

Chief Executive's report

Profits up despite market volatility

Australian Ethical Investment has performed strongly in the half-year ending 31 December 2007, achieving a consolidated net profit after tax of \$1 083 326. This is a significant increase on the \$765 880 consolidated net profit after tax for the previous corresponding period.

We have seen significant volatility in the financial markets in recent months. This volatility has impacted our overall level of funds under management (FUM). At the beginning of the financial year our total FUM was \$552 million, FUM peaked at \$643 million in early December and has since fallen back with market movements. The strong growth in the first half of the year resulted in increased revenue for the Group and contributed to our strong half-year result.

New service providers

During the half-year we finalised the transfer of the trust assets to a single custodian, a move that is starting to bear fruit in terms of efficiencies and cost savings.

In the annual report I indicated that we were planning to transition the administration of the superannuation fund to a new service provider early in 2008. Despite some problems this process is now well underway. The company will incur one-off transition costs in the current year. The company expects to achieve relative savings in future years.

Trevor Pearcey House

It is almost 12 months since we moved to our refurbished business premises at Trevor Pearcey House. In November the Green Building Council of Australia awarded the building a 6-star Green Star Rating. This rating was only the third to be awarded in Australia and the first for the ACT. The building has met our expectations for resource efficiency and staff comfort and to date appears to be serving both the company and the environment well.

Outlook

Growing our funds under management is essential for the continued growth and profitability of

Australian Ethical. The performance of the Australian Ethical trusts is a key factor in increasing funds under management. Generally, the Australian Ethical trusts have held up well during this period of highly turbulent global markets. Most of the trusts outperformed their respective benchmarks over the six months to December 2007 and have continued to do so.

The share market always has the potential for volatility and this has been amply demonstrated by the reaction of global financial markets to the poor lending practices of the American sub-prime mortgage providers. Sharp movements in markets inevitably affect investor sentiment and if, as we expect, uncertainty continues, there will be a flow on effect to company revenue and profitability. It is, however, extremely difficult to judge the impact of any such flow on at this time.

Our stated strategy is to attract new inflows which allow us to build economies of scale and keep our processes under review to ensure we build greater efficiencies into our business. Many economic commentators are predicating a downgrade in global profits growth and it is clear the remainder of the year will be challenging. We will be continuing to monitor our budget projections closely but do not anticipate making any major changes to our stated strategies at this time.



A handwritten signature in black ink, which appears to be 'Anne O'Donnell', written over a light-colored background.

Anne O'Donnell
Chief Executive Officer

2007 sustainability report

Australian Ethical's 2007 sustainability report is the company's sixth sustainability report prepared with reference to the Global Reporting Initiative (GRI), and the second based on the enhanced G3 GRI guidelines.

The report was checked by GRI and received an application level of A+, the highest possible grading for a sustainability report. Australian Ethical is one of only five Australian companies to achieve the A+ grading.

Australian Ethical is one of the very select few small to medium enterprises around the world which can boast such a strong level and history of sustainability reporting. The other A+ grade sustainability reports were produced by four of Australia's largest companies.

To view a copy of Australian Ethical's 2007 sustainability report please visit www.austethical.com.au.

Australian Ethical strengthens institutional focus



Australian Ethical has recruited Paul Harding-Davis to the newly created position, Head of Distribution.

Paul comes to Australian Ethical with significant experience in the financial services industry including with boutique SRI firm Glebe Asset Management, Absolute Capital and Zurich Financial Services Australia.

Paul's aptitude for getting products onto platforms and establishing strong relationships with dealer groups has been a key contributor to strong fund growth at those companies. Paul's strengths and experience will complement Australian Ethical's strategic focus in these areas.

Chief Executive Officer Anne O'Donnell said 'a key component of Paul's role will be to remove any barriers between investors wanting our products and advisers recommending them. He will also work with asset consultants and trustees to attract institutional funds to our trusts.'

Australian Ethical 100% climate neutral

Australian Ethical continues to be 100% climate neutral with its offsets now provided by Climate Friendly.

As well as purchasing Green Power electricity for its 6 green-star premises, Australian Ethical offset 108 tonnes of greenhouse gas emissions from travel, heating gas and emissions from waste to landfill.

