

Financial report

to 31 December 2005

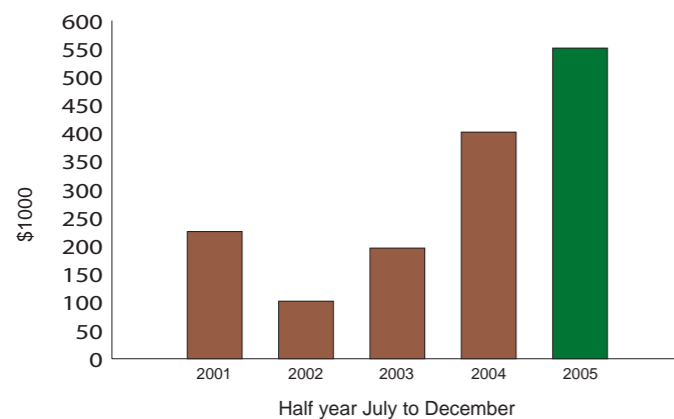
Financial performance

Half year ending	Jul to Dec 2005	Jul to Dec 2004	Jul to Dec 2003	Jul to Dec 2002
Revenue (\$'000)	4 457	3 482	2 789	2 261
Net profit after tax (\$'000)	551	390	196	102
Basic earnings per share (cents)	61.4	44.9	22.6	13.2

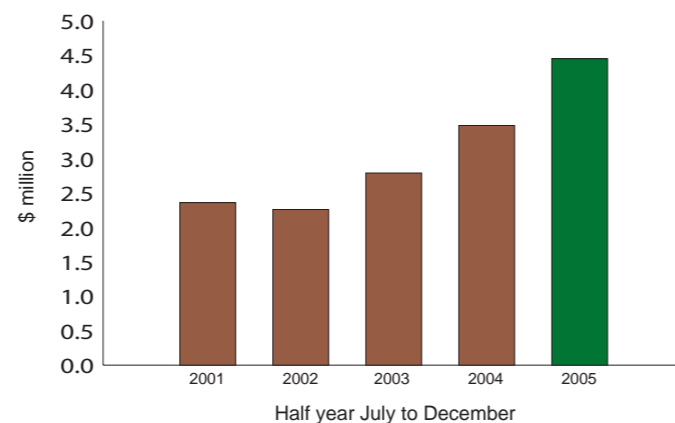
Financial position

as at	31 Dec 2005	31 Dec 2004	31 Dec 2003	31 Dec 2002
Current assets (\$'000)	6 308	5 187	4 894	4 728
Non-current assets (\$'000)	2 977	540	478	322
Current liabilities (\$'000)	3 439	1 097	942	753
Non-current liabilities (\$'000)	81	51	65	34
Net assets (\$'000)	5 765	4 579	4 365	4 263

