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 2012. In compliance with the Corporations Act 2001, the directors report as follows:

Directors

The name of each person who was a director during the year ended 30 June 2012 and to the date of this report is set out in the table below.

Name	Time in office	Term
André Morony	4 years	Full year
Phillip Vernon	2 years	Full year
Justine Hickey	5 years	Full year
Stephen Newnham	2 years	Appointed 12 December 2011
Howard Pender	19 years	Ceased 17 November 2011
Les Coleman	3 years	Ceased 17 November 2011
Louise Herron	<1 year	Appointed 20 February 2012 Ceased 25 July 2012
Stephen Gibbs	<1 year	Appointed 25 July 2012

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

Director's Particulars

André Morony, Chairman
BEc (Hons), MEc
André joined the Board of Australian Ethical as a Non-Executive Director in June 2008 and was appointed Chairman in February 2011. He chairs the People, Remuneration and Nominations Committee and is a member of the Investment Committee.

André is a highly regarded and experienced individual within the Government and finance industry. His career spans over 40 years and started at the Commonwealth Treasury where he worked in a number of financial policy areas. He also represented Australia for three years at the Organisation for Economic Cooperation and Development (OECD) in Paris.

After leaving Government in 1986, Andre's roles included Chief Economist and Chief Investment Officer at Bankers Trust Australia (now BT) and Chief Investment Officer for the Commonwealth Government's superannuation scheme (ARIA). He currently sits on the investment committee of GESB, the Western Australian Government employees' superannuation fund.

Phil Vernon, Managing Director
BEc, MCom, MBA, FCPA, GAICD
Phil joined Australian Ethical as Chief Executive Officer in December 2009 and was appointed Managing Director in July 2010. He is also a director of Australian Ethical Superannuation.

Phil has 25 years experience in financial services including funds management and superannuation. Prior to Australian Ethical he was a member of the Executive Committee of Perpetual Limited heading up a business of 400 people. He has extensive experience in strategy, people management and leadership, corporate governance and industry regulation.

Phil was a champion of responsible investment within Perpetual at a time when they were facing criticism from the environmental movement for its significant shareholding in Gunns. With connections in the Tasmanian environment movement he had a unique insight to both sides of the debate. Phillip furthered his commitment in the area and is currently a Director of Planet Ark, a not for profit environmental organisation and RIAA, the Responsible Investment Association Australasia.

Justine Hickey, Non-Executive Director
BCom, SAFin, GAICD, ASIP
Justine has been an independent Non-Executive Director since March 2007. She chairs the Investment Committee and is a member of the People, Remuneration and Nominations Committee.

Justine has over 20 years experience as a senior executive in the investment and funds management industry. Previously she was Head of Equities at Suncorp Investment Management in Brisbane and a Portfolio Manager at Flemings Investment Management (now JP Morgan) in the UK. Justine is a director of Rio Tinto Staff Super Fund Pty Ltd and a member of the investment committees of boutique fund manager, Dalton Nicol Reid and the University of Melbourne.

Justine is the chairman of Evolve Foundation (previously the Youth Enterprise Trust Foundation), whose mission is to assist disadvantaged young people to transition into a confident and productive adulthood. She is also a director of RSPCA Queensland, the state’s oldest, largest and leading animal welfare charity. Justine is a member of RIAA, the Responsible Investment Association of Australasia.

Steve Newnham, Executive Director
BA, LLB, DFP
Steve joined the Board in December 2010 as a Non-Executive Director. In 2012, he became an Executive Director, chiefly responsible for sales and marketing.

Steve has over 20 years experience in the financial industry. He was Head of Distribution at Zurich Financial Services, chairman of a financial planning dealer group Financial Lifestyle Solutions, director of a wrap platform and a financial planning administration business, and Executive Vice President of BT Financial Group. He was also an early member of the Financial Planning Association Future 2 Foundation awareness and fund raising committee.

Steve has significant involvement with community and social justice activities, working on homeless shelter support schemes, indigenous fellowship programs, environmental and drought relief projects and mental health awareness initiatives. In addition, he has been a member of the Australian Rowing and Surf Lifesaving teams and spent 15 years as a surf lifesaver.

Stephen Gibbs, Non-Executive Director
BEc, MBA
Stephen joined the Board in July 2012 as a Non-Executive Director. He is also on the Audit, Compliance & Risk and the People, Remuneration & Nominations committees; he has also been appointed as a director of Australian Ethical Superannuation Pty Limited.

Stephen is a director of Hastings Funds Management and Chair of CAER (Corporate Analysis Enhanced Responsibility). He was formerly Chair of the Responsible Investment Academy Advisory Council.

From early 2000 he was CEO of ARIA, the trustee of the PSS and CSS – the superannuation schemes for federal government employees. When Stephen left ARIA in January 2008 it had close to $A20 billion under management. Prior to ARIA Stephen was the Executive Officer of the Australian Institute of Superannuation Trustees (AIST). His earlier career was in the trade union movement.

Other career highlights for Stephen include his personal invitation from the then UN General Secretary to join the steering committee and investor group which developed what became the United Nations Principles of Responsible Investment - UNPRI and membership of the ASX Corporate Governance Council from its inception until 2008.

Company secretaries

The name of each person who was a company secretary of the company as at the end of the financial year and to the date of this report is set out in the table below.

Name	Term
Tom May	Full year
Gary Leckie	Ceased 23 May 2012

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 entity's 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), recorded a consolidated net profit after income tax expense for the year ending 30 June 2012 of $402,155, a 64% decrease on the result of the previous financial year; based on restated 2011 consolidated net profit.

Return on equity for the year is 5.9%, down from 17.1% in 2010-11. Earnings per share has decreased 64% to 40.1 cents per share and the cost to income ratio has increased to 93%. All of the comparisons in this paragraph are as against the restated 2011 consolidated net profit.

Further details of business operations are included in the Chair and Managing Director's report section of the Annual report.

Financial position

At the year end, Australian Ethical's net assets are $6,844,431. 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 2011	100	1,003,035	Franked	7/10/2011
Special 2011	25	250,758	Franked	7/10/2011
Interim 2012	25	250,758	Franked	
Total		1,504,551		
Declared after end of year				
After balance sheet date, the directors declared the following dividend:				
Final 2012	35	351,062	Franked	7/10/12[2]

[2] Planned payment date

Events subsequent to reporting date

Upfront fees on all products were removed on 1 July 2012. This was done in response to two new pieces of legislation (Future of Financial Advice and MySuper) which have combined to impact fees in a number of ways. In general, this legislation has led to lower fees and a more competitive environment and in particular the abolition of up-front fees. The removal of up-front fees on all of our products was done in order to position us for this new environment.

In August 2012 the Company entered into a marketing agreement for the sale of Trevor Pearcey House; our preference is for a leaseback arrangement to be entered into following any sale. This was done following a review of the capital management policy which also took into account impending regulatory changes that will require the company to hold a greater proportion of its assets as liquid assets.

Other than as outlined in this report, no matters or circumstances have arisen since the end of the financial year which have 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 2012.

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 not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

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 (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.

Director’s 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**		**People, remuneration and nominations**		**Audit, compliance and risk**	
	Eligible	Attend	Eligible	Attend	Eligible	Attend	Eligible	Attend
André Morony	8	8	4	4	5	5	-	-
Phillip Vernon	8	8	-	-	-	-	-	-
Justine Hickey	8	8	4	4	5	5	-	-
Stephen Newnham	8	7	-	-	-	-	4	4
Howard Pender	2	2	1	1	-	-	-	-
Les Coleman	3	3	-	-	-	-	6	6
Louise Herron	4	4	-	-	1	1	1	1
Stephen Gibbs	-	-	-	-	-	-	-	-
Ruth Medd	-	-	-	-	-	-	6	6

Directorships held in other listed entities in the last three years

Name	Entity	Period of directorship
Justine Hickey	Hyperion Flagship Investments Limited	4 years

Directors’ relevant interests in securities of the company

Parent entity directors	Fully paid ordinary shares		Share options		Performance rights	
	2012	2011	2012	2011	2012	2011
André Morony	-	-	-	-	-	-
Phillip Vernon	-	-	-	-	5,744	2,798
Justine Hickey	1,200	1,200	-	-	-	-
Stephen Newnham	-	-	-	-	-	-
Howard Pender	49,852	49,852	-	1,326	-	-
Les Coleman	-	-	-	-	-	-
Louise Herron	-	-	-	-	-	-
Stephen Gibbs	-	-	-	-	-	-

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 under the contract
Phillip Vernon	Ongoing	12 weeks	None except for accrued leave and payment in lieu of notice.
Stephen Newnham	Ongoing	12 weeks	
David Macri	Ongoing	12 weeks	
Adam Kirk	Ongoing	12 weeks	
Philip George	Ongoing	12 weeks	
Paul Smith	Ongoing	4 weeks	

Rights as at the date of this report

Rights over unissued shares as at the date of this report are as follows:

Performance rights reference	Number of rights on issue
AEFAW	4,010
AEFAY	11,340
AEFAA	13,585
AEFAB	12,578

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

4,760 ordinary shares of the company were issued during the year ended 30 June 2012 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	BSc Dip Comp Science CPA MAICD	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 committee. Ruth is currently on the board of the NFAW Ltd (National Foundation for Australian Women) and WOB Pty Ltd. 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.
Les Coleman	B.Eng.(Hons), B.Sc.(Hons), M.Ec., PhD	Les is on the Audit, Compliance & Risk committee and is also a director of Australian Ethical Superannuation Pty Limited. Les has been a trustee of two superannuation funds, and a director of ten companies involved in finance, retail and distribution. He has over 20 years experience in senior operational, planning and finance roles in Australia and overseas with Anglo American Corporation and ExxonMobil Corporation. He is currently a member of the investment committee of United Funds Management (a subsidiary of IOOF Holdings Limited), and since 2004 has taught in the Finance Department of the University of Melbourne. His particular research interests are corporate risk and non-financial indicators of superior firm performance, especially ethics and sustainability. He is a regular contributor to print and broadcast media, including four years as a weekly columnist with The Australian newspaper, and has published several books and numerous articles and papers.
Philip George	BSc LLB ACIS	Philip was on the board of Australian Ethical Superannuation Pty Ltd until his resignation on 29 August 2012. 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.
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.

REMUNERATION REPORT 2012

This report sets out the remuneration arrangements for all key management personnel (KMP) for the year. KMP is defined under the Corporations Act 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 information contained in the Remuneration Report has been audited by the Company's external auditor and named directors and executives are key management personnel of the consolidated entity.
At the 2011 AGM, the Remuneration Report received 40% of the vote against it. There were no specific comments at the Meeting criticising any aspect of the remuneration report. Australian Ethical Investment has a long history of paying below market salaries. This includes KMPs, the Managing Director and Non-executive Directors. The directors are of the view that the vote received against the 2011 Remuneration Report was not about the remuneration of KMP's, rather, as a result of misleading information distributed by a few shareholders. ***We therefore encourage shareholders to read this remuneration report carefully before deciding on how to vote. A vote of greater than 25% against the 2012 Remuneration Report will result in the board being subjected to a spill motion.***

Remuneration Policy and Structure

Australian Ethical Investment Limited's remuneration policy is designed to create a motivating environment for staff where they feel appropriately paid and incentivised for the contribution they make to the performance of the company.
The remuneration philosophy is consistent with the principles of the Australian Ethical Charter and Constitution. In particular:

- it is designed to ensure that Australian Ethical facilitates "the development of workers participation in the ownership and control of their work organisations and places" (Charter element (a))
- it is designed so as to not "exploit people through the payment of low wages or the provision of poor working conditions" (negative Charter element (ix))
- the incentive structure meets the requirements of Rule 15.1(c) of the AEI Constitution which provides that:
    - prior to recommending or declaring any dividend, provision must be made for a bonus or incentive for staff to be paid of up to 30 percent (30%) of what the profit for that year would have been had not the bonus or incentive payment been deducted; and
    - these bonuses may be in cash or shares. This constraint applies only to the Profit Participation Scheme below. The other schemes outlined in this document are part of the remuneration structure.

Principles guiding the design of the remuneration structure are as follows:

- Pay people fairly for the work that they do
- Build long term ownership in the company amongst employees
- Reward people according to their contribution to the company's performance
- Align shareholder interests and the company's capacity to pay
- Attract and retain talented people
- Promote the values of the Charter

i) <u>Non-executive Directors</u>

A review of Non-executive Directors remuneration is undertaken annually, taking into account recommendations from the People, Remuneration and Nominations Committee. The review includes the positions of Chairman and Non-executive Directors, duties undertaken, accountability and market rates, and has shown that Non-executive Directors' remuneration has been consistently below that of comparative companies. However, there has been no increase in remuneration since 2008.
In addition to fixed remuneration, Non-executive Directors are entitled to be paid reasonable expenses, remuneration of additional services and superannuation contributions. They also receive payment for serving on board committees.

Non-executive Director remuneration is not linked to company performance and they are not eligible to participate in staff incentive plans.

ii) Key Management Personnel

The Board seeks to reward KMP's through the same process as all staff, based on positive contributions and company results.

The remuneration structure for KMP's is based on a number of factors including position in the company, the scope and impact of an individual's contribution to the performance of the company and the achievement of agreed objectives. All remuneration for KMP's is reviewed against market rates for roles requiring similar skills and experience.

Managing Director and KMP Performance

An annual assessment of the Managing Director is completed by the Chair and is overseen by the Board, with input from the People, Remuneration and Nominations Committee. The review includes a 360 review process, measurement of performance against agreed KPI's and company performance.

The bonus received by the Managing Director during 2011/12 is shown in Table 1: Remuneration Elements and relates to the previous financial year of 2010/2011. This flows from a formula linking the bonus to year on year profit changes and reflects an increase in the results for that previous financial year. The bonus paid in respect of the financial year ended 2011/2012 is lower ($22,000) reflecting the lower profits of this financial year. In addition, $20,000 was "clawed back" in respect of bonuses previously paid due to a restatement of previous year's financial results (see paragraph below and Note 27 of the attached financial report).

In turn, the Managing Director is responsible for reviewing the performance of senior management and whether performance requirements are met. Both quantitative and qualitative data is used to determine whether performance criteria are achieved.

Performance-based Remuneration

The Company seeks to reward employees for results and ongoing commitment through the provision of cash bonus schemes and equity based schemes as outlined below:

a) Staff Bonus Plan

All permanent staff are eligible to participate in an annual staff bonus plan. 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:

i) Set by reference to the profit of the company for that year; and

ii) Can be up to 30% of the company profit.

Historically, all staff across the organisation, irrespective of position (and including KMP), received the same bonus paid in cash under this constitutional provision. In the 2011/12 performance year, employees received a cash bonus of $5,000 in respect of the 2010/11 financial year. The amount accrued per person in respect of the 2011/12 financial year is $3,000 per person. The bonus is pro-rated for permanent part-time staff and staff who have not completed a full year with the company.

b) Employee Share Incentive Schemes

Under the employee share incentive scheme (ESIS), a pool of performance rights which would, if exercised, amount to less than 5% per annum of the company's existing ordinary share capital, is made available. This scheme was originally approved by members at the 2008 Annual General Meeting. The ESIS is split into two categories: general and individual.

The performance rights that have been issued during the current year are subject to the terms and conditions of the scheme rules.

i) Individual Category

The individual ESIS is provided to senior and eligible investment staff. The number of performance rights issued is based on company performance, individual performance and the achievement of agreed KPI's.

Performance rights issued under the individual category are linked to the performance of the company's managed funds for eligible investment staff.

The following attributes determine whether the performance rights convert into ordinary shares:

- For all participants in the individual ESIS, employment must continue until a specified date.
- For investment staff, the number of shares issued to each employee in respect of their performance rights under this category will be adjusted up or down by a maximum 20%, depending on the absolute performance of the company's management investment schemes for which the employee has responsibility or provides significant input. The nominated managed investment scheme is agreed between the Company and the employee and the performance is measured over the relevant performance period.

ii) General Category

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

Performance rights issued under the general category have two hurdles. 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 established levels.

The following attributes determine whether shares will be issued in respect of the rights:

- Employment must continue until a specified date.
- The arithmetic average return on equity (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 each six month period calculated using audited half-year financial statements.
- The performance is measured over a rolling three year period.

c) Individual Bonuses

During the reporting year, five KMP's were paid 'at risk' components as part of their remuneration. The general split of 'at risk' components is as follows:

- 50% company results
- 50% personal objectives

Performance criteria were used to determine the amount of the payments and the payments are shown in the following tables.

Proposed Changes to Remuneration Structure from July 2012

A review of the Company's remuneration structure was conducted in 2011/12 covering:

- Better alignment of incentive programs with the Company's capacity to pay
- Better alignment of individual and company performance to short term incentive plans
- Aligning payment more closely to the relevant performance year
- The balance of reward options including cash and performance rights
- Market based long term incentive structures
- The capacity to issue additional long term incentives to key staff
- Reducing retention risk through the provision of market-based incentive programs for identified staff

The changes are aimed at strengthening the alignment of performance-based remuneration to shareholders' interests and AEI's strategic plan.

Conditions of Employment

a) Employment Contracts

All KMP's have formal contracts of employment and are permanent employees of Australian Ethical Investment Ltd. None of the contracts contain a pre-determined duration of employment or a termination date. The contracts for service between the company and KMP's are on a continuing basis; no changes to the contractual arrangements are expected in the immediate future.

b) Consultancy Agreements

The Company also commenced a consultancy agreement with Morse Consulting Pty Limited for the provision of management services to the Company's finance team. The agreement commenced on 28 November 2011 and is due for review on 20 August 2012. The agreement may be terminated subject to a notice period of two weeks. Costs incurred amount to $191,800.

c) Special Exertions

The Board approved a 'special exertion' with a rate variation to Ms Louise Herron, for the provision of additional work for the Company. The agreement commenced on 4 May 2012 for a two month period, concluding on 25 July 2012. Costs incurred are included in Table 1: Remuneration Elements.

