

australian**ethical**

ANNUAL REPORT TO SHAREHOLDERS

Year ended 30 June 2010



australian**ethical**[®] 
investment + superannuation

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Charter

The Company will order its affairs so as to provide for and to support:

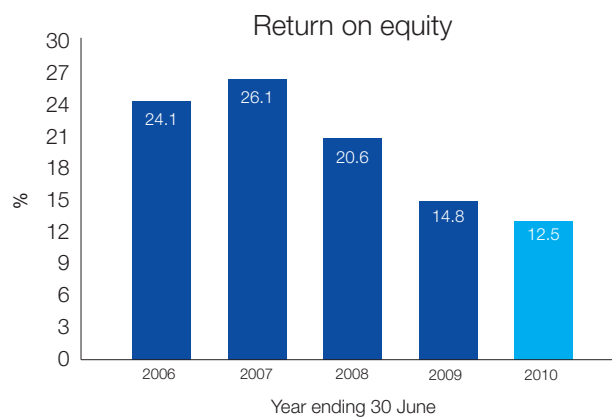
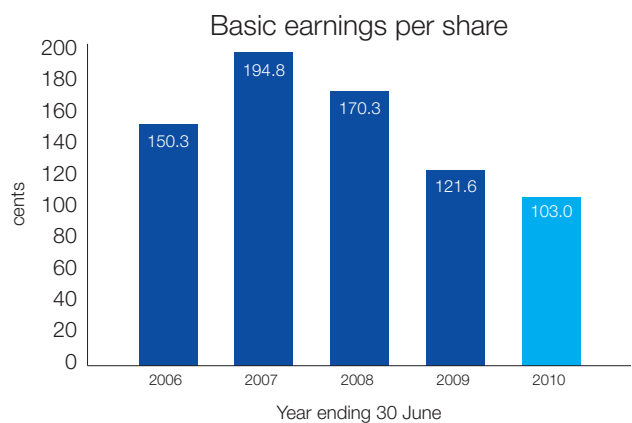
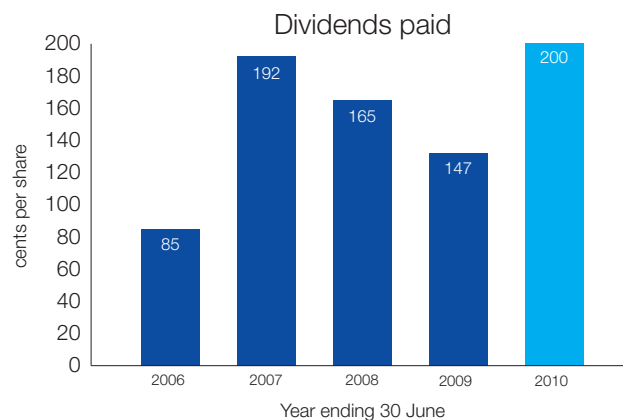
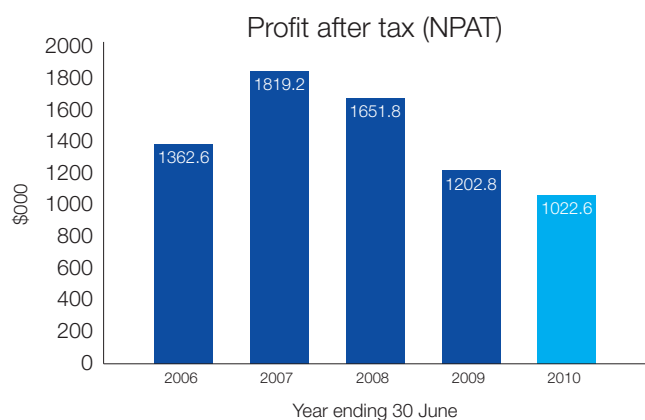
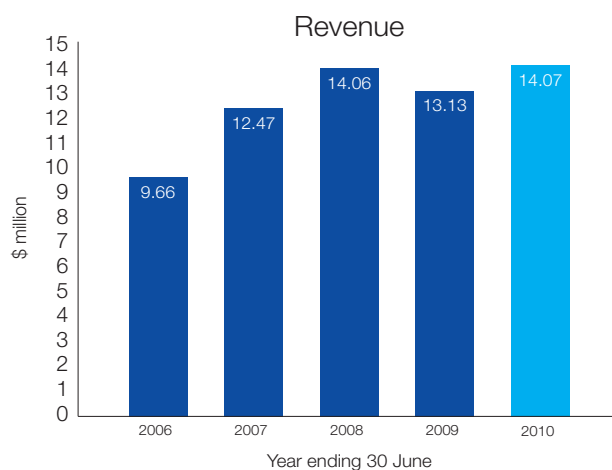
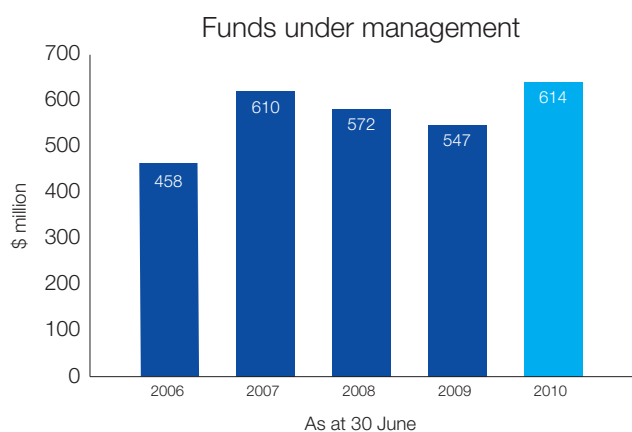
- a. the development of workers' participation in the ownership and control of their work organisations and places
- b. the production of high quality and properly presented products and services
- c. the development of locally based ventures
- d. the development of appropriate technological systems
- e. the amelioration of wasteful or polluting practices
- f. the development of sustainable land use and food production
- g. the preservation of endangered eco-systems
- h. activities which contribute to human happiness, dignity and education
- i. the dignity and well being of non-human animals
- j. the efficient use of human waste
- k. the alleviation of poverty in all its forms
- l. the development and preservation of appropriate human buildings and landscape

The Company will also order its affairs so as to avoid activity which is considered to unnecessarily:

- i. pollute land, air or water
- ii. destroy or waste non-recurring resources
- iii. extract, create, produce, manufacture, or market materials, products, goods or services which have a harmful effect on humans, non-human animals or the environment
- iv. market, promote or advertise, products or services in a misleading or deceitful manner
- v. create markets by the promotion or advertising of unwanted products or services
- vi. acquire land or commodities primarily for the purpose of speculative gain
- vii. create, encourage or perpetuate militarism or engage in the manufacture of armaments
- viii. entice people into financial over-commitment
- ix. exploit people through the payment of low wages or the provision of poor working conditions
- x. discriminate by way of race, religion or sex in employment, marketing, or advertising practices
- xi. contribute to the inhibition of human rights generally

Financial summary to 30 June 2010

as at	30 June 2010	30 June 2009	30 June 2008	30 June 2007
Current assets (\$'000)	6,303	6,369	6,362	5,174
Non-current assets (\$'000)	4,797	4,686	4,790	4,879
Current liabilities (\$'000)	2,946	2,519	2,658	2,293
Non-current liabilities (\$'000)	98	83	113	76
Net assets (\$'000)	8,056	8,453	8,381	7,684



Chair and Managing Director's report



Naomi Edwards - Chair

Dear Shareholder

The year under review has been characterised by an improved but still volatile operating environment in world markets and the finalisation of a number of regulatory reviews into financial services which will lead to quite a changed landscape.

Financial results and dividends

Our net profit after tax was \$1,022,555 down by 15% from the previous year. However, after taking into account some one-off adjustments (explained in detail in the annual accounts) our underlying net profit increased by 51%. Funds under management were \$613.8 million, an increase of 12% over the previous year.

The directors declared a total dividend of \$2.00 for the year, an increase of 36% over the previous year. This comprised an interim dividend of \$0.50 plus a final standard dividend of \$0.50. A special dividend of \$1.00 was declared after taking into account the capital needs of the business and other factors.

A detailed explanation of the results is available in the full company annual report on our website.

Community grants

The company's constitution requires 10% of operating profit (after notional tax) be provisioned for charitable and conservation purposes. In 2010 grants of \$124,941 will be made. This sees our total contribution over the years of our community grants surpass \$1 million. We are proud of this important milestone in our commitment to the community.



Phillip Vernon - Managing Director

Operating environment

Our revenues are reliant on the state of the share markets. Over the past year the market has risen from a low in March 2009 to reach a high in March 2010. This has had a positive impact on our revenues and has led to our underlying profits increasing significantly compared to the previous year. However, the volatile state of the markets over the past few years have caused many investors to avoid share market investments altogether.

Performance of our funds

Our investment funds have continued to perform well over the longer-term. Our Smaller Companies Trust achieved 4.9% in the past year compared to 10.3% achieved by its benchmark (the S&P/ASX Small Industrials); however over three years it outperformed by 14.4% (its return was negative 3.7% compared to negative 18.1% for the benchmark).

The nature of our investment style is such that our funds are less volatile than the market as a whole and will tend not to fall as far when the market is going down, but also will not necessarily perform as well when the market goes up. We remain confident that our investment processes developed over more than 22 years will continue to provide competitive long-term investment performance to our clients.

In September 2009 our Smaller Companies Trust was upgraded by Lonsec (one of the leading managed funds rating agencies) from *Investment Grade* to *Recommended*. This confirmed the steady progress we are making in strengthening our investment processes and performance.

Product development

During the year we made some changes to our product suite to better reflect the needs of our clients.

Climate Advocacy Fund

The new Climate Advocacy Fund broadens our product range with a fund structured to engage with companies and put resolutions at annual general meetings. The fund aims to encourage better climate performance, especially around carbon disclosure. As an index fund, it is also an alternative to the active management of our existing product range.

Global Smart Energy

We also re-positioned our International Equities Trust with the theme global**smart**energy. The International Equities Trust now targets investment in companies involved in global sustainable energy supply and demand. This dual focus on both the supply and demand side of energy use will allow it to benefit from the opportunities presented in combating and managing the impact of climate change.

Property Trust

The Property Trust was launched in response to demand from investors looking for an opportunity to invest in sustainable property and an alternative to the volatility of the share market. The fund's foundation investment is the 64 Allara Street commercial building in the Canberra central business district.

Superannuation options

We have restructured our superannuation options to make the choices for members simpler and more aligned with offerings in the market. Two new options were introduced - the Conservative and the Climate Advocacy.

Other initiatives

Improved client service

We have strong loyalty amongst our clients and a strong affinity with our network of advisers who support us. Our clients and advisers expect more from us than a purely transactional experience. During the year we embarked on a program to significantly improve our capacity to provide a better service experience.

New portfolio management system

A project to replace our existing portfolio management system is scheduled for completion by the end of this calendar year and is aimed at reducing risk while improving efficiency and functionality.

Outlook, strategy and focus

The investment market outlook continues to be extremely uncertain. However, we believe that our investment style offers our investors consistent returns over the long-term with less volatility than the broader investment market. We have a firm belief that our style 'suits the times.'

Within the socially responsible investment sector, we have a strong reputation and brand built on our pioneering heritage and strong conviction to selecting ethical investments. As mainstream organisations increasingly compete with us in this sector, for our clients we continue to stand apart in commitment to sustainable investment.

Our key areas of focus over the coming year are:

- investment in and continued improvement of our client service experience to encourage our clients to remain with us over the full cycle of their investing life
- a continued focus of marketing effort on the retail direct channel in which we have a distinct point of difference amongst our core client base, and to increase the number of default employers contributing to our super fund
- a continued development of our relationship with, and products for, the adviser market to take advantage of opportunities where advisers are repositioning their businesses to respond to increasing demand for true-to-label responsible investments.

We thank all of our shareholders for your continued support and look forward to the coming year with strong focus and optimism.



Naomi Edwards
Chair



Phillip Vernon
Managing Director

Results overview

Key points:

- Net profit after tax (NPAT) was \$1.0 million (15% lower than the previous financial year)
- Funds under management were \$613.8 million (before distribution) at 30 June 2010 (an increase of 12.1% over the previous year)
- Revenues were \$14.1 million (an increase of 7.1% over the previous year)
- Expenses were \$12.5 million (an increase of 10.2% over the previous year)

- Return on equity with reference to NPAT (RoE) for the year is 12.5% (down from 14.8% for 2008-09).

The result should be read in light of the following one-off events during the year that impacted the results, namely:

- Senior staff departure expenses of \$482,000; and
- Adjustments in respect of fee errors related to the prior year but adjusted in the current year of \$261,000.

After taking these items into account, the result is an increase in underlying NPAT of 51% with an RoE of 18.9%. These results are summarised in the table below.

	2009	2010	Change
Funds under management	\$547.4 million	\$613.8 million	12%
	\$000	\$000	
Revenue	13,131	14,068	7%
Expenses	(10,639)	(11,661)	(10%)
Operating profit	2,493	2,407	(3%)
Community grants	(141)	(125)	11%
EBITDA	2,352	2,282	(3%)
Depreciation/amortisation/options/rights	(529)	(676)	(28%)
Tax	(620)	(583)	6%
Net profit after tax	1,203	1,023	(15%)
Underlying profit			
Adjustments (gross)			
–Fee revenue error	(261)	261	
–Add back senior staff departure cost	–	482	
Tax on adjustments	78	(223)	
Net underlying profit after tax	1,020	1,543	51%

Dividend payment

The Board has adopted a dividend payment policy that will target a dividend payout ratio of between 80% and 100% of net profit after tax in a given year subject to the capital requirements of the business.

The Board has determined that a final dividend of \$0.50 per share be declared resulting in a full year dividend of \$1.00 per share. In addition, following a review of the balance sheet, the future capital requirements of the business and other issues, the Board has determined that a special dividend of \$1.00 per share is appropriate and therefore declared.

In declaring this special dividend the Board considered:

- regulatory requirements;
- internal operational and strategic requirements;
- franking account balance and value to the shareholder;

- timing considerations including historical issues affecting the balance sheet such as the purchase of Trevor Pearcey House, the global financial crises and the maturity of the business; and
- the strong positive cash flow position of the company.

The dividend reinvestment plan (DRP) will not operate in respect of these payments.

A summary of dividend payments related to the past two years is as follows:

	2009	2010	Change
Interim (cents per share)	15	50	
Final (cents per share)	132	50	
Special (cents per share)	-	100	
Total (cents per share)	147	200	36%
Dividend paid (\$m)	1.5	2.0	36%
% of net profit after tax	120%	197%	65%

Comments on financial results

- Underlying net profit after tax improved to similar levels achieved prior to the onset of the global financial crisis. This is reflective of the partial recovery of global markets from a very low base reached in March 2009 to higher, yet still volatile, levels (our revenues are primarily based on funds under management and therefore sensitive to movements in the market as a whole).
- Funds under management increased by \$66.4 million up by 12.1% over the previous year. Approximately \$29.5 million of this increase was due to net inflows for the year whilst \$36.9 million was due to market movements and other factors.
- Our net inflows were achieved in the context of a difficult market environment in which many investors were cautious and were either not investing or were withdrawing their investment from managed funds.
- Revenues increased by \$1.0 million representing an increase of 7% over the previous year. A significant impact on revenue for the year were fee errors related to the prior year but adjusted in the current year amounting to \$261,000. After adjusting current and prior year revenue numbers for these errors, revenue growth was 11%, roughly in-line with the growth in funds under management. Revenue margins reduced slightly due to fee discounting on entry fees due to industry trends and an increasing proportion of our business coming from the lower revenue margin wholesale market.
- Operating expenses increased by \$1.0 million, an increase of 10% over the previous year. Expenses were significantly impacted by costs associated with the departure of senior staff during the year amounting to \$482,000. After taking this item into account operating expense growth is 5.1% over the previous year.
- After adjusting for the one-off costs associated with senior staff leaving, employment costs increased by 7%. A significant part of this increase is attributable to non cash share-based payments expense associated with the introduction of the new employee share ownership plan aligning packages with industry norms.
- Superannuation administration costs increased by 8%. This reflects a 5% increase in average member numbers, and increased per member administration charges under the contract. The administration charges were increased from 1 April 2010 and reflect CPI increases.
- Other increases in expenses reflect increased investment in information technology to more efficiently perform our investment management and client service functions. Increased spending in sales and marketing, consulting fees and product development have also impacted on the result.

- Receivables are higher than the prior year with the balance relating predominantly to receivables from the managed investment schemes (concerning management fees and reimbursable expenses). This year also includes a receivable from the managed investment schemes related to the implementation costs of the new portfolio administration platform. A significant portion of the receivables balance has been paid in July 2010.

Other comments on the year under review

- During the year Ms Anne O'Donnell stepped down from her role as Chief Executive Officer (CEO) of the company. Ms O'Donnell had been with Australian Ethical for nine years and through that time had both grown the company and positioned it well for the next stage of its growth. Following a comprehensive recruitment process the board was pleased to announce the appointment of Mr Phillip Vernon as the new CEO. Mr Vernon has 25 years experience in financial services covering funds management, capital markets and superannuation.
- Our Chief Investment Officer (CIO), Martin Halloran resigned in May 2010 to take up a senior role in the Australian Public Service. He was replaced by James Jordan, previously our Head of Research. As a result of these changes and subsequent management restructuring, some of our funds were placed on *Fund Watch* or *Hold* pending a review of the changes. The rating of the Smaller and Larger Companies Trusts were recently reinstated to *Recommended* and Investment grade respectively.
- As has been widely commented upon, there have been numerous reviews into the regulation of the financial services industry leading to a significantly changed landscape in the coming years. Although there is some uncertainty with the current political situation we are potentially looking at a changed remuneration environment for financial advisers, enhanced fiduciary duties of advisers and superannuation trustees, the introduction of a low cost, single investment option superannuation strategy for mandatory contributions and initiatives to streamline the operations of the superannuation industry.