Climate Friendly projects address the root cause of climate change, are permanent and verifiable. The carbon credits purchased by Climate Friendly on our behalf come only from accredited and new renewable energy projects.



Closure of ongoing investigations

A former director and officer of Australian Ethical Investment Ltd (Australian Ethical) Trevor Lee has been, for quite some time, dissatisfied with the Board's investigation into the veracity of a report produced at the request of the Board. The report investigated whether Steiner Schools were an appropriate recipient of loans provided by the Australian Ethical Trusts. The company understands that Mr Lee's core concern about loans made to Steiner Schools is his allegation that Steiner is a 'cult'.

A chronology of events can be found at www.austethical.com.au/shareholder_questions.pdf

Mr Lee's concerns have been addressed many times in the period since they first emerged in 2003. The

Board fears that Mr Lee will never be satisfied. The Board has now concluded that any further expense in responding to Mr Lee's allegations would expose the Board to criticism for wasting company resources.

In investigating the appropriateness of loans to Steiner Schools, the Board has gone well beyond what might have been expected in the circumstances. The Board and staff continue to review all investments and remain open minded to all substantive information that comes to their attention. In the circumstances, the Board has decided not to devote further time and resources to addressing Mr Lee's concerns. This may well lead to Mr Lee taking his concerns with the Board into a public forum.

Premises achieve 6 green-star rating

In November 2007 Australian Ethical's premises were officially awarded 6 green-star accreditation from the Green Building Council of Australia.

The building at Block E Trevor Pearcey House in the ACT suburb of Bruce was just the third building in Australia, and the first in the ACT, to achieve this rating. 6 green-star certification signifies 'world leadership' in sustainable building.

As well as the environmental and resource efficiency benefits, the building has significantly increased staff satisfaction. A 2007 survey revealed 82% of staff were satisfied with their physical working environment (including 60% very satisfied), up from just 29% in 2006.

The premises were also the overall ACT winner of the Keep Australia Beautiful Sustainable Cities Awards, winner of the Resource Recovery Award at the national Keep Australia Beautiful Sustainable Cities



Australian Ethical's reception area features a centerpiece created from used pallets.

Awards, and highly commended at the United Nations Association of Australia World Environment Day Awards.

Australian Ethical share price history

The Australian Ethical share price has experienced considerable movement over the last 12 months. The share price reached a high of \$55 at various times throughout this period. The closing price at 10 March 2008 was \$37.00. A link to our share price is available on our website www.austethical.com.au. The ASX code is AEF.



Australian Ethical sponsorships

Australian Ethical continues to support worthwhile environmental and social activities and increase its marketing reach with a number of new and major sponsorships.

For the second consecutive year Australian Ethical is the major sponsor of the Australian Ethical Big Canberra Bike Ride. Held on Canberra Day the event attracts over 1200 participants and is the major event on the Canberra cycling calendar.

Australian Ethical is sponsoring the Western Australian Conservation Week. Held from 29 March

to 6 April 2008, the Week will feature close to 100 environmental events spread across the state.

After receiving almost 50 entries in 2007 the Australian Ethical Art Prize will be held again this year. Entries will be displayed at the TAP Gallery in Sydney from 12 to 18 May.

Australian Ethical is a major supporter of the Climate Institute's *Australian Religious Response to Climate Change* campaign. The campaign will set up inter-faith networks with the aim of having religious organisations as leaders in responding to climate change.

