

Appendix 4D (Rule 4.2A.3)

Financial statements for the half-year ended 31 December 2015

RESULTS FOR ANNOUNCEMENT TO THE MARKET

(All comparisons to half-year ended 31 December 2014)

	\$ A	Up / Down	% Movement
Revenues from ordinary activities	10,939,647	up	11%
Net profit after tax from ordinary activities (including significant items)	1,500,681	up	172%
Underlying net profit after tax (excluding significant items)	1,500,681	up	55%
Dividend information	Amount per share (cents)	Franked amount per share (cents)	Tax rate for franking credit
Final 2015 dividend per share (paid 30 September 2015)	120.0	120.0	30%
Interim 2016 dividend per share (to be paid 25 March 2016)	120.0	120.0	30%
Interim dividend dates			
Ex-dividend date		14 March 2016	
Record date		10 March 2016	
Payment date		24 March 2016	
The Company's Dividend Reinvestment (DRP) will not operate in respect to the interim dividend.			
		31 Dec 2015	31 Dec 2014
Net tangible assets per security		\$11.16	\$8.76

This information should be read in conjunction with the 2015 Annual Financial report of Australian Ethical Investment Limited and any public announcements made in the period by Australian Ethical Investment Limited in accordance with the continuous disclosure requirements of the Corporations Act 2001 and Listing Rules.

Additional Appendix 4D disclosure requirements can be found in the Directors' Report and the 31 December 2015 half-year financial statements.

This report is based on the consolidated 2015 half-year financial statements of Australian Ethical Investment Limited which have been reviewed by KPMG. The Independent Auditor's Review Report by KPMG is included in the 31 December 2015 half-year financial statements.

Australian Ethical Investment Limited and its Controlled Entities

ABN 47 003 188 930

Interim Consolidated Financial Report for the half-year ended 31 December 2015



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Interim Consolidated Financial Report for the half-year ended 31 December 2015

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2015 and any public announcements made by Australian Ethical Investment Limited and its Controlled Entities during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The Directors of Australian Ethical Investment Limited (the “Company”) present their report together with the interim condensed consolidated financial statements for the six months ended 31 December 2015 and the review report thereon.

Directors

The following persons held office as Directors of the Company during or since the end of the financial period:

Stephen Gibbs (Chairperson and Non-Executive Director) (appointed 25 July 2012)
Mara Bun (Non-Executive Director) (appointed 4 February 2013)
Tony Cole (Non-Executive Director) (appointed 4 February 2013)
Kate Greenhill (Non-Executive Director) (appointed 22 February 2013)
Phil Vernon (Managing Director and Chief Executive Officer) (Appointed 27 July 2010)

Operating and financial review

The consolidated profit for the six months to 31 December 2015 year is \$1.501m (2014: \$0.553m). A review of operations for the Group is set out in the Shareholder Newsletter.

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 past 6 months				
Final 2015	120	1,313,052	Franked	30 September 2015
Declared after 31 December 2015				
Interim 2016	120	1,313,052	Franked	25 March 2016 ¹

¹ Planned payment date

Events subsequent to reporting date

The fall in sharemarkets since the end of the half-year have impacted our Funds Under Management (FUM) which will impact revenue for the remainder of the year. FUM as at 22 February 2016 was 1,348 million which is 3.8% lower than 31 December 2015. The recent changes in our FUM are discussed further in the Shareholder Newsletter.

Other than the dividend declared subsequent to the period end and the matter noted above, no other matter or circumstance has occurred subsequent to the period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

Environmental Regulation

The Company acts as a responsible entity for the Australian Ethical Property Trust and the Australian Ethical Balanced Trust both of which own direct property assets. These fiduciary operations are subject to environmental regulations under both Commonwealth and State legislation in relation to property developments. Approvals for commercial property developments are required by state planning authorities and environmental protection agencies. The licence requirements relate to air, noise, water and waste disposal. The responsible entity is responsible for compliance and reporting under the government legislation and engages professional property managers to manage the properties.

The Company is not aware of any material non-compliance in relation to these licences during the financial year.

The Company has determined that it is not required to register to report under the National Greenhouse and Energy Reporting Act 2007, which is Commonwealth environmental legislation that imposes reporting obligations on entities that reach reporting thresholds during the financial year.

The last property in the Australian Ethical Property Trust was sold on 24 July 2015. Since that time the Trust has invested in units of unlisted property trusts that meet the investment criteria. The properties held in the Australian Ethical Balanced Trust are not required to have a minimum of Green star rating.

