australianethical

ANNUAL REPORT

TO SHAREHOLDERS

Year ended 30 June 2011

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investment + superannuation

Contents

Chair and Managing Director's report

Phillip Vernon
Managing Director

André Morony
Chair

Dear Shareholders

We are delighted to present the ninth annual company report of Australian Ethical.

Australian Ethical continues to be the most deeply committed ethical fund manager in Australia with all of our business and investment activities guided by the principles of the Australian Ethical Charter. Our clients save and invest with us knowing that they are putting their money to work for a better world. Having strong ethical principles at the core of everything we do is a powerful uniting and motivating force for our clients, our staff and our shareholders.

The market in which we operate is going through extraordinary change. Global markets continue to be extremely volatile and uncertain whilst at the same time regulatory change in financial services is impacting fees, revenues and how firms package and sell their products and services. These forces are significantly influencing how we operate and how we plan for the future.

The way in which the company has operated in the past has served it well. However we need to be aware of the forces at work around us and adapt our business accordingly to mitigate the risks and take advantage of opportunities that present themselves. First and foremost, we need to grow. Growing our business will make us much more influential to bring about change in the world as well as giving us the scale we need to prosper in a rapidly evolving environment. In order to grow we need to increase our reach and access to our investors. There are many potential investors who wish to invest with us but can't because they cannot access us. And in order to give us this reach we need to be far more connected to the markets in which we operate.

These are largely external considerations. Internally we need to simplify our business as we are far too complex a business for our size. We need to continue to invest to make our business more robust. We manage nearly $700 million of investors' funds which requires systems, processes and skills of both staff and board members that are appropriate for that level of responsibility. Therefore we need to invest in the skills and talent of our people and reward them appropriately as it is our people that will get us to where we need to go.

Over the course of the past year we have put in motion a number of changes that are all about repositioning the company to operate in this changing environment. None of these changes affect the core vision of the business and what we represent as an ethical organisation.

These are challenging times for all financial services companies. However, these are also times in which many opportunities are presenting themselves. Australian Ethical is a unique 'true to label' company with a special point of difference that sets it apart from others. We are confident that with the right skills and attitude we will continue to carve out a special place in the investment and retirement landscape.

Financial results

Australian Ethical recorded a net profit after tax of $1.3 million for the year to 30 June 2011, 25% higher than that recorded in the previous comparable period. Funds under Management (FUM) increased 4.9% to $644 million at 30 June 2011.

A final fully franked dividend of $1.00 per share was paid on Friday 7 October 2011, resulting in a full year dividend of $1.45. In addition, following a review of the balance sheet, the future capital requirements of the business and other issues, the Board paid a special dividend of $0.25 per share.

	2011	2010	Change
	$M	$M	
Funds under management	644	614	5%
Total revenue	15.1	14.1	8%
Total expenses	(12.4)	(11.7)	(6%)
Operating profit	2.7	2.4	15%
Community grants	(0.153)	(0.125)	22%
Depreciation/amortisation/ rights/options	(0.677)	(0.676)	0%
Tax	(0.665)	(0.583)	(14%)
Net profit after tax	1.3	1.0	25%
Dividends paid	$1.70	$2.00	
Earnings per share	$1.29	$1.03	

Comments on financial results

As described above, funds management and superannuation companies currently face one of their most challenging environments for many years due to the following external factors:

- global markets continue to be volatile leading to subdued valuations of portfolios and hence revenues based on funds under management;
- net flows to managed funds are under pressure across the industry due to investors' continued nervousness with investing in the market as well as a trend generally toward investing directly and outside of the managed fund environment;

- regulatory changes are leading to an environment where up-front fees are disappearing and the relationship with advisers is evolving.

The following summary of the company's results should be read with these dynamics in mind.

- Funds under management increased by $30.3 million, $21.6 million due to net inflows and $8.7 million due to market movements.
- Net inflows of $21.6 million reflected positive inflows of $31.4 million to our superannuation fund (up from $27.9 million last year) offset by $9.8 million of net outflows from our managed funds products ($4.9 million net inflow last year). This pressure on managed funds outflows is occurring across the industry.
- Revenues increased by $1.1 million representing an increase of 8% over the previous year. A significant impact on revenue for the year was the acquisition fee paid by the Australian Ethical Property Trust for the purchase of Lawley House. Removing this transaction leads to underlying revenue growth of 1%, which is lower than the growth in funds under management. This slower revenue growth is due to a reduction in fees on inflows and an overall reduction in our average revenue margin due to a greater portion of our business coming from the wholesale investment market.
- Operating expenses increased by $0.7 million, an increase of 6% over the previous year. Total expenses included costs associated with employment restructures during the year of $445,000.
- After adjusting for employment restructure costs, employment costs increased by 2% being largely due to a general wages and salary increase provided to staff half way through the year.
- Superannuation administration costs increased by 17%. This reflects a 4% increase in average member numbers and a 7% increase in administration charges under the contract.
- Other increases in expenses reflect increased investment in information technology and connectivity to more efficiently perform our core investment management and client service functions. Increased depreciation related to office fit outs and video conferencing facilities have also impacted on the result.

Community grants

Under our constitution 10% of operating profit (after notional tax) is donated to charitable, benevolent and conservation causes. In 2011 grants of $152,802 will be made bringing our total community grants to almost $1.3 million. We continue to be very proud of our commitment to our community and strive to increase our level of non-financial involvement also.

Investment performance

The broad Australian share market was positive for the year to 30 June 2011, returning 11.7%. International share markets also performed well, but the strong Australian dollar diminished our overseas returns. These positive returns were despite continued market volatility caused by the debt concerns in Europe and the US.

Although we are pleased that the majority of our funds achieved positive returns, it was a tough year for ethical investments due to the outperformance of sectors not typically in the portfolios such as resources and few outperformed their respective mainstream benchmarks. However, our long term performance remains very strong and we continue to be well positioned within investment markets and, with an increased awareness of ethical issues such as climate change, there is a growing recognition amongst investors of the need to invest and save in a more ethically positive way.

Comments on business operations

Restructure of Sales and Marketing

Our sales and marketing area has been successfully restructured with the employment of two new executives in the senior management team and a realignment of team responsibilities to enhance synergies between sales, marketing and client relationship management.

Adam Kirk joined us in August 2011 to lead the business development and client relationship team. Adam has a background in leading similar teams with Colonial First State, Skandia and Catholic Super. Paul Smith joined us in July 2011 to lead our product strategy, marketing and communications. Paul has a background in asset consulting, investment analysis and marketing with the likes of Schroders, Invesco and Carbon Planet.

Founders

During the year two of the founders of Australian Ethical, Howard Pender and James Thier left their executive positions after many years of service. James and Howard were both involved with the company when it was founded in 1986 and have each contributed enormously to its success over the years. We thank them for all their contribution and efforts.

Client service improvements

We continue to make improvements to our client service function, a core area of the business. During the course of the year we commenced a proactive sales follow up and relationship management program. We also in-sourced our superannuation call centre from our service provider, Pillar. All initial calls are now managed by Australian Ethical leading to a more consistent client service experience.

Marketing improvements

We have made a number of improvements in the way in which we market and service our products to clients. We have made significant improvements to the interactivity and ease of use of the website including allowing individuals and employers to join our superfund online. This has resulted in an almost doubling of our new client uptake on a monthly basis. We are implementing a co-ordinated social media strategy and improved the targeting of advertising to our audience, which has led to better coverage at lower cost; halving our marketing acquisition cost per new client.

Climate Advocacy Fund

Our Climate Advocacy Fund had its first full year of operation and put three resolutions to companies to improve their carbon emissions disclosure and performance. Resolutions were put to Aquila, Paladin and Woodside. The Climate Advocacy Fund also engaged with Oil Search but did not formally put a resolution to Oil Search's AGM. Of these, we consider we obtained a positive outcome from Aquila, Paladin and Oil Search. Whilst Woodside didn't accede to our request we obtained a 6% vote in support of our resolution, far in excess of our investment.

Implementation of Garradin system

During the year we substantially completed the implementation of the Garradin portfolio administration system with further phases of integration continuing. This project was a significant project for the company and was part of an ongoing program to replace legacy in-house developed systems and improve the robustness of our operations to a level appropriate for a regulated funds management and superannuation organisation.

Outlook, strategy and focus

Despite the uncertainty in investment markets and the changing regulatory environment, we remain positive and optimistic for the future for Australian Ethical. We have responded to this new environment with some internal restructurings and have maintained good profitability through this period of change.

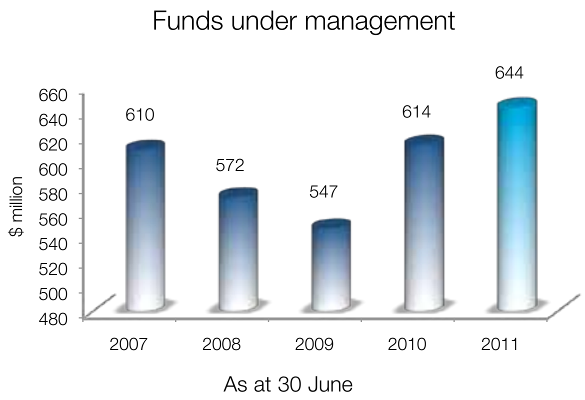
Our three year focus is to strengthen the growth of our superannuation product, retain our position within non-super investments, broaden our client reach and simplify and streamline our business and ensure that it is operationally robust. We aim for a culture that is excellent inz our four core areas of ethical analysis, client service, investment performance and operational support.

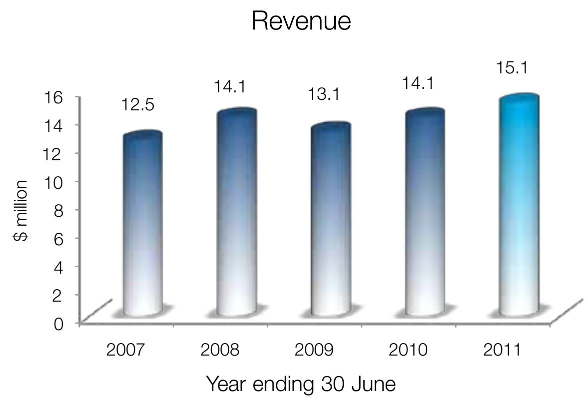
We thank all shareholders for your continued support and look forward to the coming year with a clear strategy, strong focus and optimism.

