Appendix 4E

For the year ended 30 June 2017

Australian Ethical Investment Limited and Controlled Entities
ABN 47 003 188 930

Results for announcement to the market

[All comparisons to year ended 30 June 2016]

	$'000	up / down	% movement
Revenues from ordinary activities	**28,305**	**up**	**23%**
Net profit after tax	**2,924**	**down**	**(8%)**
Deduct net profit after tax attributable to The Foundation	(4)		
Net profit attributable to shareholders	**2,920**	**down**	**(3%)**
Add back employment restructure expense	250		
Deduct reversal of impairment	(228)		
Add back further provision for remediation	795		
Add back unit pricing project costs	1,160		
Tax on adjustments	(662)		
Underlying net profit after tax	4,235	up	11%

Dividend information	Amount per share (cents)	Franked amount per share (cents)	Franking Level
Interim 2017 dividend per share (paid 24 March 2017)	50.0	50.0	100%
Final 2017 dividend per share (to be paid 22 September 2017)	210.0	210.0	100%

Final dividend dates	
Ex-dividend date	**7 September 2017**
Record date	**8 September 2017**
Payment date	**22 September 2017**

The Company's Dividend Reinvestment (DRP) will not operate with respect to the final dividend.

	30 June 2017	30 June 2016 Restated
Net tangible assets per security	**$11.21**	**$11.27**
Net asset value per security	**$12.47**	**$12.10**

This information should be read in conjunction with the 2017 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 4E disclosure requirements can be found in the Directors' Report and the Annual Financial report for the year ended 30 June 2017.

This report is based on the consolidated 2017 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 Annual Financial Report for the period ended 30 June 2017.

Australian Ethical Investment Limited
and its Controlled Entities

ABN 47 003 188 930

Annual Report - 30 June 2017

Australian Ethical Investment Limited
Directors' report
30 June 2017

The directors present their report, together with the financial statements, on the consolidated Group (referred to hereafter as 'the Group') consisting of Australian Ethical Investment Limited (referred to hereafter as the 'Company' or 'Parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2017.

Directors

The following persons were directors of Australian Ethical Investment Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Steve Gibbs
Non-Executive Director since 2012 and Chair since 2013
BEc, MBA
Steve chairs the People, Remuneration and Nominations Committee, is a member of the Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Limited Audit, Compliance and Risk Committees and is Chair of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Ltd. Steve has a long history of involvement in the investment and superannuation industries, particularly focused on ethical and responsible investing.

Mara Bun
Non-Executive Director since 2013
BA (Political Economy), GAICD
Mara is a member of the People, Remuneration and Nominations Committee and the Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Limited Audit, Compliance and Risk Committees. Mara is a Director of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Ltd.

Mara brings executive experience from Green Cross Australia, Choice, CSIRO, Macquarie Bank and Canstar to Australian Ethical. She is also Chair of the Board of the Gold Coast Waterways Authority and a Non-Executive Director of Enova Community Energy, a Byron based social enterprise. Mara consults to research, business and government agencies. Currently she leads Strategy and Development pathways for Food Agility CRC, a ten-year research programme enabling digital solutions across Australian food value chains; and is a member of Seqwater's statutory 'Water Security Program - Independent Review Panel'.

Tony Cole
Non-Executive Director since 2013, resigned 30 June 2017
AO, BEc
Tony was a director of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Ltd. Tony was also a member of the People, Remuneration and Nominations Committee and the Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Limited Audit, Compliance and Risk Committees. Tony has an extensive background in investment and public service.

Kate Greenhill
Non-Executive Director since 2013
BEc, FCA, GAICD
Kate is chair of the Australian Ethical Investment Limited and Australian Ethical Superannuation Pty Limited Audit, Compliance and Risk Committees and a member of the People, Remuneration and Nominations Committee. Kate is a Director of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Ltd.

Kate is a Fellow of the Institute of Chartered Accountants in Australia and a Graduate of the Australian Institute of Company Directors. Kate has over 20 years' experience in the financial services industry with extensive knowledge of finance and risk. As a former Partner with PwC, Kate has worked in both Australia and the UK providing assurance and advisory services to clients. Kate is also a Director and chair of the Audit, Finance and Risk Committee of a not for profit organisation in the education sector.

Phillip Vernon
CEO since 2009 and Managing Director since 2010
BEc, MCom, MBA, FCPA, FAICD
Phil is a director of Australian Ethical Superannuation Pty Limited and Australian Ethical Foundation Limited. He has over 30 years' experience in financial services covering funds management, superannuation, corporate governance and industry regulation.

He is a director of two industry associations: the Responsible Investment Association; and the Investor Group for Climate Change. He is also a director of the not-for-profit environmental group, the Planet Ark Foundation and is Chair of Beyond Zero Emissions, a climate change research organisation. Phil is a Fellow of the Australian Institute of Company Directors and the Australian Society of Certified Practising Accountants.

Company secretary
Tom May BA, LLB, MBA, FGIA, MAICD has experience in superannuation, managed fund 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.

Principal Activities
The Group's principal activities during the financial year were to act as the responsible entity for a range of public offer ethically managed investment schemes and act as the Trustee of the Australian Ethical Retail Superannuation Fund (Super Fund). Other than what is described in this report, there were no significant changes in the nature of the Company's activities during the year.

Review of operations
The profit for the consolidated group after providing for income tax amounted to $2,924,000 (30 June 2016: $3,186,000).

Underlying profit after tax was $4.235m, up 11% compared with the prior corresponding period and revenue increased 23% to $28.3m, up from $23.0m. Funds under management (FUM) for the full year increased by 38% to $2.15 billion, up from $1.55 billion reported for the previous corresponding period. The increase was driven by significant member growth, net inflows and positive investment performance. Membership of Australian Ethical Super grew 34% from the previous corresponding period to 35,352.

The year's results were impacted by remediation and project costs associated with a unit pricing error in our Super Fund as well as employment restructure expenses. In order to minimise the chances of such an error reoccurring we have increased our resources in key operational, risk and compliance roles.

Management Analysis – Financial Performance

	2017 $'000	2016 Restated $'000	% Increase/ (Decrease)
Net profit after tax (NPAT)	2,924	3,186	(8%)
Less: Net profit after tax attributable to The Foundation	(4)	(176)	
Net profit after tax attributable to shareholders	2,920	3,010	(3%)
Adjustments:			
- Impairment on investment property	(228)	181	
- Add back employment restructure expenses	250	-	
- Add back provision for remediation	795	900	
- Add back unit pricing project costs	1,160	-	
- Tax on adjustments	(662)	(270)	
Underlying profit after tax (UPAT)	4,235	3,821	11%
Basic EPS on NPAT (cents per share)	269.98	298.50	
Basic EPS on NPAT attributable to shareholders (cents per share)	269.62	281.97	
Basic EPS on UPAT (cents per share)	391.07	357.92	

Dividends

Dividends paid during the financial year were as follows:

	2017 $'000	2016 $'000
Final dividend for the year ended 30 June 2016 of 180 cents (2015: 120 cents) per ordinary share	2,009	1,313
Interim dividend for the year ended 30 June 2017 of 50 cents (2016: 120 cents) per ordinary share	558	1,313
	2,567	2,626

Since year end the Directors have declared a final dividend of 210 cents per fully paid ordinary share (2016: 180 cents), fully franked based on tax paid at 30%. The aggregate amount of the declared dividend expected to be paid on 22 September 2017 out of profits for the year ended at 30 June 2017, but not recognised as a liability at year end, is $2,350,013 (2016: $2,009,000).

The financial effects of the dividends declared after end of year have not been brought to account in the consolidated financial statements for the year ended 30 June 2017 and will be recognised in subsequent financial reports.

Shares issued during the year and prior to the issue of the report

During the year and prior to the release of this report the following shares were issued:

Grant date	Reason	Number of shares issued
Balance as at 30 June 2016		1,094,209
1 September 2016	Issue of deferred shares to the Employee Share Trust as long term incentives	6,240
8 September 2016	Vesting of LTI performance rights (AEFAE)	14,812
14 October 2016	Vesting of deferred shares in the Employee Share Trust	593
Balance as at 30 June 2017		1,115,854

No amounts are unpaid on any of the shares.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated group during the financial year.

Matters subsequent to the end of the financial year

3,200 shares will be issued on 7 September 2017 to the Employee Share Trust for employee long term incentives. This amount comprises 12,416 shares for financial year 2017-2018 less 9,216 shares forfeited from prior years.

Other than the dividend declared subsequent to year end and the above matter, no other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the consolidated group's operations, the results of those operations, or the consolidated group's state of affairs in future financial years.

Likely developments and expected results of operations

Additional information about the Group's business is available to shareholders on our website.

Environmental regulation

The Company acts as a responsible entity for the Australian Ethical Balanced Fund which holds a direct investment in one commercial property. The Company also holds one direct investment in a commercial property in Canberra. The directors have ensured that both properties have fulfilled the environment regulations under both Commonwealth and State legislation.

Meetings of directors
The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2017, and the number of meetings attended by each director were:

	Full Board		People, Remuneration and Nominations Committee		Audit, Compliance and Risk Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Steve Gibbs	15	15	5	5	9	9
Kate Greenhill	15	15	5	5	9	9
Mara Bun	14	14	4	4	8	8
Phillip Vernon	15	15	5	5	9	9
Tony Cole	15	15	5	5	9	9

Indemnity and insurance of officers
The Company has indemnified the directors and officers of the Company for costs incurred, in their capacity as a director or officer, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and officers of the Company against a liability 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.

Indemnity and insurance of auditor
The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company
No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services
Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 31 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 31 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:
- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of KPMG
There are no officers of the Company who are former partners of KPMG.

Rounding of amounts
The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Australian Ethical Investment Limited
Directors' report
30 June 2017

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 immediately after this directors' report.

Auditor
KPMG continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Phillip Vernon
Managing Director and Chief Executive Officer

30 August 2017

Remuneration Report 2017

Dear Shareholder,

On behalf of the Board, I am pleased to present our Remuneration Report for 2017.

The 2017 financial year has been another extraordinary one in terms of growth for the Company. Our funds under management grew 38% and our superannuation fund was the fastest growing superannuation fund in 2016 according to the KPMG Super Insights Report [1]. The foundations that we have laid over the past few years including making our fees more competitive, broadening our marketing capacity and capabilities and strengthening our risk and operations have taken our funds under management beyond $2.0bn and delivered a strong increase in underlying profit after tax and increasing share price for shareholders.

We believe that the introduction of our new remuneration system in 2014 has been a key contributor to that success as it has provided a more direct link between contribution and reward and better alignment with the long term performance of the Company. It is also aligned to the philosophy of the Company that sees our people as key stakeholders in the Company's success.

We will continue to review our remuneration arrangements to ensure they remain effective in attracting and retaining the best talent to drive Australian Ethical forward.

Stephen Gibbs
Chair
People, Remuneration & Nominations Committee (PRNC)

[1] KPMG Super Insights Report – June 2017 issue

About this Report

This report deals with the remuneration arrangements for Australian Ethical Investment Limited's (the "Company") Key Management Personnel (KMP). This includes the Non-Executive Directors, the Managing Director and the Executives. The Report has been audited as required by section 308(3C) of the *Corporations Act* 2001.

Our Remuneration Policy and Structure

The Company's remuneration policy is designed to create a motivating and engaging environment for employees where they feel appropriately paid and incentivised for the contribution they make to the performance of the Company.