Recording of Amounts

The company is of a kind referred to in class order 98/100, issued by the Australian Securities and Investment Commission relating to the rounding off of the amounts. Amounts in the financial statements have been rounded off in accordance with that class order to the nearest thousand dollars and in certain cases, to the nearest dollar.

Auditor's Independence Declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 3.

This report is made in accordance with a resolution of the Directors.



Phil Vernon
Managing Director and Chief Executive Officer
Sydney
24 February 2016



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

To: the directors of Australian Ethical Investment Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2015 there have been:

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

KPMG

Tanya Gilerman
Partner

Sydney

24 February 2016



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

Report on the financial report

We have reviewed the accompanying interim financial report of Australian Ethical Investment Limited (the 'Company'), which comprises the consolidated statement of financial position as at 31 December 2015, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes 1 to 10 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the half-year period.

Directors' responsibility for the interim financial report

The directors of the Company are responsible for the preparation of the interim 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 interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Australian Ethical Investment Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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



Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the half-year period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

Tanya Gilerman
Partner

Sydney

24 February 2016

Australian Ethical Investment Limited
Consolidated Statement of Financial Position
As at 31 December 2015

	31 December	30 June
	2015	2015
Notes	\$'000	\$'000
ASSETS		
Current assets		
Cash and cash equivalents	10,044	12,227
Trade and other receivables	1,441	1,780
Current tax assets	347	-
Other current assets	435	323
Total current assets	12,267	14,330
Non-current assets		
Property, plant and equipment	1,989	2,068
Intangible assets	30	57
Deferred tax assets	507	772
Total non-current assets	2,526	2,897
Total assets	14,793	17,227
LIABILITIES		
Current liabilities		
Trade and other payables	2,316	4,333
Current tax liabilities	50	1,177
Provisions	289	293
Total current liabilities	2,655	5,803
Non-current liabilities		
Trade and other payables	109	142
Provisions	108	130
Total non-current liabilities	217	272
Total liabilities	2,872	6,075
Net assets	11,921	11,152
EQUITY		
Issued capital	5 8,663	7,004
Reserves	1,260	2,338
Retained earnings	1,998	1,810
Total equity	11,921	11,152

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Australian Ethical Investment Limited
Consolidated Statement of Comprehensive Income
For the half-year ended 31 December 2015

	Notes	Half-year ended	
		31 December 2015 \$'000	31 December 2014 \$'000
Revenue from continuing operations		<u>10,940</u>	9,859
Expenses			
Operating expenses			
External services		(999)	(949)
Employee benefits expense		(4,084)	(4,174)
Occupancy costs		(211)	(244)
Marketing and communication costs		(708)	(439)
Fund related expenses		(1,547)	(1,451)
Other operating expenses		(809)	(882)
Total operating expenses		<u>(8,358)</u>	(8,139)
Non-operating expenses			
Depreciation and amortisation expense		(117)	(79)
Community grants expense		(199)	(104)
Impairment of property, plant and equipment		-	(413)
Total non-operating expenses		<u>(316)</u>	(596)
Total expenses before tax		<u>(8,674)</u>	(8,735)
Profit before tax		<u>2,266</u>	1,124
Tax expense	4	(765)	(571)
Total expenses after tax		<u>(9,439)</u>	(9,306)
Net profit for the period		<u>1,501</u>	553
 Total comprehensive income for the period		 <u>1,501</u>	 553
 Half-year ended			
		31 December	31 December
		2015	2014
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Group:			
Basic earnings per share		140.58	53.41
Diluted earnings per share		135.68	51.12

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Australian Ethical Investment Limited
Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2015

Notes	Issued capital \$'000	Asset revaluation reserve \$'000	Other reserves \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2014	6,432	(4)	1,122	1,933	9,483
Net profit for the period	-	-	-	553	553
Total comprehensive income for the period	-	-	-	553	553
Transactions with owners in their capacity as owners:					
Shares issued due to rights vesting during the period	572	-	(572)	-	-
Dividends provided for or paid	-	-	-	(1,247)	(1,247)
Employee share scheme - Rights	-	-	276	-	276
Employee share plan - Deferred shares	-	-	92	-	92
	572	-	(204)	(1,247)	(879)
Balance at 31 December 2014	7,004	(4)	918	1,239	9,157
Balance at 1 July 2015	7,004	-	2,338	1,810	11,152
Net profit for the period	-	-	-	1,501	1,501
Total comprehensive income for the period	-	-	-	1,501	1,501
Transactions with owners in their capacity as owners:					
Shares issued due to rights vesting during the period	5 1,659	-	(1,659)	-	-
Dividends provided for or paid	6 -	-	-	(1,313)	(1,313)
Employee share scheme - Rights	-	-	267	-	267
Employee share plan - Deferred shares	-	-	314	-	314
	1,659	-	(1,078)	(1,313)	(732)
Balance at 31 December 2015	8,663	-	1,260	1,998	11,921

