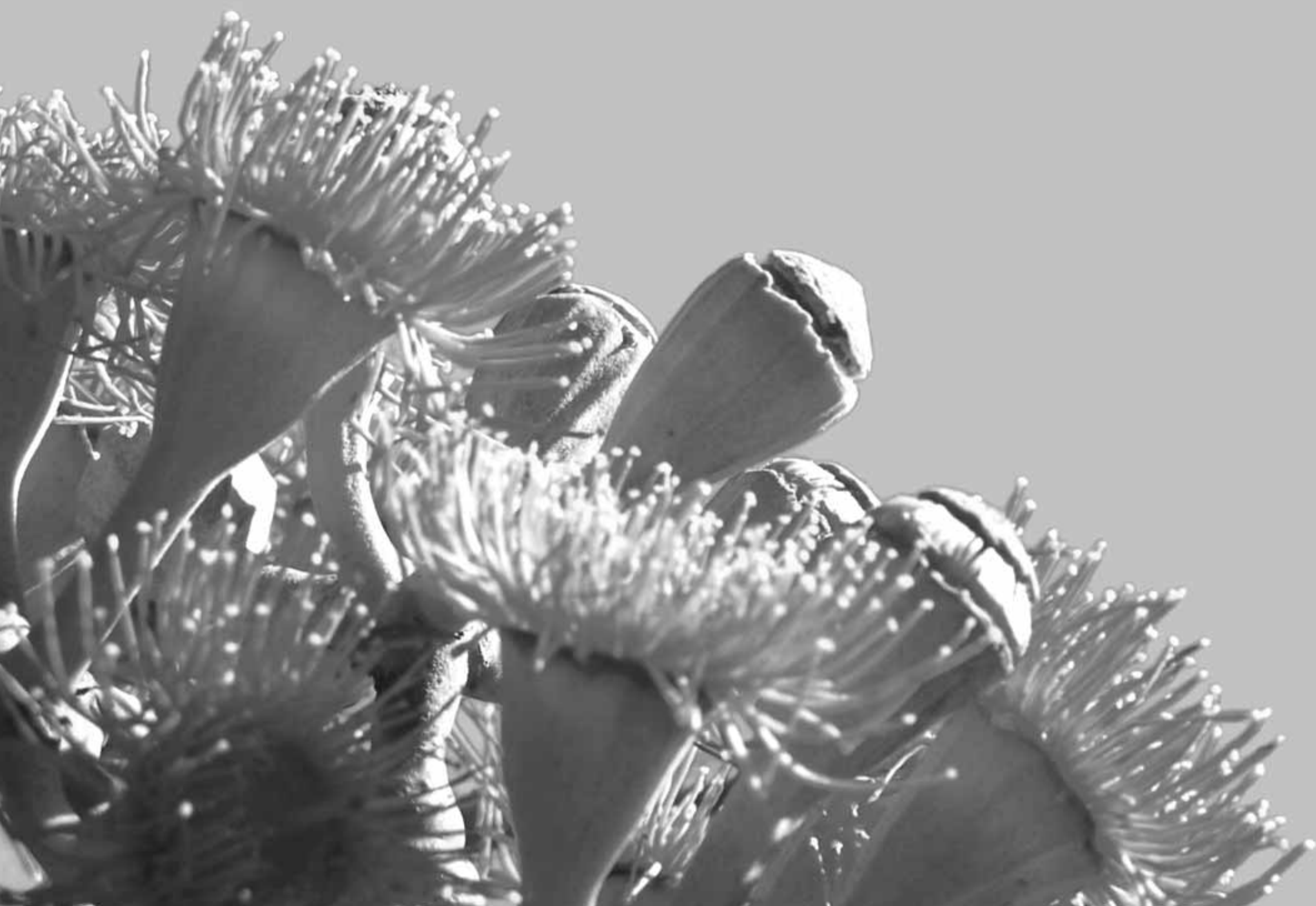
Trusts – Annual report 2006

Large Companies Share Trust
Equities Trust
Balanced Trust
Income Trust



australianethical investment

for investors, society and the environment

Summary

Australian Ethical Large Companies Share Trust

Return for the year: 16.0%
Funds at year end: $104.5 million

New investments

Domestic

- Babcock and Brown Wind Partners (wind farms)
- DCA Group Ltd (aged care services provider)

International

- William Demant Holdings and GN Store Nord (Danish hearing aid companies)
- Phonak (Swiss hearing aid company)
- Gamesa Corp Tecnologica (Spanish wind turbine maker)
- Laidlaw International (US school and Greyhound bus operator)
- Ormat Technologies (US geothermal energy company)

Top performers

Domestic

- CSL Ltd (+59.4%, blood products company)
- Brambles Industries (+40.5%, pallet maker and recycler)
- Cochlear Ltd (+39.4%, hearing technology)
- Sims Group Ltd (+34.8%, metals recycler)
- Computershare Ltd (+34.0%, electronic share registries)
- Fisher and Paykel Healthcare Ltd (+19.1%, breathing aid manufacturer)

International

- Tomra Systems ASA (+87%, Norwegian recycling machine manufacturer)
- Vestas Wind Systems (+56%, Danish wind turbine maker)
- Genesee and Wyoming Inc (+30.4%, US rail freight)
- Baldor Electric Company (+28.2%, US electric motors)

Australian Ethical Equities Trust

Return for the year: 14.2%
Funds at year end: $138.2 million

New investments

Domestic

- Babcock and Brown Wind Partners
- DCA Group Ltd
- Arrow Energy and Eastern Star Gas (coal seam gas companies)

International

- Accell (Dutch bicycle manufacturer)
- SolarWorld and Conergy (German solar companies)
- William Demant Holdings
- GN Store Nord
- Phonak
- Gamesa Corp Tecnologica
- Laidlaw International
- Ormat Technologies

Top performers

Domestic

- Envirozel Ltd (+222%, drainage system provider)
- Scantech Ltd (+100%, bulk materials measurement technology)
- Vision Systems Ltd (+66.1%, medical and security instruments)
- Brambles Industries (+40.5%)
- Cochlear Ltd (+39.4%)
- Sims Group Ltd (+34.8%)

International

- Tomra Systems ASA (+87%)
- Vestas Wind Systems (+56%)
- Genesee and Wyoming Inc (+30.4%)
- Baldor Electric Company (+28.2%)

Australian Ethical Balanced Trust

Return for the year: 9.5%
Funds at year end: $195.5 million

New investments

Domestic

- Babcock and Brown Wind Partners
- DCA Group Ltd

International

- William Demant Holdings
- GN Store Nord
- Phonak
- Gamesa Corp Tecnologica
- Laidlaw International

Property

- Investa Diversified Office Fund
- ING Community Living Fund
- ING Healthcare Fund

Top performers

Domestic

- Brambles Industries (+40.5%)
- Cochlear Ltd (+39.4%)
- Sims Group Ltd (+34.8%)
- Technology One Ltd (+30.8%, information technology)
- SAI Global Ltd (+23.7%, standards and assurance services)
- Fisher and Paykel Healthcare Ltd (+19.1%)

International

- Tomra Systems ASA (+87%)
- Vestas Wind Systems (+56%)
- Genesee and Wyoming Inc (+30.4%)
- Baldor Electric Company (+28.2%)

Australian Ethical Income Trust

Return for the year: 5.0%
Funds at year end: $20.6 million

New investments

- Fairfax (John) preference shares (newspapers and magazines)
- Vero Insurance Ltd (part of Promina group)
- Origin Energy Ltd corporate bonds (gas and green electricity)

For greater detail, see the reports on the following pages.

Australian Ethical Investment

Trusts – annual report 2006

for the year to 30 June 2006

Contents

Past performance is not a reliable indicator of future performance.

Performance figures are calculated using exit prices. Performance figures take into account ongoing management fees and trust expenses. Performance figures are calculated as if distributions of income have been reinvested. They do not take into account tax that may be payable on the distribution of income. Neither the return of capital nor the performance of a trust is guaranteed. Figures showing a period of less than one year have not been adjusted to show an annual return. Figures for periods of greater than one year are on a per annum compound basis. The latest available performance figures can be obtained from our website **www.austethical.com.au** or by calling **1300 139 447**.

Units in the trusts are offered and issued by Australian Ethical Investment Ltd ABN 47 003 188 930, AFSL 229949. The product disclosure statement should be considered before deciding whether to acquire, or continue to hold, units in the trusts. It includes the application form. You can get a printed or electronic copy of the product disclosure statement from Australian Ethical Investment Ltd in the following ways:

download from	www.austethical.com.au
phone (free call)	1800 021 227
fax	(02) 6201 1987
email	trustadmin@austethical.com.au

post a request (no stamp is required) to:

Australian Ethical Investment Ltd
Reply Paid 2435
Canberra ACT 2601

This information has been prepared without taking account of your individual investment objectives, financial situation or needs. Before acting on it, you should consider its appropriateness to your circumstances.

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Australian Ethical Large Companies Share Trust

Responsible entity's report for the year to 30 June 2006

The Large Companies Share Trust returned 16.0% for the year to 30 June 2006.

In a year where, sadly, the highest Australian share market returns were in companies investing in coal, oil, uranium and other minerals, the trust's return was bettered by many other funds which invest without any particular regard to social and environmental concerns.

However, 2005–06 does represent the third consecutive year of double-digit returns (returns over the last three years have been 20.6%, 23.8% and 16%) and the trust's long-term returns remain competitive with other funds and with the market as a whole.

To the existing ethically screened portfolio, the trust this year added investments in wind farms, wind turbine manufacturing, aged care, hearing aid manufacture, school bus services and geothermal energy.

Out of the 16.0% return, the trust paid a total distribution of 25.47 cents per unit, as shown in the table below.

	6 month period, cents per unit		Full year return*	
	to 31 Dec 2005	to 30 June 2006	cents per unit	%
Distributions	1.92	23.55	25.47	15.0
Unit value change	19.70	–17.98	1.72	1.0
Net earnings result	21.62	5.57	27.19	16.0

* assumes reinvestment of half-yearly distribution.

Distributions were high as in the previous two years of strong share market returns. Australian Ethical maintains strict disciplines with its holdings – investments in particular companies are subject to upper limits (expressed as a percentage of portfolio) as a prudential measure. In addition, the investment team works towards target holdings (also expressed as a percentage of portfolio) based on relative valuation of approved stocks.

These disciplines mean that when a stock rises strongly in value, the team will generally sell some of its holding rather than ending up with disproportionately large exposures to the stock, or with too much in stocks that may now be relatively overvalued on fundamentals.

With this sell discipline, in a rising market the trust tends to generate a realisation of capital gains. Capital gains may also be realised where the companies invested in are taken over or where the trust has to divest for ethical reasons. Under the trust constitution, these capital gains are distributed to unitholders.

Performance comparisons

For each of the Australian Ethical trusts, the management nominates the most appropriate available benchmark against which long-term performance can be compared. For the Australian Ethical Large Companies Share Trust, to date, that benchmark has been the S&P/ASX 200 index. This is Standard and Poor's index of 200 of the largest companies listed on the Australian Stock Exchange.

Unlike many other funds, generally there may be a fair bit of year-to-year variation between trust returns and the benchmark index. This is due to the structural differences between the trust portfolio and the S&P/ASX 200. In particular:

- the index includes many large resources companies (for example, Rio Tinto, BHP Billiton, Woodside) that are not held by the trust
- the major banks make up a substantial part of the index and are not held by the trust
- the trust holds proportionately more in healthcare stocks and utilities than benchmark index proportions would suggest
- the trust holds proportionately more of relatively smaller stocks – only a handful of the trust's stocks are in the top 50 of the index.

Fuelled by the boom in oil, coal, uranium and other mining stocks, the S&P/ASX 200 index rose by 23.9% for the 2005–06 financial year.

Recently, the responsible entity for the trust decided to change the benchmark to the S&P/ASX 200 *Industrials* index – an index of 200 of the largest companies on the Australian Stock exchange **excluding mining sector stocks**. It was thought that this would give a better indication of the fund manager's real performance in managing within the ethical universe, given that the Australian Ethical Charter rules out investment in highly polluting industries, industries which destroy or waste non-renewable resources and industries which extract materials which have a harmful effect on people or the environment.

Trust performance may still vary both up and down from this new benchmark as there are still major structural differences between funds constructed around the Australian Ethical Charter and a general index of industrial stocks. However, the change does eliminate one major structural difference. In 2005–06, for example, fund performance was reasonably in line with the S&P/ASX 200 Industrials index rise of 17.2%.

The table below shows the year-by-year performance of the trust against the new benchmark index.

It is worth noting:

- the significant volatility in sharemarket, index and trust returns. As emphasised in the trusts product disclosure document, equities markets are volatile with large upward and downward swings. Investors need to be aware of this when choosing to invest in an equities fund and a long-term investment horizon is generally recommended to allow some balancing out over time of the swings, and
- that while there is substantial correlation between past trust returns and the S&P/ASX 200 Industrials index, there can be sizeable year-to-year differences

– sometimes in favour of the trust, sometimes the trust has not done as well as the index. Our belief is that the figures support the view that over the long-term, ethical investing can yield returns fully comparable with the market.

	Trust performance per year %	S&P/ASX 200 Industrials index %
1998–99	26.0	12.9
1999–00	35.7	19.0
2000–01	6.1	7.1
2001–02	–10.1	–5.8
2002–03	3.7	–1.1
2003–04	20.6	18.1
2004–05	23.8	22.6
2005–06	16.0	17.2

The trust's compound return against the S&P/ASX 200 Industrials index is shown in the table below.

Note that while the trust lagged the index over 2005–06, it is still ahead of the (industrials) index for three and five years and it is relatively well-performed within its peer group for those periods.

	Trust returns %	S&P/ASX 200 Industrials index %
1 year	16.0	17.2
3 years	20.0	19.3
5 years	10.0	9.6

All figures are expressed as compound annual returns.

Importantly, unitholders should be aware that past performance is not necessarily a reliable predictor of future performance and that future performance cannot be guaranteed.

Performance details

Domestic (Australian and New Zealand) equities made up 74.8% of the trust on 29 June 2006 and earned a (gross) return of approximately 18.2% over the year.

Of the domestic companies whose shares were held by the trust for some part of the year, the better performing over the 2005–06 financial year were:

- blood products company, CSL Ltd (+59.4%)
- CHEP pallet manufacturer and recycler, Brambles Industries (+40.5%).
- hearing technology company, Cochlear (+39.4%)
- metals recycler, Sims Group (+34.8%)
- electronic share registry provider, Computershare Ltd (+34%)
- manufacturer of sleep apnoea products and humidification equipment for infants, Fisher and Paykel Healthcare (+19.1%)
- Sonic Healthcare Ltd (+13%)

Other strong domestic performers included the Australian Pipeline Trust (natural gas pipelines) and St George Bank Ltd.

The international equities portfolio was again a positive contributor, making up 21.5% of the trust at 29 June 2006 and earning a (gross) return of 19.3% over the year.

Of the international companies whose shares were held by the trust for some part of the year, the better performing over the 2005–06 financial year were:

- Norwegian manufacturer of container recycling machines, TOMRA Systems ASA (+87%) and
- Danish wind turbine manufacturer, Vestas Wind Systems (+56%).

Investments held by the trust

Portfolio diversification remains high, with no holdings in the trust above 4.7% at 30 June. The capacity added in 2003 to include a proportion of international stocks in the portfolio has enabled the trust to sustain a portfolio of around 40 stocks (42 at end June 2006), significantly above the levels held before 2003. The addition of internationally listed companies which are making a positive contribution to the environment and society has enabled the trust to invest in sectors such as organic foods and solar energy where it is not possible to obtain sound listed investments in Australia.

New limits approved this year include wind farm player, Babcock and Brown Wind Partners, and aged care services provider, DCA Group Ltd, in Australia, and the following internationally listed companies:

- software developer and distributor, Adobe Systems Inc, from the USA
- hearing aid manufacturers, GN Store Nord from Denmark and Phonak Holding AG from Switzerland
- wind turbine manufacturer, Gamesa Corp Tecnologica SA, from Spain;
- school and Greyhound bus operator, Laidlaw International, from the USA, and
- geothermal energy company, Ormat Technologies, from the USA.

Growth of the trust

Over the 2005–06 financial year, the trust grew in size to $104.5 million, up from $72.0 million a year earlier.

David Ferris

David Ferris
Investment Manager
Australian Ethical Investment Ltd

15 August 2006

Australian Ethical Large Companies Share Trust

Portfolio as at 29 June 2006

	% of fund
Cash	**3.72**
Cash and equivalent	
Equity: listed Australia and New Zealand	**74.77**
Alinta Infrastructure Holdings	
Alinta Ltd	
Australian Pipeline Trust	
Babcock and Brown Wind Partners	
Brambles Industries plc	
CSL Ltd	
Cochlear Ltd	
Computershare Ltd	
DCA Group Ltd	
Energy Developments Ltd	
Envestra Ltd	
Fairfax (John) Holdings Ltd	
Fisher and Paykel Healthcare Corporation Ltd	
GasNet Australia Trust	
Insurance Australia Group	
Macquarie Communications Infrastructure Group	
Macquarie Office Trust	
Origin Energy Ltd	
ResMed Inc	
Sigma Company Ltd	
Sims Group Ltd	
Sonic Healthcare Ltd	
St George Bank Ltd	
Suncorp-Metway Bank Ltd	
Toll Holdings Ltd	

	% of fund
Equity: listed international	**21.51**
Adobe Systems Inc	
Baldor Electric Company	
GN Store Nord	
Gamesa Corp Tecnologica SA	
Genesee and Wyoming Inc	
Herman Miller Inc	
Laidlaw International	
Ormat Technologies	
Phonak Holding AG	
Plantronics Inc	
SLM Corporation	
Shimano Inc	
TOMRA Systems ASA	
United Natural Foods Inc	
Vestas Wind Systems A/S	
Whole Foods Market Inc	
William Demant Holdings	

The fund size is $104.5 million.

Australian Ethical Large Companies Share Trust

Directors' report for the year ending 30 June 2006

Australian Ethical Investment Limited, the responsible entity of the Australian Ethical Large Companies Share Trust (the scheme) presents its directors' report together with the audited financial statements of the scheme for the year ended 30 June 2006 and the accompanying independent audit report.

Responsible entity

Australian Ethical Investment Limited was appointed the responsible entity by election of unitholders on 20 August 1999 and the scheme was registered as a managed investment scheme on 2 November 1999.

The directors of Australian Ethical Investment Limited during or since the end of the financial year are disclosed in note 12 to the financial statements.

Principal activities & review of year's operations

The principal activity of the scheme is to pool investors' savings to invest in a diversified portfolio of equity investments, mainly in large domestic and international listed companies. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the scheme investors) with a competitive financial return.

Except as otherwise described in the directors' report or the financial statements, there were no significant changes in the nature of the scheme's principal activities during the year and there were no significant changes in the scheme's state of affairs.

The scheme achieved a total return of 16.0% for the financial year. The scheme paid distributions of 25.47 cents per unit over the year.

The value of the scheme's net assets attributable to unitholders as at 30 June 2006 was $93,422,490.

Likely developments

The responsible entity is reviewing the schemes it manages (including this scheme) and depending on that analysis may, during the course of the financial year, make decisions to commence the development of new products to complement its existing offerings.

Other information relating to likely developments has not been disclosed because it may cause unreasonable prejudice to those activities.

Events subsequent to balance date

During the period between the end of the financial year and the date of this report, there were no items, transactions or events of a material and unusual nature likely in the opinion of the responsible entity, to affect significantly the operations of the scheme, the results of those operations, or the state of affairs of the scheme in future financial years.

Distributions paid and/or payable

Distributions paid and/or payable by the scheme during the year are shown in the accompanying Income Statement.

Indemnities and insurance premiums for the responsible entity and auditors

No insurance premiums are paid out of the assets of the scheme for insurance cover provided to the responsible entity, its officers or auditor of the scheme. So long as the responsible entity acts in accordance with the scheme's constitution and the law, the responsible entity is generally entitled to an indemnity out of the assets of the scheme against losses incurred while acting on behalf of the scheme. The auditor of the scheme is not indemnified out of the assets of the scheme.

Interest of the responsible entity

Fees paid to the responsible entity and its associates out of scheme property and interests held in the scheme are shown in note 11 of the attached financial statements.

Interests in the scheme

Full details of:

- interests in the scheme issued during the financial year
- withdrawals from the scheme during the financial year
- the number of interests in the scheme at the end of the financial year

are contained in note 2 of the attached financial statements.

Auditor's declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 forms part of this report and follows at the end of the report.

Signed in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.

George Pooley
Director
Australian Ethical Investment Limited
ABN 47 003 188 930
25 September 2006

Australian Ethical Equities Trust

Responsible entity's report for the year to 30 June 2006

The Equities Trust returned 14.2% for the year to 30 June 2006. This is the third consecutive year of double-digit returns returns for the trust.

The 2005–06 return is (as it was last year) below the returns earned by many funds which were able to ride the boom in oil, coal and uranium stocks. The Australian Ethical Charter requires the Equities Trust to avoid investments in industries which involve pollution, harmful effects on humans and the environment, or which destroy or waste non-renewable resources.

