

ASX AnnouncementASX Code: AEF
Date: 28 February 2013

Appendix 4D

Half-year report

For the 6 months ended

31 December 2012

Released 28 February 2013

This report comprises information required by the Australian Securities Exchange (ASX) under listing rule 4.2A.3, by AASB 134 "Interim Financial Reporting" and the Corporations ACT 2001.

- Announcement to the market
- Directors' report
- Auditor's independence declaration
- Condensed consolidated half-year financial statements for the year ended 31 December 2012
- Notes to the condensed consolidated half-year financial statements for the year ended 31 December 2012
- Directors' declaration
- Auditor's independent review report

Appendix 4D (Rule 4.2A.3)

Financial statements for the half-year ended 31 December 2012

(All comparisons to half-year ended 31 December 2011)	\$ A	up / down	% Movement
Revenues from ordinary activities	7,737,367	up	13.2%
Net profit after tax from ordinary activities (including significant items)	487,115	up	71.4%
Underlying net profit after tax (excluding significant items)	526,569	up	45.9%
Dividend information	Amount per share (cents)	Franked amount per share (cents)	Tax rate for franking credit
Final 2012 dividend per share (paid 5 October 2012)	35.0	35.0	30%
Interim 2013 dividend per share (to be paid 29 March 2013)	40.0	40.0	30%
Interim dividend dates			
Record date		15 March 2013	
Payment date		28 March 2013	
The Company's Dividend Reinvestment (DRP) will not operate in respect to the interim dividend.			
		31 Dec 2012	31 Dec 2011
Net tangible assets per security		\$7.00	\$6.70

Additional Appendix 4D disclosure requirements can be found in the Directors' Report and the 31 December 2012 half-year financial statements.

This report is based on the consolidated 2013 half-year financial statements which have been reviewed by KPMG with the Independent Auditor's Review Report included in the 31 December 2012 half-year financial statements.

Australian Ethical Investment Limited
A.B.N. 47 003 188 930
and controlled entity

Directors' Report

Australian Ethical Investment Limited and its Controlled Entity

For the half year ended 31 December 2012

The directors of Australian Ethical Investment Limited are pleased to submit their report for the half-year ended 31 December 2012.

The names of the directors of the company during or since the end of the half-year are:

Name	Period of Directorship
Justine Hickey	Appointed 1 March 2007
André Morony	Appointed 1 July 2008
Phillip Vernon	Appointed 27 July 2010
Stephen Newnham	Appointed 12 December 2010
Louise Herron	Appointed 20 February 2012 Ceased 25 July 2012
Stephen Gibbs	Appointed 25 July 2012
Mara Bun	Appointed 4 February 2013
Tony Cole	Appointed 4 February 2013
Kate Greenhill	Appointed 22 February 2013

Review of Operations

The principal activity of the controlling entity during the half-year was to offer to the public ethically managed investment funds. During the half-year, the controlled entity (Australian Ethical Superannuation Pty Ltd) provided to the public an ethically managed superannuation fund. There was no significant change in the nature of these activities during the half-year.

The consolidated entity recorded a consolidated net profit after income tax expense for the half-year ending 31 December 2012 of \$487,115. This result is a 71% increase on the result of \$284,116 for the previous corresponding period. The operating environment for financial services firms continues to be difficult however with official cash rates continuing to fall and equity markets having sustained gains the future is looking brighter. The key elements of our result include:

- Average group FUM comparison between the two periods has seen an increase of 6.7%. This increase is reflective of lower cash rates forcing investors to seek high returns and with that cash returning to the market pushing up returns. Since 30 June 2012 group FUM has increased by \$42M with \$45M due to market movement and \$3M due to net outflows. This has resulted in increased management fee revenue for the period.
- Whilst the group has experienced an increase in outflows there was also an increase in inflows of 8% compared to the previous corresponding period. Superannuation inflows remain strong increasing by 14% however managed fund inflows have decreased. For the period net outflows were \$3M which was in line with the prior comparative.
- A number of pricing changes were implemented from 1 July 2012 to align our products more closely to the market. These changes included:
 - Removal of upfront commissions. In the previous corresponding period upfront commissions generated revenue of \$476,513.
 - Reduction of the fees on our Wholesale products in order to gain greater inflows from Advisors and Platforms.
 - Reduction of the fees on our Cash Trust to align it to similar products in the market.