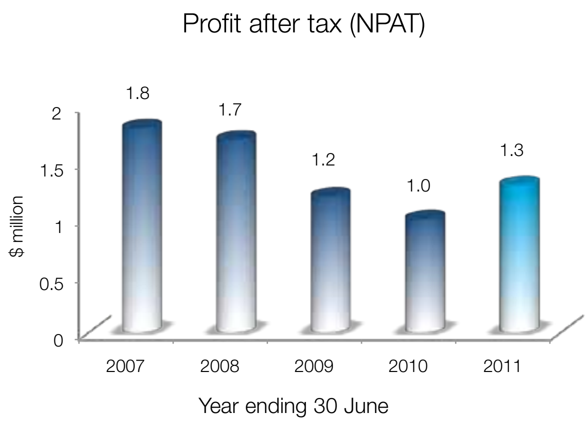
Phillip Vernon
Managing Director

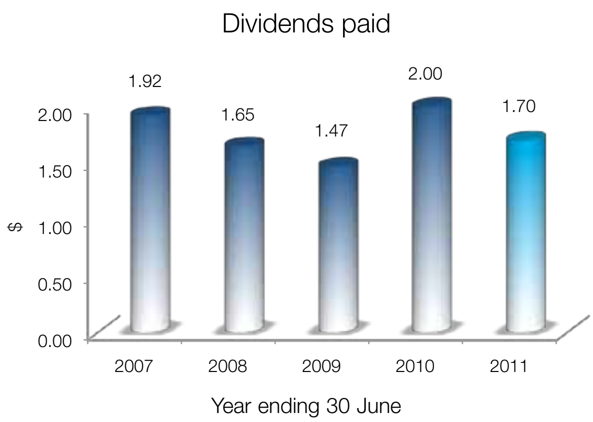
André Morony
Chair

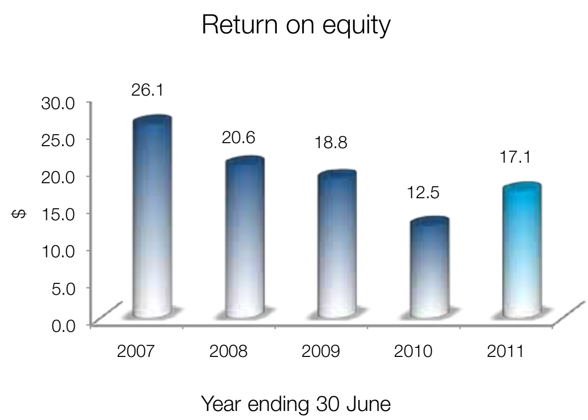
Financial summary to 30 June 2011











Community grants

$35000	Carpets for communities Men of the Trees
$5000	Children's Hospital Westmead ACT Eden Monaro Cancer Support Group Brighter Future 4 Kids Foundation Room to Read Australia Foundation Royal Guide Dogs for the Blind Assoc Bikes for Humanity
$4000	Dhimurru Aboriginal Corporation Australian Afghan Hassanian Youth Assoc Diamond Valley Foodshare Rainforest Rescue Liverpool Plains Land Management
$3600	Arthritis & Osteoporosis Assn of NT Animal Rescue Qld Barefoot Economy Kokoda Track Foundation Free the Bears Foundation Environment Victoria Cranbourne Police Senior Citizens Register Australia Zoo Wildlife Warriors Australian Platypus Conservancy

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

Grants to community organisations

As prescribed in Australian Ethical'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.

Australian Ethical has donated more than $150,000 to 22 charities as part of its 2011 community grants scheme. This brings the total amount gifted to communities over the last 11 years to more than $1.28 million.

Australian Ethical donates 10 per cent of its company profit each year through its community grants scheme. This is one of the highest levels of corporate giving in Australia based on percentage of profits.

This year's grants range in size from $3600 to $35,000 and include donations to charities that work across Australia and overseas. The successful organisations were chosen from more than 300 applicants.

Volunteers planting in the Morbinning wheatbelt

A family in Poipet, Cambodia involved in the Carpets for Communities scheme

Corporate governance statement 2011

This statement has been prepared with reference to the second edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2010 Amendments ("Principles and Recommendations") and discloses the extent to which Australian Ethical Investment Ltd ("Company") has followed the Principles and Recommendations during the reporting period.

The principles and recommendations provide a framework for good governance set out in eight core principles and 33 specific recommendations.

This statement will be placed on the corporate governance section of the Company's website.

Principle 1 - Lay solid foundations for management and oversight

The Company has formalised the functions reserved to the Board and those delegated to management.

Board responsibilities

The 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 tithe 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 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 its inclusion 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 Chair. For other senior executives, the review is undertaken by the CEO.

The process is as follows:

- the CEO completes a draft annual performance review and provides it to the executive;
- the CEO and the executive then discuss the draft annual performance review. The discussion covers key responsibilities, overall performance, key behaviours, a review of achievements against the year's objectives, objectives for the coming year, aspirations and areas for improvement;
- competencies and qualifications are also reviewed to ensure they remain applicable to the position. If not, a training program is developed to bring the executive to the appropriate level; and
- where remuneration is subject to the achievement of performance hurdles, the achievement of those hurdles is reviewed and the amount of any performance based remuneration is determined.

[1]*As defined in section 9 of the Corporations Act 2001*

Director	Status	
James Thier	Non-independent/ Executive	Retired at the conclusion of the AGM – 17 November 2010
Howard Pender	Non-independent/ Executive	
Naomi Edwards (Chair)	Independent/NED	Resigned on 23 March 2011
Justine Hickey	Independent/NED	
Les Coleman	Non independent/ NED	
André Morony	Independent/NED	Appointed Chair from 23 March 2011
Phillip Vernon	Non-independent/ Executive	Appointed to Board and Managing Director on 27 July 2010
Stephen Newnham	Independent/NED	Appointed 20 December 2010

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

In respect of the CEO, the 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.

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 shareholder 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.

The list above reflects the relationships set out as relevant in the 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:

The Board was evenly balanced between independent and non-independent directors during the reporting period and thus did not comprise a majority of independent. On 1 July 2010 the Board comprised four non executive directors (however, only three are considered independent) and two executive directors. Over the course of the reporting period, whilst the Board's composition changed, the overall mix remained at 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.

Over time the board has moved from one dominated by executives to one more consistent with the ASX guidelines. The board's approach to composition is 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.

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

Both Naomi Edwards and Andre Morony, the two Chairs during the reporting period, are considered to be independent directors.

Nomination committee

The Board has a People, Remuneration and Nominations committee. Naomi Edwards and Justine Hickey were the members of the committee at the commencement of the reporting period. Following Naomi's resignation the committee is now comprised of Andre Morony and Justine Hickey. 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 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 Chair. The Board as a whole then considers and discusses the results of the questionnaire at a Board meeting. The 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 the 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 People, 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, diversity, experience and expertise is maintained;
- make recommendations to the Board relating to the appointment and retirement of directors.

The People, Remuneration and Nominations committee considers the above responsibilities, the current Board composition, any nominations or suggestions for directorship and the assessment of incumbent directors when making 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 was released to the ASX on 22 December 2010 and is available on the Company's website.

Diversity

The Company has a draft diversity policy that will include measurable objectives for achieving gender diversity and require annual assessment against the objectives and progress in achieving them. It is anticipated that this draft policy will be finalised by the Board in November 2011.

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. Stephen Newnham, an independent director, replaced Naomi on the Audit committee after her resignation on 23 March 2011.

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 non 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 occurs 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 a 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 corporate activities, 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 its triple bottom line performance (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 its 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 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 CFO 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.

Principle 8 - Remunerate fairly and responsibly

Remuneration committee

The Board has a People, Remuneration and Nominations committee. The members of the committee at the commencement of the relevant period were Naomi Edwards and Justine Hickey. As noted above, Andre Morony replaced Naomi Edwards on this committee following her resignation on 23 March 2011. 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. The Board is aware of the recommendation that the Remuneration committee should have three members; it is anticipated that a further independent will be appointed in calendar year 2012.

Details of remuneration

Details of remuneration paid to directors and executives during the reporting period are 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 2011. 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 2011 and to the date of this report are:

Name	Time in office	
James Thier	19 years	Directorship ceased 17 November 2010
Howard Pender	19 years	
Naomi Edwards	5 years	Resigned 23 March 2011
Justine Hickey	4 years	
Les Coleman	3 years	
André Morony	3 years	
Phillip Vernon	1 year	
Stephen Newnham	< 1 year	Appointed 20 December 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 2011 of $1,282,533, a 25% increase on the result of the previous financial year.

Return on equity for the year is 17.1%, up from 12.5% in 2009-10. Earnings per share has increased 25% to 128.8 cents per share and the cost to income ratio has reduced slightly to 87%.

Average funds under management (FUM) grew by 5.5% with the year end FUM (before distribution) being $644 million compared to $614 million for the prior year end.

Our inflows have remained resilient in a tough managed funds market and grown by 2% for the year ended 30 June 2011. Inflow growth has been centred around our superannuation fund. Inflow growth has been offset by a reduction in our entry fee margin as we adjust our business model to accommodate regulatory change (entry fee changes to our superannuation fund, implemented in May 2010).

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

- Employment restructure expenses of $445,000; and
- Acquisition fee revenue of $651,000 paid by the Australian Ethical Property Trust as per the trust constitution in relation to the purchase of Lawley House.

In a challenging market we continue to work on and improve our client service and marketing initiatives. During the year we in-sourced our superannuation call centre with all initial calls managed by Australian Ethical, enabling a better client service experience. We also made improvements to our website and introduced an online joining facility for our superfund, virtually doubling our new client numbers.

During the year our sales and marketing area was restructured and addressing the challenges facing our industry is a high priority.

Financial position

At the year end, Australian Ethical net assets are $7,628,812. 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 2010	50	496,570	Franked	15/10/2010
Special 2010	100	993,141	Franked	15/10/2010
Interim 2011	45	449,061	Franked	25/03/2011
Total		**1,938,772**		
Declared after end of year				
After balance sheet date, the directors declared the following dividend:				
Final 2011	100	997,913	Franked	7/10/2011
Special 2011	25	249,478	Franked	7/10/2011

Events subsequent to reporting date

Since reporting date the global equity markets have experienced significant volatility as aresult of uncertainties related to European sovereign debt and United States debt and budget management. A large proportion of the FUM managed by the company is linked to domestic and international securities markets. This could potentially have a detrimental impact on company revenue for the coming financial year.

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 2011, 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 to insure the directors (named above), the company secretary and all officers of the company and of any related body corporate against a liability incurred as 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, insurance and access (The Deed) 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

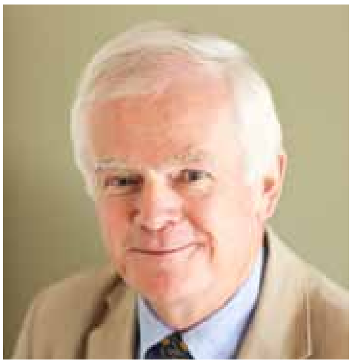
André Morony
B.Ec.(Hons), M.Ec.,
Non-Executive Chairperson

André started his 40 years in the finance sector at the Commonwealth Treasury, where he worked in a number of financial policy areas. Here he also represented Australia for three years at the Organisation for Economic Cooperation and Development in Paris. Subsequent roles include chief economist and chief investment officer at Bankers Trust Australia (BT), and chief investment officer at Australian Reward Investment Alliance (ARIA). He currently sits on the investment committee of GESB, the Western Australian Government employees superannuation fund. André chairs the remuneration and nominations committee and is also a member of the investment committee.

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 ASX-listed companies. Howard is a director of Australian Ethical Superannuation Pty Ltd and is a member of the investment committee.

Dr Les Coleman
BEng(Hons), BSc(Hons), MEc, PhD
Non-Executive Director



Les has been a trustee of two superannuation funds; a director of ten companies involved in finance, retail and distribution; and has over 20 years experience in senior management positions with resources, manufacturing and finance companies in Australia and overseas. Since 2004, Les has been a senior lecturer at 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. Les is a member of the audit, compliance and risk committee.

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

Justine has 20 years experience as a senior executive and director in the investment and funds management industry. As an executive she worked at Suncorp Investment Management in Brisbane and Flemings Investment Management (now JP Morgan) in London. Justine is a director of Rio Tinto Staff Super Fund Pty Ltd and member of the investment committees of Dalton Nicol Reid and the University of Melbourne. Justine has an active interest in philanthropy, chairing the Evolve Foundation and is a director of RSPCA QLD. At Australian Ethical, Justine chairs the investment committee and is a member of the people, remuneration and nominations committee.