We are supportive of measures that improve the efficiency, transparency and simplicity of products for consumers. We have been a strong advocate for paying adviser service fees over trailing commissions for many years with our systems and processes already established to cater for this trend. We have also recently introduced the low cost Climate Advocacy Fund and associated superannuation investment option. In general, we are monitoring the development of these changes closely and will further adapt our business as appropriate.

Sustainability Report

australian**ethical** remains committed to conducting our operations in accordance with the Australian Ethical Charter. Below are some of the year's sustainability highlights. Further information on our social, environmental and economic performance will be provided in the company's 2010 sustainability report.

Awards

australian**ethical** was a finalist in two sustainability awards this year.

Finalist in the ASFA Comms 09 Awards – July 2009

australian**ethical** Superannuation was a finalist in **The Green Campaign** award category at the Association of Superannuation Funds of Australia (ASFA) Comms 09 Awards. The Green Campaign category highlighted integrated campaigns that best demonstrated green initiatives.

Finalist in the Sustainability Reporting category at the 2010 Australasian Reporting Awards (ARA) – June 2010

australian**ethical** Investment's 2009 Sustainability Report was a finalist in the Sustainability Reporting category at the Australasian Reporting Awards (ARA). The ARA aims to promote excellence in reporting through the publication of informative and factual reports.

Grants to community organisations

As prescribed in australiane**thical**'s constitution, 10 per cent of our profit is donated to charitable, benevolent and conservation purposes as part of our contribution to a positive and sustainable society. In 2010, \$124,941 was paid to organisations involved in a wide range of environmental, charitable and community activities. Since the inception of our community grants, over \$1 million has now been donated

The grants consist of two components – two major project grants and a number of smaller grants. The large major project grants are typically made to one social and one conservation project that have a lasting tangible impact.

Launch of green property fund

In October 2009 Greens MLA Caroline Le Couteur officially launched the **australianethical** Property Trust at its flagship building, 64 Allara Street, Canberra. The fund seeks to invest in energy efficient buildings with a minimum 5 Star Green Star rating, as well as medical and allied health facilities and social infrastructure.

A 5 Star Green Star rating from the Green Building Council of Australia (GBCA) signifies Australian Excellence.

Global smart energy

In January 2010 the International Equities Trust was repositioned to focus on global **smart**energy. The new focus targets investment in companies involved in global sustainable energy supply and demand.

The fund provides specialist exposure to renewable energy supply through sources such as wind, solar and geothermal, as well as exposure to efficient and adaptive technologies in areas such as electric vehicles, recycling and smart grid systems.

Events subsequent to balance date

Climate Advocacy Fund resolutions

On 21 September 2010 the Climate Advocacy Fund launched Australia's first climate change shareholder resolutions, which are aimed at protecting shareholder returns against the risks of climate change and at maximising investment opportunities.

Australian-listed Woodside Petroleum, Aquila Resources, Paladin Energy and Oil Search were the companies chosen for the first resolutions, which focus on disclosure of emissions and strategies to manage climate change risk.

australianethical is sponsoring the resolutions which also have the support of The Climate Institute. The resolutions request the disclosure of a company's:

- carbon emissions
- strategies to reduce emissions
- capital investment assumptions around future carbon prices and its use in making long-term investment decisions.

It is hoped that institutional investors such as superannuation funds will be supporters of the resolutions as they sit firmly within the UN Principles on Responsible Investment (UN PRI). Half the funds under management of Australian asset managers fall under these principles.

Community grants allocation

\$30,000

Two \$30,000 special project grants will be announced later in 2010

\$5,000

Engineers without Borders Australia
WIRES
Free the Bears Fund
I Give a Buck Foundation
Central Coast Kids in Need Inc.

\$3,000

IWDA
FareShare Australia Inc
Activ Foundation
Eurobodalla Meals on Wheels Co-op Ltd
Muscular Dystrophy Queensland
Animalia Wildlife Shelter
Animals Asia Foundation
Barefoot Economy
Coast Shelter

\$2,000

Deal Communication Centre Inc
RiverSmart Australia Ltd
Casa Care Inc
Cystic Fibrosis Qld
Timor Leste Vision Inc
Greening Australia Capital Region

A full description of all the grant recipients is available on the website www.australianethical.com.au

Corporate governance statement 2010

This statement discloses the extent to which Australian Ethical Investment Ltd has followed the best practice recommendations set down by the ASX Corporate Governance Council during the reporting period. This statement has been prepared with reference to the second edition of the Council's Principles of Good Corporate Governance and Best Practice Recommendations.

The Council's Principles of Good Corporate Governance and Best Practice Recommendations provide a framework for good governance set out in eight core principles and 27 specific recommendations.

Australian Ethical has provided information on its corporate governance practices against all recommendations. This corporate governance statement will be placed onto the corporate governance section of the company's website.

Principle 1- Lay solid foundations for management and oversight

Australian Ethical has formalised the functions reserved to the board and those delegated to management.

Board responsibilities

The Australian Ethical Board is directly responsible for the following activities.

- Setting the strategic direction of Australian Ethical
- Annual appraisal of the Board
- Approval of Board committee fees
- Recommendation to shareholders on the aggregate level of directors' fees
- Approval of individual director fees
- Appointment and removal of the CEO
- Annual appraisal of the CEO
- Approval of the annual operational and capital expenditure budget and any material revisions
- Approval of major contracts, acquisitions or disposals which have not been approved in the budget
- Authorisation of Board project expenditure
- Accept and sign-off of the annual audited accounts and directors' report for the Australian Ethical group
- Approval of the issue of shares and options
- Approval of significant changes to unit trust fees, including discount programs
- Approval of significant changes to products or product offerings
- Approval of the constitutional bonus and title amounts
- Approval of the terms and conditions for any employee share ownership scheme, or if shareholder approval is required, approval of recommendations to shareholders
- Approval of employee performance based remuneration programs
- Approval of dividend payments and any DRP
- Authorisation of the issue of the Trust PDS
- Approval of risk management and compliance programs
- Approval of significant company policies
- Approval of indemnity, crime, director and officer and similar insurance programs
- Protection and promotion of the Australian Ethical Charter

The Board makes the following general delegations.

Chair of the Board

The chair of the board is delegated with all necessary authority to carry out the following functions:

Inside the boardroom

- Acting as the link between the board and the company when the CEO is unable to perform this role;
- Establishing and maintaining an effective working relationship with the CEO;
- Setting the tone for the board, including the establishment of a common purpose;
- Chairing board meetings efficiently and shaping the agenda in relation to goals, strategy, budget and executive performance;
- Work with the Company Secretary and CEO to ensure that appropriate information is presented to the Board;
- Ensuring contributions by all board members and reaching consensus when making decisions;
- Motivating board members and where appropriate dealing with underperformance;
- Instituting the process for appraising board members individually and the board as a whole;
- Overseeing conducting and finalising negotiations for the CEO's employment and evaluating the CEO's performance;
- Assisting with the selection of board committee members.

Outside the boardroom

- Communicating with shareholders on matters of corporate governance;
- Chairing shareholder meetings – annual and extraordinary general meetings (AGMs and EGMs);
- Ensuring compliance with ASX Listing Rules and continuous disclosure requirements;
- Increasingly, being available to speak with large institutional investors;
- In conjunction with the CEO, communicating Board views to staff.

Board Committees

Board committees are delegated with all necessary authority to carry out their functions as set out in Board committee charters.

CEO

The CEO is delegated with all necessary authority to run Australian Ethical on an ongoing, day to day basis other than:

- those responsibilities reserved to the Board;
- delegations (general or specific) made by the Board to the Chair, Board committees, Directors or other senior executives,

Specifically the CEO is delegated with responsibility and authority for the following:

- Implementing the strategic direction set by the Board;
- Implementing the risk management and compliance programs approved by the Board;
- Approval and maintenance of Expenditure and Payment Guidelines;
- Approval and maintenance of Employee Authorisations;
- Employment, termination and suspension of staff;
- Employee remuneration;
- Employee policies and procedures.

The above responsibilities and delegations are made public through the publication of this statement and the inclusion of the statement in the corporate governance section of the company's website.

Evaluating the performance of senior executives

The performance of executives is evaluated in accordance with the company's annual performance review guidelines. For the CEO, the review is conducted by the board chair. For other executives, the review is undertaken by the CEO.

The process is as follows:

- receive 360° comments from staff (and directors if applicable);
- review comments once received and incorporate into the annual review as considered appropriate. Emphasis is on themes or perceptions rather than specific comments;
- complete a draft of the annual performance review and provide to the executive for discussion;
- discuss the annual performance review with the executive – cover key responsibilities, overall performance, key behaviours, review achievements against previous year's objectives, discuss objectives for the coming year, discuss aspirations and areas for improvement;

- review competencies and qualifications to ensure they remain applicable to the position. If not, a training program must be developed to bring the executive to the appropriate level; and
- investigate what specific training may be suitable and available;
- where remuneration is subject to the achievement of performance hurdles, review and discuss the achievement of those hurdles and determine the amount of any performance based remuneration.

In respect of the CEO, our process is for the chair to present the results of the review to the board. The board then has an opportunity to provide feedback to the CEO, and to consider recommendations from the chair on the CEO's remuneration package.

An evaluation of the performance of senior executives was undertaken in the financial year in accordance with the process described above.

Principle 2 - Structure the board to add value

Independent directors

The company regards an independent director as a director who is not a member of management (i.e. a non-executive director) and who:

1. is not a substantial shareholder¹ of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company;
2. has not within the last three years been employed in an executive capacity by the company or another group member, or been a director after ceasing to hold any such employment;
3. within the last three years has not been a principal or employee of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided;
4. is not a material supplier or customer of the company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
5. has no material contractual relationship with the company or another group member other than as a director of the company;
6. has not served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company;
7. is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

¹ As defined in section 9 of the Corporations Act 2001

8. These areas reflect the relationships set out as relevant in the ASX Corporate Governance Council's Principles and Recommendations.

Unless there are specific qualitative factors relevant to the relationship, the board is generally of the view that a quantitative materiality threshold arises at 10% of the relevant amount – considered from both the company's perspective and that of the other party.

The classification of directors who held office during or since the end of the financial year is as follows:

Name	Position	
Anne O'Donnell (CEO, Managing Director)	Executive	Resigned directorship on 11 August 2009
James Thier	Executive, non-independent	
Howard Pender	Executive, non-independent	
Naomi Edwards (Chair)	Independent	
Justine Hickey	Independent	
Les Coleman	Non-executive, non-independent	
André Morony	Independent	

The board of Australian Ethical did not comprise a majority of independent directors during the reporting period. For the first six weeks of the reporting period, the board comprised four non-executive directors (three of whom are considered independent) and three executive directors. For the remainder of the reporting period, the board comprised four non-executive directors (three of whom are considered independent) and two executive directors.

Les Coleman serves on an investment committee that has responsibilities for funds invested by related parties of SMF Funds Management Limited, which is a substantial shareholder in the company. As such he is associated with a substantial shareholder (albeit in a limited way), and therefore given the above criteria is not classified as an independent director.

At the close of the reporting period, the board had an equal number of independent and non-independent directors, with four non-executive directors out of a board of six directors.

The board's approach to composition is to seek to maintain a good long term balance between executive and non-executive / independent directors, with the right mix of independence, competence and alignment with the Australian Ethical Charter.

The board carries out its responsibilities according to its Constitution, regulatory requirements, and an overall mandate, including the following:

- the board must comprise at least three and not more than ten directors;

- the board is bound by the Australian Ethical Charter that is set out in the Australian Ethical Constitution. The Charter sets out 23 ethical principles to be applied to the operations and activities of the company;
- each director is committed to the Australian Ethical Code of Conduct that governs the conduct of employees and directors;
- all available information on items to be discussed at a board meeting is provided to each director prior to that meeting;
- the board has adopted a policy for the management of conflicts of interest;
- with the prior approval of the chair, each director has the right to seek independent legal and other professional advice at the company's expense on any aspect of the company's operations or undertakings in order to fulfil their duties and responsibilities as directors.

Chair of the board

The company's chair was an independent director throughout the reporting period.

Nomination committee

The Board has a Remuneration and Nominations committee. Naomi Edwards and Justine Hickey are the members of the Remuneration and Nominations committee. Attendance at meetings is detailed in the directors' report. A summary of the committee's charter is available from the corporate governance section of the company's website.

Board and director evaluation

The directors undertake an annual self-assessment of their collective and individual performance and seek specific feedback from the senior management team.

A questionnaire concerning board and individual performance is completed by each director in respect of themselves and for each other director and the results collected by the board chair. The board as a whole then considers and discusses the results of the questionnaire at a board meeting. The board chair also talks to each director individually about their performance and generally on the evaluation and comments received from their peers. The results of the questionnaire are examined from both a qualitative and quantitative perspective.

Where discussed at a board meeting, results and any action plans are documented in board minutes.

An assessment in accordance with the above process was undertaken in the relevant period.

Director skills and experience

The time in office, skills, experience and expertise of each director in office as at the date of this report is included in the directors' report.

Selection and appointment of directors and re-appointment of incumbents

The Remuneration and Nominations committee has the following responsibilities:

- assess the necessary and desirable competencies of directors;
- ensure the directors have the appropriate mix of competencies to enable the board to discharge its responsibilities effectively;
- develop board succession plans to ensure an appropriate balance of skills, experience and expertise is maintained;
- make recommendations to the board relating to the appointment and retirement of directors.

The Remuneration and Nominations committee consider the above responsibilities, the current board composition, any nominations or suggestions for directorship, and the assessment of incumbent directors and make recommendations to the board on composition on an annual basis.

Principle 3 - Promote ethical and responsible decision making

Code of conduct

The company has a code of conduct which applies to directors and staff. It is available on the company's website.

Share trading

The company has a share trading policy which applies to directors and staff. It is available on the company's website.

Principle 4 - Safeguard integrity in financial reporting

Audit committee

Throughout the period, the board had an Audit committee consisting of three members being one external member (Ruth Medd, chair), one independent director (Naomi Edwards) and one non-executive director (Les Coleman). Ms Medd is the independent chair of the company's subsidiary, Australian Ethical Superannuation Pty Ltd.

The qualifications of those appointed to the Audit committee are provided in the directors' report, as are the number of meetings of the committee and attendances at those meetings.

The committee does not consist of only non-executive directors of the company (it has one external member, Ruth Medd who is a director, but not an executive director, of the company's subsidiary).

A summary of the charter for the Audit committee appears on the company's website.

The board is of the view that notwithstanding that the Audit committee does not comply with all the Corporate Governance recommendations on membership, it is consistent with the spirit of the recommendations and the committee is able to perform its functions with independence and diligence. In particular:

- the committee is comprised only of non-executives;
- at a number of meetings the committee speaks directly to the external auditor in the absence of executive management.

The committee considers the performance and independence of the external auditor over the course of a reporting period. In selecting an external auditor the board seeks competence, industry experience, integrity and independence. In normal circumstances, appointment of the external auditor will typically continue for a significant number of years. Rotation of external audit engagement partners will occur in accordance with the rotation requirements of the Corporations Act 2001.

Principle 5 - Make timely and balanced disclosure

The company has written policies and procedures designed to ensure compliance with the ASX Listing Rule disclosure requirements and accountability at senior executive level for compliance. The disclosure policy appears in the corporate governance section on the company's website.

Principle 6 - Respect the rights of shareholders

The company does not have separately documented policy for shareholder communication. However, the website includes comprehensive and informative sections which provide shareholders (and others) with up-to-date information about the corporate activities of the company, including company announcements. A facility is available to shareholders to be advised via e-mail when announcements are made. The company's website also provides shareholders with guidance on a range of issues concerning the management of their shareholdings.

The company has a regular sequence of communication points with investors and members including a newsletter, *Aim High*, for trust and superannuation investors, and since listing the company has also produced a shareholder newsletter. It has revised its annual general meeting arrangements to promote participation and dissemination of information and has ensured access to the external auditor at these meetings.

The company also produces a sustainability report for shareholders and other stakeholders on the triple bottom line performance of Australian Ethical (available on the company's website). The sustainability report is produced using the Global Reporting Initiative guidelines.

The company complies with the corporate governance guidelines for notices of meeting.

Principle 7 - Recognise and manage risk

Policies for the oversight and management of material business risks and internal controls

The company has established policies for the oversight and management of material business risks. The company's risk management guide is available from the corporate governance section of the company's website.

The board has required management to implement a risk management system consistent with the company's risk management guide. The board has required management to report to it on whether material business risks are being appropriately managed. During the relevant period, management has reported to the board's Audit, Compliance and Risk committee and directly to the board as to the effectiveness of the entity's management of its material business risks.

The CEO and risk management officer certify to the board that its internal control and risk management systems are operating efficiently and effectively throughout the group.