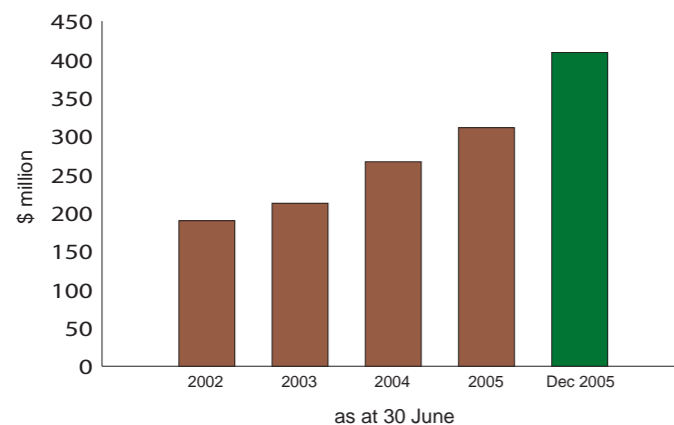
Profit after tax



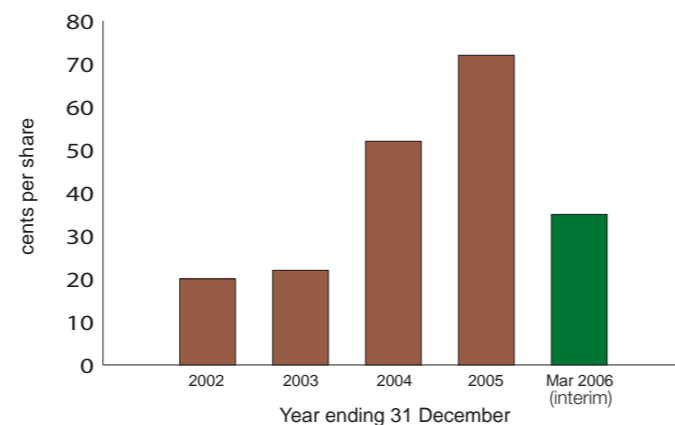
Revenue



Funds under management



Dividends paid



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For investor information, prices and performance visit

www.austethical.com.au

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australian ethical investment

shareholder newsletter

May 2006

CHIEF EXECUTIVE'S REPORT

Profit increase

As reported in last year's annual report, the 2005–06 financial year started strongly with good trust returns and choice of superannuation legislation allowing employees to switch their superannuation to ethical investments. Over the first half of the financial year, funds flowing into the trusts and the super fund exceeded budget projections.

Funds under management reached \$409 million (ex distribution) at 31 December 2005, an increase of 32 per cent from \$311 million (ex distribution) at 30 June 2005. Growth in funds under management increases revenue. With costs well contained, there has been an increase in the trading result. The Australian Ethical group (Australian Ethical Investment Limited and its wholly owned subsidiary, Australian Ethical Superannuation Pty Ltd) has reported a consolidated net profit after income tax for the half-year of \$551 080. This is up from \$390 532 for the previous corresponding period.

Interim dividend

Following the excellent trading result, the directors agreed to an interim dividend, fully franked, of 35 cents per share. The interim dividend paid in March 2005 was 30 cents per share. See the graphs on page 4 for more details.

Building purchase

Plans to build an environmentally exemplary building in Canberra to replace Australian Ethical's old offices didn't come to fruition. However, in December 2005, the company bought an existing building in Bruce, Block E of Trevor Pearcey House. It is a building of 1000 square metres in a complex of five blocks. We are planning to refurbish the building according to energy-efficient principles, creating a comfortable and productive workplace. I look forward to staff getting the working environment they deserve in late 2006/early 2007.

Superannuation Licence

I am very pleased to advise that we have recently received our Registrable Superannuation Entity Licence. Obtaining this has been a long and arduous process but the holding of the licence is essential for our ongoing business.



Outlook

We did expect some slowing in FUM growth and inflow in the second half of the year. This expectation was based partly on the end of the fee discount for loyal unit holders and the strength of the resource sector. However, inflow and capital growth have remained strong and this bodes well for our full year result.

Going forward we will be placing an increased focus on building strong relationships with advisers. We hope this expansion in the use of intermediaries – including platforms and wraps – will add to our distribution opportunities. We have produced a "Guide for Advisers" brochure which aims to help them better understand and appreciate the benefits of ethical investment when advising clients, and we are promoting education and information days to adviser groups.

Work is underway towards the redesign of our website. This is in recognition of our strong web presence and to increase the site's ease of use. I expect this will be completed over the next few months.

If you would like to get an email copy of Australian Ethical's announcements to the stock exchange, you will soon be able to subscribe on the website.

Ray de Lucia

Sadly, former director of Australian Ethical Investment Ltd, Ray de Lucia, unexpectedly passed away on the morning of 20 February 2006. Ray had served as a director of Australian Ethical Investment from January 2002 until his resignation in October last year. He was the chief executive of Ascalon Capital Managers Limited and had held prominent positions in the finance industry for many years. Ray's passing is very sad and he will be missed by his friends at Australian Ethical.