Despite being left behind much of its peer group over the last couple of years due to the resources boom, over the longer run, trust performance is still comparable with the market.

While not objectively measurable, this trust has the objective of being of higher ethical quality than any of its peers in Australia. In this regard, the trust this year added investments in:

- brain function monitoring device maker, BrainZ Instruments
- hydrogen fuel cells maker, Ceramic Fuel Cells Ltd
- aged care service provider, DCA Group Ltd
- bicycle maker, Accell, from Holland
- solar energy companies, Conergy and Solarworld, from Germany
- hearing aid companies, William Demant and GN Store Nord from Denmark and Phonak from Switzerland
- wind turbine manufacturer, Gamesa, from Spain
- wind farm player, Babcock and Brown Wind Partners
- water treatment services company, Hyflux, from Singapore
- school and Greyhound bus operator, Laidlaw International, from the USA
- geothermal energy company, Ormat Technologies, from the USA
- coal seam gas companies, Arrow Energy, CH4 Gas Limited, Eastern Star Gas and Queensland Gas company Limited. The responsible entity believes that power from natural gas, which has emissions of only one-third to half that of coal-fired power, is an important transitional fuel as the world moves towards greater reliance on renewable energy.

Since 30 June 2006, a new limit has been approved for Itron, which is the technology and market leader in the US water metering industry.

Distributions

Out of the 14.2% return, the trust paid a total distribution of 20.38 cents per unit, as shown in the table below.

	6 month period, cents per unit		Full year return*	
	to 31 Dec 2005	to 30 June 2006	cents per unit	%
Distributions	1.24	15.29	16.53	11.6
Unit value change	14.93	–11.08	3.85	2.6
Net earnings result	16.17	4.21	20.38	14.2

* assumes reinvestment of half-yearly distribution.

Distributions were high as in the previous two years of strong share market returns. Australian Ethical maintains strict disciplines with its holdings – investments in particular companies are subject to upper limits (expressed as a percentage of portfolio) as a prudential measure. In addition, the investment team works towards target holdings (also expressed as a percentage of portfolio) based on relative valuation of approved stocks.

These disciplines mean that when a stock rises strongly in value, the team will generally sell some of its holding rather than ending up with disproportionately large exposures to the stock, or with too much in stocks that may now be relatively overvalued on fundamentals.

With this sell discipline, in a rising market the trust tends to generate a realisation of capital gains. Capital gains may also be realised where the companies invested in are taken over or where the trust has to divest for ethical reasons. Under the trust constitution, these capital gains are distributed to unitholders.

Performance comparisons

For each of the Australian Ethical trusts, the management chooses an appropriate benchmark against which long-term performance is compared. For the Australian Ethical Equities Trust, the benchmark has, to date, been the S&P/ASX 300 index. This is an index of 300 of the largest companies listed on the Australian Stock Exchange.

Unlike many other funds, generally there may be a fair bit of year-to-year variation between trust returns and the benchmark index. This is due to the structural differences between the trust portfolio and the S&P/ASX 300. In particular:

- the index includes many large resources companies (for example, Rio Tinto, BHP Billiton, Woodside) not held by the trust
- the major banks make up a substantial part of the index and are not held by the trust
- the trust holds proportionately more in healthcare stocks and utilities than benchmark index proportions would suggest
- the trust holds proportionately more of relatively smaller stocks – only a handful of the trust's stocks are in the top 50 of the index.

Fuelled by the boom in oil, coal, uranium and other mining stocks, the S&P/ASX 300 rose by 24.0% over the year.

Recently, the responsible entity for the trust decided to change the benchmark to the S&P/ASX *Small Industrials* index – an index of smaller companies listed on the Australian Stock exchange **excluding mining sector stocks**. It was thought that this would give a better indication of the fund manager's real performance in managing within the ethical universe, given that the Australian Ethical Charter rules out investment in highly polluting industries, industries which destroy or waste non-renewable resources and industries which extract materials which have a harmful effect on people or the environment.

Trust performance may still vary both up and down from this new benchmark as there are still major structural differences between funds constructed around the Australian Ethical Charter and a general index of industrial stocks. However, the change does eliminate one major structural difference.

The table below shows the year-by-year performance of the trust against the new benchmark index. It is worth noting:

- the significant volatility in sharemarket, index and trust returns. As emphasised in the trust product disclosure document, equities markets are volatile with large upward and downward swings. Investors need to be aware of this when choosing to invest in an equities fund and a long-term investment horizon is generally recommended to allow some balancing out over time of the swings, and
- that while there is substantial correlation between past trust returns and the S&P/ASX Small Industrials index, there can be sizeable year-to-year differences – sometimes in favour of the trust, sometimes the trust has not done as well as the index. It is notable that, with the exception of 2001–02, the trust has beaten the index in all bad years (years of negative or single-digit returns).

	Trust performance per year %	S&P/ASX Small Industrials index %
1995–96	25.3	28.1
1996–97	14.2	30.3
1997–98	–6.3	–8.0
1998–99	23.6	27.0
1999–00	35.0	–0.4
2000–01	9.2	–5.9
2001–02	–12.7	–3.0
2002–03	4.7	3.8
2003–04	14.3	22.4
2004–05	19.3	26.1
2005–06	14.2	20.0

In a relative sense, the returns of the last few years have been disappointing. There are various structural reasons which can be pointed to. For example, even with resource stocks out of the comparison, there are many industrial companies which provide services to the mining sector which have done very well, in which the trust would also not invest. However, in our view looking at the full table still suggests that long-run returns for a highly ethical fund can be comparable with the market.

The trust's compound returns against the S&P/ASX Small Industrials index are shown in the table below.

	Trust returns %	S&P/ASX Small Industrials index %
1 year	14.2	20.0
3 years	15.9	22.8
5 years	7.3	13.3

All figures expressed as compound annual returns.

The Australian Ethical Equities Trust retains probably the strongest ethical profile of the Australian Ethical trusts, with the flexibility to support some of the smaller, more cutting-edge ethical stocks such as CDS Technologies (waste water technology), Ceramic Fuel Cells, Quantum Technology (a range of computer and other products for the sight-impaired), CVC Renewable Energy Equities Funds and CVC Sustainable Investments (private equity ethical portfolios), and Mornington Park Development (a world-class waste transfer station in Hobart). It remains the belief at Australian Ethical, and among ethical investors generally, that there is a long-run financial pay-off to supporting such companies, in addition to the intrinsic social and environmental benefits.

Importantly, unitholders should be aware that past performance is not necessarily a reliable predictor of future performance and that future performance cannot be guaranteed.

Performance details

Domestic (Australian and New Zealand) equities made up 72.6% of the trust on 29 June 2006 and earned a (gross) return of 14.8% over the year.

Of the Australian and New Zealand companies whose shares were held by the trust for some part of the year, the best performing were:

- drainage system provider, Environzel (+222%)
- provider of scanners to improve coal burning efficiency, Scantech (+100%)
- Vision Systems Ltd (+66.1%)
- hearing technology company, Cochlear (+39.4%)
- metals recycler, Sims Group (+34.8%), and
- software provider, Technology One Ltd (+30.8%).

The responsible entity closely monitors its investments in smaller companies, including maintaining contact with the companies and visiting them as often as possible. Continued investments in these companies reflect an assessment by the responsible entity as to their operational soundness. Generally, investment in smaller companies is longer term in nature.

The international equities portfolio was again a positive contributor, making up 20.2% of the trust at 29 June 2006 and earning a (gross) return of 25.7% over the year.

Of the international companies whose shares were held by the trust for some part of the year, the best performing were:

- Norwegian manufacturer of container recycling machines, TOMRA Systems ASA (+87%) and
- Danish wind turbine manufacturer, Vestas Wind Systems (+56%).

Investments held by the trust

Portfolio diversification continued to improve over the year with the addition of several new companies, especially internationally listed companies in sectors such as organic foods and solar energy where it is not possible to obtain listed investments in Australia. The trust held investments in 61 companies at the end of June 2006 – compared with 35 in June 2000 – with no holdings in the trust above 5%. At the end of June 2006 the trust held investments in 21 internationally listed companies compared to 9 at the end of June 2005.

Growth of the trust

Over the 2005–06 financial year, the trust grew in size to $138.2 million, up from $119 million a year ago.

David Ferris

David Ferris
Investment Manager
Australian Ethical Investment Ltd

15 August 2006

Australian Ethical Equities Trust

Portfolio as at 29 June 2006

	% of fund
Cash	**5.73**
Cash and equivalent	
Equity: listed Australia and New Zealand	**72.56**
Alinta Infrastructure Holdings	
Alinta Ltd	
Arrow Energy	
Australian Pipeline Trust	
Babcock and Brown Wind Partners	
Baxter Group Ltd	
Blackmores Ltd	
BrainZ Instruments	
Brambles Industries plc	
CDS Technologies Ltd	
CH4 Gas Ltd	
Ceramic Fuel Cells Ltd	
Cochlear Ltd	
Codan Ltd	
DCA Group Ltd	
Eastern Star Gas	
Energy Developments Ltd	
Envestra Ltd	
Environzel Ltd	
GasNet Australia Trust	
Geodynamics	
Hastings Fund Management Ltd	
Insurance Australia Group	
Lipa Pharmaceuticals Ltd	
MYOB Ltd	
Macquarie Communications Infrastructure Group	
Orbital Engine Corporation Ltd	
Origin Energy Ltd	
Queensland Gas Company Ltd	
ResMed Inc	
SAI Global Ltd	
Scantech Ltd	
Sigma Company Ltd	
Sims Group Ltd	
Sonic Healthcare Ltd	
St George Bank Ltd	
Technology One Ltd	
Toll Holdings Ltd	
Vision Systems Ltd	
Webcentral Group Ltd	
Equity: listed international	**20.21**
Accell Group	
Baldor Electric Company	
Boiron Group	
Conergy AG	
GN Store Nord	
Gamesa Corp Tecnologica SA	
Genesee and Wyoming Inc	
Herman Miller Inc	
Hyflux Ltd	
Laidlaw International	
Ormat Technologies	
Phonak Holding AG	
Plantronics Inc	
Shimano Inc	
Solarworld AG	
TOMRA Systems ASA	
Trex Corporation Inc	
United Natural Foods Inc	
Vestas Wind Systems A/S	
Whole Foods Market Inc	
William Demant Holdings	
Equity: unlisted	**1.50**
Equity – unlisted Australian	

The fund size is $138.2 million.

Australian Ethical Equities Trust

Directors' report for the year ending 30 June 2006

Australian Ethical Investment Limited, the responsible entity of the Australian Ethical Equities Trust (the scheme) presents its directors' report together with the audited financial statements of the scheme for the year ended 30 June 2006 and the accompanying independent audit report.

Responsible entity

Australian Ethical Investment Limited was appointed the responsible entity by election of unitholders on 20 August 1999 and the scheme was registered as a managed investment scheme on 2 November 1999.

The directors of Australian Ethical Investment Limited during or since the end of the financial year are disclosed in note 13 to the financial statements.

Principal activities & review of year's operations

The principal activity of the scheme is to pool investors' savings to invest in a diversified portfolio of equity investments, including longer term unlisted shares and shares in international listed companies. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the scheme investors) with a competitive financial return.

Except as otherwise described in the directors' report or the financial statements, there were no significant changes in the nature of the scheme's principal activities during the year and there were no significant changes in the scheme's state of affairs.

The scheme achieved a total return of 14.2% for the financial year. The scheme paid distributions of 16.53 cents per unit over the year.

The value of the scheme's net assets attributable to unitholders as at 30 June 2006 was $126,750,399.

Likely developments

The responsible entity is reviewing the schemes it manages (including this scheme) and depending on that analysis may, during the course of the financial year, make decisions to commence the development of new products to complement its existing offerings.

Other information relating to likely developments has not been disclosed because it may cause unreasonable prejudice to those activities.

Events subsequent to balance date

During the period between the end of the financial year and the date of this report, there were no items, transactions or events of a material and unusual nature likely in the opinion of the responsible entity, to affect significantly the operations of the scheme, the results of those operations, or the state of affairs of the scheme in future financial years.

Distributions paid and/or payable

Distributions paid and/or payable by the scheme during the year are shown in the accompanying Income Statement.

Indemnities and insurance premiums for the responsible entity and auditors

No insurance premiums are paid out of the assets of the scheme for insurance cover provided to the responsible entity, its officers or auditor of the scheme. So long as the responsible entity acts in accordance with the scheme's constitution and the law, the responsible entity is generally entitled to an indemnity out of the assets of the scheme against losses incurred while acting on behalf of the scheme. The auditor of the scheme is not indemnified out of the assets of the scheme.

Interest of the responsible entity

Fees paid to the responsible entity and its associates out of scheme property and interests held in the scheme are shown in note 12 of the attached financial statements.

Interests in the scheme

Full details of:

- interests in the scheme issued during the financial year
- withdrawals from the scheme during the financial year
- the number of interests in the scheme at the end of the financial year

are contained in note 2 of the attached financial statements.

Auditor's declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 forms part of this report and follows at the end of the report.

Signed in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.

George Pooley
Director
Australian Ethical Investment Limited
ABN 47 003 188 930
25 September 2006

Australian Ethical Balanced Trust

Responsible entity's report for the year to 30 June 2006

The Balanced Trust achieved an overall return of 9.5% for the financial year ended 30 June 2006.

The trust, which won the S&P 2005 Fund of the Year in the category Balanced Fund – Neutral, has dropped slightly behind mainstream balanced funds in return performance for the last couple of years. Mainstream funds were better positioned, of course, to obtain benefit from the strong growth in coal, oil and uranium stocks, which the Australian Ethical Charter precludes the trust from investing in.

Longer term returns for this trust, however – from five years dating back to inception – are among the best in the balanced fund category. Further, the standard deviation of returns of the trust is well below the median for its category, which means that the superior long-run returns have been achieved with a relatively low risk profile.

The trust retains a balance between quality domestic and international stocks, property, and debt securities (including a small proportion of private loans), with a move towards a slight increase in property investment over the last year. All investments in the portfolio are screened against the Australian Ethical Charter.

Distributions

As shown in the table below, the trust paid total distributions of 11.80 cents per unit over the year.

	6 month period, cents per unit		Full year return*	
	to 31 Dec 2005	to 30 June 2006	cents per unit	%
Distributions	2.09	10.48	12.57	10.1
Unit value change	5.35	–6.12	–0.77	–0.6
Net earnings result	7.44	4.36	11.80	9.5

* assumes reinvestment of half-yearly distribution.

Performance comparisons

For each of the Australian Ethical trusts, the management chooses an appropriate benchmark against which long-term performance is compared. For the Australian Ethical Balanced Trust, the current benchmark is the S&P Multisector 60 index. This is an index of the performance of all multisector funds with a reasonably comparable asset allocation. Multisector or balanced funds are funds which have different types of assets within their portfolios – for example, fixed interest, property, Australian shares and international shares. Funds which have up to 60% of their portfolios in growth assets (shares and property) are classified by fund manager research agency S&P into the Multisector 60 category. There are also Multisector 20, Multisector 40, Multisector 80, and Multisector 100 categories.

The index of returns for fund managers in the S&P Multisector 60 category for the 2005–06 financial year grew by 13.5%. Most of this excess over the trust's returns can be explained by the capacity of other funds to invest in resource stocks, most of which breach items (i), (ii) and (iii) of the Australian Ethical Charter.

The Balanced Trust's average returns over five and 10 years, however, have been higher than its benchmark index.

	Trust returns %	Benchmark index %
1 year	9.5	13.5
3 years	12.5	12.7
5 years	8.9	6.8
10 years	9.3	8.2

All figures expressed as compound annual returns.

Importantly, of course, unitholders should be aware that past performance is not necessarily a reliable predictor of future performance and that future performance cannot be guaranteed.

Investment strategy 2005–06

The table below shows the percentage of assets held in various categories at the end of June 2006.

	%
Total yield assets	**45.6**
Private loans	2.1
Cash and interest-bearing securities	40.2
Cross-holding in Australian Ethical Income Trust	3.3
Hybrid assets	**1.6**
Total growth assets	**53.0**
Domestic equities	34.6
International equities	12.1
Property	6.3

Asset categories

The trust invests in a balanced range of different asset categories and in a range of investments within each of these categories. This is done to reduce the variability of returns over time and to spread the financial risk which is attached to any one investment or any one asset category. The proportions invested are set out in the table above, and are described in more detail below.

Equities

The trust strategy remains to focus, both domestically and internationally, on relatively mature, stable companies with a history of performance, with a preference for companies paying franked dividends. This asset class earned 15.2% (gross) over the full year. The international component of this was managed conservatively and earned 19.5% over the year.

Generally, the Balanced Trust's equities portfolio was subject to the same influences as the Australian Ethical Equities Trust and the Australian Ethical Large Companies Share Trust (see preceding reports).

Better-performing domestic stocks included Cochlear, Sims Group (metals recycler), Brambles (pallet company) and Technology One (information technology), while the best of the overseas stocks were Norwegian recycling machine maker, TOMRA Systems ASA, and Danish wind turbine manufacturer, Vestas Wind Systems.

Property

Generally, the responsible entity sees it as appropriate that a balanced fund with a long-term investment outlook should have a reasonable exposure to property and we have been working to build this part of the portfolio. Property investment can take the form of direct property ownership, investment in property trusts, or syndicates.

From an ethical perspective, the responsible entity considers both the tenancy/use of the property and the building itself (energy efficiency and heritage characteristics). Our screening standards have been such that it has been difficult to identify sufficient indirect property investments (that is, property trusts) to build a major portfolio, although this is changing with a number of new funds coming onto the market including some syndicated funds operated by major property companies. This year, the trust added investments in the Investa Diversified Office Trust (the manager has good credentials in improving building efficiency), the ING Community Living Fund (invests in aged care and student accommodation) and the ING Healthcare Fund (medical facilities).

Australian Ethical is also looking at expanding its direct property investments, focusing on the southeast region of Australia. The latest investment is in a reasonably modern efficient building with a government tenant in Canberra. The trust also holds investments in low-income units and in eco-village developments. Two new prospective investments have been identified within the Canberra region.

This asset class earned 13.9% (gross) for the year.

Private loans

Ideally this attractive asset class would be expanded, but the responsible entity is very selective in its identification of loans – there are tight lending criteria arising out of the trust's risk control framework – and demand for credit from Australian Ethical has been slow. With the repayment of a significant loan this year, the proportion of the trust invested in this asset class has fallen from 2.7% to 2.1%. The loans support such activities as alternative independent schools, waste management and eco-village developments.

The weighted average rate on the loan portfolio is around 9%.

Interest-bearing securities

Throughout the year, the interest-bearing securities part of the portfolio was kept on the short side in terms of interest rate risk as the interest rate cycle stayed in an upswing. The responsible entity has avoided locking the trust into fixed interest rates which may depress returns relative to the market if interest rates rise.

The majority of the fixed interest portfolio is held in AAA mortgage-backed securities (9.42% of the trust) and in the debt of the regional banks (St George Bank, Suncorp-Metway Bank, Bendigo Bank, Bank of Queensland, Bank of Western Australia and Adelaide Bank – 18.92% of the trust) – in a mix of senior (12.87% of the trust) and subordinated debt instruments.

The trust also holds investments with the Australian Central Credit Union, the Maleny Credit Union and Members Equity Credit Union. Other debt securities include Medfin Trust securities (securitised loans to medical practices), preference shares of Fairfax (John) Holdings Ltd., securities of Origin Energy Ltd, securities of the US student loan organisation, Sallie Mae, securities in Vero Insurance Ltd (a subsidiary of Promina) and of natural gas distributor, Envestra.

The gross return to the interest-bearing security portfolio for the year was 6.2%.

At the end of the financial year, the Balanced Trust maintained a significant holding of 3.3% in the Australian Ethical Income Trust. This has been an efficient means of giving the Balanced Trust access to the income-bearing securities market without duplicating the investment management function of the Income Trust. The responsible entity rebates back to unitholders that proportion of management fees arising from such double investment in Australian Ethical trusts.

Growth of the trust

The 2005–06 year saw further growth in the size of the trust from \$153 million to \$195.5 million on 30 June 2006.