General principles

The principles underpinning our remuneration framework are:

- pay people fairly for the work that they do
- attract and retain talented people
- build long term ownership in the Company
- align reward with contribution to the Company's performance
- align shareholder interests and the Company's capacity to pay
- promote the values of the Charter and be aligned with the purpose of the Company
- be motivating for employees
- be simple to administer and to communicate

The remuneration philosophy is also consistent with the principles of the Company's Constitution and Charter. In particular:

- it is designed to ensure that the Company 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" - *Charter element (ix)*

- it is designed so as to not "discriminate by way of race, religion or sex in employment, marketing, or advertising practices" – *Charter element (x)*

- the incentive structure meets the requirements of Rule 15.1(c) of the Constitution which provides that prior to recommending or declaring any dividend to be paid out of the profits of any one year, provision must be made for a bonus or incentive for employees 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.

Remuneration Framework Summary

Element	Key Driver	Quantum	How Paid	Criteria
Fixed remuneration (FR)	Pay people fairly.	Assessed against market data based on position and skills and experience brought to the role. Target remuneration is based around the Median of the relevant comparator group for each job role.	Paid fortnightly Note, the payment cycle changes to monthly from July 2017 onwards.	Continued employment
Short Term Incentive (STI)	Incentivises and rewards for achieving annual objectives.	Percentage of Fixed Remuneration based on market assessment.	Paid annually in September. Timing allows for the inclusion of financial results in performance assessments.	Objectives include (depending on role): ▪ Profit ▪ Growth ▪ Customer focus ▪ Investment performance ▪ Individual performance ▪ Culture ▪ Continued employment
Long Term Incentive (LTI)	Retention and fostering an interest in the Company's long term performance.	Percentage of Fixed Remuneration based on market assessment.	Shares held in trust and vest after 3 years.	Shares subject to 3 year vesting as follows: ▪ 50% based on remaining employed with the Company ▪ 50% based on compound annual growth in Diluted Earnings per Share (EPS)

Remuneration Framework

Short Term Incentive

The aim of the Short Term Incentive Scheme is to incentivise and reward employees for performance against annual objectives.

The maximum incentive paid each year is based on a percentage of each employee's Fixed Remuneration and their role and responsibility and benchmarked against market data.

It is paid in cash in September of each year following the finalisation of annual results and performance reviews.

Outcomes are assessed based on performance against a "balanced scorecard" of objectives. The actual objectives and percentage vary depending on the role and cover the following:

Measure	Description
Profit	A portion of the incentive is based on meeting annual profit targets determined by the Board
Growth	Focussed on building long term growth. Measures include growth in client numbers and net inflows
Customer focus	Focussed on improving customer satisfaction and improving the customer's experience
Investment performance	Assessed according to performance against investment benchmarks
Individual objectives	Each employee will have certain individual objectives to achieve for the year
Culture	Employees have an obligation to adhere to certain cultural standards. These include abiding by the Company's values and risk management requirements

Long Term Incentive Scheme

The aim of the Long Term Incentive scheme is to foster an interest in the long term performance of the Company, to encourage participation in the affairs of the Company and to encourage the retention of employees.

The maximum incentive paid each year is based on a percentage of each employee's Fixed Remuneration and role, benchmarked against market data.

Shares are issued each financial year and held in trust for 3 years. They vest in the name of the employee after 3 years, provided that the employee remains employed and that long term financial performance hurdles are met. Whilst the shares remain unvested, employees participate in dividends and have voting rights.

The Deferred Share scheme operates as follows:

	Deferred share scheme
Description	Shares are issued or bought on market at the commencement of the 3 year performance period and held on trust. At the end of the period, subject to performance hurdles being met, shares transfer into the name of the employee.
Performance hurdles	50% will vest if the employee remains with the Company continuously from grant date. 50% will vest upon meeting the following performance hurdle: ▪ If EPS growth[1] is less than 5% pa, zero will vest. ▪ If EPS growth is between 5% and 10% pa, a pro rata amount will vest. ▪ If EPS growth is greater than 10% pa, 100% will vest.
Dividends	Dividends are paid on unvested shares, which: ▪ provides real value that employees lose if they leave the Company. ▪ provides a direct real interest in the six monthly dividend performance of the Company and hence alignment with shareholders' interests.
Voting	Employees can vote on the unvested shares beneficially held for them.
Expense to Company	The cost of shares allocated to employees is fixed at the time of issue and expensed over a three year period.
Tax impact on Company	Fully deductible in the year of issue.
Tax impact on employees	Tax crystallises on vesting or release of shares from the employee share trust and therefore the payment of tax is the responsibility of the employee.

[1] Growth in EPS is defined as compound annual growth in the Company's earnings per share comprising diluted earnings per share (after tax). The compound annual growth is measured over a 3-year period and is based on audited financial information. The Board may adjust EPS for items that do not reflect management and employee performance and day-to-day business operations and activities.

Actual Remuneration

Total remuneration paid and alignment with Company performance

Short term incentive (STI) rewards for KMPs are based on a range of key performance measures. Depending on the role, these include a portion linked to current year profit. For the investment team a portion is linked to the performance of the investment funds for which they are responsible, and for the sales and marketing team a portion is linked to net flows. STI rewards are provided for in the year they relate to and paid in the following year following the performance review process.

Other elements of remuneration are aimed at building longer term value. A portion of the long term incentives (LTI) are subject to Earnings per Share Growth ("EPS") performance hurdles[2] over the three year vesting period and continued employment over the period. If the conditions are not met the unvested shares remain in the Employee Share Plan Trust.

In considering the Company's performance and benefits, the remuneration committee have regard to the following indices in respect of the current financial year and the previous four financial years.

	30 June 2013	30 June 2014	30 June 2015	30 June 2016	30 June 2017
Net Profit After Tax attributable to shareholders ($'000)[3]	1,063	2,543	1,970	3,010	2,920
Underlying Profit After Tax ($'000)[3]	1,675	3,111	2,454	3,821	4,235
Earnings per share – diluted ($ per share)	1.02	2.41	1.80	2.88	2.62
Earnings per share growth – diluted (3 years)			66.1%	38.5%	2.8%
Share price at end of period ($)	19.50	35.45	58.80	81.11	94.60
Dividends (c per share)	85	200	200	300	260
Total shareholder return (TSR)	16%	92%	72%	42%	19%

Over the 3 year period ending 2017, the minimum compound annual EPS growth hurdle was not met. As a result, in 2017, there has been a reduction in LTI reflecting 50% of the 2015 LTI share issuance.

[2] Growth in EPS is defined as compound annual growth in the Company's earnings per share comprising diluted earnings per share (after tax). The compound annual growth is measured over a 3 year period and is based on audited financial information. The Board may adjust EPS for items that do not reflect management and employee performance and day-to-day business operations and activities.

[3] Refer to Directors Report on page 3 for reconciling table.

Non-financial outcomes

As described earlier, in addition to profit targets a number of non-financial objectives are used to determine incentive outcomes. Many of these develop the long term sustainability of the business and so are not necessarily correlated to short term financial performance. These objectives are applied in varying degrees depending on the role. Performance against some of these objectives in the past financial year have been:

Measure	2017 performance
Growth	Total net flows of $454m, a 42% increase on the previous year. Superannuation members increased by 34% over the year.
Investment performance	Regular top quartile investment performance in a number of funds.
Culture	Employees comply with the Company's values and risk management requirements.

Management Team Remuneration

The following table shows the remuneration mix for the management team in the current year. The short-term incentive is estimated and subject to finalisation of the performance appraisal process, and the long-term incentive is calculated using the value of shares granted in the current year. Actual amounts received are shown below in the Statutory Reporting section of this report.

		Fixed Remuneration (%)	Short-term incentive (%)	Long Term incentive (%)	Total ($)
Managing Director & CEO					
P Vernon	Managing Director & CEO	61%	23%	16%	100%
Current Management					
K Hughes (app 1 May 2017) *	Head of Risk & Compliance	100%	0%	0%	100%
A Lowbridge (app 10 Oct 2016) **	Chief Customer Officer	71%	15%	14%	100%
D Macri	CIO	55%	27%	18%	100%
T May	General Counsel & Company Secretary	83%	9%	8%	100%
S Palmer	Head of Ethics	83%	10%	7%	100%
M Shanahan (app 1 Jan 2017) **	CFO / COO	61%	21%	18%	100%
Departed Management					
D Barton (resigned 2 Sep 2016)	CFO	77%	15%	8%	100%
A Kirk (resigned 14 Oct 2016)	Head of Business Development & Client Relations	71%	21%	8%	100%

* Remuneration entirely fixed as the management team member was not yet eligible for STI and LTI.
** These percentages reflect the impact of being appointed part way through the year.

Contract terms

All KMP's have formal contracts of employment and are permanent employees of the Company.

	Term	Notice period
Managing Director	3 years concluding on 31 March 2019.	52 weeks before the Contract expiry date, the Company may terminate the Managing Director's employment by giving 52 weeks' notice in writing. In the event the Contract has less than 52 weeks to run before the expiry date, the Company may terminate the Managing Director's employment by giving notice to the expiry date.
Management team	No fixed term	12 weeks

Non-Executive Directors Remuneration

In addition to fixed remuneration, Non-Executive Directors (NEDs) are entitled to be paid reasonable expenses, remuneration for additional services and superannuation contributions. Non-executive Directors are not eligible to participate in employee incentive plans.

The total paid to non-executive directors of the Company is approved by shareholders at the Annual General Meeting. The current pool of $360,000 was approved at the AGM in October 2014. A review of Non-executive Directors' remuneration is undertaken annually by the Company Board, taking into account recommendations from the People, Remuneration and Nominations committee.

All directors are directors of Australian Ethical Investment Limited, Australian Ethical Superannuation Pty Ltd and members of each Board's Audit, Compliance and Risk Committee.

The following table sets out the agreed remuneration for Non-Executive Directors by position for a full year. For actual remuneration received, refer to tables under the Statutory Reporting section of this report.

Non-Executive Director	Chair	NED	ACRC Chair	ACRC Member	Total
Stephen Gibbs					
AEI	70,000	-	-	8,000	78,000
AES	23,500	-	-	8,000	31,500
Total	93,500	-	-	16,000	109,500
Tony Cole (resigned 30 Jun 17)					
AEI	-	40,000	-	8,000	48,000
AES	-	23,500	-	8,000	31,500
Total	-	63,500	-	16,000	79,500
Kate Greenhill					
AEI	-	40,000	14,000	-	54,000
AES	-	23,500	14,000	-	37,500
Total	-	63,500	28,000	-	91,500
Mara Bun					
AEI	-	40,000	-	8,000	48,000
AES	-	23,500	-	8,000	31,500
Total	-	63,500	-	16,000	79,500
Group Total	**93,500**	**190,500**	**28,000**	**48,000**	**360,000**

Non-executive directors do not receive performance-related compensation and are not provided with retirement benefits apart from statutory superannuation.

Senior Management Team Remuneration Reporting

We set out senior management team remuneration in the following two tables:

- the table 'Senior Management Team Remuneration - Statutory Reporting' is aligned to the way the company expenses the remuneration of the senior team under the accounting standards and the Corporations Act
- the table 'Senior Management Team Remuneration – Cash & Vesting basis' shows amounts received by the senior management team in cash and shares.

The difference between the two tables is explained in the footnotes.

