Appendix 4E

(Rule 4.3A)

Baby Bunting Group Limited

ABN 58 128 533 693

For the year ended: 52 weeks ended 27 June 2021

Previous corresponding period: 52 weeks ended 28 June 2020

Results for announcement to the market

Statutory Financial Results	2021 $'000	2020 $'000	Mvmt $'000	up/(down) %
Revenue from ordinary activities	468,377	405,173	63,204	16%
Net profit from ordinary activities after tax (attributable to members)	17,532	9,986	7,546	76%
Net profit attributable to members	17,532	9,986	7,546	76%

Pro Forma Financial Results	2021 $'000	2020 $'000	Mvmt $'000	up/(down) %
Revenue from ordinary activities	468,377	405,173	63,204	16%
Net profit from ordinary activities after tax (attributable to members)	26,004	19,291	6,713	35%
Net profit attributable to members	26,004	19,291	6,713	35%

Pro forma financial results have been calculated to exclude certain items contained in the following table that reconciles the statutory results to pro forma financial results for the period ended 27 June 2021 and provide further detail on pro forma adjustments. This has been done to more clearly represent the consolidated entity's underlying earnings (noting that this financial information has not been audited in accordance with Australian Auditing Standards).

Year ended 27 June 2021 $'000	Sales	NPAT
Statutory results	**468,377**	**17,532**
Employee equity incentive expenses[1,2,3]	–	8,170
Transformation project expense[4,5,6]	–	7,574
Other income[7]	–	(2,400)
Tax impact from pro forma adjustments[8]	–	(4,872)
Pro forma results	**468,377**	**26,004**

1. Expense includes the non-cash cost amortisation of performance rights (LTI) on issue in the current reporting period ($4.601 million).
2. The Company issued 165,221 shares under its General Employee Share Plan in the current reporting period with no monetary consideration payable by participating eligible employees who each received approximately $1,000 worth of shares ($0.795 million).
3. The Company made a $2.774 million cash settled long term incentive payment to participating executives in connection with long term EPS performance rights (assessed over the period FY16 to FY20) granted by the Company in October 2015 as part of the Company's Long Term Incentive Plan. This plan involves the issue of shares, however due to a timing difference between the $3.215 million impairment of certain digital assets in June 2020 and the receipt of a $2.400 million settlement payment from the vendor of those assets (refer Note (7) below), the original performance rights lapsed. If not for this timing difference, the compound annual growth rate of the Company's EPS measured over the FY16 to FY20 performance period would have been 16.2% which would have resulted in 25.5% of the EPS performance rights vesting. The Board had regard to the significant earnings per share growth achieved since the Company's IPO, as well as the direct connection between the impairment of the digital assets and the settlement payment recovered by the Company shortly after the end of the performance period. On this basis, the Board determined to provide a benefit to participating executives calculated by reference to the EPS performance rights that would have vested if the recovery were received during FY20. A share price of $4.09 was used to calculate the cash payments (based on 678,438 rights that would have otherwise vested). The share price was determined by reference to a VWAP of the Company's shares in the period 1 July to 30 September 2020.

4. The Company is currently undertaking a process of assessment and when necessary, replacement of its core information technology systems. During the year, the Company incurred ($2.889 million) non-capital costs associated with the implementation of a new online store, merchandise demand planning and replenishment system, order fulfilment systems, Loyalty system, People systems and assessment of digital technology assets.
5. The Company incurred $2.536 million in relation to the setup of the new National Distribution Centre including $1.265 million for the accelerated depreciation and make good of the former Distribution Centre.
6. Other transformation project expenses ($2.149 million) include external consultant costs associated with project management ($1.375 million) to deliver the transformation projects described in Note 4 above. The non-capital cost of external consultants are associated with running the selection and planning for the integration of the new systems are significant and not related to operations or financial performance of the business on the day-to-day basis. They cease at project completion.
7. The Company received a cash payment ($2.400 million) from the vendor of certain digital commerce technology assets that were impaired in FY20 following settlement of a dispute relating to those assets.
8. Tax impact from pro forma adjustments includes income tax benefit relating to performance rights vesting under the Company's Long Term Incentive Plan ($2.249 million).

The following table reconciles the statutory to pro forma financial results for the year ended 28 June 2020 (noting that this financial information has not been audited in accordance with Australian Auditing Standards):

Year ended 28 June 2020 $'000	Sales	NPAT
Statutory results	**405,173**	**9,986**
Employee equity incentive expenses[1,2]	–	2,630
Digital assets writedown[3]	–	3,215
Branding assets writedown[4]	–	2,610
Transformation project expenses[5,6,7]	–	3,988
Tax impact from pro forma adjustments	–	(3,138)
Pro forma results	**405,173**	**19,291**

1. Expense includes the non-cash cost amortisation of performance rights (LTI) on issue in the prior reporting period ($1.978 million).
2. The Company issued 185,134 shares (284 shares per eligible employee) under its General Employee Share Plan in the prior reporting period with no monetary consideration payable by participating eligible employees who each received approximately $1,000 worth of shares ($0.652 million).
3. The Company recognised a non-cash impairment of $3.215 million to the carrying value of its investment in digital commerce technology assets. This arose from the decision (in May 2020) to move away from a monolithic e-commerce architecture to a headless digital architecture structure. This would enable Baby Bunting to leverage best of breed applications to deliver a world class customer experience through its digital channels.
4. In FY20, the Company introduced its new corporate branding, our first major brand change in the Company's 40 year history. As a result of this change, the Company recognised a non-cash impairment of $2.610 million to the carrying value of its old corporate branding.
5. The Company undertook a process of assessment and where necessary, replacement of its core information and merchandising technology systems. In FY20 the Company incurred ($1.266 million) non-capital costs associated with the implementation of a merchandise forecasting and replenishment system, order fulfilment systems and assessment of digital technology assets. The Company's review of core systems continued through FY21.
6. The Company incurred ($0.587 million) costs in relation to scoping and building a new loyalty program aimed at increasing engagement and lifetime spend of its customers. After further completion works, the new loyalty program is expected to be launched in FY22.
7. Other transformation project expenses ($2.135 million) include external consultant costs associated with the selection and establishment of a new National Distribution Centre ($0.160 million), and project management and establishment costs ($1.456 million) to deliver the transformation projects. The non-capital costs of external consultants associated with running the selection and planning for the integration of new systems into the business are significant and not related to the operation or financial performance of the business on a day-to-day basis. They cease at project completion.

Dividends

	Amount per security (cps)	Franked amount
Dividends paid		
Final 2020 dividend – paid 11 September 2020	6.4	100%
Interim dividend – paid 12 March 2021	5.8	100%

Dividends determined		
Final 2021 dividend	8.3	100%
Record date for determining entitlements to the dividend	27 August 2021	
Date dividend is payable	10 September 2021	

The Company does not currently offer a dividend reinvestment plan.

Commentary on results for the period

For further explanation of the statutory figures above refer to the accompanying financial report for the year ended 27 June 2021, which includes the Directors' Report. The Full Year Results Presentation released in conjunction with this Results Announcement provides further analysis of the results.

Net tangible assets per ordinary share

Net tangible assets per ordinary share	2021 $	2020 $
Net tangible assets per ordinary share[1]	0.45	0.35

1. Net tangible assets per ordinary share includes the Right-of-use assets as per AASB 16.

Other information

Independent Audit by Auditor

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

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Annual Report 2021

Contents

The 2021 Baby Bunting Annual Report reflects Baby Bunting's performance for the 52 week period from 29 June 2020 to 27 June 2021.

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

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

Notice of 2021 Annual General Meeting

10.00am (Melbourne time) Tuesday, 5 October 2021

Further details will be contained in the Notice of Annual General Meeting that will be made available in September 2021.

Our year

Though the year continued to have uncertainty, there are some things that are almost always certain for new parents: the joy of welcoming a little one into the family, the challenge of navigating parenthood, and the rewards that exist in getting to know and love our newborns.

At Baby Bunting, our core purpose is to support new and expectant parents through the early years of parenthood – a time filled with many firsts, milestones and new experiences. This year, we were privileged to be able to continue supporting Australian parents and their families. To meet their needs, we – like everyone in the broader community – worked our way through many challenges.

We continue to be a rapidly growing team. This year, we grew throughout Australia and have plans to expand even further, into new neighbourhoods and across the Tasman into New Zealand to extend the reach of our vision and core purpose.

We thank our suppliers and business partners. We appreciate our customers and the communities in which we operate. We are grateful for the understanding and agility they showed in adapting to the new ways of working with us and the new ways of shopping with us.

Finally, we thank our more than 1,380 passionate team members around Australia who continue to work hard and show incredible commitment to supporting new and expectant parents along their parenting journey.

~300,000

The number of births in Australia each year. On average there are around 6,000 babies born each week in Australia.

60

The number of Baby Bunting stores around Australia. Our stores are throughout Australia supporting parents and parents-to-be in the early stages of parenting.

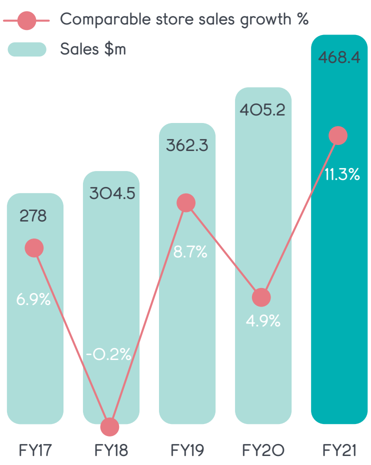
~1.1 million

The number of members in our Baby Bunting family, our loyalty program. We have introduced our new loyalty program during the year and have plans to expand it even further.

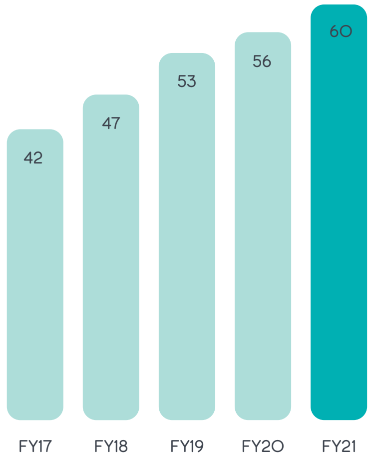
~30 million

The number of visits to our website throughout the year. Our omni-channel offering provides great support, information and experiences to parents wherever they are.

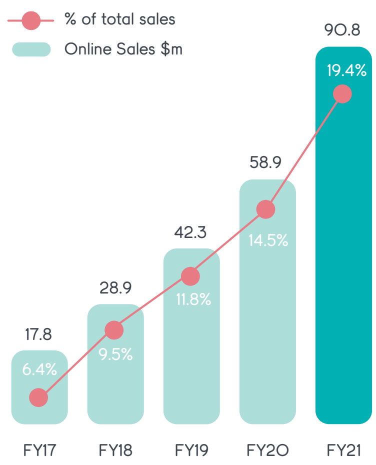
SALES ($M)



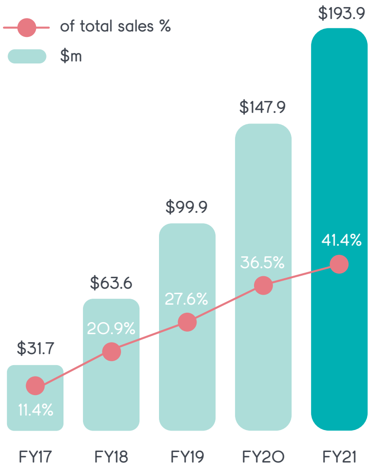
STORES



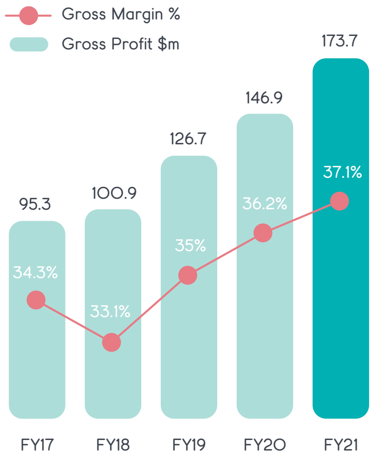
ONLINE SALES ($M)



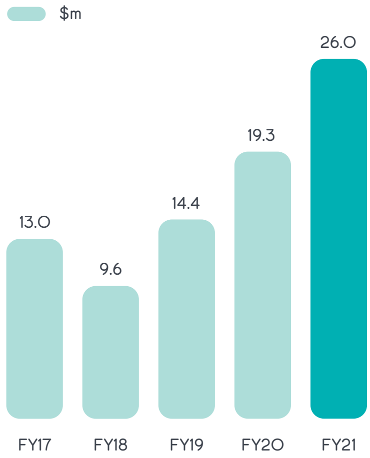
PRIVATE LABEL & EXCLUSIVE PRODUCTS



GROSS PROFIT ($M)



PRO FORMA NPAT ($M)



Our results

A continuing focus this year was on achieving sustainable financial performance in challenging times. As an omni-channel retailer with Australia's leading baby goods website and 60 stores around Australia, we delivered on a number of goals focused on online growth. Combined with effective marketing, we saw an increase of 54.2% in online sales through our digital channels (including click & collect), which made up 19.4% of our total sales of the year.

Our digital platforms play a crucial role in supporting our network of bricks and mortar stores. A key driver of our gross margin improvement was the ongoing expansion of private label and exclusive products, which included the addition of our new JENGO brand. Private label and exclusive products made up 41.4% of total sales. Importantly, our stores provide essential goods, services and advice in both traditional and innovative ways. With contactless click & collect, online deliveries and our personalised Helping Hand phone service, we supported new and expectant parents throughout Australia.

These alternative ways of shopping allowed us to continue supporting our community by giving customers the ability to shop safely, conveniently and in a way that suited their families and lifestyles. The implementation of the Baby Bunting Facebook Live Series also enabled us to provide community support when in-store visits were restricted. From product demonstrations to parenting advice, these episodes became an instrumental channel for our team to share important information and expertise with parents at home.

To finish the year positively in such a challenging environment reflects the strength of the Baby Bunting brand and the dedication our team showed to living out our core purpose at a time when it counted most.

Chairman and CEO's report

Ian Cornell Chairman, Non-executive Director

Matt Spencer CEO and Managing Director

There was a tremendous amount of uncertainty during the year, but Baby Bunting remained focused on what we do best: supporting new and expectant parents during the early years of parenthood.

The Baby Bunting team responded to a number of challenges during FY2021, while also continuing to execute on our strategy to grow market share. We're incredibly proud of what our team has achieved this year.

FY2021 financial results overview

While COVID-19-related uncertainties have continued, Baby Bunting demonstrated the ability to navigate a rapidly changing environment.

In FY2021:

- total sales were $468.4 million, up 15.6% on the prior year;
- the total number of transactions was up 9.7% on the prior year;
- gross profit increased 18.3% on the prior period to $173.7 million and gross profit as a percentage of sales increased 83 basis points to 37.1%; and
- statutory net profit after tax was $17.5 million, up 75.5% on the prior period and the Company finished the year with net cash of $0.9 million.

On a pro forma basis:

- pro forma earnings before interest, tax, depreciation and amortization (EBITDA) were $43.5 million, up 29.2% on the prior corresponding period. Pro forma EBITDA margin increased 97 basis points to 9.3%; and
- pro forma net profit after tax (NPAT) was $26.0 million, up 34.8% on the prior corresponding period.

Consistent with previous years, pro forma results exclude the significant costs associated with our business transformation agenda. They also exclude the impact of employee equity incentive expenses. This is to better demonstrate the underlying trading performance of the business. Pro forma EBITDA also excludes the impact of AASB 16 lease accounting for consistency with previous years.

A reconciliation between the statutory and pro forma financial results is set out in Section 2.5 on pages 32 to 33 of the Directors' Report.

Dividends

The Board has approved a final dividend of 8.3 cents per share fully franked. Together with the interim dividend of 5.8 cents per share, the total dividend payment for the year is 14.1 cents per share. This is equivalent to approximately 70% of the Company's FY2021 pro forma NPAT.

The year in review

Baby Bunting did not receive any JobKeeper payments and kept our team together and employed during the year.

COVID-19 and supporting our movement to COVID-normal

Our number one objective continues to be keeping our team and customers safe. Operating in a COVID-safe way is now routine, with check-in QR codes, enhanced cleaning and contactless click & collect all embedded. Our policy of providing paid leave to team members who need to isolate due to COVID-19 continued through the year.

To support our team and the broader community in getting vaccinated, we have introduced a policy of paid leave to enable team members who need time off to obtain vaccinations. We are also running a competition for all team members who have been fully vaccinated as recommended by the government, and on the advice of a health practitioner. Vaccinated team members will go into a draw to share in $10,000 worth of cash prizes.

We remain committed to doing what we can to help Australia move to a COVID-normal setting.

Building our private label and exclusive product range

We expanded our private label and exclusive product range during the year and finished the year with 41.4% of all sales from these products (up from 36.5% in the prior year). Our long term goal is to have more than 50% of sales being exclusive to Baby Bunting.

We launched our new mid-tier private label brand, JENGO, with a range of hard good products including a pram, travel cot and rocker. JENGO joins 4baby and Bilbi as our range of private labels and these brands are performing strongly. Our private label range architecture continues to evolve.

Our categories of exclusive products have also grown as we work with our supplier partners on bringing great ranges to our customers. These exclusive products and brands extend from best selling international brands to iconic Australian household brands such as Steelcraft and Baby Love.

Our strengthened brand

The roll-out of our new Baby Bunting brand completed during the year. The contemporary and fresh new look reflects our brand essence of supporting new and expectant parents. It has been embraced by our customers.

We have also made significant gains in the perception of our brand, across all key brand metrics in our market. Through our third party brand tracker research, Baby Bunting is now number one for top of mind awareness in relation to essential baby goods. This has translated into strong growth in Baby Bunting being the preferred shopping location for consumers as well as having high conversion from store visits to purchases. The strength of Baby Bunting's brand awareness among those in our market is highly beneficial as we expand our store network and continue to grow in Australia.

Expanding store network and online fulfilment hubs

We plan to expand our store network to at least 100 stores throughout Australia. During the year, we opened stores in Knox (Vic), Coffs Harbour (NSW), Belconnen (ACT) and Castle Towers (NSW), and we ended the year with 60 stores. Our pipeline of new stores for FY2022 and FY2023 is well progressed, and we anticipate opening 5 to 8 stores in Australia over the coming year.

We have also established online fulfilment hubs at key stores in NSW, Western Australia, South Australia, Queensland and Tasmania along with multiple online fulfilment stores throughout Australia. This network supports our ability to efficiently fulfil online orders where our customers need them. During the year, we had 41% of online orders fulfilled from stores. Our long term objective remains to fulfil 90% of online orders same day in metro areas.

National Distribution Centre and Store Support Centre

We're pleased to report that we successfully commissioned our new National Distribution Centre in March 2021, followed by the new Store Support Centre in May 2021. These are both state-of-art facilities located in Dandenong South, Victoria. The former Distribution Centre and Store Support Office was also successfully decommissioned.

At over 22,000 square metres, the National Distribution Centre more than doubles our distribution capability to provide better support for our stores and online operations. We have reduced our reliance on third party logistics and increased the range of products moving through our Distribution Centre, providing efficiencies and cost benefits. Our Store Support Centre will accommodate our growing support teams and has been designed for modern ways of working.

Our digital transformation journey progresses and we continue to make investments in this area.

We provide an omni-channel experience across our online store and our network of bricks and mortar stores.

In line with our supply chain strategy, work will commence in the coming 12 months in establishing our medium-term objective of establishing a second distribution centre in either New South Wales or Queensland as our network of stores expands further in the future.

Services

Our car seat installation business performs well, with nearly 4 out of every 10 car seats sold at Baby Bunting installed by the Baby on Board team. We continue to expand this coverage and build our team of car seat installer specialists. Our priority is to lift the level of safely fitted car seats in the community, as research shows that this is a big issue in Australia.

During the year, we added car seat hire services and are also moving into breast pump hire. Furthermore, we have commenced car seat repairs and have been appointed authorised repairers for a number of the leading car seat brands in these categories.

We believe we can continue to leverage our store network and expertise to deliver a greater range of complementary services.

Our digital journey

Our strategy of delivering a consistent and complementary customer experience across all channels continues.

For Baby Bunting, our digital investment complements our bricks and mortar store operations, and we continue to make investments in this area. Online sales in catchments increase following the opening of a Baby Bunting store in that catchment.

Online sales of $90.8 million were up 54.2%, and now make up 19.4% of total sales (up from 14.5% in FY2020). The click and collect portion of our onlines sales were particularly strong growing 110% to be 8.8% of all sales (4.7% in FY2020).

We have continued our investment in the transition to a headless architecture as the technology foundation for online and digital commerce experiences. This approach is enabling Baby Bunting to adopt best-of-breed cloud native, API-first digital services that will continuously evolve and be improved to support our future digital customer experiences, products and services. The new architecture is already being used to support our online experience and transactions within New Zealand and will continue to be extended to support our Australian online channel.

New Zealand

FY2021 has been a milestone year as Baby Bunting commenced its first operations in a market outside Australia. In July 2020, we commenced sales to New Zealand customers from our Australian website. In February 2021, we announced that the Board had endorsed plans for Baby Bunting to establish a multi-channel offering in New Zealand with a store network of 10 plus stores. This includes an investment in our online presence.

We have various teams working on property, merchandise, supply chain and people and culture aspects of our new operations and while travel restrictions have presented some challenges, we have plans for our first store opening later in this financial year.

Some specific events during the year

In addition to the ongoing challenges of COVID-19, the business responded to some unexpected events during the year.

In November 2020, we responded to an interception of insects that had been imported in a contaminated shipping container affecting the packaging of a shipment of high chairs. We worked with the Department of Agriculture, Water and the Environment and, with its assistance, treated our Distribution Centre and back-of-house storerooms while also working with affected customers. While this was a disruption to our operations, the effect was mitigated by the extraordinary efforts of our team and considerable support and co-ordination with the Department of Agriculture, Water and the Environment and others.