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.

TABLE 1: REMUNERATION ELEMENTS

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 performance rights during the financial year.

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

Name				SHORT TERM BENEFITS		POST EMPLOYMENT BENEFITS	LONG TERM BENEFITS	EQUITY		
Name				Salary, fees and Leave $	STI $	Superannuation $	Long Service Leave $	Settled Share-based Payments $	Termination Benefits $	Total $
Directors	**Position**	**Term**	**Year**							
Andre Morony**	Non-executive Director, Chairman	Full Year	2012	43,361		3,915				47,276
	Non-executive Director		2011	30,259		2,729				32,988
Phillip Vernon*	Executive Director, Managing Director	Full Year	2012	269,032	67,500	30,288	5,751	52,870		425,441
			2011	272,330	2,251	23,429	5,483	40,316		343,809
Justine Hickey	Non-executive Director	Full Year	2012	28,409		2,565				30,974
			2011	28,593		2,578				31,171
Steve Newnham***	Non-executive Director	Until 12 December 2011	2012	150,176		12,645	2,668			165,489
	Executive Director	Employment commenced 12 December 2011	2011	13,234		1,193				14,427
Howard Pender	Non-executive Director	Retired 17 November 2011	2012	16,382		6,263	-702		136,834	158,777
	Executive Director	Employment ended 1 July 2011	2011	135,444	2,978	12,189	11,251	11,960		173,822
Les Coleman	Non-executive Director	Directorship ended 17 November 2011	2012	24,671		2,228				26,898
			2011	26,084		2,352				28,436
Ruth Medd	Chairman, Australian Ethical Superannuation	Full Year	2012	30,901		2,790				33,691
			2011	31,101		2,804				33,905
Louise Herron	Non-executive Director	Appointed 20 February 2012	2012	23,324		901				24,224
		Resigned 25 July 2012	2011							
Naomi Edwards			2012							
	Non-executive Director, Chairman	Resigned 23 March 2011	2011	47,410		4,273				51,683
James Thier****			2012	15,304		-88			92,681	110,327
	Executive Director	Retired 17 November 2010	2011	122,525	14,440	12,221	3,477	11,196		163,859
Steve Gibbs	Non-executive Director	Appointed 25 July 2012	2012							
Current Executives										
David Macri*	Chief Investment Officer	Appointed 13 February 2012	2012	161,798	5,000	16,144	4,492	60,151		247,585
			2011							
Adam Kirk	General Manager, Business Development	Employment commenced 9 August 2011	2012	191,950		16,296	3,774			212,020
			2011							
Philip George*	General Manager, Program Office	Full Year	2012	189,576	12,937	18,982	5,879	25,466		252,840
			2011	196,182	4,000	17,797	5,680	16,006		239,665
Paul Smith	General Manager, Strategy & Marketing	Employment commenced 8 July 2011	2012	158,424		13,626	3,244			175,294
			2011							
Past Executives										
James Jordan*	Chief Investment Officer	Employment ended 28 March 2012	2012	175,501	41,684	20,533	7,014			244,732
			2011	256,524	3,259	23,285	6,143	15,327		304,538
Gary Leckie*	Chief Financial Officer	Employment ended 23 May 2012	2012	176,446	19,168	17,991	3,615			217,220
			2011	204,509	4,000	18,244	-8,277	16,380		234,856
Tim Xirakis	Head of Client Relationships	Employment ended 8 August 2011	2012	17,724	13,138	5,538	-796	12,823	84,694	133,121
			2011	181,756	4,000	16,191	5,129	15,958		223,034
Paul Harding Davis			2012							
	Head of Distribution	Employment ended 5 January 2011	2011	101,316	10,250	11,502	-9,812		57,459	170,715

* The five highest paid KMP's for the year ended 30 June 2012.

** The increase in Andre Morony's fees reflects his appointment as Chairman of the Board in March 2011

*** Stephen Newnham became an employee of the Company in December 2011

**** James Thier was not a KMP in 2011/12

Equity based remuneration consisting of rights under the company's employee share incentive scheme are provided above and in Note 25 of the attached financial report.

Restatement of 2010/11 financial statements

The 2010/11 financial statements were restated due to a change in accounting policy resulting in a reduction in net profit after tax by $157,502; this is explained more fully in Note 27 of the attached financial report. The People, Remuneration and Nominations Committee determined that a portion of the bonus issued to Mr Phillip Vernon for the 2010/11 year would be reversed ($20,000) as a result of the restatement. The committee determined that there would be no further claw-back of bonuses paid as a result of the restatement.

TABLE 2: REMUNERATION RECEIVED

The following table sets out the actual remuneration received by executives at Australian Ethical Investment including cash paid and the value of equity vested.

	ELEMENTS OF REMUNERATION RELATED TO PERFORMANCE			ELEMENTS OF REMUNERATION NOT RELATED TO PERFORMANCE	
Name	**Non salary cash based incentives %**	**Shares %**	**Rights/Options %**	**Fixed Salary/Fees %**	**Total %**
Directors					
Andre Morony	0	0	0	100	100
Phillip Vernon	15	0	12	73	100
Justine Hickey	0	0	0	100	100
Steve Newnham	0	0	0	100	100
Howard Pender	0	0	0	100	100
Les Coleman	0	0	0	100	100
Louise Herron	0	0	0	100	100
Current Executives					
David Macri	0	0	24	76	100
Adam Kirk	0	0	0	100	100
Philip George	3	0	10	87	100
Paul Smith	0	0	0	100	100
Executives who left during the year					
James Jordan	15	0	0	85	100
Gary Leckie	7	0	0	93	100
Tim Xirakis	27	0	26	47	100

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

André Morony
Chairman

Dated: 27 September 2012

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 2012 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 28 August 2012

Liability limited by a scheme approved under Professional Standards Legislation

Statement of financial position
as at 30 June 2012

	Notes	Consolidated entity 2012 $	Consolidated entity 2011 Restated* $	Parent entity 2012 $	Parent entity 2011 Restated* $
Current assets					
Cash and cash equivalents	7	**2,309,587**	2,554,689	**2,102,684**	2,298,126
Trade and other receivables	8	**1,715,999**	3,245,297	**1,073,168**	2,698,177
Financial assets	9	**350,412**	496,423	**350,412**	496,423
Current tax assets	13	**19,156**	-	**46,554**	-
Other current assets	10	**173,598**	232,306	**142,323**	189,988
Total current assets		**4,568,752**	6,528,715	**3,715,141**	5,682,714
Non-current assets					
Property, plant & equipment	11	**3,621,747**	4,040,747	**3,621,747**	4,040,747
Intangible assets	12	**17,746**	45,355	**17,745**	45,355
Financial assets	9	**33,757**	61,820	**349,757**	377,820
Deferred tax assets	13	**396,685**	607,503	**395,170**	606,108
Total non-current assets		**4,069,935**	4,755,425	**4,384,419**	5,070,030
Total assets		**8,638,687**	11,284,140	**8,099,560**	10,752,744
Current liabilities					
Trade and other payables	14	**1,538,173**	2,587,710	**1,123,761**	2,339,705
Current tax liabilities	15	**-**	443,545	**-**	443,545
Short-term provisions	16	**283,589**	533,024	**283,589**	533,024
Total current liabilities		**1,821,762**	3,564,279	**1,407,350**	3,316,274
Non-current liabilities					
Deferred tax liabilities	15	**35,087**	34,926	**35,087**	34,926
Other long-term provisions	16	**74,117**	56,123	**74,117**	56,123
Total non-current liabilities		**109,204**	91,049	**109,204**	91,049
Total liabilities		**1,930,966**	3,655,328	**1,516,554**	3,407,323
Net assets		**6,707,721**	7,628,812	**6,583,006**	7,345,421
Equity					
Issued capital	17	**6,038,301**	5,915,219	**6,038,301**	5,915,219
Reserves		**302,071**	1,131,904	**302,071**	1,131,904
Retained earnings		**367,349**	581,689	**242,634**	298,298
Total equity		**6,707,721**	7,628,812	**6,583,006**	7,345,421