CEO and CFO sign-off of financial reports

The company requires the CEO and the CFO to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operating results and are in accordance with relevant accounting standards.

The CEO and chief financial officer certify to the board that the integrity of the financial statements is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial reporting risks.

During the reporting period the company became aware of systems errors in the calculation of administration and management fees charged to the Australian Ethical managed funds, the details of which are in the ASX Announcement dated 18 June 2010.

The company is migrating to a new valuation and unit pricing system with the aim of enhancing audit controls over the calculation of administration and management fees. The implementation of this new system is an opportune time to conduct a further, more fundamental review of the risk management system. This review will cover the assessment of material risks, the systems in place to monitor and manage those risks and the systems used to identify material changes to the risks faced by the company.

Principle 8 - Remunerate fairly and responsibly

Remuneration committee

The board has a Remuneration and Nominations committee. The members of the committee throughout the relevant period were Naomi Edwards and Justine Hickey. Details of attendance at meetings of the committee are provided in the directors' report. The charter for the committee is available in the corporate governance section of the company's website.

Details of remuneration

Details of remuneration paid to directors and executives during the reporting period is set out in the directors' report. The report distinguishes the structure of non-executive director remuneration and that of executive directors. Non-executive directors receive fees for serving as a director in the form of cash payments, plus mandated superannuation contributions. They do not participate in bonus or equity schemes designed for the remuneration of executives.

Directors' report

The directors of Australian Ethical Investment Limited, the controlling entity, present their report on the company and its controlled entity for the financial year ended 30 June 2010. In compliance with the Corporations Act 2001, the directors report as follows:

Directors

The name of each person who has been a director during the year ended 30 June 2010 and to the date of this report are:

Name	Time in office	
James Thier	19 years	
Howard Pender	19 years	
Naomi Edwards	5 years	
Justine Hickey	3 years	
Anne O'Donnell	1 year	Resigned 11 August 2009
Les Coleman	2 years	
André Morony	2 years	
Phillip Vernon	<1 year	Appointed 27 July 2010

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Company secretaries

The name of each person who was a company secretary of the company as at the end of the financial year are:

Name
Philip George
Gary Leckie

Principal activities

The principal activity of the controlling entity during the financial year was to manage seven public offer ethical managed funds (registered managed investment schemes). The controlling entity's wholly owned subsidiary, Australian Ethical Superannuation Pty Limited, was trustee of the Australian Ethical Retail Superannuation Fund during the financial year.

Other than as described in this report, there were no significant changes in the nature of the controlling entities activities during the year.

Review of operations

The consolidated entity, Australian Ethical (Australian Ethical Investment Limited and its wholly owned subsidiary, Australian Ethical Superannuation Pty Ltd), has recorded a consolidated net profit after income tax expense for the year ending 30 June 2010 of \$1,022,555. This result is a 15% decrease on the result of \$1,202,752 for the previous financial year.

The reported result has been adversely affected by two significant one-off issues:

- Employment expenses include \$482,000 related to costs associated with the departure of senior staff including the managing director; and
- Revenue has been reduced by \$261,000 related to fee errors applicable to the comparative year but only realised and booked in the current year.

These issues have adversely impacted our cost to income ratio which has increased from 85% to 88% and our return on equity reducing from 15% to 13%. If these adjustments are taken into consideration our underlying result would have been \$1.5 million showing an improved cost to income ratio and return on equity.

Average funds under management (FUM) grew by 12.8% with the year end FUM (before distribution) being \$614 million compared to \$547 million for the prior year end.

After the subdued economic climate during 2008-09 due to the global financial crises (GFC) our inflows have grown by 10% for the year ended 30 June 2010. Outflows have reduced by 13% back to pre-GFC levels.

During the year Australian Ethical launched the Climate Advocacy Fund, the Australian Ethical Property Trust and established the Australian Ethical Global Smart Energy Fund.

Financial Position

At the year end, Australian Ethical net assets are \$8,055,728. The company has no debt and is generating positive returns and cash flow.

Dividends

Dividends paid or declared by the company to members since the end of the previous financial year were:

	Cents per Share	Total amount \$	Franked/unfranked	Date of payment
Declared and paid during the financial year				
Final 2009	132	1,308,854	Franked	16/10/2009
Interim 2010	50	496,570	Franked	26/03/2010
Total		1,805,424		
Declared after end of year				
After balance sheet date, the directors declared the following dividend:				
Final 2010	50	496,570	Franked	15/10/2010
Special 2010	100	993,141	Franked	15/10/2010

Events subsequent to balance date

On 27 July 2010 the company's chief executive officer, Mr Phillip Vernon, was appointed Managing Director.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of Australian Ethical Investment Ltd and its controlled entity, the results of those operations or the state of affairs of Australian Ethical Investment Ltd in financial years subsequent to the financial year ended 30 June 2010, other than as outlined in this report.

Likely developments and business strategies

Further information about likely developments and business strategies in the operations of the consolidated entity and the expected results of those operations in future financial years has been addressed in the ASX announcement accompanying our Appendix 4E disclosures.

Directors' indemnification

The constitution of the controlling entity provides a general indemnity for officers of the company against liabilities incurred in that capacity, including costs and expenses in successfully defending legal proceedings.

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named above), the company secretary, and all officers of the company and of any related body corporate against a liability incurred as such a director, secretary or officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

During the year the company entered into or maintained deeds of indemnity (The Deed), insurance and access with directors and officers which provides a general indemnity against liabilities incurred in that capacity to the extent permitted by the Corporations Act 2001.

The Deed obligates the company to use its reasonable endeavours to obtain and maintain insurance for the benefit of a director or officer of the company and any subsidiary, to the extent that such coverage is available in the market on terms which the company reasonably considers financially prudent and on terms consistent with the practice of comparable companies operating in similar markets.

The Deed also provides that the company will pay on behalf of the director or officer or lend to the director or officer the amount necessary to pay the reasonable legal costs incurred by the director or officer in defending an action for a liability incurred as a director or officer of the company or a subsidiary on such terms as the company reasonably determines. The director or officer must repay to the company such legal costs if they become legal costs for which the company

was not permitted by law to indemnify the director or officer. The company need not pay or provide a loan to the director or officer to the extent that the director or officer is actually reimbursed for legal costs as they fall due under an insurance policy or otherwise.

The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify a director, officer or auditor of the company or of any related body corporate against a liability incurred as such director, officer or auditor.

Directors' particulars

Qualifications, experience and special responsibilities

Naomi Edwards
B.Sc.(Hons), FIA FIAA,
Non-Executive Chairperson



Naomi is a Fellow of the Institute of Actuaries and has a high level of financial experience with practical conservation and environmental links. Naomi was Partner in charge of the financial services industry group within Deloitte Touche Tohmatsu in Sydney and leader of the financial services practice for Trowbridge Consulting for many years. She has undertaken pro bono work providing actuarial assistance for environmental and social organisations. Naomi chairs the remuneration and nominations committee and is a member of the audit, compliance and risk committee. Naomi is also a director of Australian Ethical Superannuation Pty Ltd.

Howard Pender
B.A.(Hons),
Executive Director



Howard received a university medal in economics from the Australian National University. He worked at the Commonwealth Treasury and then as senior economist at Bankers Trust in Sydney. From 1992 to 1997, he was a visiting fellow in the Centre for International and Public Law at the Australian National University. Howard has been a director of two other Australian Securities Exchange-listed companies. Howard is a director of Australian Ethical Superannuation Pty Ltd and is a member of the board's investment committee. Howard was the company's project manager for its multi-award winning 6 Star Green Star rated building and is currently the project manager for the establishment and operation of the Climate Advocacy Fund.

*James Thier
B.Sc. (Hons),
Executive Director*



James has had academic experience as a researcher and has taught in the faculties of economics, environmental studies and geography at the University of New South Wales. He has held senior positions in local government and within peak bodies of the credit union movement. James is the company's business development manager. James is also a director of Australian Ethical Superannuation Pty Ltd. James was previously awarded a Churchill Fellowship to examine the mechanisms of shareholder advocacy.

*Justine Hickey
B.Com, GAICD, SAFin, ASIP,
Non-Executive Director*



Justine has over 17 years experience in investment and funds management, as an equities portfolio manager and in senior management. She was head of equities at Suncorp Investment Management in Brisbane until 2004. Justine is a director of the Rio Tinto Staff Super Fund. She is a member of the investment committees of Dalton Nicol Reid and the University of Melbourne. For several years, Justine has been a director of the Youth Enterprise Trust (YET), a charity that helps young people in need discover a sense of their self worth and purpose. Justine chairs the investment committee and is a member of the remuneration and nominations committee.

*André Morony
B.Ec.(Hons), M.Ec.,
Non-Executive Director*



André started his 40 years in the finance sector at the Commonwealth Treasury, where he worked in a number of financial policy areas and also represented Australia for three years at the Organisation for Economic Cooperation and Development in Paris. He then had various roles at Bankers Trust Australia (BT) including as Chief Economist and Chief Investment Officer where he was responsible for over \$40 billion of investments. From 2001-2006, André was Chief Investment Officer at ARIA, the Australian Government employees' \$16 billion superannuation fund. André currently sits on the boards of RBS Funds Management (Australia) Ltd and is on the investment committee for GESB, the Western Australian Government employee superannuation fund. André is a member of the board's investment committee.

*Les Coleman
B.Eng.(Hons), B.Sc.(Hons), M.Ec., PhD,
Non-Executive Director*



Les has been a trustee of two superannuation funds, and a director of ten companies involved in finance, retail and distribution. He has over 20 years experience in senior operational, planning and finance roles in Australia and overseas with Anglo American Corporation and ExxonMobil Corporation. He is currently a member of the investment committee of United Funds Management (a subsidiary of IOOF Holdings Limited), and since 2004 has taught in the Finance Department of the University of Melbourne. His particular research interests are corporate risk and non-financial indicators of superior firm performance, especially ethics and sustainability. He is a regular contributor to print and broadcast media, including four years as a weekly columnist with The Australian newspaper, and has published several books and numerous articles and papers. Les is on the audit, compliance and risk committee.

*Phillip Vernon
BEC MComm MBA FCPA,
Managing Director*



Appointed 27 July 2010

Phillip has 25 years experience in financial services covering funds management, capital markets and superannuation. Most recently he was a member of the executive committee of Perpetual Limited heading up its Corporate Trust division. He also has extensive experience in corporate governance and industry regulation, having been the Chairman of the Australian Securitisation Forum. Phillip has a long held interest in sustainability and corporate social responsibility and is a director of Planet Ark, an environmental not for profit organisation.

Directors' meetings

The number of directors' meetings (including meetings of committees of directors of which not all directors are members) and number of meetings attended by each of the directors of the controlling entity during the financial year are:

Director	Board		Investment		Remuneration and nominations		Audit, compliance and risk	
	Eligible	Attend	Eligible	Attend	Eligible	Attend	Eligible	Attend
James Thier	9	9	-	-	-	-	-	-
Howard Pender	9	9	4	4	-	-	-	-
Naomi Edwards	9	9	-	-	3	3	4	4
Justine Hickey	9	9	4	4	3	3	-	-
Anne O'Donnell	2	1	-	-	-	-	-	-
Andre Morony	9	8	4	4	-	-	-	-
Les Coleman	9	9	-	-	-	-	4	4

Directorships held in other listed entities in the last three years

Name	Entity	Period of directorship
Justine Hickey	Hyperion Flagship Investments Limited	3 years
André Morony	Macquarie Private Capital Group Limited	1 years

Directors' relevant interests in securities of the company

Parent entity directors	Fully paid ordinary shares numbers		Share option numbers		Performance rights	
	2010	2009	2010	2009	2010	2009
Directors continuing at 30 June 2010						
James Thier	51,367	51,367	2,881	4,313	319	-
Howard Pender	49,852	50,252	2,839	4,308	320	-
Justine Hickey	700	700	-	-	-	-
Directors not continuing at 30 June 2010						
Anne O'Donnell	10,488	11,988	5,673	8,582	-	-

Directors' holdings in registered schemes made available by the company

None of the current directors have holdings in the registered schemes made available by the company. Several directors are members of the Australian Ethical Retail Superannuation Fund.

Remuneration report

The information which follows through to the end of the section titled Employment contracts of directors and senior managers is subject to audit by the external auditor.

Names and positions of key management personnel (directors and named executives) at any time during the financial year

Parent entity directors

Name	Position	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Chairperson, non-executive	
Justine Hickey	Director, non-executive	
Anne O'Donnell	Managing director, executive	Resigned 11 August 2009
Les Coleman	Director, non-executive	
André Morony	Director, non-executive	

Executives

Name	Position	
Phillip Vernon	Chief executive officer	Appointed 7 December 2009
Martin Halloran	Chief investment officer	Resigned 30 June 2010
James Jordan	Chief investment officer	Appointed 7 June 2010
Philip George	Head of client services and product	
Gary Leckie	Chief financial officer / chief operating officer	
Paul Harding Davis	Head of distribution	
Tim Xirakis	Head of client relationships	

The *Corporations Act 2001* requires disclosure of compensation of key management personnel. Key management personnel is defined as persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The *Corporations Act 2001* also requires disclosure of the remuneration of:

1. each of the five named company executives who receive the highest remuneration for that year; and
2. if consolidated financial statements are required—each of the five named relevant group executives who receive the highest remuneration for that year.

The above named directors and executives are key management personnel of the consolidated entity.

Remuneration policy

Directors

The aggregate amount of remuneration payable to non-executive directors for the performance of their duties as directors is set by the company in general meeting from time to time. In proposing any motions on non-executive director remuneration to a general meeting, the board has regard to market rates for directorships in similar companies operating in similar industries. It also has regard to recommendations from the remuneration and nominations committee. Within the approved aggregate amount, fees paid to individual non-executive directors for services as a non-executive director are determined by the board. During the relevant period, the chair received a higher amount, with other non-executive directors receiving an equal amount.

Under the constitution, non-executive directors are also entitled to be paid reasonable expenses, remuneration for extra services and superannuation contributions. In particular, non-executive directors are paid for serving on board committees.

Executive directors receive remuneration as employees of the company.

There are no arrangements to pay any director a retirement benefit.

Secretaries, senior managers, executive directors and group executives

During the reporting period, the company's remuneration policy was to treat all staff (including secretaries, senior managers, executive directors and group executives) in an equitable fashion. All permanent staff (including secretaries, senior managers and executives) received a cash salary and participated in a staff bonus and employee share incentive scheme. The arrangements did not apply to non-executive directors.

During the reporting period, remuneration for a number of senior managers included an 'at risk' component linked to performance criteria.

For the senior managers with an at risk component, the performance conditions required the executives to achieve objectives related to: performance of the company's managed funds; return on equity; cost to income ratio; project delivery; funds under management; engagement with asset consultants, ratings agencies and institutional clients; and development of marketing strategies/collateral.

The performance conditions were chosen to align the senior managers' objectives with those set out in the company's strategic plan. The remuneration and nominations committee was responsible for assessing whether the managing director met their performance conditions. The managing director was responsible for assessing whether the other senior managers had met their performance conditions. In both cases, quantitative and qualitative aspects were able to be assessed.

The company's general remuneration policy also accords with the Australian Ethical Charter, as set out in the constitution of the company. It is designed to ensure the company does not

"exploit people through the payment of low wages or the provision of poor working conditions"

and to facilitate:

"the development of workers participation in the ownership and control of their work organisations and places."

The company reviews individual remuneration annually. As part of this process it benchmarks its remuneration levels and its policies on employee benefits and work/life balance. Individual staff remuneration is considered with reference to the benchmarks and in accordance with guidelines approved by the board. The board aims to remunerate responsibly and fairly, with reference to the market.

All permanent staff are eligible to participate in an annual staff bonus. Under the company's constitution, before the directors recommend or declare a dividend to be paid out of profits of any one year, they must pay a bonus¹ to current employees which is set by reference to the profit of the company for that year. Each full time staff member receives

the same bonus amount and part-time staff (or those not employed full-time through the full year) receive a pro-rata amount. The company's constitution provides that the bonus can be (and often has been) satisfied by the issue of shares, under employee share ownership arrangements.

An employee share ownership scheme operated up to the 2008-09 year. Under the scheme a pool of options which would, if exercised, amount to 5% of the company's existing ordinary share capital were issued to staff each year. All permanent, non-probationary staff were eligible to participate in the plan. The options² were issued for nil consideration and the price at which the options are exercisable was set at 10% in excess of the market price of the shares as at the date of grant. The number of options received by an individual staff member depended on their remuneration. Options are not exercisable for a period of three years from their date of grant. At the end of the three year period, the options must be exercised within a three month exercise window or they lapse. During the three month exercise window, options can also be sold once, with the transferee then needing to exercise during the three month window, or the options lapse. In most circumstances, the options also lapse where an employee's employment ceases before the options are exercisable. The options confer no voting or dividend rights.

In the current reporting period, performance rights were issued to staff under an employee share incentive scheme. This scheme was approved at the 2008 Annual General Meeting. Under the scheme participants are granted performance rights to ordinary shares, subject to meeting specified performance criteria over the performance period. Ordinary shares will be issued at the end of the performance period. The number of shares that a participant will ultimately receive will depend on the extent to which the performance criteria are met by the company and, as applicable, the individual employee.

The scheme has two categories - a general category and an individual category. All eligible employees participate in the general category. Employees participating in the individual category are subject to individual performance criteria.

10,819 rights were issued under the general category and 5,511 were issued under the individual category.