New website

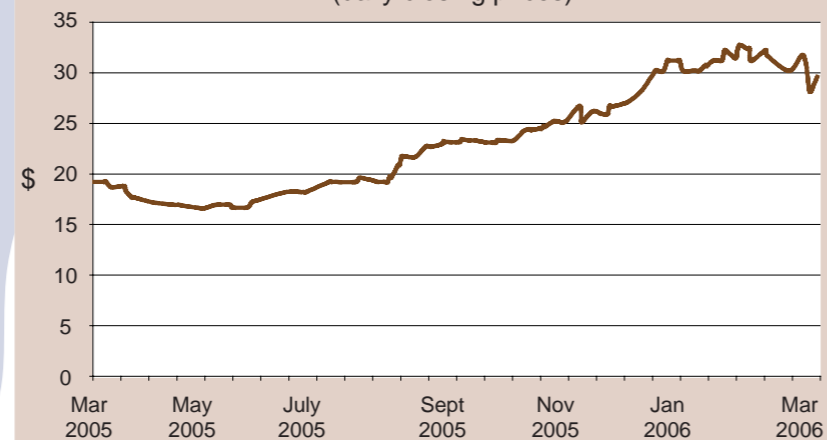
The website revamp is well underway. Listening to investor and enquirer comments in regard to some navigation difficulties, we hope to make improvements and anticipate an easier structure to search for information on Australian Ethical's trusts and superannuation. The site will continue to provide the latest information on share prices, performance, stock exchange announcements and corporate governance issues relevant to shareholders. It will also act a first base for new investors to learn about ethical investment and our unique, deep green practices.

Keep an eye on www.austethical.com.au.

Share Price

The share price of Australian Ethical reached an all-time high of \$32.50 in February 2006. The closing price at 31 March 2006 was \$28.10. A link to our share price is available at our website www.austethical.com.au and the ASX code for Australian Ethical is **AEF**.

Share trading history
(daily closing prices)



Trevor Pearcey House

In January, Australian Ethical Investment Ltd purchased Block 5 of Trevor Pearcey House in Bruce, ACT. Australian Ethical Investment is required to move from its current premises at the Canberra Business Centre in Downer, ACT, and will move into Trevor Pearcey House later this year or early next year.

Before the move a refurbishment and fit out will take place which will focus on environmentally sustainable improvements which will hopefully lead to the building achieving a 5 star green star rating.



Studies into Green Buildings have shown that benefits can include increased staff comfort and productivity, savings in energy and water consumption, reduced greenhouse gas emissions and a reduction in maintenance costs¹. Other benefits of Green Buildings include higher relative investment returns, higher market values and higher rents².

¹ *Dollars and Sense of Green Buildings 2006*, the Green Building Council Australia

² *Ibid*

No uranium



The umbrella body for ethical fund managers, the Ethical Investment Association (EIA), is hosting a debate on uranium in May. According to the EIA, Australia's staunch anti-nuclear stance is changing as climate change warrants us to look at nuclear as a low carbon energy option.

However, the about-face on uranium coincides more with BHP Billiton's takeover of uranium mining operations rather than a sudden change in the view of ethical investors that uranium should no longer be a dominant area of avoidance. Fund managers who call themselves socially responsible just don't want to leave out a large diversified resources company like BHP Billiton (with all the negatives, from our point of view, that that can entail) which makes up such a large part of the index and Australia's resource sector.

The Australian Ethical investment trusts and superannuation fund do not invest in uranium. Australian Ethical helped fund a 2005 report by peak Australian

environmental groups (pictured) which states nuclear power is not a solution to climate change (see www.foe.org.au for full report). Australian Ethical also made the decision a long time ago that we would prefer to support energy conservation and new forms of electricity generation from sources such as the wind, sun, hot rocks or fuel cells. Australian Ethical will continue to offer ethical investors funds without investment in companies with uranium activities.

New advertisement

The pro-uranium attitude now commonplace within the SRI/sustainable funds industry has resulted in Australian Ethical initiating its first negative theme – that is, an avoidance ad. The ad campaign highlights the fact that most people will be investing, perhaps unwittingly, in uranium production. This is an issue of particular significance to Australian Ethical as we aim to offer investment choice and to differentiate ourselves from what, for us, are others unacceptable practices.



Think your \$uper isn't in Uranium?
THINK AGAIN

For uranium-free investments talk to **Australian Ethical**.
www.austethical.com.au • 1800 021 227

australianethical
investment + superannuation



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