Australian Ethical Investment Limited
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and controlled entity

Directors report (continued)

On 1 January 2012 changes were made to the fee on our Superannuation product to make it more competitive. These changes, in addition to changes in product features and insurance, were recognised by the industry with the fund receiving the SuperRatings Rising Star Award for 2013. The annual member rate was increased from \$53.10 to \$97 providing additional revenue of \$281,000. Management fees across the product were reduced which was offset with a move to full reimbursement of administrator costs.

Operating expense levels have increased by 11% compared to the previous corresponding period. The primary reason for the increase in expenses is that all Managed Funds and Superannuation Fund expenses are now paid for by the company and reimbursed on a monthly basis. In prior periods some of these expenses were paid directly by the funds. This increased expenses by \$666,000 compared to the previous corresponding period. Taking this change into account expenses were in line with the previous corresponding period. Staff levels have been decreased from 46 at 31 December 2011 to 34 at 31 December 2012. The savings from these reduced staff levels will be realised over time.

At 31 December 2012, group funds under management were \$669M (before distribution). This compares to funds under management at 31 December 2011 of \$599M (before distribution).

During the period the company continued to plan for the transition of administration of our superannuation fund to a new administrator with transition planned for March 2013. The SuperRatings Rising Star Award is recognition of the changes we are making and the change in administrator will further strengthen our product.

Interim Dividend

Reflecting the current state of the market and our dividend policy, the directors report that upon consideration of the half-year trading result the Board has authorised the payment of a fully-franked interim dividend of 40c per share. The interim dividend paid in March 2012 was 25c per share.

Lead auditor's declaration

A copy of the lead 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.

Signed in accordance with a resolution of the Board of Directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Board of Directors



Phillip Vernon
Director
27 February 2013



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Australian Ethical Investment Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2012, there have been:

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

KPMG

T Gilerman
Partner

Sydney
27 February 2013



Independent auditor's review report to the members of Australian Ethical Investment Limited

Report on the financial report

We have reviewed the accompanying half-year financial report of Australian Ethical Investment Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2012, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes 1 to 9 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Australian Ethical Investment Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Australian Ethical Investment Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.


KPMG



T Gilerman
Partner

Sydney
27 February 2013

**Condensed consolidated statement of financial position
as at 31 December 2012**

	Consolidated	
	31 December 2012	30 June 2012
	\$	\$
Current assets		
Cash and cash equivalents	2,236,719	2,309,587
Trade and other receivables	2,760,766	1,715,999
Financial assets	116,486	350,412
Current tax assets	-	19,156
Other current assets	418,124	173,598
Total current assets	5,532,095	4,568,752
Non-current assets		
Property, plant & equipment	3,440,352	3,621,747
Intangible assets	11,359	17,746
Financial assets	31,504	33,757
Deferred tax assets	337,055	396,685
Total non-current assets	3,820,270	4,069,935
Total assets	9,352,365	8,638,687
Current liabilities		
Trade and other payables	1,956,146	1,538,173
Current tax liabilities	84,807	-
Provisions	206,094	283,589
Total current liabilities	2,247,047	1,821,762
Non-current liabilities		
Deferred tax liabilities	35,087	35,087
Other provisions	97,049	74,117
Total non-current liabilities	132,136	109,204
Total liabilities	2,379,183	1,930,966
Net assets	6,973,182	6,707,721
Equity		
Issued capital	6,278,225	6,038,301
Reserves	195,773	302,071
Retained earnings	499,184	367,349
Total equity	6,973,182	6,707,721

The accompanying notes form part of these Financial Statements.

**Condensed consolidated statement of comprehensive income
for the half-year ended 31 December 2012**

	Consolidated	
	Half-year ended	
	31 December 2012	31 December 2011
	\$	\$
Revenue	7,737,367	6,834,109
Commissions paid to advisers	-	(67,492)
External services	(1,469,138)	(1,582,764)
Employee benefits expense	(3,417,191)	(3,464,130)
Depreciation and amortization	(196,537)	(215,816)
Occupancy costs	(164,817)	(138,376)
Communication costs	(317,102)	(279,149)
Other expenses	(1,362,646)	(537,979)
Profit before community grants and income tax expense	809,936	548,402
Community grants expense	(55,524)	(37,241)
Profit before income tax from continuing operations	754,412	511,161
Income tax expense	(267,297)	(227,046)
Profit for the period	487,115	284,116
Other comprehensive income, net of income tax		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Net gain/(loss) on revaluation of available-sale-investments	570	(44,159)
Reclassification adjustments relating to available-for-sale financial assets disposed of in the year	40,967	-
Total items that may be reclassified subsequently to profit or loss:	41,537	(44,159)
Other comprehensive income/(loss) for the year, net of income tax	41,537	(44,159)
Total comprehensive income for the period, net of income tax	528,652	239,957
Profit attributable to members of the parent entity	487,115	284,116
Total comprehensive income attributable to members of the parent entity	528,652	239,957
Earnings per share		
Basic (cents per share)	48.10	28.39
Diluted (cents per share)	47.23	27.82

The accompanying notes form part of these Financial Statements.