David Ferris

David Ferris
Investment Manager
Australian Ethical Investment Ltd

11 August 2006

Australian Ethical Balanced Trust

Portfolio as at 29 June 2006

	% of fund
Cash	**3.75**
Cash and equivalent	
Cross-holding	**3.28**
Australian Ethical Income Trust	
Debt equity instruments	**1.58**
Alinta Ltd	
DCA Group Ltd	
Toll Holdings Ltd	
Equity: listed Australia and New Zealand	**34.37**
Alinta Infrastructure Holdings	
Alinta Ltd	
Australian Education Trust	
Australian Pipeline Trust	
Babcock and Brown Wind Partners	
Baxter Group Ltd	
Blackmores Ltd	
Brambles Industries plc	
Cochlear Ltd	
Codan Ltd	
DCA Group Ltd	
Energy Developments Ltd	
Envestra Ltd	
Fairfax (John) Holdings Ltd	
Fisher and Paykel Healthcare Corporation Ltd	
GasNet Australia Trust	
Hastings Fund Management Ltd	
ING Real Estate Community Living	
Insurance Australia Group	
MYOB Ltd	
Macquarie Communications Infrastructure Group	
Origin Energy Ltd	
ResMed Inc	
SAI Global Ltd	
Sigma Company Ltd	
Sims Group Ltd	
Sonic Healthcare Ltd	
St George Bank Ltd	
Suncorp-Metway Bank Ltd	
Technology One Ltd	
Toll Holdings Ltd	
Equity: listed international	**12.06**
Accell Group	
Baldor Electric Company	
Boiron Group	
GN Store Nord	
Gamesa Corp Tecnologica SA	
Genesee and Wyoming Inc	
Herman Miller Inc	
Laidlaw International	
Phonak Holding AG	
Plantronics Inc	
SLM Corporation	
Shimano Inc	
TOMRA Systems ASA	
Trex Corporation Inc	
United Natural Foods Inc	
Vestas Wind Systems A/S	
Whole Foods Market Inc	
William Demant Holdings	
Equity: unlisted	**0.24**
Equity – unlisted Australian	
Interest-bearing (general)	**36.42**
Adelaide Bank Ltd	
Australia Post	
Australian Central Credit Union	
Bank of Queensland Ltd	
Bank of Western Australia Ltd	
Bendigo Bank Ltd	
Envestra Ltd	
Envestra Victoria Pty Ltd	
Fairfax (John) Holdings Ltd	
IAG Finance (NZ) Ltd	
Maleny and District Community Credit Union	
SLM Corporation	
Securitised Debt	
St George Bank Ltd	
Suncorp-Metway Bank Ltd	
TAPS Trust	
Vero Insurance Ltd	
Interest-bearing (loans)	**2.05**
Mortgage loans	
Secured loans	
Property	**6.25**
Australian Education Trust	
Childcare Property Trust No. 1	
ING Real Estate Healthcare	
ING Real Estate Community Living	
Investa Diversified Office Fund	
Macquarie Office Trust	
Property	

The fund size is $195.5 million.

Australian Ethical Balanced Trust

Directors' report for the year ending 30 June 2006

Australian Ethical Investment Limited, the responsible entity of the Australian Ethical Balanced Trust (the scheme) presents its directors' report together with the audited financial statements of the scheme for the year ended 30 June 2006 and the accompanying independent audit report.

Responsible entity

Australian Ethical Investment Limited was appointed the responsible entity by election of unitholders on 20 August 1999 and the scheme was registered as a managed investment scheme on 2 November 1999.

The directors of Australian Ethical Investment Limited during or since the end of the financial year are disclosed in note 14 to the financial statements.

Principal activities & review of year's operations

The principal activity of the scheme is to pool investors' savings to invest in a portfolio of short, medium and long term investments, both domestic and international. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the scheme investors) with a competitive financial return.

Except as otherwise described in the directors' report or the financial statements, there were no significant changes in the nature of the scheme's principal activities during the year and there were no significant changes in the scheme's state of affairs.

The scheme achieved a total return of 9.5% for the financial year. The scheme paid distributions of 12.57 cents per unit over the year.

The value of the scheme's net assets attributable to unitholders as at 30 June 2006 was $181,579,299.

Likely developments

The responsible entity is reviewing the schemes it manages (including this scheme) and depending on that analysis may, during the course of the financial year, make decisions to commence the development of new products to complement its existing offerings.

Other information relating to likely developments has not been disclosed because it may cause unreasonable prejudice to those activities.

Events subsequent to balance date

During the period between the end of the financial year and the date of this report, there were no items, transactions or events of a material and unusual nature likely in the opinion of the responsible entity, to affect significantly the operations of the scheme, the results of those operations, or the state of affairs of the scheme in future financial years.

Distributions paid and/or payable

Distributions paid and/or payable by the scheme during the year are shown in the accompanying Income Statement.

Indemnities and insurance premiums for the responsible entity and auditors

No insurance premiums are paid out of the assets of the scheme for insurance cover provided to the responsible entity, its officers or auditor of the scheme. So long as the responsible entity acts in accordance with the scheme's constitution and the law, the responsible entity is generally entitled to an indemnity out of the assets of the scheme against losses incurred while acting on behalf of the scheme. The auditor of the scheme is not indemnified out of the assets of the scheme.

Interest of the responsible entity

Fees paid to the responsible entity and its associates out of scheme property and interests held in the scheme are shown in note 13 of the attached financial statements.

Interests in the scheme

Full details of:

- interests in the scheme issued during the financial year
- withdrawals from the scheme during the financial year
- the number of interests in the scheme at the end of the financial year

are contained in note 2 of the attached financial statements.

Auditor's declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 forms part of this report and follows at the end of the report.

Signed in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.

George Pooley

George Pooley
Director
Australian Ethical Investment Limited
ABN 47 003 188 930
25 September 2006

Australian Ethical Income Trust

Responsible entity's report for the year to 30 June 2006

The Income Trust achieved a full-year return of 5.0%, one percentage point below its long-term performance target of the consumer price index (CPI) plus 2%. The CPI rise for the year was 4.0%.

Out of this return, the Income Trust paid two distributions, totaling 4.51 cents per unit, as shown in the table below.

	6 month period, cents per unit		Full year return*	
	to 31 Dec 2005	to 30 June 2006	cents per unit	%
Distributions	2.38	2.13	4.51	4.7
Unit value change	0.14	0.09	0.23	0.2
Net earnings result	2.52	2.22	4.74	5.0

* assumes reinvestment of half-yearly distribution.

The following table of returns shows that the Income Trust has recorded seven consecutive years of stable performance; this performance taking place during a period of generally low (historically) interest rates.

	Trust performance per year %	CPI + 2%
1999–00	4.6	5.2
2000–01	4.6	8.1*
2001–02	4.7	4.9
2002–03	5.2	4.7
2003–04	4.9	4.5
2004–05	4.9	4.7
2005–06	5.0	6.0

* impact of GST introduction.

Stable returns is another way of saying low volatility of returns. *Volatility of returns* is how investment analysts generally measure risk. The responsible entity continues to manage the trust so as to achieve returns reflecting current interest rates with very low volatility.

Importantly, unitholders should be aware that past performance is not necessarily indicative of future performance and that the future performance of the trust is not guaranteed.

The Income Trust's returns will tend to move broadly in line with the general level of interest rates, whereas portfolios with interest rates locked in for longer periods will tend to have returns which reflect more where interest rates have been. Not having a major risk of the capital gains and losses which can be associated with locked-in interest rates (if interest rates rise, a 10-year fixed rate bond will fall in market value) also contributes to the relative stability of Income Trust returns.

Asset classes

Private loans

The private loan portfolio is an important feature of the Income Trust. As well as offering the highest yields of the portfolio's assets, it also provides the most direct support for activities viewed as positive under the Australian Ethical Charter – for example, schools offering holistic and non-competitive education alternatives or farms engaged in sustainable agriculture.

Repayment of a significant loan during the year reduced the proportion of private loans to 10.2% of the trust – down from 14.2% last year. Ideally, this asset class would be increased as it offers attractive returns and the portfolio is well secured against real property. The trust operates to a minimum standard of a 66.7% loan to valuation ratio. That is, loans are generally made only up to 66.7% of the value of the property which secures the loan. As at 30 June 2006, all loans met that standard, with a weighted average loan to valuation ratio of approximately 21%. The weighted average yield on the loan portfolio as at the same date was 8.54%.

Interest-bearing securities

Apart from private loans, the trust held a further 81% of its portfolio in interest-bearing securities as at 30 June 2006. This can be broken up into the following credit risk categories:

- senior debt of credit unions – 1.0% of the trust
- subordinated debt of credit unions – 1.2%
- senior debt of the regional banks – 33%
- subordinated debt of the regional banks – 2.5%
- regional bank perpetual subordinated debt – 3.4%
- residential mortgage-backed securities, all AAA rated – 19.3%
- Medfin Trust securities (AAA-rated securitised loans to medical practices) – 0.5%
- rated investment-grade debt – 18.2%
- listed preference shares – 2%.

Generally, the AAA-rated mortgage-backed securities and the senior bank debt would be regarded as the most creditworthy of these securities, although the responsible entity monitors the creditworthiness of all its investments. *Senior* debt means that the debt ranks first in obligations to be met, ranking ahead of *subordinated* debt. *Perpetual* debt is higher risk than fixed-term debt. After the regional banks, the debt of the credit unions would be on a lower tier.

The AAA-rated mortgage-backed securities formally have long-dated maturities, but the responsible entity selects lines of these securities which in practice have a very short weighted average life and the portfolio as a whole has a very short duration. Consequently there is very little interest rate risk in the portfolio and it would be expected that the yield on this asset class will move broadly in line with the level of interest rates.

Growth of the trust

Over the 2005–06 financial year, the Income Trust grew in size from $17.6 million to $20.6 million.

David Ferris

David Ferris
Investment Manager
Australian Ethical Investment Ltd

17 August 2006

Australian Ethical Income Trust

Portfolio as at 29 June 2006

	% of fund
Cash	**9.78**
Cash and equivalent	
Interest-bearing (general)	**80.03**
Adelaide Bank Ltd	
Australia Post	
Australian Central Credit Union	
Bank of Queensland Ltd	
Bank of Western Australia Ltd	
Bendigo Bank Ltd	
Envestra Ltd	
Fairfax (John) Holdings Ltd	
Maleny and District Community Credit Union	
Origin Energy Ltd	
SLM Corporation	
Securitised debt	
St George Bank Ltd	
Suncorp-Metway Bank Ltd	
Vero Insurance Ltd	
Interest-bearing (loans)	**10.19**
Mortgage loans	

The fund size is $20.6 million.

Australian Ethical Income Trust

Directors' report for the year ending 30 June 2006

Australian Ethical Investment Limited, the responsible entity of the Australian Ethical Income Trust (the scheme) presents its directors' report together with the audited financial statements of the scheme for the year ended 30 June 2006 and the accompanying independent audit report.

Responsible entity

Australian Ethical Investment Limited was appointed the responsible entity by election of unitholders on 20 August 1999 and the scheme was registered as a managed investment scheme on 2 November 1999.

The directors of Australian Ethical Investment Limited during or since the end of the financial year are disclosed in note 13 to the financial statements.

Principal activities & review of year's operations

The principal activity of the scheme is to pool investors' savings to invest in a portfolio of capital stable, interest bearing securities of short, medium and long term duration. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the scheme investors) with a competitive financial return.

Except as otherwise described in the directors' report or the financial statements, there were no significant changes in the nature of the scheme's principal activities during the year and there were no significant changes in the scheme's state of affairs.

The scheme achieved a total return of 5.0% for the financial year. The scheme paid distributions of 4.51 cents per unit over the year.

The value of the scheme's net assets attributable to unitholders as at 30 June 2006 was $20,352,730.

Likely developments

The responsible entity is reviewing the schemes it manages (including this scheme) and depending on that analysis may, during the course of the financial year, make decisions to commence the development of new products to complement its existing offerings.

Other information relating to likely developments has not been disclosed because it may cause unreasonable prejudice to those activities.

Events subsequent to balance date

During the period between the end of the financial year and the date of this report, there were no items, transactions or events of a material and unusual nature likely in the opinion of the responsible entity, to affect significantly the operations of the scheme, the results of those operations, or the state of affairs of the scheme in future financial years.

Distributions paid and/or payable

Distributions paid and/or payable by the scheme during the year are shown in the accompanying Income Statement.

Indemnities and insurance premiums for the responsible entity and auditors

No insurance premiums are paid out of the assets of the scheme for insurance cover provided to the responsible entity, its officers or auditor of the scheme. So long as the responsible entity acts in accordance with the scheme's constitution and the law, the responsible entity is generally entitled to an indemnity out of the assets of the scheme against losses incurred while acting on behalf of the scheme. The auditor of the scheme is not indemnified out of the assets of the scheme.

Interest of the responsible entity

Fees paid to the responsible entity and its associates out of scheme property and interests held in the scheme are shown in note 12 of the attached financial statements.

Interests in the scheme

Full details of:

- interests in the scheme issued during the financial year
- withdrawals from the scheme during the financial year
- the number of interests in the scheme at the end of the financial year

are contained in note 2 of the attached financial statements.

Auditor's declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 forms part of this report and follows at the end of the report.

Signed in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.

George Pooley
Director
Australian Ethical Investment Limited
ABN 47 003 188 930
25 September 2006

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2006 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Thomas Davis & Co

THOMAS DAVIS & CO.

R C Geeves

R. C. GEEVES PARTNER

Date 25 September 2006

Liability limited by a scheme approved under Professional Standards Legislation.

Balance Sheet
as at 30 June 2006

	Notes	**2006 $**	2005 $
Assets			
Cash and cash equivalents	3	**3,797,187**	5,769,077
Trade and other receivables	4	**523,858**	723,697
Financial assets	5	**101,960,904**	67,479,680
Total assets		**106,281,949**	73,972,454
Liabilities			
Trade and other payables	6	**416,507**	1,104,220
Distribution payable	7	**12,442,952**	10,216,352
Total liabilities excluding net assets attributable to unitholders		**12,859,459**	11,320,572
Net assets attributable to unitholders	2	**93,422,490**	62,651,882
Total liabilities		**106,281,949**	73,972,454

The accompanying notes form part of these financial statements.

Income Statement
for the year ended 30 June 2006

	Notes	2006 $	2005 $
Investment income			
Currency option revenue		**183,601**	127,018
Distributions received & receivable		**754,824**	302,352
Dividends domestic received & receivable		**1,668,502**	1,024,820
Dividends overseas received & receivable		**609,120**	504,436
Interest received & receivable		**270,889**	193,763
Other income		**11**	2,695
Profit (loss) on foreign exchange		**(90,624)**	(63,961)
Profit (loss) on sale of investments		**5,472,923**	5,613,482
Unrealised increment (decrement) on fluctuation in value of investments		**4,972,932**	6,234,144
		13,842,178	13,938,749
Less expenditure			
Accounting fees	11	**62,927**	33,130
Auditors' remuneration	8	**16,759**	10,326
Currency option amortisation		**152,564**	96,312
Printing & other costs		**27,853**	27,650
Reimbursable expenses	11	**38,301**	27,133
Responsible entity fees	11	**1,709,841**	1,141,323
		2,008,245	1,335,874
Profit (loss) from operating activities		**11,833,933**	12,602,875
Finance costs - distributions to unitholders	7	**(13,340,546)**	(10,596,791)
Change in net assets attributable to unitholders	2	**(1,506,613)**	2,006,084

The accompanying notes form part of these financial statements.

Cash Flow Statement
for the year ended 30 June 2006

	Notes	2006 $	2005 $
Cash flows from operating activities			
Interest received		**292,568**	172,307
Dividends received		**2,240,539**	1,537,054
Trust distribution received		**552,798**	317,580
Other income received		**92,988**	65,752
Expenses		**(1,852,975)**	(1,203,982)
Net cash provided by (used in) operating activities	9	**1,325,918**	888,711
Cash flows from investing activities			
Proceeds from sale of investments		**90,660,921**	68,442,675
Purchase of investments		**(115,122,004)**	(77,939,460)
Net cash provided by (used in) investing activities		**(24,461,083)**	(9,496,785)
Cash flows from financing activities			
Proceeds from issue of units		**29,803,410**	17,450,826
Payment of redemption of units		**(6,023,609)**	(5,362,760)
Distributions paid		**(2,616,526)**	(255,632)
Net cash provided by (used in) financing activities		**21,163,275**	11,832,434
Net increase (decrease) in cash held		**(1,971,890)**	3,224,360
Cash at beginning of financial year		**5,769,077**	2,544,717
Cash at end of financial year	3	**3,797,187**	5,769,077

The accompanying notes form part of these financial statements.

Notes to the financial statements for the year ended 30 June 2006

Note 1 - Statement of significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with the Australian Ethical Investment Schemes Constitution, Australian Accounting Standards, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report covers Australian Ethical Large Companies Share Trust as an individual entity. Australian Ethical Large Companies Share Trust is established and domiciled in Australia.

The financial report of Australian Ethical Large Companies Share Trust as an individual entity complies with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the scheme in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of preparation

First time Adoption of Australian equivalents to International Financial Reporting Standards

Australian Ethical Large Companies Share Trust as an individual entity has prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian equivalents to International Financial Reporting Standards, adjustments to the entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These accounts are the first financial statements of Australian Ethical Large Companies Share Trust to be prepared in accordance with AIFRS.

The accounting policies set out below have been consistently applied to all years presented.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected financial assets for which the fair value basis of accounting has been applied.

Accounting policies

(a) Cash and cash equivalents

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

(b) Financial instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments.

Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the Income Statement in the period in which they arise.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Notes to the financial statements for the year ended 30 June 2006

Note 1 - Statement of significant accounting policies - continued

(b) Financial instruments - continued

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

(c) Payables

Liabilities are recognised for all amounts due at balance date. Creditors are normally settled within 30 days.

(d) Distribution

Australian Ethical distributes to the unitholders of each scheme the income (generally net taxable income plus non-taxable income, not including realised capital gains) earned by the schemes each six months. In addition, normally taxable capital gains realised over the full financial year will be included with the distribution for the six months ending 30 June. The non-taxable component of income may be retained in the schemes.

'Net taxable income' is all the income earned by the scheme, less expenses incurred in obtaining that income, and is determined in accordance with section 95 of the Income Tax Assessment Act.

(e) Change in net assets attributable to unitholders

Change in net assets attributable to unitholders may consist of realised net capital losses and unrealised increments and decrements arising on fluctuation in value of investments. They are included in the determination of distributable income when assessable for taxation purposes.

(f) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established.

Trust distributions are recognised on an accrual basis.

Unrealised increments and decrements arising on fluctuation in value of investments are included in the net operating income for the year.

(g) Goods and Services Tax (GST)

The scheme qualifies for Reduced Input Tax Credits (RITC's) at a rate of 75%.

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the Balance Sheet are shown inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Balance Sheet.

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

(h) Income tax

No tax is payable by the scheme as all taxable income is distributed to unitholders.

(i) Foreign currency transactions and balances

Foreign currency transactions are translated into Australian Currency at the rate of exchange applicable at the date of the transaction. Amounts payable and receivable in foreign currencies at balance date are translated at the year-end exchange rate. The resulting gains and losses are included in the Income Statement in the period they arise.

Notes to the financial statements for the year ended 30 June 2006

Note 1 - Statement of significant accounting policies - continued

(j) Currency options

Options are purchased to hedge against foreign currency exposure. The cost is amortised over the period of the option. The options are valued at the higher of amortised purchase cost or intrinsic value at balance date.

(k) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(l) Impact of adoption of AIFRS

Financial assets

Under AASB 139: Financial Instruments: Recognition and Measurement, financial instruments that are classified as financial assets at fair value through profit or loss are using where applicable quoted market bid prices. Unrealised gains or losses are recognised through the Income Statement.

Previous accounting policy was to measure investments at the carrying amount which was reviewed by directors to ensure it was not in excess of the recoverable amount of these investments. The recoverable amount was assessed from the quoted market last sale price, estimated realisable value or cost.

Treatment of unitholders' funds

Under AASB 132 Financial Instruments: Disclosure and Presentation Unitholders' Funds are no longer treated as equity as the units are redeemable by the unitholders.

The scheme has not elected to apply the exemption under AASB 1 from restatement of comparatives for AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. In preparing the opening AIFRS compliant Balance Sheet, adjustments have been made to the comparatives previously reported under Australian Generally Accepted Accounting Principles (AGAAP) as follows:

	30 June 2006	30 June 2005
Total equity brought forward under previous AGAAP	**-**	62,651,882
Reclassification of unitholders' funds to debt	**-**	(62,651,882)
Total equity carried forward under AIFRS	**-**	-

Notes to the financial statements for the year ended 30 June 2006

Note 2 - Net assets attributable to unitholders

	No. of units	**2006 $**	No. of units	2005 $
Opening balance	**35,622,071**	**62,651,882**	28,695,368	47,715,036
Issued	**20,428,409**	**38,505,756**	9,668,543	18,183,795
Redeemed	**(3,218,620)**	**(6,228,535)**	(2,741,840)	(5,253,033)
Change in net assets attributable to unitholders	**-**	**(1,506,613)**	-	2,006,084
Net assets attributable to unitholders	**52,831,860**	**93,422,490**	35,622,071	62,651,882

Note 3 - Cash and cash equivalents

	2006	2005
Cash at bank	**38,160**	5,439
Short term bank deposits	**3,759,027**	5,763,638
	3,797,187	5,769,077

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Deposits at call is money invested in high interest bank account. Interest is calculated daily based on daily bank deposit rates.