Subject to the terms and conditions of the scheme rules, the performance rights have the following attributes determining whether shares will be issued in respect of the rights:

General category

- employment must continue until 30 June 2012;
- the arithmetic average return on equity over the performance period (AROE) must exceed 15% pa or no shares shall be awarded at the end of the performance period;
- if the AROE exceeds 15% pa but is less than 20% pa, half the maximum number of shares shall be awarded;

¹ See **Note 1(i)** in the attached financial report

² See **Note 25** in the attached financial report

- if the AROE is equal to or greater than 20% pa the maximum number of shares shall be awarded.
- AROE is determined as the arithmetic average of return on equity over six month periods calculated using audited half-year financial statements.
- the performance period is the three financial years 2009-10, 2010-11 and 2011-12.

Performance rights issued under the individual employee share incentive scheme are linked to the performance of the company's managed funds as described above.

The remuneration policy discussed above has broadly been in place for the current and the previous five financial years, except that individual performance based elements have been introduced for some senior managers and staff over the last three years.

Individual category

- employment must continue until 11 November 2010;
- the number of shares that will be issued to each employee in respect of their performance rights under this category will be adjusted up or down by a maximum 20%, dependent on the absolute performance of one of the company's managed investment schemes, for which the employee has responsibility or provides significant input. The nominated managed investment scheme has been agreed between the company and the employee. Performance will be measured over a performance period of 1 July 2009 to 30 June 2010.

Performance-based remuneration and company performance

The payment of the staff bonus is set by reference to the profit of the company for a relevant year. Higher company profits in a year correspondingly increase the aggregate amount that directors could determine be paid to current employees as a bonus.

Details of options previously issued under the employee share ownership plan are set out under remuneration policy above. Options issued under the employee share ownership plan were performance based in two ways. Firstly, they were subject to a three year employment condition and secondly, option value can only be realised if the market value of the underlying shares increase by 10% between the period of grant and the period when the options can be exercised.

By way of example, options issued under the scheme which became exercisable in the 2009-10 year had an exercise price of \$32.50. The share price through the exercise period was for the most part either lower than the exercise period or only marginally higher. Given the share price at the time of exercise, the result is that staff did not realise any significant benefit from these options.

Performance rights issued under the general employee share incentive scheme are performance based in two ways. Firstly, they are subject to a three year employment condition. Secondly, shares will only be issued in respect of the performance rights where return on equity meets the levels described above.

Remuneration details for the year ended 30 June 2010

Parent entity directors' remuneration

Parent entity director's remuneration		Short-term benefits			Post-employment benefits	Long-term benefits	Equity-settled share-based payments			Total \$	
		Salary, fees and leave \$	Cash bonus \$	Other \$	Super-annuation \$	Long service leave \$	Termination benefits \$	Shares \$	Options \$		Rights \$
Caroline Le Couteur	2010	-	-	-	-	-	-	-	-	-	-
	2009	52,964	6,000	-	4,485	1,097	-	-	-	-	64,546
James Thier	2010	122,576	14,150	-	12,874	3,604	-	-	-	9,439	162,643
	2009	158,515	26,300	-	15,863	3,297	-	1,000	4,979	-	209,954
Howard Pender	2010	132,334	2,626	-	12,652	3,856	-	-	-	9,469	160,937
	2009	165,096	-	-	14,171	3,378	-	3,900	4,840	-	191,385
Naomi Edwards	2010	81,000	-	-	7,290	-	-	-	-	-	88,290
	2009	71,500	-	-	6,435	-	-	-	-	-	77,935
Justine Hickey	2010	31,950	-	-	2,876	-	-	-	-	-	34,826
	2009	30,000	-	-	2,700	-	-	-	-	-	32,700
Anne O'Donnell	2010	95,938	4,000	-	8,718	2,927	235,000	-	-	-	346,583
	2009	224,420	5,000	-	20,973	6,327	-	6,000	23,726	-	286,446
André Morony	2010	25,000	-	-	2,250	-	-	-	-	-	27,250
	2009	23,500	-	-	2,115	-	-	-	-	-	25,615
Les Coleman	2010	26,000	-	-	2,340	-	-	-	-	-	28,340
	2009	24,000	-	-	2,160	-	-	-	-	-	26,160
Total parent entity director's remuneration	2010	514,798	20,776	-	49,000	10,387	235,000	-	-	18,908	848,869
	2009	749,995	37,300	-	68,902	14,099	-	10,900	33,545	-	914,741

Named executives remuneration (including other key management personnel)

Named executives (including other KMP) remuneration		Short-term benefits			Post-employment benefits	Long-term benefits	Equity-settled share-based payments				Total \$
		Salary, fees and leave \$	Cash bonus \$	Other \$	Super-annuation \$	Long service leave \$	Termination benefits \$	Shares \$	Options \$	Rights \$	
Philip George	2010	179,638	4,000	-	15,836	(8,483)	-	-	-	14,825	205,816
	2009	177,375	6,000	-	15,831	3,558	-	-	19,434	-	222,198
Ruth Medd	2010	42,350	-	-	3,690	-	-	-	-	-	46,040
	2009	42,000	-	-	3,780	-	-	-	-	-	45,780
Gary Leckie	2010	179,309	4,000	-	16,206	1,510	-	-	-	14,973	215,998
	2009	178,422	6,000	-	15,990	5,284	-	-	17,194	-	222,890
Tim Xirakis	2010	184,881	4,000	-	15,779	1,510	-	-	-	14,588	220,758
	2009	190,597	6,000	-	15,789	3,675	-	-	16,979	-	233,040
Paul Harding Davis	2010	196,696	21,500	-	19,491	3,989	-	-	-	15,712	257,388
	2009	193,503	32,535	-	19,697	3,989	-	2,770	9,498	-	261,992
Martin Halloran	2010	245,064	3,366	-	15,017	4,937	-	-	-	48,066	316,450
	2009	201,721	-	-	11,517	4,173	-	-	-	-	217,411
Phillip Vernon	2010	154,135	-	-	12,799	2,981	-	-	-	8,204	178,119
	2009	-	-	-	-	-	-	-	-	-	-
James Jordan	2010	150,951	3,200	-	14,013	4,179	-	-	-	40,471	212,814
	2009	-	-	-	-	-	-	-	-	-	-
Named executives (including other KMP) remuneration	2010	1,333,024	40,066	-	112,831	10,623	-	-	-	156,839	1,653,383
	2009	983,618	50,535	-	82,604	20,679	-	2,770	63,105	-	1,203,311

Cash bonus compensation benefits

Details of cash bonuses paid to key management personal are included in the remuneration tables set out above. The annual staff cash bonuses of \$4,000 per FTE employee were paid on 11 September 2009. The nature of the cash bonuses and the criteria used to determine the amount of the payments are detailed in the remuneration policy and in the discussion on performance-based remuneration and company performance.

Analysis of bonuses included in remuneration

The vesting profile of short term-incentive bonuses are detailed below. No amounts vest in future financial years in respect of the short term-incentive bonuses for the 2010 year.

	Cash bonus (1) \$	Performance bonus \$	Share bonus \$	Vested in year %	Forfeited in year (2) %
Parent entity directors					
James Thier	3,212	10,938	-	88	12
Howard Pender	2,626	-	-	100	-
Anne O'Donnell	4,000	-	-	100	-
Named executives (including other KMP)					
Philip George	4,000	-	-	100	-
Gary Leckie	4,000	-	-	100	-
Tim Xirakis	4,000	-	-	100	-
Paul Harding Davis	4,000	17,500	-	70	30
Martin Halloran	3,366	-	-	100	-
James Jordan	3,200	-	-	100	-

(1) Details of cash and performance bonus have been provided in the director's report under remuneration policy

(2) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year

Equity based remuneration

Equity based remuneration consists of grants of options and rights under the company's employee share ownership plan and employee share incentive scheme. Details of the share plans (including the service and performance criteria) are provided in the section on remuneration policy above and in Note 25 of the attached financial report.

Set out in the following table are the holdings of equity instruments granted to the KMP that existed during the reporting period and includes details of vesting profiles of options/rights granted as compensation.

Option holdings:

KMP option holdings	Option class	Grant date	Fair value at grant date	No. granted	No. vested & exercised	% of grant vested	No. expired	% of grant forfeited	Financial year in which grant vests
Parent entity directors									
James Thier	AEFAS	22-Sep-06	\$4.14	-	-	100%	(1,432)	100%	22-Sep-09
	AEFAT	24-Sep-07	\$8.40	-	-	-	-	-	24-Sep-10
	AEFAV	1-Dec-08	\$3.65	-	-	-	-	-	14-Oct-11
	2010 Total			-	-	100%	(1,432)		
	2009 Total			1,364	(1,800)	100%	-		
Howard Pender	AEFAS	22-Sep-06	\$4.14	-	-	100%	(1,469)	100%	22-Sep-09
	AEFAT	24-Sep-07	\$8.40	-	-	-	-	-	24-Sep-10
	AEFAV	1-Dec-08	\$3.65	-	-	-	-	-	14-Oct-11
	2010 Total			-	-	100%	(1,469)		
	2009 Total			1326	(931)	100%	-		
Anne O'Donnell	AEFAS	22-Sep-06	\$4.14	-	-	100%	(2,909)	100%	22-Sep-09
	AEFAT	24-Sep-07	\$8.40	-	-	-	-	-	24-Sep-10
	AEFAU	14-Oct-08	\$8.96	-	-	-	-	-	14-Oct-11
	2010 Total			-	-	100%	(2,909)		
	2009 Total			2,648	(3,006)	100%	-		
Philip George	AEFAS	22-Sep-06	\$4.14	-	(2,356)	100%	-	-	22-Sep-09
	AEFAT	24-Sep-07	\$8.40	-	-	-	-	-	24-Sep-10
	AEFAU	14-Oct-08	\$3.65	-	-	-	-	-	14-Oct-11
	2010 Total			-	(2,356)	100%	-		
	2009 Total			2,169	(1,550)	100%	-		
Gary Leckie	AEFAS	22-Sep-06	\$4.14	-	-	100%	(1,443)	100%	22-Sep-09
	AEFAT	24-Sep-07	\$8.40	-	-	-	-	-	24-Sep-10
	AEFAU	14-Oct-08	\$3.65	-	-	-	-	-	14-Oct-11
	2010 Total			-	-	100%	(1,443)		
	2009 Total			1,919	(1,387)	100%	-		
Tim Xirakis	AEFAS	22-Sep-06	\$4.14	-	-	100%	(1,387)	100%	22-Sep-09
	AEFAT	24-Sep-07	\$8.40	-	-	-	-	-	24-Sep-10
	AEFAU	14-Oct-08	\$3.65	-	-	-	-	-	14-Oct-11
	2010 Total			-	-	100%	(1,387)		
	2009 Total			1,895	-	-	-		
Paul Harding Davis	AEFAU	14-Oct-08	\$3.65	-	-	-	-	-	14-Oct-11
	2010 Total			-	-	-	-	-	
	2009 Total			1,060	-	-	-		
James Jordan	AEFAT	24-Sep-07	\$8.40	-	-	-	-	-	24-Sep-10
	AEFAU	14-Oct-08	\$3.65	-	-	-	-	-	14-Oct-11
	2010 Total			-	-	-	-	-	
	2009 Total			1,243	-	-	-	-	

Rights holdings:

KMP rights holdings	Rights class	Grant date	Fair value at grant date	No. granted	Value of rights granted (\$)	No. vested and exercised	% of grant vested	No. lapsed	Value of rights lapsed (\$)	% of grant lapsed
Parent entity directors										
James Thier	AEFAW	30-Nov-09	\$29.59	319	\$9,439	-	-	-	-	-
			2010 Total	319	\$9,439	-	-	-	-	-
			2009 Total	-	-	-	-	-	-	-
Howard Pender	AEFAW	30-Nov-09	\$29.59	320	\$9,469	-	-	-	-	-
			2010 Total	320	\$9,469	-	-	-	-	-
			2009 Total	-	-	-	-	-	-	-
Phillip George	AEFAW	30-Nov-09	\$29.59	501	\$14,825	-	-	-	-	-
			2010 Total	501	\$14,825	-	-	-	-	-
			2009 Total	-	-	-	-	-	-	-
Gary Leckie	AEFAW	30-Nov-09	\$29.59	506	\$14,973	-	-	-	-	-
			2010 Total	506	\$14,973	-	-	-	-	-
			2009 Total	-	-	-	-	-	-	-
Tim Xirakis	AEFAW	30-Nov-09	\$29.59	493	\$14,588	-	-	-	-	-
			2010 Total	493	\$14,588	-	-	-	-	-
			2009 Total	-	-	-	-	-	-	-
Paul Harding Davis	AEFAW	30-Nov-09	\$29.59	531	\$15,712	-	-	-	-	-
			2010 Total	531	\$15,712	-	-	-	-	-
			2009 Total	-	-	-	-	-	-	-
Martin Halloran	AEFAX	30-Nov-09	\$32.91	966	\$31,791	-	-	(966)	\$22,411	100%
	AEFAW	30-Nov-09	\$29.59	550	\$16,275	-	-	(550)	\$12,760	100%
			2010 Total	1516	\$48,066	-	-	(1,516)	\$35,171	-
			2009 Total	-	-	-	-	-	-	-
Phillip Vernon	AEFAW	17-Dec-09	\$25.88	317	\$8,204	-	-	-	-	-
			2010 Total	317	\$8,204	-	-	-	-	-
			2009 Total	-	-	-	-	-	-	-
James Jordan	AEFAX	30-Nov-09	\$32.91	862	\$28,368	-	-	-	-	-
	AEFAW	30-Nov-09	\$29.59	409	\$12,102	-	-	-	-	-
			2010 Total	1271	\$40,471	-	-	-	-	-
			2009 Total	-	-	-	-	-	-	-V

Hedging policy

Directors and executives participating in the company's equity-based plans are prohibited from entering into any transaction which would have the effect of hedging or otherwise transferring to any other person the risk of any fluctuation in the value of any unvested entitlement in the company's securities.

Explanation of relative proportions of elements of remuneration that are related to performance

Non-executive directors receive their total remuneration as cash or superannuation contributions. No element is dependent on performance.

Except as detailed for those senior managers, the remuneration of executive directors, secretaries and other senior managers is not subject to individual performance conditions. People in these positions were entitled to participate in the staff bonus and employee share schemes described above. Rights granted during the financial year, when valued at grant date, make up a small proportion of the overall remuneration of people holding these positions.

The following table illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options/rights during the financial year

	Proportion of elements of remuneration related to performance			Proportion of elements of remuneration not related to performance	
	Non-salary cash-based incentives %	Shares %	Options / rights %	Fixed salary/ fees %	Total %
Parent entity directors' remuneration					
James Thier	7	-	6	87	100
Howard Pender	-	-	6	94	100
Naomi Edwards	-	-	-	100	100
Justine Hickey	-	-	-	100	100
Anne O'Donnell	-	-	-	100	100
André Morony	-	-	-	100	100
Les Coleman	-	-	-	100	100
Named executives (including other KMP)					
Philip George	-	-	7	93	100
Ruth Medd	-	-	-	100	100
Gary Leckie	-	-	7	93	100
Tim Xirakis	-	-	7	93	100
Paul Harding Davis	7	-	6	87	100
Martin Halloran	-	-	15	85	100
Phillip Vernon	-	-	5	95	100
James Jordan	-	-	19	81	100

Employment contracts of directors and senior managers

For each individual whose remuneration has been disclosed in this report and is currently employed under an employment contract, the details of the employment contract are as follows:

Name	Duration of contract	Period of termination notice required	Termination payment provided for under the contract
James Thier	Ongoing	2 weeks	None except for accrued leave and any payment in lieu of notice.
Howard Pender	Ongoing	12 weeks	
Phillip Vernon	Ongoing	12 weeks	
Gary Leckie	Ongoing	12 weeks	
Philip George	Ongoing	12 weeks	
Paul Harding Davis	Ongoing	12 weeks	
Tim Xirakis	Ongoing	12 weeks	
James Jordan	Ongoing	12 weeks	

Options and rights as at the date of this report

Options/rights over unissued shares as at the date of this report are as follows:

Options reference	Number of options on issue	Exercise period	Exercise price
AEFAT	31,853	24/9/10 to 23/12/10	\$57.57
AEFAU	34,139	14/10/11 to 13/1/12	\$32.27
AEFAV	2,690	14/10/11 to 13/1/12	\$32.27
Totals	68,682		

All options are over unissued shares in the company. Unexercised options expire at the end of the exercise period. No option holder has any right under the options to participate in any other share issue of the company or of any other entity.

Performance rights reference	Number of rights on issue
AEFAW	9,931
AEFAX	4,545
Totals	14,476

All performance rights are over unissued shares in the company. Performance rights expire if the performance conditions are not met at the end of the performance period. No holder of performance rights is entitled to, by virtue of holding the performance rights, to participate in any other share issue of the company or of any other entity.

Shares issued upon the exercise of options

The following ordinary shares of the company were issued during the year ended 30 June 2010 on the exercise of options granted under the company's employee share ownership plan.

Shares issued upon exercise of options	Amount paid per share
1,585	\$32.50

No further shares have been issued since that date to the date of this report. No amounts are unpaid on any of the shares.