Stephen Newnham
Non-Executive Director

Steve has over 20 years experience in marketing and distribution in the financial industry. He comes from Lonsec Ltd as a consultant on the marketing and distribution of their research and stockbroking services. Prior to this, Steve was head of distribution at Zurich Financial Services, chairman of a financial planning dealer group, director of a wrap platform and an administration business, and executive vice president of BT Financial Group. Steve has had significant involvement with community and social justice activities, having worked on homeless shelter support schemes, indigenous fellowship programs, environmental and drought relief projects and mental health awareness initiatives. Steve is on the audit, compliance and risk committee.

Phillip Vernon
BEc, MCom, MBA, FCPA
Managing Director

Phil has 25 years experience in financial services covering funds management, superannuation and capital markets. He was a member of the Executive Committee of Perpetual Limited heading up its Corporate Trust division and has extensive experience in corporate governance and industry regulation including a long involvement with the Australian Securitisation Forum, Australia's peak body representing the securitisation industry in Australia acting as Chairman of its National Committee, Education and Regulatory Committees. Phil has a long involvement in sustainability and corporate social responsibility and is a Director of Planet Ark, a not for profit environmental 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 set out below.

Director	Board		Investment		Remuneration and nominations		Audit, compliance and risk	
	Eligible	Attend	Eligible	Attend	Eligible	Attend	Eligible	Attend
James Thier	3	3	-	-	-	-	-	-
Howard Pender	7	7	4	4	-	-	-	-
Naomi Edwards	4	4	-	-	1	1	4	4
Justine Hickey	7	7	4	4	2	2	-	-
André Morony	7	7	4	4	1	1	-	-
Les Coleman	7	7	-	-	-	-	6	6
Phillip Vernon	7	7	-	-	-	-	-	-
Stephan Newnham	4	4	-	-	-	-	3	3

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	
	2011	2010	2011	2010	2011	2010
Directors continuing at 30 June 2011						
Howard Pender	49,852	49,852	1,326	2,839	-	320
Justine Hickey	1,200	700	--	-	-	-
Phillip Vernon	-	-	-	-	2,798	317
Directors not - continuing at 30 June 2011						
James Thier	51,367	51,367	1,364	2,881	-	316

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.

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
Phillip Vernon	Ongoing	12 weeks	None except for accrued leave and any payment in lieu of notice.
Gary Leckie	Ongoing	12 weeks	
Philip George	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
AEFAU	29,704	14/10/11 to 13/1/12	$32.27
AEFAV	2,690	14/10/11 to 13/1/12	$32.27
Totals	**32,394**		

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	7,914
AEFAY	19,624
AEFAZ	4,760
Totals	**32,298**

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

4,772 ordinary shares of the company were issued during the year ended 30 June 2011 on the conversion of performance rights granted under the company's employee share ownership plan.

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[1]
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
30 June 2011	$19.10

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
2010-2011	$1,282,533

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 and since the end of the financial year[2]	Note 25

[1] 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.
[2] 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.

The Remuneration Report is subject to audit by the Company's 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 Retired	Director, non-executive	17 November 2010
Howard Pender	Director, executive	
Naomi Edwards	Chairperson, non-executive	Resigned 23 March 2011
Justine Hickey	Director, non-executive	
Les Coleman	Director, non-executive	
André Morony	Director, non-executive	
Phillip Vernon	Director, executive	Appointed 27 July 2010
Stephen Newnham	Director, non-executive	Appointed 20 December 2010

Executives

Name	Position	
James Jordan	Chief investment officer	
Philip George	Head of client services and product	
Gary Leckie	Chief financial officer / chief operatingofficer	
Paul Harding–Davis	Head of distribution	Employment ended on 5 January 2011
Tim Xirakis	Head of client relationships	Employment ended on 8 August 2011

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 a general meeting.

In proposing any motions on non-executive director remuneration to a general meeting, the Board has regard to market rates for directorships in comparable companies operating in similar industries. It also takes into account 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 all receiving equal amounts.

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

Non executive director remuneration is not linked to company performance.

Executive directors receive remuneration as employees of the company.

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

Other key management personnel

Board policy:

The Board's policy for determining the nature and amount of remuneration for key management personnel of the consolidated group is covered by the same policy that applies to all staff and includes the following:

> "Flexible remuneration strategies will be developed as required to meet specific employee requirements, facilitate retention/maintenance of a high quality work force and to ensure employees are rewarded relative to their input to the organisation.
>
> Important points are:
>
> - Participation in specific remuneration arrangements may be on an individual or team basis.
> - Eligibility to participate in specific remuneration arrangements is dependant on the role, responsibilities, scope and impact of individual employees orteams in the case of a team based scheme.
> - Recommendations for individual employees or teams to participate in such schemes will be made by individual Section Managers.
> - Details will be negotiated on an individual basis with relevant employees or teams.
>
> Flexible remuneration strategies may include cash or share based rewards."

Assessment of the Managing Director's performance and whether performance conditions are met is completed by the Chair and is overseen by the Board with input from the Remuneration and Nominations Committee. In turn, the Managing Director is responsible for assessing senior management and whether performance conditions are met. In all reviews, both quantitative and qualitative data is used to determine whether performance criteria are achieved.

During the year remuneration arrangements for a number of KMP were reviewed and updated. New key performance indicators (KPI) and related individual STIs were established centred around criterion including achievement of individual performance goals, performance of the company's managed funds, net flows, relationship development, earnings per share growth and achievement of budget.

For these revised arrangements assessment of KMP performance will be based on results for the current year and any STI payments or grant of rights will be made after year end based on these assessments.

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.

Performance-based remuneration and company performance

The Board policy and remuneration arrangement review is generally aiming to:

- Achieve some level of market parity on remuneration packages;
- Establish performance incentives for KMP which are outcomes focused and aligned with company goals;
- Establish alignment of KMP remuneration with shareholder value and interests; and
- Provide a retention aspect for high performing managers.

More specifically performance criteria were chosen to ensure alignment between the strategic priorities of the organisation, as established by the Board and individual objectives. The aim was to provide senior employees of the Company with an ownership of AEI's strategic direction, greater job clarity, flexibility to plan individual goals and objectives, and an opportunity to develop in their roles.

Individual bonuses

During the current year two KMP were paid specific "at risk" components in remuneration. The payments are shown in the following tables. The service and performance criteria used to determine the amount of the payments were established prior to the current yearand are generally as follows:

1. James Thier – seminar, speaking and media penetration targets; engagement with dealer groups and advisors; and promotion of the new Climate Advocacy Fund;
2. Paul Harding-Davis – managing to budget; net inflow targets; engagement with dealer groups and engagement with asset consultants;
3. James Jordan – stock research objectives and fund investment performance.

Employee share incentive schemes

Under the employee incentive schemes, a pool of performance rights which would, if exercised, amount to 5% of the company's existing ordinary share capital, was made available. This scheme was approved at the 2008 Annual General meeting.

The corporate employee share incentive scheme (ESIS) is split into two categories: general and individual.

All employees, including KMP, participate in the general ESIS. The number of performance rights issued to each employee is based on their relative remuneration.

The individual ESIS is utilised for senior and professional employees. The number of performance rights issued is based more specifically on individual performance and KPIs.

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

a) General Category

- Employment must continue until 30 June 2013
- The arithmetic average return on equity over the performance period (AROE) must exceed 15% per annum or no shares shall be awarded at the end of the performance period
- If the AROE exceeds 15% per annum but is less than 20% per annum, half the maximum number of shares shall be awarded
- If the AROE is equal to or greater than 20% per annum 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 three financial years being 2010-11, 2011-12, 2012-13

b) Individual Category

- Employment must continue until 1 July 2011
- The number of shares that will be issues to each employee in respect of their performance rights under this category will be adjusted up or down by a maximum 20%, dependent of the absolute performance 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 2010 to 30 June 2011.

Performance rights issued under the general category (above) are performance-based in two ways. Firstly, they are subject to a three year employment condition and secondly, shares will only be issued in respect of the performance rights where return on equity meets the levels described above.

Performance rights issued under the individual category are linked to the performance of the company's managed funds, as described above.

Staff bonus plan

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 bonus to current employees which is set by reference to the profit of the company for that year and can be up to thirty percent of the company profit. All staff across the organisation, irrespective of position (and including KMP), receives the same set amount (pro-rated for part time staff).

Remuneration details for the year ended 30 june 2011

Parent entity directors' remuneration

		Short-term benefits			Post employment benefits	Long-term benefits		Equity-settled share-based payments	
Parent entity director's remuneration		**Salary, fees and leave**	**Cash bonus**	**Other**	**Super-annuation**	**Long service leave**	**Termination benefits**	**Rights**	**Total**
		$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
James Thier	**2011**	**122,525**	**14,440**	**-**	**12,221**	**3,477**	**-**	**11,196**	**163,859**
	2010	122,576	14,150	-	12,874	3,604	-	9,439	162,643
Howard Pender	**2011**	**135,444**	**2,978**	**-**	**12,189**	**11,251**	**-**	**11,960**	**173,822**
	2010	132,334	2,626	-	12,652	3,856	-	9,469	160,937
Naomi Edwards	**2011**	**47,410**	**-**	**-**	**4,273**	**-**	**-**	**-**	**51,683**
	2010	81,000	-	-	7,290	-	-	-	88,290
Justine Hickey	**2011**	**28,593**	**-**	**-**	**2,578**	**-**	**-**	**-**	**31,171**
	2010	31,950	-	-	2,876	-	-	-	34,826
Anne O'Donnell	**2011**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2010	95,938	4,000	-	8,718	2,927	235,000	-	346,583
André Morony	**2011**	**30,259**	**-**	**-**	**2,729**	**-**	**-**	**-**	**32,988**
	2010	25,000	-	-	2,250	-	-	-	27,250
Les Coleman	**2011**	**26,084**	**-**	**-**	**2,352**	**-**	**-**	**-**	**28,436**
	2010	26,000	-	-	2,340	-	-	-	28,340
Stephen Newnham	**2011**	**13,234**	**-**	**-**	**1,193**	**-**	**-**	**-**	**14,427**
	2010	-	-	-	-	-	-	-	-
Phillip Vernon	**2011**	**272,330**	**2,251**	**-**	**23,429**	**5,483**	**-**	**40,316**	**343,809**
	2010	154,135	-	-	12,799	2,981	-	8,204	178,119
Total parent entity director's remuneration	**2011**	**675,879**	**19,669**	**-**	**60,964**	**20,211**	**-**	**63,472**	**840,194**
	2010	668,933	20,776	-	61,799	13,368	-	27,112	1,026,988

Named executives remuneration (including other key management personnel)

		Short-term benefits			Post employment benefits	Long-term benefits		Equity-settled share-based payments	
Named executives (including other KMP) remuneration		**Salary, fees and leave**	**Cash bonus**	**Other**	**Super-annuation**	**Long service leave**	**Termination benefits**	**Rights**	**Total**
		$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Philip George	**2011**	**196,182**	**4,000**	**-**	**17,797**	**5,680**	**-**	**16,006**	**239,665**
	2010	179,638	4,000	-	15,836	(8,483)	-	14,825	205,816
Ruth Medd	**2011**	**31,101**	**-**	**-**	**2,804**	**-**	**-**	**-**	**33,905**
	2010	42,350	-	-	3,690	-	-	-	46,040
Gary Leckie	**2011**	**204,509**	**4,000**	**-**	**18,244**	**(8,277)**	**-**	**16,380**	**234,856**
	2010	179,309	4,000	-	16,206	1,510	-	14,973	215,998
Tim Xirakis	**2011**	**181,756**	**4,000**	**-**	**16,191**	**5,129**	**-**	**15,958**	**223,034**
	2010	184,881	4,000	-	15,779	1,510	-	14,588	220,758
Paul Harding Davis	**2011**	**101,316**	**10,250**	**-**	**11,502**	**(9,812)**	**57,459**	**-**	**170,715**
	2010	196,696	21,500	-	19,491	3,989	-	15,712	257,388
Martin Halloran	**2011**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2010	245,064	3,366	-	15,017	4,937	-	48,066	316,450
James Jordan	**2011**	**256,524**	**3,259**	**-**	**23,285**	**6,143**	**-**	**15,327**	**304,538**
	2010	150,951	3,200	-	14,013	4,179	-	40,471	212,814
Named executives (including other KMP) remuneration	**2011**	**971,388**	**25,509**	**-**	**89,823**	**(1,137)**	**57,459**	**63,671**	**1,206,713**
	2010	1,178,889	40,066	-	100,032	7,642	-	148,635	1,475,264

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 full time employee were paid on 15 September 2010. 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 2011 year.