Senior Management Team Remuneration - Statutory Reporting

The table below outlines senior management team remuneration as calculated in accordance with accounting standards and the Corporations Act 2001 requirements. The amounts shown are equal to the amount expensed in the Company's financial statements for the particular year.

	Short Term Benefits		Post-Employment Benefits		Long Term Benefits	Equity	
Name	**Salary**	**Short Term Incentives (1) ($)**	**Super-annuation ($)**	**Termina-tion Benefits ($)**	**Long Service Leave ($)**	**Long Term Incentives (2) ($)**	**Total ($)**
2017							
Managing Director & CEO							
P Vernon	394,432	199,006	19,616	-	19,703	41,502	674,259
Management Team							
K Hughes (appointed 1 May 2017)	41,096	-	3,904	-	867	-	45,867
A Lowbridge (appointed 10 Oct 2016)	188,541	45,395	16,267	-	4,384	7,000	261,587
D Macri	314,898	127,650	19,616	-	11,243	39,798	513,205
T May	212,002	29,149	19,616	-	6,980	8,629	276,376
S Palmer	227,780	43,594	19,616	-	8,659	7,730	307,379
M Shanahan (appointed 3 Jan 2017)	181,707	68,274	17,218	-	3,956	9,333	280,488
Departed Management							
D Barton (resigned 2 Sep 2016)	58,482	-	4,445	-	-	(19,918)	43,009
A Kirk (resigned 14 Oct 2016)	157,648	34,458	21,842	90,990	21,940	10,366	337,244
Total	1,776,586	547,526	142,140	90,990	77,732	104,440	2,739,414
2016						**(3)**	
Managing Director & CEO							
P Vernon	355,753	69,435	19,307	-	11,871	293,998	750,364
Management Team							
D Barton	247,193	(3,261)	19,252	-	5,732	12,740	281,656
A Kirk	232,324	38,612	19,233	-	5,719	62,882	358,770
D Macri	298,144	119,479	19,307	-	10,084	242,883	689,897
T May	201,678	20,327	19,308	-	6,952	53,938	302,203
S Palmer	178,449	23,221	19,465	-	3,970	8,533	233,638
Total	1,513,541	267,813	115,872	-	44,328	674,974	2,616,528

Notes in relation to reporting of Senior Management Team Remuneration - Statutory Reporting:

1. The Short Term Incentive (STI) expense is the amount accrued for performance during the respective financial year using agreed KPI's plus or minus any prior year over or under accrual. The 2017 amounts will be finalised at an individual level in September 2017 after performance reviews are completed and amounts are approved by the People, Remuneration and Nominations Committee.
2. The Long term incentive (LTI) expense for 2017 includes the relevant 2017 expense impact of each of the 2015, 2016 and 2017 grants under the Deferred Employee Share Plan (new scheme). This includes a reduction in LTI expense reflecting 50% of the 2015 LTI share issuance not vesting due to the minimum compound annual EPS growth hurdle not having been met. The vesting of the remaining 50% time based portion of the 2015 grant will be finalised at an individual level in September 2017. Under the new scheme, the cost of shares is fixed at time of issue and expensed over a three year period using an annual probability assessment of the hurdles being met.
3. The LTI expense for 2016 includes the relevant 2016 expense impact of each of the 2015 and 2016 grants under the Deferred Employee Share Plan (new scheme) plus the 2016 cost of the Performance Rights scheme (AEFAE / old scheme). Under the old scheme, rights were amortised over 3 years based on an annual assessment of the share price at the end of the 3 year period - a rising share price led to a greater expense.

For details on the performance criteria for each tranche of performance rights and deferred shares refer to Note 38 of the Notes to the Consolidated Financial Statements.

Senior Management Team Remuneration – Cash & Vesting basis

The table below outlines senior management team remuneration received individually during the year including prior year bonus paid in cash in the reporting year and the vesting of shares granted under the relevant scheme three years previously.

	Short Term Benefits		Post-Employment Benefits		Long Term Benefits	Equity	
Name	**Salary**	**Cash Bonus (1) ($)**	**Super-annuation ($)**	**Termina-tion Benefits ($)**	**Long Service Leave ($)**	**Settled Share-based payments (2) ($)**	**Total ($)**
2017							
Managing Director & CEO							
P Vernon	394,432	117,036	19,616	-	19,703	327,441	878,228
Management Team							
K Hughes (appointed 1 May 2017)	41,096	-	3,904	-	867	-	45,867
A Lowbridge (appointed 10 Oct 2016)	188,541	-	16,267	-	4,384	-	209,192
D Macri	314,898	118,453	19,616	-	11,243	261,418	725,628
T May	212,002	25,764	19,616	-	6,980	58,399	322,761
S Palmer	227,780	32,606	19,616	-	8,659	-	288,661
M Shanahan (appointed 3 Jan 2017)	181,707	-	17,218	-	3,956	-	202,881
Departed Management							
D Barton (resigned 2 Sep 2016)	58,482	-	4,445	-	-	-	62,927
A Kirk (resigned 14 Oct 2016)	157,648	34,458	21,842	90,990	21,940	97,532	424,410
Total	1,776,586	328,317	142,140	90,990	77,732	744,790	3,160,555
2016							
Managing Director & CEO							
P Vernon	355,753	139,342	19,307	-	11,871	258,661	784,934
Management Team							
D Barton	247,193	37,183	19,252	-	5,732	33,281	342,641
A Kirk	232,324	55,247	19,233	-	5,719	114,836	427,359
D Macri	298,144	132,033	19,307	-	10,084	186,043	645,611
T May	201,678	29,679	19,308	-	6,952	82,849	340,466
S Palmer	178,449	26,451	19,465	-	3,970	8,761	237,096
Total	1,513,541	419,935	115,872	-	44,328	684,431	2,778,107

Notes in relation to reporting of Senior Management Team Remuneration – Cash & Vesting basis:

1. The Cash Bonus amount is what was paid in the financial year for performance during the prior financial year using agreed KPI's.
2. The Settled Share Based Payment amounts for 2017 and 2016 relate only to the old scheme and represent the market value of the shares on the day that the relevant performance rights were converted into ordinary shares. For 2017 this reflects a price at vesting of AEFAE of $81.11 per share (price at grant was $35.45).

Non-Executive Directors remuneration

The table below outlines Non-Executive reward as calculated in accordance with accounting standards and the Corporations Act 2001 requirements. The amounts shown are equal to the amount expensed in the Company's financial statements.

	Short Term Benefits		Post-Employment Benefits		Long Term Benefits	Equity	
Name	**Salary, Fees and Leave ($)**	**Cash Bonus ($)**	**Super-annuation ($)**	**Termin-ation Benefits ($)**	**Long Service Leave ($)**	**Settled Share-based payments ($)**	**Total ($)**
2017							
S Gibbs	99,201	-	9,424	-	-	-	108,625
T Cole (resigned 30 Jun 2017)	71,804	-	6,821	-	-	-	78,625
K Greenhill	82,763	-	7,862	-	-	-	90,625
M Bun	71,804	-	6,821	-	-	-	78,625
Total	**325,572**	**-**	**30,928**	**-**	**-**	**-**	**356,500**
2016							
S Gibbs	93,413	-	8,874	-	-	-	102,288
T Cole	63,444	-	6,027	-	-	-	69,471
K Greenhill	78,253	-	7,434	-	-	-	85,687
M Bun	62,198	-	5,909	-	-	-	68,107
R Medd (resigned 25 Dec 2015)**	21,084	-	2,003	-	-	-	23,087
L Coleman (resigned 7 Aug 2015)**	10,854	-	1,031	-	-	-	11,885
Total	**329,246**	**-**	**31,278**	**-**	**-**	**-**	**360,525**

** R Medd and L Coleman were directors of AES Pty Limited and members of AEI's Audit, Compliance and Risk Committee and retired in 2016.

Non-executive Directors remuneration includes directors of the subsidiary Company which are not included in the directors pool approved at the AGM in October 2014.

Performance Rights, Deferred and Ordinary Shares

The movement during the reporting period in the number of rights over ordinary shares and ordinary shares in the Company, held directly, indirectly or beneficially, by each key management person, including their related parties is as follows:

Name	Grant Date	Vesting / Conversion Date	Share Price at Grant Date	Balance at 1 July 2016	No of rights/ shares granted	No. forfeited/ Expired	No. sold	No. vested & exercised	Balance at 30 June 2017
Managing Director & CEO									
P Vernon									
Deferred Shares - 2013/14	13-Mar-15	31-Aug-17	42.80	2,412	-	(1,206)	-	-	1,206
Deferred Shares - 2014/15	31-Aug-15	31-Aug-18	53.97	1,913	-	-	-	-	1,913
Deferred Shares - 2015/16	31-Aug-16	31-Aug-19	68.34	-	1,556	-	-	-	1,556
AEFAE	30-Jun-14	31-Aug-16	35.45	4,037	-	-	-	(4,037)	-
AEF Ordinary shares				9,412	-	-	-	4,037	13,449
Total				**17,774**	**1,556**	**(1,206)**	**-**	**-**	**18,124**
Current Management									
A Lowbridge									
Deferred Shares - 2015/16	3-Jan-17	31-Aug-19	68.34	-	465	-	-	-	465
2017 Total				**-**	**465**	**-**	**-**	**-**	**465**
D Macri									
Deferred Shares - 2013/14	13-Mar-15	31-Aug-17	42.80	2,313	-	(1,156)	-	-	1,157
Deferred Shares - 2014/15	31-Aug-15	31-Aug-18	53.97	1,834	-	-	-	-	1,834
Deferred Shares - 2015/16	31-Aug-16	31-Aug-19	68.34	-	1,492	-	-	-	1,492
AEFAE	30-Jun-14	31-Aug-16	35.45	3,223	-	-	-	(3,223)	-
AEF Ordinary shares				901	-	-	(2,148)	3,223	1,976
Total				**8,271**	**1,492**	**(1,156)**	**(2,148)**	**-**	**6,459**
T May									
Deferred Shares - 2013/14	13-Mar-15	31-Aug-17	42.80	501	-	(250)	-	-	251
Deferred Shares - 2014/15	31-Aug-15	31-Aug-18	53.97	398	-	-	-	-	398
Deferred Shares - 2015/16	31-Aug-16	31-Aug-19	68.34	-	324	-	-	-	324
AEFAE	30-Jun-14	31-Aug-16	35.45	720	-	-	-	(720)	-
AEF Ordinary shares				-	-	-	(720)	720	-
Total				**1,619**	**324**	**(250)**	**(720)**	**-**	**973**
S Palmer									
Deferred Shares - 2013/14	13-Mar-15	31-Aug-17	42.80	382	-	(191)	-	-	191
Deferred Shares - 2014/15	31-Aug-15	31-Aug-18	53.97	341	-	-	-	-	341
Deferred Shares - 2015/16	31-Aug-16	31-Aug-19	68.34	-	294	-	-	-	294
AEF Ordinary shares				149	-	-	-	-	149
Total				**872**	**294**	**(191)**	**-**	**-**	**975**
M Shanahan									
Deferred Shares - 2015/16	3-Jan-17	31-Aug-19	68.34	-	856	-	-	-	856
Total				**-**	**856**	**-**	**-**	**-**	**856**

Performance Rights, Deferred and Ordinary Shares (continued)

Name	Grant Date	Vesting / Conversion Date	Share Price at Grant Date	Balance at 1 July 2016	No of rights/ shares granted	No. forfeited/ Expired	No. sold	No. vested & exercised	Balance at 30 June 2017
Management who have departed during the year									
D Barton									
Deferred Shares - 2013/14	13-Mar-15	31-Aug-17	42.80	604	-	(604)	-	-	-
Deferred Shares - 2014/15	31-Aug-15	31-Aug-18	53.97	479	-	(479)	-	-	-
Deferred Shares - 2015/16	31-Aug-16	31-Aug-19	68.34	-	390	(390)	-	-	-
AEF Ordinary shares				566	-	-	(566)	-	-
Total				**1,649**	**390**	**(1,473)**	**(566)**	**-**	**-**
A Kirk									
Deferred Shares - 2013/14	13-Mar-15	31-Aug-17	42.80	537	-	(149)	-	(388)	-
Deferred Shares – 2014/15	31-Aug-15	31-Aug-18	53.97	426	-	(253)	-	(173)	-
Deferred Shares - 2015/16	31-Aug-16	31-Aug-19	68.34	-	347	(316)	-	(31)	-
AEFAE	30-Jun-14	31-Aug-16	35.45	856	-	-	-	(856)	-
AEF Ordinary shares				81	-	-	(1,509)	1,448	20
Total				**1,900**	**347**	**(718)**	**(1,509)**	**-**	**20**

Governance

The Role of the People, Remuneration and Nominations Committee

The role of the People, Remuneration and Nominations Committee (PRNC) is to help the Board fulfil its responsibilities to shareholders through a strong focus on governance, and in particular, the principles of accountability and transparency. The PRNC operates under delegated authority from the Board.