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Australian Ethical Investment Limited
Consolidated Statement of Cash Flows
For the half-year ended 31 December 2015

	Half-year ended	
	31 December	31 December
	2015	2014
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers	11,079	9,805
Interest received	107	100
Community grants paid	(230)	-
Income taxes paid	(1,835)	(935)
Payments to suppliers and employees	(9,980)	(7,652)
Net cash inflow/(outflow) from operating activities	(859)	1,318
Cash flows from investing activities		
Payments for property, plant and equipment	(11)	(23)
Proceeds from sale of property, plant and equipment	-	4
Proceeds from sale of investments	-	1
Net cash inflow/(outflow) from investing activities	(11)	(18)
Cash flows from financing activities		
Dividends paid to the Company's shareholders	(1,313)	(1,247)
Net cash outflow from financing activities	(1,313)	(1,247)
Net increase/(decrease) in cash and cash equivalents	(2,183)	53
Cash and cash equivalents at the beginning of the period	12,227	7,945
Cash and cash equivalents at end of period	10,044	7,998

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

1 Reporting entity

The interim financial report covers the consolidated entity of Australian Ethical Investment Limited and its wholly owned subsidiaries (together referred to as the 'Group' and individually as 'Group entities') and Australian Ethical Investment Limited as an individual parent entity. Australian Ethical Investment Limited is a listed public company (ASX: AEF) and both the parent and wholly owned entities are incorporated and domiciled in Australia.

The Company's controlled entities are:

- Australian Ethical Superannuation Pty Limited
- Australian Ethical Investment Limited Employee Share Plan Trust
- Australian Ethical Foundation Limited

In July 2015 Australian Ethical Foundation Limited was created as a vehicle to distribute the community grants we make each year. The Foundation will provide greater flexibility in the types of support we would be able to provide recipients and in the future we would like to invite shareholders and clients to contribute to the Foundation and participate in the support of the many worthwhile recipients.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated interim financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of preparation of half-year report

These consolidated interim financial statements for the half-year reporting period ended 31 December 2015 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Australian Ethical Investment Limited and its Controlled Entities are a for-profit entity for the purpose of preparing the consolidated interim financial statements.

These consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2015 and any public announcements made by Australian Ethical Investment Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The consolidated interim financial statements have been prepared on an accruals basis, and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

3 Critical accounting estimates and judgements

In preparing these consolidated interim financial statements, Management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2015.

4 Income tax expense

Income tax expense is recognised based on Management's estimate of the weighted average effective annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period.

The Group's consolidated effective tax rate in respect of continuing operations for the six months ended 31 December 2015 was 34% (for the six months ended 31 December 2014: 51%). The high effective tax rate for the prior period was caused mainly by the expense related to rights granted by the Group to its employees under its share-based payment arrangement is not deductible for tax purposes.

5 Capital and reserves

Issues of ordinary shares by the Parent Entity

Date	No. Issued	Price	Amount \$	Comment
Opening balance 1/07/2015	1,053,818			
31/08/2015	11,899	\$ 57.00	699,661	Vesting of AEFAG Rights
31/08/2015	16,834	\$ 57.00	959,538	Vesting of AEFAC Rights
31/08/2015	11,659	-	-	Issue of deferred shares to the Employee Share Trust ¹
Closing balance 31/12/2015	<u>1,094,210</u>		<u>1,659,199</u>	

¹ Shares issued to the Employee Share Plan Trust are considered to be Treasury shares as the Trust is defined as an agent of the Company. No value is attributed to these shares.

6 Dividends

(a) Dividends paid or payable during the reporting period

	Dividend Rate cps	Total Amount \$'000	Date of Payment	% Franked
2015 final	120	1,313	30/09/2015	100

(b) Dividends not recognised at the end of the reporting period

	Half-year ended	
	31 December 2015 \$'000	31 December 2014 \$'000
In addition to the above dividends, since period end the Directors have recommended the payment of an interim dividend of 120 cents per fully paid ordinary share (2014: 80 cents), fully franked based on tax paid at 30% (2014: 30%).	<u>1,313</u>	831

7 Commitments and contingencies

The nature of the Group's commitments is as disclosed in the Group's consolidated financial statements as at and for the year ended 30 June 2015.

The Group had no contingent liabilities at 31 December 2015 (2014: nil).