During the year, we also responded to an eligible data breach that occurred on our website, which was identified within a few hours. In our response, we identified 870 customers that may have been affected. We promptly notified them and informed the Office of the Australian Information Commissioner. Cyber security is universally recognised as a risk and it remains a key focus for us. We have expanded our cyber security resources (both internal and external) and will continue to invest in this area.

Sustainability

We recognise the responsibilities we have to our team, customers and the communities in which we operate, as well as our various suppliers, and shareholders. We also engage with regulators and various industry bodies, in particular those responsible for product safety standards.

The Board and the management team have worked on identifying the material issues for Baby Bunting from an environmental, social and governance perspective. Later in the year, we will be releasing our first Sustainability Report which will include Baby Bunting's ESG strategy and road map. This will formalise activities that are currently underway and also set specific goals (and metrics) that we wish to pursue to ensure Baby Bunting continues to operate on a sustainable basis for the long term.

Some highlights for the year include:

- finishing the year with a rolling 12-month lost time injury (LTI) frequency rate of less than 10. We define an LTI as any injury that results in a team member being unable to attend their next shift. This is a very high standard;
- conducting our 6th annual employee share plan gift offer, which provides eligible team members with up to $1,000 worth of Baby Bunting shares. With this plan, we now have more than 50% of our Team Members who are shareholders of Baby Bunting;
- expanding our community partner programs, which this year saw us support Perinatal Anxiety & Depression Australia (PANDA) for the first time and continue our support for Life's Little Treasures Foundation. Our programs raised over $260,000 for these organisations;
- commissioning our new National Distribution Centre and Store Support Centre, which will see us achieve energy efficiencies in our operations through a 5-star energy rating and solar panels that support electrical charging stations for our fleet of forklifts and manual handling vehicles;
- continuing our investments in cyber security as we respond to growing threats in this space; and
- continuing the roll-out of our ethical sourcing procedures with suppliers of goods for re-sale.

You can read more about these matters (and others) on pages 13 to 15 of this Annual Report.

Board changes

Earlier this year, Ian Cornell announced that he would not be seeking re-election at the 2021 Annual General Meeting. Ian has been with us since prior to our IPO and in 2016 he became chair of Baby Bunting. We thank Ian for his contributions and guidance over the years.

The Board selected Melanie Wilson to succeed Ian as chair. Melanie has been a director since 2016 and brings a range of retailing and commercial experience to the role.

As part of the Board renewal process, we are pleased to announce that Francine Ereira and Stephen Roche will be joining the Company as Non-executive Directors. As experienced executives, with significant retail and digital experience, they will complement the skills and experience of our Board.

Our Team

We say it every year, but it remains true: our Team Members are at the foundation of growing our business. They provide excellent service and helpful advice to parents and parents-to-be at an incredibly important time in their lives. We thank every Team Member for their dedication and everything they do to support new and expectant parents in the early years of parenthood.

Ian Cornell

Ian Cornell

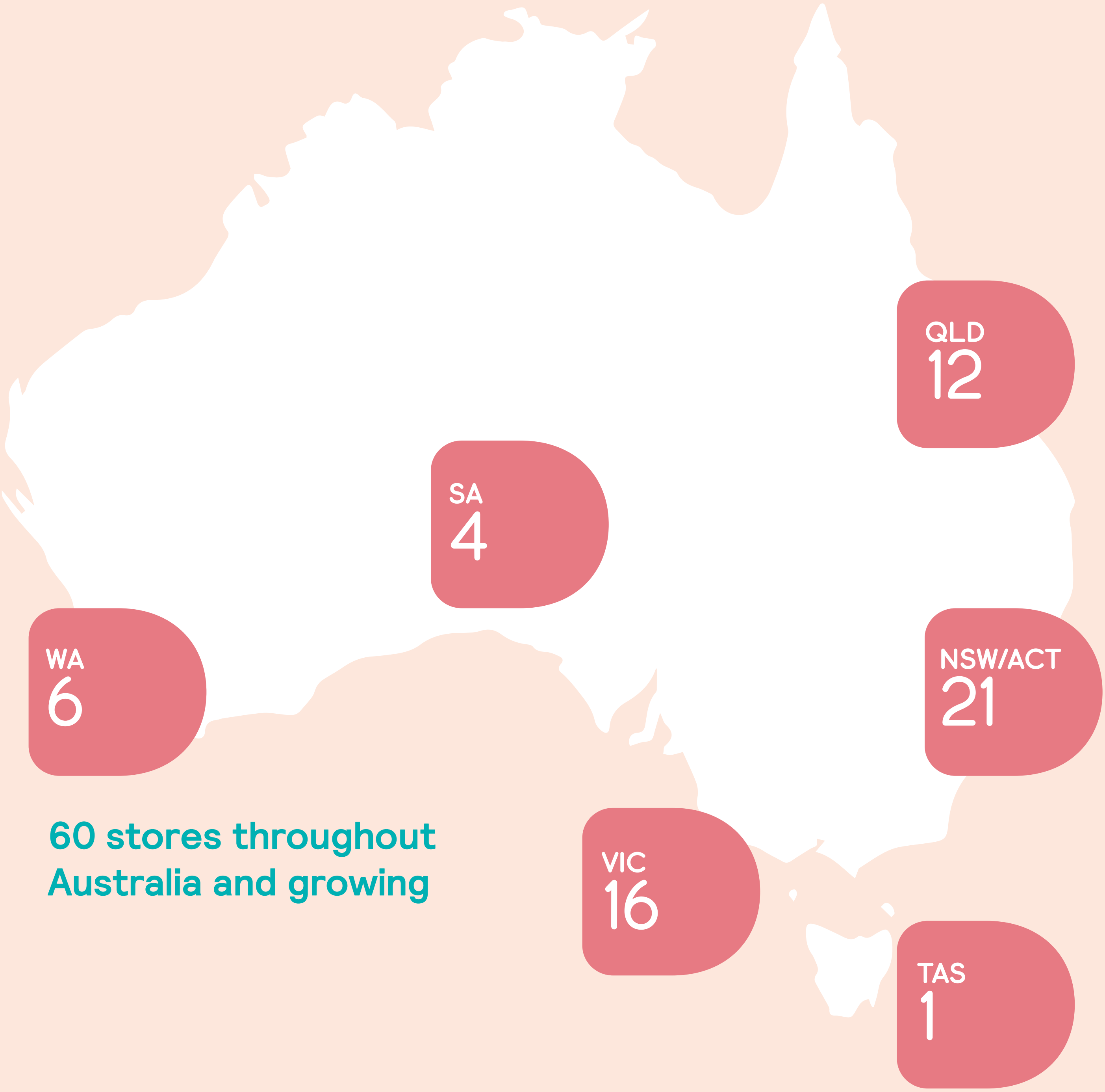
Matt Spencer

Matt Spencer

+7,000 **The number of products available in our stores.** We are Australia's largest specialty maternity and baby goods retailer with the biggest range.

~3.6m **The number of transactions during the year.** Our Australia-wide store network provides a place for new parents to come and get advice and support as they make their way in their parenting journey.

57% **The percentage of online sales that are click & collect in the areas our stores are located.** Our growing store network means we can easily support parents close to where they are.



60 stores throughout Australia and growing

Our stores

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

There are parents across all parts of Australia and our purpose is to support them all. Each year, as our store network grows, we are privileged to be able to support more and more parents.

We have a store network plan of over 100 stores throughout Australia.

Our plan looks at how we can best support parents in the communities they are located in. Our plans for the years ahead will see us opening stores in a number of regional communities. These stores will not only support parents and parents-to-be, but they will also help in supporting those communities as we grow our team.

NSW/ACT

Albury
Auburn
Belconnen (ACT)
Belrose
Bankstown
Blacktown
Campbelltown
Camperdown
Castle Towers
Casula
Chatswood
Coffs Harbour
Fyshwick (ACT)
Moore Park
Penrith
Rutherford
Shellharbour
Taren Point
Warners Bay
West Gosford
Wetherill Park

VIC

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

QLD

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

WA

Baldivis
Cannington
Joondalup
Midland
Myaree
Osborne Park

SA

Gepps Cross
Melrose Park
Mile End
Munno Para

TAS

Hobart

We work very hard at selecting the best locations to provide the best support to families throughout Australia. In the years ahead, we have big plans to get more stores in places where Australian families can receive the products, support and advice that our team can provide.

During the year, we have worked on identifying what we consider to be the material issues for Baby Bunting from an environmental, social and governance perspective.

We will be setting ourselves sustainability goals and objectives for future periods.

Sustainability matters

Baby Bunting and sustainability

Our purpose is to support new and expectant parents in the early years of parenthood. How we go about achieving our purpose is just as important as the purpose itself.

During the year, the Board and the management team have worked on identifying what they consider to be the material issues for Baby Bunting from an environmental, social and governance perspective. Later in the year, we will be releasing our first Sustainability Report which will include Baby Bunting's ESG strategy and road map.

Our ESG strategy will be based around three pillars:

- our people
- our communities
- our impact

These pillars – and their related specific goals and targets – will be underpinned by ESG governance arrangements that seek to embed ESG considerations in the way we operate and the way we plan for the future.

Our people

Safety

We want our team to come to work safe and go home safe at the end of each day. All Team Members have a responsibility for contributing to their own safety and the safety of colleagues and customers. We encourage our Team to Think Safe, Act Safe and Be Safe.

As part of our Safety Management System, we have programs in place to ensure that our team are aware of safe work practices in all parts of our business. A key health and safety risk at Baby Bunting relates to the risk of injuries from manual handling of goods. We seek to minimise the risk of injury through specifying weight limits, requiring two-person lifts and providing manual handling equipment.

We track our safety record through a number of measures. A key measure is the rolling 12-month lost time injury frequency rate (LTIFR). We define a lost time injury to be any injury that results in a team member being unable to attend their next shift. This is a very high standard. There were 16 individual lost time injuries (LTIs) during FY2021, the majority of which involved a team member missing three days or less. No LTIs involved periods of missed shifts greater than seven days. We finished the year with a LTIFR of less than 10, which continues a trend of improving our LTIFR results. We aim to better that rate in the year ahead.

COVID-19 and our team

To support our team during the ongoing COVID-19 pandemic, we have introduced a number of policies to help our team and to support them in the community:

- COVID-19 paid leave to provide team members who are unable to work due to self-isolation measures or the unanticipated closure of schools or childcare with paid leave. The policy applies to full and part-time employees and casual employees and provides the leave to cover the equivalent of two weeks of rostered work;
- we have introduced a policy of paid leave to enable team members to obtain vaccinations, where those team members work at least 25 hours per week and require time off from work to attend a scheduled vaccination appointment. The policy applies for the first and second vaccination appointments; and
- we are also running a competition for all team members who have been fully vaccinated as recommended by the Government, and on the advice of a health practitioner. Vaccinated team members will go into a draw to share in $10,000 worth of cash prizes.

The right behaviour

At Baby Bunting, how we conduct ourselves is fundamental to our business.

Baby Bunting has a number of policies in place designed to ensure team members act in accordance with Baby Bunting's legal obligations and in an ethical manner.

These policies include:

- Code of Conduct
- Business Conduct Compliance Policy
- Anti-Bribery and Corruption Policy
- Whistleblower Protection Policy.

Copies of these policies are available at babybunting.com.au/investor.

Material breaches of, or matters reported under, these policies must be promptly reported to the Board. During the year, there were no material matters arising under these policies.

Message from the CEO and Managing Director

At Baby Bunting we treasure our Team of wonderful people.

As a Leadership Team, we commit to having a diverse workplace free from discrimination and bias.

As a business, we will not tolerate or accept behaviour that discriminates on race, gender, religion, sexual orientation, identity or difference.

As the CEO and Managing Director, I am committed to having a diverse workplace that is free from bullying, harassment and discrimination and where the health and wellbeing of all Baby Bunting Team Members is our number one priority.

Together, we reaffirm the commitment to foster a Baby Bunting culture that celebrates diversity, uniqueness and the differences in people.

Baby Bunting's commitment is to contribute to a society which sees everyone as equal, where everyone is treated fairly, where diversity and difference is embraced and celebrated, and where workplaces are free of discrimination and harassment.

Encouraging employee share ownership

Baby Bunting operates a General Employee Share Plan designed to provide team members with the ability to accumulate shares in Baby Bunting.

In FY2021, Baby Bunting again operated the share plan and provided 801 eligible employees with 207 shares each (being $1,000 worth of shares). This is the sixth consecutive year in which the plan has operated and we now have more than 50% of our team members who own Baby Bunting shares.

For team members who have participated in all of the offers, they have received 2,382 shares. Using the share price at the end of the year, this represents around $13,640 of value (including the dividends that have been paid on those shares).

Further details are set out in Section 6.5 of the Remuneration Report.

Diversity

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

Baby Bunting achieved its measurable objective in relation to the Company's Area Managers and Regional Manager, with 50% being women.

Further details are included in the Corporate Governance Statement.

Our communities

Support for our communities

Supporting parents

Now, more than ever, we want to support parents and parents-to-be.

In 2020, we started our Facebook Live series. It is now a key feature of the way we provide support with information about a range of topics and issues.

During the year, we presented 34 Baby Bunting Facebook Live shows which had more than 300,000 views. The topics ranged from mental health issues for new and expectant parents to baby monitors and baby safety as well as safe ways of travelling with children and safe sleeping. Our Facebook Live series enables subject matter experts from inside and outside Baby Bunting to speak directly to parents and parents-to-be who want information and advice about topics that are important to them.

Life's Little Treasure Foundation

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

During the year Baby Bunting helped raise $170,000 for Life's Little Treasure Foundation (up from $100,000 in the prior year).

Perinatal Anxiety and Depression Australia (PANDA)

PANDA is an organisation committed to reducing the impact of perinatal anxiety and depression. Its roles include providing services, support and information and raising awareness.

Baby Bunting partnered with PANDA for the first time during the year to assist it to raise funds to expand its programs. We were pleased to be able to raise $90,000 for PANDA and look forward to supporting PANDA in the future.

The privacy of our customers

We recognise that when we collect the personal information of our customers, we have an absolute obligation to respect it and to secure it from unauthorised access or disclosure.

We do not provide the personal information of our customers to third parties for their marketing purposes.

We have training in place to ensure our team understand that they should treat the personal information of our customers as if it were their own; they need to respect it, only use it for the purpose for which it has been given and protect it.

During the year, we responded to an eligible data breach that occurred on our website (for a very short duration). In our response, we identified that 870 customers may have been affected. We promptly notified those customers and informed the Office of the Australian Information Commissioner.

We are committed to continually investing in our systems to ensure that cyber security is maintained and we work hard to protect against attacks seeking our information or the information of our customers.

Our board

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

Gary Levin Non-executive Director
B.Comm, LLB, MAICD

Chairman of the Audit and Risk Committee

Gary has over 40 years' management, executive and non-executive experience in public and private companies including in the retail, investment and online industries.

As a founder, Gary has built and grown many successful retail businesses, and as a non-executive director he has been closely involved in the transformation and growth of retail and digital businesses. These businesses include Rabbit Photo (former joint managing director), JB Hi-Fi (former non-executive director), Catch Group (former Chairman), Cheap as Chips (a discount variety retailer) (current Chairman), Mwave Australia (an e-commerce computer retailer) (current Chairman) as well as his role at Baby Bunting since 2015.

Matt Spencer CEO and Managing Director
B.Bus

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

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

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

Gary Kent Non-executive Director
BEc, GAICD

Member of the Audit and Risk Committee

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

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

Melanie Wilson Non-executive Director

MBA, B.Comm (Hons), GAICD

Chairman of the Remuneration and Nomination Committee

Member of the Audit and Risk Committee

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

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

She is currently a non-executive director of iSelect Limited (appointed in April 2016), EML Payments Limited (appointed in February 2018) and JB Hi-Fi Limited (appointed in June 2020). She was a non executive director of Shaver Shop Group Limited (June 2016 to May 2020).

Donna Player Non-executive Director

BA, GAICD

Member of the Remuneration and Nomination Committee

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

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

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

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

Ian Cornell Chairman, Non-executive Director

FAIM, FAHRI

Member of the Remuneration and Nomination Committee

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 was a non-executive director of Myer Holdings Limited from February 2014 to October 2019.

Corporate governance statement

This Corporate Governance Statement describes the corporate governance practices of Baby Bunting Group Limited (Baby Bunting or the Company) for the financial year ended 27 June 2021 and it is current as at that date. This Statement has been approved by the Board.

This Statement reports the Company's compliance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (4th 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 babybunting.com.au/investor.

Developments during FY2021

During the 2021 financial year, the Company has updated certain of its governance practices in advance of reporting against the 4th edition of the ASX Principles and Recommendations.

Developments during the year included:

- updates to the Board Charter, including elements dealing with reporting to the Board of material breaches of Company policies; and
- the Board adopting a Risk Appetite Statement.

On 17 May 2021, the Company announced that Ian Cornell will not seek re-election as a director at the AGM in October 2021, and that Melanie Wilson will become Chairman upon the retirement of Ian Cornell.

During the year, the Remuneration & Nomination Committee and the Board has considered the chairman succession as well as identifying candidates for appointment to the Board.

In August 2021, the Board announced the appointment of Francine Ereira and Stephen Roche as independent Non-executive Directors. They will seek election at the 2021 Annual General Meeting.

Our governance structures and practices seek to ensure that the Board provides appropriate guidance and supervision to management, while ensuring that there is the right culture in place throughout the organisation.

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 Board's composition, its role and responsibilities, including that the Board is responsible for approving and monitoring the Company's strategy, business performance objectives, financial performance objectives, and overseeing and monitoring the establishment of systems of risk management and internal controls;
- the roles and responsibilities of the Chairman and the Company Secretary;
- the division of authority between the Board, 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.

The Charter was updated during the year to make it clear that material breaches of the Company's key policies (including the Code of Conduct, the Securities Trading Policy, the Anti-Bribery and Corruption Policy, the Business Conduct Policy and the Tax Governance Policy), along with material incidents reported under the Company's whistleblowing framework, are promptly reported to the Chairman and the Board.

Delegation of Authority Policy

The Company's Delegation of Authority Policy sets out in detail the authority that has been delegated to the CEO and Managing Director and other executives and Team Members. The policy has been reviewed during the year having regard to the growth of the Company since it was initially adopted. While the Board is responsible for approving the annual budget prepared by management, executives are delegated responsibility for the budgets that apply to their functions and departments. The Delegation of Authority Policy also specifies the processes for review and approval of contracts and other commitments.

Director and senior executive appointments – conducting appropriate checks

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

When appointing senior executives, in addition to screening and background checks, police checks are also undertaken.

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 as company secretary, 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 and Company Secretary.

Diversity

The Board has adopted a Diversity Policy which sets out Baby Bunting's commitment to recognising the importance of diversity for its business. The policy is available on Baby Bunting's corporate website (babybunting.com.au/investor).

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

The Board measurable objectives for achieving gender diversity at the Company are:

Objectives	Progress	Status
That women and men be equally represented on the Board by 2025 (ie 50%)	At the end of the year, the Board comprised two women (33%) and four men (66%).	Ongoing
That at least a third of the Company's senior executives be women in the medium term	Women comprised 25% (3 out of 12) of the Company's senior executives. This is a decrease from 27% at the end of FY2020 (3 out of 11). Over the medium term, the objective is that the senior executive team reflect an increased degree of gender diversity. The "senior executive" team comprise the CEO and those executives reporting to the CEO, plus the GM Merchandise, GM Store Operations, GM Supply Chain, GM Digital and GM IT and Transformation.	Ongoing
That 50% of the Company's Area Managers and Regional Managers be women in the medium term	In our retail operations, Regional Managers, Area Managers and Store Managers are the leadership roles. Across this group, approximately 71% are female. (FY2020:70%) At the Regional Manager and Area Manager level there are ten Team Members and 50% are female. This is an increase from 44% in FY2020.	**Achieved** ✓

Gender diversity

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

	Number of females in category at 27 June 2021	Total number in category at 27 June 2021	% of females	Number of females in category at 28 June 2020	Total number in category at 28 June 2020	% of females
Board (incl. CEO & MD)	2	6	33%	2	6	33%
Senior executives (incl. CEO & MD)	3	12	25%	3	11	27%
Regional, Area and Store Managers	50	70	71%	48	69	70%
All Team Members	1,082	1,383	78%	1,000	1,279	78%

In August 2021, the Company lodged its Workforce Profile report with the Workplace Gender Equality Agency (WGEA).

Board performance evaluation

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

During the financial year, the Board assessed its own performance, and considered the performance of the Board committees and individual Directors. The performance reviews were undertaken by way of questionnaires as well as discussions on how the Board and each committee's processes could be improved or modified. The Board also sought the views of executives by way of an anonymous survey to seek additional perspectives on the Board and Committee processes and interactions between the Board and management.

Senior executive performance evaluation

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

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

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

PRINCIPLE 2: STRUCTURE THE BOARD TO BE EFFECTIVE AND ADD VALUE

Nomination – Remuneration and Nomination Committee

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

The Committee comprises the following three Non-executive Directors:

Position	Director
Chairman	Melanie Wilson
Members	Ian Cornell, Donna Player

Details of the qualifications and experience of Committee members are set out on pages 16 and 17. The number of meetings of the Committee and attendances by members during the reporting period are set out on page 42 of the Directors' Report. Directors who are not members of the Committee may attend any meeting.

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.

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

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

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

Independent Directors

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

Name	Position	Appointed	Approximate length of service
Independent Directors			
Ian Cornell	Chairman, Independent Non-executive Director	1 January 2015	6 years 8 months
Gary Levin	Independent Non-executive Director	25 August 2014	7 years
Melanie Wilson	Independent Non-executive Director	15 February 2016	5 years 6 months
Donna Player	Independent Non-executive Director	16 January 2017	4 years 7 months
Gary Kent	Independent Non-executive Director	12 December 2018	2 year 8 months
Executive Director			
Matt Spencer	CEO and Managing Director	23 April 2012	9 years 4 months

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

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

For FY2022, each Director has confirmed that they anticipate being available to perform their duties as a Non-executive Director or executive Director without constraint from other commitments.