	Cash bonus[1]	**Performance bonus**	**Share bonus**	**Vested in year**	**Forfeited in year[2]**
Parent entity directors	**$**	**$**	**$**	**%**	**%**
James Thier	3,503	10,937	-	88	12
Howard Pender	2,978	-	-	100	-
Phillip Vernon	2,251	-	-	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	6,250	-	25	75
James Jordan	3,259	-	-	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*

As mentioned earlier in this report criteria for cash based bonuses were established for key management personnel. These criteria are assessed against the results for the year and relevant cash bonuses paid subsequent to year end. The maximum and minimum possible total value of the cash bonuses for financial years after the financial year to which the report relates is set out in the table below:

	Minimum	**Maximum**
Parent entity director	**$**	**$**
Phillip Vernon	-	100,000
Named executives (including other KMP)		
Timothy Xirakis	-	13,000
Phillip George	-	7,407
Gary Leckie	-	11,334
James Jordan	-	48,069

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 & excercised	% of grant vested	No. expired	% of grant forfeited	Financial year in which grant vests
James Thier	AEFAT	24-Sep-07	8.40	1 ,517	-	100%	(1,517)	100%	24-Sep-10
	AEFAV	1-Dec-08	3.65	1 ,364	-	-	-	-	14-Oct-11
	2011 Total			**-**	**-**	**-**	**(1,517)**	**-**	
	2010 Total			-	-	-	(1,432)	-	
Howard Pender	AEFAT	24-Sep-07	8.40	1 ,513	-	100%	(1,513)	100%	24-Sep-10
	AEFAV	1-Dec-08	3.65	1 ,326	-	-	-	-	14-Oct-11
	2011 Total			**-**	**-**	**-**	**(1,513)**	**-**	
	2010 Total			-	-	-	(1,469)	-	
Philip George	AEFAT	24-Sep-07	8.40	2 ,469	-	100%	(2,469)	100%	24-Sep-10
	AEFAU	14-Oct-08	3.65	2 ,169	-	-	-	-	14-Oct-11
	2011 Total			**-**	**-**	**-**	**(2,469)**	**-**	
	2010 Total			-	(2,356)	-	-	-	
Gary Leckie	AEFAT	24-Sep-07	8.40	1 ,767	-	100%	(1,767)	100%	24-Sep-10
	AEFAU	14-Oct-08	3.65	1 ,919	-	-	-	-	14-Oct-11
	2011 Total			**-**	**-**	**-**	**(1,767)**	**-**	
	2010 Total			-	-	-	(1,443)	-	
Tim Xirakis	AEFAT	24-Sep-07	8.40	1 ,776	-	100%	(1,776)	100%	24-Sep-10
	AEFAU	14-Oct-08	3.65	1 ,895	-	-	-	-	14-Oct-11
	2011 Total			**-**	**-**	**-**	**(1,776)**	**-**	
	2010 Total			-	-	-	(1,387)	-	
Paul Harding Davis	AEFAU	14-Oct-08	3.65	1 ,060	-	-	-	-	14-Oct-11
	2011 Total			-	-	-	-	-	
	2010 Total			-	-	-	-	-	
James Jordan	AEFAT	24-Sep-07	8.40	1 ,146	-	100%	(1,146)	100%	24-Sep-10
	AEFAU	14-Oct-08	3.65	1 ,243	-	-	-	-	14-Oct-11
	2011 Total			**-**	**-**	**-**	**(1,146)**	**-**	
	2010 Total			-		-	-	-	

Rights holdings

KMP rights holdings	Rights class	Grant date	Fair value at grant date ($)	No. granted	Value of rights granted ($)	No. vested & excercised	% of grant vested	No. expired	No. lapsed	Value of rights lapsed ($)	% of grant lapsed
James Thier	AEFAY	19-Apr-11	$16.25	689	$11,196	-	-	-	-	-	-
			2011 Total	**689**	**$11,196**	**-**	**-**	**-**	**-**	**-**	**-**
			2010 Total	319	$9,439	-	-	-	-	-	-
Howard Pender	AEFAY	19-Apr-11	$16.25	736	$11,960	-	-	-	-	-	-
			2011 Total	**736**	**$11,960**	**-**	**-**	**-**	**-**	**-**	**-**
	2010 Total		2010 Total	320	$9,469	-	-	-	-	-	-
Phillip Vernon	AEFAY	19-Apr-11	$16.25	2481	$40,316	-	-	-	-	-	-
			2011 Total	**2481**	**$40,316**	**-**	**-**	**-**	**-**	**-**	**-**
			2010 Total	317	$8,204	-	-	-	-	-	-
Philip George	AEFAY	19-Apr-11	$16.25	985	$16,006	-	-	-	-	-	-
			2011 Total	**985**	**$16,006**	**-**	**-**	**-**	**-**	**-**	**-**
			2010 Total	501	$14,825	-	-	-	-	-	-
Gary Leckie	AEFAY	19-Apr-11	$16.25	1,008	$16,380	-	-	-	-	-	-
			2011 Total	**1,008**	**$16,380**	**-**	**-**	**-**	**-**	**-**	**-**
			2010 Total	506	$14,973	-	-	-	-	-	-
Tim Xirakis	AEFAY	19-Apr-11	$16.25	982	$15,958	-	-	-	-	-	-
			2011 Total	**982**	**$15,958**	**-**	**-**	**-**	**-**	**-**	**-**
			2010 Total	493	$14,588	-	-	-	-	-	-
James Jordan	AEFAY	19-Apr-11	$16.25	868	$14,105	-	-	-	-	-	-
	AEFAX	30-Nov-09	$32.91	-	-	(862)	100%	-	-	-	-
	AEFAX	23-Nov-10	$26.00	47	$1,222	(47)	100%				
			2011 Total	**915**	**$15,327**	**(909)**	**-**	**-**	**-**	**-**	**-**
			2010 Total	1271	$40,471	-	-	-	-	-	-

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.

The remuneration structures and performance conditions for executive directors and other key management personnel are outlined earlier in this report. 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	-	7	86	100
Howard Pender	-	-	7	93	100
Naomi Edwards	-	-	-	100	100
Justine Hickey	-	-	-	100	100
André Morony	-	-	-	100	100
Les Coleman	-	-	-	100	100
Phillip Vernon	-	-	11	89	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	6	-	-	94	100
James Jordan	-	-	5	95	100

This directors' report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.

Phillip Vernon
Managing Director
Dated: 31 August 2011

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 2011 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

THOMAS DAVIS & CO.

J. G. Ryan

J.G. RYAN PARTNER

Date 31 August 2011

Liability limited by a scheme approved under Professional Standards Legislation

Statement of financial position
as at 30 June 2011

	Notes	Consolidated entity 2011 $	Consolidated entity 2010 $	Parent entity 2011 $	Parent entity 2010 $
Current assets					
Cash and cash equivalents	7	**2,554,689**	1,892,734	**2,298,126**	435,037
Trade and other receivables	8	**3,245,297**	3,050,029	**2,698,177**	2,604,874
Financial assets	9	**496,423**	998,441	**496,423**	998,441
Current tax assets	13	**-**	24,474	**-**	213,987
Other current assets	10	**232,306**	337,195	**189,988**	297,283
Total current assets		**6,528,715**	6,302,873	**5,682,714**	4,549,622
Non-current assets					
Property, plant & equipment	11	**4,040,747**	4,215,168	**4,040,747**	4,215,168
Intangible Assets	12	**45,355**	46,297	**45,355**	46,297
Financial assets	9	**61,820**	100,505	**377,820**	416,505
Deferred tax assets	13	**607,503**	435,083	**606,108**	433,688
Total non-current assets		**4,755,425**	4,797,053	**5,070,030**	5,111,658
Total assets		**11,284,140**	11,099,926	**10,752,744**	9,661,280
Current liabilities					
Trade and other payables	14	**2,587,710**	2,495,424	**2,339,705**	2,659,060
Current tax liabilities	15	**443,545**	-	**443,545**	-
Short-term provisions	16	**533,024**	451,046	**533,024**	451,046
Total current liabilities		**3,564,279**	2,946,470	**3,316,274**	3,110,106
Non-current liabilities					
Deferred tax liabilities	15	**34,926**	34,805	**34,926**	34,805
Other long-term provisions	16	**56,123**	62,923	**56,123**	62,923
Total non-current liabilities		**91,049**	97,728	**91,049**	97,728
Total liabilities		**3,655,328**	3,044,198	**3,407,323**	3,207,834
Net assets		**7,628,812**	8,055,728	**7,345,421**	6,453,446
Equity					
Issued capital	17	**5,915,219**	5,791,147	**5,915,219**	5,791,147
Reserves		**974,402**	869,149	**974,402**	869,149
Retained earnings		**739,191**	1,395,432	**455,800**	(206,850)
Total equity		**7,628,812**	8,055,728	**7,345,421**	6,453,446

The accompanying notes form part of these financial statements

Statement of comprehensive income
for the year ended 30 June 2011

	Notes	Consolidated entity 2011 $	Consolidated entity 2010 $	Parent entity 2011 $	Parent entity 2010 $
Revenue	3	**15,143,951**	14,067,899	**14,328,858**	11,891,805
Commissions paid to advisers		**(175,660)**	(194,080)	**(15,048)**	(32,394)
External services		**(2,424,539)**	(2,358,711)	**(718,427)**	(898,684)
Employee benefits expense		**(7,471,015)**	(7,339,724)	**(7,453,632)**	(7,316,108)
Depreciation		**(421,258)**	(358,491)	**(421,258)**	(358,491)
Occupancy costs		**(271,218)**	(245,823)	**(262,184)**	(232,939)
Communication costs		**(748,853)**	(774,633)	**(747,597)**	(774,633)
Other expenses		**(1,531,231)**	(1,065,991)	**(1,440,464)**	(994,545)
Profit before community grants and income tax expense		**2,100,177**	1,730,446	**3,270,248**	1,284,011
Community grants expense	1 (l)	**(152,802)**	(124,941)	**(152,802)**	(124,941)
Profit before income tax		**1,947,375**	1,605,505	**3,117,446**	1,159,070
Income tax expense	4	**(664,842)**	(582,950)	**(516,024)**	90,168
Profit for the year		**1,282,533**	1,022,555	**2,601,422**	1,249,238
Other comprehensive income					
Net gain/(loss) on revaluation of available-for-sale investments		**(26,580)**	18,645	**(26,580)**	18,645
Other comprehensive income for the period, net of tax		**(26,580)**	18,645	**(26,580)**	18,645
Total comprehensive income for the period		**1,255,953**	1,041,200	**2,574,842**	1,267,883
Profit attributable to members of the parent entity		**1,282,533**	1,022,555	**2,601,422**	1,249,238
Total comprehensive income attributable to members of the parent entity		**1,255,953**	1,041,200	**2,574,842**	1,267,883
Basic earnings per share (cents per share)	6	**128.8**	103.0		
Diluted earnings per share (cents per share)	6	**127.9**	102.0		