Reconciliation of cash

Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	2006	2005
Cash at bank	**38,160**	5,439
At call deposits with banks	**3,759,027**	5,763,638
	3,797,187	5,769,077

Note 4 - Trade and other receivables

	2006	2005
Dividend receivable	**75,059**	37,976
Interest receivable	**-**	21,679
Investment sales	**102,990**	579,061
Trust distributions receivable	**249,854**	47,829
Debtors	**95,955**	37,152
	523,858	723,697

Note 5 - Financial assets

	2006	2005
Equities		
Australian listed	**55,579,536**	48,098,114
International listed	**26,756,935**	11,360,034
	82,336,471	59,458,148
Unit trusts		
Listed	**4,283,601**	3,998,961
	4,283,601	3,998,961
Stapled securities		
Listed	**15,002,989**	3,904,897
	15,002,989	3,904,897
Derivatives		
Currency options	**337,843**	117,674
	337,843	117,674
	101,960,904	67,479,680

Notes to the financial statements for the year ended 30 June 2006

Note 6 - Trade and other payables	2006 $	2005 $
Trade payables and sundry creditors	**201,969**	140,461
Investment purchases	**214,538**	963,759
	416,507	1,104,220

Note 7 - Distribution paid and payable		
Net amount available for distribution	**13,340,546**	10,596,791
Distributed		
($0.0192 per unit) half-year ended 31 December 2005	**897,594**	380,439
($0.2355 per unit) half-year ended 30 June 2006	**12,442,952**	10,216,352
	13,340,546	10,596,791
Undistributed income	**NIL**	NIL

Note 8 - Auditors' remuneration

Amounts received or due and receivable by the Auditors of the scheme for:

Auditing the financial report	**12,000**	7,400
Tax and other accounting advice	**4,759**	2,926
	16,759	10,326

Note 9 - Cash flow information

Reconciliation of net cash provided by operating activities with profit (loss) from operating activities

Net operating profit for the year from ordinary activities	**11,833,933**	12,602,875
(Increase) Decrease in accrued income	**(217,429)**	1,570
Unrealised (increment) decrement on fluctuation in value of investments	**(4,972,932)**	(6,234,144)
Increase (Decrease) in accrued charges & creditors	**61,508**	46,717
(Increase) Decrease in debtors	**(58,803)**	(11,137)
(Profit) Loss on sale of investments	**(5,472,923)**	(5,613,482)
Currency option amortisation	**152,564**	96,312
Net cash provided by (used in) operating activities	**1,325,918**	888,711

Note 10 - Segment information

The Australian Ethical Large Companies Share Trust operates in the finance market (within the terms of the Australian Ethical Investment charter) mainly in Australia. During the 2006 financial year the scheme invested in International Listed Securities amounting to $26,756,935 (2005 $11,360,034) at market value as at 30 June 2006 (refer note 5). The scheme earned dividends of $609,120 (2005 $504,436) from these investments during the year.

Notes to the financial statements for the year ended 30 June 2006

Note 11 - Related party transactions

Australian Ethical Investment Limited (AEIL), as Responsible Entity of the scheme, provides investment services for the scheme in accordance with the scheme's constitution.

Australian Ethical Investment Limited	2006 $	2005 $
a) Transactions between Australian Ethical Investment Limited and Australian Ethical Large Companies Share Trust (AELT) during the financial year consisted of transactions whereby:		
(i) AEIL provides investment services to AELT in accordance with the scheme's constitution.	**1,709,841^**	1,141,323^
(ii) AEIL provides accounting services to AELT in accordance with the scheme's constitution.	**62,927^**	33,130^
(iii) AEIL seeks expense reimbursement from AELT in accordance with the scheme's constitution.	**38,301^**	27,133^
b) Outstanding balances at balance date:		
Amounts payable to AEIL in relation to investment services, accounting services and reimbursable expenses:	**184,589***	126,837*

^ These expenses include non-recoverable Reduced Input Tax Credits (RITC)
* These payables include GST

Notes to the financial statements for the year ended 30 June 2006

Note 12 - Key management personnel compensation

AASB 124 "Related Party Disclosures" requires disclosure of compensation of key management personnel. Key management personnel (KMP) is defined as persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The scheme has no employees, however, the directors and other KMP of the Responsible Entity, as stated below, are deemed to be the KMP of the scheme. These individuals and the Responsible Entity comprise the KMP of the scheme.

Names and positions of key management personnel of the Responsible Entity at any time during the financial year

Directors

Name	***Position***	
George Pooley	Chairperson, non-executive	
Ray De Lucia	Director, non-executive	Resigned 10 October 2005
Caroline Le Couteur	Director, executive	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	

Pauline Vamos was appointed as a non-executive director on 1 July 2006.

Other key management personnel

Name	***Position***	
Anne O'Donnell	Chief executive officer	
David Ferris	Investment manager	
Mark Bateman	Chief financial officer	
Philip George	Company secretary / legal counsel	

No KMP of the Responsible Entity was paid any compensation by the scheme during the period and their compensation paid by the Responsible Entity or related entities of the Responsible Entity are not related to services they render to individual schemes. However, in the interests of complete disclosure, the total compensation paid to each KMP has been disclosed below along with other details required by AASB 124.

Compensation policy

Directors

The aggregate amount of compensation payable to directors for the performance of their duties as directors is set by the company in general meeting from time to time. In proposing any motions on director compensation to a general meeting, the board has regard to market rates for directorships in similar companies operating in similar industries. It also has regard to recommendations from its Remuneration Committee. Within the approved aggregate amount, fees paid to individual directors for services as a director are determined by the Board. Currently, the chair receives a higher amount, with other directors receiving an equal amount.

Under the constitution, directors are also entitled to be paid reasonable expenses, compensation for extra services, retirement benefits and superannuation contributions.

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

Other key management personnel

The company's fundamental compensation policy is to treat all staff (including other KMP) in an equitable fashion and not to have special compensation arrangements (including individual performance-based arrangements) for particular staff. All permanent staff (including the CEO, executive directors and secretaries) receive a cash salary and participate in a staff bonus and employee share ownership scheme. These arrangements do not apply to non-executive directors.

Compensation policy also accords with the Australian Ethical Charter, as set out in the constitution of the company. It is designed to ensure the company does not

"exploit people through the payment of low wages or the provision of poor working conditions"

and to facilitate:

"*the development of workers participation in the ownership and control of their work organisations and places."*

The company reviews individual compensation annually and externally benchmarks compensation levels every two years. Individual staff compensation is then considered with reference to the benchmarks and in accordance with guidelines approved by the Board. The board aims to compensate responsibly and fairly, with reference to the market.

All permanent staff are eligible to participate in an annual staff bonus. Under the company's constitution, before the directors recommend any dividend to be paid out of profits of any one year, they must pay a bonus to current employees which are set by reference to the profit of the company for that year. Each full time staff member receives the same bonus amount and part-time staff (or those not employed full-time through the full year) receives a pro-rata amount. The company's constitution provides that the bonus can be (and often has been) satisfied by the issue of shares, under the employee share ownership scheme.

Notes to the financial statements for the year ended 30 June 2006

Note 12 - Key management personnel compensation - continued

Also under the employee share ownership scheme, a pool of options which would, if exercised, amount to 5% of the company's existing ordinary share capital is issued to staff. All permanent, non-probationary staff are eligible to participate in the plan. The options are issued for nil consideration and the price at which the options can be exercised is set at 10% in excess of the market price of the shares as at the date of grant. The number of options received by an individual staff member depends on their compensation. Options are not exercisable for a period of three years from their date of grant. At the end of the three year period, options must be exercised within a three month exercise window or they lapse. During the three month exercise window, options can also be sold once, with the transferee then needing to exercise during the three month window, or the options lapse. In most circumstances, options will also lapse where an employee's employment ceases before the options are exercisable. The options confer no voting or dividend rights.

Performance-based compensation and company performance

The payment of the staff bonus is set by reference to the profit of the company for a relevant year. Higher company profits in a year correspondingly increase the aggregate amount that directors could determine be paid to current employees as a bonus.

Details of options issued under the employee share ownership plan are set out under compensation policy above. Options are performance based in two ways. Firstly, in most cases, staff must remain an employee for three years from the date of grant of the options to be entitled to exercise them. Option value can only be realised if an employee contributes a significant further period of service to the company. Secondly, option value can only be realised if the market value of the underlying shares increase by 10% between the period of grant and the period when the options can be exercised.

The compensation policy discussed above has broadly been in place for the current and the previous five financial years.

Key management personnel compensation details for the year ended 30 June 2006

Directors' compensation

	Short-term employee benefits			*Post Em-ployment benefits*	*Other Long-term Benefits*	*Termination Benefits*	*Share-based Payment*		
2006	**Cash Salary and Fees**	**Bonus Cash**	**Other**	**Super**			**Bonus Shares**	**Options**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
George Pooley	57,188	-	-	-	-	-	-	-	57,188
Ray De Lucia	3,259	-	-		-	-	-	-	3,259
Caroline Le Couteur	131,882	-	-	11,484	3,196	-	4,300	7,536	158,398
James Thier	124,586	2,153	-	10,300	1,638	-	1,000	6,048	145,725
Howard Pender	113,237	-	-	10,291	1,791	-	1,613	3,128	130,060
Naomi Edwards	28,420	-	-	2,558	-	-	-	-	30,978
Total	458,572	2,153	-	34,633	6,625	-	6,913	16,712	525,608
2005									
George Pooley	45,964	-	-	-	-	-	-	-	45,964
Ray De Lucia	12,974	-	-	-	-	-	-	-	12,974
Trevor Lee	5,000	-	-	450	-	-	-	-	5,450
Caroline Le Couteur	128,468	-	-	10,639	2,206	-	3,500	3,141	147,954
James Thier	112,845	1,800	-	9,802	1,835	-	1,000	2,573	129,855
Howard Pender	111,609	-	-	6,132	951	-	1,225	1,076	120,993
Naomi Edwards	21,689	-	-	1,502	-	-	-	-	23,191
Total	438,549	1,800	-	28,525	4,992	-	5,725	6,790	486,381

Other key management personnel compensation

	Short-term employee benefits			*Post Em-ployment benefits*	*Other Long-term Benefits*	*Termination Benefits*	*Share-based Payment*		
	Cash Salary and Fees	**Bonus Cash**	**Other**	**Super**			**Bonus Shares**	**Options**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
2006									
Anne O'Donnell	172,147	-	-	15,225	4,817	-	4,300	10,100	206,589
David Ferris	134,878	-	-	11,764	3,044	-	4,135	8,773	162,594
Mark Bateman	113,643	4,300	-	10,008	3,287	-	-	7,076	138,314
Philip George	140,622	2,718	-	12,330	2,926	-	-	5,208	163,804
Total	561,290	7,018	-	49,327	14,074	-	8,435	31,157	671,301
2005									
Anne O'Donnell	147,608	-	-	12,695	3,229	-	3,500	3,581	170,613
David Ferris	129,520	-	-	11,025	2,849	-	3,500	3,189	150,083
Mark Bateman	131,505	-	-	10,766	3,191	-	3,500	2,498	151,460
Philip George	78,760	-	-	6,545	1,641	-	-	-	86,946
Christopher Lee	29,569	-	-	2,449	-	-	3,291	-	35,309
Total	516,962	-	-	43,480	10,910	-	13,791	9,268	594,411

Notes to the financial statements for the year ended 30 June 2006

Note 12 - Key management personnel compensation - continued

Cash bonus compensation benefits

Details of cash bonuses paid to key management personal are included in the compensation tables set out above. The bonuses were paid on 21 September 2005. The nature of the cash bonuses and the criteria used to determine the payment of the bonuses are detailed in the compensation policy and in the discussion on performance-based compensation and company performance.

Options granted as compensation [(1)] – disclosures required under AASB 124

	Vested No.	Granted No. (1)	Grant Date	Value per Option at Grant Date (2) $	Exercise Price $	First Exercise Date	Last Exercise /Expiry Date
Directors							
George Pooley	-	-	-	-	-	-	-
Ray De Lucia	-	-	-	-	-	-	-
Caroline Le Couteur	2,218	2,243	21.09.05	3.36	24.82	21.09.08	20.12.08
James Thier	1,688	1,800	21.09.05	3.36	24.82	21.09.08	20.12.08
Howard Pender	981	931	21.09.05	3.36	24.82	21.09.08	20.12.08
Naomi Edwards	-	-	-	-	-	-	-
	4,887	4,974					
Other key management personnel							
Anne O'Donnell	2,620	3,006	21.09.05	3.36	24.82	21.09.08	20.12.08
David Ferris	2,313	2,611	21.09.05	3.36	24.82	21.09.08	20.12.08
Mark Bateman	1,752	2,106	21.09.05	3.36	24.82	21.09.08	20.12.08
Philip George	-	1,550	21.09.05	3.36	24.82	21.09.08	20.12.08
	6,685	9,273					

(1) Each option above is granted by Australian Ethical Investment Limited (AEI) and is for one ordinary share in AEI.
(2) Options were granted as part of compensation and the recipient did not otherwise pay for the grant of the options.

Details of shareholdings - changes to shareholdings, including as a result of the exercise of options granted as compensation
Number of Shares held by key management personnel.

	Balance 01.07.05	Share in lieu of Cash Bonus	Options Exercised/ Shares Issued (1)	Net Change Other (2)	Balance 30.06.06 (3)&(4)
Directors					
George Pooley	-	-	-	-	-
Caroline Le Couteur	41,869	190	2,218	-	44,277
James Thier	60,110	44	1,688	(1,688)	60,154
Howard Pender	51,107	71	981	(981)	51,178
Naomi Edwards	-	-	-	-	-
Other key management personnel					
Anne O'Donnell	3,125	190	2,620	(2,620)	3,315
David Ferris	2,031	183	2,313	(1,765)	2,762
Mark Bateman	2,268	-	1,752	(3,038)	982
Philip George	375	-	-	-	375
Total	160,885	678	11,572	(10,092)	163,043

(1) The amount paid for shares issued on exercise of options is $18.26 in all cases.
(2) Net change other refers to shares purchased or sold during the financial year.
(3) Shares issued are fully paid
(4) Balance represents shareholdings by KMP including their related parties as required by AASB 124 Related Party Disclosures.

Notes to the financial statements for the year ended 30 June 2006

Note 12 - Key management personnel compensation - continued

Equity instrument disclosures relating to key management personnel

Option holdings
Number of options held by key management personnel

	Balance 01.07.05	Granted as Remun-eration	Options Exercised	Net Change Other	Balance 30.06.06	Total Vested 30.06.06	Total Exer-cisable 30.06.06	Total Unexer-cisable 30.06.06
Directors								
George Pooley	-	-	-	-	-	-	-	-
Caroline Le Couteur	7,377	2,243	(2,218)	-	7,402	-	-	7,402
James Thier	5,820	1,800	(1,688)	-	5,932	-	-	5,932
Howard Pender	2,699	931	(981)	-	2,649	-	-	2,649
Naomi Edwards	-	-	-	-	-	-	-	-
Other key management personnel								
Anne O'Donnell	8,287	3,006	(2,620)	-	8,673	-	-	8,673
David Ferris	7,362	2,611	(2,313)	-	7,660	-	-	7,660
Mark Bateman	5,712	2,106	(1,752)	-	6,066	-	-	6,066
Philip George	-	1,550	-	-	1,550	-	-	1,550
Total	37,257	14,247	(11,572)	-	39,932	-	-	39,932

Alterations to the terms of options

The terms of all options issued under the employee share ownership plan (including those held by key management personnel) were altered by ordinary resolution at the Annual General Meeting held 24 November 2005. The resolution passed at the meeting changed the condition that:

> *Options issued under these arrangements [being the employee share ownership plan] are not transferable.*

to:

> *Options issued under these arrangements are not transferable, except that during the exercise period they may be transferred from the employee to another party. That party is entitled to exercise any option so transferred (in accordance with these terms and conditions) but cannot further transfer the options to any other party or otherwise deal with the options other than by way of exercising them.*

No other terms or conditions were changed.

It is the view of the directors that the total of the fair value of the options affected by the alteration immediately before the alteration and the total of the fair value of the options immediately after the alteration was the same. The change was approved by shareholders so as to enable employees to have an alternative mechanism to realise any option value at the time of exercise, rather than to change the underlying value of the options.

Explanation of relative proportions of elements of compensation that are related to performance

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

The compensation of KMP is not subject to individual performance conditions. People holding these positions are entitled to participate in the staff bonus and employee share ownership scheme described above. These make up a very small proportion of the overall compensation of people holding these positions.

Employment contracts of directors and senior executives

For each individual whose compensation has been disclosed in this report and is employed under an employment contract, the details of the employment contract are as follows:

Name	***Duration of contract***	***Period of termination notice required***	***Termination payment provided for under the contract***
Caroline Le Couteur	Ongoing	As per minimum requirements under the Workplace Relations Act 1996	None except for accrued leave and any payment in-lieu of notice
James Thier			
Howard Pender			
Anne O'Donnell			
David Ferris			
Mark Bateman			
Philip George			

Notes to the financial statements for the year ended 30 June 2006

Note 13 - Financial instruments

a) Financial risk management

The scheme's financial instruments consist of cash and cash equivalents, trade and other receivables, financial assets, trade and other payables and distribution payable.

The scheme's activities expose it to a variety of financial risks. The scheme's overall risk management objective is to manage the potential adverse effects of these risks on the distributable earnings of the scheme in a cost effective manner. Risk management is carried out in accordance with scheme investment parameters approved by the Board of Directors.

b) Interest rate risk

The scheme's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted average interest rate		Floating interest rate	
	2006	2005	**2006**	2005
	%	%	**$**	$
Cash and cash equivalents	**5**	5	**3,797,187**	5,769,077
Trade and other receivables			**-**	-
Financial assets			**-**	-
Total financial assets			**3,797,187**	5,769,077
Trade and other payables			**-**	-
Distribution payable			**-**	-
Total financial liabilities			**-**	-

	Non-interest bearing		Total	
Cash and cash equivalents	**-**	-	**3,797,187**	5,769,077
Trade and other receivables	**523,858**	723,697	**523,858**	723,697
Financial assets	**101,960,904**	67,479,680	**101,960,904**	67,479,680
Total financial assets	**102,484,762**	68,203,377	**106,281,949**	73,972,454
Trade and other payables	**416,507**	1,104,220	**416,507**	1,104,220
Distribution payable	**12,442,952**	10,216,352	**12,442,952**	10,216,352
Total financial liabilities	**12,859,459**	11,320,572	**12,859,459**	11,320,572

Australian Ethical Large Companies Share Trust ARSN 089 919 166

Notes to the financial statements for the year ended 30 June 2006

Note 13 - Financial instruments - continued

c) Credit risk

Credit risk represents the risk that a counterparty will fail to perform contractual obligations under a contract. The scheme's maximum credit risk exposure at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Balance Sheet.

d) Market risk

Market risk represents the risk that a financial instrument's value will fluctuate as a result of changes in the market. Market risk is managed through ensuring that all investment activities are undertaken in accordance with established limits and investment strategies.

e) Liquidity and cash flow risk

Liquidity risk is the risk that the scheme will encounter difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments. Cash flow risk is the risk that future cash flows associated with financial instruments will fluctuate in amount. To control liquidity and cash flow risk, the scheme invests in financial instruments, which under normal market conditions are readily convertible into cash. In addition, the scheme operates within established limits to ensure there is no concentration of risk.

f) Net fair values

The net fair values of:

Listed investments have been valued at the quoted market bid price at balance date. For unlisted investments where there is no organised financial market, the net fair value has been based on a reasonable estimation of the underlying net assets.

Other assets and other liabilities approximate their carrying value.

Note 14 - Events after the Balance Sheet date

Since the end of the financial year, no material events that may have an impact on these financial statements have occurred.
The financial report was authorised for issue on director's declaration date by the directors of the Responsible Entity.

Note 15 - Scheme details

The registered office and principal place of business of the scheme is Canberra Business Centre, Bradfield St, Downer ACT 2602.
The principal activity of the scheme is to pool investors' savings to invest in a diversified portfolio of equity investments, mainly in large domestic and international listed companies. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the scheme investors) with a competitive financial return.

Notes to the financial statements for the year ended 30 June 2006

Note 16 - Accounting standards

The following Australian Accounting Standards have been issued or amended and are applicable to the scheme but are not yet effective and have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	AASB Standard affected	Nature of change in accounting policy and impact	Application date of the standard	Application date for the scheme
2004-3	AASB 1: First-time Adoption of AIFRS	No change, no impact	1-Jan-06	1-Jul-06
	AASB 101: Presentation of Financial Statements	No change, no impact	1-Jan-06	1-Jul-06
	AASB 124: Related Party Disclosures	No change, no impact	1-Jan-06	1-Jul-06
2005-10	AASB 139: Financial Instruments: Recognition and Management	No change, no impact	1-Jan-07	1-Jul-07
	AASB 101: Presentation of Financial Statements	No change, no impact	1-Jan-07	1-Jul-07
	AASB 114: Segment Reporting	No change, no impact	1-Jan-07	1-Jul-07
	AASB 117: Leases	No change, no impact	1-Jan-07	1-Jul-07
	AASB 132: Financial Instruments: Disclosure and Presentation	No change, no impact	1-Jan-07	1-Jul-07
	AASB 133: Earnings per Share	No change, no impact	1-Jan-07	1-Jul-07
	AASB 1: First-time Adoption of AIFRS	No change, no impact	1-Jan-07	1-Jul-07
	AASB 4: Insurance Contracts	No change, no impact	1-Jan-07	1-Jul-07
	AASB 1023: General Insurance Contracts	No change, no impact	1-Jan-07	1-Jul-07
	AASB 1038: Life Insurance Contracts	No change, no impact	1-Jan-07	1-Jul-07
New Standard	AASB 7: Financial Instruments: Disclosure	No affect on amounts recognised but will impact the type of information disclosed in relation to financial instruments.	1-Jan-07	1-Jul-07

All other pending Standards issued between the previous financial report and the current reporting date have no application to the scheme.