The terms of reference include oversight of remuneration as well as executive development, talent management and succession planning.

The PRNC members for the 2016/17 financial year were:

- Stephen Gibbs (Chair);
- Mara Bun;
- Kate Greenhill; and
- Anthony Cole.

The PRNC met five times during the year.

Attendance at these meetings is set out in the Directors' Report. At the PRNC's invitation, the Managing Director and Head of the People and Culture attended all meetings except where matters associated with their own performance evaluation; development and remuneration were to be considered. The PRNC considers advice and views from those invited to attend meetings and draws on services from a range of external sources, including remuneration consultants.

Managing Director and KMP Performance

An annual assessment of the Managing Director is completed by the Chairman and is overseen by the Board, with input from the PRNC. The review includes measurement of performance against agreed KPI's and Company performance.

The bonus received by the Managing Director during 2016/17 is shown in Statutory Reporting table and relates to the previous financial year of 2015/16. 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 Managing Director is responsible for reviewing the performance of Executives and determining whether their performance requirements were met. Both quantitative and qualitative data is used to determine whether performance criteria are achieved.

Annually an assessment is made on the eligibility for vesting of deferred shares issued under the Long Term Incentive scheme.

Hedging Policy

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.

Trading Restrictions and Windows

All directors and employees are constrained from trading the Company during "blackout periods". These periods occur between the end of the half year and full year and two days after the release of the half year and full year results.

Outcomes of votes at Annual General Meetings

At the 2016 AGM, the Company's remuneration report received a 'no' vote of more than 28.5% cast on a resolution that the remuneration report be adopted (out of 54.6% of shareholders that voted on the report). This constituted a 'second strike' and a spill resolution was put to shareholders. The spill motion failed. Directors are of the view that the reasons for the no vote are not related to the Company's remuneration model as (a) engagements with shareholders in relation to remuneration issues has not yielded any substantive objections and (b) the remuneration model is in line with market expectations for companies in our industry of similar size and complexity.

In setting the remuneration structure we have carefully considered comments made by shareholders, sought advice from remuneration consultants and reviewed practises of our peers. We believe that the structure we have adopted is the most appropriate for our people, shareholders and the business providing the right balance between motivation, retention and alignment of interests between employees and shareholders.

The Directors report, incorporating the Remuneration report, is signed is accordance with a resolution of the Board of Directors.

Stephen Gibbs
Chair
People, Remuneration & Nominations Committee (PRNC)
30 August 2016

KPMG

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 audit of Australian Ethical Investment Limited for the financial year ended 30 June 2017 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.

KPMG

KPMG

T. Gilerman

Tanya Gilerman
Partner

Sydney
30 August 2017

General information

The consolidated financial statements were authorised for issue, in accordance with a resolution of directors, on 30 August 2017. The directors have the power to amend and reissue the financial statements.

Australian Ethical Investment Limited
Statements of comprehensive income
For the year ended 30 June 2017

	Note	Consolidated # 2017 $'000	Consolidated # 2016 Restated* $'000	Parent 2017 $'000	Parent 2016 $'000
Revenue	5	28,305	23,040	22,230	19,656
Total revenue		28,305	23,040	22,230	19,656
Expenses					
Operating expenses					
Employee benefits	6	(10,185)	(8,214)	(9,896)	(8,077)
Fund related	7	(4,178)	(3,322)	(1,157)	(1,004)
External services	8	(2,517)	(1,821)	(2,059)	(1,598)
Marketing		(2,039)	(1,382)	(2,033)	(1,364)
Occupancy		(906)	(365)	(906)	(365)
Depreciation and amortisation		(284)	(182)	(284)	(182)
Community grants	10	(380)	(220)	(379)	(395)
Other expenses	9	(1,821)	(1,548)	(1,730)	(1,454)
Total operating expenses		(22,310)	(17,054)	(18,444)	(14,439)
Non-operating expenses					
Remediation expense	21	(1,955)	(900)	(1,894)	-
Gain/(loss) on disposal of assets		(210)	7	(210)	7
Reversal of impairment/(Impairment) of investment property		228	(181)	228	(181)
Total non-operating expenses		(1,937)	(1,074)	(1,876)	(174)
Total expenses		(24,247)	(18,128)	(20,320)	(14,613)
Profit before income tax expense		4,058	4,912	1,910	5,043
Income tax expense	11	(1,134)	(1,726)	(77)	(1,011)
Net profit for the year		2,924	3,186	1,833	4,032
Total comprehensive income for the year		2,924	3,186	1,833	4,032

	Note	Cents	Restated* Cents
Basic earnings per share	37	269.98	298.50
Diluted earnings per share	37	262.25	287.74

* Refer to note 4 for detailed information on Restatement of comparatives.
\# Comprehensive income includes the results of The Foundation (refer to Note 40)

The above statements of comprehensive income should be read in conjunction with the accompanying notes

Australian Ethical Investment Limited
Statements of financial position
As at 30 June 2017

	Note	Consolidated 2017 $'000	Consolidated 2016 Restated* $'000	Parent 2017 $'000	Parent 2016 $'000
Assets					
Current assets					
Cash and cash equivalents	12	12,591	14,324	8,613	12,349
Trade and other receivables	13	963	495	1,786	149
Income tax refund due	11	303	-	310	-
Other	14	350	368	306	313
		14,207	15,187	11,015	12,811
Investment property held for sale	15	1,610	-	1,610	-
Total current assets		15,817	15,187	12,625	12,811
Non-current assets					
Term deposit	18	504	-	504	-
Investments in subsidiary	16	-	-	316	316
Property, plant and equipment	17	2,060	1,823	2,060	1,823
Deferred tax	11	902	914	810	641
Total non-current assets		3,466	2,737	3,690	2,780
Total assets		19,283	17,924	16,315	15,591
Liabilities					
Current liabilities					
Trade and other payables	19	2,557	1,508	1,894	1,301
Income tax	11	-	605	-	412
Employee benefits	20	1,727	1,500	1,727	1,500
Provisions	21	207	900	26	-
Total current liabilities		4,491	4,513	3,647	3,213
Non-current liabilities					
Trade and other payables	22	547	69	547	69
Employee benefits	23	104	99	104	99
Provisions	24	228	-	228	-
Total non-current liabilities		879	168	879	168
Total liabilities		5,370	4,681	4,526	3,381
Net assets		13,913	13,243	11,789	12,210
Equity					
Issued capital	25	9,923	8,693	9,923	8,693
Reserves	26	1,012	1,929	1,012	1,929
Retained profits		2,978	2,621	854	1,588
Total equity		13,913	13,243	11,789	12,210

* Refer to note 4 for detailed information on Restatement of comparatives.

The above statements of financial position should be read in conjunction with the accompanying notes

Australian Ethical Investment Limited
Statements of changes in equity
For the year ended 30 June 2017

Consolidated	**Issued capital** **$'000**	**Share-based payment reserves** **$'000**	**Retained profits Restated*** **$'000**	**Total equity** **$'000**
Balance at 1 July 2015 as previously reported	7,004	2,338	1,810	11,152
Impact of restatement	-	-	251	251
Balance at 1 July 2015 – restated	7,004	2,338	2,061	11,403
Net profit for the year	-	-	3,186	3,186
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	3,186	3,186
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(2,626)	(2,626)
Shares issued due to rights vesting during the year	1,689	(1,689)	-	-
Employee share scheme – Rights	-	868	-	868
Employee share plan - Deferred shares	-	412	-	412
Balance at 30 June 2016	8,693	1,929	2,621	13,243

* Refer to note 4 for detailed information on Restatement of comparatives.

Consolidated	**Issued Capital** **$'000**	**Share-based payment Reserves** **$'000**	**Retained Profits** **$'000**	**Total equity** **$'000**
Balance at 1 July 2016 – restated	8,693	1,929	2,621	13,243
Net profit for the year	-	-	2,924	2,924
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	2,924	2,924
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(2,567)	(2,567)
Shares issued due to rights vesting during the year	1,201	(1,201)	-	-
Shares vesting during the year	28	(28)	-	-
Employee share scheme - Deferred shares	-	312	-	312
Balance at 30 June 2017	9,923	1,012	2,978	13,913

The above statements of changes in equity should be read in conjunction with the accompanying notes

Australian Ethical Investment Limited
Statements of changes in equity
For the year ended 30 June 2017

Parent	Issued capital $'000	Share-based payment Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2015	7,004	2,338	182	9,524
Net profit for the year	-	-	4,032	4,032
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	4,032	4,032
Transactions with owners in their capacity as owners:				
Shares issued due to rights vesting during the year	1,689	(1,689)	-	-
Employee share scheme - Rights	-	868	-	868
Employee share plan - Deferred shares	-	412	-	412
Dividends provided for or paid	-	-	(2,626)	(2,626)
Balance at 30 June 2016	8,693	1,929	1,588	12,210

Parent	Issued Capital $'000	Share-based payment Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2016	8,693	1,929	1,588	12,210
Net profit for the year	-	-	1,833	1,833
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	1,833	1,833
Transactions with owners in their capacity as owners:				
Dividends provided for or paid	-	-	(2,567)	(2,567)
Shares issued due to rights vesting during the year	1,201	(1,201)	-	-
Shares vesting during the year	28	(28)	-	-
Employee share scheme - Deferred shares	-	312	-	312
Balance at 30 June 2017	9,923	1,012	854	11,789

The above statements of changes in equity should be read in conjunction with the accompanying notes

Australian Ethical Investment Limited
Statements of cash flows
For the year ended 30 June 2017