Director induction and training

The Board Charter contemplates that new Directors will be provided with an induction programme to assist them in becoming familiar with the Company, its managers and its business following their appointment. The induction programme involves, among other things, meetings with members of the Board and executive 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 executives have adopted processes to ensure that the Board is briefed on developments relevant to the Company and the markets in which it operates.

PRINCIPLE 3: INSTILL A CULTURE OF ACTING LAWFULLY, ETHICALLY AND RESPONSIBLY

Baby Bunting's Values

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

- **Being passionate**: be passionate about providing our customers with great products and services, advice and value every day;
- **Being considerate**: be considerate and respectful of others and think about how our decisions and actions impact others;
- **Being honest**: act with integrity and use good judgement;
- **Being positive**: be positive and enjoy doing the things that contribute to a great team spirit;

- **Being focused**: think big, but get on with doing the small things that make a big difference; and
- **Being bold**: never be afraid to evolve – encourage a culture of adventure and creativity.

Code of Conduct

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

The Code of Conduct is designed to:

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

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

Whistleblower Protection Policy

The Company has adopted a Whistleblower Protection Policy. A copy of the policy is available on Baby Bunting's corporate website (babybunting.com.au/investor).

The Group Legal Counsel has been appointed the Whistleblower Investigations Officer and the General Manager People & Culture has been appointed the Whistleblower Protection Officer, for the purposes of the Policy. When they arise, the Board is informed of all whistleblower reports in a manner consistent with the confidentiality and security requirements of the Policy. No such matters were reported in the financial year.

Anti-Bribery and Corruption Policy

The Company has adopted an Anti-Bribery and Corruption Policy. A copy of the policy is available on Baby Bunting's corporate website (babybunting.com.au/investor).

To support the Policy, the Company has adopted Acceptable Monetary Limits and Reporting Requirements which set out when an instance of a gift, entertainment or hospitality may be accepted by Baby Bunting Team Members. Generally, they must relate to general relationship building activities where it cannot reasonably be construed as an attempt to improperly influence the performance of the role or function of the recipient. Team Members must report instances of gifts, entertainment or hospitality other than where the value is immaterial. Where the estimated value exceeds specified limits, prior approval must be sought and obtained.

The Board must be informed of material breaches of the Anti-Bribery and Corruption Policy. No such incidents or breaches were reported in the financial year.

PRINCIPLE 4: SAFEGUARD THE REPORTING OF CORPORATE REPORTS

Audit and Risk Committee

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

The Committee comprises the following three Non-executive Directors:

Position	Director
Chairman	Gary Levin
Members	Melanie Wilson, Gary Kent

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

The number of meetings of the Committee and attendances by members during the reporting period are set out on page 42 of the Directors' Report. Directors who are not members of the Committee may attend Committee meetings.

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 2020 and the full year ended 27 June 2021, received from the CEO and Managing Director and the Chief Financial Officer a declaration. The declaration was, in their opinion, that 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.

Corporate reporting

In addition to the CEO and CFO Declarations (described above), the Company has processes that seek to ensure that its annual reports, half yearly reports and other reports prepared for the benefit of investors are not misleading or deceptive and do not omit material information. These processes include:

- a process of confirming pro forma non-statutory numbers against appropriate supporting files, along with review and verification by the appropriate individuals;
- verifying key statements against appropriate source material; and
- allocating relevant parts of the report or document for review and sign-off to an appropriate approver.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

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

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

PRINCIPLE 6: RESPECT THE RIGHTS OF SECURITY HOLDERS

The Company's website

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

Investor relations programme

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

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

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

Shareholder participation at meetings

The Company's annual general meeting for the financial year ended 27 June 2021 will be held on 5 October 2021.

In previous years, the annual general meeting has been held in either Melbourne or Sydney. Last year, the annual general meeting was held virtually and in 2019 the annual general meeting was held in Sydney.

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

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

Electronic shareholder communications

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

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Risk – Audit and Risk Committee

The role of the Audit and Risk Committee is to assist the Board in fulfilling its responsibilities for corporate governance and overseeing the Company's financial reporting, internal control structure, risk management systems and internal and external audit functions.

This includes considering the quality and reliability of the financial information prepared by the Company, working with the external auditor on behalf of the Board and reviewing non-audit services provided by the external auditor to confirm they are consistent with maintaining external audit independence.

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

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

Details of the Committee are contained on page 24 above (see "Audit and Risk Committee") and details of the meetings of the Committee and the attendance of members are set out on page 42 of the Directors' Report.

Risk management framework

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

The objectives of the risk management framework include:

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

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

A review of the risk management framework occurred during the year. Following the review, a Risk Appetite Statement was developed and adopted by the Board (see below).

Risk appetite statement

The Board has adopted a Risk Appetite Statement. The statement provides guidance as to the type and degree of risk that the Board is willing to accept in pursuing the Company's strategy and conducting its business. Risk appetite is the amount of risk that Baby Bunting is willing to accept or retain to pursue its strategy and conduct its business. It seeks to balance the benefits of an activity or new opportunity with the risk that the activity or opportunity might bring.

The Risk Appetite Statement identifies a number of risk types (eg operational risk, people and culture risk, financial risk, legal and compliance risk, strategic risk) and states a risk appetite rating or tolerance for each. Risk appetite ratings range from zero appetite through to high appetite. Instances where a risk tolerance has been exceeded must be reported to the Audit and Risk Committee or Board, along with details of any proposed corrective actions.

The statement forms parts of the Company's risk management framework.

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.

In the financial year ahead, the Company intends to initiate a program of targeted reviews of specific activities (eg accounts payable, payroll, delegations, etc). The reviews will be conducted by an external assurance firm (not the external auditor) with the results reported to the Audit and Risk Committee.

Environmental and social sustainability risks

The Company is exposed to a number of risks, details of which are included in the Directors' Report on pages 38 to 41. These 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.

As a retailer, the Company is exposed to environmental and social risks, including risks relating to supply chains, sustainable packaging and sustainable product development and sustainable operating practices.

The Company will publish its first Sustainability Report later in FY2022, setting out the Company's goals, practices and targets in respect of its social, environmental and governance performance.

The Company has also published its second Modern Slavery Statement. The statement describes the modern slavery risks that exist in the Company's supply chains. A copy of the statement is available on the Company's website (babybunting.com.au/investor).

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration – Remuneration and Nomination Committee

The Board has established the Remuneration and Nomination Committee with specific responsibility for remuneration matters. The Committee comprises the following three Non-executive Directors:

Position	Director
Chairman	Melanie Wilson
Members	Ian Cornell, Donna Player

Details of the Committee are contained on page 21 above (see "Nomination – Remuneration and Nomination Committee") and details of the meetings of the Committee and attendances by members during the reporting period are set out on page 42 of the Directors' Report. Directors who are not members of the Committee may attend Committee meetings.

Remuneration for Non-executive Directors and Executives

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

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

Securities Trading Policy and hedging

The Company's Securities Trading Policy provides that persons subject to that policy (including Directors and executives) must not engage in transactions designed to hedge their exposure to the Company's shares. In addition, designated persons must only trade during designated trading windows and must seek approval under the Policy before doing so.

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 27 June 2021.

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 27 June 2021.

1. Principal activities

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

Baby Bunting is Australia's largest specialty retailer of maternity and baby goods, primarily catering to parents with children from newborn to three years of age and parents-to-be. Baby Bunting's core purpose is to support new and expectant parents in the early years of parenthood.

The Company's principal product categories include prams, cots and nursery furniture, car safety, toys, babywear, feeding, nappies, manchester and associated accessories. Baby Bunting also provides services that are complementary to the products it sells, including car seat installation and car seat hire services.

2. Operating and financial review

2.1 The Company's business model

The Company's business model centres around the sale of baby goods through its store network and digital channel, as well as product services offered to parents and parents-to-be.

Products sold by Baby Bunting include third-party produced and branded baby goods (many of which are sold exclusively by Baby Bunting) and private label products.

Baby Bunting's private label products include products sold under the "4baby", "Bilbi" and "JENGO" brands. 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). Historically, exclusive supply arrangements have been arranged with suppliers in relation to selected products and for varying lengths of time.

Baby product services is an expanding part of Baby Bunting's business model. The Company offers car seat installation services at all of its stores throughout Australia. A car seat hire service is also available at selected stores around Australia.

During the year, the Company commenced sales of product online to New Zealand customers. The Company also announced its intention to establish a store network in New Zealand and the first store is expected to open in FY2022.

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

Drivers of competitive advantage	Comment
Scale	Baby Bunting is the largest specialty retailer in the Australian baby goods market and the only specialty maternity and baby goods retailer with a multi-state presence in Australia. Its industry position and continued growth has enabled the Company to invest in its people, technology, brand, inventory levels, prices and customer experience.
Convenient network of stores and a leading digital channel	The Company currently operates 60 stores across Australia. The Company's website, babybunting.com.au, continues to be Australia's leading specialty baby goods website as measured by number of visits. The Company is focused on delivering customers the best possible retail experience across all channels, in store, online or on mobile.
Customer centric team culture	Baby Bunting has a dedicated team of well trained and knowledgeable staff to service customers' individual needs. Insights gained from customer preferences are enabling Baby Bunting to tailor its offering to focus on the steps in the customer journey of first time parents.
Consistent retail format	Baby Bunting is focused on providing customers with a consistent retail experience across its network. The Company's stores in major market catchments (with populations greater than 200,000) 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. Baby Bunting has a number of stores located in shopping centres, where the format incorporates the key elements of the standard destination store format. In regional centres (with populations of less than 200,000), the Company typically operates a smaller store format of approximately 1,000 to 1,200 square metres, without compromising product range or customer service. Store formats and layout are largely consistent across the network, with customer-friendly navigation and clear demarcation of categories. Convenient parking is available directly outside our destination stores and all stores have parcel pick-up facilities allowing for easy loading of bulky items into customers' vehicles as well as enabling car seat installation services.
Widest product offering, in-stock and available	Baby Bunting offers what it believes to be the widest range of products, with over 7,000 products available. Through its store network and approximately 22,000 square metre Distribution Centre and through the use of interstate third party logistics, Baby Bunting aims to have its product range in-stock and available at the time of the customer's purchase.
Competitively priced	Baby Bunting's approach to pricing is centred on offering customers value every day, every visit. Baby Bunting's "Our Price Promise" means that if a customer finds a lower price at a competitor (including GST and delivery charges) on an identical in-stock product, Baby Bunting will beat it by 5%. Baby Bunting has a "Best Buy" range, with everyday low prices. The Best Buy range includes the core range of car seats.
Comprehensive range of ancillary services	Across its entire store network, Baby Bunting provides additional services to its customers, including "click & collect" services, lay-by, consumer payment services, parenting rooms which include baby weigh scales, and an in-store/online gift registry. Car seat installation services are provided (under the Baby On Board brand) at all Baby Bunting stores. Car seat hire services are also available at selected stores.

Drivers of competitive advantage	Comment
Cost effective marketing	The Company considers that its most successful marketing tool is word of mouth and it considers that it has a high unprompted brand awareness. This is a critical factor in allowing the Company to limit its marketing expenditure to under 2% of sales. Baby Bunting's marketing is further supported by traditional channels (regional TV, print media, catalogue and radio), online (email, search and digital) as well as social media. Baby Bunting also participates actively in baby expos.

2.2 Store network

The Company currently operates a network of 60 stores across all Australian states and territories, except Northern Territory. The location and layout of stores is designed to deliver customers a consistent retail experience across the network.

2.3 People

At the end of the financial year, the Company employed 1,383 employees throughout Australia with the majority employed at the Company's stores, and others located at the Company's Store Support Centre and Distribution Centre at Dandenong South (Vic).

2.4 Review of the Company's operations

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

Key operational achievements for the Company in FY2021 included:

- successfully commissioning in March 2021 the new National Distribution Centre at Dandenong South, which replaces the former distribution centre in Dandenong South and doubles the size of the Company's distribution centre facilities. In addition, the attached Store Support Centre was commissioned in May 2021 providing updated facilities to accommodate the growth of team members in central support functions;
- opening four new stores, being Knox (Vic), Coffs Harbour (NSW), Belconnen (ACT) and Castle Towers (NSW), bringing the store network to 60 stores;
- commencing sales from the Australian website to New Zealand customers as the first step in the Company's plans to open retail operations in New Zealand;
- expanding the number of stores performing online fulfilment throughout the existing store network as the Company works towards its long term objective to fulfil 90% of online orders same day in metro areas;
- launching the first phase of the Company's new loyalty program, "Baby Bunting family", and finishing the year with over 1 million members. The second phase of the loyalty program, with expanded benefits and offers is scheduled to be implemented in FY2022;
- launching a new private label, "JENGO", to complement the "4baby" and "Bilbi" private labels. Sales of private label and exclusive products made up 41.4% of sales for the year;
- completing the final deployment of the Company's demand planning and replenishment system to be utilised by the merchandising team (the first stage was completed in FY2020). This system, through automation and integration with other inventory management systems, improves stock availability in stores, reduces excess inventory and reduces administrative effort. The Company also deployed a new merchandise financial planning system which assists the merchandise team with forecasting and planning; and
- expanding the Company's support for community partners through the support for fundraising efforts for Perinatal Anxiety & Depression Australia (PANDA) and Life's Little Treasures Foundation (a foundation that provides support, friendship and information, specifically tailored for families of premature or sick babies). Through customer giving programs and other direct contributions, the Company raised over $260,000 for these causes.

The effects of the COVID-19 pandemic continued to effect the environment in which the Company operated, with lock downs in effect throughout Australia in different places and at different times during FY2021. The changes in operations that were introduced in FY2020 continued in FY2021, including:

- introducing additional health and safety measures in stores and other operations, including physical distancing, QR check-in codes, customer number management in stores and expanded cleaning regimes as well as the introduction of contactless click & collect; and
- moving all Store Support Centre team members to remote working environments.

The Company continued its policy of paid COVID-19 leave, to provide team members who were unable to work due to self-isolation measures or the unanticipated closure of schools or childcare with paid leave. This policy provides paid leave to cover an affected team member for up to two weeks. The policy applies to full and part-time employees and casual employees.

Refer to the Chairman and CEO's Report on page 6 of this Annual Report for more information on the Company's operations during the 2021 financial year.

2.5 Review of the Company's financial performance

The full year statutory results for the 52 week period ended 27 June 2021 (FY2020: 52 week period ended 28 June 2020) are summarised below:

- Total sales up 15.6% to $468.4 million, with comparable store sales growth of 11.3% for the year;
- Gross profit of $173.7 million up 18.3%;
- Statutory net profit after tax (NPAT) of $17.5 million, an increase of 76% on the prior year;
- Statutory basic earnings per share (EPS) of 13.6 cents; and
- Cash and cash equivalents less borrowings (net cash) of $0.9 million (versus net cash of $13.3 million at the end of FY2020).

In relation to the 2021 and 2020 financial years, the underlying operating results (as measured by pro forma earnings) are best demonstrated with the following exclusions or adjustments:

- employee equity incentive expenses: the primary economic impact is issued capital dilution if and when shares are issued;
- business transformation project expenses: non-recurring project related expenses associated with significant one-off projects for business review, improvement and transformation;
- brand modernisation project costs: this project included a non-cash impairment of old store branding assets which are in the process of being replaced;
- impairment of digital assets: the impairment of the carrying value of the Company's investment in its digital commerce technologies;
- the recovery of monies from the supplier of certain digital assets that had an impairment to their carrying value; and
- pro forma earnings before interest, tax, depreciation and amortisation exclude the impact of AASB 16 lease accounting.

The Directors consider that these adjustments are appropriate to better represent the underlying financial performance of the business and to facilitate comparisons with prior periods.

On a pro forma basis, the FY2021 financial results were:

- pro forma earnings before interest, tax, depreciation and amortisation (EBITDA) was $43.5 million, up 29.2% on the prior corresponding period;
- gross margin was 37.1%;
- pro forma NPAT of $26.0 million, up 34.8% on the prior corresponding period;
- pro forma costs of doing business (CODB) (excluding the impact of AASB 16 lease accounting) were $130.2 million or 27.8% of sales, a decrease of 14 basis points on the prior corresponding period (CODB of 27.9% of sales in FY2020).

A reconciliation between statutory and pro forma financial results is below.

Non-IFRS financial measures

The consolidated entity uses certain measures to manage and report on its business that are not recognised under Australian Accounting Standards. These measures are collectively referred to as "non-IFRS financial measures".

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

Non-IFRS financial measure	Definition
Cost of doing business (CODB)	Includes store, administrative, marketing and warehousing expenses (excluding pre AASB 16 depreciation and amortisation).
EBIT	Earnings before interest and tax. EBIT eliminates the impact of the consolidated entity's capital structure and historical tax position when assessing profitability.
Operating EBIT	Excludes the effects of interest revenue, finance costs, income tax and other non-operating costs. The CEO and Managing Director assesses the performance of the only operating segment (Australia) based on a measure of Operating EBIT.
Pro Forma EBITDA	Earnings before interest, tax, depreciation and amortisation expense (excluding the impact of AASB 16 lease accounting) and excludes pro forma adjustments included in the financial results below.

Pro forma financial results

In relation to the 2020 and 2021 financial years, the pro forma financial results have been calculated to exclude the impact of employee equity incentive expenses, business transformation project expenses, brand modernisation project, the impairment of digital assets and related recovery of monies for these impaired assets. This has been done to more clearly represent the consolidated entity's underlying earnings.

Year ended 27 June 2021 $'000	Sales	NPAT
Statutory results	**468,377**	**17,532**
Employee equity incentive expenses[1,2,3]	–	8,170
Transformation project expense[4,5,6]	–	7,574
Other operating income[7]	–	(2,400)
Tax impact from pro forma adjustments[8]	–	(4,872)
Pro forma results	**468,377**	**26,004**

1. Expense includes the non-cash cost amortisation of performance rights (LTI) on issue in the current reporting period ($4.601 million).
2. The Company issued 165,221 shares (207 shares per eligible employee) under its General Employee Share Plan in the current reporting period with no monetary consideration payable by participating eligible employees who each received approximately $1,000 worth of shares ($0.795 million).
3. The Company made a $2.774 million cash settled long term incentive payment to participating executives in connection with EPS performance rights (assessed over the period FY16 to FY20) granted by the Company in October 2015 as part of the Company's Long Term Incentive Plan. This plan involves the issue of shares, however due to a timing difference between the $3.215 million impairment of certain digital assets in June 2020 and the receipt of a $2.400 million settlement payment from the vendor of those assets (refer Note (7) below), the original performance rights lapsed. If not for this timing difference, the compound annual growth rate of the Company's EPS measured over the FY16 to FY20 performance period would have been 16.2% which would have resulted in 25.5% of the EPS performance

rights vesting. The Board had regard to the significant earnings per share growth achieved since the Company's IPO, as well as the direct connection between the impairment of the digital assets and the settlement payment recovered by the Company shortly after the end of the performance period. On this basis, the Board determined to provide a benefit to participating executives calculated by reference to the EPS performance rights that would have vested if the recovery were received during FY20. A share price of $4.09 was used to calculate the cash payments (based on 678,438 rights that would have otherwise vested). The share price was determined by reference to a VWAP of the Company's shares in the period 1 July to 30 September 2020.

4. The Company is currently undertaking a process of assessment and when necessary, replacement of its core information technology systems. During the year, the Company incurred ($2.9 million) non-capital costs associated with the implementation of a new online store, merchandise demand planning and replenishment system, order fulfilment systems, Loyalty system, People systems and assessment of digital technology assets.
5. The Company incurred $2.5 million in relation to the setup of the new National Distribution Centre including $1.265 million for the accelerated depreciation and make good of existing Distribution Centre.
6. Other transformation project expenses ($2.149 million) include external consultant costs associated with project management ($1.375million) to deliver the transformation projects described in 5 above. The non-capital costs of external consultants associated with running the selection and planning for the integration of new systems are significant and not related to the operation or financial performance of the business on a day-to-day basis. They cease at project completion.
7. The Company received a cash payment ($2.400 million) from the vendor of certain digital commerce technology assets that were impaired in FY20 following settlement of a dispute relating to those assets.
8. Tax impact from pro forma adjustments includes income tax benefit relating to performance rights vesting under the Company's Long Term Incentive Plan ($2.249 million).

The following table reconciles the statutory to pro forma financial results for the year ended 28 June 2020 (noting that this financial information has not been audited in accordance with Australian Auditing Standards):

Year ended 27 June 2020 $'000	Sales	NPAT
Statutory results	**405,173**	**9,986**
Employee equity incentive expenses[1,2]	–	2,630
Digital assets writedown[3]	–	3,215
Branding assets writedown[4]	–	2,610
Transformation project expenses[5,6,7]	–	3,988
Tax impact from pro forma adjustments	–	(3,138)
Pro forma results	**405,173**	**19,291**

1. Expense includes the non-cash cost amortisation of performance rights (LTI) on issue in the current reporting period ($1.978 million).
2. The Company issued 185,134 shares (284 shares per eligible employee) under its General Employee Share Plan in the current reporting period with no monetary consideration payable by participating eligible employees who each received approximately $1,000 worth of shares ($0.652 million).
3. The Company recognised a non-cash impairment of $3.215 million to the carrying value of its investment in digital commerce technology assets. This arose from the decision (in May 2020) to move away from a monolithic e-commerce architecture to a headless digital architecture structure. This new structure will enable Baby Bunting to leverage best of breed applications to deliver a world class customer experience through its digital channels.
4. During the year the Company introduced its new corporate branding, our first major brand change in the Company's 40 year history. As a result of this change, the Company recognised a non-cash impairment of $2.610 million to the carrying value of its old corporate branding.
5. The Company is currently undertaking a process of assessment and when necessary, replacement of its core information and merchandising technology systems. In FY20 the Company incurred ($1.266 million) non-capital costs associated with the implementation of a merchandise forecasting and replenishment system, order fulfilment systems and assessment of digital technology assets. The Company's review of core systems will continue through FY21.
6. The Company incurred ($0.587 million) costs in relation to scoping and building a new loyalty program aimed at increasing engagement and lifetime spend of its customers. After further completion works, the new loyalty program is expected to be launched in FY21.
7. Other transformation project expenses ($2.135 million) include external consultant costs associated with the selection and establishment of a new National Distribution Centre ($0.160 million) which is expected to be completed in FY21, and project management and establishment costs ($1.456 million) to deliver the transformation projects. The non-capital costs of external consultants associated with running the selection and planning for the integration of new systems into the business are significant and not related to the operation or financial performance of the business on a day-to-day basis. They cease at project completion.