Non-director committee members and company secretary particulars

Name	Qualifications	Experience
Ruth Medd	B.Sc., Dip Comp Science, CPA, MAICD	Ruth is currently on the board of the NFAW Ltd (National Foundation for Australian Women) and WOB Pty Ltd. Ruth is Chair of the company's wholly-owned subsidiary Australian Ethical Superannuation Pty Ltd. Ruth also chairs the company's audit, compliance and risk committees. Ruth started in IT in the 1970s. Since then she has been a senior public servant, a broadcasting regulator, the inaugural Company Secretary at Telstra and the Executive Director of an industry association.
Philip George	BSc LLB ACIS	Philip has experience in commercial law, corporate governance and project management. He has been a company secretary and legal counsel for listed companies for over seven years. He was a senior associate at the national law firm Minter Ellison and conducted a commercial legal practice in partnership for two years.
Gary Leckie	BEC CA	Gary is a Chartered Accountant who is responsible for the fiscal management and operational activities of the Australian Ethical group. Gary has more than ten years experience in the financial services industry. Prior to working in the financial services industry Gary was employed with big four accounting firm Deloitte.
Tom May	BA LLB MBA	Tom has experience in the superannuation and distribution aspects of financial services law. He has been a lawyer since 1990 when he was a legal officer in the federal government. He subsequently worked in house with funds management and life insurance companies before working in private practice in London and Tokyo.

Auditor's declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* forms part of this report and follows at the end of the report.

Non-audit services

The directors, in accordance with advice from the audit committee, are satisfied that the provision of the non-audit services by the auditor during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed in the financial report did not compromise the external auditor's independence because the provision of non-audit services is minor and in most cases is ancillary or related to audit activities. The directors are not aware of any circumstances that would prevent the external auditor from exercising objective and impartial judgement in relation to the conduct of the audit.

Details of non-audit services provided by the auditor are set out in Note 2 of the attached financial report.

Other specific information

The company's shares have traded on the ASX since 17 December 2002. Movements in closing share price at the beginning and end of financial years since listing are as follows:

Date	Closing daily price ³
17 December 2002	\$12.50
30 June 2003	\$11.30
30 June 2004	\$13.00
30 June 2005	\$17.20
30 June 2006	\$28.50
30 June 2007	\$48.00
30 June 2008	\$34.00
30 June 2009	\$22.00
30 June 2010	\$23.20

³ Where shares were not traded on the day specified, the price quoted is the closing daily price when trades did occur on the day earlier than and closest to the date specified.

The company's earnings over the last five years are as follows:

Year	Earnings
2005-2006	\$1,362,612
2006-2007	\$1,819,177
2007-2008	\$1,651,790
2008-2009	\$1,202,752
2009-2010	\$1,022,555

Other specific information has been disclosed in the attached financial report as referenced in the table below:

Disclosure	Financial Statement Reference
Dividends	Note 5
Rights –issued during the financial year since the end of the financial year ⁴	Note 25

Signed in accordance with a resolution of the board of directors.



Phillip Vernon
Managing Director
Dated: 30 August 2010

⁴ The financial statements show rights issued during the financial year. No rights have been issued since the end of the financial year to the date of this report.

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C
OF THE CORPORATIONS ACT 2001**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2010 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



THOMAS DAVIS & CO.



P.L. WHITEMAN PARTNER

Date 30 August 2010

Liability limited by a scheme approved under Professional Standards Legislation

Financial statements for year ended 30 June 2010

Statement of financial position as at 30 June 2010

	Notes	Consolidated entity		Parent entity	
		2010	2009	2010	2009
		\$	\$	\$	\$
Current assets					
Cash and cash equivalents	7	1,892,734	2,614,467	435,037	1,226,311
Trade and other receivables	8	3,050,029	1,800,859	2,604,874	1,288,930
Financial assets	9	998,441	1,673,953	998,441	1,673,953
Current tax assets	13	24,474	-	213,987	-
Other current assets	10	337,195	279,367	297,283	235,262
Total current assets		6,302,873	6,368,646	4,549,622	4,424,456
Non-current assets					
Property, plant & equipment	11	4,215,168	4,139,581	4,215,168	4,139,581
Intangible assets	12	46,297	-	46,297	-
Financial assets	9	100,505	82,492	416,505	398,492
Deferred tax assets	13	435,083	464,200	433,688	459,850
Total non-current assets		4,797,053	4,686,273	5,111,658	4,997,923
Total assets		11,099,926	11,054,919	9,661,280	9,422,379
Current liabilities					
Trade and other payables	14	2,495,424	1,756,373	2,659,060	1,952,798
Current tax liabilities		-	227,200	-	227,200
Short-term provisions	16	451,046	535,406	451,046	535,406
Total current liabilities		2,946,470	2,518,979	3,110,106	2,715,404
Non-current liabilities					
Deferred tax liabilities	15	34,805	33,732	34,805	33,732
Other long-term provisions	16	62,923	49,003	62,923	49,003
Total non-current liabilities		97,728	82,735	97,728	82,735
Total liabilities		3,044,198	2,601,714	3,207,834	2,798,139
Net assets		8,055,728	8,453,205	6,453,446	6,624,240
Equity					
Issued capital	17	5,791,147	5,739,635	5,791,147	5,739,635
Reserves		869,149	535,269	869,149	535,269
Retained earnings		1,395,432	2,178,301	(206,850)	349,336
Total equity		8,055,728	8,453,205	6,453,446	6,624,240

The accompanying notes form part of these financial statements

**Statement of comprehensive income
for the year ended 30 June 2010**

	Notes	Consolidated entity		Parent entity	
		2010	2009	2010	2009
		\$	\$	\$	\$
Revenue	3	14,067,899	13,131,431	11,891,805	10,652,895
Commissions paid to advisers		(194,080)	(177,235)	(32,394)	(15,305)
External services		(2,358,711)	(2,498,375)	(898,684)	(1,044,339)
Employee benefits expense		(7,339,724)	(6,411,326)	(7,316,108)	(6,373,530)
Depreciation and amortization		(358,491)	(298,503)	(358,491)	(298,503)
Occupancy costs		(245,823)	(216,069)	(232,939)	(200,896)
Communication costs		(774,633)	(648,233)	(774,633)	(611,851)
Other expenses		(1,065,991)	(917,879)	(994,545)	(795,030)
Profit before tithe and income tax expense		1,730,446	1,963,811	1,284,011	1,313,441
Tithes expense	1 (l)	(124,941)	(140,868)	(124,941)	(140,868)
Profit before income tax		1,605,505	1,822,943	1,159,070	1,172,573
Income tax expense	4	(582,950)	(620,191)	90,168	(64,281)
Profit for the year		1,022,555	1,202,752	1,249,238	1,108,292
Other comprehensive income					
Net gain/(loss) on revaluation of available-for-sale investments		18,645	(22,679)	18,645	(22,679)
Other comprehensive income for the year, net of tax		18,645	(22,679)	18,645	(22,679)
Total comprehensive income for the year		1,041,200	1,180,073	1,267,883	1,085,613
Profit attributable to members of the parent entity		1,022,555	1,202,752	1,249,238	1,108,292
Total comprehensive income attributable to members of the parent entity		1,041,200	1,180,073	1,267,883	1,085,613
Basic earnings per share (cents per share)	6	103.0	121.6		
Diluted earnings per share (cents per share)	6	102.0	121.6		

The accompanying notes form part of these financial statements

**Statement of changes in equity
for year ended 30 June 2010**

Consolidated entity

	Note	Issued capital ordinary \$	Asset revaluation reserve \$	Share-based payment reserve \$	Retained earnings \$	Total \$
Balance at 1 July 2008		5,740,791	(36,643)	371,464	2,305,878	8,381,490
Profit attributable to members of the parent entity		-	-	-	1,202,752	1,202,752
Other comprehensive income for the period		-	(22,679)	-	-	(22,679)
Total comprehensive income for the period		-	(22,679)	-	1,202,752	1,180,073
Transactions with owners in their capacity as						
Shares issued during the period	17	(1,156)	-	-	-	(1,156)
Dividends paid or provided for		-	-	-	(1,330,329)	(1,330,329)
Share-based payment expense		-	-	223,127	-	223,127
Balance at 30 June 2009		5,739,635	(59,322)	594,591	2,178,301	8,453,205
Balance at 1 July 2009		5,739,635	(59,322)	594,591	2,178,301	8,453,205
Profit attributable to members of the parent entity		-	-	-	1,022,555	1,022,555
Other comprehensive income for the period		-	18,645	-	-	18,645
Total comprehensive income for the period		-	18,645	-	1,022,555	1,041,200
Transactions with owners in their capacity as						
Shares issued during the period		51,512	-	-	-	51,512
Dividends paid or provided for		-	-	-	(1,805,424)	(1,805,424)
Share-based payment expense		-	-	315,235	-	315,235
Balance at 30 June 2010		5,791,147	(40,677)	909,826	1,395,432	8,055,728

Parent entity

	Note	Issued capital ordinary \$	Asset revaluation reserve \$	Share-based payment reserve \$	Retained earnings \$	Total \$
Balance at 1 July 2008		5,740,791	(36,643)	371,464	571,373	6,646,985
Profit attributable to members of the parent entity		-	-	-	1,108,292	1,108,292
Other comprehensive income for the period		-	(22,679)	-	-	(22,679)
Total comprehensive income for the period		-	(22,679)	-	1,108,292	1,085,613
Transactions with owners in their capacity as owners:						
Shares issued during the period	17	(1,156)	-	-	-	(1,156)
Dividends paid or provided for		-	-	-	(1,330,329)	(1,330,329)
Share-based payment expense		-	-	223,127	-	223,127
Balance at 30 June 2009		5,739,635	(59,322)	594,591	349,336	6,624,240
Balance at 1 July 2009		5,739,635	(59,322)	594,591	349,336	6,624,240
Profit attributable to members of the parent entity		-	-	-	1,249,238	1,249,238
Other comprehensive income for the period		-	18,645	-	-	18,645
Total comprehensive income for the period		-	18,645	-	1,249,238	1,267,883
Transactions with owners in their capacity as owners:						
Shares issued during the period		51,512	-	-	-	51,512
Dividends paid or provided for		-	-	-	(1,805,424)	(1,805,424)
Share-based payment expense		-	-	315,235	-	315,235
Balance at 30 June 2010		5,791,147	(40,677)	909,826	(206,850)	6,453,446

**Statement of cash flows
for the year ended 30 June 2010**

	Notes	Consolidated entity		Parent entity	
		2010	2009	2010	2009
		\$	\$	\$	\$
Cash flows from operating activities					
Receipts from operations		14,111,414	14,241,650	9,906,897	10,401,154
Payment to suppliers & employees		(12,274,001)	(11,926,618)	(10,558,223)	(9,625,550)
Dividends received		-	-	1,797,057	1,202,596
Interest/distributions received		130,785	201,146	101,847	148,295
Income tax paid		(812,425)	(467,942)	(161,346)	36,734
Bonus		(170,904)	(245,201)	(170,904)	(245,201)
Tithe		(135,644)	(200,891)	(135,644)	(200,891)
Net cash provided by (used in) operating activities	22 (b)	<u>849,225</u>	<u>1,602,144</u>	<u>779,684</u>	<u>1,717,137</u>
Cash flows from investing activities					
Proceeds from sale of investments		1,847,723	1,185,344	1,847,723	1,185,344
Purchase of property, plant & equipment		(500,035)	(239,450)	(500,035)	(239,450)
Purchase of investments		(1,133,628)	(1,141,871)	(1,133,628)	(1,141,871)
Loans to staff		(49,889)		(49,889)	
Repayment of loans		18,783	11,118	18,783	11,118
Net cash provided by (used in) investing activities		<u>182,954</u>	<u>(184,859)</u>	<u>182,954</u>	<u>(184,859)</u>
Cash flows from financing activities					
Proceeds from share issue		51,512	171,084	51,512	171,084
Share buy-back payment		-	(195,811)	-	(195,811)
Dividends paid		(1,805,424)	(1,330,329)	(1,805,424)	(1,330,329)
Net cash provided by (used in) financing activities		<u>(1,753,912)</u>	<u>(1,355,056)</u>	<u>(1,753,912)</u>	<u>(1,355,056)</u>
Net increase (decrease) in cash held		(721,733)	62,229	(791,274)	177,222
Cash at beginning of financial year		2,614,467	2,552,238	1,226,311	1,049,089
Cash at end of financial year	22 (a)	<u>1,892,734</u>	<u>2,614,467</u>	<u>435,037</u>	<u>1,226,311</u>

The accompanying notes form part of these financial statements

Notes to the financial statements for the year ended 30 June 2010

Note 1 - Statement of significant accounting policies

Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The financial report covers the consolidated entity of Australian Ethical Investment Limited and its wholly owned entity Australian Ethical Superannuation Pty Ltd and Australian Ethical Investment Limited as an individual parent entity. Australian Ethical Investment Limited is a listed public company and both the parent and wholly owned entity are incorporated and domiciled in Australia.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

Accounting policies

a) Principles of consolidation

A controlled entity is any entity Australian Ethical Investment Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of controlled entities have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

The consolidated financial statements comprise the financial statements of Australian Ethical Investment Limited and its wholly owned entity Australian Ethical Superannuation Pty Limited.

b) Income tax

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Notes to the financial statements for the year ended 30 June 2010

Note 1 - Statement of significant accounting policies - continued

b) Income tax - continued

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Australian Ethical Investment Limited and its wholly owned entity Australian Ethical Superannuation Pty Ltd have formed an income tax consolidated group under the Tax Consolidation System. Australian Ethical Investment Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The group notified the Australian Tax Office (ATO) on 24 March 2004 that it had formed an income tax consolidated group to apply from 1 July 2002. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group. Under the tax sharing agreement Australian Ethical Superannuation Pty Ltd agrees to pay its share of the income tax payable to Australian Ethical Investment Limited on the same day that Australian Ethical Investment Limited pays the ATO for group tax liabilities.

c) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Property

Leasehold land and buildings are shown at cost less any accumulated depreciation and any accumulated impairment losses.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the re-valued amount of the asset.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets

Notes to the financial statements for the year ended 30 June 2010

Note 1 - Statement of significant accounting policies - continued

c) Property, plant and equipment - continued

employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets including buildings, is depreciated over their estimated useful lives to the consolidated entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of assets are:

Class of fixed asset	Depreciation rates	Depreciation basis
Buildings	2.5%-20%	Straight line
Furniture, fittings and equipment	10% to 37.5%	Straight line/diminishing value
Software	18.75% to 40%	Straight line/diminishing value

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

d) Intangible assets

The development of the company's website was capitalised as an intangible asset and carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over its estimated useful life at two and half years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

e) Financial instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Available-for-sale financial assets

The consolidated entity holds only available for sale financial assets. Available for sale financial assets are assets not classified as financial assets at fair value through profit and loss, loans and receivables, or held-to-maturity investments. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Notes to the financial statements for the year ended 30 June 2010

Note 1 - Statement of significant accounting policies – continued

e) Financial instruments– continued

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

f) Impairment of assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

g) Employee benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Share options and rights

Share based compensation benefits are provided to employees via the Australian Ethical Investment Limited employee share ownership plan. Share options and rights have been granted annually to employees and details are disclosed in the annual financial report.

Share options granted before 7 November 2002 and/or vested before 1 January 2005

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

Share options granted on or after 7 November 2002 and vested after 1 January 2005

The fair value of options granted under the Australian Ethical Investment Limited employee share ownership plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the vesting period.

At each balance sheet date, the entity revises its estimate of the number of options and rights that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Notes to the financial statements for the year ended 30 June 2010

Note 1 - Statement of significant accounting policies – continued

g) Employee benefits - continued

Upon the exercise of options and rights the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

Employee bonus

The group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

h) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

i) Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks.

j) Revenue

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

All revenue is stated net of the amount of goods and services tax (GST).

k) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

l) Tithes expense

The Company's Constitution states that "the directors before recommending or declaring any dividend to be paid out of the profits of any one year must have first:-

- (i) paid or provisioned for payment to current employees, or other persons performing work for the company, a work related bonus or incentive payment, set at the discretion of the directors, but to be no more than 30 percent (30%) of what the profit for that year would have been had not the bonus or incentive payment been deducted"

Notes to the financial statements for the year ended 30 June 2010

Note 1 - Statement of significant accounting policies - continued

l) Tithes expense - continued

- (ii) "gifted or provisioned for gifting an amount equivalent to ten percent (10%) of what the profit for that year would have been had not the above mentioned bonus and amount gifted been deducted".

m) Earnings per share

Basic earnings per share

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

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of the interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

n) Comparative figures

Where required comparative figures have been adjusted to conform with changes in presentation for the current financial year.

Critical accounting estimates and judgements

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key estimates – annual leave and long service leave provision

In estimating the annual leave and long service leave provision, an average salary increase of five percent has been incorporated.

Key judgements

Australian Ethical Investment Limited has a loan receivable from the Centre for Australian Ethical Research recorded as an asset on its balance sheet for \$82,492. The directors have determined that no provision for impairment is required for this loan.

Accounting Standards not previously applied

The Group has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current interim period. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in information from that previously made available.

Presentation of Financial Statements

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in this financial report include:

- the replacement of the income statement with the statement of comprehensive income. Items of income and expense not recognised in profit or loss are now disclosed as

Notes to the financial statements for the year ended 30 June 2010

Note 1 - Statement of significant accounting policies - continued

Accounting Standards not previously applied - continued

components of 'other comprehensive income'. In this regard, such items are no longer reflected as equity movements in the statement of changes in equity;

- the adoption of the single statement approach to the presentation of the statement of comprehensive income; and
- other financial statements are renamed in accordance with the Standard.