	Note	Consolidated 2017 $'000	Consolidated 2016 Restated $'000	Parent 2017 $'000	Parent 2016 $'000
Operating activities					
Receipts from customers		27,774	23,982	19,007	18,402
Payments to suppliers and employees		(22,549)	(16,946)	(18,063)	(13,400)
Interest received		257	216	210	172
Community grants paid		(280)	(230)	(395)	(481)
Income taxes paid		(1,919)	(2,348)	(857)	(1,022)
Net cash from/(used in) operating activities	36	3,283	4,674	(98)	3,671
Investing activities					
Payments for property, plant and equipment		(1,921)	(58)	(1,921)	(58)
Payment for term deposit		(504)	-	(504)	-
Dividends received from subsidiary		-	-	1,378	2,689
Net cash from/(used in) investing activities		(2,425)	(58)	(1,047)	2,631
Financing activities					
Dividends paid		(2,591)	(2,519)	(2,591)	(2,519)
Net cash used in financing activities		(2,591)	(2,519)	(2,591)	(2,519)
Net increase/(decrease) in cash and cash equivalents		(1,733)	2,097	(3,736)	3,783
Cash and cash equivalents at the beginning of the financial year		14,324	12,227	12,349	8,566
Cash and cash equivalents at the end of the financial year	12	12,591	14,324	8,613	12,349

The above statements of cash flows should be read in conjunction with the accompanying notes

Note 1. About this report

The financial report covers the consolidated group of Australian Ethical Investment Limited, the ultimate parent entity, 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. The financial statements are presented in Australian dollars, which is the Group's functional and presentation currency. 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 Group is a for-profit entity for the purposes of preparing financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 30 August 2017. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The consolidated group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the accruals basis and are based on historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, and property, plant and equipment.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated group's and Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information

These financial statements include the results of both the parent entity and the consolidated group in accordance with Class Order 10/654, issued by the Australian Securities and Investments Commission.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Australian Ethical Investment Limited ('Company' or 'parent entity') as at 30 June 2017 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the parent entity has control. The parent entity controls an entity when the parent entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated group.

Note 2. Significant accounting policies (continued)

Interests in subsidiaries are accounted for at cost, less any impairment, in the parent entity. Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Rounding of amounts
The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Comparatives
Where necessary, comparative information has been reclassified to be consistent with current reporting period.

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated group for the annual reporting period ended 30 June 2017. The consolidated group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated group, are set out below.

AASB 9 Financial Instruments
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets, financial liabilities, and hedging. Based on the preliminary analyses performed, the amendments are not expected to have a material impact on the Group.

AASB 15 Revenue from Contracts with Customers
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition replacing both AASB 118 'Revenue' and AASB 111 'Construction Contracts'. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard redefines the model for recognising revenue earned from a contract. In addition to giving consideration to credit risk and contracts where performance obligations are satisfied over time, the new standard also requires additional disclosures in both quantitative and qualitative forms. Based on the preliminary analyses performed, the amendments are not expected to have a material impact on the Group.

AASB 16 Leases
This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Based on the preliminary analyses performed, the amendments are expected to result in a change in accounting for some leased assets.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances.

The areas involving significant estimates or judgements are:

- Income tax & recovery of deferred tax assets – refer to Note 11
- Investment property held for sale – refer to Note 15
- Estimation of useful lives of assets – refer to Note 17
- Measurement of the provision for remediation – refer to Note 21
- Employee benefits provision – refer to Note 20 and 23
- Lease make-good provision – refer to Note 24
- Share-based payment transactions – refer to Note 38

Business segments
The Group determines and represents operating segments based on the information that is internally provided to the Managing Director (MD), who is the Group's chief operating decision maker. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Group comprises one main operating segment being Funds Management.

Note 4. Restatement of comparatives

On 28 July 2015, the Australian Ethical Foundation was established. The purpose of the Foundation is to be vehicle for the disbursement of profits that are subject to clause 15.1 (c)(ii) of the Parent entity's constitution which requires a portion of profits to be provided for charitable, benevolent or conservation purposes. The creation of the Foundation allows for flexibility when allocating money, to manage multi-year grants and for the creation of a corpus for long term funding of worthwhile causes and organisations.

Following a review of current industry practice, the Group determined that The Foundation should be consolidated and form part of the Group.

In addition, the presentation of annual leave provision has been changed to be included into employee benefits liabilities. We have reclassified the comparative balance to be consistent with the current year presentation.

As a result, prior periods have been restated as outlined below.

Refer to Note 40 for further details on the financial results of The Foundation.

Statement of comprehensive income

	Consolidated		
	2016 $'000 Reported	**$'000 Adjustment**	**2016 $'000 Restated**
Revenue	23,039	1	23,040
Community grants expense	(395)	175	(220)
Profit before income tax expense	4,736	176	4,912
Net profit for the year	3,010	176	3,186
Total comprehensive income for the year	3,010	176	3,186

Note 4. Restatement of comparatives (continued)

	Cents Reported	Cents Adjustment	Cents Restated
Basic earnings per share	281.97	16.53	298.50
Diluted earnings per share	271.80	15.94	287.74

Statement of financial position at the end of the earliest comparative period

	Consolidated		
	2016 $'000 Reported	$'000 Adjustment	2016 $'000 Restated
Cash and cash equivalents	14,072	252	14,324
Total current assets	14,935	252	15,187
Total assets	17,672	252	17,924
Trade and other payables	2,014	(506)	1,508
Employee benefits	1,169	331	1,500
Total current liabilities	4,688	(175)	4,513
Total liabilities	4,856	(175)	4,681
Net assets	12,816	427	13,243
Retained profits	2,194	427	2,621
Total equity	12,816	427	13,243

Included in the $427,000 adjustment to Retained Earnings is an adjustment of $251,000 for Community Grants provision as at 30 June 2015 that was intended to be directed to the Foundation on incorporation. The remainder of the adjustment relates to the elimination of intercompany transactions during the financial year ended 30 June 2016.

Note 5. Revenue

	Consolidated		Parent	
	2017 $'000	2016 Restated $'000	2017 $'000	2016 $'000
Management and performance fees (net of rebates)	20,921	16,069	20,482	16,674
Administration fees	4,306	4,615	-	-
Member and withdrawal fees	2,662	2,018	-	-
Interest income	259	247	213	202
Rental income	157	91	157	91
Dividends	-	-	1,378	2,689
Revenue	28,305	23,040	22,230	19,656

Recognition and measurement
Revenue is recognised when it is probable that the economic benefit will flow to the consolidated group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Note 5. Revenue (continued)

Fee revenue
Fee revenue is earned from provision of services to customers outside the Group. Revenue is recognised when services are provided.

Dividends
Dividends are recognised as revenue when the right to receive payment is established.

Interest income
Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Rental income
Rental income is recognised using the straight line method over the term of the lease.

Note 6. Employee benefits expense

	Consolidated		Parent	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Employee remuneration	9,785	7,757	9,622	7,757
Directors fees	356	361	230	224
Other employment costs	44	96	44	96
	10,185	8,214	9,896	8,077

Note 7. Fund related expenses

	Consolidated		Parent	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Administration and custody fees	3,738	2,901	834	681
Licence and levy fees	440	421	323	323
	4,178	3,322	1,157	1,004

Note 8. External services

	Consolidated		Parent	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Ethical research	71	134	71	134
Audit	638	543	331	420
Consultants	442	325	318	237
Legal services	245	118	232	115
Other	1,121	701	1,107	692
	2,517	1,821	2,059	1,598

Note 9. Other expenses

	Consolidated		Parent	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Insurance	157	117	79	49
IT	1,148	1,027	1,161	1,014
Travel	238	205	238	203
Subscriptions and listing	106	87	106	87
Other	172	112	146	101
	1,821	1,548	1,730	1,454

Note 10. Community grants expense

The Group'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:

- paid or provisioned for payment to current employees, or other persons performing work for the Group, a work related bonus or incentive payment, set at the discretion of the directors, but to be no more than 30% of what the profit for that year would have been had the bonus or incentive payment not been deducted.
- gifted or provisioned for gifting an amount equivalent to 10% of what the profit for that year would have been had the above mentioned bonus and amount gifted not been deducted.

Community grants amounting to $380,000 (2016 restated: $220,000) have been provided for or paid in the current year.

Note 11. Income tax

	Consolidated 2017 $'000	Consolidated 2016 Restated $'000	Parent 2017 $'000	Parent 2016 $'000
Income tax expense				
Current tax	1,122	1,865	246	907
Deferred tax - origination and reversal of temporary differences	12	(142)	(169)	101
Adjustment recognised for prior periods	-	3	-	3
Aggregate income tax expense	1,134	1,726	77	1,011
Deferred tax included in income tax expense comprises:				
Decrease/(increase) in deferred tax assets	12	(142)	(169)	101
Reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense	4,058	4,912	1,910	5,043
Tax at the statutory tax rate of 30%	1,217	1,474	573	1,513
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:				
Profit in relation to The Foundation not subject to tax	(2)	(53)	-	-
Impairment of property, plant and equipment	(68)	54	(68)	54
Share-based payments	-	260	-	260
Non-taxable intercompany dividends from AES	-	-	(413)	(807)
Other non-taxable items	(13)	(12)	(15)	(12)
	1,134	1,723	77	1,008
Adjustment recognised for prior periods	-	3	-	3
Income tax expense	1,134	1,726	77	1,011

The applicable weighted average effective tax rate for the consolidated Group is 28% (2016: 36%) and for the parent entity is 4% (2016: 20%).

	Consolidated 2017 $'000	Consolidated 2016 $'000	Parent 2017 $'000	Parent 2016 $'000
Amounts recognised directly in equity				
Deferred tax: Employee share plan 2014/2015	98	82	98	82
Deferred tax: Employee share plan 2015/2016	83	150	83	150
Deferred tax: Employee share plan 2016/2017	167	-	167	-
	348	232	348	232

Note 11. Income tax (continued)

	Consolidated		Parent	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Deferred tax asset				
Deferred tax asset comprises temporary differences attributable to:				
Employee benefits	298	250	298	250
Audit fees	107	45	69	42
Community grants	114	119	114	119
Provision for remediation	62	270	8	-
Provision for employee leave	252	230	252	230
Provision for make-good	69	-	69	-
Deferred tax asset	902	914	810	641
Movements:				
Opening balance	914	772	641	742
Credited/(charged) to profit or loss	(12)	142	169	(101)
Closing balance	902	914	810	641

	Consolidated		Parent	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Income tax refund due				
Income tax refund due	303	-	310	-

	Consolidated		Parent	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Provision for income tax				
Provision for income tax	-	605	-	412

Recognition and measurement
Tax expense comprises of current and deferred tax expense recognised in the profit and loss except where related to items recognised directly in equity. Tax expense is measured at the tax rates that have been enacted or substantially enacted based on the national tax rate for each applicable jurisdiction at the reporting date.

Current tax is the expected tax payable or receivable on taxable income or loss for the year and any adjustment in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities.

Note 11. Income tax (continued)

Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation. These are offset if there is a legally enforceable right to offset. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which they can be utilised. These are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Australian Ethical Investment Limited and its wholly owned subsidiaries 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 tax consolidated Group has 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 Limited agrees to pay its share of the income tax payable to Australian Ethical Investment Limited on the same day that Australian Ethical Investment pays the Australian Taxation Office for Group tax liabilities.