Revenue

The FY2021 sales for the year ended 27 June 2021 of $468.4 million represented an increase of 15.6% on FY2020. This sales growth was achieved through:

- growth from existing stores;
- growth in online sales;
- growth from the opening of four new stores during FY2021; and
- the annualising benefit of three stores opened in FY2020, trading for a full financial year in FY2021.

Comparable store sales growth for the year was 11.3% up on the prior year. Comparable store sales growth is calculated having regard to the growth of stores that have been open for all of the prior financial year and includes click & collect sales fulfilled from the store. Stores not included in the comparable stores sales growth calculations in FY2021 were the four stores opened in FY2021 and the three stores opened in FY2020.

Sales from private label and exclusive products grew by 31.1% on the prior year, and were 41.4% of total sales in FY2021, up from 36.5% in FY2020. This growth has come from the support of key suppliers expanding the range of their products sold exclusively through Baby Bunting. Categories where exclusive product ranges have expanded significantly include prams and strollers, cots and furniture and car safety (ie car seats). In addition, Baby Bunting has expanded the products sold under its "4baby" and "Bilbi" private labels as well as introducing new private label for hardgoods, known as "JENGO".

Online sales continued to see strong annual growth. Total online sales (including click & collect) grew 54.2% on the prior financial year and click & collect sales grew 109.7%. Online sales now represent 19.4% of total sales, up from 14.5% in FY2020. Baby Bunting's online channel and store networks are complementary. Online sales in a market catchment have consistently increased following the establishment of a Baby Bunting store in that area.

Expenses

Pro forma costs of doing business (CODB) expenses (excluding the impact of AASB 16 lease accounting) as a percentage of sales improved to be 14 basis points lower year-on-year at 27.8% of sales (27.9% of sales in FY2020). In FY2021, pro forma CODB expenses were $130.2 million, up 15.0% on the prior year pro forma CODB expenses of $113.2 million. The increased investment in operating expenditure was driven by:

- three stores opened in FY2020 trading for a full financial year in FY2021;
- four new stores opened in FY2021;
- the continued investment in the Store Support Centre 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;
- an allowance of $2.5 million in relation to short term incentives paid or payable to store management, store support team members and the executives (this was $0.3 million in FY2020);
- costs associated with COVID-19 of $1.1 million were incurred during the year arising from increased hygiene routines, customer communications, additional cleaning and personal protective equipment; and
- costs associated with responding to a biosecurity event during the year of $1.1 million (this is described further on the following page).

2.6 Review of the Company's financial position

The Company finished the financial year in a net cash position of $0.9 million, a change of ($12.4) million on the prior year net cash position of $13.3 million. This movement was driven primarily by a recovery in the inventory position. The restocking of stores was necessitated by unprecedented variability in demand patterns in Q4 FY2020 driven by the initial national lockdown that occurred as a result of COVID-19.

Other financial highlights included:

- payment of $15.7 million in dividends, relating to the FY2020 final dividend of $8.2 million (paid on 11 September 2020) and the FY2021 interim dividend of $7.5 million (paid on 12 March 2021);
- lease payments of $26.3 million in relation to the Company's retail store network, distribution centre, material handling equipment and motor vehicles for area management;
- capital expenditure of $12.1 million in FY2021, including $3.6 million in branding assets and $2.9 million investment in core systems; and
- net cash inflows of $10.0 million in relation to increased borrowings.

Dividends

The Board has determined to pay a final dividend of 8.3 cents per share fully franked. Together with the interim dividend of 5.8 cents per share, the total dividend to be paid in respect of FY2021 is 14.1 cents per share, equivalent to approximately 70% of the Company's FY2021 pro forma NPAT. The dividend payment date for the final dividend is 10 September 2021.

Settlement of dispute in relation to certain digital commerce technologies

During the first half of the financial year, the Company received a cash payment of $2.4 million from the vendor of certain digital commerce technology assets following settlement of a dispute relating to those assets that had been impaired in the previous year.

This cash payment has been recognised as other income. See also section 3.4 of the Remuneration Report which discusses the effect of that payment on the Company's earnings per share compound annual growth rate for the purpose of the Company's incentive plans.

Biosecurity event

During the first half of the year, the Company responded to an interception of insects found in packaging of goods in an imported shipping container. The Company worked closely with the Federal Department of Agriculture, Water and the Environment and implemented a number of actions in accordance with Departmental requirements, including the treatment of all store rooms where the affected stock was held and the Distribution Centre and fumigation of some inventory. This resulted in some short term increases to supply chain costs and one-off costs of treatment and fumigation costs and customer remediation costs. The issues have been resolved. The Company has submitted claims under its insurance policies to recover costs and losses associated with the matter.

3. Business strategies and future developments

The Company's strategy has remained constant during the year and is focused on growing its market share and continuing to improve its execution and financial performance.

This strategy has the following key elements:

3.1 Invest in digital to deliver the best possible retailing experience across channels and enable new business models

Baby Bunting has a multi-channel approach to grow market share. Baby Bunting's goal is to create a seamless shopping experience across all channels.

Investments in digital marketing and loyalty continue to be made to increase the utilisation of marketing automation and the Customer Relationship Management (CRM) system. Digital marketing initiatives and personalised electronic marketing campaigns assist in providing a better customer experience and more effective engagement with customers. These applications are expected to enhance customer experience online and ultimately improve conversion rates.

Continually improving online fulfilment is a key part of this strategy. Customers can transact online and have goods delivered directly or obtain the goods via click & collect, including contactless click & collect introduced during the second half of the year.

The Company now has five store-based fulfilment hubs and has enabled store-based fulfilment of online orders at a number of other stores with further expansion of this capability planned for FY2022. These hubs and stores enable online orders to be fulfilled from selected stores supporting the long-term target of being able to fulfil 90% of online metro orders same day.

At the start of the year, the Company launched deliveries to New Zealand consumers through its website. This is the first step in the Company's plan to establish a retail store network in New Zealand, with the first store expected to open later in FY2022.

During the year, the Company progressed the migration from its former e-commerce site to a new headless e-commerce architecture. This architecture enables Baby Bunting to leverage best of breed applications to delivery a world class customer experience through the digital channel.

3.2 Investment to grow market share from Baby Bunting's core business, including the roll out of new stores and formats, enhanced fulfilment, and new services to existing customers

Baby Bunting's key strategies to grow market share from its core business include:

- improving customer experience. In this regard, Baby Bunting aims to be the leading place for parents and parents-to-be to come to for an extensive product range and great service, advice and guidance;
- performing targeted and effective marketing campaigns. The Company's CRM system and automated marketing software, plus its loyalty program with its personalised marketing messages, enables the Company to develop marketing for customers, having regard to customer preferences and product affinities; and
- leveraging the store network to grow the services offered to customers. Baby Bunting's national car seat installation business — conducted under the Baby On Board brand — grew significantly through the year. This is complemented by the Company's car seat hire services and the Company has plans to progressively expand the range of services for customers.

Growth from existing stores

The Company's stores historically take an average of four years to mature and generally have stronger comparable store sales growth in the first four years of operation. As a result, the maturity of newer stores should support further growth in comparable store sales. As at the report date, the Company's store network includes a significant proportion of "immature" stores, with 22% of stores less than three years old.

The Company's click & collect service is a key feature and click & collect sales grew 109.7% during the year. Click & collect sales are fulfilled in store, providing very convenient fulfilment times for customers.

Store network plan

Growing market share through the roll out of new stores is a key part of the Company's growth strategy.

The Company has a store network plan and is looking to continue to grow its network of stores to over 100 stores in Australia.

This long-term network plan is predicated on the availability of suitable store locations that meet Baby Bunting's rigorous return on investment hurdles. In assessing potential new stores, regard is had to site factors, the demographic profile of the target catchment, existing market share and the estimated effect of any sales re-direction on existing Baby Bunting stores.

In pursuing this network plan, regard is also had to anticipated changes in future consumer behaviour and retail trends. The retail store sales have continued to grow year-on-year in addition to exceptional growth in online sales. This continues to highlight the complementary nature of Baby Bunting's bricks and mortar stores and its online store. That is, online sales in a catchment without a store, increase following the opening of a Baby Bunting store in that same catchment. This highlights the very tactile nature of the industry in which Baby Bunting operates, where first time parents, in particular, like to visit stores to touch, feel and visually assess products as part of the product selection process.

During the financial year ahead, Baby Bunting expects to continue to open new stores as it pursues its store network plan.

3.3 Growth from new markets leveraging Baby Bunting's core competencies and data into adjacent categories, entering new geographies and expanding the value chain

The Company's core competencies include, among other things, large format retailing, merchandising, baby and maternity products, operating a network at scale and private label and product-led retailing. The Company also has an expanding range of insights about baby goods consumers.

During the year, the Board approved a strategy for the Company to establish operations and a store network in New Zealand with aspirations of a network of more than ten stores.

Opportunities might also exist to apply Baby Bunting's skills in adjacent retail categories, where the ability to leverage existing customer insights could greatly expand the potential market opportunities.

While the immediate focus is on growing market share from Baby Bunting's core business, consideration will be given to exploring opportunities that will provide growth in future periods.

3.4 Profit margin improvement by increasing scale, developing private label and exclusive products and leveraging infrastructure to reduce the cost of doing business

The Company improved its pro forma EBITDA margin from 8.3% in FY2020 to 9.3%. This was delivered through full year gross margin of 37.1% an improvement of 83 basis points from the prior year. The pro forma cost of doing business improved year-on-year, reducing by 14 basis points in FY2021. EBITDA margin improved throughout the year, and in the second half of FY2021 Baby Bunting achieved its long term target of a pro forma EBITDA margin of 10.0%

A key driver to grow margin improvement is the growth in private label and exclusive product offerings. The Company offers private label products in strollers, pram, change tables, manchester, babywear, portacots, rockers, 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 continue to facilitate further margin improvement in future periods.

During the year, private label and exclusive products grew to represent 41.4% of sales, an increase of 31.1% over the previous year. This was largely driven by the support of key suppliers expanding the range of their products sold exclusively through Baby Bunting.

The Company also launched an additional private label brand in hard goods, known as “JENGO”.

In FY2021, work was completed on a new merchandise financial forecasting system. This system, along with the demand planning and replenishment system commissioned in FY2020 are transforming the way in which the Company forecasts, plans merchandise and replenishes stores. This is delivering significant benefits for the business through improved availability of stock, reduced excess inventory and reduced administrative effort.

Another element of the Company's strategy for profit margin improvement is the investment made in the Company's new National Distribution Centre in Dandenong South. This was commissioned in March 2021, and replaced the former distribution centre. The Company has committed to a 12 year lease for the new 22,000 square metre distribution centre, which is located approximately 1.5 kilometres from its former distribution centre in Dandenong South.

The Store Support Centre was also relocated to the new facilities. By expanding the Distribution Centre, Baby Bunting can support its growing store network and online store and also improve the efficiency and flow of product from source to customer.

In addition, the use of store-based fulfilment hubs will continue to play a critical role in facilitating prompt delivery of online orders.

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

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

4. Key risks and uncertainties

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

4.1 COVID-19 pandemic

The COVID-19 pandemic continues to give rise to significant uncertainties for the Company and its operations. An extensive lockdown was in effect in Victoria during the first half of the year and governments throughout Australia have continued to introduce public health measures to meet the dangers posed by the COVID-19 pandemic, including lockdowns which are often implemented on short notice. While the public health danger persists, the potential for ongoing public health measures, or the introduction of additional public health measures, remains.

The COVID-19 pandemic created challenges across a number of aspects of the Company's operations. To date these risks have been addressed through business continuity planning and rapid operational changes. Rates of vaccination are below government targets, and uncertainty remains about the potential impacts of the COVID-19 pandemic on the Company's operations over the coming periods. The risk exists that public health restrictions could be introduced which significantly curtail the Company's ability to operate its stores in an area or a number of areas or to establish new stores. If these restrictions affect a number of the Company's stores and/or extend for a significant period of time, the Company's sales could reduce and its costs of operating could increase, with the effect that its financial performance could be adversely affected.

Specific matters and risks that relate to COVID-19 include:

- **health and safety risks for team members and customers**: Baby Bunting operates a network of stores throughout Australia. The risk exists for the transmission of COVID-19 infection from people interacting in stores. To address this risk, operational requirements have been introduced into stores, including expanded cleaning regimes, QR check-in codes, hand sanitising, physical distancing measures, the temporary closure of some features of stores (eg parents rooms) and encouraging cash-less payments.

  Given the large format of the Company's stores, all stores were able to continue to operate during FY2021 within the scope of the social distancing requirements imposed by Australian governments. Nevertheless, limits on customer numbers within stores (and within parts of stores) have applied in stores at various times of the year.

  The risk exists that a Baby Bunting store may need to close temporarily if it is identified as an exposure site. The Company has developed plans to respond to that event and believes it can continue to provide goods and services to customers in the affected area through other nearby stores or its online store.
- **operational changes**: The Company has measures to ensure parents and parents-to-be can continue to obtain the essential products they require without coming into stores. Contactless click & collect enables customers to collect goods from stores with minimal contact with team members. Baby Bunting's online store ensures customers can continue to purchase goods. To support the ongoing operations of the online store, Baby Bunting has expanded its online fulfilment capacity (through expanding the number of fulfilment hubs and stores).
- **risks associated with the supply chain**: Events like the COVID-19 pandemic have the potential to adversely affect Baby Bunting's supply chains and disrupt the supply of stock from offshore suppliers. To manage this risk, Baby Bunting seeks to hold stock at its Distribution Centre as well at third party logistics depots around Australia.

  The Company operates a single Distribution Centre at Dandenong South. Contingency plans have been developed to address the risk of a localised government lock-down (or some other COVID-19 event) affecting operations at the Distribution Centre, which include altering supply chains and re-directing stock. However, if the Distribution Centre (which includes the principal part of the Company's online fulfilment operations) is unable to operate for an extended period of time, and alternative arrangements could not be implemented, that event would have a material adverse effect on the Company's financial performance.

  Risks also exist in relation to outbound order fulfilment. Online orders are delivered to customers via parcel and courier service providers. Disruptions to those services can cause delays in delivery times of goods to consumers. To the extent that the delays are extensive or ongoing, the experience for consumers will be adversely affected.

Accordingly, there is a risk that customer sentiment and the Company's financial performance could be adversely affected:

- **store development**: Restrictions on movement between states and territories and within cities or regions can disrupt store site selection and new store development activities. To the extent these restrictions are ongoing, the Company's store roll-out activities may be delayed.
- **external economic risks**: The public health measures have had a significant effect on many parts of the Australian community. While governments have provided economic support and stimulus measures, the risk exists that retail conditions and the general economic environment are substantially reduced in future periods. A deterioration in consumer confidence generally may cause consumers to reduce the size or extent of purchases with the Company, which could have an adverse effect on sales and the Company's financial performance.

4.2 Other key risks

The Company has a structured risk management framework and internal control systems in place to manage material risks (see page 26 for further information on the Company's risk management framework). In addition to the risks associated with the COVID-19 pandemic noted above, some of the other 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.

Competitive and digital disruption risks

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

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. As noted above in relation to COVID-19 risks, a deterioration in consumer confidence generally may cause consumers to reduce the size or extent of purchases with the Company, which could have an adverse effect on sales and the Company's financial performance.

Property and operational risks

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

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.

Supply chain risks

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 events of global significance that disrupt global supply chains, operational disruption due to catastrophic events such as fire or flood, delays in product delivery or complete failure to receive products ordered. Poor supply chain management could adversely affect the Company's financial performance and customers' experience of shopping with Baby Bunting. The Company continues to focus on logistics and technology initiatives to ensure that this risk is managed appropriately. While the Company's new National Distribution Centre has reduced the need for third party logistics facilities, they remain available to assist in managing supply chain risks by carrying additional inventory.

The Company's goods for resale are either imported directly or are sourced from local suppliers who have imported the goods. While goods imported for re-sale are generally low risk, biosecurity risks can exist in the supply chain; for example, in the shipping containers used to carry the goods. During the year, the Company responded to an interception of insects in an imported shipping container which affected the packaging of goods being imported. Working closely with the Federal Department of Agriculture, Water and the Environment, the Company implemented a number of actions, including the treatment of all store rooms where the affected stock was held and the Distribution Centre and the fumigation of some inventory. If the Company's goods and internal supply chains are the subject of a significant biosecurity incursion, the potential exists for significant disruption to the Company's operations in its Distribution Centre and its stores.

Compliance risks

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

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

Workplace and people management risks

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

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

Technology and information risks

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

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

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

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

Business transformation risks

The Company has a plan to continue making investments in new technology systems, including its e-commerce platform, some core system enhancements and other technology projects. The Company is also undertaking a range of business transformation projects.

A failure to implement technology changes effectively or to manage and complete projects successfully could have an adverse effect on the Company's financial performance where new technology or projects cost more, take more time to implement and/or fail to achieve anticipated business benefits. In addition, a failure in the Company's technology systems could have an adverse impact on consumers' experience with Baby Bunting. The Company seeks to manage this risk through appropriate project management and resourcing.

5. Significant changes in the state of affairs in FY2021

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

6. Matters subsequent to the end of the financial year

Apart from the determination to pay a final dividend in respect of the financial year ended 27 June 2021, no matter or circumstance has arisen since the end of the financial year which has not been dealt with in this Directors' Report or the Financial Report, and which has significantly affected, or may significantly affect:

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

7. Dividends

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

Dividend	$'000
Final dividend in respect of the financial year ended 28 June 2020 (6.4 cents per share fully franked)	8,164
Interim dividend in respect of the half year ended 27 December 2020 (5.8 cents per share fully franked)	7,497

The Board has determined to pay a final dividend in respect of the financial year ended 27 June 2021 of 8.3 cents per share.

This dividend is franked to 100% at the 30% corporate income tax rate. The record date for this final dividend is 27 August 2021 and the dividend payment date is 10 September 2021. The final dividend of 8.3 cents per share, when combined with the interim dividend of 5.8 cents per share, represents a payout ratio of approximately 70% of the full year pro forma NPAT.

8. Directors

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

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

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

On 17 May 2021, the Company announced that Ian Cornell would not seek re-election at the 2021 AGM and would step down as Chairman. The Board has selected Melanie Wilson to succeed Ian Cornell as Chairman from the conclusion of the 2021 AGM.

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

9. Meetings of Directors and Board Committees

The number of meetings of the Board and each Board Committee held during the period ended 27 June 2021 are set out below. All directors are invited to attend Board Committee meetings and most Board Committee meetings are attended by all directors. However, only attendance by directors who are members of the relevant Board Committee is shown in the table below.

	Meetings of directors		Audit and Risk Committee		Remuneration and Nomination Committee	
Director	Attended	Held	Attended	Held	Attended	Held
Ian Cornell	12	12	–	–	4	4
Matt Spencer	12	12	–	–	–	–
Gary Levin	12	12	6	6	–	–
Melanie Wilson	12	12	6	6	4	4
Donna Player	12	12	–	–	4	4
Gary Kent	12	12	6	6	–	–

Attended = Number of meetings attended by the director.

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

10. Directors' relevant interest in shares

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

Director	Ordinary shares	Performance Rights
Ian Cornell	600,000	nil
Matt Spencer	1,232,989	1,613,000
Gary Levin	150,000	nil
Melanie Wilson	20,000	nil
Donna Player	36,000	nil
Gary Kent	20,000	nil

11. Company secretaries

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

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

12. Details of performance rights

The CEO and Managing Director was the only Director eligible to participate in the Company's long term incentive plan (LTI Plan). Further details of the LTI Plan are set out on pages 53 to 57 of the Remuneration Report. Each performance right entitles the holder to receive one fully paid share in the Company, subject to the satisfaction of the applicable performance conditions.

During the financial year, the Company granted 2,660,000 performance rights under the LTI Plan. In addition, 1,525,380 performance rights vested and were exercised and no performance rights were forfeited in accordance with the rules of the LTI Plan.

All of the performance rights granted during the financial year are subject to performance conditions (see pages 53 and 54 of the Remuneration Report for more details).

Performance right event	Issue price	Number of performance rights
Opening balance (29 June 2020)		6,904,380
Vesting of rights (23 October 2020)	n/a	(1,525,380)
Grant of rights under the LTI Plan — FY2020 to FY2023 award (24 December 2020)	nil	2,660,000
Closing balance		**8,039,000**

Since the end of the financial year, 530,000 Retention Rights have vested and been exercised. In addition, the EPS and TSR Rights granted under the LTI Plan — FY2018 to FY2021 award will be assessed by the Board in October 2021. If all of those 2,504,000 rights vest and are exercised, and taking into account the Retention Rights that have vested, the closing balance of performance rights would be 5,005,000.

13. Details of options

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

14. Remuneration Report

The Remuneration Report, which forms part of this Directors' Report, is presented separately from page 46.

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

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

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

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

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

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

16. Proceedings on behalf of the Company

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

17. Environmental regulation

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

18. Non-audit services

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

Details of the amounts paid or payable to the auditor (Ernst & Young) for audit and assurance services ($173,400) (FY20: $167,300) and for non-audit services ($26,624) (FY2020: $73,355) provided during the year are set out in the Financial Statements (at Note 30). The major element of non-audit services during the year related to taxation services.

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

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

19. Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is attached to this Directors' Report on page 65.

