting Services</b>		
Taxation services	16,920	14,123
Other advisory services	16,000	3,675
	32,920	17,798
<b>Total remuneration</b>	<b>347,420</b>	<b>106,798</b>

The auditors of the consolidated entity and the Company are Deloitte Touche Tohmatsu (Deloitte). From time to time, Deloitte provides other services to the consolidated entity and the Company, which are subject to the corporate governance procedures adopted by the Company. In the current year, the consolidated entity and the Company has engaged the services of other accounting firms to perform a variety of non-audit assignments.

## NOTE 28: SUBSEQUENT EVENTS

### Dividends on the Company's ordinary shares

A final dividend of 6.3 cents per fully paid ordinary shares has been determined for the year ended 26 June 2016 – 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 26 June 2016.

## 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 Class Order 98/1418. 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 ASIC Class Order 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



**Barry A E Saunders**  
*Chairman*

Melbourne: 12 August 2016



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

We have audited the accompanying financial report of Baby Bunting Group Limited, which comprises the statement of financial position as at 26 June 2016, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 21 to 51.

### *Directors' Responsibility 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 Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Liability limited by a scheme approved under Professional Standards Legislation.  
Member of Deloitte Touche Tohmatsu Limited



# Deloitte.

## *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Baby Bunting Group Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

## *Opinion*

In our opinion:


- (a) the financial report of Baby Bunting Group Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 26 June 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

## *Report on the Remuneration Report*

We have audited the Remuneration Report included in pages 12 to 18 of the directors' report for the year ended 26 June 2016. 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.

## *Opinion*

In our opinion the Remuneration Report of Baby Bunting Group Limited for the year ended 26 June 2016, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Gerard Belleville  
Partner  
Chartered Accountants  
Melbourne, 12 August 2016

# SHAREHOLDER INFORMATION

As at 8 September 2016.

Baby Bunting Group Limited has one class of shares on issue (being fully paid ordinary shares). There are 125,588,120 shares on issue. All of the Company's shares are listed on the Australian Securities Exchange.

## TWENTY LARGEST SHAREHOLDERS

	Name	Number of shares	% of shares
1	J P MORGAN NOMINEES AUSTRALIA LIMITED	17,879,689	14.24
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	17,761,011	14.14
3	CITICORP NOMINEES PTY LIMITED	7,647,410	6.09
4	NATIONAL NOMINEES LIMITED	6,367,087	5.07
5	BNP PARIBAS NOMS PTY LTD <DRP>	4,701,900	3.74
6	OAKLEYTOWER PTY LIMITED	4,158,781	3.31
7	RBC INVESTOR SERVICES AUSTRALIA PTY LIMITED <VFA A/C>	3,732,968	2.97
8	UBS NOMINEES PTY LTD	3,523,218	2.81
9	HIGHMONT HEIGHTS PTY LTD <THE SAUNDERS SUPER FUND A/C>	3,227,291	2.57
10	MATTHEW SPENCER	2,472,848	1.97
11	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	1,920,439	1.53
12	GRAHGER RETAIL SECURITIES PTY LTD	1,500,000	1.19
13	BRISPOT NOMINEES PTY LTD <HOUSE HEAD NOMINEE NO 1 A/C>	1,352,473	1.08
14	MRS JEANETTE VICTORIA RICHARDSON	1,280,000	1.02
15	FIDDIAN TEAL NOMINEES PTY LTD	1,259,948	1.00
16	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,111,130	0.88
17	ACLAND INVESTMENTS PTY LTD	1,088,000	0.87
18	MR GRAEME JOHN HAINES + MRS SHARNI GAY HAINES <G & S HAINES S/F A/C>	1,049,364	0.84
19	WILLIAM N BOOTH	947,413	0.75
20	ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD <CUSTODIAN A/C>	945,142	0.75
	<b>Total</b>	<b>83,926,112</b>	<b>66.82</b>

## UNMARKETABLE PARCELS

There were 101 holdings of less than a marketable parcel (less than \$500 in value or less than 166 shares) based on the closing market price of \$3.03 per share at 8 September 2016.

## DISTRIBUTION OF SHAREHOLDERS AND SHAREHOLDINGS

Range	Total holders	% of holders	Number of shares	% of shares
1 – 1,000	620	21.9	340,499	0.27
1,001 – 5,000	1,195	42.2	3,671,372	2.92
5,001 – 10,000	474	16.7	3,660,107	2.91
10,001 – 100,000	447	15.8	12,097,286	9.63
100,001 and over	97	3.4	105,818,856	84.26
<b>Total</b>	<b>2,833</b>	<b>100.0</b>	<b>125,588,120</b>	<b>100.00</b>

## SUBSTANTIAL SHAREHOLDERS

As at 8 September 2016, 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
TDM Asset Management Pty Limited	18 August 2016	13,020,496	10.37%
Platypus Asset Management	19 August 2016	8,527,034	6.79%
National Australia Bank Limited	23 August 2016	9,800,708	7.80%
SAS Trustee Corporation	23 August 2016	6,515,148	5.19%

## 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.

## RESTRICTED SECURITIES

As described in the Company's Prospectus, there are 4,936,706 shares subject to voluntary escrow arrangements relating to shares held by certain senior managers of the Company. These voluntary escrow arrangements continue until the third business day after the release of the Company's results for the half year ending on or around 31 December 2016.

## PERFORMANCE RIGHTS

The Company has unquoted performance rights on issue. As at 8 September 2016, there were 8 holders of performance rights. There are no voting rights attached to performance rights.

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# CORPORATE DIRECTORY

## REGISTERED OFFICE

Baby Bunting Group Limited  
955 Taylors Road  
Dandenong South VIC 3175  
(03) 8795 8100

## DIRECTORS

Barry Saunders  
Ian Cornell  
Tom Cowan  
Gary Levin  
Matt Spencer  
Melanie Wilson

## COMPANY SECRETARY

Corey Lewis  
Group Legal Counsel & 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

**Deloitte Touche Tohmatsu**  
550 Bourke 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

[www.babybuntingcorporate.com.au](http://www.babybuntingcorporate.com.au)

## ONLINE STORE

[www.babybunting.com.au](http://www.babybunting.com.au)

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