Note 12. Current assets - cash and cash equivalents

	Consolidated		Parent	
	2017	2016 Restated	2017	2016
	$'000	$'000	$'000	$'000
Cash at bank	108	129	102	123
Deposits at call	7,383	9,095	3,511	7,226
Term deposits	5,100	5,100	5,000	5,000
	12,591	14,324	8,613	12,349

Recognition and measurement
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 13. Current assets - trade and other receivables

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Trade receivables	963	495	1,786	149

Recognition and measurement
Trade and other receivables are recognised at fair value and are generally due for settlement within 30 days. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly.

There are currently no past due receivables as at 30 June 2017 (2016: nil).

Note 14. Current assets – other

	Consolidated		Parent	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Prepayments	350	368	306	313

Note 15. Current assets – Investment property held for sale

	Consolidated		Parent	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Investment property held for sale	1,610	-	1,610	-

Recognition and measurement

During the period, the Canberra premises (Trevor Pearcey House) ceased to be owner-occupied. As a result, the property asset (leasehold land and buildings) was reclassified from Property, Plant and Equipment to Investment Property. Subsequently, the property was classified as held for sale as a result of the Group's intention to dispose of the property and the commencement of an active sales campaign. A sale is expected in the next 12 months.

Prior to its reclassification to investment property held for sale, the property was measured at cost less accumulated depreciation and impairment losses. The property and its fixtures and fittings are depreciated over their estimated useful life (5-40 years) on a straight-line basis. Post classification as Held for Sale, the asset is measured at the lower of carrying amount and fair value less costs of disposal. The assets are not depreciated or amortised while they are classified as held for sale.

As at 30 June 2017, a valuation of the property was conducted in accordance with the Group's policy by Jones Lang LaSalle, independent valuers not related to the Group, to determine the fair value. The valuation was determined by reference to recent market transactions on arms' length terms. The property was valued at $1.65m and as a result the current carrying value is considered to be fair and not further impaired.

	Property, Plant & Equipment		Investment Property		Investment Property Held for Sale	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Balance as at 30 June	1,460	1,725	-	-	-	-
Transfer from Property, plant and equipment	(1,427)		1,427	-	-	-
Depreciation for the period	(33)	(84)	(45)	-	-	-
Impairment loss	-	(181)	-	-	-	-
Reversal of carry forward impairment losses	-	-	228	-	-	-
Transfer to Investment property held for sale	-	-	(1,610)	-	1,610	-
Balance as at 30 June	-	1,460	-	-	1,610	-

Note 16. Non-current assets – investments in subsidiary

	Consolidated		Parent	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Investment in Australian Ethical Superannuation Pty Limited (as trustee of the Australian Ethical Retail Superannuation Fund)	-	-	316	316
Australian Ethical Foundation Limited	-	-	-	-

Note 17. Non-current assets - property, plant and equipment

	Consolidated		Parent	
	2017 $'000	**2016 $'000**	**2017 $'000**	**2016 $'000**
Leasehold land - at cost	-	230	-	230
Buildings - at cost	-	1,657	-	1,657
Less: Accumulated depreciation	-	(594)	-	(594)
	-	1,063	-	1,063
Leasehold improvements - at cost	2,142	1,090	2,142	1,090
Less: Accumulated depreciation	(194)	(625)	(194)	(625)
	1,948	465	1,948	465
Plant and equipment - at cost	193	409	193	409
Less: Accumulated depreciation	(81)	(344)	(81)	(344)
	112	65	112	65
	2,060	1,823	2,060	1,823

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated and Parent	Leasehold Land $'000	Buildings $'000	Leasehold improvements $'000	Plant and equipment $'000	Total $'000
Balance at 1 July 2015	230	1,239	563	36	2,068
Additions	-	-	26	32	58
Impairment of assets	-	(128)	(53)	-	(181)
Write off of assets	-	-	-	4	4
Depreciation expense	-	(48)	(71)	(7)	(126)
Balance at 30 June 2016	230	1,063	465	65	1,823
Additions	-	-	2,072	75	2,147
Classified as held for sale (note 15)	(230)	(1,063)	(134)	-	(1,427)
Disposals	-	-	(197)	-	(197)
Write off of assets	-	-	-	(2)	(2)
Depreciation expense	-	-	(258)	(26)	(284)
Balance at 30 June 2017	-	-	1,948	112	2,060

Recognition and measurement
Leasehold land and buildings are shown at fair value, based on periodic, at least every 3 years, valuations by external independent valuers, less subsequent depreciation and impairment for buildings. The valuations are undertaken more frequently if there is a material change in the fair value relative to the carrying amount. 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 revalued amount of the asset. Increases in the carrying amounts arising on revaluation of land and buildings are credited in other comprehensive income through to the revaluation surplus reserve in equity. Any revaluation decrements are initially taken in other comprehensive income through to the revaluation surplus reserve to the extent of any previous revaluation surplus of the same asset. Thereafter the decrements are taken to profit or loss.

Note that in the current year, the land and buildings were initially reclassified as Investment Property and then reclassified again as Investment property held for sale and the assets are presented separately on the face of the statement of financial position, in current assets.

Note 17. Non-current assets - property, plant and equipment (continued)

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. The carrying amount of property, plant and equipment is reviewed annually to ensure that it is not in in excess of the recoverable amount from these assets. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation
Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Buildings	40 years
Leasehold improvements	3-10 years
Plant and equipment	3-7 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter. During the year, the Group undertook a refurbishment of the Sydney office resulting in $1.8m of assets capitalised and a new 7-year lease for the offices at 130 Pitt Street, Sydney was also signed.

Note 18. Non-current assets - Term deposit

	Consolidated		Parent	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Long term deposit	504	-	504	-

The long term deposit is held with National Australia Bank for a term of 6 months as security for a bank guarantee over the Company’s Sydney Office property lease.

Note 19. Current liabilities - trade and other payables

	Consolidated		Parent	
	2017	2016 Restated	2017	2016 Restated
	$'000	$'000	$'000	$'000
Trade payables	380	440	313	425
Accrued expenses	1,687	768	1,032	401
Unamortised lease incentive	170	80	170	80
Community grant payable	320	220	379	395
	2,557	1,508	1,894	1,301

Refer to note 28 for further information on financial instruments.

Recognition and measurement
These amounts represent liabilities for goods and services provided to the consolidated group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 20. Current liabilities - employee benefits

	Consolidated		Parent	
	2017	2016 Restated	2017	2016 Restated
	$'000	$'000	$'000	$'000
Annual leave	340	331	340	331
Long service leave	394	336	394	336
Employee benefits	993	833	993	833
	1,727	1,500	1,727	1,500

Recognition and measurement

Employee benefit provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled. Non-accumulating benefits, such as sick leave, are not provided for but are expensed as the benefits are taken by the employees.

Note 21. Current liabilities – provisions

	Consolidated		Parent	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Provision for remediation costs	207	900	26	-

Recognition and measurement
At 30 June 2016, the Group became aware of errors in the calculation of unit prices for the Australian Ethical Retail Superannuation Fund in respect of 30 June 2016 and prior years. In the year ended 30 June 2016, a provision of $900,000 was raised on the investigative work performed at the time.

During the year ended 30 June 2017, the errors were investigated and an additional provision was raised to fully compensate members and in respect of consultant costs incurred to perform the investigative work. The additional expenses incurred during the period are $794,833 for member remediation and $1,160,000 for consultant costs. Throughout the remediation process, the Group remained committed to ensuring that members are not materially disadvantaged as a result of the errors.

The remediation work has been completed and the remainder of the provision relates to project related costs to be paid.

Movements in provisions
Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

Consolidated – 2017	Provision for remediation $'000
Carrying amount at the start of the year	900
Additional provisions recognised	2,205
Amounts used	(2,648)
Unused amounts reversed	(250)
Carrying amount at the end of the year	207

Parent – 2017	Provision for remediation $'000
Carrying amount at the start of the year	-
Additional provisions recognised	1,894
Amounts used	(1,868)
Carrying amount at the end of the year	26

Note 22. Non-current liabilities - payables

	Consolidated		Parent	
	2017	**2016**	**2017**	**2016**
	$'000	**$'000**	**$'000**	**$'000**
Unamortised lease incentive	547	69	547	69

Refer to note 28 for further information on financial instruments.

Note 23. Non-current liabilities - employee benefits

	Consolidated		Parent	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Long service leave	104	99	104	99

Recognition and measurement
The liability for long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Note 24. Non-current liabilities - provisions

	Consolidated		Parent	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Lease make good	228	-	228	-

Recognition and measurement
A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

Note 25. Equity - issued capital

	Consolidated and Parent			
	2017 Shares	2016 Shares	2017 $'000	2016 $'000
Ordinary shares - fully paid	1,115,854	1,094,209	9,923	8,693

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2015	1,053,817		7,004
Vesting of AEFAG Rights	31 August 2015	11,899	$58.80	699
Vesting of AEFAC Rights	31 August 2015	16,834	$58.80	990
Issue of deferred shares to the Employee Share Trust	31 August 2015	11,659		-
Balance	30 June 2016	1,094,209		8,693
Issue of deferred shares to the Employee Share Trust	1 September 2016	6,240		-
Vesting of AEFAE Rights	8 September 2016	14,812	$81.11	1,202
Vesting of deferred shares in the Employee Share Trust	14 October 2016	593	$47.43	28
Balance	30 June 2017	1,115,854		9,923

Note 25. Equity - issued capital (continued)

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Recognition and measurement
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Capital risk management
The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

The capital risk management policy remains unchanged during the year.

(i) Regulatory capital requirements

In connection with operating a funds management business in Australia, the Parent entity is required to hold an Australian Financial Services Licence (AFSL). As a holder of an AFSL, the Australian Securities & Investments Commission (ASIC) requires the Company to:
- prepare 12-month cash-flow projections which must be approved at least quarterly by Directors, and reviewed annually by auditors;
- hold at all times minimum Net Tangible Assets (NTA) the greater of:
  (a) $150,000;
  (b) 0.5% of the average value of scheme property (capped at $5m); or
  (c) 10% of the average responsible entity revenue (uncapped).

The Company must hold at least 50% of its minimum NTA required as cash or cash equivalents and hold at least $50,000 in Surplus Liquid Funds (SLF).

The Company has complied with these requirements at all times during the year.

(ii) Dividend policy

Dividends paid to shareholders are typically in the range of 80-100% of the Group's net profit after tax attributable to members of the Company, which is in line with the historical dividend range paid to shareholders. In certain circumstances, the Board may declare a dividend outside that range.

As at year end the Group had no long term debt arrangements.

Note 26. Equity – reserves

	Consolidated		Parent	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Share-based payments reserve	-	1,201	-	1,201
Employee share plan reserve	1,012	728	1,012	728
	1,012	1,929	1,012	1,929

Note 26. Equity - reserves (continued)

Share-based payments reserve
This reserve relates to rights granted by the Group to its employees under its previous share-based payment arrangements. This plan has ceased and the final vesting of any rights under this award was granted on 8 September 2016.

Employee share plan reserve
This reserve relates to shares granted by the Group to its employees under its current share-based payment arrangement.

Further information about share-based payments to employees is set out in Note 38.

Movements in reserves
Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated and Parent	Share-based payments reserve $'000	Employee share plan reserve $'000	Total $'000
Balance at 1 July 2015	2,022	316	2,338
Employee share plan expense	868	-	868
Issue of shares held by entity to employee	(1,689)	-	(1,689)
Employee share plan – deferred	-	412	412
Balance at 30 June 2016	1,201	728	1,929
Issue of shares held by entity to employee	(1,201)	(28)	(1,229)
Employee share plan – deferred	-	312	312
Balance at 30 June 2017	-	1,012	1,012

Note 27. Equity - dividends

Dividends
Dividends declared and/or paid fully franked at 30% tax rate in respect of the corresponding financial year.