20. Rounding of amounts

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

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

On behalf of the Directors

Ian Cornell

Ian Cornell
Chairman

13 August 2021

Remuneration report

The Remuneration Report sets out remuneration information for the Company's Non-executive Directors and other key management personnel (disclosed executives) for the year ended 27 June 2021. The information provided in this Remuneration Report (other than in section 3.1) has been audited as required by section 308(3C) of the Corporations Act 2001.

1. Key management personnel

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

Non-executive Directors	
Ian Cornell	Non-executive Chairman
Gary Levin	Non-executive Director
Melanie Wilson	Non-executive Director
Donna Player	Non-executive Director
Gary Kent	Non-executive Director
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 to build and deliver value to shareholders over the long term.

A copy of the Committee's Charter is available at babybunting.com.au/investor. 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 42 of the Directors' Report.

3. Remuneration outcomes for FY2021

3.1 Actual remuneration received

This section 3.1 has been included in the Remuneration Report to show the "take home" remuneration of the disclosed executives.

The table in this section 3.1 supplements, and is different to, the statutory remuneration tables (see section 8) which presents the accounting expenses for both vested and unvested performance rights in accordance with Australian Accounting Standards.

The tables shows the remuneration the CEO and Managing Director and the Chief Financial Officer actually received in relation to the 2021 financial year as cash, or in the case of prior equity awards, the value which vested in 2021.

		Fixed remun-eration[1] $	FY21 STI variable cash remuner-ation[2] $	LTI linked remun -eration (FY16-FY20)[3] $	Total cash $	Long term incentives which vested during the year[4] $	Other share benefits[5] $	Actual remun -eration received $	Long term incentives which lapsed/ forfeited during the year[6] $
Disclosed executives									
Matt Spencer	2021	581,754	214,610	1,033,325	**1,829,689**	2,311,075	–	**4,140,764**	–
	2020	557,389	–	–	**557,389**	1,345,420	–	**1,902,809**	(3,269,828)
Darin Hoekman	2021	411,675	150,840	411,909	**974,424**	974,692	999	**1,950,115**	–
	2020	384,398	–	–	**384,398**	502,372	999	**887,769**	(1,303,437)

The point in time value of previously deferred remuneration granted as performance rights is based on the closing price **of the Company's shares** traded on the ASX on the date of exercise of the rights or lapsing/forfeiture multiplied by the number of rights.

1. Fixed remuneration includes superannuation contributions.
2. FY21 STI variable cash remuneration has been accrued in respect of the FY2021, but will be paid in FY2022 (see section 6.2 below).
3. LTI linked remuneration represents cash payments made in December 2020 in connection with the long term incentive payments related to EPS rights (FY2016 to FY2020) (see section 3.4 below).
4. The vested performance rights were the performance rights granted under the FY2016 to FY2020 award that were assessed against the TSR CAGR performance condition.
5. Other share benefits relate to shares provided under the General Employee Share Plan and are valued using that acquisition price under that plan.
6. The performance rights that lapsed were the performance rights granted under the FY2016 to FY2020 award that were assessed against the EPS CAGR performance condition.

Shares provided to Darin Hoekman upon vesting of the Retention Rights (which occurred in July 2021) are not included in the above table. They will be included in 2022 Remuneration Report.

3.2 FY2021 short term incentive payments

The Company's short term incentive plan operated again for the 2021 financial year. For the 2021 financial year, pro forma NPAT growth was 34.8%. This was above the "threshold" growth target level of 25% pro forma NPAT year-on-year growth set by the Board. Accordingly, participants became eligible for short term incentive payments, subject to satisfying the other individual qualifying and performance requirements.

See Section 6.1 for details of the extent to which the disclosed executives became eligible for awards under the short term incentive plan.

3.3 FY2016 to FY2020 performance rights – vesting of TSR rights

On 26 October 2020, the Company issued a total of 1,525,380 ordinary shares to eligible participants in the Company's Long Term Incentive Plan upon vesting of the TSR Rights that had been provided under the FY2016 to FY2020 grant. The CEO and Managing Director received 517,019 shares and the Chief Financial Officer received 218,052 shares. These rights vested following satisfaction of the TSR compound annual growth performance hurdle; the compound annual growth rate of the Company's total shareholder return in the period from its 2015 IPO to the end of the 2020 VWAP period (ie 1 July 2020 to 30 September 2020) was 27.7% (including dividends reinvested).

This reflected the significant growth that has been achieved in shareholder returns in the period from the IPO to late 2020.

With the vesting of these performance rights, there are no further rights outstanding granted under the FY2016 to FY2020 award.

3.4 FY2016 to FY2020 performance rights – long term incentive payment relating to EPS rights

During the year, the Company made a $2.774 million cash incentive payment to seven participating executives (including the CEO and Managing Director ($1,033,325) and the Chief Financial Officer ($411,909)) in connection with EPS performance rights (assessed over the period FY2016 to FY2020) granted by the Company in October 2015 as part of the Company's Long Term Incentive Plan.

This plan involved the issue of shares, however due to a timing difference between the $3.215 million impairment of certain digital assets in June 2020 and the recovery of a $2.400 million settlement payment from the vendor of those assets shortly after the end of the performance period, the original EPS performance rights lapsed. If not for this timing difference, the compound annual growth rate of the Company's EPS measured over the FY2016 to FY2020 performance period would have been 16.2% (and not 13.7%) which would have resulted in 25.5% of the EPS performance rights vesting.

The Board had regard to the significant earnings per share growth achieved since the Company's IPO, as well as the direct connection between the impairment of the digital assets and the settlement payment recovered by the Company shortly after the end of the performance period. On this basis, the Board determined to provide a benefit to participating executives calculated by reference to the EPS performance rights that would have vested if the recovery were received in FY2020. A share price of $4.09 was used to calculate the cash payments (based on 678,438 rights that would have otherwise vested: 252,688 rights for the CEO and Managing Director and 100,728 rights for the Chief Financial Officer). The share price was determined by reference to a VWAP of the Company's shares in the period 1 July 2020 to 30 September 2020.

3.5 Vesting of retention rights

After the end of the 2021 financial year, in July 2021, the Board assessed the conditions attached to the retention rights and determined that the vesting conditions had been satisfied and 530,000 rights vested in July 2021, with 165,000 rights received by the Chief Financial Officer. Those rights were exercised by the six participants and 530,000 ordinary shares were issued in early August 2021 (the CEO and Managing Director did not receive any Retention Rights). A further 34,000 retention rights remain outstanding and are held by one participant. The relevant three year testing period for these 34,000 rights ends in March 2022.

See Section 6.3.5 for further information on the retention rights.

3.6 Grant of performance rights (FY2020 to FY2023 grant)

Following shareholder approval at the 2020 AGM, the Company granted the CEO and Managing Director, 480,000 performance rights under the FY2020 to FY2023 grant. Approval for the grant was obtained under ASX Listing Rule 10.14. An additional 2,180,000 performance rights were granted on the same terms to eleven other executives (including the Chief Financial Officer who was granted 350,000) participating in the Company's Long Term Incentive Plan.

Details of the terms and conditions of this grant are contained in Section 6.3.1 below.

3.7 6th Employee Share Plan Gift Offer

The Company conducted its 6th Employee Share Plan Gift Offer in October 2020 and provided over 801 team members $1,000 of Baby Bunting shares. The Company has operated this gift share program for each year since its IPO in 2015 and as a result 52% of team members are shareholders. See Section 6.4 below.

4. Key developments and future changes

Changing the way EPS is calculated for future long term incentive awards

Having regard to feedback from some shareholders, the Board has decided to adjust the manner in which pro forma earnings per share is calculated for future grants under the Company's Long Term Incentive Plan. Pro forma NPAT will include statutory employee equity incentive expenses, with the denominator determined by using the average weighted number of ordinary shares on issue for the period. This change has the effect of recognising share-based payment expenses in the definition of earnings per share used for long term incentive purposes for future grants.

Changing the remuneration mix and reducing the proportion of performance rights

As indicated in the 2020 Remuneration Report, changes are being implemented to the Company's remuneration philosophy, including seeking to adjust, over time, the mix of executive remuneration to reduce the proportion of "at-risk" remuneration represented by long term incentives. This will be achieved by gradually reducing the number of rights granted annually to executives participating in the Company's Long Term Incentive Plan.

In addition, the Board is reducing, over time, the proportion of performance rights outstanding relative to the Company's total issued capital. With the vesting of the retention rights and with the vesting or lapse of the rights outstanding under the FY2018 to FY2021 grant (which is expected to occur in October 2021), the number of rights outstanding will represent around 3.7% of the Company's issued capital. (At the end of FY2020, the number of rights outstanding represented approximately 5.4% of the Company's issued capital.)

FY2022 STI plan

The FY2022 short-term incentive plan will operate on a similar basis to the prior years: there will be no eligibility to receive any payments until the Board's earnings growth target has been achieved and the participant has achieved satisfactory ratings in respect of their performance and values. The maximum amount of any short-term incentive payment will be 60% of base remuneration with the actual amount to be payable having regard to the achievement of the Company's earnings growth target and additional individual KPIs.

Long term incentive plan – FY2021 to FY2024 grant

The Board intends to grant the CEO and Managing Director 185,000 performance rights, subject to approval by shareholders at the 2021 AGM. In addition, a further 11 executives will participate in the proposed grant, with the total number of rights to be granted not exceeding 1.375 million rights with 175,000 of those to be granted to the Chief Financial Officer. If granted these rights, when added to the rights outstanding under the Company's Long Term Incentive Plans, will represent around 5% of issued capital.

Generally, the terms of the grant will be similar to the grant made last year (the FY2020 to FY2023 grant – see section 6.3.1 below), noting that 40% of the rights will be subject to an EPS CAGR performance condition and the remaining 60% will be subject to a TSR CAGR performance condition. The Board has adjusted this mix having regard to the growth initiatives and the Company's expansion plans currently being implemented to ensure that there is an appropriate weighting to target long term shareholder value growth. These performance conditions will be measured over a 3 year period. There will be no retesting.

5. Relationship between remuneration and the Company's performance

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

	2017	2018	2019[1]	2020	2021	Growth in 2021	CAGR last 5 years
EBITDA (statutory) $'000	22,138	17,549	46,281	46,119	56,903	23%	27%
Net profit after tax (statutory) $'000	12,247	8,686	11,646	9,986	17,532	76%	9%
Net profit after tax (pro forma) $'000	12,957	9,607	14,388	19,291	26,004	35%	19%
Dividends per share – ordinary (cents)	7.2	5.3	8.4	10.5	14.1	34%	18%
Basic earnings per share (cents) (statutory)	9.7	6.9	9.2	7.8	13.6	74%	9%
Earnings per share (cents) (pro forma)	10.3	7.6	11.4	15.2	20.2	33%	18%
Share price at the end of the financial year	$1.92	$1.36	$2.16	$3.30	$5.42	64%	30%

1. At the end of FY2020, the results for FY2019 were restated to reflect the full retrospective adoption of the lease accounting standard AASB 16. Refer to Note 2(x) in the Financial Report for the year ended 28 June 2020.

6. Remuneration policy and practices

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

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

For disclosed executives, the Board has a philosophy of supporting a smaller proportion of fixed remuneration (relative to comparable ASX companies) and a large proportion of "at-risk" remuneration. A focus for future years is to progressively adjust the overall remuneration mix towards an increased proportion of fixed pay aligned to other comparable ASX companies). However, "at-risk" remuneration will continue to represent a significant proportion of an executive's remuneration mix.

6.1 Fixed remuneration

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

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

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

6.2 Short term incentives

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

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

Gateway for short term incentive payments for FY2021

For participants to become eligible to receive a payment under the STI plans in FY2021, there were the following gateways:

- the participant's performance evaluation rating for the year must exceed an acceptable rating for both performance and values, as assessed by the participant's manager or, in the case of the CEO and Managing Director, the Board; and
- the Company's pro forma NPAT (inclusive of payments to be made under the STI plans) must be at least 25% higher than the prior year (this is known as "threshold" growth).

Potential STI payments for FY2021

For FY2021, the CEO and Managing Director and the Chief Financial Officer had the opportunity to earn a maximum short term incentive payment of an amount equal to 60% of their base remuneration. At "threshold" growth, the opportunity was equal to 30% of base remuneration. Where pro forma NPAT growth exceeds "threshold" growth of 25%, the potential STI payment increases on a scale up to 60% of base remuneration. This scaling is to encourage and reward performance in achieving extraordinary NPAT growth.

Performance conditions for FY2021

Having regard to the conditions prevailing in the broader market during FY2020 and at the start of FY2021, including the potential uncertainty that continued to prevail due to the COVID-19 pandemic, the key performance condition for FY2021 related to achievement of the Company's target of growing pro forma NPAT. This was selected to ensure management continued to prioritise the Company's financial strength and its financial performance during anticipated challenging economic and trading conditions due to the COVID-19 pandemic.

Once "threshold" growth has been met (and the other gateways for eligibility have been satisfied), any actual STI payment is based on the extent of the pro forma NPAT growth and the satisfaction of other specific additional performance criteria.

	Minimum potential STI	**Maximum potential STI**	**Potential STI for FY2021**
	If pro forma NPAT growth of 25% is achieved	**If pro forma NPAT growth of 44.6% is achieved**	**Pro forma NPAT growth of 34.8%**
Achievement of pro forma NPAT condition	26.4% of base remuneration becomes payable	47.4% of base remuneration becomes payable	34.7% of base remuneration becomes payable
Achievement of all additional performance criteria (KPIs)	3.6% of base remuneration becomes payable	12.6% of base remuneration becomes payable	7.1% of base remuneration becomes payable
Total STI potential STI payment	30% of base remuneration	60% of base remuneration	41.8% of base remuneration

The pro forma NPAT growth against the prior year was 34.8%. At this level, each participant had the opportunity to receive an STI payment equal to 41.8% of their base remuneration.

Achievement of the full amount was subject to achievement of the additional performance criteria described below:

Disclosed executives	Additional criteria	Comment
Matt Spencer and Darin Hoekman		
KPI #1	Achievement of a Net Promoter Score improvement and a reduction in the Lost Time Injury Frequency Rate	This was achieved as NPS improved above levels achieved in the prior year to be 87 and LTIFR was below the prior year level at less than 10
KPI #2	Improvements in gross margin	Gross margin improvement of 83 basis points was achieved. However, this was below the target level and was therefore not achieved
KPI #3	Implementation of an expanded customer loyalty scheme during FY2021	This was not achieved. Stage 1 of the updated loyalty scheme was introduced during FY2021. Further elements of the scheme are now expected to occur in FY2022
KPI #4	Successful transition to the new National Distribution Centre and Store Support Centre on time and on budget	This was achieved
Matt Spencer (alone)		
KPI #5	NZ operating model determined and plan in place for establishment of New Zealand operations in FY2022	This was achieved
KPI #6	Strategic growth project (not disclosed due to commercial sensitivities)	This was not achieved
Darin Hoekman (alone)		
KPI #5	Progression of property strategy initiatives (not disclosed due to commercial sensitivities)	This was not achieved
KPI #6	Execution of property pipeline activities beyond FY2021 (not disclosed due to commercial sensitivities)	This was achieved

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

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

For the disclosed executives, when assessed against the maximum STI potential payment of 60% of base remuneration, 64% of the maximum STI payment was awarded and 36% of the maximum STI payment was forfeited.

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

6.3 Long term incentives

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

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

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

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

During the 2021 financial year, a single grant was made under the LTI Plan and details of that grant are provided in Section 5.3.1.

Information on grants made in previous years that remain outstanding are also contained in this section. As at 27 June 2021, the number of performance rights outstanding was:

Long Term Incentive Plan grant	EPS Rights	TSR Rights
Performance rights		
FY2020 to FY2023 grant	1,330,000	1,330,000
FY2019 to FY2022 grant	1,155,500	1,155,500
FY2018 to FY2021 grant[1]	1,252,000	1,252,000
Retention rights		
Retention rights (FY2021) grant	564,000[2]	

1. The Board will determine in October 2021 whether the FY2018 to FY2021 grant of EPS Rights and TSR Rights have vested having regard to the compound annual growth rate in EPS and TSR.
2. After the end of the financial year in July 2021, 530,000 retention rights vested and were exercised and 530,000 ordinary shares were issued, with 165,000 to the Chief Financial Officer. As at the date of this report, there are 34,000 outstanding retention rights held by one participant. The relevant three year testing period for these 34,000 remaining rights ends in March 2022.

6.3.1 FY2020 to FY2023 performance rights grant

During the 2021 financial year, the Board made a grant under the Long Term Incentive Plan for the period FY2020 to FY2023. This grant is referred to as the FY2020 to FY2023 grant.

Under this grant, the Board granted 2,660,000 performance rights (in total) to the CEO and Managing Director, the Chief Financial Officer and ten other participating executives. The grant to the CEO and Managing Director was approved by shareholders at the Company's 2020 AGM.

Terms and conditions of the FY2020 to FY2023 performance rights grant

Performance conditions and performance periods	The number of rights that vest will be determined by reference to two performance conditions: • earnings per share (EPS) growth; and • total shareholder return (TSR) growth. Half of the rights granted are subject to the EPS growth performance condition (EPS Rights). The other half of the rights granted are subject to the TSR growth condition (TSR Rights). Both of these conditions are expressed as a compound annual growth rate (CAGR) percentage.	
EPS growth performance condition	The EPS growth performance condition is a measure of the compound annual growth rate in the Company's EPS measured over the relevant performance period. EPS growth will be measured as the annual compound percentage increase in the Company's EPS from a base level of pro forma EPS in FY2020 (being 15.2 cents per share). This base level EPS was calculated by dividing the Company's pro forma NPAT for the financial year ended 28 June 2020 (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 28 June 2020.	
TSR growth performance condition	Broadly, TSR is a measure of the increase in the Company's share price (assuming dividends are reinvested). The TSR growth performance condition is a measure of the compound annual growth of the Company's TSR measured over the relevant performance period with $4.09 used as the base level. (This number was the volume weighted average price of the Company's shares on ASX in the period 1 July 2020 to 30 September 2020). The compound annual growth rate in the Company's TSR is measured at the end of the relevant performance period, having regard to the volume weighted average sale price on ASX of the Company's shares (as determined by the Board) in the period from 1 July to 30 September 2023 (inclusive) or such other period as the Board considers appropriate.	
Performance periods	The performance period ends after the conclusion of FY2023. If a performance right does not vest at the end of this performance period it lapses. There is no retesting.	
Vesting schedule	• 30% of the EPS Rights will vest if the minimum EPS growth hurdle condition of 10% EPS CAGR is achieved; • 100% of the EPS Rights will vest if the EPS growth hurdle of 20% EPS CAGR is achieved; and • if the EPS CAGR is within the range of 10% to 20% EPS CAGR, the number of EPS Rights that will vest will be pro-rated on a straight- line basis for between 30% and 100% of the EPS Rights.	• 30% of the TSR Rights will vest if the minimum TSR growth hurdle condition of 10% TSR CAGR is achieved; • 100% of the TSR Rights will vest if the TSR growth hurdle of 20% TSR CAGR is achieved; and • if the TSR CAGR is within the range of 10% to 20% TSR CAGR, the number of TSR Rights that will vest will be pro-rated on a straight-line basis for between 30% and 100% of the TSR Rights.
Post-vesting disposal restriction	Once the performance right has vested, the participant will have two years in which to exercise the vested right and be provided with a share. To ensure ongoing alignment with shareholders, any shares that are issued to a participant upon vesting and exercise of a right will be subject to a 12 months disposal restriction.	

6.3.2 FY2019 to FY2022 performance rights grant (historical)

During the 2020 financial year, the Board made a grant under the Long Term Incentive Plan for the period FY2019 to FY2022. This grant is referred to as the FY2019 to FY2022 grant.

Under this grant, the Board granted 2,311,000 performance rights (in total) to the CEO and Managing Director, the Chief Financial Officer and six other participating executives. The grant to the CEO and Managing Director was approved by shareholders at the Company's 2019 AGM.

Performance conditions and performance periods	The number of rights that vest will be determined by reference to two performance conditions: • earnings per share (EPS) growth; and • total shareholder return (TSR) growth. Half of the rights granted are subject to the EPS growth performance condition (EPS Rights). The other half of the rights granted are subject to the TSR growth condition (TSR Rights). Both of these conditions are expressed as a compound annual growth rate (CAGR) percentage.
EPS growth performance condition	The EPS growth performance condition is a measure of the compound annual growth rate in the Company's EPS measured over the relevant performance period. EPS growth will be measured as the annual compound percentage increase in the Company's EPS (calculated before the application of AASB 16) from a base level of pro forma EPS in FY2019 (being 12.0 cents per share – calculated before the application of AASB 16). This base level EPS was calculated by dividing the Company's pro forma NPAT for the financial year ended 30 June 2019 (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 30 June 2019.
TSR growth performance condition	Broadly, TSR is a measure of the increase in the Company's share price (assuming dividends are reinvested). The TSR growth performance condition is a measure of the compound annual growth of the Company's TSR measured over the relevant performance period with $2.95 used as the base level. (This number was the volume weighted average price of the Company's shares on ASX in the period 1 July 2019 to 30 September 2019). The compound annual growth rate in the Company's TSR is measured at the end of the relevant performance period, having regard to the volume weighted average sale price on ASX of the Company's shares (as determined by the Board) in the period from 1 July to 30 September 2022 (inclusive) or such other period as the Board considers appropriate.
Performance periods	The performance period ends after the conclusion of FY2022. If a performance right does not vest at the end of this performance period it lapses. There is no retesting.
Vesting schedule	• 30% of the EPS Rights will vest if the minimum EPS growth hurdle condition of 10% EPS CAGR is achieved; • 100% of the EPS Rights will vest if the EPS growth hurdle of 20% EPS CAGR is achieved; and • if the EPS CAGR is within the range of 10% to 20% EPS CAGR, the number of EPS Rights that will vest will be pro-rated on a straight-line basis for between 30% and 100% of the EPS Rights. • 30% of the TSR Rights will vest if the minimum TSR growth hurdle condition of 10% TSR CAGR is achieved; • 100% of the TSR Rights will vest if the TSR growth hurdle of 20% TSR CAGR is achieved; and • if the TSR CAGR is within the range of 10% to 20% TSR CAGR, the number of TSR Rights that will vest will be pro-rated on a straight- line basis for between 30% and 100% of the TSR Rights.
Post-vesting disposal restriction	Once the performance right has vested, the participant will have two years in which to exercise the vested right and be provided with a share. To ensure ongoing alignment with shareholders, half of any shares that are issued to a participant upon vesting and exercise of a right will be subject to a 12 months disposal restriction.