*see note 27

The accompanying notes form part of these financial statements

Statement of comprehensive income
for the year ended 30 June 2012

	Notes	Consolidated entity 2012 $	Consolidated entity 2011 Restated* $	Parent entity 2012 $	Parent entity 2011 Restated* $
Revenue	3	**14,792,790**	15,744,031	**12,642,119**	14,928,938
Commissions paid to advisers		**(146,750)**	(175,660)	**(8,481)**	(15,048)
External services		**(3,469,806)**	(3,024,619)	**(1,701,853)**	(1,318,507)
Employee benefits expense		**(6,753,962)**	(7,628,517)	**(6,727,978)**	(7,611,134)
Depreciation		**(426,395)**	(421,258)	**(426,395)**	(421,258)
Occupancy costs		**(276,680)**	(271,218)	**(276,680)**	(262,184)
Communication costs		**(729,448)**	(748,853)	**(708,888)**	(747,597)
Other expenses		**(2,003,796)**	(1,531,231)	**(1,738,669)**	(1,440,464)
Impairment charge on building	11	**(210,000)**	-	**(210,000)**	-
Profit before community grants and income tax expense		**775,953**	1,942,675	**843,175**	3,112,746
Community grants expense	1 (h)	**(53,327)**	(152,802)	**(53,327)**	(152,802)
Profit before income tax		**722,626**	1,789,873	**789,848**	2,959,944
Income tax expense	4	**(320,471)**	(664,842)	**(229,015)**	(516,024)
Profit for the year		**402,155**	1,125,031	**560,833**	2,443,920
Other comprehensive income					
Net gain/(loss) on revaluation of available-for-sale investments		**(50,172)**	(26,580)	**(50,172)**	(26,580)
Other comprehensive income for the period, net of tax		**(50,172)**	(26,580)	**(50,172)**	(26,580)
Total comprehensive income for the period		**351,983**	1,098,451	**510,661**	2,417,340
Profit attributable to members of the parent entity		**402,155**	1,125,031	**560,833**	2,443,920
Total comprehensive income attributable to members of the parent entity		**351,983**	1,098,451	**510,661**	2,417,340
Basic earnings per share (cents per share)	6	**40.1**	113.0		
Diluted earnings per share (cents per share)	6	**39.4**	112.2		

*see note 27 and note 3

The accompanying notes form part of these financial statements

Statement of changes in equity
for year ended 30 June 2012

Consolidated entity

	Note	Issued capital ordinary $	Asset revaluation reserve $	Share-based payment reserve $	Retained earnings $	Total $
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
Net effect of a correction of an error:						
Share-based payment expense		-	-	157,502	(157,502)	-
Restated balance at 30 June 2011		5,915,219	(67,257)	1,199,161	581,689	7,628,812
Balance at 1 July 2011		**5,915,219**	**(67,257)**	**1,199,161**	**581,689**	**7,628,812**
Profit attributable to members of the group		**-**	**-**	**-**	**402,155**	**402,155**
Other comprehensive income for the period		**-**	**(50,172)**	**-**	**-**	**(50,172)**
Total comprehensive income for the period		**-**	**(50,172)**	**-**	**402,155**	**351,983**
Transactions with owners in their capacity as owners:						
Shares issued during the period	17	**123,082**	**-**	**(123,082)**	**-**	**-**
Dividends paid or provided for	5	**-**	**-**	**-**	**(1,504,553)**	**(1,504,553)**
Transfer from share-based payments reserve to retained earnings				**(888,057)**	**888,057**	**-**
Share-based payment expense		**-**	**-**	**231,478**	**-**	**231,478**
Balance at 30 June 2012		**6,038,301**	**(117,429)**	**419,500**	**367,349**	**6,707,721**

Parent entity

	Note	Issued capital ordinary $	Asset revaluation reserve $	Share-based payment reserve $	Retained earnings $	Total $
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
Net effect of a correction of an error:						
Share-based payment expense		-	-	157,502	(157,502)	-
Restated balance at 30 June 2011		5,915,219	(67,257)	1,199,161	298,298	7,345,421
Balance at 1 July 2011		**5,915,219**	**(67,257)**	**1,199,161**	**298,298**	**7,345,421**
Profit attributable to members of the parent entity		**-**	**-**	**-**	**560,833**	**560,833**
Other comprehensive income for the period		**-**	**(50,172)**	**-**	**-**	**(50,172)**
Total comprehensive income for the period		**-**	**(50,172)**	**-**	**560,833**	**510,661**
Transactions with owners in their capacity as owners:						
Shares issued during the period	17	**123,082**	**-**	**(123,082)**	**-**	**-**
Dividends paid or provided for	5	**-**	**-**	**-**	**(1,504,553)**	**(1,504,553)**
Transfer from share-based payments reserve to retained earnings				**(888,057)**	**888,057**	**-**
Share-based payment expense		**-**	**-**	**231,478**	**-**	**231,478**
Balance at 30 June 2012		**6,038,301**	**(117,429)**	**419,500**	**242,634**	**6,583,006**

The accompanying notes form part of these financial statements.

Statement of cash flows
for the year ended 30 June 2012

	Notes	Consolidated entity 2012 $	Consolidated entity 2011 $	Parent entity 2012 $	Parent entity 2011 $
Cash flows from operating activities					
Receipts from operations		**15,869,290**	21,360,606	**13,320,548**	18,497,823
Payment to suppliers & employees		**(13,705,086)**	(18,429,046)	**(11,601,735)**	(16,282,198)
Dividends received		**-**	-	**372,055**	1,665,953
Interest/distributions received		**95,589**	95,885	**86,805**	76,271
Income tax paid		**(550,692)**	(357,731)	**(418,912)**	(87,001)
Bonus		**(191,533)**	(184,026)	**(191,533)**	(184,026)
Community grants		**(152,801)**	(125,396)	**(152,801)**	(125,396)
Net cash provided by (used in) operating activities	22 (b)	**1,364,767**	2,360,292	**1,414,427**	3,561,426
Cash flows from investing activities					
Proceeds from sale of investments		**100,306**	656,109	**100,306**	656,109
Purchase of property, plant & equipment		**(201,218)**	(273,142)	**(201,218)**	(273,142)
Purchase of investments		**(33,564)**	(191,352)	**(33,564)**	(191,352)
Loans to Staff		**-**	-		-
Repayment of loans		**29,160**	48,820	**29,160**	48,820
Net cash provided by (used in) investing activities		**(105,316)**	240,435	**(105,316)**	240,435
Cash flows from financing activities					
Proceeds from share issue		**-**	-		-
Share buy-back payment		**-**	-		-
Dividends paid		**(1,504,553)**	(1,938,772)	**(1,504,553)**	(1,938,772)
Net cash provided by (used in) financing activities		**(1,504,553)**	(1,938,772)	**(1,504,553)**	(1,938,772)
Net increase (decrease) in cash held		**(245,102)**	661,955	**(195,442)**	1,863,089
Cash at beginning of financial year		**2,554,689**	1,892,734	**2,298,126**	435,037
Cash at end of financial year	22 (a)	**2,309,587**	2,554,689	**2,102,684**	2,298,126

The accompanying notes form part of these Financial Statements

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, except for cash flow information 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 2012

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 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.

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.

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

Note 1 - Statement of significant accounting policies – continued

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) 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"

(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".

Provision for community grants expense has been made in the current year.

i) 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.

j) Cash and cash equivalents

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

k) 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).

l) 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.

Note 1 - Statement of significant accounting policies - continued

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 three 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 $44,659, and a staff loan for $7,455. 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.

Notes to the financial statements for the year ended 30 June 2012

• 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.

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.

Notes to the financial statements for the year ended 30 June 2012

	Consolidated entity		Parent entity	
	2012	2011 Restated*	**2012**	2011 Restated*
	$	$	**$**	$
Note 2 - Auditors' remuneration				
Remuneration of the auditors for:				
Audit services				
- Auditing the financial report	**39,900**	39,188	**35,000**	34,538
- Auditing the sustainability report	**-**	5,900	**-**	5,900
Non-audit services				
- Tax and other accounting advice	**4,000**	3,462	**4,000**	3,462

Note 3 - Revenue

	Consolidated entity 2012 $	Consolidated entity 2011 Restated* $	Parent entity 2012 $	Parent entity 2011 Restated* $
Operating activities				
- Management fees net of rebates	**10,088,674**	11,235,864	**4,032,129**	4,602,218
- Entry fees	**1,010,122**	1,107,289	**50,435**	80,839
- Member & Withdrawal Fees	**775,276**	697,654	**-**	-
- Reimbursed expenses	**2,668,095**	1,819,105	**1,597,624**	1,598,522
- Dividend from wholly owned subsidiary	**-**	-	**372,055**	1,665,953
- Interest/distributions	**93,014**	98,246	**84,229**	78,632
- Wholly owned entity fee	**-**	-	**6,403,976**	6,167,594
- Other revenue	**157,609**	785,873	**101,671**	735,180
	14,792,790	15,744,031	**12,642,119**	14,928,938
Total revenue	**14,792,790**	15,744,031	**12,642,119**	14,928,938

*Other fees for 2011 have been restated to reflect changed accounting treatment for expenses that the company pays and subsequently seeks reimbursement from the Managed Trusts and Superannuation Fund. Other fees reflects the full amount of expenses recovered for the Managed Trusts and Superannuation Fund. There has been a corresponding adjustment to external services (Statement of Comprehensive Income) reflecting the full cost of services provided by third parties to the Managed Trusts and Superannuation Fund.