Operating Segments

From 1 July 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the group's chief operating decision maker which, for the group, is the Board of Directors. In this regard, such information is provided using different measures to those used in preparing the statement of comprehensive income and statement of financial position. Reconciliations of such management information to the statutory information contained in the interim financial report have been included.

New accounting standards for application in future periods

The AASB has issued new, revised and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the group follows:

AASB 9: Financial Instruments and AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013). These standards are applicable retrospectively and amend the classification and measurement of financial assets. The group has not yet determined the potential impact on the financial statements.

AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011). This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the group.

AASB 2009-8: Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010). These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the group.

Notes to the financial statements for the year ended 30 June 2010

Note 1 - Statement of significant accounting policies – continued

New accounting standards for application in future periods – continued

AASB 2009-10: Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010). These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its non-derivative equity instruments. These amendments are not expected to impact the group.

AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011). This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the group.

AASB 2009-13: Amendments to Australian Accounting Standards arising from Interpretations 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010). This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the group.

	Consolidated entity		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$

Note 2 - Auditors' remuneration

Remuneration of the auditors for:

Audit services

- Auditing the financial report	38,279	37,220	33,629	32,720
- Auditing the sustainability report	5,750	5,500	5,750	5,500

Non-audit services

- Tax and other accounting advice	3,371	3,770	3,371	3,280
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Note 3 - Revenue

Operating activities

- Management fees net of rebates	10,801,006	9,745,880	4,701,333	4,484,603
- Entry fees	1,349,887	1,439,173	157,968	188,605
- Member & withdrawal Fees	536,221	503,448	-	-
- Other fees	1,162,694	1,102,776	1,162,694	1,102,776
- Dividend from wholly owned subsidiary	-	-	1,797,057	1,202,596
- Interest/distributions	123,949	191,671	95,011	138,819
- Wholly owned entity fee	-	-	3,892,705	3,445,918
- Other revenue	94,142	148,483	85,038	89,578
	14,067,899	13,131,431	11,891,805	10,652,895
Total revenue	14,067,899	13,131,431	11,891,805	10,652,895

Notes to the financial statements for the year ended 30 June 2010

	Consolidated entity		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Note 4 - Income tax expense				
a) The components of tax expense comprise:				
- Current tax	560,819	584,440	(109,344)	28,380
- Deferred tax	22,131	35,751	19,176	35,901
	<u>582,950</u>	<u>620,191</u>	<u>(90,168)</u>	<u>64,281</u>
b) The prima facie tax payable on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:				
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2009:30%)				
- Consolidated entity	481,651	546,883	-	-
- Parent entity	-	-	347,721	351,772
- Other members of the income tax consolidated group net of intercompany transactions	-	-	673,118	555,910
Add: tax effect of:				
- Other non-allowable items	1,891	1,982	1,820	1,962
- Share options expensed during year	94,570	66,938	94,570	66,938
- Under provision for income tax in prior year	5,582	15,977	5,582	15,977
	<u>583,694</u>	<u>631,780</u>	<u>1,122,811</u>	<u>992,559</u>
Less: tax effect of:				
- Rebateable fully franked dividends	-	-	(539,117)	(360,779)
- Franking and foreign tax credits	(744)	(682)	(744)	(682)
- Tax allowance on capital investment	-	(10,907)	-	(10,907)
	<u>582,950</u>	<u>620,191</u>	<u>582,950</u>	<u>620,191</u>
Income tax expense attributable to entity				
Allocation of income tax expense to wholly owned entity under the tax sharing agreement	-	-	(673,118)	(555,910)
	<u>582,950</u>	<u>620,191</u>	<u>(90,168)</u>	<u>64,281</u>
Income tax expense attributable to entity				
The applicable weighted average effective tax rates are as follows:	36%	34%	(8%)	5%

Notes to the financial statements for the year ended 30 June 2010

	Consolidated entity		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Note 5 - Dividends				
(a) Distributions paid				
Final fully franked dividend of 132 (2009: 120) cents per share franked at the tax rate of 30% (2009: 30%)	1,308,854	1,181,596	1,308,854	1,181,596
Interim fully franked dividend of 50 (2009: 15) cents per share franked at the tax rate of 30% (2009: 30%)	496,570	148,733	496,570	148,733
	<u>1,805,424</u>	<u>1,330,329</u>	<u>1,805,424</u>	<u>1,330,329</u>
(b) Distributions declared				
Final fully franked dividend of 50 (2009: 132) cents per share franked at the tax rate of 30% (2009: 30%)	496,570	1,308,854	496,570	1,308,854
Special fully franked dividend 100 cents per share franked at the tax rate of 30%	993,141	-	993,141	-
(c) Franking account				
Balance of franking account at year end adjusted for franking credits which will arise from income tax payments in the following year.			1,418,530	1,629,081
Subsequent to year-end, the franking account would be reduced by the declared dividend reflected above as follows:			638,448	560,937
			<u>780,082</u>	<u>1,068,144</u>
Note 6 - Earnings per share				
(a) Earnings used to calculate basic EPS and dilutive EPS	1,022,555	1,202,752		
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	992,385	988,984		
Weighted average number of rights outstanding	9,516	-		
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	1,001,901	988,984		
Note 7 - Cash and cash equivalents				
Cash on hand	300	300	300	300
Cash at bank	1,020,195	137,016	6,842	5,357
Deposits at call	872,239	2,477,151	427,895	1,220,654
	<u>1,892,734</u>	<u>2,614,467</u>	<u>435,037</u>	<u>1,226,311</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Deposits at call is money invested in high interest bank account. Interest is calculated daily based on daily bank deposit rates.

Notes to the financial statements for the year ended 30 June 2010

	Consolidated entity		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Note 8 - Trade and other receivables				
Trade receivables	3,039,901	1,783,351	2,516,422	1,050,014
Other	10,128	17,508	10,128	17,508
Amounts receivable - wholly owned entity	-	-	78,324	221,409
	<u>3,050,029</u>	<u>1,800,859</u>	<u>2,604,874</u>	<u>1,288,930</u>

Note 9 - Financial assets

Available-for-sale financial assets	973,096	1,661,701	1,289,096	1,977,701
Loans	125,850	94,744	125,850	94,744
	<u>1,098,946</u>	<u>1,756,445</u>	<u>1,414,946</u>	<u>2,072,445</u>
Less non-current portion	100,505	82,492	416,505	398,492
Current portion	<u>998,441</u>	<u>1,673,953</u>	<u>998,441</u>	<u>1,673,953</u>

a. Available-for-sale financial assets comprise:

- Money market deposit at cost	500,000	1,141,871	500,000	1,141,871
- Mortgage backed security at fair value	144,616	199,081	144,616	199,081
- Listed securities at fair value	2,558	-	2,558	-
- Units in unit trust at fair value	325,922	320,749	325,922	320,749
- Shares in wholly owned entity at cost	-	-	316,000	316,000
	<u>973,096</u>	<u>1,661,701</u>	<u>1,289,096</u>	<u>1,977,701</u>

The money market deposit is at a fixed interest rate of 5.9% with maturity date of 31 August 2010 and is investment grade rated by S&P.

The mortgage backed security is at a floating interest rate of BBSW + 0.39, has a maturity date of 24 October 2035 and is investment grade rated by S&P.

b. Loans comprise

- Loan to other entity	82,492	94,744	82,492	94,744
- Loan to staff	43,358	-	43,358	-
	<u>125,850</u>	<u>94,744</u>	<u>125,850</u>	<u>94,744</u>

The first loan is provided to an independent entity with a fixed interest rate of 9.0% and matures 1 August 2015.

Loan to staff is provided to two staff members under the terms of the employee share loan scheme (ESLS) to purchase shares in the company. The loan is repayable by 30 November 2013 and currently bears interest of 6.65% per annum as per the FBT rate set by the ATO.

Note 10 - Other current assets

Other	11,914	20,902	11,914	20,902
Prepayments	325,281	258,465	285,369	214,360
	<u>337,195</u>	<u>279,367</u>	<u>297,283</u>	<u>235,262</u>

Notes to the financial statements for the year ended 30 June 2010

	Consolidated entity		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Note 11 - Property, plant and equipment				
Land and buildings				
Leasehold land				
At cost	230,000	230,000	230,000	230,000
Total land	<u>230,000</u>	<u>230,000</u>	<u>230,000</u>	<u>230,000</u>
Buildings				
At cost	2,784,117	2,784,117	2,784,117	2,784,117
Accumulated depreciation	(297,085)	(225,528)	(297,085)	(225,528)
Total buildings	<u>2,487,032</u>	<u>2,558,589</u>	<u>2,487,032</u>	<u>2,558,589</u>
Total land and buildings	<u>2,717,032</u>	<u>2,788,589</u>	<u>2,717,032</u>	<u>2,788,589</u>
Plant and equipment				
At cost	2,680,113	2,274,759	2,680,113	2,274,759
Accumulated depreciation	(1,181,977)	(923,767)	(1,181,977)	(923,767)
Total plant and equipment	<u>1,498,136</u>	<u>1,350,992</u>	<u>1,498,136</u>	<u>1,350,992</u>
Total property, plant and equipment	<u>4,215,168</u>	<u>4,139,581</u>	<u>4,215,168</u>	<u>4,139,581</u>
Movements in carrying amounts				
Land				
Balance at the beginning of year	230,000	230,000	230,000	230,000
Additions	-	-	-	-
Disposals	-	-	-	-
Carrying amount at the end of year	<u>230,000</u>	<u>230,000</u>	<u>230,000</u>	<u>230,000</u>
Buildings				
Balance at the beginning of year	2,558,589	2,626,614	2,558,589	2,626,614
Additions	-	-	-	-
Disposals	-	-	-	-
Depreciation expense	(71,557)	(68,025)	(71,557)	(68,025)
Carrying amount at the end of year	<u>2,487,032</u>	<u>2,558,589</u>	<u>2,487,032</u>	<u>2,558,589</u>
Plant and equipment				
Balance at the beginning of year	1,350,992	1,349,187	1,350,992	1,349,187
Additions	430,862	239,704	430,862	239,704
Disposals	(10,286)	(7,421)	(10,286)	(7,421)
Depreciation expense	(273,431)	(230,478)	(273,431)	(230,478)
Carrying amount at the end of year	<u>1,498,136</u>	<u>1,350,992</u>	<u>1,498,136</u>	<u>1,350,992</u>
Total	<u>4,215,168</u>	<u>4,139,581</u>	<u>4,215,168</u>	<u>4,139,581</u>

An independent valuer was contracted to value the land and buildings at 30 June 2009. Independent valuation will be conducted on a three year cycle in order to comply with accounting standard requirements on impairment. Based on the valuation conducted in 2009 and assessment of the market since that date, the cost value of land and building disclosed above is below the commercial valuation and therefore no impairment has occurred.

Notes to the financial statements for the year ended 30 June 2010

	Consolidated entity		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Note 12 - Intangible assets				
Website development costs				
At cost	59,800	-	59,800	-
Accumulated amortisation	(13,503)	-	(13,503)	-
Total intangibles	46,297	-	46,297	-
Website development costs				
Balance at the beginning of year	-	-	-	-
Additions	59,800	-	59,800	-
Disposals	-	-	-	-
Amortisation expense	(13,503)	-	(13,503)	-
Carrying amount at the end of year	46,297	-	46,297	-
Note 13 - Tax assets				
Current tax assets				
Tax refund receivable due to income tax overpayment	24,474	-	213,987	-
	24,474	-	213,987	-
Deferred tax assets				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Employee benefits	362,580	377,916	362,580	377,916
Tithe	40,850	44,060	40,850	44,060
Audit fees	14,220	16,800	12,825	12,450
	417,650	438,776	416,255	434,426
Amounts recognised directly in equity				
Financial asset revaluations	17,433	25,424	17,433	25,424
	435,083	464,200	433,688	459,850
Movements				
Opening balance at 1 July	464,200	489,784	459,850	485,584
Credited (charged) to the statement of comprehensive income	(21,126)	(35,304)	(18,171)	(35,454)
Credited (charged) to equity	(7,991)	9,720	(7,991)	9,720
Closing balance at 30 June	435,083	464,200	433,688	459,850
Note 14 - Trade and other payables				
Trade payables	436,714	253,776	313,031	224,206
Sundry payables and accrued expenses	1,864,510	1,330,217	1,655,441	1,131,968
Employee bonus	194,200	172,380	194,200	172,380
Amounts payable to wholly owned entity	-	-	496,388	424,244
	2,495,424	1,756,373	2,659,060	1,952,798
Note 15 - Deferred tax liabilities				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss:				
Stamp duty on leasehold property:	30,896	30,896	30,896	30,896
Tax deferred income	3,909	2,836	3,909	2,836
	34,805	33,732	34,805	33,732
Movements				
Opening balance at 1 July	33,732	33,285	33,732	33,285
Credited/(charged) to the statement of comprehensive income	1,073	447	1,073	447
Credited/(charged) to equity	-	-	-	-
Closing balance at 30 June	34,805	33,732	34,805	33,732

Notes to the financial statements for the year ended 30 June 2010

	Consolidated entity		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Note 16 - Provisions				
Current				
Employee benefits - long service leave	<u>451,046</u>	535,406	<u>451,046</u>	535,406
	<u>451,046</u>	<u>535,406</u>	<u>451,046</u>	<u>535,406</u>
Non-current				
Employee benefits - long service leave	<u>62,923</u>	49,003	<u>62,923</u>	49,003
	<u>62,923</u>	<u>49,003</u>	<u>62,923</u>	<u>49,003</u>
Note 17 - Issued capital				
Ordinary shares				
Fully paid ordinary shares at the beginning of the financial year 991,556 (2009: 984,003) shares	5,739,635	5,740,791	5,739,635	5,740,791
Issue of share capital				
Shares issued during the year under the employee share ownership plan:				
660 on 23 September 2008 (share bonus)	-	23,570	-	23,570
4,567 on 27 October 2008 (option exercised)	-	113,353	-	113,353
27,814 on 6 November 2008 (options exercised)	-	690,343	-	690,343
2,326 on 26 November 2008 (options exercised)	-	57,731	-	57,731
1,585 on 22 December 2009 (options exercised)	51,512	-	51,512	-
Shares bought back during the year:				
27,814 on 6 November 2008	-	(886,153)	-	(886,153)
Balance 30 June				
993,141 (2009 - 991,556) shares	<u>5,791,147</u>	<u>5,739,635</u>	<u>5,791,147</u>	<u>5,739,635</u>

At 30 June 2010 there were 993,141 fully paid ordinary shares which have no par value.

Options/rights

(i) For detailed information relating to the Australian Ethical Investment Limited employee share ownership plan including details of options/rights issued, exercised and lapsed during the financial year and the options/rights outstanding at year-end, refer to note 25 share-based payments.

(ii) For information related to share options and rights issued to key management personnel during the financial year refer to the remuneration report contained within the directors' report.

Ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the shareholders meeting each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Capital management

The company's capital structure and policies remain relatively simple. The company currently has no debt and capital not required for working purposes is held as an investment in Trevor Pearcey House and in an investment portfolio comprising triple A securities and senior bank debt. Detail provided in Note 9 and 11.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of distributions to shareholders and share issues.

Maintenance of a certain level of capital is a condition of the company's Australian Financial Services Licence. The company currently meets the \$5.0 million capital requirement above which no extra capital is required as a result of increased funds under management.

Notes to the financial statements for the year ended 30 June 2010

Consolidated entity		Parent entity	
2010	2009	2010	2009
\$	\$	\$	\$

Note 18 – Events after the balance sheet date

Since the end of the financial year, no material events that may have an impact on these financial statements have occurred.

The financial report was authorised for issue on the directors' declaration date by the board of directors.

Note 19 - Economic dependence

The consolidated entity is dependent upon management fees received in its capacity as responsible entity of the Australian Ethical Trusts and as trustee of the Australian Ethical Retail Superannuation Fund.

Note 20 - Contingencies

Liabilities and assets of trusts and superannuation fund

Liabilities of the trusts and superannuation fund for which the consolidated entity and parent entity are responsible entity and trustee but not shown in the financial statements of the consolidated entity or parent entity were:

Current liabilities				
Payables	29,220,186	4,537,926	28,346,164	3,037,326
Provisions	11,719,003	4,454,713	10,539,437	3,521,480
Total liabilities	<u>40,939,189</u>	<u>8,992,639</u>	<u>38,885,601</u>	<u>6,558,806</u>

Rights of indemnities for liabilities incurred by the consolidated entity and parent entity not recorded in the financial statements were:

	40,939,189	8,992,639	38,885,601	6,558,806
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The trusts and superannuation fund hold sufficient assets to meet these liabilities as and when they fall due.

The assets of the trusts and superannuation fund are not available to meet any liabilities of the consolidated entity or parent entity acting in their own right.