6.3.3 FY2018 to FY2021 performance rights grant (historical)

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

Under this grant, the Board granted 2,704,000 performance rights (in total) to the CEO and Managing Director, the Chief Financial Officer and seven other participating executives (200,000 rights lapsed in a prior year). The grant to the CEO and Managing Director was approved by shareholders at the Company's 2018 AGM.

Terms and conditions of the FY2018 to FY2021 performance rights grant

Performance conditions and performance periods	The number of rights that vest will be determined by reference to two performance conditions: • earnings per share (EPS) growth; and • total shareholder return (TSR) growth. Half of the rights granted are subject to the EPS growth performance condition (EPS Rights). The other half of the rights granted are subject to the TSR growth condition (TSR Rights). Both of these conditions are expressed as a compound annual growth rate (CAGR) percentage.	
EPS growth performance condition	The EPS growth performance condition is a measure of the compound annual growth rate in the Company's EPS measured over the relevant performance period. EPS growth will be measured as the annual compound percentage increase in the Company's EPS (calculated before the application of AASB 16) from a base level of 7.6 cents per share. This base level EPS was calculated by dividing the Company's pro forma NPAT (calculated before the application of AASB 16) for the financial year ended 24 June 2018 (excluding the expense of the LTI Plan recognised in the Company's statutory financial statements and any unusual items) by the number of shares on issue as at 24 June 2018.	
TSR growth performance condition	Broadly, TSR is a measure of the increase in the Company's share price (assuming dividends are reinvested). The TSR growth performance condition is a measure of the compound annual growth of the Company's TSR measured over the relevant performance period with $2.22 used as the base level. (This number was the volume weighted average price of the Company's shares on ASX in the period 1 July 2018 to 30 September 2018). The compound annual growth rate in the Company's TSR is measured at the end of the relevant performance period, having regard to the volume weighted average sale price on ASX of the Company's shares (as determined by the Board) in the period from 1 July to 30 September 2021 (inclusive) or such other period as the Board considers appropriate.	
Performance periods	The performance period ends after the conclusion of FY2021. If a performance right does not vest at the end of this performance period it lapses. There is no retesting.	
Vesting schedule	• 30% of the EPS Rights will vest if the minimum EPS growth hurdle condition of 10% EPS CAGR is achieved; • 100% of the EPS Rights will vest if the EPS growth hurdle of 25% EPS CAGR is achieved; and • if the EPS CAGR is within the range of 10% to 25% EPS CAGR, the number of EPS Rights that will vest will be pro-rated on a straight-line basis for between 30% and 100% of the EPS Rights.	• 30% of the TSR Rights will vest if the minimum TSR growth hurdle condition of 10% TSR CAGR is achieved; • 100% of the TSR Rights will vest if the TSR growth hurdle of 20% TSR CAGR is achieved; and • if the TSR CAGR is within the range of 10% to 20% TSR CAGR, the number of TSR Rights that will vest will be pro-rated on a straight-line basis for between 30% and 100% of the TSR Rights.

LTI outcomes to date under the FY2018 to FY2021 grant

TSR performance rights

The TSR compound annual growth rate for the FY2018 to FY2021 grant TSR rights (being 1,252,000 rights) will be assessed by reference to volume weighted average sale price on ASX of the Company's shares in the period from 1 July 2021 to 30 September 2021. The Board expects to assess whether the TSR CAGR performance condition has been satisfied in October 2021.

EPS performance rights

For the FY2018 to FY2021 grant, the Board has determined that EPS will be determined on the basis of pro forma NPAT for FY2021 and on the basis consistent with that used for reporting of the Company's pro forma NPAT with two exceptions: pro forma NPAT will include the $2.400 million settlement payment received from a vendor of certain digital assets (as other income) as well as the cost of the $2.774 million payment being a cash incentive payment relating to certain EPS rights (see Section 3.4).

The compound annual growth rate in the Company's EPS measured over the period from the end of the 2018 financial year to the end of 2021 financial year was greater than 25%. On this basis, all of the EPS rights in the FY2018 to FY2021 grant, being 1,252,000 rights, are expected to vest and be able to be exercised. A formal decision on vesting will be made by the Board in October 2021 (at the same time as it undertakes its assessment of the TSR rights performance).

6.3.4 FY2016 to FY2020 performance rights grant (historical)

The Company has previously made grants of performance rights under the FY2016 to FY2020 grant. At the end of the 2020 financial year, all EPS rights had lapsed. 1,525,380 TSR rights remained outstanding and were to be assessed against the compound annual growth rate of the Company's total shareholder return measured from a share price of $1.40 at the time of the 2015 IPO, to the end of the 2020 VWAP period (ie 1 July 2020 to 30 September 2020).

Details of the terms of the rights have been disclosed in the 2020 Remuneration Report and prior year reports.

During the 2021 financial year, the final tranche of TSR rights were assessed in October 2020. Having regard to the volume weighted average price of the Company's shares in the final testing period ended 30 September 2020, and dividends paid during the performance period, the compound annual growth rate in total shareholder return was 27.7%. At this level, all of the outstanding TSR Rights vested.

With the vesting of these performance rights, there are no further rights outstanding granted under the FY2016 to FY2020 award.

6.3.5 FY2021 retention rights grant (historical)

During the 2019 financial year, the Board made a one-off grant of retention rights to participating eligible executives, including the Chief Financial Officer. At the end of the financial year, there were 564,000 retention rights granted in total. The Chief Financial Officer received 165,000. The CEO and Managing Director was not granted retention rights.

In July 2021, 530,000 retention rights vested and were exercised and 530,000 ordinary shares were subsequently issued. As at the date of this report, there are 34,000 outstanding retention rights held by one participant. The relevant three year testing period for these 34,000 rights ends in March 2022.

The grant that occurred in FY2019 was a one-off and was made as part of the Board's remuneration strategy to ensure that participating executives continued to have an appropriate incentive to remain with the business under the Company's current remuneration philosophy. It also assisted to ensure stability and that executives remain engaged in the business, in what has been a period with dynamic conditions and challenges and was critical for the execution of the Company's growth strategy.

The terms of the retention rights provide that each right will vest shortly after the conclusion of the 2021 financial year. For vesting to occur:

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

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

6.4 General comments on rights

Calculation of vesting of EPS Rights

In determining whether an EPS growth hurdle has been met, the Board has regard to the number of shares that are to be newly issued upon vesting of the EPS Rights. This has the effect of taking into account any dilution impact at the time of vesting. While reducing the number of EPS Rights that would otherwise vest, the Board considers this approach preferable as it reflects the dilution impact to shareholders arising where new shares are issued.

Having regard to the views of some shareholders, after the end of the 2021 financial year, the Board has adjusted the manner in which it calculates EPS growth for new grants of EPS Rights. The Company has always presented its earnings on a pro forma basis, in addition to on a statutory basis. The Directors consider that pro forma earnings are appropriate as they better represent the underlying financial performance of the business. One of the pro forma adjustments applied to show earnings is the exclusion of the non-cash impact of employee equity incentive expenses. While this expense will be excluded from the Company's presentation of pro forma earnings, it will be included in pro forma earnings used to calculate EPS growth in the context of the Company's Long Term Incentive Plan. The change has been chosen to ensure that the measure of EPS growth used has regard to the full impact of the accounting expense of employee equity incentives. This will ensure that earnings calculations for equity incentive purposes have regard to the accounting expense of those equity incentives. The denominator for EPS calculations will be the weighted average number of ordinary shares during the year.

Malus and clawback

For the FY2020 to FY2023 grant and future grants, the terms of the Long Term Incentive Plan provide for malus to be applied to unvested awards and for clawback provision to be applied for vested awards. This is to ensure that in the event of serious misconduct or the identification of a serious adverse subsequent event, the relevant participant does not inappropriately benefit in those circumstances.

Treatment on cessation of employment

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

Treatment on change of control

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

Other conditions

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

Participants will also be entitled to receive an allocation of additional shares as an adjustment for bonus issues.

6.5 General Employee Share Plan

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

The GES Plan provides for grants of shares to eligible employees of the Company up to a value determined by the Board. At the end of the financial year, more than 50% of the Company's employees were shareholders of the Company (an increase from 47% in the prior year), the vast majority of whom acquired their shares because of the GES Plan.

During the financial year, the Company made its sixth offer under this plan and issued 165,221 shares to 801 eligible employees who each received approximately $1,000 worth of Baby Bunting shares for no monetary consideration.

Eligible employees are generally those full-time or part-time employees (or long term casual employees) who have been employed for approximately 12 months before the date of the offer. Directors, including the CEO and Managing Director, are not eligible to participate in this plan.

To illustrate the benefits provided to participating team members under the GES Plan, an employee who has participated in each of the six share offers under the GES Plan (since 2015) has received 2,382 Baby Bunting shares. This represents around $13,640 worth of value (using the share price at the end of the financial year and including the dividends that have been paid on those shares).

Details of the six employee share plan offers are below:

	Value of shares offered	Number of shares provided
First employee gift offer (October 2015)	$1,000	714
Second employee gift offer (September 2016)	$1,000	334
Third employee gift offer (October 2017)	$1,000	546
Fourth employee gift offer (October 2018)	$750	297
Fifth employee gift offer (October 2019)	$1,000	284
Sixth employee gift offer (October 2020)	$1,000	207
Aggregate value (including dividends)	**$13,640**	**2,382**

Note: value of shares determined using the volume weighted average share price at the time of the offer and, in the case of the total amount, using the share price on 25 June 2021. Cumulative dividends of $730 have been paid on the Gift Shares over the relevant period.

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

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

7. Non-executive Directors

Remuneration Policy

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

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

Non-executive Directors' fees

Similar to executive remuneration, the Committee undertakes reviews of Non-executive Director remuneration to ensure it is market competitive. A review was undertaken by the Committee in November 2018 with fees last adjusted on 1 January 2019. No changes have been since that time to Non-executive Director remuneration.

The current per annum fees (inclusive of superannuation contributions provided by the Company) are set out below:

Role	Non-executive Director fees $
Chairman	135,000
Non-executive Director	80,000
Chairman of a Board Committee	15,000
Member of a Board Committee	7,500

For the financial year ended 27 June 2021, the fees paid and superannuation contributions to all Non-executive Directors were approximately $515,000 in aggregate.

8. Details of remuneration for Non-executive Directors and Disclosed Executives

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

		Short term employee benefits			Post-employment benefits	Long term benefits	Share-based payment[2]				
	Year	Salary & fees[1] $	STI and other fees $	Non-monetary benefits $	Super-annuation $	Long service leave $	LTI Plan rights[3]	Employee share plan[4]	Long term incentive cash payment[5] $	Total[6] $	Performance related %
Non-executive Directors											
Ian Cornell	2021	130,137	–	–	12,363	–	–	–	–	142,500	–
	2020	130,137	–	–	12,363	–	–	–	–	142,500	–
Gary Levin	2021	86,758	–	–	8,242	–	–	–	–	95,000	–
	2020	86,758	–	–	8,242	–	–	–	–	95,000	–
Melanie Wilson	2021	93,607	–	–	8,893	–	–	–	–	102,500	–
	2020	93,607	–	–	8,893	–	–	–	–	102,500	–
Donna Player	2021	79,909	–	–	7,591	–	–	–	–	87,500	–
	2020	79,909	–	–	7,591	–	–	–	–	87,500	–
Gary Kent	2021	79,909	–	–	7,591	–	–	–	–	87,500	–
	2020	79,909	–	–	7,591	–	–	–	–	87,500	–
Disclosed executives											
Matt Spencer	2021	560,060	214,610	10,546	21,694	12,543	917,889	–	1,033,325	2,770,667	78.2%
	2020	536,386	–	10,458	21,003	14,645	445,664	–	–	1,028,156	43.3%
Darin Hoekman	2021	389,981	150,840	7,500	21,694	14,280	733,799	999	411,909	1,731,002	74.9%
	2020	363,395	–	7,500	21,003	15,576	312,650	999	–	721,123	43.4%
TOTAL	**2021**	**1,420,361**	**365,450**	**18,046**	**88,068**	**26,823**	**1,651,688**	**999**	**1,445,234**	**5,016,669**	
	2020	**1,370,101**	**–**	**17,958**	**86,686**	**30,221**	**758,314**	**999**	**–**	**2,264,279**	

Notes are on the following page.

1. Amount includes the value of annual leave accrued during the financial year and salary sacrifice arrangements.
2. The value of Share-based payments has been calculated in accordance with applicable accounting standards.
3. The value of the LTI plan rights included as remuneration in the table is an accounting value and represents the aggregate of amounts determined for both market based and non-market based performance hurdles.
4. The Company issued 165,221 shares under its General Employee Share Plan in the current reporting period with no monetary consideration payable by participating eligible employees who each received approximately $1,000 worth of shares. In the prior reporting period, the Company issued 185,134 shares under its General Employee Share Plan with no monetary consideration payment by participating eligible employees who each received approximately $1,000 worth of shares.
5. The cash incentive payment related to long term incentives for the period FY2016 to FY2020, as described in Section 3.4.
6. There were no termination benefits paid or payable during the current financial year.

9. 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.

	Balance at start of the year	Change	Balance at the end of the year
Non-executive Directors			
Ian Cornell	900,000	(300,000)	600,000
Gary Levin	200,000	(50,000)	150,000
Melanie Wilson	20,000	–	20,000
Donna Player	36,000	–	36,000
Gary Kent	20,000	–	20,000

	Balance at start of the year	Received upon vesting of performance rights	Received upon issue of Gift Shares	Sale of Shares	Balance at the end of the year
Disclosed executives					
Matt Spencer	1,365,970	517,019	–	(650,000)	1,232,989
Darin Hoekman	215,390	218,052	207	(431,377)	2,272

Darin Hoekman holds an additional 165,000 shares which were received after the end of the year following the vesting of 165,000 retention rights in July 2021.

Performance rights granted to disclosed executives

Disclosed executives	Balance at start of the year	Number of rights granted as compensation during the year	Fair value per right at grant date	Value of rights granted during the year	Number of rights exercised during the year	Value of the rights exercised during the year	Number of rights lapsed during the year	Number of rights held at end of year (all unvested)
Matt Spencer								
FY2016 to FY2020 rights	517,019	–	–	–	517,019	$1,033,325	–	–
FY2018 to FY2021 rights	600,000	–	–	–	–	–	–	600,000
FY2019 to FY2022 rights	533,000	–	–	–	–	–	–	533,000
FY2020 to FY2023 rights[1]	–	480,000	$3.43	$1,644,000	–	–	–	480,000
Darin Hoekman								
FY2016 to FY2020 rights	218,052	–	–	–	218,052	$459,310	–	–
Retention rights (FY2021)	165,000	–	–	–	–	–	–	165,000[2]
FY2018 to FY2021 rights	400,000	–	–	–	–	–	–	400,000
FY2019 to FY2022 rights	374,500	–	–	–	–	–	–	374,500
FY2020 to FY2023 rights[1]	–	350,000	$3.43	$1,198,750	–	–	–	350,000

Notes:

1. In respect of the FY2020 to FY2023 rights, Matt Spencer was granted performance rights pursuant to shareholder approval granted at the 2020 AGM on 6 October 2020. During the year, Darin Hoekman was granted the rights detailed above on 24 December 2020.
2. Darin Hoekman's retention rights vested in July 2021 after the end of the 2021 financial year.

Details of the performance conditions and performance periods for those rights are set out in Section 6.3 (Long term incentive plan) above.

Options

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

10. Employment contracts

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

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

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

11. Other KMP disclosures

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

There are no loans to key management personnel.

This is the end of the Remuneration Report.

Auditor's independence declaration

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

As lead auditor for the audit of Baby Bunting Group Limited for the financial year ended 27 June 2021, I declare to the best of my knowledge and belief, there have been:

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

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

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

Ernst & Young

Tony Morse
Partner
13 August 2021

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Financial report

for the year ended 27 June 2021

Contents

Consolidated statement of profit or loss and other comprehensive income

for the year ended 27 June 2021

	Note	2021 $'000	2020 $'000
Revenue	3	468,377	405,173
Cost of sales		(294,711)	(258,313)
Gross profit		**173,666**	**146,860**
Other operating income	4	2,466	7
Store expenses	5	(90,520)	(81,437)
Marketing expenses		(7,044)	(6,594)
Warehousing expenses	5	(6,552)	(5,367)
Administrative expenses	5	(35,535)	(22,823)
Project expenses	5	(7,574)	(3,988)
Impairment of Assets	5	–	(5,825)
Finance expenses	5	(5,650)	(5,756)
Profit before tax		**23,257**	**15,077**
Income tax expense	6	(5,725)	(5,091)
Profit after tax		**17,532**	**9,986**
Other comprehensive income for the year			–
Total comprehensive income for the year		**17,532**	**9,986**
Profit for the year attributable to:			
Equity holders of Baby Bunting Group Limited		17,532	9,986
Earnings per share			
From continuing operations			
Basic (cents per share)	29(a)	13.6	7.8
Diluted (cents per share)	29(b)	13.0	7.3

Notes to the consolidated financial statements are included in pages 71 to 101.

Consolidated statement of financial position

as at 27 June 2021

	Note	27 Jun 2021 $'000	28 Jun 2020 $'000
Current Assets			
Cash and cash equivalents	26(b)	10,884	13,337
Other receivables	7	5,865	5,122
Inventories	8	79,987	65,094
Current tax assets		1,056	–
Other assets	9	3,019	2,516
Total Current Assets		**100,811**	**86,069**
Non-Current Assets			
Plant and equipment	10	27,229	22,482
Intangibles	11	4,430	3,690
Goodwill	11	45,321	45,321
Right-of-use asset	12	112,058	93,504
Deferred tax assets	13	11,568	7,195
Total Non-Current Assets		**200,606**	**172,192**
Total Assets		**301,417**	**258,261**
Current Liabilities			
Trade and other payables	14	48,812	49,950
Other liabilities	15	3,112	1,957
Current tax liabilities		–	1,305
Lease liability	12	25,521	24,895
Provisions	17	5,804	5,137
Total Current Liabilities		**83,249**	**83,244**
Non-Current Liabilities			
Borrowings	16	9,950	–
Lease liability	12	99,768	81,083
Provisions	17	691	565
Total Non-Current Liabilities		**110,409**	**81,648**
Total Liabilities		**193,658**	**164,892**
Net Assets		**107,759**	**93,369**
Equity			
Issued capital	18	87,153	86,358
Reserves	22	13,149	4,380
Retained earnings	20	7,457	2,631
Total Equity		**107,759**	**93,369**

Notes to the consolidated financial statements are included in pages 71 to 101.

Consolidated statement of changes in equity

for the year ended 27 June 2021

	Issued Capital $'000	Share-based Payments Reserve $'000	Share-based Payments Tax Reserve $'000	Retained Earnings $'000	Total Equity $'000
Balance at 30 June 2019	85,706	2,515	–	4,323	92,544
Profit for the period	–	–	–	9,986	9,986
Other comprehensive income	–	–	–	–	–
Total comprehensive income for the period	–	–	–	9,986	9,986
Issue of shares (Note 18)	652	–	–	–	652
Dividends (Note 19)	–	–	–	(11,678)	(11,678)
Share-based payment expense (Note 22)	–	1,865	–	–	1,865
Balance at 28 June 2020	**86,358**	**4,380**	**–**	**2,631**	**93,369**
Balance at 28 June 2020	86,358	4,380	–	2,631	93,369
Profit for the period	–	–	–	17,532	17,532
Other comprehensive income	–	–	–	–	–
Total comprehensive income for the period	–	–	–	17,532	17,532
Issue of shares (Note 18)	795	–	–	–	795
Dividends (Note 19)	–	–	–	(15,661)	(15,661)
Share-based payment expense (Note 22)	–	4,574	–	–	4,574
Tax effect of share-based payment (Note 22)	–	–	7,150	–	7,150
Transfer to retained earnings (Note 22)	–	–	(2,955)	2,955	–
Balance at 27 June 2021	**87,153**	**8,954**	**4,195**	**7,457**	**107,759**

Notes to the consolidated financial statements are included in pages 71 to 101.

Consolidated statement of cash flows

for the year ended 27 June 2021

	Note	2021 $'000	2020 $'000
Cash flows from operating activities			
Receipts from customers		515,670	445,104
Payments to suppliers and employees		(467,999)	(382,462)
Income tax paid		(5,307)	(7,187)
Interest received		–	7
Finance costs paid		(5,448)	(5,615)
Net cash from operating activities	26(a)	**36,916**	**49,847**
Cash flows from investing activities			
Payments for plant and equipment	10	(10,816)	(5,457)
Payments for intangibles	11	(1,291)	(2,859)
Net cash used in investing activities		**(12,107)**	**(8,316)**
Cash flows from financing activities			
Dividends paid	19	(15,661)	(11,678)
Net borrowings/(repayments)		9,950	(3,133)
Payments of principal portion of lease liability		(21,551)	(19,224)
Net cash used in financing activities		**(27,262)**	**(34,035)**
Net (decrease)/increase in cash and cash equivalents		**(2,453)**	**7,496**
Cash and cash equivalents at beginning of the period		13,337	5,841
Cash and cash equivalents at end of the period	26(b)	**10,884**	**13,337**

Notes to the consolidated financial statements are included in pages 71 to 101.

Notes to the consolidated financial statements

for the year ended 27 June 2021

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 153 National Drive, Dandenong South, Victoria 3175, Australia.