The accompanying notes form part of these financial statements

Statement of changes in equity
for year ended 30 June 2011

Consolidated entity

	Note	Issued capital ordinary $	Asset revaluation reserve $	Share-based payment reserve $	Retained earnings $	Total $
Balance at 1 July 2009		5,739,635	(59,322)	594,591	2,178,301	8,453,205
Profit attributable to members of the group		-	-	-	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 owners:						
Shares issued during the period	17	51,512	-	-	-	51,512
Dividends paid or provided for	5	-	-	-	(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
Balance at 1 July 2010		**5,791,147**	**(40,677)**	**909,826**	**1,395,432**	**8,055,728**
Profit attributable to members of the group		**-**	**-**	**-**	**1,282,533**	**1,282,533**
Other comprehensive income for the period		**-**	**(26,580)**	**-**	**-**	**(26,580)**
Total comprehensive income for the period		**-**	**(26,580)**	**-**	**1,282,533**	**1,255,953**
Transactions with owners in their capacity as owners:						
Shares issued during the period	17	**124,072**	**-**	**(124,072)**	**-**	**-**
Dividends paid or provided for	5	**-**	**-**	**-**	**(1,938,772)**	**(1,938,772)**
Share-based payment expense		**-**	**-**	**255,905**	**-**	**255,905**
Balance at 30 June 2011		**5,915,219**	**(67,257)**	**1,041,659**	**739,191**	**7,628,812**

Parent entity

	Note	Issued capital ordinary $	Asset revaluation reserve $	Share-based payment reserve $	Retained earnings $	Total $
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	17	51,512	-	-	-	51,512
Dividends paid or provided for	5	-	-	-	(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
Balance at 1 July 2010		**5,791,147**	**(40,677)**	**909,826**	**(206,850)**	**6,453,446**
Profit attributable to members of the parent entity		**-**	**-**	**-**	**2,601,422**	**2,601,422**
Other comprehensive income for the period		**-**	**(26,580)**	**-**	**-**	**(26,580)**
Total comprehensive income for the period		**-**	**(26,580)**	**-**	**2,601,422**	**2,574,843**
Transactions with owners in their capacity as owners:						
Shares issued during the period	17	**124,072**	**-**	**(124,072)**	**-**	**-**
Dividends paid or provided for	5	**-**	**-**	**-**	**(1,938,772)**	**(1,938,772)**
Share-based payment expense		**-**	**-**	**255,905**	**-**	**255,905**
Balance at 30 June 2011		**5,915,219**	**(67,257)**	**1,041,659**	**455,800**	**7,345,421**

The accompanying notes form part of these financial statements.

Statement of cash flows
for the year ended 30 June 2011

	Notes	Consolidated entity 2011 $	Consolidated entity 2010 $	Parent entity 2011 $	Parent entity 2010 $
Cash flows from operating activities					
Receipts from operations		**21,360,606**	14,111,414	**18,497,823**	9,906,897
Payment to suppliers & employees		**(18,429,046)**	(12,274,001)	**(16,282,198)**	(10,558,223)
Dividends received		**-**	-	**1,665,953**	1,797,057
Interest/distributions received		**95,885**	130,785	**76,271**	101,847
Income tax paid		**(357,731)**	(812,425)	**(87,001)**	(161,346)
Bonus		**(184,026)**	(170,904)	**(184,026)**	(170,904)
Community grants		**(125,396)**	(135,644)	**(125,396)**	(135,644)
Net cash provided by (used in) operating activities	22 (b)	**2,360,292**	849,225	**3,561,426**	779,684
Cash flows from investing activities					
Proceeds from sale of investments		**656,109**	1,847,723	**656,109**	1,847,723
Purchase of property, plant & equipment		**(273,142)**	(500,035)	**(273,142)**	(500,035)
Purchase of investments		**(191,352)**	(1,133,628)	**(191,352)**	(1,133,628)
Loans to Staff		**-**	(49,889)	**-**	(49,889)
Repayment of loans		**48,820**	18,783	**48,820**	18,783
Net cash provided by (used in) investing activities		**240,435**	182,954	**240,435**	182,954
Cash flows from financing activities					
Proceeds from share issue		**-**	51,512	**-**	51,512
Share buy-back payment		**-**	-	**-**	-
Dividends paid		**(1,938,772)**	(1,805,424)	**(1,938,772)**	(1,805,424)
Net cash provided by (used in) financing activities		**(1,938,772)**	(1,753,912)	**(1,938,772)**	(1,753,912)
Net increase (decrease) in cash held		**661,955**	(721,733)	**1,863,089**	(791,274)
Cash at beginning of financial year		**1,892,734**	2,614,467	**435,037**	1,226,311
Cash at end of financial year	22 (a)	**2,554,689**	1,892,734	**2,298,126**	435,037

The accompanying notes form part of these Financial Statements

Notes to the financial statements for the year ended 30 June 2011

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 reporting date.

Notes to the financial statements for the year ended 30 June 2011

Note 1 - Statement of significant accounting policies - continued

b) Income tax - continued

Deferred tax is accounted for using the statement of financial position 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

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 reporting 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 live 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.

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 it 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 reporting 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 reporting 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.

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 statement of financial position are shown inclusive of GST.

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

l) Community grants 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 2011

Note 1 - Statement of significant accounting policies - continued

l) Community grants 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 four 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 statement of financial position for $69,091, and a staff loan for $12,250. The directors have determined that no provision for impairment is required for these loans.

Accounting Standards not previously applied

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 1053: Application of Tiers of Australian Accounting Standards and AASB2010-2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013).
AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

– Tier 1: Australian Accounting Standards; and

– Tier 2: Australian Accounting Standards - Reduced Disclosure Requirements.

Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

The following entities are required to apply Tier 1 reporting requirements (i.e. full IFRS):

– for-profit private sector entities that have public accountability; and

– the Australian Government and state, territory and local governments.

Since the group is a for-profit private sector entity that has public accountability, it does not qualify for the reduced disclosure requirements for Tier 2 entities.

• 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.

Notes to the financial statements for the year ended 30 June 2011

• AASB 2010-4: Further amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011).

This Standard details numerous non-urgent but necessary changes to Accounting Standards arising from the IASB's annual improvements project. Key changes include:

– clarifying the application of AASB 108 prior to an entity's first Australian-Accounting-Standards financial statements;

– adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments;

– amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;

– adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and

– making sundry editorial amendments to various Standards and Interpretations.

This Standard is not expected to impact the group.

	Consolidated entity		Parent entity	
	2011	2010	**2011**	2010
	$	$	**$**	$
Note 2 - Auditors' remuneration				
Remuneration of the auditors for:				
Audit services				
- Auditing the financial report	**39,188**	38,279	**34,538**	33,629
- Auditing the sustainability report	**5,900**	5,750	**5,900**	5,750
Non-audit services				
- Tax and other accounting advice	**3,462**	3,371	**3,462**	3,371

Note 3 - Revenue

	Consolidated entity 2011 $	Consolidated entity 2010 $	Parent entity 2011 $	Parent entity 2010 $
Operating activities				
- Management fees net of rebates	**11,235,864**	10,801,006	**4,602,218**	4,701,333
- Entry fees	**1,107,289**	1,349,887	**80,839**	157,969
- Member & Withdrawal Fees	**697,654**	536,221	**-**	-
- Other fees	**1,219,025**	1,162,694	**998,442**	1,162,694
- Dividend from wholly owned subsidiary	**-**	-	**1,665,953**	1,797,057
- Interest/distributions	**98,246**	123,949	**78,632**	95,011
- Wholly owned entity fee	**-**	-	**6,167,594**	3,892,705
- Other revenue	**785,873**	94,142	**735,180**	85,037
	15,143,951	14,067,899	**14,328,858**	11,891,805
Total revenue	**15,143,951**	14,067,899	**14,328,858**	11,891,805

Notes to the financial statements for the year ended 30 June 2011

	Consolidated entity		Parent entity	
	2011	2010	**2011**	2010
	$	$	**$**	$
Note 4 - Income tax expense				
a) The components of tax expense comprise:				
- Current tax	**828,581**	560,819	**679,763**	(109,344)
- Deferred tax	**(163,739)**	22,131	**(163,739)**	19,176
	664,841	582,950	**516,024**	(90,168)
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% (2010:30%)				
- Consolidated entity	**584,212**	481,651	**-**	-
- Parent entity	**-**	-	**935,233**	347,721
- Other members of the income tax consolidated group net of intercompany transactions	**-**	-	**148,818**	673,118
Add: tax effect of:				
- Other non-allowable items	**2,130**	1,891	**2,076**	1,820
- Share options expensed during year	**76,772**	94,570	**76,772**	94,570
- Under provision for income tax in prior year	**2,483**	5,582	**2,483**	5,582
	665,597	583,694	**1,165,382**	1,122,811
Less: tax effect of:				
- Rebateable fully franked dividends	**-**	-	**(499,785)**	(539,117)
- Franking and foreign tax credits	**(755)**	(744)	**(755)**	(744)
- Tax allowance on capital investment	**-**	-	**-**	-
Income tax expense attributable to entity	**664,842**	582,950	**664,842**	582,950
Allocation of income tax expense to wholly owned entity under the tax sharing agreement	**-**	-	**(148,818)**	(673,118)
Income tax expense attributable to entity	**664,842**	582,950	**516,024**	(90,168)
The applicable weighted average effective tax rates are as follows:	**34%**	36%	**17%**	-8%

	Consolidated entity 2011 $	Consolidated entity 2010 $	Parent entity 2011 $	Parent entity 2010 $
Note 5 - Dividends				
(a) Distributions paid				
Final fully franked dividend of 50 (2010: 132) cents per share franked at the tax rate of 30% (2010:30%)	**496,570**	1,308,854	**496,570**	1,308,854
Special fully franked dividend of 100 (2010: 0) cents per share franked at the tax rate of 30% (2010:30%)	**993,141**	-	**993,141**	-
Interim fully franked dividend of 45 (2010: 50) cents per share franked at the tax rate of 30% (2010:30%)	**449,061**	496,570	**449,061**	496,570
	1,938,772	1,805,424	**1,938,772**	1,805,424
(b) Distributions declared				
Final fully franked dividend of 100 (2010: 50) cents per share franked at the tax rate of 30% (2010: 30%)	**997,913**	496,570	**997,913**	496,570
Special fully franked dividend of 25 (2010: 100) cents per share franked at the tax rate of 30% (2010:30%)	**249,478**	993,141	**249,478**	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.			**1,380,710**	1,418,530
Subsequent to year-end, the franking account would be reduced by the declared dividend reflected above as follows:			**534,596**	638,448
			846,114	780,082
Note 6 - Earnings per share				
(a) Earnings used to calculate basic EPS and dilutive EPS	**1,282,533**	1,022,555		
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	**996,004**	992,385		
Weighted average number of rights outstanding	**6,886**	9,516		
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	**1,002,890**	1,001,901		
Note 7 - Cash and cash equivalents				
Cash on hand	**300**	300	**300**	300
Cash at bank	**171,559**	1,020,195	**10,000**	6,842
Deposits at call	**2,382,830**	872,239	**2,287,826**	427,895
	2,554,689	1,892,734	**2,298,126**	435,037

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 2011

	Consolidated entity		Parent entity	
	2011	2010	**2011**	2010
	$	$	**$**	$
Note 8 - Trade and other receivables				
Trade receivables	**3,238,499**	3,039,901	**2,623,778**	2,516,422
Other	**6,798**	10,128	**6,798**	10,128
Amounts receivable - wholly owned entity	**-**	-	**67,601**	78,324
	3,245,297	3,050,029	**2,698,177**	2,604,874

	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
Note 9 - Financial assets				
Available-for-sale financial assets	**476,902**	973,096	**792,902**	1,289,096
Loans	**81,341**	125,850	**81,341**	125,850
	558,243	1,098,946	**874,243**	1,414,946
Less non-current portion	**61,820**	100,505	**377,820**	416,505
Current portion	**496,423**	998,441	**496,423**	998,441

	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
a. Available-for-sale financial assets comprise:				
- Money market deposit at cost	**-**	500,000	**-**	500,000
- Mortgage backed security at fair value	**-**	144,616	**-**	144,616
- Listed securities at fair value	**137,036**	2,558	**137,036**	2,558
- Units in unit trust at fair value	**339,866**	325,922	**339,866**	325,922
- Shares in wholly owned entity at cost	**-**	-	**316,000**	316,000
	476,902	973,096	**792,902**	1,289,096

	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
b. Loans comprise				
- Loan to other entity	**69,091**	82,492	**69,091**	82,492
- Loan to staff	**12,250**	43,358	**12,250**	43,358
	81,341	125,850	**81,341**	125,850

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 one staff member with the FBT interest rate set by the ATO.