Notes to the consolidated financial statements for the half-year ended 30 June 2010

Note 21 - Operating segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

Reportable segments disclosed are:

- 1) public offer managed funds (managed funds); and
- 2) public offer retail superannuation fund (super)

(i) Segment performance

	30 June 2010			30 June 2009		
	Managed funds	Super	Total	Managed funds	Super	Total
	\$	\$	\$	\$	\$	\$
Revenue						
External sale	6,107,033	7,836,917	13,943,950	5,865,561	7,074,198	12,939,759
Inter-segment sale	3,892,705	-	3,892,705	3,445,918	-	3,445,918
Interest revenue	95,011	28,938	123,949	138,819	52,852	191,671
Total segment revenue	10,094,749	7,865,855	17,960,604	9,450,298	7,127,050	16,577,348
Inter-segment eliminations			(3,892,705)			(3,445,918)
Total group revenue			14,067,899			13,131,431
Segment net profit before tax	588,405	2,243,491	2,831,896	778,545	1,852,968	2,631,513
Reconciliation of segment result to group net profit/loss after tax						
Income tax expense	90,168	(673,118)	(582,950)	(64,281)	(555,910)	(620,191)
Unallocated items						
- Depreciation and amortisation			(358,491)			(298,503)
- Other corporate overheads *			(867,900)			(510,067)
Group net profit after tax			1,022,555			1,202,751

* Other corporate overheads includes staff bonus, title expense, staff options/rights expense and the payment to the former Chief Executive Officer.

(ii) Segment assets

	30 June 2010			30 June 2009		
	Managed funds	Super	Total	Managed funds	Super	Total
	\$	\$	\$	\$	\$	\$
Assets						
Assets	9,661,280	2,518,170	12,179,450	9,422,379	2,594,193	12,016,572
Inter-segment eliminations			(1,080,224)			(961,653)
Total group assets			11,099,226			11,054,919

(iii) Segment liabilities

Liabilities						
Liabilities	3,207,834	600,589	3,808,423	2,798,139	449,228	3,247,367
Inter-segment eliminations			(764,225)			(645,653)
Total group liabilities			3,044,198			2,601,714

Notes to the financial statements for the year ended 30 June 2010

	Consolidated entity		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Note 22 - Cash flow information				
(a) Reconciliation of cash				
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:				
Cash on hand	300	300	300	300
Cash at bank	1,020,195	137,016	6,842	5,357
Deposits at call	872,239	2,477,151	427,895	1,220,654
	1,892,734	2,614,467	435,037	1,226,311
(b) Reconciliation of cash flow from operations with net profit from ordinary activities after income tax expense				
Net profit from ordinary activities after income tax expense	1,022,555	1,202,753	1,249,238	1,108,293
Non-cash flows in operating profit				
Depreciation	358,491	298,503	358,491	298,503
Provisions	(70,439)	72,973	(70,439)	72,973
(Profit) loss on sale of property, plant & equipment	19,659	7,167	19,659	7,167
(Profit) loss on sale of investment	-	-	-	-
Share options/ rights expensed	315,235	223,127	315,235	223,127
Staff bonus paid in shares	-	23,570	-	23,570
Changes in assets and liabilities				
(Increase) decrease in trade & other receivables	(1,248,023)	11,634	(1,485,227)	9,185
(Increase) decrease in current tax assets	(24,474)	-	(213,987)	-
(Increase) decrease in prepayments & other assets	(57,829)	(30,876)	(62,022)	(31,017)
(Increase) decrease in deferred tax assets	21,126	35,304	18,171	35,454
Increase (decrease) in trade & other payables	739,051	(358,957)	706,262	(95,678)
Increase (decrease) in current tax liability	(227,201)	116,500	(56,771)	65,114
Increase (decrease) in deferred tax liability	1,074	447	1,074	447
Net cash provided by (used in) operating activities	849,225	1,602,144	779,684	1,717,137
(c) Non-cash financing and investing activities				
Shares in Australian Ethical Investment Limited, to the value of \$0 (2009: \$23,570) were issued in lieu of staff bonus.				

Notes to the financial statements for the year ended 30 June 2010

	Consolidated entity		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Note 23 – Related party transactions				
Australian Ethical Investment Limited is the ultimate parent entity and owns 100% of Australian Ethical Superannuation Pty Ltd.				
Australian Ethical Investment Limited acts as the responsible entity for the Australian Ethical Trusts (Australian Ethical Balanced Trust, Australian Ethical Smaller Companies Trust, Australian Ethical Income Trust, Australian Ethical Larger Companies Trust, Australian Ethical International Equities Trust, Australian Ethical World Trust, and the Climate Advocacy Fund).				
Note, During the financial year, the Climate Advocacy Fund and Australian Ethical Property Trust were established, the Australian Ethical Equities Trust changed its name to the Australian Ethical Smaller Companies Trust and the Australian Ethical Large Companies Share Trust changed its name to the Australian Ethical Larger Companies Trust.				
Australian Ethical Superannuation Pty Ltd acts as trustee for the Australian Ethical Retail Superannuation Fund.				
Transactions between related parties are on commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.				
Australian Ethical Superannuation Pty Ltd				
a) Transactions between Australian Ethical Investment Limited and its wholly owned entity, Australian Ethical Superannuation Pty Ltd during the financial year consisted of:				
(i) Transactions whereby Australian Ethical Investment Limited provides management services to the wholly owned entity on a cost recovery basis	-	-	3,892,705	3,445,918
(ii) Transactions between Australian Ethical Investment Limited and its wholly owned entity under the tax consolidation and related tax sharing agreement referred to in Note 1(b).	-	-	673,117	555,910
(iii) Transactions whereby Australian Ethical Investment Limited collects management fee income on behalf of wholly owned entity and on-pays this management fee income to the wholly owned entity on a monthly basis.	-	-	5,987,343	5,054,272
(iv) Transactions whereby Australian Ethical Investment Limited receives a dividend from the wholly owned entity referred to in Note 3.	-	-	1,797,057	1,202,596
b) Outstanding balances at balance date:				
Amounts receivable from wholly owned entity:				
Taxation and other	-	-	78,324	221,409
Amounts payable to wholly owned entity:				
Management fee income	-	-	496,388	424,244

Notes to the financial statements for the year ended 30 June 2010

	Consolidated entity		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Note 23 – Related party transactions - continued				
Australian Ethical Trusts				
a) Transactions between Australian Ethical Investment Limited, as responsible entity, and the Australian Ethical Trusts during the financial year consisted of:				
(i) Transactions whereby Australian Ethical Investment Limited provides investment services to the Australian Ethical Trusts in accordance with the trust deed.				
- Australian Ethical Balanced Trust	3,563,536	3,521,848	3,563,536	3,521,848
- Australian Ethical Smaller Companies Trust	3,842,863	3,286,338	3,842,863	3,286,338
- Australian Ethical Income Trust	327,041	316,833	327,041	316,833
- Australian Ethical Larger Companies Trust	1,964,631	2,065,893	1,964,631	2,065,893
- Australian Ethical International Equities Trust	1,017,719	476,444	1,017,719	476,444
- Australian Ethical World Trust	14,026	35,377	14,026	35,377
- Australian Ethical Property Trust	136,068	-	136,068	-
- Climate Advocacy Fund	510	-	510	-
(ii) Transactions whereby Australian Ethical Investment Limited provides accounting services to the Australian Ethical Trusts in accordance with the trust deed.				
- Australian Ethical Balanced Trust	274,208	275,896	274,208	275,896
- Australian Ethical Smaller Companies Trust	220,101	218,138	220,101	218,138
- Australian Ethical Income Trust	94,591	92,595	94,591	92,595
- Australian Ethical Larger Companies Trust	140,969	142,057	140,969	142,057
- Australian Ethical International Equities Trust	110,050	109,072	110,050	109,072
- Australian Ethical World Trust	15,572	42,156	15,572	42,156
- Australian Ethical Property Trust	18,362	-	18,362	-
(iii) Transactions whereby Australian Ethical Investment Limited seeks expense reimbursement from the Australian Ethical Trusts in accordance with the trust deed.				
- Australian Ethical Balanced Trust	40,599	71,058	40,599	71,058
- Australian Ethical Smaller Companies Trust	46,764	81,024	46,764	81,024
- Australian Ethical Income Trust	3,873	6,663	3,873	6,663
- Australian Ethical Larger Companies Trust	30,272	56,101	30,272	56,101
- Australian Ethical International Equities Trust	1,933	7,277	1,933	7,277
- Australian Ethical World Trust	2,808	107	2,808	107
- Australian Ethical Property Trust	9	-	9	-
(iv) Transaction whereby Australian Ethical Investment Limited received a distribution payment from the Australian Ethical Balanced Trust				
	2,695	6,873	2,695	6,873

b) Outstanding balances at balance date:

Notes to the financial statements for the year ended 30 June 2010

	Consolidated entity		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Note 23 – Related party transactions - continued				
Amounts receivable from the Australian Ethical Trusts in relation to investment services, accounting services and reimbursable expenses:				
- Australian Ethical Balanced Trust	85,327	352,189	85,327	352,189
- Australian Ethical Smaller Companies Trust	304,836	351,300	304,836	351,300
- Australian Ethical Income Trust	62,394	40,029	62,394	40,029
- Australian Ethical Larger Companies Trust	150,125	204,066	150,125	204,066
- Australian Ethical International Equities Trust	156,617	56,269	156,617	56,269
- Australian Ethical World Trust	5,908	7,991	5,908	7,991
- Australian Ethical Property Trust	63,816	-	63,816	-
- Climate Advocacy Fund	191	-	191	-
Value of units held by Australian Ethical Investment Limited in the Australian Ethical Balanced Trust	227,064	320,749	227,064	320,749
Value of units held by Australian Ethical Investment Limited in the Climate Advocacy Fund	98,858	-	98,858	-
Distribution receivable from Australian Ethical Balanced Trust	6,057	3,298	6,057	3,298
Distribution receivable from Climate Advocacy Fund	718	-	718	-
Australian Ethical Retail Superannuation Fund				
a) Transactions between the Consolidated entity and the Australian Ethical Retail Superannuation Fund during the financial year consisted of:				
(i) Transactions between Australian Ethical Superannuation Pty Limited and the Australian Ethical Retail Superannuation Fund related to investment services/(rebate of investment services.)				
	112,330	207,004	-	-
Outstanding balances at balance date:				
Amounts receivable from/(payable to) the Australian Ethical Retail Superannuation Fund:				
investment services/(rebate of investment services fee)	14,415	95,853	-	-

Terms and conditions

No provision for doubtful debts have been raised in relation to any outstanding balances and no expense has been recognised in respect of bad or doubtful debts due from related parties.

Outstanding balances are unsecured and are repayable in cash.

Notes to the financial statements for the year ended 30 June 2010

Note 24 - Key management personnel compensation

a) Key management personnel

Names and positions of key management personnel (directors and named executives) at any time during the financial year

Parent entity directors

Name	Position	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	
Justine Hickey	Director, non-executive	
Anne O'Donnell	Managing Director, executive	Resigned 11 August 2009
Les Coleman	Director, non-executive	
André Morony	Director, non-executive	

Other key management personnel

Name	Position	
Gary Leckie	Chief financial officer	
Tim Xlrakis	Finance Investment Manager	
Philip George	Company secretary / legal counsel	
Paul Harding Davis	Head of Distribution	
Martin Halloran	Chief Investment Officer	Resigned 30 June 2010
Phillip Vernon	Chief executive officer	Appointed 7 December 2009
James Jordan	Chief Investment Officer	Appointed 7 June 2010

b) Key management personnel compensation

	Economic entity		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Short-term employment benefits	1,866,314	1,779,448	1,809,139	1,684,770
Post-employment benefits	158,141	147,726	153,731	139,941
Other long-term benefits	21,010	34,778	21,010	34,778
Termination benefits	235,000	-	235,000	-
Share-based payments ⁽ⁱ⁾	175,747	110,320	175,747	110,320
Total compensation	2,456,212	2,072,272	2,394,627	1,969,809

(i) This amount represents the fair value at grant date and does not necessarily reflect the amount expensed through the statement of comprehensive income, which accounts for probabilities of vesting conditions being met.

Further key management personnel remuneration details are included in the remuneration report section of the directors' report.

c) Equity instrument disclosures relating to key management personnel

Option Holdings

Number of options held by key management personnel.

KMP option holdings	Option class	Balance at beginning of year	No. granted	No. expired	No. vested & exercised	Balance at end of year	Vested at end of year	Vested & exercisable at end of year	Vested & unexercisable at end of year
Parent entity directors									
James Thier	AEFAS	1,432	-	(1,432)	-	-	1,432	1,432	-
	AEFAT	1,517	-	-	-	1,517	-	-	-
	AEFAV	1,364	-	-	-	1,364	-	-	-
	2010 Total	4,313	-	(1,432)	-	2,881	1,432	1,432	-
	2009 Total	4,749	1,364	-	(1,800)	4,313	1,800	1,800	-
Howard Pender	AEFAS	1,469	-	(1,469)	-	-	1,469	1,469	-
	AEFAT	1,513	-	-	-	1,513	-	-	-
	AEFAV	1,326	-	-	-	1,326	-	-	-
	2010 Total	4,308	-	(1,469)	-	2,839	1,469	1,469	-
	2009 Total	3,913	1,326	-	(931)	4,308	931	931	-
Anne O'Donnell	AEFAS	2,909	-	(2,909)	-	-	2,909	2,909	-
	AEFAT	3,025	-	-	-	3,025	-	-	-
	AEFAU	2,648	-	-	-	2,648	-	-	-
	2010 Total	8,582	-	(2,909)	-	5,673	2,909	2,909	-
	2009 Total	8,940	2,648	-	(3,006)	8,582	3,006	3,006	-

Notes to the financial statements for the year ended 30 June 2010

Note 24 - Key management personnel compensation - continued

Named executives (including other key management personnel)	Option class	Balance at beginning of year	No. granted	No. expired	No. vested & exercised	Balance at end of year	Vested at end of year	Vested & exercis- able at end of year	Vested & un- exercisable at end of year
Philip George	AEFAS	2,356	-	-	(2,356)	-	2,356	2,356	-
	AEFAT	2,469	-	-	-	2,469	-	-	-
	AEFAU	2,169	-	-	-	2,169	-	-	-
	2010 Total	6,994	-	-	(2,356)	4,638	2,356	2,356	-
	2009 Total	6,375	2,169	-	(1,550)	6,994	1,550	1,550	-
Gary Leckie	AEFAS	1,443	-	(1,443)	-	-	1,443	1,443	-
	AEFAT	1,767	-	-	-	1,767	-	-	-
	AEFAU	1,919	-	-	-	1,919	-	-	-
	2010 Total	5,129	-	(1,443)	-	3,686	1,443	1,443	-
	2009 Total	4,597	1,919	-	(1,387)	5,129	1,387	1,387	-
Tim Xirakis	AEFAS	1,387	-	(1,387)	-	-	1,387	1,387	-
	AEFAT	1,776	-	-	-	1,776	-	-	-
	AEFAU	1,895	-	-	-	1,895	-	-	-
	2010 Total	5,058	-	(1,387)	-	3,671	1,387	1,387	-
	2009 Total	3,163	1,895	-	-	5,058	-	-	-
Paul Harding Davis	AEFAU	1,060	-	-	-	1,060	-	-	-
	2010 Total	1,060	-	-	-	1,060	-	-	-
	2009 Total	-	1,060	-	-	1,060	-	-	-
James Jordan	AEFAT	1,146	-	-	-	1,146	-	-	-
	AEFAU	1,243	-	-	-	1,243	-	-	-
	2010 Total	2,389	-	-	-	2,389	-	-	-
	2009 Total	1,146	1,243	-	-	2,389	-	-	-

Rights holdings

Number of rights held by key management personnel.

KMP rights holdings	Rights class	Balance at beginning of year	No. granted	No. forfeited	No. vested & exercised	Balance at end of year	Vested at end of year	Vested & exercisa- ble at end of year	Vested & un- exercisable at end of year
Parent entity directors									
James Thier	AEFAW	-	319	-	-	319	-	-	-
	2010 Total	-	319	-	-	319	-	-	-
	2009 Total	-	-	-	-	-	-	-	-
Howard Pender	AEFAW	-	320	-	-	320	-	-	-
	2010 Total	-	320	-	-	320	-	-	-
	2009 Total	-	-	-	-	-	-	-	-
Philip George	AEFAW	-	501	-	-	501	-	-	-
	2010 Total	-	501	-	-	501	-	-	-
	2009 Total	-	-	-	-	-	-	-	-
Gary Leckie	AEFAW	-	506	-	-	506	-	-	-
	2010 Total	-	506	-	-	506	-	-	-
	2009 Total	-	-	-	-	-	-	-	-
Tim Xirakis	AEFAW	-	493	-	-	493	-	-	-
	2010 Total	-	493	-	-	493	-	-	-
	2009 Total	-	-	-	-	-	-	-	-
Paul Harding Davis	AEFAW	-	531	-	-	531	-	-	-
	2010 Total	-	531	-	-	531	-	-	-
	2009 Total	-	-	-	-	-	-	-	-
Martin Halloran	AEFAW	-	550	(550)	-	-	-	-	-
	AEFAX	-	966	(966)	-	-	-	-	-
	2010 Total	-	1516	(1,516)	-	-	-	-	-
	2009 Total	-	-	-	-	-	-	-	-
James Jordan	AEFAW	-	409	-	-	409	-	-	-
	AEFAX	-	862	-	-	862	-	-	-
	2010 Total	-	1271	-	-	1271	-	-	-
	2009 Total	-	-	-	-	-	-	-	-
Phillip Vernon	AEFAW	-	317	-	-	317	-	-	-
	2010 Total	-	317	-	-	317	-	-	-
	2009 Total	-	-	-	-	-	-	-	-

Notes to the financial statements for the year ended 30 June 2010

Note 24 - Key management personnel compensation - continued

Share holdings

Number of shares held by key management personnel.