Notes to the financial statements for the year ended 30 June 2012

	Consolidated entity		Parent entity	
	2012	2011 Restated*	**2012**	2011 Restated*
	$	$	**$**	$
Note 4 - Income tax expense				
a) The components of tax expense comprise:				
- Current tax	**87,992**	828,581	**(3,584)**	679,763
- Deferred tax	**232,479**	(163,739)	**232,599**	(163,739)
	320,471	664,841	**229,015**	516,024
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% (2011:30%)				
- Consolidated entity	**216,788**	536,962	**-**	-
- Parent entity	**-**	-	**236,954**	887,983
- Other members of the income tax consolidated group net of intercompany transactions	**-**	-	**91,456**	148,818
Add: tax effect of:				
- Other non-allowable items	**34,241**	2,130	**34,236**	2,076
- Share options expensed during year	**69,443**	124,022	**69,443**	124,022
- Under provision for income tax in prior year	**943**	2,483	**943**	2,483
	321,415	665,597	**433,032**	1,165,382
Less: tax effect of:				
- Rebateable fully franked dividends	**-**	-	**(111,617)**	(499,785)
- Franking and foreign tax credits	**(944)**	(755)	**(944)**	(755)
- Tax allowance on capital investment	**-**	-		-
Income tax expense attributable to entity	**320,471**	664,842	**320,471**	664,842
Allocation of income tax expense to wholly owned entity under the tax sharing agreement	**-**	-	**(91,456)**	(148,818)
Income tax expense attributable to entity	**320,471**	664,842	**229,015**	516,024
The applicable weighted average effective tax rates are as follows:	**44%**	37%	**29%**	17%

Notes to the financial statements for the year ended 30 June 2012

	Consolidated entity		Parent entity	
	2012	2011 Restated*	**2012**	2011 Restated*
	$	$	**$**	$
Note 5 - Dividends				
(a) Distributions paid				
Final fully franked dividend of 100 (2011: 50) cents per share franked at the tax rate of 30% (2011:30%)	**1,003,036**	496,570	**1,003,036**	496,570
Special fully franked dividend of 25 (2011: 100) cents per share franked at the tax rate of 30% (2011:30%)	**250,758**	993,141	**250,758**	993,141
Interim fully franked dividend of 25 (2011: 45) cents per share franked at the tax rate of 30% (2011:30%)	**250,759**	449,061	**250,759**	449,061
	1,504,553	1,938,772	**1,504,553**	1,938,772
(b) Distributions declared				
Final fully franked dividend of 35 (2011: 100) cents per share franked at the tax rate of 30% (2011: 30%)	**351,062**	997,913	**351,062**	997,913
Special final fully franked dividend of 0 (2011: 25) cents per share franked at the tax rate of 30% (2011: 30%)	**-**	249,478	**-**	249,478
(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.			**871,804**	1,380,710
Subsequent to year-end, the franking account would be reduced by the declared dividend reflected above as follows:			**150,455**	534,596
			721,349	846,114
Note 6 - Earnings per share				
(a) Earnings used to calculate basic EPS and dilutive EPS	**402,155**	1,125,031		
(b) Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	**1,001,859**	996,004		
Weighted average number of rights outstanding	**18,751**	6,886		
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	**1,020,610**	1,002,890		
Note 7 - Cash and cash equivalents				
Cash on hand	**300**	300	**300**	300
Cash at bank	**185,773**	171,559	**5,958**	10,000
Deposits at call	**2,123,514**	2,382,830	**2,096,426**	2,287,826
	2,309,587	2,554,689	**2,102,684**	2,298,126

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 2012

	Consolidated entity		Parent entity	
	2012	2011	**2012**	2011
	$	$	**$**	$
Note 8 - Trade and other receivables				
Trade receivables	**1,711,718**	3,238,499	**1,057,697**	2,623,778
Other	**4,281**	6,798	**4,281**	6,798
Amounts receivable - wholly owned entity	**-**	-	**11,190**	67,601
	1,715,999	3,245,297	**1,073,168**	2,698,177
Note 9 - Financial assets				
Available-for-sale financial assets	**332,055**	476,902	**648,055**	792,902
Loans	**52,114**	81,341	**52,114**	81,341
	384,169	558,243	**700,169**	874,243
Less non-current portion	**33,757**	61,820	**349,757**	377,820
Current portion	**350,412**	496,423	**350,412**	496,423
a. Available-for-sale financial assets comprise:				
- Listed securities at fair value	**108,947**	137,036	**108,947**	137,036
- Units in unit trust at fair value	**223,108**	339,866	**223,108**	339,866
- Shares in wholly owned entity at cost	**-**	-	**316,000**	316,000
	332,055	476,902	**648,055**	792,902
b. Loans comprise				
- Loan to other entity	**44,659**	69,091	**44,659**	69,091
- Loan to staff	**7,455**	12,250	**7,455**	12,250
	52,114	81,341	**52,114**	81,341

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 Fringe Benefits Tax interest rate set by the ATO.

	Consolidated 2012	Consolidated 2011	Parent 2012	Parent 2011
Note 10 - Other current assets				
Other	**1,442**	11,857	**1,442**	11,858
Prepayments	**172,156**	220,449	**140,881**	178,130
	173,598	232,306	**142,323**	189,988

Notes to the financial statements for the year ended 30 June 2012

	Consolidated entity		Parent entity	
	2012	2011	**2012**	2011
	$	$	**$**	$
Note 11 - Property, plant and equipment				
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	**(440,241)**	(368,642)	**(440,241)**	(368,642)
Impairment loss	**(210,000)**	-	**(210,000)**	-
Total buildings	**2,133,876**	2,415,475	**2,133,876**	2,415,475
Total land and buildings	**2,363,876**	2,645,475	**2,363,876**	2,645,475
Plant and equipment				
At cost	**2,964,106**	2,809,022	**2,964,106**	2,809,022
Accumulated depreciation	**(1,706,235)**	(1,413,750)	**(1,706,235)**	(1,413,750)
Total plant and equipment	**1,257,871**	1,395,272	**1,257,871**	1,395,272
Total property, plant and equipment	**3,621,747**	4,040,747	**3,621,747**	4,040,747
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	**2,415,475**	2,487,032	**2,415,475**	2,487,032
Additions				
Disposals	**-**	-	**-**	-
Depreciation expense	**(71,599)**	(71,557)	**(71,599)**	(71,557)
Impairment loss	**(210,000)**	-	**(210,000)**	-
Carrying amount at the end of year	**2,133,876**	2,415,475	**2,133,876**	2,415,475
Plant and equipment				
Balance at the beginning of year	**1,395,272**	1,498,136	**1,395,272**	1,498,136
Additions	**193,588**	256,948	**193,588**	256,948
Disposals	**(3,966)**	(36,793)	**(3,966)**	(36,793)
Depreciation expense	**(327,023)**	(323,019)	**(327,023)**	(323,019)
Carrying amount at the end of year	**1,257,871**	1,395,272	**1,257,871**	1,395,272
Total	**3,621,747**	4,040,747	**3,621,747**	4,040,747

As at 30 June 2012 a valuation of the Property asset (land and buildings) was conducted in accordance with the company's policy. Based on advice received from independent valuers the directors determined that the value of the property was below its carrying value and have noted an impairment of $210,000.

Notes to the financial statements for the year ended 30 June 2012

	Consolidated entity		Parent entity	
	2012	2011	**2012**	2011
	$	$	**$**	$
Note 12 - Intangible Assets				
Website development				
At cost	**69,560**	85,540	**69,560**	85,540
Accumulated amortisation	**(51,814)**	(40,185)	**(51,814)**	(40,185)
Total intangibles	**17,746**	45,355	**17,746**	45,355
Website development				
Balance at the beginning of year	**45,355**	46,297	**45,355**	46,297
Additions	**7,630**	25,740	**7,630**	25,740
Disposals	**(7,467)**	-	**(7,467)**	-
Amortisation expense	**(27,772)**	(26,682)	**(27,772)**	(26,682)
Carrying amount at the end of year	**17,746**	45,355	**17,746**	45,355
Note 13 - Tax assets				
Current tax assets				
Tax refund receivable due to income tax overpayment	**19,156**	-	**46,554**	-
	19,156	-	**46,554**	-
Deferred tax assets				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Employee benefits	**252,295**	517,881	**252,295**	517,881
Community grants	**15,998**	46,578	**15,998**	46,578
Loss on sale of financial instrument	**1,930**	-	**1,930**	-
Building impairment	**63,000**	-	**63,000**	-
Audit fees	**13,136**	14,220	**11,621**	12,825
	346,359	578,679	**344,844**	577,284
Amounts recognised directly in equity				
Financial asset revaluations	**50,326**	28,824	**50,326**	28,824
	396,685	607,503	**395,170**	606,108
Movements				
Opening balance at 1 July	**607,503**	435,083	**606,108**	433,688
Credited (charged) to the income statement	**(232,320)**	161,029	**(232,320)**	161,029
Credited (charged) to equity	**21,502**	11,391	**21,382**	11,391
Closing balance at 30 June	**396,685**	607,503	**395,170**	606,108
Note 14 - Trade and other payables				
Trade payables	**243,197**	411,535	**26,452**	394,251
Sundry payables and accrued expenses	**1,195,633**	1,971,145	**997,966**	1,740,426
Employee bonus	**99,343**	205,029	**99,343**	205,029
	1,538,173	2,587,710	**1,123,761**	2,339,705
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	**4,191**	4,030	**4,191**	4,030
	35,087	34,926	**35,087**	34,926
Movements				
Opening balance at 1 July	**34,926**	34,805	**34,926**	34,805
Credited/(charged) to the income statement	**161**	121	**161**	121
Credited/(charged) to equity	**-**	-	**-**	-
Closing balance at 30 June	**35,087**	34,926	**35,087**	34,926