8 Related party transactions

Australian Ethical Investment Limited acts as the responsible entity for:

Old Name	New Name
Australian Ethical Smaller Companies Trust	Australian Ethical Australian Shares Fund
Australian Ethical Larger Companies Trust	Australian Ethical Diversified Shares Fund
Australian Ethical Cash Trust	Australian Ethical Cash Fund
Australian Ethical Fixed Interest Trust	Australian Ethical Fixed Interest Fund
Australian Ethical International Equities Trust	Australian Ethical International Shares Fund
Australian Ethical Advocacy Fund	Australian Ethical Advocacy Fund
Australian Ethical Property Trust	Australian Ethical Property Trust
Australian Ethical Emerging Companies Fund	Australian Ethical Emerging Companies Fund
Australian Ethical Balanced Trust	Australian Ethical Balanced Fund

Australian Ethical Superannuation Pty Limited acts as trustee for the Australian Ethical Retail Superannuation Fund.

Australian Ethical Investment Limited transferred \$480,542 to Australian Ethical Foundation Limited on 12 October 2015.

Terms and conditions

Transactions between related parties are on commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

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.

9 Share-based payments

The following share-based payment arrangements existed at 31 December 2015:

(a) Performance rights

Under the Australian Ethical Investment Limited employee share incentive scheme (ESIS) that existed until August 2014, participants were 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 Group and the individual employee. These rights were issued for nil consideration. These rights hold no voting or dividend rights.

Performance rights summary

Rights Class	Performance Period	Grant year	Vesting date	No. Granted	No. Forfeited	No. Vested	No. Expired	Balance
AEFAC	FY13-15	FY2013	30/06/2015	23,357	(6,523)	(16,834)	-	-
AEFAE	FY14-16	FY2014	30/06/2016	17,955	(2,834)	-	-	15,121
AEFAG	FY15	FY2015	30/06/2015	11,899	-	(11,899)	-	-

9 Share-based payments (continued)

(i) Fair value of rights granted

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 to.

Included under employee benefits expense in the Consolidated Statement of Comprehensive Income is \$446,073 (31 December 2014: \$368,012) relating to rights issued under the employee share ownership plan.

(b) Deferred shares

Under the long term incentive scheme introduced in 2014, participants are granted shares subject to meeting specified performance criteria over the performance period. The number of shares that the participant receives is determined at the time of grant with the shares being held in trust. These shares are issued for nil consideration. The shares have voting rights and employees receive dividends.

Deferred shares are held in an Employee Share Trust until vesting conditions are met.

Performance shares summary

Performance Period	Grant year	Vesting date	No. Granted	No. Forfeited	No. Vested	No. Expired	Balance
FY15-17	FY2015	31/08/2017	14,924	(531)	-	-	14,393
FY16-18	FY2016	31/08/2018	12,190	-	-	-	12,190

In August 2015, the following deferred shares were issued:

Number Granted	Attributes
12,190	<ul style="list-style-type: none"> i) employment must continue until July 2018 ii) the number of shares that will be issued to an employee is fixed at the grant date iii) 50% of the shares are subject to the following hurdle: <ul style="list-style-type: none"> (a) if the compound earnings per share ('EPS') growth over 3 years is less than 5%, no shares will vest (b) if the compound EPS growth over 3 years is greater than 10%, 100% will vest (c) if the compound EPS growth over 3 years is greater than 5% and less than 10%, then pro rata amount will vest on a straight line basis (d) the compound average growth rate on earnings per share is determined as the average EPS over six month periods calculated using audited half-year financial statements iv) the performance period is the financial years 2015/16, 2016/17 and 2017/18.

10 Events occurring after the reporting period

The fall in sharemarkets since the end of the half-year have impacted the Company's Funds Under Management (FUM) which will impact revenue for the remainder of the year. FUM as at 22 February 2016 was \$1,348 million, which is 3.8% lower than 31 December 2015.

Other than the dividend declared subsequent to period end and the matter noted above, no other matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the group, the results of those operations or the state of affairs of the group in subsequent financial periods.

**Australian Ethical Investment Limited
Directors' Declaration
For the half-year ended 31 December 2015**

In the opinion of the Directors of Australian Ethical Investment Limited and its Controlled Entities:

- (a) the consolidated interim financial statements and notes set out on pages 6 to 13 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*, and
 - (ii) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the six month period ended on that date, and
- (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, consisting of a stylized 'P' and 'V' followed by a horizontal line.

Phil Vernon
Managing Director and Chief Executive Officer

Sydney
24 February 2016