		Balance at beginning of year	Acquired / granted as remuneration	On exercise of options/ rights	Net change other (1)	Balance at end of year (2) & (3)
Parent entity directors						
James Thier	2010	65,846	-	-	-	65,846
	2009	64,218	28	1,800	(200)	65,846
Howard Pender	2010	52,283	-	-	(400)	51,883
	2009	51,743	109	931	(500)	52,283
Justine Hickey	2010	700	-	-	-	700
	2009	700	-	-	-	700
Anne O'Donnell	2010	11,988	-	-	(1,500)	10,488
	2009	8,982	168	3,006	(168)	11,988
Named executives (including other key management personnel)						
Philip George	2010	489	-	-	615	1,104
	2009	381	-	1,550	(1,442)	489
Gary Leckie	2010	-	-	-	-	-
	2009	-	-	1,387	(1,387)	-
Paul Harding Davis	2010	78	-	-	1,520	1,598
	2009	-	78	-	-	78

(1) "Net change other" incorporates changes resulting from purchases, sales, forfeitures during the year.

(2) Shares issued are fully paid

(3) Balance represents shareholdings by key management personnel including their related parties as required by AASB 124 Related Party Disclosures

Key management personnel loans

	Balance at beginning of year	Interest charged	Interest not charged	Write-off	Balance at end of year	Individuals at end of year
Key management personnel	\$	\$	\$	\$	\$	
2010	-	1,697.65	-	-	43,358.14	2
2009	-	-	-	-	-	-

(a) The initial loan principal of \$49,888.70 was granted to key management personnel under the Australian Ethical Investment Limited employee share loan scheme (ESLS) and represents 1,585 ordinary shares.

(b) The loan is repayable by 30 November 2013 and currently bears interest at 6.65 % per annum as per the FBT interest rate set by the ATO

(c) In the 2009-10 reporting period, there were no loans to individuals that exceeded \$100,000 at any time.

Note 25 - Share based payments

The following share-based payment arrangements existed at 30 June 2010:

On 24 September 2007, 47,255 share options were granted to non-probationary employees under the Australian Ethical Investment Limited employee share ownership plan. The options were issued for nil consideration, are not exercisable for 3 years from the date of issue, have an exercise price of \$57.57 each and a 3 month window in which to be exercised, and in most circumstances will lapse if the holder is no longer an employee of Australian Ethical Investment Limited. The options hold no voting or dividend rights.

On 14 October 2008, 41,937 share options were granted to non-probationary employees under the Australian Ethical Investment Limited employee share ownership plan and on 1 December 2008, 2,690 share options were granted to executive directors. The options were issued for nil consideration, are exercisable from 14 October 2011, have an exercise price of \$32.27 each and a three month window in which to be exercised. In most circumstances the options will lapse if the holder is no longer an employee of Australian Ethical Investment Limited. The options hold no voting or dividend rights.

Notes to the financial statements for the year ended 30 June 2010

Note 25 - Share based payments - continued

During the reporting period, Australian Ethical Investment Limited issued 1,585 ordinary shares for \$51,512.50 on exercise of 1,585 share options issued under its employee share ownership plan. The exercise of share options resulted in an increase in ordinary shares of 1,585.

During the reporting period 16,330 performance rights in two classes (identifiers: AEF AW and AEF AX) were granted. Under the Australian Ethical Investment Limited employee share incentive scheme (ESIS) participants are granted performance rights to ordinary shares, subject to meeting specified performance criteria over the performance period. The number of shares that the participant will ultimately receive will depend on the extent to which the performance criteria are met by the company and the individual employee. These rights were issued for nil consideration. These rights hold no voting or dividend rights. Subject to the terms and conditions of the ESIS rules, the performance rights have the following attributes determining whether shares will be issued in respect of the rights.

ASX Code	Number granted	Attributes
AEFAW	10,819	<ul style="list-style-type: none"> - employment must continue until 30 June 2012 - the arithmetic average return on equity over the performance period ('AROE') must exceed 15% p.a. or no shares shall be awarded at the end of the performance period; - if the AROE exceeds 15% p.a. but is less than 20% p.a., half the maximum number of shares shall be awarded; - if the AROE is equal to or greater than 20% p.a. the maximum number of shares shall be awarded. - AROE is determined as the arithmetic average of return on equity over six month periods calculated using audited half-year financial statements
AEFAX	5,511	<ul style="list-style-type: none"> - The performance period is the financial years 2009/10, 2010/11 and 2011/12 - employment must continue until 11 November 2010; - the number of shares that will be issued to each employee in respect of their performance rights under this category will be adjusted up or down by a maximum 20%, dependent on the absolute performance of one of the company's managed investment schemes, for which the employee has responsibility or provides significant input. The nominated managed investment scheme has been agreed between the company and the employee. Performance will be measured over a performance period of 1 July 2009 to 30 June 2010.

Performance rights reconciliation	Consolidated entity		Parent entity	
	2010	2009	2010	2009
	Number of rights	Number of rights	Number of rights	Number of rights
Outstanding at the beginning of the financial year	-	-	-	-
Granted	16,330	-	16,330	-
Forfeited	(1,854)	-	(1,854)	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year-end	14,476	-	14,476	-
Exercisable at year-end	-	-	-	-

Fair value - Rights

All rights were calculated at grant date based on the underlying share prices minus estimated net present value of future dividends that the holders of rights are not entitled for.

Notes to the financial statements for the year ended 30 June 2010

Note 25 - Share based payments - continued

Weighted average fair value - Options

	Consolidated entity				Parent entity			
	2010		2009		2010		2009	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding at the beginning of the financial year	116,777	40.76	116,753	39.31	116,777	40.76	116,753	39.31
Granted	-	32.27	44,627	32.27	-	32.27	44,627	32.27
Forfeited	(16,956)	42.78	(8,523)	43.98	(16,956)	42.78	(8,523)	43.98
Exercised	(1,585)	31.00	(34,707)	30.34	(1,585)	31.00	(34,707)	30.34
Expired	(29,554)	31.00	(1,373)	24.82	(29,554)	31.00	(1,373)	24.82
Outstanding at year-end	68,682	44.00	116,777	40.76	68,682	44.00	116,777	40.76
Exercisable at year-end	-	-	-	-	-	-	-	-

There were 1,585 options exercised during the year ended 30 June 2010. The weighted average share price calculated as at exercise dates of these options was \$31.00.

The options outstanding at 30 June 2010 had a weighted average exercise price of \$44.00 and a weighted average remaining contractual life of 1.05 years. Exercise prices range from \$32.27 to \$57.57 in respect of options outstanding at 30 June 2010

Included under employee benefits expense in the statement of comprehensive income is :
 \$190,602 (2009: \$223,127) relating to options issued under the employee share ownership plan;
 \$124,633 (2009: Nil) relating to rights issued under the employee share ownership plan; and,
 \$0 (2009: \$23,570) relating to equity settled share based payment transactions for staff bonus.

Note 26 - Financial instruments

(a) Financial risk management

The consolidated entity's financial instruments consist of cash and cash equivalents (note 7), trade and other receivables (note 8), financial assets (note 9) and trade and other payables (note 14).

The main purpose of these financial instruments is to finance the consolidated entity's operations. The consolidated entity has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

(b) Interest rate risk

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities is as follows:

	Weighted average effective interest rate		Floating interest rate		Fixed interest rate within 1 year	
	2010	2009	2010	2009	2010	2009
	%	%	\$	\$	\$	\$
Cash and cash equivalent:	4	5	1,892,434	2,614,167	-	-
Trade and other receivables					-	-
Financial assets	5	5	485,040	519,829	513,401	1,154,124
Total financial assets			2,377,474	3,133,996	513,401	1,154,124
Trade and other payables			-	-	-	-
Total financial liabilities			-	-	-	-

Notes to the financial statements for the year ended 30 June 2010

(b) Interest rate risk - continued

	Fixed interest rate within 1 to 5 years		Non-interest bearing		Total	
	2010	2009	2010	2009	2010	2009
	\$	\$	\$	\$	\$	\$
Cash	-	-	300	300	1,892,734	2,614,467
Trade and other receivable	-	-	3,050,029	1,800,859	3,050,029	1,800,859
Financial assets	100,505	82,492	-	-	1,098,946	1,756,445
Total financial assets	100,505	82,492	3,050,329	1,801,159	6,041,709	6,171,771
Trade and other payables	-	-	2,495,424	1,756,373	2,495,424	1,756,373
Total financial liabilities	-	-	2,495,424	1,756,373	2,495,424	1,756,373

(c) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

Quantitative details related to financial assets is contained in Note 9.

In relation to the financial asset – loan to independent entity – disclosed at Note 9, the loan agreement between the parent entity and the independent entity provides for the parent to enforce a security over the independent entity's assets should a default in loan payments occur. The independent entity has not defaulted in loan payments over the term of the loan to date.

Consideration of credit risk in relation to financial assets is incorporated into executive management risk considerations. The defined investment parameters governing the approval of financial asset investments incorporates a sliding scale of risk exposure as follows:

- The maximum exposure to any one issuer is to be no greater than twenty five per cent of the portfolio;
- Minimum amount to be held in cash, AAA securities or senior bank debt is fifty per cent of the portfolio; and
- Minimum amount to be held in cash, AAA securities, senior bank debt, rated corporate debt or subordinated bank debt to be eighty per cent of the portfolio.

In relation to loans to staff disclosed in note 9, under the terms of the loan agreement, staff loans were used to purchase shares of Australian Ethical Investment Ltd and the shares are used as security and registered under the subsidiary's name (Australian Ethical Superannuation Pty Ltd is the trustee of the employee share loan scheme) until the loans are paid off.

(d) Liquidity risk

The group carries no borrowing debt on the statement of financial position and has sufficient reserves of cash, cash equivalents and liquid investments to assess the liquidity risk as low. The cash position and cash flows are reviewed by the executive management to ensure regulatory and future operational requirements are catered for.

Trade and other payables are expected to be paid as follows:

	Consolidated entity		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Less than 6 months	1,994,991	1,253,442	2,158,627	1,449,867
6 months to 1 year	500,433	502,931	500,433	502,931
1 to 5 years	-	-	-	-
	2,495,424	1,756,373	2,659,060	1,952,798

(e) Net fair values

For other assets and other liabilities the net fair value approximates their carrying value.

Notes to the financial statements for the year ended 30 June 2010

Note 26 - Financial instruments - continued

(f) Sensitivity analysis

The group has performed a sensitivity analysis relating to its exposure to interest rate risk. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in the interest rate (all other variables remaining constant). The sensitivity analysis is based only on cash and investments subject to a floating interest rate.

	Consolidated entity		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Change in profit				
- Increase in interest rate by 2%	47,555	62,686	18,402	34,923
- Decrease in interest rate by 2%	(47,555)	(62,686)	(18,402)	(34,923)
Change in equity				
- Increase in interest rate by 2%	47,555	62,686	18,402	34,923
- Decrease in interest rate by 2%	(47,555)	(62,686)	(18,402)	(34,923)

DIRECTORS' DECLARATION

The Directors of Austalian Ethical Investment Limited declare the following :

1. The financial statements and notes, as set out on pages 33 to 63 and the additional disclosures in the directors' report designated as audited are in accordance with the *Corporations Act 2001* ;

(a) comply with accounting standards, which, as stated in accounting policy note 1 to the financial statements, constitutes explicit and unreserved compliance with international financial reporting standards (IFRS); and

(b) give a true and fair view of the financial position as at 30 June 2010 and of the performance for the financial year ended on that date of the company and consolidated entity.

2. The Chief Executive Officer and Chief Finance Officer have each declared that :

(a) the financial records of the company for the financial year have been properly maintained in accordance with *section 286 of the Corporations Act 2001* ;

(b) The financial statements and notes for the financial year comply with the Accounting Standards; and

(c) financial statements and notes for the financial year give a true and fair view.

3. In the directors' 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.

This declaration is made in accordance with a resolution of the board of directors.



Phillip Vernon

Managing Director

Dated this 30 August 2010

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
AUSTRALIAN ETHICAL INVESTMENT LIMITED**

Report on the Financial Report

We have audited the accompanying financial report of Australian Ethical Investment Limited (the company) and Australian Ethical Investment Limited and controlled entity (the consolidated entity), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entity it controlled at the year's end or from to time during the financial year.

Directors' Responsibility for the Financial Report

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001

Auditor's Opinion

In our opinion:

- (a) the financial report of Australian Ethical Investment Limited and Australian Ethical Investment Limited and Controlled Entity is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June, 2010 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 14 of the directors' report for the year ended 30 June, 2010. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Australian Ethical Investment Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.



THOMAS DAVIS & CO.



P.L. WHITEMAN PARTNER

Chartered Accountants

SYDNEY,

30 August, 2010

Liability limited by a scheme approved under Professional Standards Legislation

Shareholder information

All information as at 20 September 2010

Distribution of shareholdings

Ordinary shares

Holdings ranges	Holders	Units	%
1-1,000	760	188,422	18.983
1,001-5,000	91	198,402	19.989
5,001-10,000	5	35,621	3.589
10,001-100,000	14	373,660	37.645
100,001+	1	196,472	19.794
Totals	871	992,577	100.000

Options issued under the Employee Options Scheme

Holdings ranges	Holders	Units	%
1-1,000	27	12,439	14.958
1,001-5,000	24	54,523	65.566
5,001-10,000	3	16,196	19.476
10,001-100,000	0	0	0.000
100,001+	0	0	0.000
Totals	54	83,158	100.000

Twenty largest shareholders

Ordinary shares

Name	Number of ordinary shares	%	Substantial shareholder
Select Managed Funds Pty Ltd	196,472	19.796	Yes
James Andrew Thier	51,339	5.173	Yes
Mr Howard Pender	49,743	5.012	Yes
Caroline Margaret Le Couteur	49,436	4.981	
Mr Trevor Roland Lee	36,933	3.721	
Mrs Judith Margaret Boag	33,683	3.394	
Ms Judith Ingrouille Ajani	24,462	2.465	
Mr Bruce Allan Mcgregor & Mrs Ann Marion Mcgregor	24,447	2.463	
Citicorp Nominees Pty Limited	20,620	2.078	
Hb Sarjeant & Assoc Pty Ltd	20,140	2.029	
Dr Edward Arthur Icteton	16,500	1.662	
Daisy Thier	14,474	1.458	
Mr Peter Alexander Anderson	10,833	1.091	
Mr Philip Julian Eriksen & Mr Julian Hans Eriksen	10,562	1.064	
Ms Anne Maree O'donnell	10,488	1.057	
Mr Michel Beuchat & Mrs Ann Beuchat	9,667	0.974	
Mr Rodney Matthew Myer	7,332	0.739	
Ubs Wealth Management Australia Nominees Pty Ltd	7,160	0.721	
Mr Robert Douglas Lewin	6,300	0.635	
Mr Roger William Sawkins	5,162	0.520	

Corporate directory

Australian Ethical Investment Ltd
ABN 47 003 188 930

Company secretary
Tom May

Telephone: 02 6201 1953
Facsimile: 02 6201 1987
Email: tmay@australianethical.com.au

Postal address
GPO Box 2435
Canberra ACT 2601
Registered office / place of business

Trevor Pearcey House (Block E)
Traeger Court
34 Thynne Street
Bruce ACT 2617

www.australianethical.com.au

Share registry

Registries Limited
ABN 14 003 209 836

Street: Level 2, 28 Margaret Street
Sydney NSW 2000
Telephone: 02 9290 9600
Facsimile: 02 9279 0664
Mail: PO Box R67
Royal Exchange
Sydney NSW 1223
Email: registries@registriesltd.com.au

www.registriesltd.com.au

Using the Registries Ltd website, shareholders are able to view balances, transaction history and recent dividend payments. They can also view and update email addresses, annual report elections and tax file numbers. Various forms are also available for download to assist in the management of shareholdings.

Stock exchange listing
Australian Securities Exchange ASX code: AEF

Corporate vision and mission

Australian Ethical's vision

By its operations Australian Ethical will promote a sea-change in community-wide practice such that all investment will be undertaken with an ethical purpose as well as in pursuit of competitive return for chosen risk.

Australian Ethical's mission

Australian Ethical's mission is to provide those investors who share our social and environmental aims (as set out in our charter) with the means to earn a competitive return for chosen risk whilst at the same time contributing to a just and sustainable human society and the protection of the natural environment.

In order to fulfil our mission our goals are:

- to select every investment with which we are involved in accord with the Australian Ethical Charter;
- to earn a competitive return for the chosen level of risk upon every portfolio with which we are involved;

- to conduct our own operations in accord with the items of the Australian Ethical Charter, in particular we seek to:
 - nurture staff participation and control of Australian Ethical;
 - achieve a high standard of administrative service for investors in our products;
 - ameliorate wasteful or polluting practices in our own business operations;
 - encourage, care for and provide educational opportunity for our fellow workers, respect their individual needs, aspirations and idiosyncrasies;
 - and ensure our promotional material is comprehensive, transparent and readily understood.
- to generate and disseminate information regarding standards of corporate behaviour and to engage in dialogue with the corporate sector in terms of the items set out in the Australian Ethical Charter.



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