	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
Note 10 - Other current assets				
Other	**11,857**	11,914	**11,858**	11,914
Prepayments	**220,449**	325,281	**178,130**	285,369
	232,306	337,195	**189,988**	297,283

Note 11 - Property, plant and equipment

	Consolidated entity 2011 $	Consolidated entity 2010 $	Parent entity 2011 $	Parent entity 2010 $
Land and buildings				
Leasehold land				
At cost	**230,000**	230,000	**230,000**	230,000
Total land	**230,000**	230,000	**230,000**	230,000
Buildings				
At cost	**2,784,117**	2,784,117	**2,784,117**	2,784,117
Accumulated depreciation	**(368,642)**	(297,085)	**(368,642)**	(297,085)
Total buildings	**2,415,475**	2,487,032	**2,415,475**	2,487,032
Total land and buildings	**2,645,475**	2,717,032	**2,645,475**	2,717,032
Plant and equipment				
At cost	**2,809,022**	2,680,113	**2,809,022**	2,680,113
Accumulated depreciation	**(1,413,750)**	(1,181,977)	**(1,413,750)**	(1,181,977)
Total plant and equipment	**1,395,272**	1,498,136	**1,395,272**	1,498,136
Total property, plant and equipment	**4,040,747**	4,215,168	**4,040,747**	4,215,168
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	**230,000**	230,000	**230,000**	230,000
Buildings				
Balance at the beginning of year	**2,487,032**	2,558,589	**2,487,032**	2,558,589
Additions	**-**	-	**-**	-
Disposals	**-**	-	**-**	-
Depreciation expense	**(71,557)**	(71,557)	**(71,557)**	(71,557)
Carrying amount at the end of year	**2,415,475**	2,487,032	**2,415,475**	2,487,032
Plant and equipment				
Balance at the beginning of year	**1,498,136**	1,350,992	**1,498,136**	1,350,992
Additions	**256,948**	430,862	**256,948**	430,862
Disposals	**(36,793)**	(10,286)	**(36,793)**	(10,286)
Depreciation expense	**(323,019)**	(273,431)	**(323,019)**	(273,431)
Carrying amount at the end of year	**1,395,272**	1,498,136	**1,395,272**	1,498,136
Total	**4,040,747**	4,215,168	**4,040,747**	4,215,168

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 2011

	Consolidated entity 2011 $	Consolidated entity 2010 $	Parent entity 2011 $	Parent entity 2010 $
Note 12 - Intangible Assets				
Website development costs				
At cost	**85,540**	59,800	**85,540**	59,800
Accumulated amortisation	**(40,185)**	(13,503)	**(40,185)**	(13,503)
Total intangibles	**45,355**	46,297	**45,355**	46,297
Website development costs				
Balance at the beginning of year	**46,297**	-	**46,297**	-
Additions	**25,740**	59,800	**25,740**	59,800
Disposals	**-**	-	**-**	-
Amortisation expense	**(26,682)**	(13,503)	**(26,682)**	(13,503)
Carrying amount at the end of year	**45,355**	46,297	**45,355**	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	**517,881**	362,580	**517,881**	362,580
Community grants	**46,578**	40,850	**46,578**	40,850
Audit fees	**14,220**	14,220	**12,825**	12,825
	578,679	417,650	**577,284**	416,255
Amounts recognised directly in equity				
Financial asset revaluations	**28,824**	17,433	**28,824**	17,433
	607,503	435,083	**606,108**	433,688
Movements				
Opening balance at 1 July	**435,083**	464,200	**433,688**	459,850
Credited (charged) to the statement of comprehensive income	**161,029**	(21,126)	**161,029**	(18,171)
Credited (charged) to equity	**11,391**	(7,991)	**11,391**	(7,991)
Closing balance at 30 June	**607,503**	435,083	**606,108**	433,688
Note 14 - Trade and other payables				
Trade payables	**411,535**	436,714	**394,251**	313,031
Sundry payables and accrued expenses	**1,971,145**	1,864,510	**1,740,426**	1,655,441
Employee bonus	**205,029**	194,200	**205,029**	194,200
Amounts payable to wholly owned entity	**-**	-	**-**	496,388
	2,587,710	2,495,424	**2,339,705**	2,659,060
Note 15 - Tax liabilities				
Current tax liabilities				
Income tax payable	443,545	-	443,545	-
	443,545	-	**443,545**	-
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	**4,030**	3,909	**4,030**	3,909
	34,926	34,805	**34,926**	34,805
Movements				
Opening balance at 1 July	**34,805**	33,732	**34,805**	33,732
Credited/(charged) to the income statement	**121**	1,073	**121**	1,073
Credited/(charged) to equity	**-**	-	**-**	-
Closing balance at 30 June	**34,926**	34,805	**34,926**	34,805

Notes to the financial statements for the year ended 30 June 2011

	Consolidated entity		Parent entity	
	2011	2010	**2011**	2010
	$	$	**$**	$
Note 16 - Provisions				
Current				
Employee benefits - long service leave	**533,024**	451,046	**533,024**	451,046
	533,024	451,046	**533,024**	451,046
Non-Current				
Employee benefits - long service leave	**56,123**	62,923	**56,123**	62,923
	56,123	62,923	**56,123**	62,923
Note 17 - Issued capital				
Ordinary shares				
Fully paid ordinary shares at the beginning of the financial year 993,141 (2010 - 991,556) shares	**5,791,147**	5,739,635	**5,791,147**	5,739,635
Issue of share capital				
Shares issued during the year under the employee share ownership plan:				
1,585 on 22 December 2009 (options exercised)	**-**	51,512	**-**	51,512
4,772 on 23 November 2010 (rights exercised)	**124,072**	-	**124,072**	-
Balance 30 June 997,913 (2010 - 993,141) shares	**5,915,219**	5,791,147	**5,915,219**	5,791,147

At 30 June 2011 there were 997,913 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, othewise 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 Australian Ethical trusts and listed securities. 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 $5.0M capital requirement above which no extra capital is required as a result of increased funds under management.

	Consolidated entity		Parent entity	
	2011	2010	**2011**	2010
	$	$	**$**	$

Note 18 – Events after the reporting 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

Liabilties 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:

	Consolidated entity 2011 $	Consolidated entity 2010 $	Parent entity 2011 $	Parent entity 2010 $
Current liabilities				
Payables	**3,249,481**	29,220,186	**1,957,613**	28,346,164
Provisions	**18,472,200**	11,719,003	**17,710,906**	10,539,437
Total liabilities	**21,721,681**	40,939,189	**19,668,519**	38,885,601
Rights of indemnities for liabilities incurred by the consolidated entity and parent entity not recorded in the financial statements were:	**21,721,681**	40,939,189	**19,668,519**	38,885,601

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 2011

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 2011			30 June 2010		
	Managed funds	**Super**	**Total**	**Managed funds**	**Super**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Revenue						
External sale	6,416,679	8,629,026	15,045,705	6,107,033	7,836,917	13,943,950
Inter-segment sale	6,167,594	-	6,167,594	3,892,705	-	3,892,705
Interest revenue	78,632	19,614	98,246	95,011	28,938	123,949
Total segment revenue	**12,662,905**	**8,648,640**	**21,311,545**	**10,094,749**	**7,865,855**	**17,960,604**
Inter-segment eliminations			(6,167,594)			(3,892,705)
Total group revenue			**15,143,951**			**14,067,899**
Segment net profit before tax	**2,622,030**	**795,165**	**3,417,195**	**588,405**	**2,243,491**	**2,831,896**
Reconciliation of segment result to group net profit/loss after tax						
Income tax expense	(516,024)	(148,818)	(664,842)	90,168	(673,118)	(582,950)
Unallocated items						
- Depreciation and amortisation			(421,258)			(358,491)
- Other corporate overheads *			(1,048,562)			(867,900)
Group net profit after tax			**1,282,533**			**1,022,555**

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

(ii) Segment assets

	30 June 2011			30 June 2010		
	Managed funds	**Super**	**Total**	**Managed funds**	**Super**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Assets	**10,752,744**	**914,998**	**11,667,742**	**9,661,280**	**2,518,170**	**12,179,450**
Inter-segment eliminations			(383,602)			(1,080,224)
Total group assets			**11,284,140**			**11,099,226**

(iii) Segment liabilities

Liabilities	**3,407,323**	**315,606**	**3,722,929**	**3,207,834**	**600,589**	**3,808,423**
Inter-segment eliminations			(67,601)			(764,225)
Total group liabilities			**3,655,328**			**3,044,198**

Notes to the financial statements for the year ended 30 June 2011

Note 22 - Cash flow information

(a) Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	Consolidated entity 2011 $	Consolidated entity 2010 $	Parent entity 2011 $	Parent entity 2010 $
Cash on hand	**300**	300	**300**	300
Cash at bank	**171,559**	1,020,195	**10,000**	6,842
Deposits at call	**2,382,830**	872,239	**2,287,826**	427,895
	2,554,689	1,892,734	**2,298,126**	435,037

(b) Reconciliation of cash flow from operations with net profit from ordinary activities after income tax expense

	Consolidated entity 2011 $	Consolidated entity 2010 $	Parent entity 2011 $	Parent entity 2010 $
Net profit from ordinary activities after income tax expense	**1,282,533**	1,022,555	**2,601,422**	1,249,238
Non-cash flows in operating profit				
Depreciation	**421,258**	358,491	**421,258**	358,491
Provisions	**75,178**	(70,439)	**75,178**	(70,439)
(Profit) loss on sale of property, plant & equipment	**27,246**	19,659	**27,246**	19,659
(Profit) loss on sale of investment	**(6,449)**	-	**(6,449)**	-
Share options/rights expensed	**255,905**	315,235	**255,905**	315,235
Changes in assets and liabilities				
(Increase) decrease in trade & other receivables	**(199,654)**	(1,248,023)	**(30,088)**	(1,485,227)
(Increase) decrease in current tax assets	**-**	(24,474)	**-**	(213,987)
(Increase) decrease in prepayments & other assets	**104,888**	(57,829)	**107,296**	(62,022)
(Increase) decrease in deferred tax assets	**(136,555)**	21,126	**52,958**	18,171
Increase (decrease) in trade & other payables	**92,276**	739,051	**(319,365)**	706,262
Increase (decrease) in current tax liability	**443,545**	(227,201)	**375,944**	(56,771)
Increase (decrease) in deferred tax liability	**121**	1,074	**121**	1,074
Net cash provided by (used in) operating activities	**2,360,292**	849,225	**3,561,426**	779,684

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, Australian Ethical Property Trust and the Climate Advocacy Fund).