AASB Amendment	AASB Standard affected
2005-1	AASB 139: Financial Instruments: Recognition and Management
2005-4	AASB 139: Financial Instruments: Recognition and Management
	AASB 132: Financial Instruments: Disclosure and Presentation
	AASB 1: First-time Adoption of AIFRS
	AASB 1023: General Insurance Contracts
	AASB 1038: Life Insurance Contracts
2005-5	AASB 1: First-time Adoption of AIFRS
	AASB 139: Financial Instruments: Recognition and Management
2005-6	AASB 3: Business Combinations
2005-9	AASB 4: Insurance Contracts
	AASB 1023: General Insurance Contracts
	AASB 139: Financial Instruments: Recognition and Management
	AASB 132: Financial Instruments: Disclosure and Presentation
2006-1	AASB 121: The Effects of Changes in Foreign Exchange Rates
New Standard	AASB 119: Employee Benefits

DIRECTORS' DECLARATION

The Directors of Australian Ethical Investment Limited, the responsible entity of Australian Ethical Large Companies Share Trust, declare that:

1. the financial statements and notes, as set out on pages 4 to 19 are in accordance with the Corporations Act 2001:

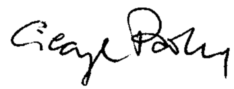
   (a) comply with accounting standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the financial position as at 30 June 2006 and of the performance for the financial year ended on that date.

2. in the director's opinion there are reasonable grounds to believe that the scheme will be able to pay its debts as and when they become due and payable.

3. the scheme has operated during the financial year ended 30 June 2006 in accordance with the provisions of the scheme's constitution.

This declaration is made in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.



George Pooley
Director
Australian Ethical Investment Limited
ABN 47 003 188 930
25 September 2006

INDEPENDENT AUDIT REPORT TO THE UNITHOLDERS

Scope

We have audited the financial report of Australian Ethical Large Companies Share Trust consisting of the Balance Sheet, the Income Statement, the Cash Flow Statement, the accompanying notes to the Financial Statements and the Directors' Declaration for the financial year ended 30 June, 2006. The Directors of the Responsible Entity, Australian Ethical Investment Ltd., are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the Unitholders.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia, and statutory requirements and the provisions of the scheme's constitution, so as to present a view which is consistent with our understanding of the scheme's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Australian Ethical Large Companies Share Trust for the year ended 30 June, 2006 is in accordance with:

(a) the Corporations Act 2001, including

(i) giving a true and fair view of the scheme's financial position as at 30 June, 2006 and of its performance for the year ended on that date; and

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

(b) other mandatory professional reporting requirements; and

(c) the provisions of the scheme's constitution.

Thomas Davis & Co

THOMAS DAVIS & CO.

RC Geeves

R. C. GEEVES PARTNER

Chartered Accountants

Sydney,
25 September 2006

Liability limited by a scheme approved under Professional Standards Legislation.

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2006 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Thomas Davis & Co

THOMAS DAVIS & CO.

RC Geeves

R. C. GEEVES PARTNER

Date 25 September 2006

Liability limited by a scheme approved under Professional Standards Legislation.

Balance Sheet
as at 30 June 2006

	Notes	2006 $	2005 $
Assets			
Cash and cash equivalents	3	**6,921,747**	9,801,611
Trade and other receivables	4	**2,874,074**	1,755,380
Financial assets	5	**131,436,355**	110,726,648
Loans	6	**1,000**	662,314
Total assets		**141,233,176**	122,945,953
Liabilities			
Trade and other payables	7	**1,571,842**	2,788,045
Distribution payable	8	**12,910,935**	21,645,659
Total liabilities excluding net assets attributable to unitholders		**14,482,777**	24,433,704
Net assets attributable to unitholders	2	**126,750,399**	98,512,249
Total liabilities		**141,233,176**	122,945,953

The accompanying notes form part of these financial statements.

Australian Ethical Equities Trust ARSN 089 919 175

Income Statement
for the year ended 30 June 2006

	Notes	2006 $	2005 $
Investment income			
Currency option revenue		**142,426**	122,091
Distributions received & receivable		**897,177**	302,127
Dividends domestic received & receivable		**2,504,528**	2,360,941
Dividends overseas received & receivable		**487,298**	640,810
Interest received & receivable		**577,424**	566,253
Other income		**30,030**	13,199
Profit (loss) on foreign exchange		**(74,595)**	(73,664)
Profit (loss) on sale of investments		**9,329,157**	13,445,514
Unrealised increment (decrement) on fluctuation in value of investments		**4,415,919**	5,816,885
		18,309,364	23,194,156
Less expenditure			
Accounting fees	12	**89,876**	58,253
Auditors' remuneration	9	**23,941**	18,695
Currency option amortisation		**175,085**	147,378
Legal fees		**1,291**	6,781
Printing & other costs		**36,658**	40,726
Reimbursable expenses	12	**51,453**	49,310
Responsible entity fees	12	**2,468,072**	2,165,403
		2,846,376	2,486,546
Profit (loss) from operating activities		**15,462,988**	20,707,610
Finance costs - distributions to unitholders	8	**(13,922,630)**	(22,358,538)
Change in net assets attributable to unitholders	2	**1,540,358**	(1,650,928)

The accompanying notes form part of these financial statements.

Cash Flow Statement
for the year ended 30 June 2006

	Notes	2006 $	2005 $
Cash flows from operating activities			
Interest received		**618,177**	537,909
Dividends received		**2,984,287**	3,031,931
Trust distribution received		**539,035**	369,822
Other income received		**97,861**	61,626
Expenses		**(2,700,453)**	(2,317,295)
Net cash provided by (used in) operating activities	10	**1,538,907**	1,683,993
Cash flows from investing activities			
Proceeds from sale of investments		**163,961,035**	152,122,164
Customer loans repaid		**512,313**	11,474
Customer loans granted		**-**	-
Purchase of investments		**(172,932,558)**	(148,014,163)
Net cash provided by (used in) investing activities		**(8,459,210)**	4,119,475
Cash flows from financing activities			
Proceeds from issue of units		**16,165,909**	10,790,981
Payment of redemption of units		**(7,717,070)**	(14,823,192)
Distributions paid		**(4,408,400)**	(932,980)
Net cash provided by (used in) financing activities		**4,040,439**	(4,965,191)
Net increase (decrease) in cash held		**(2,879,864)**	838,277
Cash at beginning of financial year		**9,801,611**	8,963,334
Cash at end of financial year	3	**6,921,747**	9,801,611

The accompanying notes form part of these financial statements.

Notes to the financial statements for the year ended 30 June 2006

Note 1 - Statement of significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with the Australian Ethical Investment Schemes Constitution, Australian Accounting Standards, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report covers Australian Ethical Equities Trust as an individual entity. Australian Ethical Equities Trust is established and domiciled in Australia.

The financial report of Australian Ethical Equities Trust as an individual entity complies with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the scheme in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of preparation

First time Adoption of Australian equivalents to International Financial Reporting Standards

Australian Ethical Equities Trust as an individual entity has prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian equivalents to International Financial Reporting Standards, adjustments to the entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These accounts are the first financial statements of Australian Ethical Equities Trust to be prepared in accordance with AIFRS.

The accounting policies set out below have been consistently applied to all years presented.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected financial assets for which the fair value basis of accounting has been applied.

Accounting policies

(a) Cash and cash equivalents

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

(b) Financial instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments.

Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the Income Statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Notes to the financial statements for the year ended 30 June 2006

Note 1 - Statement of significant accounting policies - continued

(b) Financial instruments - continued

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

(c) Payables

Liabilities are recognised for all amounts due at balance date. Creditors are normally settled within 30 days.

(d) Distribution

Australian Ethical distributes to the unitholders of each scheme the income (generally net taxable income plus non-taxable income, not including realised capital gains) earned by the schemes each six months. In addition, normally taxable capital gains realised over the full financial year will be included with the distribution for the six months ending 30 June. The non-taxable component of income may be retained in the schemes.

'Net taxable income' is all the income earned by the scheme, less expenses incurred in obtaining that income, and is determined in accordance with section 95 of the Income Tax Assessment Act.

(e) Change in net assets attributable to unitholders

Change in net assets attributable to unitholders may consist of realised net capital losses and unrealised increments and decrements arising on fluctuation in value of investments. They are included in the determination of distributable income when assessable for taxation purposes.

(f) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established.

Trust distributions are recognised on an accrual basis.

Unrealised increments and decrements arising on fluctuation in value of investments are included in the net operating income for the year.

(g) Goods and Services Tax (GST)

The scheme qualifies for Reduced Input Tax Credits (RITC's) at a rate of 75%.

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the Balance Sheet are shown inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Balance Sheet.

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

(h) Income tax

No tax is payable by the scheme as all taxable income is distributed to unitholders.

(i) Foreign currency transactions and balances

Foreign currency transactions are translated into Australian Currency at the rate of exchange applicable at the date of the transaction. Amounts payable and receivable in foreign currencies at balance date are translated at the year-end exchange rate. The resulting gains and losses are included in the Income Statement in the period they arise.

Notes to the financial statements for the year ended 30 June 2006

Note 1 - Statement of significant accounting policies - continued

(j) Currency options

Options are purchased to hedge against foreign currency exposure. The cost is amortised over the period of the option. The options are valued at the higher of amortised purchase cost or intrinsic value at balance date.

(k) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(l) Impact of adoption of AIFRS

Financial assets

Under AASB 139: Financial Instruments: Recognition and Measurement, financial instruments that are classified as financial assets at fair value through profit or loss are using where applicable quoted market bid prices. Unrealised gains or losses are recognised through the Income Statement.

Previous accounting policy was to measure investments at the carrying amount which was reviewed by directors to ensure it was not in excess of the recoverable amount of these investments. The recoverable amount was assessed from the quoted market last sale price, estimated realisable value or cost.

Treatment of unitholders' funds

Under AASB 132 Financial Instruments: Disclosure and Presentation Unitholders' Funds are no longer treated as equity as the units are redeemable by the unitholders.

The scheme has not elected to apply the exemption under AASB 1 from restatement of comparatives for AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. In preparing the opening AIFRS compliant Balance Sheet, adjustments have been made to the comparatives previously reported under Australian Generally Accepted Accounting Principles (AGAAP) as follows:

	30 June 2006	30 June 2005
Total equity brought forward under previous AGAAP	**-**	98,512,249
Reclassification of unitholders' funds to debt	**-**	(98,512,249)
Total equity carried forward under AIFRS	**-**	-

Notes to the financial statements for the year ended 30 June 2006

Note 2 - Net assets attributable to unitholders

	2006 No. of units	2006 $	2005 No. of units	2005 $
Opening balance	**66,993,432**	**98,512,249**	67,322,574	101,423,248
Issued	**22,297,268**	**34,505,126**	8,150,376	13,554,849
Redeemed	**(4,855,530)**	**(7,807,334)**	(8,479,518)	(14,814,920)
Change in net assets attributable to unitholders	**-**	**1,540,358**	-	(1,650,928)
Net assets attributable to unitholders	**84,435,170**	**126,750,399**	66,993,432	98,512,249

Note 3 - Cash and cash equivalents

	2006	2005
Cash at bank	**42,600**	66,335
Short term bank deposits	**6,879,147**	9,735,276
	6,921,747	9,801,611

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Deposits at call is money invested in high interest bank account. Interest is calculated daily based on daily bank deposit rates.

Reconciliation of cash

Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	2006	2005
Cash at bank	**42,600**	66,335
At call deposits with banks	**6,879,147**	9,735,276
	6,921,747	9,801,611

Note 4 - Trade and other receivables

	2006	2005
Dividend receivable	**71,687**	64,147
Interest receivable	**-**	40,753
Investment sales	**2,311,752**	1,590,783
Trust distributions receivable	**358,143**	-
Debtors	**132,492**	59,697
	2,874,074	1,755,380

Australian Ethical Equities Trust ARSN 089 919 175

Notes to the financial statements for the year ended 30 June 2006

Note 5 - Financial assets	**2006 $**	2005 $
Equities		
Australian listed	**70,045,410**	76,476,313
International listed	**34,125,415**	20,387,139
Unlisted	**1,867,470**	1,526,930
	106,038,295	98,390,382
Unit trusts		
Listed	**2,096,079**	3,723,438
	2,096,079	3,723,438
Stapled securities		
Listed	**22,862,369**	8,321,172
	22,862,369	8,321,172
Derivatives		
Currency options	**227,305**	158,514
	227,305	158,514
Interest bearing securities		
Notes/debt instruments unsecured	**212,307**	133,142
	212,307	133,142
	131,436,355	110,726,648

Note 6 - Loans

	2006	2005
Secured	**-**	662,314
Unsecured	**1,000**	-
	1,000	662,314

Note 7 - Trade and other payables

	2006	2005
Trade payables and sundry creditors	**271,562**	227,927
Investment purchases	**1,300,280**	2,560,118
	1,571,842	2,788,045

Note 8 - Distribution paid and payable

	2006	2005
Net amount available for distribution	**13,922,630**	22,358,538
Distributed		
($0.0124 per unit) half-year ended 31 December 2005	**1,011,695**	712,879
($0.1529 per unit) half-year ended 30 June 2006	**12,910,935**	21,645,659
	13,922,630	22,358,538
Undistributed income	**NIL**	NIL

Note 9 - Auditors' remuneration

Amounts received or due and receivable by the Auditors of the scheme for:

	2006	2005
Auditing the financial report	**17,700**	13,800
Tax and other accounting advice	**6,241**	4,895
	23,941	18,695

Notes to the financial statements for the year ended 30 June 2006

Note 10 - Cash flow information	2006 $	2005 $
Reconciliation of net cash provided by operating activities with profit (loss) from operating activities		
Net operating profit for the year from ordinary activities	**15,462,988**	20,707,610
(Increase) Decrease in accrued income	**(324,930)**	69,531
Unrealised (increment) decrement on fluctuation in value of investments	**(4,415,919)**	(5,816,885)
Increase (Decrease) in accrued charges & creditors	**43,635**	27,852
(Increase) Decrease in debtors	**(72,795)**	(5,979)
(Profit) Loss on sale of investments	**(9,329,157)**	(13,445,514)
Currency option amortisation	**175,085**	147,378
Net cash provided by (used in) operating activities	**1,538,907**	1,683,993

Note 11 - Segment information

The Australian Ethical Equities Trust operates in the finance market (within the terms of the Australian Ethical Investment charter) mainly in Australia. During the 2006 financial year the scheme invested in international listed securities amounting to $ 34,125,415 (2005 $20,387,139) at market value as at 30 June 2006 (refer note 5). The scheme earned dividends of $ 487,298 (2005 $640,810) from these investments during the year.

Note 12 - Related party transactions

Australian Ethical Investment Limited (AEIL), as Responsible Entity of the scheme, provides investment services for the scheme in accordance with the scheme's constitution.

Australian Ethical Balanced Trust (AEBT) holds units in the Australian Ethical Equities Trust (AEET) for whom Australian Ethical Investment Limited is also the Responsible Entity.

Australian Ethical Investment Limited

a) Transactions between Australian Ethical Investment Limited and Australian Ethical Equities Trust during the financial year consisted of transactions whereby:

	2006	2005
(i) AEIL provides investment services to AEET in accordance with the scheme's constitution.	**2,468,072^**	2,165,403^
(ii) AEIL provides accounting services to AEET in accordance with the scheme's constitution.	**89,876^**	58,253^
(iii) AEIL seeks expense reimbursement from AEET in accordance with the scheme's constitution.	**51,453^**	49,310^

b) Outstanding balances at balance date:

	2006	2005
Amounts payable to AEIL in relation to investment services, accounting services and reimbursable expenses:	**244,126***	208,875*

Australian Ethical Balanced Trust

a) Transactions between Australian Ethical Equities Trust and Australian Ethical Balanced Trust during the financial year consisted of transactions whereby:

	2006	2005
(i) AEBT distributions from AEET	**-**	42,514
(ii) AEBT sold units in AEET	**-**	7,572,025

^ These expenses include non-recoverable Reduced Input Tax Credits (RITC)
* These payables include GST

Notes to the financial statements for the year ended 30 June 2006

Note 13 - Key management personnel compensation

AASB 124 "Related Party Disclosures" requires disclosure of compensation of key management personnel. Key management personnel (KMP) is defined as persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The scheme has no employees, however, the directors and other KMP of the Responsible Entity, as stated below, are deemed to be the KMP of the scheme. These individuals and the Responsible Entity comprise the KMP of the scheme.

Names and positions of key management personnel of the Responsible Entity at any time during the financial year

Directors

Name	*Position*	
George Pooley	Chairperson, non-executive	
Ray De Lucia	Director, non-executive	Resigned 10 October 2005
Caroline Le Couteur	Director, executive	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	

Pauline Vamos was appointed as a non-executive director on 1 July 2006.

Other key management personnel

Name	*Position*	
Anne O'Donnell	Chief executive officer	
David Ferris	Investment manager	
Mark Bateman	Chief financial officer	
Philip George	Company secretary / legal counsel	

No KMP of the Responsible Entity was paid any compensation by the scheme during the period and their compensation paid by the Responsible Entity or related entities of the Responsible Entity are not related to services they render to individual schemes. However, in the interests of complete disclosure, the total compensation paid to each KMP has been disclosed below along with other details required by AASB 124.

Compensation policy

Directors

The aggregate amount of compensation payable to directors for the performance of their duties as directors is set by the company in general meeting from time to time. In proposing any motions on director compensation to a general meeting, the board has regard to market rates for directorships in similar companies operating in similar industries. It also has regard to recommendations from its Remuneration Committee. Within the approved aggregate amount, fees paid to individual directors for services as a director are determined by the Board. Currently, the chair receives a higher amount, with other directors receiving an equal amount.

Under the constitution, directors are also entitled to be paid reasonable expenses, compensation for extra services, retirement benefits and superannuation contributions.

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

Other key management personnel

The company's fundamental compensation policy is to treat all staff (including other KMP) in an equitable fashion and not to have special compensation arrangements (including individual performance-based arrangements) for particular staff. All permanent staff (including the CEO, executive directors and secretaries) receive a cash salary and participate in a staff bonus and employee share ownership scheme. These arrangements do not apply to non-executive directors.

Compensation policy also accords with the Australian Ethical Charter, as set out in the constitution of the company. It is designed to ensure the company does not

"exploit people through the payment of low wages or the provision of poor working conditions"

and to facilitate:

"*the development of workers participation in the ownership and control of their work organisations and places.*"

The company reviews individual compensation annually and externally benchmarks compensation levels every two years. Individual staff compensation is then considered with reference to the benchmarks and in accordance with guidelines approved by the Board. The board aims to compensate responsibly and fairly, with reference to the market.

All permanent staff are eligible to participate in an annual staff bonus. Under the company's constitution, before the directors recommend any dividend to be paid out of profits of any one year, they must pay a bonus to current employees which are set by reference to the profit of the company for that year. Each full time staff member receives the same bonus amount and part-time staff (or those not employed full-time through the full year) receives a pro-rata amount. The company's constitution provides that the bonus can be (and often has been) satisfied by the issue of shares, under the employee share ownership scheme.

Notes to the financial statements for the year ended 30 June 2006

Note 13 - Key management personnel compensation - continued

Also under the employee share ownership scheme, a pool of options which would, if exercised, amount to 5% of the company's existing ordinary share capital is issued to staff. All permanent, non-probationary staff are eligible to participate in the plan. The options are issued for nil consideration and the price at which the options can be exercised is set at 10% in excess of the market price of the shares as at the date of grant. The number of options received by an individual staff member depends on their compensation. Options are not exercisable for a period of three years from their date of grant. At the end of the three year period, options must be exercised within a three month exercise window or they lapse. During the three month exercise window, options can also be sold once, with the transferee then needing to exercise during the three month window, or the options lapse. In most circumstances, options will also lapse where an employee's employment ceases before the options are exercisable. The options confer no voting or dividend rights.

Performance-based compensation and company performance

The payment of the staff bonus is set by reference to the profit of the company for a relevant year. Higher company profits in a year correspondingly increase the aggregate amount that directors could determine be paid to current employees as a bonus.

Details of options issued under the employee share ownership plan are set out under compensation policy above. Options are performance based in two ways. Firstly, in most cases, staff must remain an employee for three years from the date of grant of the options to be entitled to exercise them. Option value can only be realised if an employee contributes a significant further period of service to the company. Secondly, option value can only be realised if the market value of the underlying shares increase by 10% between the period of grant and the period when the options can be exercised.