Financial report

to 31 December 2007

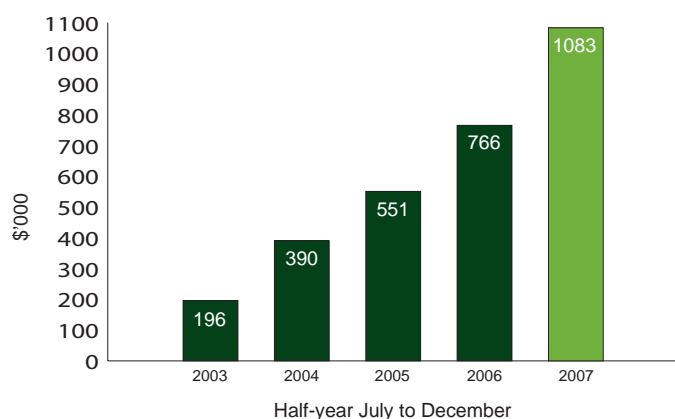
Financial performance

Half-year	Jul to Dec 2007	Jul to Dec 2006	Jul to Dec 2005	Jul to Dec 2004
Revenue (\$'000)	7 241	5 666	4 457	3 482
Net profit after tax (\$'000)	1 083	766	551	390
Basic earnings per share (cents)	113.3	82.9	61.4	44.9

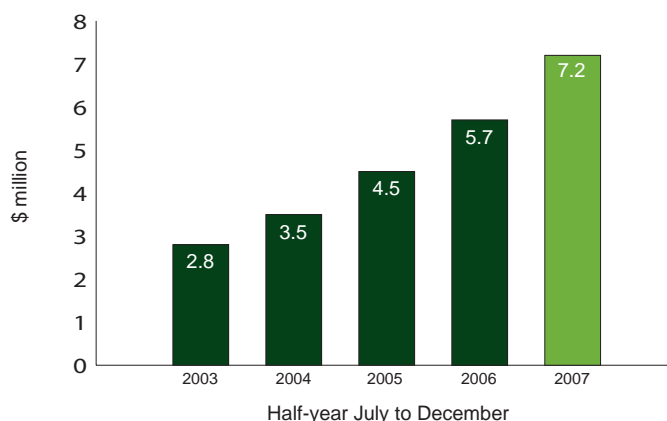
Financial position

as at	31 Dec 2007	31 Dec 2006	31 Dec 2005	31 Dec 2004
Current assets (\$'000)	5 804	5 395	6 308	5 187
Non-current assets (\$'000)	4 769	3 678	2 977	540
Current liabilities (\$'000)	2 293	2 139	3 439	1 097
Non-current liabilities (\$'000)	90	74	81	51
Net assets (\$'000)	8 190	6 860	5 765	4 579

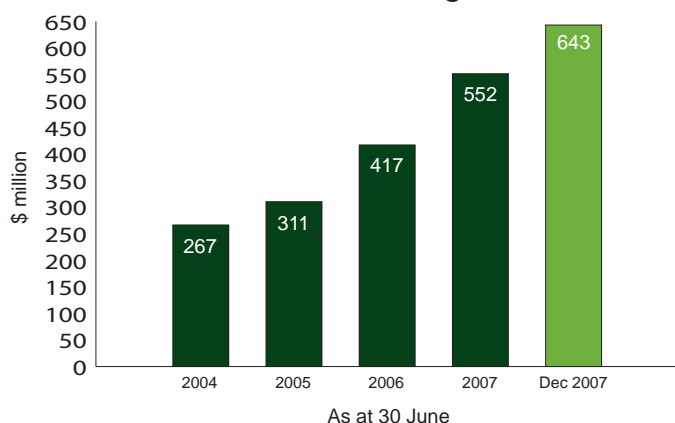
Profit after tax



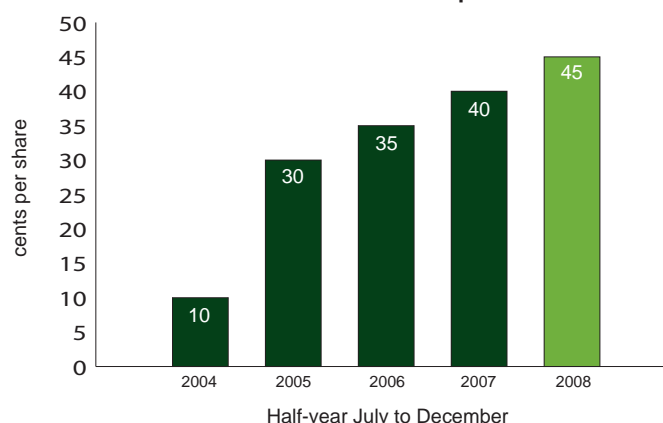
Revenue



Funds under management



Interim dividends paid



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