The consolidated financial statements of the Company as at and for the year ended 27 June 2021 comprise the Company and its subsidiaries (together referred to as the "consolidated entity"). The consolidated entity is primarily involved in the retailing of baby merchandise.

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

The Company has adopted a 52 week retail calendar for financial reporting purposes which ended 27 June 2021. The prior year was a 52 week retail calendar ending on 28 June 2020.

Note 2: Summary of significant accounting policies

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

a. Statement of compliance

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

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

The financial statements were authorised for issue by the directors on 13 August 2021.

b. Basis of Preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for certain financial assets measured at fair value, 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 value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the consolidated entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

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

c. Critical accounting judgements and key sources of estimation uncertainty

In the application of the consolidated entity's accounting policies, the Company is 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.

Note 2: Summary of significant accounting policies (cont.)

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

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

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

Impairment of goodwill

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

Forecasted sales growth of existing stores	3.0% for comparable store growth over a 5 year period (2020: 3.0%)
Terminal sales growth rate	3.0% (2020: 3.0%)
Forecasted gross margin	Average gross margin achieved in the period immediately before the forecast period
Forecasted retail store expenses	Forecast increases correlate to the consumer price indices. The values assigned to the key assumption are consistent with external sources of information
Pre-tax weighted average cost of capital	12.05% (2020: 12.05%)

The pre-tax weighted average cost of capital (WACC) calculated for the current period includes consideration of lease liabilities as part of the capital structure when determining debt/equity assumptions in the WACC.

Goodwill is allocated to Baby Bunting Group Limited, as a group of cash generating units for the purpose of impairment testing.

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

Lease term of contracts with renewal options and incremental borrowing rate for leases

Refer to Note 2(y) for significant judgements required for lease term of contracts with renewal options and determining the incremental borrowing rate for leases.

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 in 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. Fair value measurement

The Company measures financial instruments such as derivatives at fair value at each balance sheet date.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefit by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statement are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosure, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

f. Business combinations

Business combinations are accounted for using the purchase acquisition 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.

g. Income tax

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

Note 2: Summary of significant accounting policies (cont.)

Nature of tax funding arrangements and tax sharing agreements

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

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

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the year

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

Deferred tax is recognised on share-based payments for the tax deduction that will be available to the Company on vesting of the LTI share-based payment plan. The deferred tax is measured based on the share price at reporting date. The income tax benefit is recognised through income tax expense up to the amount relating to the cumulative share-based payment expense. Any tax benefit in excess of the amount relating to the cumulative share-based payment expense is recognised in the share-based payment tax reserve within equity. Refer to Note 22.

h. 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 being valued on a weighted average cost formula basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale. Volume rebates are recognised as a reduction in the cost of inventory and are recorded as a reduction in the cost of goods sold when the inventory is sold. Supplier promotional and marketing rebates that arise upon sale of inventory have been brought to account as a direct deduction in costs of goods sold.

i. 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

j. Intangibles – computer software

Intangible assets with finite lives that are acquired separately or internally generated are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Class of intangible asset	Useful Life
Computer software	5 years

k. 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.

l. 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.

m. Revenue from contracts with customers

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

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

Rights of return

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

Contract assets

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

Note 2: Summary of significant accounting policies (cont.)

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract. The Company sells gift cards which can be redeemed instore or online. When gift cards are sold, the Company considers the likelihood of their redemption. The portion of the gift cards for which redemption is unlikely is known as “breakage”. The Company estimates breakage based on redemption history and expiry dates of the gift cards. Breakage is recognised as revenue in proportion to the customers’ redemption pattern. Gift cards not yet redeemed by the customers are recorded as contract liability,

The Company offers loyalty vouchers upon customers joining the loyalty program, which can be redeemed in store or online. When the loyalty vouchers are issued, the Company estimates the “breakage” rate based on redemption history and expiry dates of the loyalty vouchers. The Company records the contract liability based on the breakage rate for unspent and unexpired vouchers. Refer to Note 15.

n. 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.

o. Goodwill

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

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

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

p. Financial assets

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

Financial assets are classified as follows depending on the nature and purpose of the financial assets and are determined at the time of initial recognition. The most applicable category for the Company is amortised cost and fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

The Company measures financial assets at amortised cost if both of the following conditions are met:

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

The Company’s financial assets at amortised cost includes trade and other receivables and cash and cash equivalents.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Derecognition

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

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

q. Trade payables

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

r. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

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

Warranties

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

s. Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

Derecognition

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

Note 2: Summary of significant accounting policies (cont.)

t. Borrowing costs

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

u. Borrowings

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

v. Share-based payment arrangements

Employees (including senior executives) of the Company receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 22.

The cost is recognised employee benefits expense, together with a corresponding increase in equity (share-based payment reserve), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market condition, the transactions are treated as vested irrespective of whether the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 29).

w. Comparative amounts

The comparative figures are for the period 1 July 2019 to 28 June 2020. Where appropriate, comparative information has been reformatted to allow comparison with current year information.

x. Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment for non-financial assets other than goodwill, the Company bases its impairment calculation on most recent budgets and projection calculations, which are prepared separately for each of the Company's individual assets.

y. Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract coveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and lease of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right-of-use the underlying assets.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Property 5 to 12 years
- Motor vehicles and material handling equipment 1 to 6 years

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section (w) Impairment of non-financial assets

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of material handling equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Significant judgement is required in determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised.

The Company has the option, under some of its leases, to lease the assets for additional terms of mostly five year options. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (i.e. a change in business strategy).

Significant judgement in determining the incremental borrowing rate for each lease

The Company calculates the incremental borrowing rate for each lease determined using inputs including the Company's three-year multi option facility lending margin (adjusted for tenure) and the government bond rate applicable at the time of entering into the lease if the interest rate implicit in the lease is not readily determinable.

z. Capital management

For the purpose of the Company's capital management, capital includes issued capital, borrowings and all other equity reserve attributable to the equity holder of the parent. The primary objective of the Company's capital management is to maximise the shareholder value.

The Company manages its capital structure and make adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company's has a dividend payout ratio of approximately 70% of full year pro forma NPAT.

Note 2: Summary of significant accounting policies (cont.)

aa. Changes in accounting policies and disclosures

New and amended standards and interpretations

The following new and amended Australian Accounting Standards and AASB interpretations apply for the first time during the reporting period ended 27 June 2021. The impact of these new standards and amendments were not material to the consolidated financial statements of the Company.

Reference	Title	Application
AASB 2018-6	*Amendments to AASs — Definition of a Business*	29 June 2020
AASB 2019-3	*Amendments to Australian Accounting Standards (AASs) — Interest Rate Benchmark Reform [Phase 1]*	29 June 2020
AASB 2018-7	*Amendments to AASs — Definition of Material*	29 June 2020
AASB 2019-1	*Amendments to AASs — References to the Conceptual Framework*	29 June 2020
AASB 2020-4	*Amendments to AASs — Covid—19 Related Rent Concessions*	29 June 2020

Other Australian accounting standards and interpretations that have been recently been issued or amended but are not yet effective have not been adopted by the consolidated entity for the reporting period ended 27 June 2021.

IFRS Interpretations Committee agenda decision

Configuration or Customisation Costs in a Cloud Computing Arrangement

In April 2021, the IFRS Interpretations Committee (IFRIC) published an agenda decision for configuration and customisation costs incurred related to implementing Software as a Service (SaaS) arrangements. The Company is currently assessing the impact of the agenda decision on its current accounting policy, which may result in previously capitalised costs needing to be recognised as an expense.

The process to quantify the impact of the decision is ongoing, due to the effort required in obtaining the underlying information from historical records. This process covers multiple projects and assesses the nature of each of the costs.

At the date of this report, the impact of the IFRIC agenda decision on the Company is not reasonably estimable as the project is currently being undertaken. The impact of adopting the change in accounting policy will be finalised during the 2022 financial year.

Note 3: Revenue from contracts with customers

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

	2021 $'000	2020 $'000
Revenue from contracts with customers	468,377	405,173

Note 4: Other operating income

Interest income	–	7
Other income	2,400	–
Gain on derivative instruments at fair value through profit or loss	66	–
	2,466	7

The Company received a cash settlement payment ($2.400 million) from the vendor of certain digital commerce technology assets that were impaired in FY20 following a dispute in relation to the performance of those assets.

The Company entered into foreign exchange forward contracts during the financial year for inventory purchases that settled in foreign currency. The Company measures the derivative instrument at fair value through profit or loss and recorded a gain of $0.066 million.

Note 5: Profit for the year

	2021 $'000	2020 $'000
Profit before income tax expense includes the following expenses:		
Interest and finance charges paid/payable		
Interest on lease liabilities	4,729	4,947
Interest on borrowings	921	809
Depreciation and amortisation	6,594	5,307
Depreciation on right-of-use assets	22,308	19,986
Employee benefits expense	84,038	67,498

Depreciation and amortisation

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

For the year ended 27 June 2021	As reported $'000	Depreciation and amortisation on PPE and Intangibles $'000	Depreciation on Right-of-use Asset $'000	Excluding Depreciation and Amortisation $'000
Store expenses	(90,520)	4,819	21,059	(64,642)
Warehousing expenses	(6,552)	163	964	(5,425)
Administrative expenses	(35,535)	896	95	(34,544)
Project expenses	(7,574)	716	190	(6,668)
Total	**(140,181)**	**6,594**	**22,308**	**(111,279)**
For the year ended 28 June 2020				
Store expenses	(81,437)	4,462	18,926	(58,049)
Warehousing expenses	(5,367)	186	870	(4,311)
Administrative expenses	(22,823)	659	190	(21,974)
Project expenses	(3,988)	—	—	(3,988)
Total	**(113,615)**	**5,307**	**19,986**	**(88,322)**

Project expenses include the following:

	2021 $'000	2020 $'000
Project related expenses[i, ii, iii]	7,574	3,988

i. The Company is currently undertaking a process of assessment and when necessary, replacement of its core information technology systems. During the year, the Company incurred ($2.889 million) non-capital costs associated with the implementation of a new online store, merchandise demand planning and replenishment system, order fulfilment systems, Loyalty system, People systems and assessment of digital technology assets.

ii. The Company incurred $2.536 million in relation to the setup of the new National Distribution Centre including $1.265 million for the accelerated depreciation and make good of the former Distribution Centre.

iii. Other transformation project expenses ($2.149 million) include external consultant costs associated with project management ($1.375 million) to deliver the transformation project. The non-capital cost of external consultants are associated with running the selection and planning for the integration of the new systems are significant and not related to operations or financial performance of the business on the day-to-day basis. They cease at project completion.

Note 5: Profit for the year (cont.)

	2021 $'000	2020 $'000
Impairment of Assets includes the following:		
Digital asset writedown[i]	–	3,215
Branding asset writedown[ii]	–	2,610
Total impairment	**–**	**5,825**

i. In FY20, an impairment provision of $3.215 million had been taken up against capitalised costs of its existing digital assets as the Company planned to move from a monolithic digital architecture structure to a headless digital architecture structure. This was primarily to address performance issues and ensure future opportunities with regard to our various digital opportunities are optimised.

ii. In FY20, the Company introduced its new corporate branding which reflects a fresh and modern way of communicating with the Company's customers across all channels. The Company incurred a non-cash expense of $2.610 million to write down the value of its old corporate branding.

Note 6: Income tax

	2021 $'000	2020 $'000
Current tax in respect of the current year	5,493	5,286
Current tax in respect of the prior year	410	–
Deferred tax	(178)	(195)
Total tax expense	**5,725**	**5,091**

In addition, $4.195 million (2020: nil) was recognised in share-based payment tax reserves for income tax benefits in excess of amounts relating to the cumulative share-based payment expense recognised in profit or loss.

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

Profit before tax from continuing operations	23,257	15,077
Income tax expense calculated at 30% (2020: 30%)	(6,977)	(4,523)
Non-deductible expenditure	(25)	(627)
Over/under from prior year	410	59
Share-based payments	867	–
Income tax expense recognised in profit or loss	(5,725)	(5,091)

The tax rate used for financial year 2021 and 2020 in the above reconciliation is the corporate tax rate of 30% payable by large Australian corporate entities on taxable profits under Australian tax law.

Note 7: Other receivables

	2021 $'000	2020 $'000
Current		
Trade receivables	219	200
Other receivables	5,646	4,922
	5,865	5,122

There are no material receivables past due date. The receivables are expected to be settled within 30-90 days, subject to the terms of the relevant agreement.

Note 8: Inventory

	2021 $'000	2020 $'000
Finished goods	80,961	65,766
Less: Provision for shrinkage, obsolescence and mark-down	(974)	(672)
	79,987	65,094

The cost of inventories recognised as an expense during the current reporting period in respect of continuing operations was $294.711 million (2020: $258.313 million). During the financial year, $0.302 million expense was recognised for inventories carried at net realisable value (2020: $0.380 million credit). This is recognised in cost of sales.

Note 9: Other assets

	2021 $'000	2020 $'000
Prepayments	2,385	1,929
Right of return	634	587
	3,019	2,516

Note 10: Plant and equipment

Cost	Leasehold improvements $'000	Plant and equipment $'000	Total $'000
Balance at 28 June 2020	**7,182**	**43,270**	**50,452**
Additions	4	10,812	10,816
Disposals	(800)	(3,166)	(3,966)
Balance at 27 June 2021	**6,386**	**50,916**	**57,302**
Accumulated depreciation			
Balance at 28 June 2020	**(4,186)**	**(23,784)**	**(27,970)**
Depreciation	(816)	(5,227)	(6,043)
Disposals	800	3,140	3,940
Balance at 27 June 2021	**(4,202)**	**(25,871)**	**(30,073)**
Carrying amount as at 27 June 2021	**2,184**	**25,045**	**27,229**

Cost	Leasehold improvements $'000	Plant and equipment $'000	Total $'000
Balance at 30 June 2019	**7,307**	**42,166**	**49,473**
Additions	2	5,455	5,457
Disposals	(127)	(4,351)	(4,478)
Balance at 28 June 2020	**7,182**	**43,270**	**50,452**
Accumulated depreciation			
Balance at 30 June 2019	**(3,620)**	**(21,401)**	**(25,021)**
Depreciation	(627)	(4,190)	(4,817)
Disposals	61	1,807	1,868
Balance at 28 June 2020	**(4,186)**	**(23,784)**	**(27,970)**
Carrying amount as at 28 June 2020	**2,996**	**19,486**	**22,482**

Note 11: Intangible assets and goodwill

Cost	Goodwill $'000	Intangibles $'000
Balance at 28 June 2020	**45,321**	**5,816**
Additions	–	1,291
Disposals	–	(7)
Balance at 27 June 2021	**45,321**	**7,100**
Amortisation and impairment losses		
Balance at 28 June 2020	**–**	**(2,126)**
Amortisation	–	(551)
Disposals		7
Balance at 27 June 2021	**–**	**(2,670)**
Carrying amount as at 27 June 2021	**45,321**	**4,430**

Cost	Goodwill $'000	Intangibles $'000
Balance at 30 June 2019	**45,321**	**6,172**
Additions	–	2,859
Impairment write-down	–	(3,215)
Balance at 28 June 2020	**45,321**	**5,816**
Amortisation and impairment losses		
Balance at 30 June 2019	**–**	**(1,637)**
Amortisation	–	(489)
Balance at 28 June 2020	**–**	**(2,126)**
Carrying amount as at 28 June 2020	**45,321**	**3,690**

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

Note 12: Leases

The Company has lease contracts for various items of property, motor vehicles and material handling equipment used in its operations. Leases of buildings generally have lease terms between 5 and 12 years, while motor vehicles and material handling equipment generally have lease terms between 1 and 6 years. The Company's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Company is restricted from assigning and subleasing the leased assets.

There are several lease contracts that include extension options and variable lease payments. Relevant factors the Company considers in determining the likelihood to exercise a lease renewal, to the point of reasonable certainty, include the Company's overall property strategy, the importance of the leased asset to the Company, the existence of renewal options and their pricing, whether the market is a new market or an existing market, the costs of returning the leased asset in a contractually specified condition and the existence of alternate sites within the relevant catchment and the associated costs of a relocation, and any broader trends generally shaping the retail industry. The Company's lease portfolio contains option periods averaging around 5 years that are not considered reasonably certain options to be exercised. However, these options provide the Company flexibility in managing the leased asset portfolio. The present value of the lease payments to be made under options considered reasonably certain to be exercised has been included in the lease liability balance as at 27 June 2021.

Note 12: Leases (cont.)

The Company has several lease contracts that include extension options. These options are negotiated to provide flexibility in managing the leased-asset portfolio and align with the Company's business needs. The undiscounted potential future payments at current rental rates under options that are not considered reasonably certain to be exercised is $264.325 million, which includes potential lease payments within the next five years of $30.845 million should those options be exercised.

The Company also has certain leases of material handling equipment with lease terms of 12 months or less and leases of office equipment that are low in value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below, are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use Asset			
	Property $'000	Motor Vehicles $'000	Material Handling equipment $'000	TOTAL $'000
As at 30 June 2019	**94,154**	**—**	**1,520**	**95,674**
Additions	16,183	311	433	16,927
Remeasurements[1]	889	–	–	889
Depreciation expense	(19,294)	(141)	(551)	(19,986)
As at 28 June 2020	**91,932**	**170**	**1,402**	**93,504**
Additions	37,611	210	1,433	39,254
Remeasurements[1]	1,584	–	24	1,608
Depreciation expense	(21,581)	(149)	(578)	(22,308)
As at 27 June 2021	**109,546**	**231**	**2,281**	**112,058**

1. Remeasurements of right-of-use assets primarily represents lease extensions of stores.

Lease Liabilities	2021 $'000	2020 $'000
Opening balance	**105,978**	**107,489**
Additions	39,254	16,927
Accretion of interest	4,729	4,947
Remeasurements[1]	1,608	786
Payments	(26,280)	(24,171)
Closing balance	**125,289**	**105,978**
Current	25,521	24,895
Non-current	99,768	81,083
Total lease liabilities	**125,289**	**105,978**

1. Remeasurements of lease liabilities primarily represents lease extensions of stores.

The maturity analyses of lease liabilities are disclosed in Note 25 Financial Instruments.

The following are the amounts recognised in profit and loss:

	2021 $'000	2020 $'000
Depreciation expense of right-of-use asset	22,308	19,986
Interest expense on lease liabilities	4,729	4,947
Rent expenses — short-term leases	51	7
Rent expenses — leases of low-value assets (included in stores, administration and warehouse)	584	286
Rent expenses — variable lease payments	2,814	2,711
Total	**30,486**	**27,937**

The Company had total cash outflows for leases of $29.729 million in 2021 ($27.175 million in 2020). The Company also had non-cash additions to right-of-use assets and lease liabilities of $39.254 million in 2021 ($16.927 million in 2020).

Note 13: Deferred tax assets

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

	2021 $'000	2020 $'000
Deferred tax assets	11,568	7,195

2021 – Consolidated $'000	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Employee benefits	**1,711**	239	—	**1,950**
Non-deductible accruals	**144**	21	—	**165**
Non-refundable layby income	**834**	129	—	**963**
Inventories	**353**	(131)	—	**222**
Gift vouchers	**314**	306	—	**620**
Right of return	**97**	26	—	**123**
Right-of-use asset	**(28,051)**	(5,566)	—	**(33,617)**
Lease liability	**31,793**	5,795	—	**37,588**
Property, plant and equipment	**—**	(2,890)	—	**(2,890)**
Share-based payments	**—**	2,249	4,195	**6,444**
Total	**7,195**	**178**	**4,195**	**11,568**

Note 13: Deferred tax assets (cont.)

2020 – Consolidated $'000	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Employee benefits	**1,362**	349	–	**1,711**
Non-deductible accruals	**535**	(391)	–	**144**
Non-refundable layby income	**707**	127	–	**834**
Inventories	**495**	(142)	–	**353**
Gift vouchers	**350**	(36)	–	**314**
IPO transaction costs — listing	**112**	(112)	–	**—**
IPO transaction costs — issuance of new shares	**105**	(105)	–	**—**
Right of return	**—**	97	–	**97**
Right-of-use asset	**(28,848)**	797	–	**(28,051)**
Lease liability	**32,182**	(389)	–	**31,793**
Total	**7,000**	**195**	**–**	**7,195**

Note 14: Payables

	2021 $'000	2020 $'000
Current		
Trade payables	30,195	36,110
Sundry payables	18,617	13,840
	48,812	**49,950**

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 30-day terms.
- Sundry payable includes $6.113 million (2020: $5.699 million) of deposit and instalment payments received by the Company in relation to layby sales taken out by customers.
- Sundry payables are non-interest bearing and have an average term of three months.
- For explanations on the Company's liquidity risk management processes, refer to Note 25(b).

Note 15: Other liabilities

	2021 $'000	2020 $'000
Unredeemed gift cards	2,068	1,048
Refund liability	1,044	909
	3,112	**1,957**

The unredeemed gift cards are expected to be redeemed within three years. Loyalty vouchers are expected to be redeemed within 30 days.

Note 16: Loans and borrowings

	2021 $'000	2020 $'000
Non-current – Secured		
Bank loan	9,950	–

The ongoing funding requirements of the consolidated entity are provided by the National Australia Bank ("NAB"). The secured multi option facility matures on 31 July 2022. On 23 July 2020, this facility was increased from $58,000,000 to $78,000,000. Security consists of a Deed of Charge over the assets of Baby Bunting Pty Ltd. The Company is a guarantor to the facility.

The total facility limit at balance date was $78,000,000, consisting of $70,000,000 Corporate Market Loan ('CML') facility and $8,000,000 bank guarantee facility. The CML facility can be drawn to the lesser of $70,000,000 or 2.25 times the last 12 months historical rolling EBITDA. Interest on the facility is charged at a variable rate.

The consolidated entity was in compliance with the facility agreement at 27 June 2021. The current facility does not require the consolidated entity to amortise borrowings.