	2017 $'000	**2016 $'000**
Final dividend for the year ended 30 June 2016 of 180 cents (2015: 120 cents) per ordinary share	2,009	1,313
Interim dividend for the year ended 30 June 2017 of 50 cents (2016: 120 cents) per ordinary share	558	1,313
	2,567	2,626

Since year end, the Directors have declared a final dividend of 210 cents per fully paid ordinary share (2016: 180 cents), fully franked based on tax paid at 30%. The aggregate amount of the declared dividend expected to be paid on 22 September 2017 out of profits for the year ended at 30 June 2017, but not recognised as a liability at year end is $2,350,013 (2016: $2,009,000).

The financial effects of the dividends declared after end of year have not been brought to account in the consolidated financial statements for the year ended 30 June 2017 and will be recognised in subsequent financial reports.

Note 27. Equity - dividends (continued)

Franking credits

	2017 $'000	2016 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	4,185	3,366

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:
- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Accounting policy for dividends
Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

Note 28. Financial instruments

Financial risk management objectives and framework
The Group's activities expose it to a variety of financial risks, including market risk arising from Funds under Management, credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group does not have a material exposure to currency, price and interest rate risk.

The Group recognises that risk is part of doing business and that the ongoing management of risk is critical to its success. The approach to managing risk is articulated in the Risk Management Strategy and the Risk Appetite Statement. The Chief Risk Officer is responsible for the design and maintenance of the risk and compliance framework, establishing and maintaining Group wide risk management policies, and providing regular risk reporting to the Audit, Compliance and Risk Committee (ACRC). The Board regularly monitors the overall risk profile of the Group and sets the risk appetite, usually in conjunction with the annual planning process.

The Board is responsible for ensuring that management has appropriate processes in place for managing all types of risk. To assist in providing ongoing assurance and comfort to the Board, responsibility for risk management oversight has been delegated to the ACRC. The main functions of the Committee are to identify emerging risks and determine treatment and monitoring emerging and current risks. In addition, the Committee is responsible for seeking assurances from management that the systems and policies in place to assist the Group to meet and monitor its risk management responsibilities contain appropriate, up-to-date content and are being maintained. The Group is complying with its Licences, and that there is a structure, methodology and timetable in place for monitoring material service providers.

The following discussion relates to financial risks the Group is exposed to.

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Exposure
The Group's revenue is significantly dependent on Funds Under Management (FUM) which is influenced by equity market movements. Management calculates that a 10% movement in FUM changes annualised revenue by approximately $2,141,000 (2016: $1,718,000).

Note 28. Financial instruments (continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is predominantly exposed to credit risk on its deposits with banks and financial institutions. The Group manages this risk by holding cash and cash equivalents at financial institutions with a Standard and Poor's rating of 'A' or higher. The maximum exposure of the Group to credit risk on financial assets which have been recognised on the Consolidated Statements of Financial Position is the carrying amount of cash and cash equivalents. For all financial instruments other than those measured at fair value their carrying value approximates fair value.

All trade and other receivables are short term in nature and are not past due or impaired.

Liquidity risk

Vigilant liquidity risk management requires the consolidated group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets. In addition, a twelve month forecast of liquid assets, cash flows and balance sheet is reviewed by the Board annually as part of the budget process to ensure there is sufficient liquidity within the Group.

Remaining contractual maturities

The following tables detail the consolidated group's and Company's remaining contractual maturity for its financial instrument liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Consolidated - 2017	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives					
Non-interest bearing					
Trade payables	3,691	-	-	-	3,691
Total non-derivatives	3,691	-	-	-	3,691

Consolidated – 2016 restated	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives					
Non-interest bearing					
Trade payables	2,594	-	-	-	2,594
Income tax payable	605	-	-	-	605
Total non-derivatives	3,199	-	-	-	3,199

Parent - 2017	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives					
Non-interest bearing					
Trade payables	3,025	-	-	-	3,025
Total non-derivatives	3,025	-	-	-	3,025

Note 28. Financial instruments (continued)

Parent - 2016	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives					
Non-interest bearing					
Trade payables	2,387	-	-	-	2,387
Income tax payable	411	-	-	-	411
Total non-derivatives	2,798	-	-	-	2,798

Fair value of financial instruments
Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 29. Fair value measurement

Accounting policy for fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Note 30. Key management personnel disclosures

Compensation
The aggregate compensation made to directors and other members of key management personnel of the consolidated group is set out below:

	Consolidated		**Parent**	
	2017 **$**	**2016** **$**	**2017** **$**	**2016** **$**
Short-term employee benefits	2,649,684	2,110,600	2,530,259	1,982,408
Post-employment benefits	264,060	147,150	252,714	134,972
Long-term benefits	77,731	44,328	77,731	44,328
Share-based payments	104,440	674,974	104,440	674,974
	3,095,915	2,977,052	2,965,144	2,836,682

Comparatives have been represented to be consistent with the current year approach of measuring key management personnel employee benefits, as prescribed under the relevant accounting standards.

Information regarding key management personnel's remuneration and shares held in Australian Ethical Investment Limited as required by Corporations Regulations 2M.3.03 is provided in the Remuneration Report.

Note 31. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by KPMG, the auditor of the Company, and its network firms:

	Consolidated		Parent	
	2017 $	2016 $	2017 $	2016 $
Audit services for the consolidated group and subsidiaries - KPMG				
Audit or review of the financial statements	151,710	57,710	111,450	37,450
Audit services in accordance with regulatory requirements	44,950	42,480	44,950	38,050
Assurance services in relation to Sustainability Report	19,500	19,500	19,500	19,500
	216,160	119,690	175,900	95,000
*Audit services for the non-consolidated trusts and super funds – KPMG**				
Audit and review of managed funds for which the Company acts as Responsible Entity	137,400	137,400	137,400	137,400
Audit and review of superannuation fund for which the subsidiary entity acts as Responsible Superannuation Entity	26,160	26,160	-	-
Audit services in accordance with regulatory requirements	62,760	48,330		
	226,320	211,890	137,400	137,400
Non-audit services - KPMG				
Tax advice	150,087	41,850	121,637	34,900
Other accounting advice	106,023	63,775	106,023	41,775
	256,110	105,625	227,660	76,675
Total fees paid to KPMG	698,590	437,205	540,960	309,075

* These fees are incurred by the Company and are effectively recovered from the funds via management fees.

The Board considered the non-audit services provided by the auditor and is satisfied that the provision of the non-audit services above by the auditor is compatible with, and does not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services are subject to the corporate governance procedures adopted by the Company and are reviewed by the Audit, Risk and Compliance Committee to ensure that they do not impact the integrity and objectivity of the auditor; and
- non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they do not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Note 32. Commitments

Operating lease commitments relate to the lease of office premises. The Group entered a new long-term operating lease for its Sydney office for a period of 7 years including additional office space on 1 July 2016. Lease incentives were received and are recognised as a liability in the Statement of Financial Position. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Lease incentives were received and are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Group has provided a bank guarantee of $504,000 over the rental of building premises at 130 Pitt Street.

The Group does not have an option to purchase the premises at the expiry of the lease period.

	Consolidated		**Parent**	
	2017 $'000	**2016 $'000**	**2017 $'000**	**2016 $'000**
Lease commitments - operating				
Committed at the reporting date but not recognised as liabilities, payable:				
Within one year	503	483	503	483
One to five years	2,175	2,134	2,175	2,134
More than five years	588	-	588	-
	3,266	2,617	3,266	2,617
Liabilities recognised in respect of non-cancellable operating leases				
Lease incentives:				
Current	162	80	162	80
Non-current	547	69	547	69
	709	149	709	149

Note 33. Related party transactions

Parent entity
Australian Ethical Investment Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 34.

Directors remuneration
Disclosures relating to key management personnel are set out in note 30 and the remuneration report included in the directors' report.

Note 33. Related party transactions (continued)

Other related parties
Australian Ethical Superannuation Pty Limited (AES) acts as trustee for Australian Ethical Retail Superannuation Fund (AERSF).

Australian Ethical Investment Limited (AEI) acts as the responsible entity for the following Australian Ethical Trusts (AETs):
- Australian Ethical Australian Shares Fund
- Australian Ethical Diversified Shares Fund
- Australian Ethical Income Fund (formerly Australian Ethical Cash Fund)
- Australian Ethical Fixed Interest Fund
- Australian Ethical International Shares Fund
- Australian Ethical Advocacy Fund
- Australian Ethical Property Trust
- Australian Ethical Emerging Companies Fund
- Australian Ethical Balanced Fund

Transactions with related parties
The following transactions occurred with related parties:

	Consolidated		Parent	
	2017 $	2016 $	2017 $	2016 $
Receipts from Australian Ethical Superannuation Pty Limited:				
Administration fees	-	-	3,800,000	3,803,470
Investment management fees	-	-	7,337,121	5,202,786
Transactions between the parent and subsidiary entities under tax consolidation and related tax sharing agreement	-	-	1,056,928	714,907
Dividends from the subsidiary	-	-	1,378,114	2,688,557
Director fee reimbursement from subsidiary	-	-	133,308	136,323
Receipt from the Australian Ethical Trusts:				
Provision of investments services to the AETs as identified above in accordance with the trust deed	9,288,631	7,616,711	9,288,631	7,616,711
Receipts from Australian Ethical Retail Superannuation Fund:				
Provision of investment management/administration services to AERSF	16,073,237	12,888,710	-	-
Provision of Member Administration services to AERSF	2,662,247	2,018,014	-	-
Investment management fee rebate given to AERSF	(192,055)	(70,008)	-	-
Payments to Australian Ethical Foundation Limited:				
Community grants paid to The Foundation	-	-	395,314	480,542

Note 33. Related party transactions (continued)

Receivable from and payable to related parties
The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated		Parent	
	2017 $	2016 $	2017 $	2016 $
Current receivables:				
Amounts receivable from the AETs	431,977	53,140	431,977	53,140
Amounts receivable from AES	-	-	1,306,140	50,201
Amounts receivable from AERSF	286,423	396,572	-	-
Current payables:				
Amounts payable to AERSF	(1,855)	(1,675)	-	-
Amounts payable to The Foundation	(379,141)	(395,314)	(379,141)	(395,314)
Amounts payable to AES	-	-	(6,492)	-

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

Note 34. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

		Ownership interest	
Name	Principal place of business / Country of incorporation	2017 %	2016 %
Australian Ethical Superannuation Pty Limited (AES) - Trustee of the Australian Ethical Retail Superannuation Fund (AERSF)	Level 8, 130 Pitt Street Sydney NSW 2000 Australia	100.00%	100.00%
Australian Ethical Foundation Limited	Level 8, 130 Pitt Street Sydney NSW 2000 Australia	100.00%	100.00%

Australian Ethical Foundation Limited (The Foundation) was established for the purpose of being a vehicle for the disbursement of profits that are subject to Clause 15.1(c)(ii) of the Parent entity's constitution which requires a portion of profits to be provided for charitable, benevolent or conservation purposes. The creation of The Foundation allows for flexibility when allocating money, to manage multi-year grants and for the creation of a corpus for long term funding of worthwhile causes and organisations.