The compensation policy discussed above has broadly been in place for the current and the previous five financial years.

Key management personnel compensation details for the year ended 30 June 2006

Directors' compensation

	Short-term employee benefits			*Post Employment benefits*	*Other Long-term Benefits*	*Termination Benefits*	*Share-based Payment*		
2006	**Cash Salary and Fees**	**Bonus Cash**	**Other**	**Super**			**Bonus Shares**	**Options**	**Total**
	$	$	$	$	$	$	$	$	$
George Pooley	57,188	-	-	-	-	-	-	-	57,188
Ray De Lucia	3,259	-	-		-	-	-	-	3,259
Caroline Le Couteur	131,882	-	-	11,484	3,196	-	4,300	7,536	158,398
James Thier	124,586	2,153	-	10,300	1,638	-	1,000	6,048	145,725
Howard Pender	113,237	-	-	10,291	1,791	-	1,613	3,128	130,060
Naomi Edwards	28,420	-	-	2,558	-	-	-	-	30,978
Total	458,572	2,153	-	34,633	6,625	-	6,913	16,712	525,608
2005									
George Pooley	45,964	-	-	-	-	-	-	-	45,964
Ray De Lucia	12,974	-	-	-	-	-	-	-	12,974
Trevor Lee	5,000	-	-	450	-	-	-	-	5,450
Caroline Le Couteur	128,468	-	-	10,639	2,206	-	3,500	3,141	147,954
James Thier	112,845	1,800	-	9,802	1,835	-	1,000	2,573	129,855
Howard Pender	111,609	-	-	6,132	951	-	1,225	1,076	120,993
Naomi Edwards	21,689	-	-	1,502	-	-	-	-	23,191
Total	438,549	1,800	-	28,525	4,992	-	5,725	6,790	486,381

Other key management personnel compensation

	Short-term employee benefits			*Post Employment benefits*	*Other Long-term Benefits*	*Termination Benefits*	*Share-based Payment*		
	Cash Salary and Fees	**Bonus Cash**	**Other**	**Super**			**Bonus Shares**	**Options**	**Total**
	$	$	$	$	$	$	$	$	$
2006									
Anne O'Donnell	172,147	-	-	15,225	4,817	-	4,300	10,100	206,589
David Ferris	134,878	-	-	11,764	3,044	-	4,135	8,773	162,594
Mark Bateman	113,643	4,300	-	10,008	3,287	-	-	7,076	138,314
Philip George	140,622	2,718	-	12,330	2,926	-	-	5,208	163,804
Total	561,290	7,018	-	49,327	14,074	-	8,435	31,157	671,301
2005									
Anne O'Donnell	147,608	-	-	12,695	3,229	-	3,500	3,581	170,613
David Ferris	129,520	-	-	11,025	2,849	-	3,500	3,189	150,083
Mark Bateman	131,505	-	-	10,766	3,191	-	3,500	2,498	151,460
Philip George	78,760	-	-	6,545	1,641	-	-	-	86,946
Christopher Lee	29,569	-	-	2,449	-	-	3,291	-	35,309
Total	516,962	-	-	43,480	10,910	-	13,791	9,268	594,411

Notes to the financial statements for the year ended 30 June 2006

Note 13 - Key management personnel compensation - continued

Cash bonus compensation benefits

Details of cash bonuses paid to key management personal are included in the compensation tables set out above. The bonuses were paid on 21 September 2005. The nature of the cash bonuses and the criteria used to determine the payment of the bonuses are detailed in the compensation policy and in the discussion on performance-based compensation and company performance.

Options granted as compensation (1) – disclosures required under AASB 124

	Vested No.	**Granted No.** (1)	**Grant Date**	**Value per Option at Grant Date** (2) **$**	**Exercise Price $**	**First Exercise Date**	**Last Exercise /Expiry Date**
Directors							
George Pooley	-	-	-	-	-	-	-
Ray De Lucia	-	-	-	-	-	-	-
Caroline Le Couteur	2,218	2,243	21.09.05	3.36	24.82	21.09.08	20.12.08
James Thier	1,688	1,800	21.09.05	3.36	24.82	21.09.08	20.12.08
Howard Pender	981	931	21.09.05	3.36	24.82	21.09.08	20.12.08
Naomi Edwards	-	-	-	-	-	-	-
	4,887	4,974					
Other key management personnel							
Anne O'Donnell	2,620	3,006	21.09.05	3.36	24.82	21.09.08	20.12.08
David Ferris	2,313	2,611	21.09.05	3.36	24.82	21.09.08	20.12.08
Mark Bateman	1,752	2,106	21.09.05	3.36	24.82	21.09.08	20.12.08
Philip George	-	1,550	21.09.05	3.36	24.82	21.09.08	20.12.08
	6,685	9,273					

(1) Each option above is granted by Australian Ethical Investment Limited (AEI) and is for one ordinary share in AEI.
(2) Options were granted as part of compensation and the recipient did not otherwise pay for the grant of the options.

Details of shareholdings - changes to shareholdings, including as a result of the exercise of options granted as compensation

Number of Shares held by key management personnel.

	Balance 01.07.05	Share in lieu of Cash Bonus	Options Exercised/ Shares Issued (1)	Net Change Other (2)	Balance 30.06.06 (3)&(4)
Directors					
George Pooley	-	-	-	-	-
Caroline Le Couteur	41,869	190	2,218	-	44,277
James Thier	60,110	44	1,688	(1,688)	60,154
Howard Pender	51,107	71	981	(981)	51,178
Naomi Edwards	-	-	-	-	-
Other key management personnel					
Anne O'Donnell	3,125	190	2,620	(2,620)	3,315
David Ferris	2,031	183	2,313	(1,765)	2,762
Mark Bateman	2,268	-	1,752	(3,038)	982
Philip George	375	-	-	-	375
Total	160,885	678	11,572	(10,092)	163,043

(1) The amount paid for shares issued on exercise of options is $18.26 in all cases.
(2) Net change other refers to shares purchased or sold during the financial year.
(3) Shares issued are fully paid
(4) Balance represents shareholdings by KMP including their related parties as required by AASB 124 Related Party Disclosures.

Notes to the financial statements for the year ended 30 June 2006

Note 13 - Key management personnel compensation - continued

Equity instrument disclosures relating to key management personnel

Option holdings
Number of options held by key management personnel

	Balance 01.07.05	Granted as Remun-eration	Options Exercised	Net Change Other	Balance 30.06.06	Total Vested 30.06.06	Total Exer-cisable 30.06.06	Total Unexer-cisable 30.06.06
Directors								
George Pooley	-	-	-	-	-	-	-	-
Caroline Le Couteur	7,377	2,243	(2,218)	-	7,402	-	-	7,402
James Thier	5,820	1,800	(1,688)	-	5,932	-	-	5,932
Howard Pender	2,699	931	(981)	-	2,649	-	-	2,649
Naomi Edwards	-	-	-	-	-	-	-	-
Other key management personnel								
Anne O'Donnell	8,287	3,006	(2,620)	-	8,673	-	-	8,673
David Ferris	7,362	2,611	(2,313)	-	7,660	-	-	7,660
Mark Bateman	5,712	2,106	(1,752)	-	6,066	-	-	6,066
Philip George	-	1,550	-	-	1,550	-	-	1,550
Total	37,257	14,247	(11,572)	-	39,932	-	-	39,932

Alterations to the terms of options

The terms of all options issued under the employee share ownership plan (including those held by key management personnel) were altered by ordinary resolution at the Annual General Meeting held 24 November 2005. The resolution passed at the meeting changed the condition that:

> *Options issued under these arrangements [being the employee share ownership plan] are not transferable.*

to:

> *Options issued under these arrangements are not transferable, except that during the exercise period they may be transferred from the employee to another party. That party is entitled to exercise any option so transferred (in accordance with these terms and conditions) but cannot further transfer the options to any other party or otherwise deal with the options other than by way of exercising them.*

No other terms or conditions were changed.

It is the view of the directors that the total of the fair value of the options affected by the alteration immediately before the alteration and the total of the fair value of the options immediately after the alteration was the same. The change was approved by shareholders so as to enable employees to have an alternative mechanism to realise any option value at the time of exercise, rather than to change the underlying value of the options.

Explanation of relative proportions of elements of compensation that are related to performance

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

The compensation of KMP is not subject to individual performance conditions. People holding these positions are entitled to participate in the staff bonus and employee share ownership scheme described above. These make up a very small proportion of the overall compensation of people holding these positions.

Employment contracts of directors and senior executives

For each individual whose compensation has been disclosed in this report and is employed under an employment contract, the details of the employment contract are as follows:

Name	*Duration of contract*	*Period of termination notice required*	*Termination payment provided for under the contract*
Caroline Le Couteur James Thier Howard Pender Anne O'Donnell David Ferris Mark Bateman Philip George	Ongoing	As per minimum requirements under the Workplace Relations Act 1996	None except for accrued leave and any payment in-lieu of notice

Notes to the financial statements for the year ended 30 June 2006

Note 14 - Financial instruments

a) Financial risk management

The scheme's financial instruments consist of cash and cash equivalents, trade and other receivables, financial assets, loans, trade and other payables and distribution payable.

The scheme's activities expose it to a variety of financial risks. The scheme's overall risk management objective is to manage the potential adverse effects of these risks on the distributable earnings of the scheme in a cost effective manner. Risk management is carried out in accordance with scheme investment parameters approved by the Board of Directors.

b) Interest rate risk

The scheme's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted average interest rate		**Floating interest rate**	
	2006 %	2005 %	**2006 $**	2005 $
Cash and cash equivalents	**5**	5	**6,921,747**	9,801,611
Trade and other receivables			**-**	-
Financial assets			**-**	-
Loans	**-**	5	**-**	-
Total financial assets			**6,921,747**	9,801,611
Trade and other payables			**-**	-
Distribution payable			**-**	-
Total financial liabilities			**-**	-

	Fixed interest rate within 1 to 5 years	
Cash and cash equivalents	**-**	-
Trade and other receivables	**-**	-
Financial assets	**-**	-
Loans	**-**	662,314
Total financial assets	**-**	662,314
Trade and other payables	**-**	-
Distribution payable	**-**	-
Total financial liabilities	**-**	-

	Non-interest bearing		**Total**	
Cash and cash equivalents	**-**	-	**6,921,747**	9,801,611
Trade and other receivables	**2,874,074**	1,755,380	**2,874,074**	1,755,380
Financial assets	**131,436,355**	110,726,648	**131,436,355**	110,726,648
Loans	**1,000**	-	**1,000**	662,314
Total financial assets	**134,311,429**	112,482,028	**141,233,176**	122,945,953
Trade and other payables	**1,571,842**	2,788,045	**1,571,842**	2,788,045
Distribution payable	**12,910,935**	21,645,659	**12,910,935**	21,645,659
Total financial liabilities	**14,482,777**	24,433,704	**14,482,777**	24,433,704

Notes to the financial statements for the year ended 30 June 2006

Note 14 - Financial instruments - continued

c) Credit risk

Credit risk represents the risk that a counterparty will fail to perform contractual obligations under a contract. The scheme's maximum credit risk exposure at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Balance Sheet.

d) Market risk

Market risk represents the risk that a financial instrument's value will fluctuate as a result of changes in the market. Market risk is managed through ensuring that all investment activities are undertaken in accordance with established limits and investment strategies.

e) Liquidity and cash flow risk

Liquidity risk is the risk that the scheme will encounter difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments. Cash flow risk is the risk that future cash flows associated with financial instruments will fluctuate in amount. To control liquidity and cash flow risk, the scheme invests in financial instruments, which under normal market conditions are readily convertible into cash. In addition, the scheme operates within established limits to ensure there is no concentration of risk.

f) Net fair values

The net fair values of:

Listed investments have been valued at the quoted market bid price at balance date. For unlisted investments where there is no organised financial market, the net fair value has been based on a reasonable estimation of the underlying net assets.

Other assets and other liabilities approximate their carrying value.

Note 15 - Events after the Balance Sheet date

Since the end of the financial year, no material events that may have an impact on these financial statements have occurred.
The financial report was authorised for issue on director's declaration date by the directors of the Responsible Entity.

Note 16 - Scheme details

The registered office and principal place of business of the scheme is Canberra Business Centre, Bradfield St, Downer ACT 2602.
The principal activity of the scheme is to pool investors' savings to invest in a diversified portfolio of equity investments, including longer term unlisted shares and shares in international listed companies. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the scheme investors) with a competitive financial return.

Notes to the financial statements for the year ended 30 June 2006

Note 17 - Accounting standards

The following Australian Accounting Standards have been issued or amended and are applicable to the scheme but are not yet effective and have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	AASB Standard affected	Nature of change in accounting policy and impact	Application date of the standard	Application date for the scheme
2004-3	AASB 1: First-time Adoption of AIFRS	No change, no impact	1-Jan-06	1-Jul-06
	AASB 101: Presentation of Financial Statements	No change, no impact	1-Jan-06	1-Jul-06
	AASB 124: Related Party Disclosures	No change, no impact	1-Jan-06	1-Jul-06
2005-10	AASB 139: Financial Instruments: Recognition and Management	No change, no impact	1-Jan-07	1-Jul-07
	AASB 101: Presentation of Financial Statements	No change, no impact	1-Jan-07	1-Jul-07
	AASB 114: Segment Reporting	No change, no impact	1-Jan-07	1-Jul-07
	AASB 117: Leases	No change, no impact	1-Jan-07	1-Jul-07
	AASB 132: Financial Instruments: Disclosure and Presentation	No change, no impact	1-Jan-07	1-Jul-07
	AASB 133: Earnings per Share	No change, no impact	1-Jan-07	1-Jul-07
	AASB 1: First-time Adoption of AIFRS	No change, no impact	1-Jan-07	1-Jul-07
	AASB 4: Insurance Contracts	No change, no impact	1-Jan-07	1-Jul-07
	AASB 1023: General Insurance Contracts	No change, no impact	1-Jan-07	1-Jul-07
	AASB 1038: Life Insurance Contracts	No change, no impact	1-Jan-07	1-Jul-07
New Standard	AASB 7: Financial Instruments: Disclosure	No affect on amounts recognised but will impact the type of information disclosed in relation to financial instruments.	1-Jan-07	1-Jul-07

All other pending Standards issued between the previous financial report and the current reporting date have no application to the scheme.

AASB Amendment	AASB Standard affected
2005-1	AASB 139: Financial Instruments: Recognition and Management
2005-4	AASB 139: Financial Instruments: Recognition and Management
	AASB 132: Financial Instruments: Disclosure and Presentation
	AASB 1: First-time Adoption of AIFRS
	AASB 1023: General Insurance Contracts
	AASB 1038: Life Insurance Contracts
2005-5	AASB 1: First-time Adoption of AIFRS
	AASB 139: Financial Instruments: Recognition and Management
2005-6	AASB 3: Business Combinations
2005-9	AASB 4: Insurance Contracts
	AASB 1023: General Insurance Contracts
	AASB 139: Financial Instruments: Recognition and Management
	AASB 132: Financial Instruments: Disclosure and Presentation
2006-1	AASB 121: The Effects of Changes in Foreign Exchange Rates
New Standard	AASB 119: Employee Benefits

DIRECTORS' DECLARATION

The Directors of Australian Ethical Investment Limited, the responsible entity of Australian Ethical Equities Trust, declare that:

1. the financial statements and notes, as set out on pages 4 to 19 are in accordance with the Corporations Act 2001:

   (a) comply with accounting standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the financial position as at 30 June 2006 and of the performance for the financial year ended on that date.

2. in the director's opinion there are reasonable grounds to believe that the scheme will be able to pay its debts as and when they become due and payable.

3. the scheme has operated during the financial year ended 30 June 2006 in accordance with the provisions of the scheme's constitution.

This declaration is made in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.

George Pooley

George Pooley
Director
Australian Ethical Investment Limited
ABN 47 003 188 930
25 September 2006

Australian Ethical Equities Trust ARSN 089 919 175

INDEPENDENT AUDIT REPORT TO THE UNITHOLDERS

Scope

We have audited the financial report of Australian Ethical Equities Trust consisting of the Balance Sheet, the Income Statement, the Cash Flow Statement, the accompanying notes to the Financial Statements and the Directors' Declaration for the financial year ended 30 June, 2006. The Directors of the Responsible Entity, Australian Ethical Investment Ltd., are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the Unitholders.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia, and statutory requirements and the provisions of the scheme's constitution, so as to present a view which is consistent with our understanding of the scheme's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Australian Ethical Equities Trust for the year ended 30 June, 2006 is in accordance with:

(a) the Corporations Act 2001, including

  (i) giving a true and fair view of the scheme's financial position as at 30 June, 2006 and of its performance for the year ended on that date; and

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

(b) other mandatory professional reporting requirements; and

(c) the provisions of the scheme's constitution.

Thomas Davis & Co

THOMAS DAVIS & CO.

R C Geeves

R. C. GEEVES PARTNER

Chartered Accountants

Sydney,
25 September 2006

Liability limited by a scheme approved under Professional Standards Legislation.

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2006 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Thomas Davis & Co

THOMAS DAVIS & CO.

RC Geeves

R. C. GEEVES PARTNER

Date 25 September 2006

Liability limited by a scheme approved under Professional Standards Legislation.

Balance Sheet
as at 30 June 2006

	Notes	2006 $	2005 $
Assets			
Cash and cash equivalents	3	**6,220,153**	3,396,272
Trade and other receivables	4	**1,865,495**	1,311,484
Financial assets	5	**181,746,291**	145,348,181
Loans	6	**4,890,961**	4,670,794
Investment properties	7	**2,817,091**	515,995
Total assets		**197,539,991**	155,242,726
Liabilities			
Trade and other payables	8	**811,067**	1,190,342
Distribution payable	9	**15,149,625**	15,675,441
Total liabilities excluding net assets attributable to unitholders		**15,960,692**	16,865,783
Net assets attributable to unitholders	2	**181,579,299**	138,376,943
Total liabilities		**197,539,991**	155,242,726

The accompanying notes form part of these financial statements.

Income Statement
for the year ended 30 June 2006

	Notes	2006 $	2005 $
Investment income			
Currency option revenue		**178,724**	145,697
Distributions received & receivable		**1,849,867**	1,272,799
Dividends domestic received & receivable		**1,748,662**	1,361,382
Dividends overseas received & receivable		**600,303**	578,189
Interest received & receivable		**4,668,808**	3,096,894
Other income		**11**	58,020
Rent received & receivable		**247,928**	9,998
Profit (loss) on foreign exchange		**(80,213)**	(2,648)
Profit (loss) on sale of investments		**4,868,521**	6,672,829
Unrealised increment (decrement) on fluctuation in value of investments		**4,643,160**	8,245,252
		18,725,771	21,438,412
Less expenditure			
Accounting fees	13	**112,336**	79,796
Auditors' remuneration	10	**29,927**	25,615
Currency option amortisation		**186,730**	181,215
Legal fees		**(10)**	9,191
Printing & other costs		**45,943**	47,096
Investment properties - general		**37,524**	6,779
Investment properties - rates & taxes		**164,848**	2,927
Reimbursable expenses	13	**54,985**	45,891
Responsible entity fees	13	**3,210,497**	2,393,806
		3,842,780	2,792,316
Profit (loss) from operating activities		**14,882,991**	18,646,096
Finance costs - distributions to unitholders	9	**(17,896,219)**	(17,439,250)
Change in net assets attributable to unitholders	2	**(3,013,228)**	1,206,846

The accompanying notes form part of these financial statements.

Cash Flow Statement
for the year ended 30 June 2006

	Notes	2006 $	2005 $
Cash flows from operating activities			
Interest received		**4,636,408**	2,825,259
Dividends received		**2,321,774**	1,964,961
Trust distribution received		**1,498,034**	1,431,642
Other income received		**371,473**	171,992
Expenses		**(3,677,219)**	(2,533,492)
Net cash provided by (used in) operating activities	11	**5,150,470**	3,860,362
Cash flows from investing activities			
Proceeds from sale of investments		**127,657,056**	95,477,159
Customer loans repaid		**1,033,185**	449,355
Customer loans granted		**(853,576)**	(2,287,352)
Purchase of investments		**(157,959,803)**	(116,495,882)
Net cash provided by (used in) investing activities		**(30,123,138)**	(22,856,720)
Cash flows from financing activities			
Proceeds from issue of units		**45,275,824**	28,459,083
Payment of redemption of units		**(13,138,255)**	(9,517,785)
Distributions paid		**(4,341,020)**	(1,389,035)
Net cash provided by (used in) financing activities		**27,796,549**	17,552,263
Net increase (decrease) in cash held		**2,823,881**	(1,444,095)
Cash at beginning of financial year		**3,396,272**	4,840,367
Cash at end of financial year	3	**6,220,153**	3,396,272

The accompanying notes form part of these financial statements.