Notes to the financial statements for the year ended 30 June 2012

	Consolidated entity		Parent entity	
	2012	2011	**2012**	2011
	$	$	**$**	$
Note 16 - Provisions				
Current				
Employee benefits - long service leave	**283,589**	533,024	**283,589**	533,024
	283,589	533,024	**283,589**	533,024
Non-Current				
Employee benefits - long service leave	**74,117**	56,123	**74,117**	56,123
	74,117	56,123	**74,117**	56,123
Note 17 - Issued capital				
Ordinary shares				
Fully paid ordinary shares at the beginning of the financial year 997,913 (2011 - 993,141) shares	**5,915,219**	5,791,147	**5,915,219**	5,791,147
Issue of share capital				
Shares issued during the year under the employee share ownership plan:				
4,772 on 23 November 2010 (rights exercised)	**-**	124,072	**-**	124,072
5,122 on 22 September 2011 (rights exercised)	**123,082**	-	**123,082**	-
Balance 30 June				
1,003,035 (2011 - 997,913) shares	**6,038,301**	5,915,219	**6,038,301**	5,915,219

At 30 June 2012 there were 1,003,035 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 an Australian Ethical trust 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. The company will comply with the new capital rules (as per CO 11/1140) with effect from 1 November 2012. These new capital rules require the company to:

(i) Maintain net tangible assets (NTA) of 0.5% of managed investment scheme assets (approximately $3M based on current funds under management) if not acting as its own custodian.
(ii) Hold 50% of the NTA requirement in cash or cash equivalents
(iii) Hold the balance of NTA requirement in liquid assets (convertible within 6 months)

Notes to the financial statements for the year ended 30 June 2012

	Consolidated entity		Parent entity	
	2012	2011	**2012**	2011
	$	$	**$**	$

Note 18 – Events after the balance sheet date

Since the end of the financial year, the following material events have occurred:

1. In August 2012 an agreement was entered into to market Trevor Pearcey House for sale.
2. Upfront fees on all products were removed from 1 July 2012.

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

Note 19 - Economic dependence

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

Note 20 - Contingencies

Liabilities and assets of trusts and superannuation fund

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

	Consolidated entity 2012 $	Consolidated entity 2011 $	Parent entity 2012 $	Parent entity 2011 $
Current liabilities				
Payables	**3,013,871**	3,249,481	**1,365,919**	1,957,613
Provisions	**10,927,089**	18,472,200	**10,199,487**	17,710,906
Total liabilities	**13,940,960**	21,721,681	**11,565,406**	19,668,519
Rights of indemnities for liabilities incurred by the consolidated entity and parent entity not recorded in the financial statements were:	**13,940,960**	21,721,681	**11,565,406**	19,668,519

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 2012

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 and 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 2012			30 June 2011		
	Managed funds	**Super**	**Total**	Managed funds	Super	Total Restated*
	$	**$**	**$**	$	$	$
Revenue						
External sale	5,781,860	8,917,917	14,699,777	7,016,759	8,629,026	15,645,785
Inter-segment sale	6,403,976	-	6,403,976	6,167,594	-	6,167,594
Interest revenue	84,229	8,784	93,013	78,632	19,614	98,246
Total segment revenue	**12,270,065**	**8,926,701**	**21,196,766**	13,262,985	8,648,640	21,911,625
Inter-segment eliminations			(6,403,976)			(6,167,594)
Total group revenue			**14,792,790**			15,744,031
Segment net profit before tax	**963,268**	**556,404**	**1,519,672**	2,622,030	795,165	3,417,195
Reconciliation of segment result to group net profit/loss after tax						
Income tax expense	(229,015)	(91,456)	(320,471)	(516,024)	(148,818)	(664,842)
Unallocated items						
- Depreciation and amortisation			(426,395)			(421,258)
- Other corporate overheads *			(370,651)			(1,206,064)
Group net profit after tax			**402,155**			1,125,031

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

(ii) Segment assets

	30 June 2012			30 June 2011		
	Managed funds	**Super**	**Total**	Managed funds	Super	Total
	$	**$**	**$**	$	$	$
Assets	**8,099,560**	**893,714**	**8,993,274**	10,752,744	914,998	11,667,742
Inter-segment eliminations			(354,587)			(383,602)
Total group assets			**8,638,687**			11,284,140

(iii) Segment liabilities

Liabilities	**1,516,554**	**453,000**	**1,969,554**	3,407,323	315,606	3,722,929
Inter-segment eliminations			(38,588)			(67,601)
Total group liabilities			**1,930,966**			3,655,328

Notes to the financial statements for the year ended 30 June 2012

	Consolidated entity		Parent entity	
	2012	2011 Restated*	**2012**	2011 Restated*
	$	$	**$**	$
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:				
Cash on hand	**300**	300	**300**	300
Cash at bank	**185,773**	171,559	**5,958**	10,000
Deposits at call	**2,123,514**	2,382,830	**2,096,426**	2,287,826
	2,309,587	2,554,689	**2,102,684**	2,298,126
(b) Reconciliation of cash flow from operations with net profit from ordinary activities after income tax expense				
Net profit from ordinary activities after income tax expense	**402,155**	1,125,031	**560,833**	2,443,920
Non-cash flows in operating profit				
Depreciation	**426,395**	421,258	**426,395**	421,258
Provisions	**(668,631)**	75,178	**(668,631)**	75,178
(Profit) loss on sale of property, plant & equipment	**11,433**	27,246	**11,433**	27,246
(Profit) loss on sale of investment	**6,432**	(6,449)	**6,432**	(6,449)
Share options/rights expensed	**231,478**	413,407	**231,478**	413,407
Impairment loss	**210,000**	-	**210,000**	-
Changes in assets and liabilities				
(Increase) decrease in trade & other receivables	**1,529,355**	(199,654)	**1,557,465**	(30,088)
(Increase) decrease in prepayments & other assets	**58,709**	104,888	**47,665**	107,296
(Increase) decrease in deferred tax assets	**232,320**	(136,555)	**232,440**	52,958
Increase (decrease) in trade & other payables	**(612,336)**	92,276	**(778,745)**	(319,365)
Increase (decrease) in current tax liability	**(462,701)**	443,545	**(422,497)**	375,944
Increase (decrease) in deferred tax liability	**160**	121	**160**	121
Net cash provided by (used in) operating activities	**1,364,769**	2,360,292	**1,414,428**	3,561,426

Notes to the financial statements for the year ended 30 June 2012

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 Cash Trust, Australian Ethical Larger Companies Trust, Australian Ethical International Equities Trust, Australian Ethical World Trust, Australian Ethical Property Trust, Australian Ethical Fixed Interest 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	
	2012	2011	**2012**	2011
	$	$	**$**	$
(i) Transactions whereby Australian Ethical Investment Limited provides management services to the wholly owned entity on a cost recovery basis	**-**	-	**6,403,976**	6,167,594
(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).	**-**	-	**91,456**	148,818
(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.	**-**	-	**6,347,842**	6,401,445
(iv) Transactions whereby Australian Ethical Investment Limited receives a dividend from the wholly owned entity referred to in note 3.	**-**	-	**372,055**	1,665,953
b) Outstanding balances at balance date:				
Amounts receivable from wholly owned entity:				
Taxation and other	**-**	-	**38,587**	67,601