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:

	Consolidated entity		Parent entity	
	2011	2010	**2011**	2010
	$	$	**$**	$
(i) Transactions whereby Australian Ethical Investment Limited provides management services to the wholly owned entity on a cost recovery basis	**-**	-	**6,167,594**	3,892,705
(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).	**-**	-	**148,818**	673,117
(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.	**-**	-	**6,401,445**	5,987,343
(iv) Transactions whereby Australian Ethical Investment Limited receives a dividend from the wholly owned entity referred to in note 3.	**-**	-	**1,665,953**	1,797,057
b) Outstanding balances at end of period:				
Amounts receivable from wholly owned entity: Taxation and other	**-**	-	**67,601**	78,324
Amounts payable to wholly owned entity: Management fee income	**-**	-	**-**	496,388

	Consolidated entity		Parent entity	
	2011	2010	**2011**	2010
	$	$	**$**	$

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:

	Consolidated entity 2011 $	Consolidated entity 2010 $	Parent entity 2011 $	Parent entity 2010 $
(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	**3,459,096**	3,563,536	**3,459,096**	3,563,536
- Australian Ethical Smaller Companies Trust	**4,039,271**	3,842,863	**4,039,271**	3,842,863
- Australian Ethical Income Trust	**360,548**	327,041	**360,548**	327,041
- Australian Ethical Larger Companies Trust	**1,717,663**	1,964,631	**1,717,663**	1,964,631
- Australian Ethical International Equities Trust	**1,442,241**	1,017,719	**1,442,241**	1,017,719
- Australian Ethical World Trust	**-**	14,026	**-**	14,026
- Australian Ethical Property Trust	**296,802**	136,068	**296,802**	136,068
- Climate Advocacy Fund	**23,775**	510	**23,775**	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	**253,495**	274,208	**253,495**	274,208
- Australian Ethical Smaller Companies Trust	**204,500**	220,101	**204,500**	220,101
- Australian Ethical Income Trust	**88,251**	94,591	**88,251**	94,591
- Australian Ethical Larger Companies Trust	**130,247**	140,969	**130,247**	140,969
- Australian Ethical International Equities Trust	**102,249**	110,550	**102,249**	110,550
- Australian Ethical World Trust	**-**	15,572	**-**	15,572
- Australian Ethical Property Trust	**34,201**	18,362	**34,201**	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	**26,885**	40,599	**26,885**	40,599
- Australian Ethical Smaller Companies Trust	**32,012**	46,764	**32,012**	46,764
- Australian Ethical Income Trust	**1,963**	3,873	**1,963**	3,873
- Australian Ethical Larger Companies Trust	**20,885**	30,272	**20,885**	30,272
- Australian Ethical International Equities Trust	**4,502**	1,933	**4,502**	1,933
- Australian Ethical World Trust	**-**	2,808	**-**	2,808
- Australian Ethical Property Trust	**121**	9	**121**	9
(iv) Transaction whereby Australian Ethical Investment Limited received a distribution payment from the Australian Ethical Balanced Trust	**4,665**	2,695	**4,665**	2,695

Notes to the financial statements for the year ended 30 June 2011

Note 23 – Related party transactions - continued

b) Outstanding balances at end of period:

	Consolidated entity 2011 $	Consolidated entity 2010 $	Parent entity 2011 $	Parent entity 2010 $
Amounts receivable from the Australian Ethical Trusts in relation to investment services, accounting services and reimbursable expenses:				
- Australian Ethical Balanced Trust	**438,059**	85,327	**438,059**	85,327
- Australian Ethical Smaller Companies Trust	**491,102**	304,836	**491,102**	304,836
- Australian Ethical Income Trust	**93,853**	62,394	**93,853**	62,394
- Australian Ethical Larger Companies Trust	**235,973**	150,125	**235,973**	150,125
- Australian Ethical International Equities Trust	**168,801**	156,617	**168,801**	156,617
- Australian Ethical World Trust	**6,501**	5,908	**6,501**	5,908
- Australian Ethical Property Trust	**64,300**	63,816	**64,300**	63,816
- Climate Advocacy Fund	**6,992**	191	**6,992**	191
Value of units held by Australian Ethical Investment Limited in the Australian Ethical Balanced Trust	**233,479**	227,064	**233,479**	227,064
Value of units held by Australian Ethical Investment Limited in the Climate Advocacy Fund	**106,386**	98,858	**102,452**	98,858
Distribution receivable from Australian Ethical Balanced Trust	**3,316**	6,057	**3,316**	6,057
Distribution receivable from Climate Advocacy Fund	**3,482**	718	**3,482**	718

	Consolidated entity		Parent entity	
	2011	2010	**2011**	2010
	$	$	**$**	$
Note 23 – Related party transactions - continued				
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.)	**232,201**	112,330	**-**	-
(ii) Transactions between Australian Ethical Superannuation Pty Limited and the Australian Ethical Retail Superannuation Fund related to contribution fee/ (rebate of contribution fee)	**1,026,450**	1,191,919	**-**	-
(iii) Transactions between Australian Ethical Superannuation Pty Limited and the Australian Ethical Retail Superannuation Fund related to member admin fee/ (rebate of member admin fee)	**697,654**	536,221	**-**	-
(iv) Transactions between Australian Ethical Superannuation Pty Limited and the Australian Ethical Retail Superannuation Fund related to other reimbursables/ (rebate of other reimbursables)	**226,299**	50,839	**-**	-
Outstanding balances at end of period:				
Amounts receivable from/ (payable to) the Australian Ethical Retail Superannuation Fund:				
(i) Investment services/ (rebate of investment services fee)	**52,372**	14,415	**-**	-
(ii) Contribution fee/ (rebate of contribution fee)	**175,916**	236,967	**-**	-
(iii) Member admin fee/ (rebate of member admin fee)	**350,798**	268,872	**-**	-
(iv) Other reimbursables/ (rebate of other reimbursables)	**37,623**	762	**-**	-

Terms and conditions

No provision for doubtful debts has 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 2011

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	Retired 17 November 2010
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	Resigned 23 March 2011
Justine Hickey	Director, non-executive	
Les Coleman	Director, non-executive	
Stephen Newnham	Director, non-executive	Appointed 20 December 2010
André Morony	Chairperson, non-executive	
Phillip Vernon	Managing Director ,executive	Appointed 27 July 2010

Other key management personnel

Name	Position	
Gary Leckie	Chief Financial Officer	
Tim Xirakis	Head of Client Relationships	Resigned 8 August 2011
Philip George	Head of Product & Client Services	
Paul Harding Davis	Head of Distribution	Resigned 5 January 2011
James Jordan	Chief Investment Officer	

b) Key management personnel compensation

	Economic Entity		Parent Entity	
	2011	2010	**2011**	2010
	$	**$**	**$**	**$**
Short term employment benefits	**1,698,879**	1,866,314	**1,661,759**	1,809,139
Post-employment benefits	**151,363**	158,141	**148,016**	153,731
Other long-term benefits	**19,073**	21,010	**19,073**	21,010
Termination benefits	**57,459**	235,000	**57,459**	235,000
Share-based payments	**127,143**	175,747	**127,143**	175,747
Total compensation	**2,053,917**	2,456,212	**2,013,450**	2,394,627

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 options holdings	**Option Class**	**Balance at beginning of year**	**No. granted**	**No. expired**	**No. vested & excercised**	**Balance at end of year**	**Vested at end of year**	**Vested & excercisable at end of year**	**Vested & un-excercisable at end of year**
Parent entity directors									
James Thier	AEFAT	1,517	-	(1,517)	-	-	1,517	1,517	-
	AEFAV	1,364	-	-	-	1,364	-	-	-
	2011 Total	**2,881**	**-**	**(1,517)**	**-**	**1,364**	**1,517**	**1,517**	**-**
	2010 Total	4,313	-	(1,432)	-	2,881	1,432	1,432	-
Howard Pender	AEFAT	1,513	-	(1,513)	-	-	1,513	1,513	-
	AEFAV	1,326	-	-	-	1,326	-	-	-
	2011 Total	**2,839**	**-**	**(1,513)**	**-**	**1,326**	**1,513**	**1,513**	**-**
	2010 Total	4,308	-	(1,469)	-	2,839	1,469	1,469	-
Named executives (including other key management personnel)									
Philip George	AEFAT	2,469	-	(2,469)	-	-	2,469	2,469	-
	AEFAU	2,169	-	-	-	2,169	-	-	-
	2011 Total	**4,638**	**-**	**(2,469)**	**-**	**2,169**	**2,469**	**2,469**	**-**
	2010 Total	6,994	-	-	(2,356)	4,638	2,356	2,356	-
Gary Leckie	AEFAT	1,767	-	(1,767)	-	-	1,767	1,767	-
	AEFAU	1,919	-	-	-	1,919	-	-	-
	2011 Total	**3,686**	**-**	**(1,767)**	**-**	**1,919**	**1,767**	**1,767**	**-**
	2010 Total	5,129	-	(1,443)	-	3,686	1,443	1,443	-
Tim Xirakis	AEFAT	1,776	-	(1,776)	-	-	1,776	1,776	-
	AEFAU	1,895	-	-	-	1,895	-	-	-
	2011 Total	**3,671**	**-**	**(1,776)**	**-**	**1,895**	**1,776**	**1,776**	**-**
	2010 Total	5,058	-	(1,387)	-	3,671	1,387	1,387	-
Paul Harding Davis	AEFAU	1,060	-	-	-	1,060	-	-	-
	2011 Total	**1,060**	**-**	**-**	**-**	**1,060**	**-**	**-**	**-**
	2010 Total	1,060	-	-	-	1,060	-	-	-
James Jordan	AEFAT	1,146	-	(1,146)	-	-	1,146	1,146	-
	AEFAU	1,243	-	-	-	1,243	-	-	-
	2011 Total	**2,389**	**-**	**(1,146)**	**-**	**1,243**	1,146	**1,146**	**-**
	2010 Total	2,389	-	-	-	2,389	-	-	-