Notes to the financial statements for the year ended 30 June 2006

Note 1 - Statement of significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with the Australian Ethical Investment Schemes Constitution, Australian Accounting Standards, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report covers Australian Ethical Balanced Trust as an individual entity. Australian Ethical Balanced Trust is established and domiciled in Australia.

The financial report of Australian Ethical Balanced Trust as an individual entity complies with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the scheme in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of preparation

First time Adoption of Australian equivalents to International Financial Reporting Standards

Australian Ethical Balanced Trust as an individual entity has prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian equivalents to International Financial Reporting Standards, adjustments to the entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These accounts are the first financial statements of Australian Ethical Balanced Trust to be prepared in accordance with AIFRS.

The accounting policies set out below have been consistently applied to all years presented.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected financial assets for which the fair value basis of accounting has been applied.

Accounting policies

(a) Cash and cash equivalents

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

(b) Financial instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments.

Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the Income Statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Notes to the financial statements for the year ended 30 June 2006

Note 1 - Statement of significant accounting policies - continued

(b) Financial instruments - continued

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

(c) Investment property

Investment property, principally comprises leasehold office complexes, is held to generate long-term rental yields. All tenant leases are on an arm's length basis. Investment property is carried at fair value, determined every 18 months by independent valuers. Changes to fair value are recorded in the Income Statement.

(d) Payables

Liabilities are recognised for all amounts due at balance date. Creditors are normally settled within 30 days.

(e) Distribution

Australian Ethical distributes to the unitholders of each scheme the income (generally net taxable income plus non-taxable income, not including realised capital gains) earned by the schemes each six months. In addition, normally taxable capital gains realised over the full financial year will be included with the distribution for the six months ending 30 June. The non-taxable component of income may be retained in the schemes.

'Net taxable income' is all the income earned by the scheme, less expenses incurred in obtaining that income, and is determined in accordance with section 95 of the Income Tax Assessment Act.

(f) Change in net assets attributable to unitholders

Change in net assets attributable to unitholders may consist of realised net capital losses and unrealised increments and decrements arising on fluctuation in value of investments. They are included in the determination of distributable income when assessable for taxation purposes.

(g) Revenue

Revenue from rental properties is recognised when the scheme has a right to receive the rent in accordance with the lease agreement.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established.

Trust distributions are recognised on an accrual basis.

Unrealised increments and decrements arising on fluctuation in value of investments are included in the net operating income for the year.

Revenue from investment properties is recognised on an accrual basis.

Notes to the financial statements for the year ended 30 June 2006

Note 1 - Statement of significant accounting policies - continued

(h) Goods and Services Tax (GST)

The scheme qualifies for Reduced Input Tax Credits (RITC's) at a rate of 75%.

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the Balance Sheet are shown inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Balance Sheet.

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

(i) Income tax

No tax is payable by the scheme as all taxable income is distributed to unitholders.

(j) Foreign currency transactions and balances

Foreign currency transactions are translated into Australian Currency at the rate of exchange applicable at the date of the transaction. Amounts payable and receivable in foreign currencies at balance date are translated at the year-end exchange rate. The resulting gains and losses are included in the Income Statement in the period they arise.

(k) Currency options

Options are purchased to hedge against foreign currency exposure. The cost is amortised over the period of the option. The options are valued at the higher of amortised purchase cost or intrinsic value at balance date.

(l) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(m) Impact of adoption of AIFRS

Financial assets

Under AASB 139: Financial Instruments: Recognition and Measurement, financial instruments that are classified as financial assets at fair value through profit or loss are using where applicable quoted market bid prices. Unrealised gains or losses are recognised through the Income Statement.

Previous accounting policy was to measure investments at the carrying amount which was reviewed by directors to ensure it was not in excess of the recoverable amount of these investments. The recoverable amount was assessed from the quoted market last sale price, estimated realisable value or cost.

Treatment of unitholders' funds

Under AASB 132 Financial Instruments: Disclosure and Presentation Unitholders' Funds are no longer treated as equity as the units are redeemable by the unitholders.

The scheme has not elected to apply the exemption under AASB 1 from restatement of comparatives for AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. In preparing the opening AIFRS compliant Balance Sheet, adjustments have been made to the comparatives previously reported under Australian Generally Accepted Accounting Principles (AGAAP) as follows:

	30 June 2006	30 June 2005
Total equity brought forward under previous AGAAP	**-**	138,376,943
Reclassification of unitholders' funds to debt	**-**	(138,376,943)
Total equity carried forward under AIFRS	**-**	-

Notes to the financial statements for the year ended 30 June 2006

Note 2 - Net assets attributable to unitholders

	2006 No. of units	**2006 $**	2005 No. of units	2005 $
Opening balance	**109,183,136**	**138,376,943**	91,851,306	114,154,301
Issued	**45,615,849**	**59,777,713**	24,419,579	32,523,563
Redeemed	**(10,256,944)**	**(13,562,129)**	(7,087,749)	(9,507,767)
Change in net assets attributable to unitholders	**-**	**(3,013,228)**	-	1,206,846
Net assets attributable to unitholders	**144,542,041**	**181,579,299**	109,183,136	138,376,943

Note 3 - Cash and cash equivalents

	2006	2005
Cash at bank	**33,401**	79,809
Short term bank deposits	**6,186,752**	3,316,463
	6,220,153	3,396,272

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Deposits at call is money invested in high interest bank account. Interest is calculated daily based on daily bank deposit rates.

Reconciliation of cash

Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	2006	2005
Cash at bank	**33,401**	79,809
At call deposits with banks	**6,186,752**	3,316,463
	6,220,153	3,396,272

Note 4 - Trade and other receivables

	2006	2005
Dividend receivable	**63,128**	35,937
Interest receivable	**416,277**	403,208
Investment sales	**489,045**	420,062
Trust distributions receivable	**668,341**	316,508
Debtors	**228,704**	135,769
	1,865,495	1,311,484

Notes to the financial statements for the year ended 30 June 2006

Note 5 - Financial assets	2006 $	2005 $
Equities		
Australian listed	**48,724,512**	4,881,328
International listed	**27,718,044**	14,491,039
Unlisted	**469,044**	469,044
	76,911,600	59,841,411
Unit trusts		
Listed	**10,922,790**	12,348,512
Unlisted	**8,302,476**	6,847,480
	19,225,266	19,195,992
Stapled securities		
Listed	**20,231,741**	5,445,584
	20,231,741	5,445,584
Derivatives		
Currency options	**283,136**	165,962
	283,136	165,962
Interest bearing securities		
Notes/debt instruments secured	**9,112,426**	16,897,955
Notes/debt instruments unsecured	**54,892,122**	42,711,277
Deposits	**1,090,000**	1,090,000
	65,094,548	60,699,232
	181,746,291	145,348,181

Note 6 - Loans

Secured	**4,890,961**	4,670,794
	4,890,961	4,670,794

Australian Ethical Balanced Trust ARSN 089 919 255

Notes to the financial statements for the year ended 30 June 2006

Note 7 - Investment properties	2006 $	2005 $
Residential	**204,091**	252,000
Commercial	**2,613,000**	263,995
Total investment properties	**2,817,091**	515,995
At fair value		
Opening balance at 1 July	**515,995**	512,000
Acquisitions	**2,354,147**	263,995
Disposals	**(77,000)**	(260,000)
Net gain (loss) from fair value adjustment	**23,949**	-
Closing balance at 30 June	**2,817,091**	515,995

(a) Amounts recognised in profit and loss for investment properties

Rental income	**247,928**	9,998
Direct operating expenses from properties that generate rental income	**(200,107)**	(2,926)
Direct operating expenses from properties that did not generate rental income	**(2,265)**	(6,780)
	45,556	292

(b) Valuation basis

The fair value model is applied to all investment properties which are independently revalued every 18 months. Values are based on an active liquid market value and are performed by a registered independent valuer.

(c) Leasing arrangements

The investment properties are leased to tenants under long-term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are as follows:

Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:

Within one year	**279,435**	-
Later than one year but not later than 5 years	**1,027,922**	-
Later than 5 years	**-**	-
	1,307,357	-

Note 8 - Trade and other payables

Trade payables and sundry creditors	**369,158**	291,700
Accrued redemptions	**3,000**	-
Investment purchases	**438,909**	898,642
	811,067	1,190,342

Notes to the financial statements for the year ended 30 June 2006

Note 9 - Distribution paid and payable

	2006 $	2005 $
Net amount available for distribution	**17,896,219**	17,439,250
Distributed		
($0.0209 per unit) half-year ended 31 December 2005	**2,746,594**	1,763,809
($0.1048 per unit) half-year ended 30 June 2006	**15,149,625**	15,675,441
	17,896,219	17,439,250
Undistributed income	**NIL**	NIL

Note 10 - Auditors' remuneration

Amounts received or due and receivable by the Auditors of the scheme for:

	2006 $	2005 $
Auditing the financial report	**24,000**	20,500
Tax and other accounting advice	**5,927**	5,115
	29,927	25,615

Note 11 - Cash flow information

Reconciliation of net cash provided by operating activities with profit (loss) from operating activities

	2006 $	2005 $
Net operating profit for the year from ordinary activities	**14,882,991**	18,646,096
(Increase) Decrease in accrued income	**(392,093)**	(51,320)
Unrealised (increment) decrement on fluctuation in value of investments	**(4,643,160)**	(8,245,252)
Increase (Decrease) in accrued charges & creditors	**77,458**	77,493
(Increase) Decrease in debtors	**(92,935)**	(75,041)
(Profit) Loss on sale of investments	**(4,868,521)**	(6,672,829)
Currency option amortisation	**186,730**	181,215
Net cash provided by (used in) operating activities	**5,150,470**	3,860,362

Note 12 - Segment information

The Australian Ethical Balanced Trust operates in the finance market (within the terms of the Australian Ethical Investment charter) mainly in Australia. During the 2006 financial year the scheme invested in International Listed Securities amounting to $ 27,718,044 (2005 $14,491,039) at market value as at 30 June 2006 (refer note 5). The scheme earned dividends of $ 600,303 (2005 $578,189) from these investments during the year.

Notes to the financial statements for the year ended 30 June 2006

Note 13 - Related party transactions

Australian Ethical Investment Limited (AEIL), as Responsible Entity of the scheme, provides investment services for the scheme in accordance with the scheme's constitution.

Australian Ethical Balanced Trust (AEBT) holds units in the Australian Ethical Income Trust (AEIT) and Australian Ethical Equities Trust (AEET) for whom Australian Ethical Investment Limited is also the Responsible Entity.

Australian Ethical Investment Limited	2006 $	2005 $
a) Transactions between Australian Ethical Investment Limited and Australian Ethical Balanced Trust during the financial year consisted of transactions whereby:		
(i) AEIL provides investment services to AEBT in accordance with the scheme's constitution.	**3,210,497^**	2,393,806^
(ii) AEIL provides accounting services to AEBT in accordance with the scheme's constitution.	**112,336^**	79,796^
(iii) AEIL seeks expense reimbursement from AEBT in accordance with the scheme's constitution.	**54,985^**	45,891^
(iv) AEIL purchased units in AEBT	**400,000**	-
(v) AEIL received a distribution payment from AEBT	**6,564**	-
(vi) AEIL sold interest bearing securities to AEBT	**2,066,913**	-
b) Outstanding balances at balance date:		
Amounts payable to AEIL in relation to investment services, accounting services and reimbursable expenses:	**334,290***	260,907*
Value of units held by AEIL in AEBT	**395,582**	-
Distribution receivable by AEIL from AEBT	**32,914**	-

Australian Ethical Income Trust/ Australian Ethical Equities Trust

	2006 $	2005 $
a) Transactions between Australian Ethical Income Trust/ Australian Ethical Equities Trust and Australian Ethical Balanced Trust during the financial year consisted of transactions whereby:		
(i) AEBT distributions from AEIT	**294,142**	297,701
(ii) AEBT distributions from AEET	**-**	42,514
(iii) AEBT sold units in AEIT	**-**	1,452
(iv) AEBT sold units in AEET	**-**	7,572,025
b) Outstanding balances at balance date:		
Value of units held by AEBT in AEIT	**6,283,976**	6,268,980
Distribution receivable by AEBT from AEIT	**139,528**	150,612

^ These expenses include non-recoverable Reduced Input Tax Credits (RITC)
* These payables include GST

Notes to the financial statements for the year ended 30 June 2006

Note 14 - Key management personnel compensation

AASB 124 "Related Party Disclosures" requires disclosure of compensation of key management personnel. Key management personnel (KMP) is defined as persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The scheme has no employees, however, the directors and other KMP of the Responsible Entity, as stated below, are deemed to be the KMP of the scheme. These individuals and the Responsible Entity comprise the KMP of the scheme.

Names and positions of key management personnel of the Responsible Entity at any time during the financial year

Directors

Name	*Position*	
George Pooley	Chairperson, non-executive	
Ray De Lucia	Director, non-executive	Resigned 10 October 2005
Caroline Le Couteur	Director, executive	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	

Pauline Vamos was appointed as a non-executive director on 1 July 2006.

Other key management personnel

Name	*Position*	
Anne O'Donnell	Chief executive officer	
David Ferris	Investment manager	
Mark Bateman	Chief financial officer	
Philip George	Company secretary / legal counsel	

No KMP of the Responsible Entity was paid any compensation by the scheme during the period and their compensation paid by the Responsible Entity or related entities of the Responsible Entity are not related to services they render to individual schemes. However, in the interests of complete disclosure, the total compensation paid to each KMP has been disclosed below along with other details required by AASB 124.

Compensation policy

Directors

The aggregate amount of compensation payable to directors for the performance of their duties as directors is set by the company in general meeting from time to time. In proposing any motions on director compensation to a general meeting, the board has regard to market rates for directorships in similar companies operating in similar industries. It also has regard to recommendations from its Remuneration Committee. Within the approved aggregate amount, fees paid to individual directors for services as a director are determined by the Board. Currently, the chair receives a higher amount, with other directors receiving an equal amount.

Under the constitution, directors are also entitled to be paid reasonable expenses, compensation for extra services, retirement benefits and superannuation contributions.

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

Other key management personnel

The company's fundamental compensation policy is to treat all staff (including other KMP) in an equitable fashion and not to have special compensation arrangements (including individual performance-based arrangements) for particular staff. All permanent staff (including the CEO, executive directors and secretaries) receive a cash salary and participate in a staff bonus and employee share ownership scheme. These arrangements do not apply to non-executive directors.

Compensation policy also accords with the Australian Ethical Charter, as set out in the constitution of the company. It is designed to ensure the company does not

"exploit people through the payment of low wages or the provision of poor working conditions"

and to facilitate:

"*the development of workers participation in the ownership and control of their work organisations and places.*"

The company reviews individual compensation annually and externally benchmarks compensation levels every two years. Individual staff compensation is then considered with reference to the benchmarks and in accordance with guidelines approved by the Board. The board aims to compensate responsibly and fairly, with reference to the market.

All permanent staff are eligible to participate in an annual staff bonus. Under the company's constitution, before the directors recommend any dividend to be paid out of profits of any one year, they must pay a bonus to current employees which are set by reference to the profit of the company for that year. Each full time staff member receives the same bonus amount and part-time staff (or those not employed full-time through the full year) receives a pro-rata amount. The company's constitution provides that the bonus can be (and often has been) satisfied by the issue of shares, under the employee share ownership scheme.

Notes to the financial statements for the year ended 30 June 2006

Note 14 - Key management personnel compensation - continued

Also under the employee share ownership scheme, a pool of options which would, if exercised, amount to 5% of the company's existing ordinary share capital is issued to staff. All permanent, non-probationary staff are eligible to participate in the plan. The options are issued for nil consideration and the price at which the options can be exercised is set at 10% in excess of the market price of the shares as at the date of grant. The number of options received by an individual staff member depends on their compensation. Options are not exercisable for a period of three years from their date of grant. At the end of the three year period, options must be exercised within a three month exercise window or they lapse. During the three month exercise window, options can also be sold once, with the transferee then needing to exercise during the three month window, or the options lapse. In most circumstances, options will also lapse where an employee's employment ceases before the options are exercisable. The options confer no voting or dividend rights.

Performance-based compensation and company performance

The payment of the staff bonus is set by reference to the profit of the company for a relevant year. Higher company profits in a year correspondingly increase the aggregate amount that directors could determine be paid to current employees as a bonus.

Details of options issued under the employee share ownership plan are set out under compensation policy above. Options are performance based in two ways. Firstly, in most cases, staff must remain an employee for three years from the date of grant of the options to be entitled to exercise them. Option value can only be realised if an employee contributes a significant further period of service to the company. Secondly, option value can only be realised if the market value of the underlying shares increase by 10% between the period of grant and the period when the options can be exercised.

The compensation policy discussed above has broadly been in place for the current and the previous five financial years.

Key management personnel compensation details for the year ended 30 June 2006

Directors' compensation

	Short-term employee benefits			*Post Employment benefits*	*Other Long-term Benefits*	*Termination Benefits*	*Share-based Payment*		
2006	**Cash Salary and Fees**	**Bonus Cash**	**Other**	**Super**			**Bonus Shares**	**Options**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
George Pooley	57,188	-	-	-	-	-	-	-	57,188
Ray De Lucia	3,259	-	-		-	-	-	-	3,259
Caroline Le Couteur	131,882	-	-	11,484	3,196	-	4,300	7,536	158,398
James Thier	124,586	2,153	-	10,300	1,638	-	1,000	6,048	145,725
Howard Pender	113,237	-	-	10,291	1,791	-	1,613	3,128	130,060
Naomi Edwards	28,420	-	-	2,558	-	-	-	-	30,978
Total	458,572	2,153	-	34,633	6,625	-	6,913	16,712	525,608
2005									
George Pooley	45,964	-	-	-	-	-	-	-	45,964
Ray De Lucia	12,974	-	-	-	-	-	-	-	12,974
Trevor Lee	5,000	-	-	450	-	-	-	-	5,450
Caroline Le Couteur	128,468	-	-	10,639	2,206	-	3,500	3,141	147,954
James Thier	112,845	1,800	-	9,802	1,835	-	1,000	2,573	129,855
Howard Pender	111,609	-	-	6,132	951	-	1,225	1,076	120,993
Naomi Edwards	21,689	-	-	1,502	-	-	-	-	23,191
Total	438,549	1,800	-	28,525	4,992	-	5,725	6,790	486,381

Other key management personnel compensation

	Short-term employee benefits			*Post Employment benefits*	*Other Long-term Benefits*	*Termination Benefits*	*Share-based Payment*		
	Cash Salary and Fees	**Bonus Cash**	**Other**	**Super**			**Bonus Shares**	**Options**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
2006									
Anne O'Donnell	172,147	-	-	15,225	4,817	-	4,300	10,100	206,589
David Ferris	134,878	-	-	11,764	3,044	-	4,135	8,773	162,594
Mark Bateman	113,643	4,300	-	10,008	3,287	-	-	7,076	138,314
Philip George	140,622	2,718	-	12,330	2,926	-	-	5,208	163,804
Total	561,290	7,018	-	49,327	14,074	-	8,435	31,157	671,301
2005									
Anne O'Donnell	147,608	-	-	12,695	3,229	-	3,500	3,581	170,613
David Ferris	129,520	-	-	11,025	2,849	-	3,500	3,189	150,083
Mark Bateman	131,505	-	-	10,766	3,191	-	3,500	2,498	151,460
Philip George	78,760	-	-	6,545	1,641	-	-	-	86,946
Christopher Lee	29,569	-	-	2,449	-	-	3,291	-	35,309
Total	516,962	-	-	43,480	10,910	-	13,791	9,268	594,411

Notes to the financial statements for the year ended 30 June 2006

Note 14 - Key management personnel compensation - continued

Cash bonus compensation benefits

Details of cash bonuses paid to key management personal are included in the compensation tables set out above. The bonuses were paid on 21 September 2005. The nature of the cash bonuses and the criteria used to determine the payment of the bonuses are detailed in the compensation policy and in the discussion on performance-based compensation and company performance.

Options granted as compensation (1) – disclosures required under AASB 124

	Vested No.	Granted No. (1)	Grant Date	Value per Option at Grant Date (2) $	Exercise Price $	First Exercise Date	Last Exercise /Expiry Date
Directors							
George Pooley	-	-	-	-	-	-	-
Ray De Lucia	-	-	-	-	-	-	-
Caroline Le Couteur	2,218	2,243	21.09.05	3.36	24.82	21.09.08	20.12.08
James Thier	1,688	1,800	21.09.05	3.36	24.82	21.09.08	20.12.08
Howard Pender	981	931	21.09.05	3.36	24.82	21.09.08	20.12.08
Naomi Edwards	-	-	-	-	-	-	-
	4,887	4,974					
Other key management personnel							
Anne O'Donnell	2,620	3,006	21.09.05	3.36	24.82	21.09.08	20.12.08
David Ferris	2,313	2,611	21.09.05	3.36	24.82	21.09.08	20.12.08
Mark Bateman	1,752	2,106	21.09.05	3.36	24.82	21.09.08	20.12.08
Philip George	-	1,550	21.09.05	3.36	24.82	21.09.08	20.12.08
	6,685	9,273					

(1) Each option above is granted by Australian Ethical Investment Limited (AEI) and is for one ordinary share in AEI.
(2) Options were granted as part of compensation and the recipient did not otherwise pay for the grant of the options.