Notes to the financial statements for the year ended 30 June 2012

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		Parent Entity	
	2012	2011	**2012**	2011
	$	$	**$**	$
(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	**2,841,322**	3,459,096	**2,841,322**	3,459,096
- Australian Ethical Smaller Companies Trust	**3,923,345**	4,039,271	**3,923,345**	4,039,271
- Australian Ethical Cash Trust	**435,383**	360,548	**435,383**	360,548
- Australian Ethical Larger Companies Trust	**1,582,941**	1,717,663	**1,582,941**	1,717,663
- Australian Ethical International Equities Trust	**1,059,980**	1,442,241	**1,059,980**	1,442,241
- Australian Ethical Property Trust	**686,211**	296,802	**686,211**	296,802
- Climate Advocacy Fund	**57,185**	23,775	**57,185**	23,775
(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	**240,292**	253,495	**240,292**	253,495
- Australian Ethical Smaller Companies Trust	**194,334**	204,500	**194,334**	204,500
- Australian Ethical Cash Trust	**84,361**	88,251	**84,361**	88,251
- Australian Ethical Larger Companies Trust	**123,348**	130,247	**123,348**	130,247
- Australian Ethical International Equities Trust	**97,167**	102,249	**97,167**	102,249
- Australian Ethical Property Trust	**34,384**	34,201	**34,384**	34,201
- Climate Advocacy Fund	**-**	-	**-**	-
(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	**19,765**	26,885	**19,765**	26,885
- Australian Ethical Smaller Companies Trust	**29,584**	32,012	**29,584**	32,012
- Australian Ethical Cash Trust	**3,678**	1,963	**3,678**	1,963
- Australian Ethical Larger Companies Trust	**17,633**	20,885	**17,633**	20,885
- Australian Ethical International Equities Trust	**(1,004)**	4,502	**(1,004)**	4,502
- Australian Ethical Property Trust	**28**	121	**28**	121
- Climate Advocacy Fund	**-**	-	**-**	-
(iv) Transaction whereby Australian Ethical Investment Limited received a distribution payment from the Australian Ethical Balanced Trust and Climate Advocacy Fund	**2,883**	4,665	**2,883**	4,665

Notes to the financial statements for the year ended 30 June 2012

Note 23 – Related party transactions - continued

b) Outstanding balances at balance date:

Amounts receivable from the Australian Ethical Trusts in relation to investment services, accounting services and reimbursable expenses:

	Consolidated Entity 2012 $	Consolidated Entity 2011 $	Parent Entity 2012 $	Parent Entity 2011 $
- Australian Ethical Balanced Trust	**189,557**	438,059	**189,557**	438,059
- Australian Ethical Smaller Companies Trust	**330,638**	491,102	**330,638**	491,102
- Australian Ethical Cash Trust	**24,397**	93,853	**24,397**	93,853
- Australian Ethical Larger Companies Trust	**193,177**	235,973	**193,177**	235,973
- Australian Ethical International Equities Trust	**88,584**	168,801	**88,584**	168,801
- Australian Ethical World Trust	**-**	6,501	**-**	6,501
- Australian Ethical Property Trust	**59,896**	64,300	**59,896**	64,300
- Climate Advocacy Fund	**5,174**	6,992	**5,174**	6,992
Value of units held by Australian Ethical Investment Limited in the Australian Ethical Balanced Trust	**223,108**	233,479	**223,108**	233,479
Value of units held by Australian Ethical Investment Limited in the Climate Advocacy Fund	**-**	106,386	**-**	102,452
Distribution receivable from Australian Ethical Balanced Trust	**4,281**	3,316	**4,281**	3,316
Distribution receivable from Climate Advocacy Fund	**-**	3,482	**-**	3,482

Notes to the financial statements for the year ended 30 June 2012

	Consolidated entity		Parent entity	
	2012	2011	**2012**	2011
	$	$	**$**	$
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.)	**(291,298)**	232,201	**-**	-
(ii) Transactions between Australian Ethical Superannuation Pty Limited and the Australian Ethical Retail Superannuation Fund related to contribution fee/ (rebate of contribution fee)	**959,687**	1,026,450	**-**	-
(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)	**775,276**	697,654	**-**	-
(iv) Transactions between Australian Ethical Superannuation Pty Limited and the Australian Ethical Retail Superannuation Fund related to other reimbursables/ (rebate of other reimbursables)	**1,070,471**	226,299	**-**	-
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)	**(172,722)**	52,372	**-**	-
(ii) Contribution fee/ (rebate of contribution fee)	**141,416**	175,916	**-**	-
(iii) Member admin fee/ (rebate of member admin fee)	**384,674**	350,798	**-**	-
(iv) Other reimbursables/ (rebate of other reimbursables)	**149,880**	37,623	**-**	-

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 2012

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	
Howard Pender	Director, non-executive	Ceased 17 November 2011
Justine Hickey	Director, non-executive	
Les Coleman	Director, non-executive	Ceased 17 November 2011
Stephen Newnham	Director, Business Development, executive	Appointed (full time) 12 December 2011
Louise Herron	Director, non-executive	Appointed 20 February 2012, ceased July 25, 2012
André Morony	Chairperson, non-executive	
Phillip Vernon	Managing Director ,executive	

Other key management personnel

Name	Position	
Gary Leckie	Chief Financial Officer	Resigned 23 May 2012
Tim Xirakis	Head of Client Relationships	Resigned 8 August 2011
Adam Kirk	General Manager, Business Development	Appointed 9 August 2011
Paul Smith	General Manager, Strategy & Communications	Appointed 11 July 2011
Philip George	Head of Product & Client Services	
James Jordan	Chief Investment Officer	Resigned 28 March 2012
David Macri	Chief Investment Officer	Appointed 13 February 2012

b) Key management personnel compensation

	Economic Entity		Parent Entity	
	2012	2011	**2012**	2011
	$	$	**$**	$
Short term employment benefits	**1,978,000**	1,698,879	**1,956,070**	1,661,759
Post-employment benefits	**167,914**	151,363	**164,567**	148,016
Other long-term benefits	**34,939**	19,073	**34,939**	19,073
Termination benefits	**221,528**	57,459	**221,528**	57,459
Share-based payments	**151,310**	127,143	**151,310**	127,143
Total compensation	**2,553,691**	2,053,917	**2,528,414**	2,013,450

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	AEFAV	1,364	-	(1,364)	-	-	-	-	-
	2012 Total	**1,364**	**-**	**(1,364)**	**-**	**-**	**-**	**-**	**-**
	2011 Total	2,881	-	(1,517)	-	1,364	-	-	-
Howard Pender	AEFAV	1,326	-	(1,326)	-	-	-	-	-
	2012 Total	**1,326**	**-**	**(1,326)**	**-**	**-**	**-**	**-**	**-**
	2011 Total	2,839	-	(1,513)	-	1,326	-	-	-
Named executives (including other key management personnel)									
Philip George	AEFAU	2,169	-	(2,169)	-	-	-	-	-
	2012 Total	**2,169**	**-**	**(2,169)**		**-**	**-**	**-**	**-**
	2011 Total	4,638	-	(2,469)	-	2,169	-	-	-
Gary Leckie	AEFAU	1,919	-	(1,919)	-	-	-	-	-
	2012 Total	**1,919**	**-**	**(1,919)**	-	**-**	**-**	**-**	**-**
	2011 Total	3,686	-	(1,767)	-	1,919	-	-	-
Tim Xirakis	AEFAU	1,895	-	(1,895)	-	-	-	-	-
	2012 Total	**1,895**	**-**	**(1,895)**	-	**-**	**-**	**-**	**-**
	2011 Total	3,671	-	(1,776)	-	1,895	-	-	-
James Jordan	AEFAU	1,243	-	(1,243)	-	-	-	-	-
	2012 Total	**1,243**	**-**	**(1,243)**	-	**-**	-	**-**	**-**
	2011 Total	2,389	-	(1,146)	-	1,243	-	-	-

Notes to the financial statements for the year ended 30 June 2012

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)	-	-	-	-	-
	2012 Total	**1,008**	-	**(1,008)**	-	**-**	-	-	-
	2011 Total	319	689	-	-	1,008	-	-	-
Howard Pender	AEFAY	736	-	-	-	736	-	-	-
	AEFAW	320	-	-	-	320	-	-	-
	2012 Total	**1,056**	-	-	-	**1,056**	-	-	-
	2011 Total	320	736	-	-	1,056	-	-	-
Phillip Vernon	AEFAB	-	1,474	-	-	1,474	-	-	-
	AEFAA	-	1,472	-	-	1,472			
	AEFAY	2,481	-	-	-	2,481			
	AEFAW	317	-	-	-	317	-	-	-
	2012 Total	**2,798**	**2,946**	-	-	**5,744**	-	-	-
	2011 Total	317	2,481	-	-	2,798	-	-	-
Named executives (including other key management personnel)									
Philip George	AEFAB	-	390	-	-	390	-	-	-
	AEFAA		1,105	-	-	1,105			
	AEFAY	985	-	-	-	985			
	AEFAW	501	-	-	-	501	-	-	-
	2012 Total	**1,486**	**1,495**	-	-	**2,981**	-	-	-
	2011 Total	501	985	-	-	1,486	-	-	-
Gary Leckie	AEFAB	-	696	(696)	-	-	-	-	-
	AEFAA	-	1,134	(1,134)	-	-			
	AEFAY	1,008	-	(1,008)	-	-			
	AEFAW	506	-	(506)	-	-	-	-	-
	2012 Total	**1,514**	**1,830**	**(3,344)**	-	**-**	-	-	-
	2011 Total	506	1,008	-	-	1,514	-	-	-
Tim Xirakis	AEFAB		646	-	-	646	-	-	-
	AEFAY	982	-	(982)	-	-			
	AEFAW	493	-	(493)	-	-	-	-	-
	2012 Total	**1,475**	**646**	**(1,475)**	-	**646**	-	-	-
	2011 Total	493	982	-	-	1,475	-	-	-
James Jordan	AEFAB	-	1,803	(1,803)	-	-	-	-	-
	AEFAA	-	1,457	(1,457)	-	-			
	AEFAY	868	-	(868)	-	-			
	AEFAW	409	-	(409)	-	-	-	-	-
	2012 Total	**1,277**	**3,260**	**(4,537)**	-	**-**	-	-	-
	2011 Total	1,271	915	-	(909)	1,277	-	-	-
David Macri	AEFAB	-	2,362	-	-	2,362	-	-	-
	AEFAA	-	827	-	-	827			
	AEFAY	666	-	-	-	666	-	-	-
	AEFAW	150	-	-	-	150	-	-	-
	2012 Total	**816**	3,189	-	-	**4,005**	-	-	-
	2011 Total	150	666	-	-	816	-	-	-