All income received and net assets including cash of The Foundation are restricted to activities of the Foundation and are not available for distribution to AEI's shareholders or to settle liabilities of other Group entities.

Note 35. Events after the reporting period

3,200 shares will be issued on 7 September 2017 to the Employee Share Trust for employee long term incentives. This amount comprises of 12,416 shares for FY 2017-18 less 9,216 shares forfeited from prior years.

Apart from the dividend declared as disclosed in note 27, no other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the consolidated group's operations, the results of those operations, or the consolidated group's state of affairs in future financial years.

Note 36. Reconciliation of profit after income tax to net cash from/(used in) operating activities

	Consolidated		Parent	
	2017	2016 Restated	2017	2016
	$'000	$'000	$'000	$'000
Profit after income tax for the year	2,924	3,186	1,833	4,032
Adjustments for:				
Depreciation and amortisation	284	182	284	182
(Gain)/loss on disposal of property, plant and equipment	210	(7)	210	(7)
Non-cash employee benefits expense - share-based payments	200	1,188	200	1,188
Impairment loss	(228)	181	(228)	181
Unamortised lease incentive	568	(53)	568	(53)
Dividend received from subsidiary	-	-	(1,378)	(2,689)
Change in operating assets and liabilities:				
Decrease/(increase) in trade and other receivables	(470)	1,286	(1,638)	1,608
Decrease/(increase) in deferred tax assets	12	(142)	(169)	101
Decrease/(increase) in other current assets	18	(45)	6	(41)
Increase/(decrease) in trade and other payables	906	(1,228)	449	(424)
Increase/(decrease) in employee benefits	232	(297)	232	(297)
Increase/(decrease) in other provisions	(465)	900	254	-
Decrease in current tax liability	(908)	(477)	(721)	(110)
Net cash from/(used in) operating activities	3,283	4,674	(98)	3,671

Note 37. Earnings per share

	Consolidated	
	2017	2016
	$'000	$'000
Profit after income tax attributable to the owners of Australian Ethical Investment Limited	2,924	3,186

	Cents	Cents
Basic earnings per share	269.98	298.50
Diluted earnings per share	262.25	287.74

	2017 Number of shares	2016 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	1,082,877	1,067,549
Adjustments for calculation of diluted earnings per share:		
Rights over ordinary shares	26,583	39,929
Deferred shares	5,306	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,114,766	1,107,478

Note 37. Earnings per share (continued)

Recognition and measurement

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of Australian Ethical Investment Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued 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 weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares, which relate to rights over ordinary shares and deferred shares issued as part of the Company's long term employee benefits.

Note 38. Share-based payments

The following share-based payment arrangements existed as at 30 June 2017.

(a) Performance rights (equity-settled)

During the year, all outstanding performance rights to ordinary shares vested and there were no new issuances of performance rights. Included under employee benefits expense in the Consolidated Statement of Comprehensive Income is nil (2016: $868,000) relating to rights issued under this program.

(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 with the shares having voting rights and employees receive dividends.

Included under employee benefits expense in the Consolidated Statement of Comprehensive Income is $200,000 (2016: $320,000) relating to the performance shares granted.

Deferred shares are held in an Employee Share Trust until vesting conditions are met. Refer to the remuneration report for details on the vesting conditions.

2017

Grant date	Vesting date	Balance at the start of the year	Granted	Vested	Forfeited	Balance at the end of the year
31/08/2014	31/08/2017	12,394	-	(388)	(6,861)	5,145
31/08/2015	31/08/2018	10,358	-	(173)	(1,625)	8,560
31/08/2016	31/08/2019	-	10,663	(31)	(2,054)	8,578
03/01/2017	31/08/2019	-	1,321	-	-	1,321
		22,752	11,984	(592)	(10,540)	23,604

Recognition and measurement
Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares that are provided to employees in exchange for the rendering of services.

Note 38. Share-based payments (continued)

The grant-date fair value of equity-settled transactions are recognised as an employee expense with a corresponding increase in equity over the vesting period that employees become unconditionally entitled to the awards.

The amount recognised as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met and the prevailing share price. The objective is that the amount ultimately recognised as an expense is based on the number of awards that meet the related service conditions at the vesting date.

Note 39. Contingent liabilities

A claim for specified damages was lodged by a subsidiary of the Company during the financial year against the Company relating to the unit pricing matter disclosed in Note 21. No further information is disclosed as the disclosure of such information may prejudice the Company’s position in the claim.

Note 40. The Foundation results

All income received and net assets including cash of The Foundation are restricted to the Foundation's activities and are not available for distribution to AEI's shareholders or to settle liabilities of other Group entities.

As at and for the year ended 30 June 2017, the impact of The Foundation before intercompany eliminations is noted below:

	2017 $'000	2016 $'000
Statement of comprehensive income		
Revenue from parent entity	379	876
Interest income	5	1
Community grants expense	(380)	(450)
Surplus/(loss) for the period	4	427

	2017 $'000	2016 $'000
Statement of financial position		
Assets:		
Cash and cash equivalents	372	252
Receivables from parent entity	379	395
Liabilities:		
Payables	(320)	(220)
Net assets	431	427
Equity		
Current year surplus/(loss)	4	427
Retained earnings	427	-
Total Equity	431	427

Australian Ethical Investment Limited
Directors' declaration
30 June 2017

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Company's and Consolidated Group's financial position as at 30 June 2017 and of their performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company and the Consolidated Group will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Phillip Vernon
Managing Director and Chief Executive Officer

30 August 2017

KPMG

Independent Auditor's Report

To the shareholders of Australian Ethical Investment Limited

Report on the audits of the Financial Reports

Opinions

We have audited the consolidated ***Financial Report*** of Australian Ethical Investment Limited (the Group Financial Report) and the Financial Report of Australian Ethical Investment Limited (the Company Financial Report).

In our opinion, each of the accompanying Group Financial Report and Company Financial Report are in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s and of the ***Company***'s financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The respective ***Financial Reports*** of the Group and the Company comprise:

- Statements of financial position as at 30 June 2017
- Statements of comprehensive income, Statements of changes in equity, and Statements of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of Australian Ethical Investment Limited (the ***Company***) and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinions

We conducted our audits in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audits of the Financial Reports* section of our report.

We are independent of the Company and Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audits of the Financial Reports in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG

Key Audit Matters

The ***Key Audit Matters*** we identified for the Group and Company are:

- Remediation Expense
- Management and Performance Fees (net of rebates)
- Investment Property held for sale

Key Audit Matters are those matters that, in our professional judgment, were of most significance in each of our respective audits of the Financial Reports of the current period.

These matters were addressed in the context of our audits of the Financial Reports as a whole, and in forming our opinions thereon, and we do not provide a separate opinion on these matters.

Remediation Expense – Group ($1.955m) and Company ($1.894m)

Refer to Note 21 to the Group Financial Report and Company Financial Report

The key audit matter	How the matter was addressed in our audits
Remediation Expense is a key audit matter due to the following: • The unit pricing error identified in the prior year gave rise to the need to remediate members of the Australian Ethical Retail Superannuation Fund (the Superannuation Fund). At prior year end, the investigation was not yet completed, thus raising our concern for further risk of error and therefore remediation continuing into the current year. • Identification of one other previously unknown unit pricing error as the investigation progressed in the current year, increasing our risk assessment, focus and testing of the remediation amount, including the completeness of the remediation amount. • Significant audit effort was necessary to assess the remediation expense amount. The Group engaged an independent actuarial expert to assist in the investigation of the unit pricing errors and estimate the amount necessary to remediate members of the Superannuation Fund. • The model used to calculate the unit pricing remediation amount was complex and detailed. This necessitated the involvement of our own independent actuarial specialist and experienced team members' time.	Working with our actuarial specialist, our procedures included: • Considered the competence, scope and objectivity of the Group's independent actuarial expert's work as well as understand the assumptions and methods used in the remediation model. • Assessed the logic of the model and methodology employed by the Group's independent actuarial expert against industry practice and regulatory guidance where available. • Assessed the controls and processes the Group's independent actuarial expert employed in determining a complete list of unit pricing errors and the accuracy of the data used in the model calculations. • Corroborated source data used in the model against data obtained from the administrator of the Superannuation Fund. • For a sample of members, assessed the integrity of the calculation of the remediation amount, including the accuracy of the underlying calculation formulas.

Management and performance fees (net of rebates) – Group ($20.921m) and Company ($20.482m)	
Refer to Note 5 to the Group Financial Report and Company Financial Report	
The key audit matter	**How the matter was addressed in our audits**
Management and performance fees (net of rebates) were a key audit matter due to the unique fee arrangements in place for each fund which necessitated considerable audit effort. This was the Group and Company's key revenue generating activity constituting 74% and 92% of total revenue, respectively.	Our procedures included: • We read and understood the unique management and performance fee arrangements in the Product Disclosure Statements ("PDS") of each of the funds. • We performed a recalculation of a sample of the fees using the fee percentages and average funds under management, obtained from each of the Product Disclosure Statements and underlying fund financial records respectively. We compared the independently calculated fee revenue calculations to those of the Group and Company and investigated significant differences. • We checked the average funds under management to the external service providers' reports.

Investment Property held for sale – Group ($1.610m) and Company ($1.610m)	
Refer to Note 15 to the Group Financial Report and Company Financial Report	
The key audit matter	**How the matter was addressed in our audits**

The valuation of the property classified as held for sale was a key audit matter due to the quantum of the balance and the assumptions applied when estimating the fair value of the property which included estimated capitalisation rates which are used for present value adjustments. This necessitated increased audit effort to assess these assumptions and the methodology employed. The Company engaged an external independent valuer to provide an independent valuation of the property. They used the Capitalisation of Net Income approach and the Direct Comparison Approach from which an adopted value is provided. The Company and Group then assessed the valuation and based on their knowledge of the property and location, estimated an overall value for the property.	Our procedures included:
	• Considered the competence, scope and objectivity of the independent valuer.
	• We obtained the independent valuer's report and assessed the valuation methodologies and key assumptions used based on our knowledge of the property, its location and the industry as a whole. This included:
	    • Assessing the valuation methodologies for consistency with accounting standards and industry practice
	    • Comparing key inputs such as rental income and rental duration against signed rental agreements
	    • Comparing estimated capitalisation rates to similar properties as determined by

	the external independent valuer. • Assessing the expected rental income following expiry of the current leases based on our knowledge of the property and the rental market in the area. • Assessing the comparability of the properties determined by the external independent valuer, by comparing the property size, location and rental income to our knowledge of the property.

Other Information

Other Information is financial and non-financial information in Australian Ethical Investment Limited's annual reporting which is provided in addition to the Financial Reports and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report, the Remuneration Report and the Corporate Governance Statement. The Annual and Sustainability Report is expected to be made available to us after the date of the Auditor's Report.

Our opinions on the Financial Reports do not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and the Sustainability Report.

In connection with our audits of the Financial Reports, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Reports or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

- preparing the Financial Reports that give a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal controls to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or Company or to cease operations, or have no realistic alternative but to do so.

KPMG

Auditor's responsibilities for the audits of the Financial Reports

Our objective is:

- to obtain reasonable assurance about whether the Financial Reports as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinions.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audits of the Financial Reports is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Australian Ethical Investment Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included in pages 7 to 22 of the Directors' report for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

T. Gilerman

Tanya Gilerman
Partner

Sydney
30 August 2017