**Condensed consolidated statement of changes in equity
for the half-year ended 31 December 2012**

	Issued Capital Ordinary \$	Asset Revaluation Reserve \$	Share-based Payment Reserve \$	Retained Earnings \$	Total \$
Balance at 1 July 2011	5,915,219	(67,257)	1,199,161	581,689	7,628,812
Profit attributable to members of the parent entity	-	-	-	284,115	284,115
Other comprehensive income for the period	-	(44,159)	-	-	(44,159)
Total comprehensive income for the period	-	(44,159)	-	284,115	239,956
Transactions with owners in their capacity as owners:					
Shares Issued during the period	123,082	-	(123,082)	-	-
Dividends paid or provided for	-	-	-	(1,253,794)	(1,253,794)
Transfer from share-based payment reserve to retained earnings	-	-	(888,085)	888,085	-
Share-based payment expense	-	-	131,150	-	131,150
Balance at 31 December 2011	6,038,301	(111,416)	319,144	500,095	6,746,124
Balance at 1 July 2012	6,038,301	(117,429)	419,500	367,349	6,707,721
Profit attributable to members of the parent entity	-	-	-	487,115	487,115
Other comprehensive income for the period	-	41,537	-	-	41,537
Total comprehensive income for the period	-	41,537	-	487,115	528,652
Transactions with owners in their capacity as owners:					
Shares Issued during the period	239,924	-	(239,924)	-	-
Dividends paid or provided for	-	-	-	(355,280)	(355,280)
Transfer from share-based payment reserve to retained earnings	-	-	-	-	-
Share-based payment expense	-	-	92,089	-	92,089
Balance at 31 December 2012	6,278,225	(75,892)	271,665	499,184	6,973,182

**Condensed consolidated statement of cash flows
for the half-year ended 31 December 2012**

	Consolidated	
	Half-year ended	
	31 December 2012	31 December 2011
	\$	\$
Cash flows from operating activities		
Receipts from operations	7,358,688	8,215,840
Payment to suppliers & employees	(7,427,398)	(6,569,365)
Interest/distributions received	50,253	43,586
Income tax paid	(121,504)	(550,692)
Community grants	(53,325)	(152,802)
Net cash provided by operating activities (refer Note 8)	(193,286)	986,566
Cash flows from investing activities		
Purchase of property, plant & equipment	(8,755)	(123,237)
Sale / (Purchase) of investments	230,644	(32,710)
Proceeds from loan repayments	13,885	8,257
Net cash provided by/(used in) investing activities	235,774	(147,690)
Cash flows from financing activities		
Dividends paid	(355,280)	(1,253,794)
Net cash used in financing activities	(355,280)	(1,253,794)
Net decrease in cash held	(312,792)	(414,918)
Cash at 1 July	2,309,587	2,554,689
Cash at 31 December	1,996,795	2,139,771

The accompanying notes form part of these Financial Statements.

Notes to the consolidated financial statements for the half-year ended 31 December 2012

Note 1 - Statement of significant accounting policies

Reporting entity

Australian Ethical Investment Limited (the "Company") is a for profit company domiciled in Australia. The condensed consolidated interim financial report of the Company is for the six months ended 31 December 2012 and comprises of the Company and its controlled entity (together referred to as the "Group").

Note 2 - Basis of preparation

Statement of compliance

This condensed consolidated interim financial report has been prepared in accordance with requirements of the Corporations Act 2001 and Australian Accounting Standards including AASB 134: Interim Financial Reporting. This condensed consolidated interim financial report does not include all the information required for the full annual financial statements prepared in accordance with International Financial Reporting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Australian Ethical Investment Limited and its controlled entities (the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2012 together with any public announcements made during the half-year.

The condensed consolidated half year report was approved by the Board of Directors on 28 February 2013.

Judgements and estimates

The preparation of these condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses and the disclosure of contingent assets and liabilities. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation were the same as those that applied to the financial statements as at and for the financial year ended 30 June 2012.

Note 3 - Significant accounting policies

The Group has adopted all of the mandatorily effective new and revised Standards except as disclosed below. The accounting policies applied by the Group in this condensed consolidated interim financial report are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 30 June 2012.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half-year.