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	**2012**	**66,576**	-	-	**405**	**66,981**
	2011	65,846	-	-	730	66,576
Howard Pender	**2012**	**50,683**	-	-	**(801)**	**49,882**
	2011	51,883	-	-	(1,200)	50,683
Justine Hickey	**2012**	**1,200**	-	-	-	**1,200**
	2011	700	-	-	500	1,200
Named executives (including other key management personnel)						
Philip George	**2012**	**1,104**	-	-	-	**1,104**
	2011	1,104	-	-	-	1,104
Paul Harding Davis	**2012**	**760**	-	-	**(760)**	**-**
	2011	1,598	-	-	(838)	760
James Jordan	**2012**	**909**	-	-	**(909)**	**-**
	2011	-	-	909	-	909

(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	**$**	**$**	**$**	**$**	**$**	
2012	**12,250.11**	**778.30**	**-**	**-**	**7,454.99**	**1**
2011	**43,358.14**	**1,860.30**	**-**	**-**	**12,250.11**	**1**

(a) The Loan is repayable on 30 November 2013 and currently bears interest at 7.4 % per annum that is the FBT interest rate set by the ATO.

(b) In the 2011 -12 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 2012

Note 25 - Share based payments

The following share-based payment arrangements existed at 30 June 2012:

During this reporting period, Australian Ethical Investment Limited issued 5,122 ordinary shares on conversion of 5,122 AEFAZ performance rights for nil consideration granted under its employee share incentive scheme in April 2011. This conversion of performance rights resulted in an increase in ordinary shares of 5,122.

During 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 2011 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.

During the reporting period 33,837 performance rights in two classes (identifiers: AEFAA and AEFAB) 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
AEFAA	19,195	- employment must continue until 30 June 2014 - 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 2011/12, 2012/13 and 2013/14.
AEFAB	14,642	- employment must continue until 1 July 2012; - 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 2011 to 30 June 2012

Performance rights reconciliation	**Consolidated Entity 2012**	Consolidated Entity 2011		**Parent Entity 2012**	Parent Entity 2011
	Number of Rights	Number of Rights		**Number of Rights**	Number of Rights
Outstanding at the beginning of the financial year	**32,416**	14,476		**32,416**	14,476
Granted	**34,199**	25,569		**34,199**	25,569
Forfeited	**(19,980)**	(2,857)		**(19,980)**	(2,857)
Exercised	**(5,122)**	(4,772)		**(5,122)**	(4,772)
Expired	**-**	-		**-**	-
Outstanding at year-end	**41,513**	32,416	-	**41,513**	32,416
Exercisable at year-end	**-**	-	**-**	**-**	**-**

Notes to the financial statements for the year ended 30 June 2012

Fair value - Rights

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

Weighted average fair value - Options

	Consolidated Entity				Parent Entity			
	2012		2011		**2012**		2011	
	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	**32,394**	**32.27**	68,682	44.00	**32,394**	**32.27**	68,682	44.00
Granted	**-**	**-**	-	-	**-**	**-**	-	-
Forfeited	**-**	**-**	(4,435)	32.27	**-**	**-**	(4,435)	32.27
Exercised	**-**	**-**	-	-	**-**	**-**	-	-
Expired	**(32,394)**	**32.27**	(31,853)	57.57	**(32,394)**	**32.27**	(31,853)	57.57
Outstanding at year-end	**-**	**-**	32,394	32.27	**-**	**-**	32,394	32.27
Exercisable at year-end	**-**	**-**	-	-	**-**	**-**	-	-

There were no options outstanding at 30 June 2012.

Included under employee benefits expense in the income statement is :
$14,070 (2011: $75,860) relating to options issued under the employee share ownership plan.
$217,407 (2011: $180,045) relating to rights issued under the employee share ownership plan.

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 13).

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**	
	2012	2011	**2012**	2011	**2012**	2011
	%	%	**$**	$	**$**	$
Cash and cash equivalents	**4**	5	**2,309,287**	2,554,389	**-**	-
Trade and other receivables					**-**	-
Financial assets	**9**	9	**5,202**	4,862	**13,155**	14,659
Total financial assets			**2,314,489**	2,559,251	**13,155**	14,659
Trade and other payables			**-**	-	**-**	-
Total financial liabilities			**-**	-	**-**	-

	Fixed interest rate within 1 to 5 years		**Non-interest bearing**		**Total**	
	2012	2011	**2012**	2011	**2012**	2011
	$	$	**$**	$	**$**	$
Cash	**-**	-	**300**	300	**2,309,587**	2,554,689
Trade and other receivables	**-**	-	**1,715,999**	3,245,297	**1,715,999**	3,245,297
Financial assets	**33,757**	61,820	**332,055**	476,902	**384,169**	558,243
Total financial assets	**33,757**	61,820	**2,048,354**	3,722,499	**4,409,755**	6,358,229
Trade and other payables	-	-	**1,538,173**	2,587,710	**1,538,173**	2,587,710
Total financial liabilities	**-**	-	**1,538,173**	2,587,710	**1,538,173**	2,587,710

Notes to the financial statements for the year ended 30 June 2012

(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 the finance committee risk considerations mentioned earlier in this note. 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 the finance committee 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**	
	2012	2011		**2012**	2011
	$	$	$	**$**	$
Less than 6 months	**1,234,874**	2,052,383		**820,462**	1,806,802
6 months to 1 year	**303,299**	535,327		**303,299**	535,327
1 to 5 years	**-**	-		**-**	-
	1,538,173	2,587,710		**1,123,761**	2,342,129

Note 27 - Restatement of financial statements as a result of change in accounting policy and correction of an error

When finalising the 31 December 2011 interim financial statements it was determined that the timing of recognition of expenses associated with share based payments granted to employees was incorrect.

In general the accounting treatment previously adopted was to recognise the expense related to share based payments from the date of issue of the equity instrument (rights) through to vesting date. However the correct accounting treatment under the Australian Accounting Standards is to recognise the expense from the date at which a constructive obligation to pay the share based payment exists.

Whilst this impacts financial results for periods since the inception of the employee share based payment scheme in 2009, it only materially impacts the 2010-11 prior period.

Specifically, in December 2011 a tranche of performance rights were issued to investment and management employees with a vesting date 1 July 2012. The value of the rights issued/owing was estimated as $311,427. Previously this amount would have been recognised as an expense over the period December 2011 (issue date) to June 2012 (vesting date). However on further investigation it was determined that these rights were in respect to performance of investment and management employees during the year ended 30 June 2011 (year 1) vesting at 1 July 2012 (year 2). Accordingly approximately half of this amount should have been recognised as an expense in the year ended 30 June 2011.

The statement of financial position for 30 June 2011 included this error and hence resulted in the restatement of the following line items for the year ended 30 June 2011.

• Options/Rights reserve increased by $157,502
• Retained earnings decreased by $157,502

In addition the profit for 30 June 2011 was overstated by this error and hence resulted in the restatement of the following line items for the year ended 30 June 2011

• Options/Rights expense increased by $157,502
• Net profit after tax decreased by $157,502

30 June 2011 Comparative year	**Actual 30 June 2011 $**	**Correction of Error Adj $**	**Restated Actual 30 June 2011 $**
Consolidated statement of financial position (extract)			
Equity			
Issued Capital	5,915,219		5,915,219
Reserves	974,402	157,502	1,131,904
Retained earnings	739,191	(157,502)	581,689
Total Equity	7,628,812	-	7,628,812

DIRECTORS' DECLARATION

The Directors of Austalian Ethical Investment Limited declare the following:

1. the financial statements and notes, as set out on pages 16 to 45 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 2012 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 28 August 2012

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 2012, 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 2012 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 to of the directors' report for the year ended 30 June 2012. 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 2012, 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,
28 August 2012

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