Note 17: Provisions

	2021 $'000	2020 $'000
Current		
Employee benefits	5,804	5,137
Non-current		
Employee benefits	691	565

Note 18: Issued capital

	27 June 2021		28 June 2020	
	No. of shares	$'000	No. of shares	$'000
Fully paid ordinary shares				
Balance at beginning of the year	127,564,474	86,358	126,441,237	85,706
Issue of shares:				
– Employee Gift Offer	165,221	795	185,134	652
– LTI vesting	1,525,380	–	938,103	–
Balance at end of the year	129,255,075	87,153	127,564,474	86,358

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

Note 19: Dividends

	2021		2020	
	$ per ordinary share	$'000	$ per ordinary share	$'000
Recognised amounts				
Final 2020 dividend	0.064	8,164	0.051	6,448
Interim 2021 dividend	0.058	7,497	0.041	5,230

On 14 August 2020, the Directors determined to pay a fully franked final dividend of 6.4 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 28 June 2020. The dividend was subsequently paid to shareholders on 11 September 2020 totalling $8.164 million.

On 12 February 2021, the Directors determined to pay an interim fully franked dividend of 5.8 cents per share to the holders of fully paid ordinary shares in respect of the half-year ended 27 December 2020. The dividend was subsequently paid to shareholders on 12 March 2021 totalling $7.497 million.

On 13 August 2021, the Directors determined to pay a fully franked final dividend of 8.3 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 27 June 2021, to be paid to shareholders on 10 September 2021. The dividend has not been included as a liability in these consolidated financial statements. The record date for determining entitlements to the dividend is 27 August 2021. The total estimated dividend to be paid is $10.772 million.

	Company	
	2021 $'000	2020 $'000
Adjusted franking account balance	7,757	9,162
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	–	1,305
Franking debits that will arise from the payment of income tax receivable as at the end of the financial year	(1,056)	–
Franking debits that will arise from the payment of final dividend in respect of the financial year	(4,597)	(3,499)

There are no income tax consequence attached to the payment of dividends in either 2021 or 2020 by the Company to its shareholders.

Note 20: Retained earnings

	2021 $'000	2020 $'000
Retained earnings		
Balance at beginning of year	2,631	4,323
Profit attributable to owners of the Company	17,532	9,986
Payment of dividends	(15,661)	(11,678)
Share-based payments[i]	2,955	–
Balance at end of year	**7,457**	**2,631**

i. In FY21, 1,525,380 performance rights vested under the Company's Long Term Incentive Plan (market value of $7.339 million). This vesting resulted in an income tax benefit of $0.266 million and an increase to the share-based payment tax reserve of $2.955 million. The vested portion of $2.955 million was transferred to retained earnings.

Note 21: Segment information

Management has determined the operating segments based on the reports reviewed by the CEO and Managing Director (the chief operating decision maker as defined under AASB 8) that are used to make strategic and operating decisions. The CEO and Managing Director considers the business primarily from a geographic perspective. During the year, the Company commenced sales of products online to New Zealand customers. New Zealand online sales is reported as part of Australia segment. On this basis, management has identified one reportable segment, Australia.

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

	Australia		Total	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Revenue	468,377	405,173	468,377	405,173
Operating EBIT	34,611	23,456	34,611	23,456
Total segment assets	301,417	258,261	301,417	258,261
Additions to plant and equipment and intangibles	12,107	8,316	12,107	8,316
Depreciation and amortisation	28,902	25,293	28,902	25,293
Total non-current assets[1]	189,038	164,997	189,038	164,997
Total segment liabilities	193,658	164,892	193,658	164,892

1. Non-current assets exclude deferred tax assets.

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current reporting period (2020: 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 measurement basis excludes the effects of interest revenue, other operating income, finance costs, income tax and employee equity expenses.

Operating EBIT

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

	2021 $'000	2020 $'000
Operating EBIT	**34,611**	**23,456**
Interest revenue	–	7
Other operating income	2,466	–
Finance expenses	(5,650)	(5,756)
Employee equity expenses	(8,170)	(2,630)
Profit before tax	**23,257**	**15,077**

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:

	2021 $'000	2020 $'000
Total segment assets	301,417	258,261
Total segment liabilities	193,658	164,892

Note 22: Reserves

a. Share-based payments

	2021 $'000	2020 $'000
Share-based payments reserve		
Balance at beginning of period	4,380	2,515
Performance rights – expense (Note 22(b))	4,574	1,865
Balance at end of period	**8,954**	**4,380**

b. Performance rights

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

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

Fair value of performance rights granted

The weighted average fair value of the performance rights TSR component granted during the reporting period under the LTI Plan is $2.18 (2020: $1.67). 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
2020 (TSR CAGR)	25 October 2019	$1.67	nil	(1)
2020 (EPS CAGR)	25 October 2019	$3.79	nil	(1)
2021 (TSR CAGR)	24 December 2020	$2.18	nil	(1)
2021 (EPS CAGR)	24 December 2020	$4.67	nil	(1)

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

	2021 (TSR CAGR)	2020 (TSR CAGR)
Grant date share price	$4.67	$3.79
Exercise price	nil	nil
Expected volatility	52%	55%
Expected life (years)	2.8	2.6
Dividend yield	3.22%	2.21%
Risk-free interest rate	0.15%	1.35%

Movements in performance rights during the year

The consolidated entity recorded a Share-based payments expense for performance rights of $4.574 million (2020: $1.865 million) disclosed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income under "Administrative expenses".

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

	52 weeks ended 27 June 2021			52 weeks ended 28 June 2020		
	TSR Number of rights	EPS Number of rights	Retention Number of rights	TSR Number of rights	EPS Number of rights	Retention Number of rights
Balance at beginning of the period	**3,932,880**	**2,407,500**	**564,000**	**3,942,223**	**4,219,334**	**614,000**
Granted during the period	1,330,000	1,330,000	–	1,155,500	1,155,500	–
Forfeited during the period	–	–	–	(226,740)	(257,000)	(50,000)
Exercised during the period	(1,525,380)	–	–	(938,103)	–	–
Lapsed during the period	–	–	–	–	(2,710,334)	–
Balance at end of period	**3,737,500**	**3,737,500**	**564,000**	**3,932,880**	**2,407,500**	**564,000**
Exercisable at end of period	**–**	**–**	**–**	**–**	**–**	**–**

c. General Employee Share Plan ("GESP")

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

During the reporting period, the Board issued a total of 165,221 shares (2020: 185,134 shares) in the Employee Gift Offer with no monetary consideration payable by participating eligible employees. Shares issued are subject to a disposal restriction in accordance with current Australian tax legislation. The fair value of $0.795 million (2020: $0.652 million) was fully expensed at the time of granting, as there are no performance or service conditions.

d. Share-based payments tax reserve

	27 Jun 2021 $'000	28 Jun 2020 $'000
Share-based payments tax reserve		
Balance at beginning of period	–	–
Tax effect of share-based payments[1]	7,150	–
Transfer to retained earnings[2]	(2,955)	
Balance at end of period	**4,195**	**–**

1. $7.150 million represents income tax benefit recognised in share-based payment tax reserve that is in excess of amounts relating to the cumulative share-based payment expense recognised in profit or loss.
2. In FY21, 1,525,380 performance rights vested under the Company's Long Term Incentive Plan (market value of $7.339 million). The balance transferred to retained earnings represents the income tax benefit recorded in the reserves associated with share-based payments that vested in the current period.

Note 23: Related party transactions

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

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

a. Loans to and from key management personnel and directors

As at the end of the current reporting period, no loans were outstanding to or from key management personnel or directors of the consolidated entity (2020: nil).

b. Key management personnel compensation

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

	2021 $	2020 $
Short-term employment benefits	1,803,857	1,388,059
Post-employment benefits	88,068	86,686
Other long-term benefits	26,823	30,221
Share-based payments	1,652,687	759,313
Cash incentive payment	1,445,234	–
	5,016,669	**2,264,279**

Note 24: Commitments for expenditure

Capital commitments

The consolidated entity has capital commitments totalling nil (2020: nil).

Note 25: Financial instruments – fair values and risk management

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

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

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

	2021 $'000	2020 $'000
Financial assets		
Cash and cash equivalents	10,884	13,337
Other receivables	5,865	5,122
Derivative assets	66	–
	16,815	**18,459**
Financial liabilities		
Trade and other payables	48,812	44,251
Other liabilities	1,044	909
Borrowings	9,950	–
Lease liability	125,289	105,978
	185,095	**151,138**

a. Market risk

i. Foreign exchange risk management

The majority of the consolidated entity's operations are transacted in the functional currency, AUD of the group and are therefore exposure to foreign exchange risk is limited to around 10% of goods which are purchased in a foreign currency.

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a foreign currency).

The Company uses foreign exchange forward contracts to manage its exposure to foreign currency transactions. The foreign exchange forward contracts are not designated as cash flow hedge and are entered into for periods consistent with foreign currency exposure of the underlying transaction, generally up to 3 months. Although the derivatives have not been designated in a hedge relationship, they act as an economic hedge and will offset the underlying transactions when they occur.

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

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

ii. Cash flow and fair value interest rate risk

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

iii. Summarised sensitivity analysis

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

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

	Interest rate risk		
		–50bps	+50 bps
At 28 June 2020	**Carrying amount $'000**	**Profit $'000**	**Profit $'000**
Financial liabilities			
Borrowings – CML Facility	–	–	–
Total increase/(decrease)	**–**	**–**	**–**

	Interest rate risk		
		–50bps	+50 bps
At 27 June 2021	**Carrying amount $'000**	**Profit $'000**	**Profit $'000**
Financial liabilities			
Borrowings – CML Facility	9,950	50	(50)
Total increase/(decrease)	**9,950**	**50**	**(50)**

Note 25: Financial instruments – fair values and risk management (cont.)

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:

	2021		2020	
	Limit $'000	Utilised $'000	Limit $'000	Utilised $'000
CML Facility	70,000	9,950	50,000	–
Bank Guarantee Facility	8,000	3,471	8,000	3,729
Total Facility	**78,000**	**13,421**	**58,000**	**3,729**

Maturities of financial assets and financial liabilities

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

	Maturity						Weighted average effective interest rate %
At 27 June 2021	Less than 6 months $'000	6-12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total	
Financial assets							
Cash and cash equivalents	10,884	–	–	–	–	10,884	–
Other receivables	5,865	–	–	–	–	5,865	–
Derivative assets	66	–	–	–	–	66	–
	16,815	**–**	**–**	**–**	**–**	**16,815**	
Financial liabilities							
Trade and other payables	48,812	–	–	–	–	48,812	–
Other liabilities	1,044	–	–	–	–	1,044	–
Lease liability	14,063	12,238	43,106	36,585	40,758	146,750	–
Borrowings – CML facility	–	–	9,950	–	–	9,950	1.58%
	63,919	**12,238**	**53,056**	**36,585**	**40,758**	**206,556**	

At 28 June 2020	Maturity Less than 6 months $'000	6–12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total	Weighted average effective interest rate %
Financial assets							
Cash and cash equivalents	13,337	–	–	–	–	13,337	0.23%
Other receivables	5,122	–	–	–	–	5,122	–
Derivative assets	–	–	–	–	–	–	–
	18,459	**–**	**–**	**–**	**–**	**18,459**	
Financial liabilities							
Trade and other payables	44,251	–	–	–	–	44,251	–
Other liabilities	909	–	–	–	–	909	–
Lease liability	12,567	12,387	21,168	33,804	42,200	122,126	–
Borrowings – CML facility	–	–	–	–	–	–	2.75%
	57,727	**12,387**	**21,168**	**33,804**	**42,200**	**167,286**	

c. Credit risk management

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

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

d . Fair value of financial instruments

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

Note 26: Notes to the statement of cash flows

a. Reconciliation of profit for the year to net cash flows from ordinary activities

	2021 $'000	2020 $'000
Profit after income tax	17,532	9,986
Non-cash expenses and other adjustments:		
Depreciation and amortisation	28,902	25,293
Share-based payments	5,396	2,630
Digital asset writedown	–	3,215
Branding asset writedown	–	2,610
Changes in assets and liabilities:		
Decrease/(Increase) in other receivables	(743)	(1,026)
Decrease/(Increase) in other assets	(503)	(1,005)
Decrease/(Increase) in inventories	(14,893)	3,110
Decrease/(Increase) in deferred tax assets	(178)	(195)
Increase/(Decrease) in trade and other payables	(1,094)	5,461
Increase/(Decrease) in provisions	793	1,161
Increase/(Decrease) in income tax assets/liability	549	(1,423)
Increase/(Decrease) in other financial liabilities	1,155	30
Net cash provided by operating activities	**36,916**	**49,847**

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:

	2021 $'000	2020 $'000
Cash on hand	79	73
Cash at bank	10,805	13,264
	10,884	**13,337**

Note 27: Parent entity disclosures

As at, and throughout, the 52 weeks ended 27 June 2021 the parent entity of the consolidated entity was Baby Bunting Group Limited.

	Parent Entity	
Result of parent entity:	**2021 $'000**	**2020 $'000**
Profit for the year	14,487	9,900
Other comprehensive income	–	–
Total comprehensive income for the year	**14,487**	**9,900**
Financial position of parent entity at year end:		
Current assets	–	–
Non-current assets	98,485	96,704
Total assets	**98,485**	**96,704**
Current liabilities	1,304	1,304
Non-current liabilities	–	–
Total liabilities	**1,304**	**1,304**
Total equity of the parent entity comprising of:		
Issued capital	86,357	86,357
Reserves	–	451
Retained earnings	10,824	8,592
Total equity	**97,181**	**95,400**

The Company does not have any contractual commitments for the acquisition of property, plant and equipment (28 June 2020: nil). The Company does not have any contingent liabilities (28 June 2020: nil).

Note 28: Group entities

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

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

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

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

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

Note 28: Group entities (cont.)

Subsidiaries listing

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Company	
			June 2021	June 2020
Baby Bunting Pty Ltd[1]	Retailing of baby merchandise	Australia	100%	100%
Baby Bunting EST Pty Ltd[2]	Trustee of the trust established in connection with the Company's employee share plans	Australia	100%	100%

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

Note 29: Earnings per share

	2021 cents per share	2020 cents per share
Basic earnings per share from continuing operations[1]	13.6	7.8
Diluted earnings per share from continuing operations[1]	13.0	7.3

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

a. Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to members of the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

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

	2021 $'000	2020 $'000
Earnings used in the calculation of basic earnings per share from continuing operations[1]	17,532	9,986
	Number	**Number**
Weighted average number of ordinary shares for the purposes of basic earnings per share	128,708,525	127,244,428

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

b. Diluted earnings per share

Diluted earnings per share is calculated by dividing the profit attributable to members of the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	2021 $'000	2020 $'000
Earnings used in the calculation of diluted earnings per share from continuing operations[1]	17,532	9,986

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

	Number	Number
Weighted average number of ordinary shares for the purposes of diluted earnings per share[2]	134,896,637	135,922,008

1. In the current and comparative reporting periods there were no discontinued operations.
2. The weighted average number of shares takes into account the weighted average effect of performance rights exercised and granted during the year.

Note 30: Remuneration of auditors

	2021 $	2020 $
Assurance Services		
Review of the financial report for the half-year	38,350	30,500
Audit of the year-end financial report	135,050	136,800
	173,400	167,300
Tax and Consulting Services		
Taxation services	18,950	34,524
Remuneration advisory services	7,674	38,831
	26,624	73,355
Total remuneration	**200,024**	**240,655**

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

Note 31: Events after balance sheet date

Dividends on the Company's ordinary shares

A final dividend of 8.3 cents per fully paid ordinary shares has been determined for the year ended 27 June 2021 – refer Note 19.

There have been no events subsequent to the date of this report which would have a material effect on the financial report of the consolidated entity at 27 June 2021.

Directors' declaration

The Directors declare that:

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

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

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

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

In the Directors' opinion, there are reasonable grounds to believe that the Company and its subsidiary which have entered into the Deed of Cross Guarantee, as detailed in Note 28 to the financial statements will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

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

On behalf of the Directors

Ian Cornell

Ian Cornell
Chairman

13 August 2021

Independent auditor's report

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Baby Bunting Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 27 June 2021, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

(a) giving a true and fair view of the consolidated financial position of the Group as at 27 June 2021 and of its consolidated financial performance for the year ended on that date; and

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

Basis for Opinion

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

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

Key Audit Matters

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

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

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Accounting for supplier rebates

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

Carrying value of inventories

Why significant	How our audit addressed the key audit matter
As at 27 June 2021, the Group held $79.9 million in inventories representing 27%of total assets of the Group. As detailed in Note 2(h) of the financial report, inventories are valued at the lower of cost and net realisable value. The cost of inventory is determined using a weighted average cost approach adjusted for volume rebates and settlements discounts.	Our audit procedures included the following: ▶ Assessed the design and operating effectiveness of relevant controls used by the Group to record the cost of inventories and tested the cost price of inventory recorded for a sample of inventory items to supplier invoices. ▶ Assessed the basis for inventory provisions recorded by the Group for slow moving inventories and stock losses. In doing so, we examined the Group's process for identifying slow moving inventories, negative margin, historical stock loss rate trends and expected costs to sell.

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Why significant	How our audit addressed the key audit matter
Judgement was required to be exercised by the Group to determine the net realisable value for items which may be ultimately sold below cost. These judgements include consideration of expectations for future sales based on historical experience. Given the process and judgement involved in determining the cost and carrying value of inventories, this was considered a key audit matter.	► Considered the impact of sales subsequent to year end on the value of inventories at balance date by comparing the actual selling prices to the carrying value for a sample of inventories.

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

The directors are responsible for the other information. The other information comprises the information included in the Company's 2021 Annual Report, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

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Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

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

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

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

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

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

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 46 to 64 of the directors' report for the year ended 27 June 2021.

In our opinion, the Remuneration Report of Baby Bunting Group Limited for the year ended 27 June 2021, complies with section 300A of the Corporations Act 2001.

Responsibilities

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

Ernst & Young

Tony Morse
Partner

Melbourne
13 August 2021

Shareholder information

as at 9 July 2021

Baby Bunting Group Limited has one class of shares on issue (being fully paid ordinary shares). There are 129,255,075 shares on issue. All of the Company's shares are listed on the Australian Securities Exchange. There is no current on-market buy-back.

Twenty Largest Shareholders

	Name	Number of shares	% of shares
1	Citicorp Nominees Pty Limited	32,030,042	24.78
2	J P Morgan Nominees Australia Pty Limited	31,979,622	24.74
3	HSBC Custody Nominees (Australia) Limited	13,429,428	10.39
4	National Nominees Limited	12,724,314	9.84
5	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	3,137,077	2.43
6	BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd <DRP>	1,107,637	0.86
7	Matthew Spencer	1,099,859	0.85
8	BNP Paribas Noms Pty Ltd <DRP>	981,533	0.76
9	Fiddian Teal Nominees Pty Ltd <Fiddian Teal Family A/C>	974,439	0.75
10	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	780,000	0.60
11	Brispot Nominees Pty Ltd <House Head Nominee A/C>	730,887	0.57
12	Mr Graeme John Haines + Mrs Sharni Gay Haines + Mr Malcom Arnold Haines <G & S Haines S/F A/C>	671,264	0.52
13	Coolum Oak Pty Ltd <The Cornell Super Fund A/C>	600,000	0.46
14	Fergus & Co Pty Ltd <Fergus Investment A/C>	488,974	0.38
15	Highmont Heights Pty Ltd <Saunders Super Fund A/C>	400,000	0.31
16	Oakleytower Pty Limited	358,781	0.28
17	Nadia Pane	353,962	0.27
18	BNP Paribas Nominees Pty Ltd <IOOF Invmt Mngt Ltd DRP>	300,000	0.23
19	Australian Executor Trustees Limited <No 1 Account>	296,664	0.23
20	Rebecca Ruby Kathleen Saunders	260,000	0.20
	Total	**102,704,483**	**79.45**

Unmarketable parcels

There were 312 holdings of less than a marketable parcel (less than $500 in value or less than 92 shares) based on the closing market price of $5.44 per share at 9 July 2021.

Distribution of Shareholders and Shareholdings

Range	Total holders	% of total holders	Number of shares	% of shares
1 – 1,000	2,978	45.6	1,285,924	0.99
1,001 – 5,000	2,430	37.3	6,327,929	4.90
5,001 – 10,000	639	9.8	4,710,265	3.64
10,001 – 100,000	428	6.6	9,827,411	7.60
100,001 and over	47	0.7	107,103,546	82.86
Total	**6,522**	**100.0**	**129,255,075**	**100.0**

Substantial shareholders

As at 9 July 2021, the substantial holders (as disclosed in substantial holdings notices given to the Company) are:

Name	Date of most recent notice	Number of shares	Relevant interest
AustralianSuper Pty Ltd	29 Oct 2020	14,864,395	11.50%
Bennelong Funds Management Group Pty Ltd	18 Feb 2021	12,004,367	9.29%
Commonwealth Bank of Australia	22 Feb 2021	7,668,373	5.93%
First Sentier Investors Pty Limited	7 June 2021	6,463,303	5.00%

Voting rights of ordinary shares

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

Performance rights

The Company has unquoted performance rights on issue. As at 9 July 2021, there were 13 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

153 National Drive
Dandenong South VIC 3175

(03) 8795 8100

Directors

Ian Cornell

Gary Kent

Gary Levin

Donna Player

Matt Spencer

Melanie Wilson

Company Secretary

Corey Lewis

Group Legal Counsel and Company Secretary

Investor Relations

Darin Hoekman

Chief Financial Officer
(03) 8795 8100

Shareholder Enquiries

Share Registry

Computershare Investor Services Pty Ltd
GRP Box 2975
Melbourne VIC 3001

1800 850 505 (within Australia)

+61 3 9415 4000 (outside Australia)

Auditor

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

Securities Exchange Listing

Baby Bunting Group Limited shares are listed on the Australian Securities Exchange (ASX)

(ASX code: BBN)

Investor website

babybunting.com.au/investor

Online store

babybunting.com.au

BabyBunting