New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the Group include:

- Amendments to AASB 1, 5, 7, 101, 112, 120, 121, 132, 133 and 134 as a consequence of AASB 2011-9 'Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income'.

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior half-years. However, the application of AASB 2011-9 has resulted items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. The above change in presentation will also be reflected in the Group's consolidated financial statements as at and for the year ending 30 June 2013. Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Note 4 - Dividends

(a) Dividends paid

Final fully franked dividend of 35 (2011: 100) cents per share franked at the tax rate of 30% (2011:30%)

Special fully franked dividend of nil (2011: 25) cents per share franked at the tax rate of 30%

(b) Dividends declared

Declared interim fully franked dividend of 40 (2011: 25) cents per share franked at the tax rate of 30% (2011:30%)

This dividend has not been included as a liability in these financial statements.

	Half-year ended	
	31 December 2012	31 December 2011
	\$	\$
	355,280	1,003,035
	-	250,759
	355,280	1,253,794
	406,034	250,759

Note 5 - 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 (Trust); and
- 2) Public offer retail superannuation fund (Super)

Information regarding these segments is presented below. The accounting policies of the reportable segments are the same as the Group's accounting policies.

(i) Segment performance

	31 December 2012 Half-year ended			31 December 2011 Half-year ended		
	Trust \$	Super \$	Total \$	Trust \$	Super \$	Total \$
Revenue						
External sale	3,008,346	4,685,143	7,693,489	2,516,324	4,281,086	6,797,410
Inter-segment sale	3,072,354	-	3,072,354	3,037,457	-	3,037,457
Investment interest / distribution revenue	39,896	3,982	43,878	32,124	4,575	36,699
Total segment revenue	6,120,596	4,689,125	10,809,721	5,585,905	4,285,661	9,871,566
Inter-segment eliminations			(3,072,354)			(3,037,457)
Total group revenue			7,737,367			6,834,109
Segment net profit before tax	620,030	520,996	1,141,027	614,351	463,250	1,077,601

Note 5 - Operating Segments (continued)

	31 December 2012			31 December 2011		
	Half-year ended			Half-year ended		
	Trust	Super	Total	Trust	Super	Total
	\$	\$	\$	\$	\$	\$
Reconciliation of Segment result to group net profit/loss after tax						
Income tax expense	(148,712)	(118,585)	(267,297)	(153,266)	(73,780)	(227,046)
Unallocated items						
- Depreciation and amortisation			(196,537)			(215,816)
- Other corporate overheads *			(190,078)			(350,623)
Group net profit after tax			487,115			284,116

* Other corporate overheads includes staff bonus, community grant expense, staff options/rights expense.

(ii) Segment assets

	31 December 2012			30 June 2012		
	Half-year ended			Year ended		
	Trust	Super	Total	Trust	Super	Total
	\$	\$	\$	\$	\$	\$
Assets	8,143,483	1,794,609	9,938,092	8,099,560	893,714	8,993,274
Inter-segment eliminations			(585,727)			(354,587)
Total group assets			9,352,365			8,638,687

(iii) Segment liabilities

	31 December 2012			30 June 2012		
	Half-year ended			Year ended		
	Trust	Super	Total	Trust	Super	Total
	\$	\$	\$	\$	\$	\$
Liabilities	1,571,504	1,077,406	2,648,910	1,516,554	453,000	1,969,554
Inter-segment eliminations			(269,727)			(38,588)
Total group liabilities			2,379,183			1,930,966

Note 6 - Significant events during the financial period

There have been no significant changes in the state of affairs of the Group for the half year ended 31 December 2012.

Note 7 - Commitments and contingencies

There were no commitments or contingencies for the Group as at the reporting date (June 2012: nil).

Note 8 - Related party transactions

All related party transactions are conducted on normal commercial terms and conditions.

From 1 July 2012 all expenses in relation to the Managed Fund and Superannuation Fund are now paid for by the company and reimbursed from the funds on a monthly basis. In prior periods these expenses were paid directly by the funds.

Apart from the above there have been no significant changes to the related party transactions disclosed in the last annual financial statements as at and for the financial year ended 30 June 2012.

Note 9 - Events after the balance sheet date

There are no material events that may have an impact on these financial statements have occurred.

Directors' Declaration

The Directors of Australian Ethical Investment Limited declare that:

1. the financial statements and notes, as set out on pages 5 to 11:
 - (a) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the Group's financial position as at 31 December 2012 and of its performance for the half-year ended on that date;
2. 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.

A handwritten signature in black ink, appearing to be 'P. Vernon', followed by a horizontal line extending to the right.

Phillip Vernon
Managing Director
27 February 2013