Notes to the financial statements for the year ended 30 June 2011

Note 24 - Key management personnel compensation - continued

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 & excercised	Balance at end of year	Vested at end of year	Vested & excercisable at end of year	Vested & un-excercisable at end of year
Parent entity directors									
James Thier	AEFAY	-	689	-	-	689	-	-	-
	AEFAW	319	-	-	-	319	-	-	-
	2011 Total	**319**	**689**	**-**	**-**	**1,008**	**-**	**-**	**-**
	2010 Total	-	319	-	-	319	-	-	-
Howard Pender	AEFAY	-	736	-	-	736	-	-	-
	AEFAW	320	-	-	-	320	-	-	-
	2011 Total	**320**	**736**	**-**	**-**	**1,056**	**-**	**-**	**-**
	2010 Total	-	320	-	-	320	-	-	-
Phillip Vernon	AEFAY	-	2,481	-	-	2,481	-	-	-
	AEFAW	317	-	-	-	317	-	-	-
	2011 Total	**317**	**2,481**	**-**	**-**	**2,798**	**-**	**-**	**-**
	2010 Total	-	317	-	-	317	-	-	-
Named executives (including other key management personnel)									
Philip George	AEFAY	-	985	-	-	985	-	-	-
	AEFAW	501	-	-	-	501	-	-	-
	2011 Total	**501**	**985**	**-**	**-**	**1,486**	**-**	**-**	**-**
	2010 Total	-	501	-	-	501	-	-	-
Gary Leckie	AEFAY	-	1,008	-	-	**1,008**	-	-	-
	AEFAW	506	-	-	-	506	-	-	-
	2011 Total	**506**	**1,008**	**-**	**-**	**1,514**	**-**	**-**	**-**
	2010 Total	-	506	-	-	506	-	-	-
Tim Xirakis	AEFAY		**982**	-	-	**982**	-	-	-
	AEFAW	493	-	-	-	493	-	-	-
	2011 Total	**493**	**982**	**-**	**-**	**1,475**	**-**	**-**	**-**
	2010 Total	-	493	-	-	493	-	-	-
Paul Harding Davis	AEFAY	-	-	-	-	-	-	-	-
	AEFAW	531	-	(531)	-	-	-	-	-
	2011 Total	**531**	**-**	**(531)**	**-**	**-**	**-**	**-**	**-**
	2010 Total	-	531	-	-	531	-	-	-
James Jordan	AEFAY	-	868	-	-	868	-	-	-
	AEFAW	409	-	-	-	409	-	-	-
	AEFAX	862	47	-	(909)	-	909	909	909
	2011 Total	**1,271**	915	**-**	**(909)**	**1,277**	**909**	**909**	**909**
	2010 Total	-	1,271	-	-	1,271	-	-	-

Share holdings
Number of shares held by key management personnel.

Parent entity directors		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)
James Thier	**2011**	**65,846**	**-**	**-**	**730**	**66,576**
	2010	65,846	-	-	-	65,846
Howard Pender	**2011**	**51,883**	**-**	**-**	**(1,200)**	**50,683**
	2010	52,283	-	-	(400)	51,883
Justine Hickey	**2011**	**700**	**-**	**-**	**500**	**1,200**
	2010	700	-	-	-	700
Named executives (including other key management personnel)						
Philip George	**2011**	**1,104**	**-**	**-**	**-**	**1,104**
	2010	489	-	-	615	1,104
Gary Leckie	**2010**	**-**	**-**	**-**	**-**	**-**
	2009	-	-	1,387	(1,387)	-
Paul Harding Davis	**2011**	**1,598**	**-**	**-**	**(838)**	**760**
	2010	78	-	-	1,520	1,598
James Jordan	**2011**	**-**	**-**	**909**	**-**	**909**
	2010	-	-	-	-	-

(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	No. of Individuals at end of year
Key management personnel	**$**	**$**	**$**	**$**	**$**	
2011	**43,358.14**	**1,860.30**	**-**	**-**	**12,250.11**	**1**
2010	**-**	**1,697.65**	**-**	**-**	**43,358.14**	**2**

(a) The Loan is repayable on 30 November 2013 and currently bears interest at 7.8 % per annum that is the FBT interest rate set by the ATO.
(b) In the 2010 -11 reporting period, there were no loans to individuals that exceeded $100,000 at any time.

Notes to the financial statements for the year ended 30 June 2011

Note 25 - Share based payments
The following share-based payment arrangements existed at 30 June 2011:

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.

During this reporting period, Australian Ethical Investment Limited issued 4,772 ordinary shares on conversion of 4,772 AEFAX performance rights for nil consideration issued under its employee share incentive scheme in November 2009 .This conversion of performance rights resulted in an increase in ordinary shares of 4,772.

During the 2010 reporting period, 10,819 performance rights (identifier: AEFAW) 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.
- 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
- The performance period is the financial years 2009/10, 2010/11 and 2011/12

During the reporting period 25,432 performance rights in two classes (identifiers: AEFAY and AEFAZ) 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
AEFAY	20,582	- employment must continue until 30 June 2013 - 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. - The performance period is the financial years 2010/11, 2011/2012 and 2012/2013.
AEFAZ	4,760	- employment must continue until 1 July 2011; - 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; a managed investment scheme has been agreed between the company and the employee. Performance will be measured over a performance period of 1 July 2010 to 30 June 2011

Performance rights reconciliation	**Consolidated Entity 2011**	Consolidated Entity 2010		**Parent Entity 2011**	Parent Entity 2010
	Number of Rights	Number of Rights		**Number of Rights**	Number of Rights
Outstanding at the beginning of the financial year	**14,476**	-		**14,476**	-
Granted	**25,569**	16,330		**25,569**	16,330
Forfeited	**(2,857)**	(1,854)		**(2,857)**	(1,854)
Exercised	**(4,772)**	-		**(4,772)**	-
Expired	**-**	-		**-**	-
Outstanding at year-end	**32,416**	14,476	-	**32,416**	14,476
Exercisable at year-end	**-**	-	-	**-**	-

Fair value - Rights

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

Weighted average fair value - Options

	Consolidated Entity 2011		Consolidated Entity 2010		**Parent Entity 2011**		Parent Entity 2010	
	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	**68,682**	**44.00**	116,777	40.76	**68,682**	**44.00**	116,777	40.76
Granted	**-**	**-**	-	32.27	**-**	**-**	-	32.27
Forfeited	**(4,435)**	**32.27**	(16,956)	42.78	**(4,435)**	**32.27**	(16,956)	42.78
Exercised	**-**	**-**	(1,585)	31.00	**-**	**-**	(1,585)	31.00
Expired	**(31,853)**	**57.57**	(29,554)	31.00	**(31,853)**	**57.57**	(29,554)	31.00
Outstanding at year-end	**32,394**	**32.27**	68,682	44.00	**32,394**	**32.27**	68,682	44.00
Exercisable at year-end	**-**	**-**	-	-	**-**	**-**	-	-

The options outstanding at 30 June 2011 had a weighted average exercise price of $32.27 and a weighted average remaining contractual life of 0.54 years. Exercise price for options outstanding at 30 June 2011 is $32.27
Included under employee benefits expense in the income statement is :
$75,860 (2010: $190,602) relating to options issued under the employee share ownership plan.
$180,045 (2010: $124,633) relating to rights issued under the employee share ownership plan.

Notes to the financial statements for the year ended 30 June 2011

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	
	2011	2010	**2011**	2010	**2011**	2010
	%	%	**$**	$	**$**	$
Cash and cash equivalents	**5**	4	**2,554,389**	1,892,434	**-**	-
Trade and other receivables					**-**	-
Financial assets	**5**	5	**481,764**	485,040	**14,659**	513,401
Total financial assets			**3,036,153**	2,377,474	**14,659**	513,401
Trade and other payables			**-**	-	**-**	-
Total financial liabilities			**-**	-	**-**	-

	Fixed interest rate within 1 to 5 years		Non-interest bearing		Total	
	2011	2010	**2011**	2010	**2011**	2010
	$	$	**$**	$	**$**	$
Cash	**-**	-	**300**	300	**2,554,689**	1,892,734
Trade and other receivables	**-**	-	**3,245,297**	3,050,029	**3,245,297**	3,050,029
Financial assets	**61,820**	100,505	**-**	-	**558,243**	1,098,946
Total financial assets	**61,820**	100,505	**3,245,597**	3,050,329	**6,358,229**	6,041,709
Trade and other payables	**-**	-	**2,587,710**	2,495,424	**2,587,710**	2,495,424
Total financial liabilities	**-**	-	**2,587,710**	2,495,424	**2,587,710**	2,495,424

(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 balance sheet 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 six years of the loan.

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.

(d) Liquidity risk

The group carries no borrowing debt on the balance sheet 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 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	
	2011	2010		**2011**	2010
	$	$	$	**$**	$
Less than 6 months	**2,019,037**	1,994,991		**1,806,802**	2,158,627
6 months to 1 year	**535,327**	500,433		**535,327**	500,433
1 to 5 years	**-**	-		**-**	-
	2,554,364	2,495,424		**2,342,129**	2,659,060

DIRECTORS' DECLARATION

The Directors of Austalian Ethical Investment Limited declare the following:

1. the financial statements and notes, as set out on pages 20 to 50 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 2011 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) the 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 31 August 2011

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

ABN: 47 003 188 930

Report on The Financial Report

We have audited the accompanying financial report of Australian Ethical Investment Limited, which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies, other explanatory information and the directors' declaration of the company and the consolidated entity comprising the company and the entity it controlled at the year- end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1 the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply 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. Those 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 of the financial report that gives and true and fair view 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.*

Opinion

In our opinion:

(a) the financial report of Australian Ethical Investment Limited 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 2011 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 18 of the directors' report for the year ended 30 June 2011. 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.

Opinion

In our opinion, the Remuneration Report of Australian Ethical Investment Limited for the year ended 30 June 2011, complies with Section 300A of the Corporations Act 2001.

Thomas Davis & Co

THOMAS DAVIS & CO.

J. G. Ryan

J G RYAN PARTNER

Chartered Accountants

SYDNEY,
31 August 2011

Liability limited by a scheme approved under Professional Standards Legislation.

All information as at 30 September 2011

Distribution of shareholdings
Ordinary shares

Holdings ranges	Holders	Units	%
1-1,000	730	184,810	18.430
1,001-5,000	82	180,090	17.959
5,001-10,000	9	66,928	6.674
10,001-100,000	13	374,486	37.345
100,001+	1	196,472	19.593
Totals	835	1,002,786	100.000

Distribution of shareholdings
Ordinary shares

Holdings ranges	Holders	Units	%
1-1,000	730	184,810	18.430
1,001-5,000	82	180,090	17.959
5,001-10,000	9	66,928	6.674
10,001-100,000	13	374,486	37.345
100,001+	1	196,472	19.593
Totals	835	1,002,786	100.000

Twenty largest shareholders
Ordinary shares

Name	Number of ordinary shares	%	Substantial shareholder
Select Managed Funds Pty Ltd	196,472	19.59	Yes
J A Thier	51,367	5.12	Yes
H Pender	49,852	4.97	
C M Le Couteur	49,436	4.93	
T R Lee	36,933	3.68	
J M Boag	33,683	3.36	
Citicorp Nominees Pty Ltd	31,797	3.17	
J I Ajani	24,462	2.44	
B A & A M McGregor	24,447	2.44	
HB Sarjeant & Asscoc Pty Ltd	20,140	2.01	
E A Iceton	16,500	1.65	
D Thier	14,474	1.44	
P A, M W & K A Anderson	10,833	1.08	
Garrett Smythe Ltd	10,562	1.05	
M & A Beuchat	9,667	0.96	
A M O'Donnell	9,630	0.96	
A S Cook	9,342	0.93	
R M Myer	7,332	0.73	
UBS Wealth Management Australia Nominees Pty Ltd	7,160	0.71	
J Groessler	6,622	0.66	

Corporate directory

Australian Ethical Investment Ltd

ABN 47 003 188 930

Company secretary

Tom May

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

Postal address
GPO Box 2435
Canberra ACT 2601

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

www.australianethical.com.au

Share registry

Boardroom Pty Limited
ABN 14 003 209 836

Street: Level 7, 207 Kent Street
Sydney NSW 2000
Telephone: 1300 737 760
Facsimile: 01300 653 459
Post: GPO Box 3993
Sydney NSW 2001
Email: enquiries@boardroomlimited.com.au

www.boardroomlimited.com.au

Using the Boardroom 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

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www.australianethical.com.au 1800 021 227