Details of shareholdings - changes to shareholdings, including as a result of the exercise of options granted as compensation
Number of Shares held by key management personnel.

	Balance 01.07.05	Share in lieu of Cash Bonus	Options Exercised/ Shares Issued (1)	Net Change Other (2)	Balance 30.06.06 (3)&(4)
Directors					
George Pooley	-	-	-	-	-
Caroline Le Couteur	41,869	190	2,218	-	44,277
James Thier	60,110	44	1,688	(1,688)	60,154
Howard Pender	51,107	71	981	(981)	51,178
Naomi Edwards	-	-	-	-	-
Other key management personnel					
Anne O'Donnell	3,125	190	2,620	(2,620)	3,315
David Ferris	2,031	183	2,313	(1,765)	2,762
Mark Bateman	2,268	-	1,752	(3,038)	982
Philip George	375	-	-	-	375
Total	160,885	678	11,572	(10,092)	163,043

(1) The amount paid for shares issued on exercise of options is $18.26 in all cases.
(2) Net change other refers to shares purchased or sold during the financial year.
(3) Shares issued are fully paid
(4) Balance represents shareholdings by KMP including their related parties as required by AASB 124 Related Party Disclosures.

Notes to the financial statements for the year ended 30 June 2006

Note 14 - Key management personnel compensation - continued

Equity instrument disclosures relating to key management personnel

Option holdings
Number of options held by key management personnel

	Balance 01.07.05	Granted as Remun-eration	Options Exercised	Net Change Other	Balance 30.06.06	Total Vested 30.06.06	Total Exer-cisable 30.06.06	Total Unexer-cisable 30.06.06
Directors								
George Pooley	-	-	-	-	-	-	-	-
Caroline Le Couteur	7,377	2,243	(2,218)	-	7,402	-	-	7,402
James Thier	5,820	1,800	(1,688)	-	5,932	-	-	5,932
Howard Pender	2,699	931	(981)	-	2,649	-	-	2,649
Naomi Edwards	-	-	-	-	-	-	-	-
Other key management personnel								
Anne O'Donnell	8,287	3,006	(2,620)	-	8,673	-	-	8,673
David Ferris	7,362	2,611	(2,313)	-	7,660	-	-	7,660
Mark Bateman	5,712	2,106	(1,752)	-	6,066	-	-	6,066
Philip George	-	1,550	-	-	1,550	-	-	1,550
Total	37,257	14,247	(11,572)	-	39,932	-	-	39,932

Alterations to the terms of options

The terms of all options issued under the employee share ownership plan (including those held by key management personnel) were altered by ordinary resolution at the Annual General Meeting held 24 November 2005. The resolution passed at the meeting changed the condition that:

> *Options issued under these arrangements [being the employee share ownership plan] are not transferable.*

to:

> *Options issued under these arrangements are not transferable, except that during the exercise period they may be transferred from the employee to another party. That party is entitled to exercise any option so transferred (in accordance with these terms and conditions) but cannot further transfer the options to any other party or otherwise deal with the options other than by way of exercising them.*

No other terms or conditions were changed.

It is the view of the directors that the total of the fair value of the options affected by the alteration immediately before the alteration and the total of the fair value of the options immediately after the alteration was the same. The change was approved by shareholders so as to enable employees to have an alternative mechanism to realise any option value at the time of exercise, rather than to change the underlying value of the options.

Explanation of relative proportions of elements of compensation that are related to performance

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

The compensation of KMP is not subject to individual performance conditions. People holding these positions are entitled to participate in the staff bonus and employee share ownership scheme described above. These make up a very small proportion of the overall compensation of people holding these positions.

Employment contracts of directors and senior executives

For each individual whose compensation has been disclosed in this report and is employed under an employment contract, the details of the employment contract are as follows:

Name	***Duration of contract***	***Period of termination notice required***	***Termination payment provided for under the contract***
Caroline Le Couteur	Ongoing	As per minimum requirements under the Workplace Relations Act 1996	None except for accrued leave and any payment in-lieu of notice
James Thier			
Howard Pender			
Anne O'Donnell			
David Ferris			
Mark Bateman			
Philip George			

Notes to the financial statements for the year ended 30 June 2006

Note 15 - Financial instruments

a) Financial risk management

The scheme's financial instruments consist of cash and cash equivalents, trade and other receivables, financial assets, loans, investment properties, trade and other payables and distribution payable.

The scheme's activities expose it to a variety of financial risks. The scheme's overall risk management objective is to manage the potential adverse effects of these risks on the distributable earnings of the scheme in a cost effective manner. Risk management is carried out in accordance with scheme investment parameters approved by the Board of Directors.

b) Interest rate risk

The scheme's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted average interest rate		Floating interest rate		Fixed interest rate within 1 year	
	2006	2005	**2006**	2005	**2006**	2005
	%	%	**$**	$	**$**	$
Cash and cash equivalents	**5**	5	**6,220,153**	3,396,272	**-**	-
Trade and other receivables			**-**	-	**-**	-
Financial assets	**6**	6	**58,841,113**	57,021,818	**5,259,884**	2,294,687
Loans	**7**	8	**350,000**	180,000	**1,138,453**	416,964
Investment properties			**-**	-	**-**	-
Total financial assets			**65,411,266**	60,598,090	**6,398,337**	2,711,651
Trade and other payables			**-**	-	**-**	-
Distribution payable			**-**	-	**-**	-
Total financial liabilities			**-**	-	**-**	-

	Fixed interest rate within 1 to 5 years		Fixed interest rate over 5 years	
Cash and cash equivalents	**-**	-	**-**	-
Trade and other receivables	**-**	-	**-**	-
Financial assets	**993,550**	1,382,727	**-**	-
Loans	**2,190,622**	3,263,691	**-**	-
Investment properties	**-**	-	**-**	-
Total financial assets	**3,184,172**	4,646,418	**-**	-
Trade and other payables	**-**	-	**-**	-
Distribution payable	**-**	-	**-**	-
Total financial liabilities	**-**	-	**-**	-

	Non-interest bearing		Total	
Cash and cash equivalents	**-**	-	**6,220,153**	3,396,272
Trade and other receivables	**1,865,495**	1,311,484	**1,865,495**	1,311,484
Financial assets	**116,651,744**	84,648,949	**181,746,291**	145,348,181
Loans	**1,211,886**	810,139	**4,890,961**	4,670,794
Investment properties	**2,817,091**	515,995	**2,817,091**	515,995
Total financial assets	**122,546,216**	87,286,567	**197,539,991**	155,242,726
Trade and other payables	**811,067**	1,190,342	**811,067**	1,190,342
Distribution payable	**15,149,625**	15,675,441	**15,149,625**	15,675,441
Total financial liabilities	**15,960,692**	16,865,783	**15,960,692**	16,865,783

Notes to the financial statements for the year ended 30 June 2006

Note 15 - Financial instruments - continued

c) Credit risk

Credit risk represents the risk that a counterparty will fail to perform contractual obligations under a contract. The scheme's maximum credit risk exposure at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Balance Sheet.

d) Market risk

Market risk represents the risk that a financial instrument's value will fluctuate as a result of changes in the market. Market risk is managed through ensuring that all investment activities are undertaken in accordance with established limits and investment strategies.

e) Liquidity and cash flow risk

Liquidity risk is the risk that the scheme will encounter difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments. Cash flow risk is the risk that future cash flows associated with financial instruments will fluctuate in amount. To control liquidity and cash flow risk, the scheme invests in financial instruments, which under normal market conditions are readily convertible into cash. In addition, the scheme operates within established limits to ensure there is no concentration of risk.

f) Net fair values

The net fair values of:

Listed investments have been valued at the quoted market bid price at balance date. For unlisted investments where there is no organised financial market, the net fair value has been based on a reasonable estimation of the underlying net assets.

Other assets and other liabilities approximate their carrying value.

Note 16 - Events after the Balance Sheet date

Since the end of the financial year, no material events that may have an impact on these financial statements have occurred. The financial report was authorised for issue on director's declaration date by the directors of the Responsible Entity.

Note 17 - Scheme details

The registered office and principal place of business of the scheme is Canberra Business Centre, Bradfield St, Downer ACT 2602.

The principal activity of the scheme is to pool investors' savings to invest in a portfolio of short, medium and long term investments, both domestic and international. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the scheme investors) with a competitive financial return.

Notes to the financial statements for the year ended 30 June 2006

Note 18 - Accounting standards

The following Australian Accounting Standards have been issued or amended and are applicable to the scheme but are not yet effective and have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	AASB Standard affected	Nature of change in accounting policy and impact	Application date of the standard	Application date for the scheme
2004-3	AASB 1: First-time Adoption of AIFRS	No change, no impact	1-Jan-06	1-Jul-06
	AASB 101: Presentation of Financial Statements	No change, no impact	1-Jan-06	1-Jul-06
	AASB 124: Related Party Disclosures	No change, no impact	1-Jan-06	1-Jul-06
2005-10	AASB 139: Financial Instruments: Recognition and Management	No change, no impact	1-Jan-07	1-Jul-07
	AASB 101: Presentation of Financial Statements	No change, no impact	1-Jan-07	1-Jul-07
	AASB 114: Segment Reporting	No change, no impact	1-Jan-07	1-Jul-07
	AASB 117: Leases	No change, no impact	1-Jan-07	1-Jul-07
	AASB 132: Financial Instruments: Disclosure and Presentation	No change, no impact	1-Jan-07	1-Jul-07
	AASB 133: Earnings per Share	No change, no impact	1-Jan-07	1-Jul-07
	AASB 1: First-time Adoption of AIFRS	No change, no impact	1-Jan-07	1-Jul-07
	AASB 4: Insurance Contracts	No change, no impact	1-Jan-07	1-Jul-07
	AASB 1023: General Insurance Contracts	No change, no impact	1-Jan-07	1-Jul-07
	AASB 1038: Life Insurance Contracts	No change, no impact	1-Jan-07	1-Jul-07
New Standard	AASB 7: Financial Instruments: Disclosure	No affect on amounts recognised but will impact the type of information disclosed in relation to financial instruments.	1-Jan-07	1-Jul-07

All other pending Standards issued between the previous financial report and the current reporting date have no application to the scheme.

AASB Amendment	AASB Standard affected
2005-1	AASB 139: Financial Instruments: Recognition and Management
2005-4	AASB 139: Financial Instruments: Recognition and Management
	AASB 132: Financial Instruments: Disclosure and Presentation
	AASB 1: First-time Adoption of AIFRS
	AASB 1023: General Insurance Contracts
	AASB 1038: Life Insurance Contracts
2005-5	AASB 1: First-time Adoption of AIFRS
	AASB 139: Financial Instruments: Recognition and Management
2005-6	AASB 3: Business Combinations
2005-9	AASB 4: Insurance Contracts
	AASB 1023: General Insurance Contracts
	AASB 139: Financial Instruments: Recognition and Management
	AASB 132: Financial Instruments: Disclosure and Presentation
2006-1	AASB 121: The Effects of Changes in Foreign Exchange Rates
New Standard	AASB 119: Employee Benefits

DIRECTORS' DECLARATION

The Directors of Australian Ethical Investment Limited, the responsible entity of Australian Ethical Balanced Trust, declare that:

1. the financial statements and notes, as set out on pages 4 to 21 are in accordance with the Corporations Act 2001:

   (a) comply with accounting standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the financial position as at 30 June 2006 and of the performance for the financial year ended on that date.

2. in the director's opinion there are reasonable grounds to believe that the scheme will be able to pay its debts as and when they become due and payable.

3. the scheme has operated during the financial year ended 30 June 2006 in accordance with the provisions of the scheme's constitution.

This declaration is made in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.

George Pooley
Director
Australian Ethical Investment Limited
ABN 47 003 188 930
25 September 2006

INDEPENDENT AUDIT REPORT TO THE UNITHOLDERS

Scope

We have audited the financial report of Australian Ethical Balanced Trust consisting of the Balance Sheet, the Income Statement, the Cash Flow Statement, the accompanying notes to the Financial Statements and the Directors' Declaration for the financial year ended 30 June, 2006. The Directors of the Responsible Entity, Australian Ethical Investment Ltd., are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the Unitholders.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia, and statutory requirements and the provisions of the scheme's constitution, so as to present a view which is consistent with our understanding of the scheme's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Australian Ethical Balanced Trust for the year ended 30 June, 2006 is in accordance with:

(a) the Corporations Act 2001, including

(i) giving a true and fair view of the scheme's financial position as at 30 June, 2006 and of its performance for the year ended on that date; and

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

(b) other mandatory professional reporting requirements; and

(c) the provisions of the scheme's constitution.

Thomas Davis & Co

THOMAS DAVIS & CO.

RC Geeves

R. C. GEEVES PARTNER

Chartered Accountants

Sydney,
25 September 2006

Liability limited by a scheme approved under Professional Standards Legislation.

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2006 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Thomas Davis & Co

THOMAS DAVIS & CO.

RC Geeves

R. C. GEEVES PARTNER

Date 25 September 2006

Liability limited by a scheme approved under Professional Standards Legislation.

Balance Sheet
as at 30 June 2006

	Notes	2006 $	2005 $
Assets			
Cash and cash equivalents	3	**2,113,536**	1,285,312
Trade and other receivables	4	**127,908**	82,069
Financial assets	5	**16,493,405**	13,815,307
Loans	6	**2,093,404**	2,482,259
Total assets		**20,828,253**	17,664,947
Liabilities			
Trade and other payables	7	**24,799**	21,139
Distribution payable	8	**450,724**	412,975
Total liabilities excluding net assets attributable to unitholders		**475,523**	434,114
Net assets attributable to unitholders	2	**20,352,730**	17,230,833
Total liabilities		**20,828,253**	17,664,947

The accompanying notes form part of these financial statements.

Income Statement
for the year ended 30 June 2006

	Notes	2006 $	2005 $
Investment income			
Interest received & receivable		**1,165,257**	1,057,048
Other income		**2,572**	-
Unrealised increment (decrement) on fluctuation in value of investments		**(15,023)**	3,908
		1,152,806	1,060,956
Less expenditure			
Accounting fees	12	**40,455**	31,777
Auditors' remuneration	9	**10,773**	10,507
Printing & other costs		**13,064**	14,725
Reimbursable expenses	12	**4,528**	4,480
Responsible entity fees	12	**204,962**	187,911
		273,782	249,400
Profit (loss) from operating activities		**879,024**	811,556
Finance costs - distributions to unitholders	8	**(894,047)**	(807,648)
Change in net assets attributable to unitholders	2	**(15,023)**	3,908

The accompanying notes form part of these financial statements.

Cash Flow Statement
for the year ended 30 June 2006

	Notes	2006 $	2005 $
Cash flows from operating activities			
Interest received		**1,122,281**	1,070,595
Other income received		**2,572**	-
Expenses		**(272,985)**	(247,413)
Net cash provided by (used in) operating activities	10	**851,868**	823,182
Cash flows from investing activities			
Proceeds from sale of investments		**8,473,633**	9,709,269
Customer loans repaid		**655,801**	662,881
Customer loans granted		**(266,946)**	(1,157,056)
Purchase of investments		**(11,166,757)**	(10,225,496)
Net cash provided by (used in) investing activities		**(2,304,269)**	(1,010,402)
Cash flows from financing activities			
Proceeds from issue of units		**4,605,502**	2,435,516
Payment of redemption of units		**(1,919,202)**	(1,591,951)
Distributions paid		**(405,675)**	(400,194)
Net cash provided by (used in) financing activities		**2,280,625**	443,371
Net increase (decrease) in cash held		**828,224**	256,151
Cash at beginning of financial year		**1,285,312**	1,029,161
Cash at end of financial year	3	**2,113,536**	1,285,312

The accompanying notes form part of these financial statements.

Notes to the financial statements for the year ended 30 June 2006

Note 1 - Statement of significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with the Australian Ethical Investment Schemes Constitution, Australian Accounting Standards, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report covers Australian Ethical Income Trust as an individual entity. Australian Ethical Income Trust is established and domiciled in Australia.

The financial report of Australian Ethical Income Trust as an individual entity complies with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the scheme in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of preparation

First time Adoption of Australian equivalents to International Financial Reporting Standards

Australian Ethical Income Trust as an individual entity has prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian equivalents to International Financial Reporting Standards, adjustments to the entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These accounts are the first financial statements of Australian Ethical Income Trust to be prepared in accordance with AIFRS.

The accounting policies set out below have been consistently applied to all years presented.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected financial assets for which the fair value basis of accounting has been applied.

Accounting policies

(a) Cash and cash equivalents

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

(b) Financial instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments.

Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the Income Statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Notes to the financial statements for the year ended 30 June 2006

Note 1 - Statement of significant accounting policies - continued

(b) Financial instruments - continued

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

(c) Payables

Liabilities are recognised for all amounts due at balance date. Creditors are normally settled within 30 days.

(d) Distribution

Australian Ethical distributes to the unitholders of each scheme the income (generally net taxable income plus non-taxable income, not including realised capital gains) earned by the schemes each six months. In addition, normally taxable capital gains realised over the full financial year will be included with the distribution for the six months ending 30 June. The non-taxable component of income may be retained in the schemes.

'Net taxable income' is all the income earned by the scheme, less expenses incurred in obtaining that income, and is determined in accordance with section 95 of the Income Tax Assessment Act.

(e) Change in net assets attributable to unitholders

Change in net assets attributable to unitholders may consist of realised net capital losses and unrealised increments and decrements arising on fluctuation in value of investments. They are included in the determination of distributable income when assessable for taxation purposes.

(f) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Unrealised increments and decrements arising on fluctuation in value of investments are included in the net operating income for the year.

(g) Goods and Services Tax (GST)

The scheme qualifies for Reduced Input Tax Credits (RITC's) at a rate of 75%.

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the Balance Sheet are shown inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Balance Sheet.

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

(h) Income tax

No tax is payable by the scheme as all taxable income is distributed to unitholders.

(i) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Notes to the financial statements for the year ended 30 June 2006

Note 1 - Statement of significant accounting policies - continued

(j) Impact of adoption of AIFRS

Financial assets

Under AASB 139: Financial Instruments: Recognition and Measurement, financial instruments that are classified as financial assets at fair value through profit or loss are using where applicable quoted market bid prices. Unrealised gains or losses are recognised through the Income Statement.

Previous accounting policy was to measure investments at the carrying amount which was reviewed by directors to ensure it was not in excess of the recoverable amount of these investments. The recoverable amount was assessed from the quoted market last sale price, estimated realisable value or cost.

Treatment of unitholders' funds

Under AASB 132 Financial Instruments: Disclosure and Presentation Unitholders' Funds are no longer treated as equity as the units are redeemable by the unitholders.

The scheme has not elected to apply the exemption under AASB 1 from restatement of comparatives for AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement. In preparing the opening AIFRS compliant Balance Sheet, adjustments have been made to the comparatives previously reported under Australian Generally Accepted Accounting Principles (AGAAP) as follows:

	30 June 2006	30 June 2005
Total equity brought forward under previous AGAAP	**-**	17,230,833
Reclassification of unitholders' funds to debt	**-**	(17,230,833)
Total equity carried forward under AIFRS	**-**	-

Notes to the financial statements for the year ended 30 June 2006

Note 2 - Net assets attributable to unitholders

	2006 No. of units	2006 $	2005 No. of units	2005 $
Opening balance	**17,920,218**	**17,230,833**	16,621,352	15,968,424
Issued	**5,247,616**	**5,123,285**	2,888,182	2,804,788
Redeemed	**(2,033,028)**	**(1,986,365)**	(1,589,316)	(1,546,287)
Change in net assets attributable to unitholders	**-**	**(15,023)**	-	3,908
Net assets attributable to unitholders	**21,134,806**	**20,352,730**	17,920,218	17,230,833

Note 3 - Cash and cash equivalents

	2006	2005
Cash at bank	**10,000**	10,000
Short term bank deposits	**2,103,536**	1,275,312
	2,113,536	1,285,312

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Deposits at call is money invested in high interest bank account. Interest is calculated daily based on daily bank deposit rates.

Reconciliation of cash

Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

	2006	2005
Cash at bank	**10,000**	10,000
At call deposits with banks	**2,103,536**	1,275,312
	2,113,536	1,285,312

Note 4 - Trade and other receivables

	2006	2005
Interest receivable	**120,763**	77,787
Debtors	**7,145**	4,282
	127,908	82,069

Note 5 - Financial assets

	2006	2005
Stapled securities		
Listed	**402,600**	-
	402,600	-
Interest bearing securities		
Notes/debt instruments secured	**4,025,787**	5,576,937
Notes/debt instruments unsecured	**11,855,018**	8,028,370
Deposits	**210,000**	210,000
	16,090,805	13,815,307
	16,493,405	13,815,307

Note 6 - Loans

	2006	2005
Secured	**2,093,404**	2,482,259
	2,093,404	2,482,259

Notes to the financial statements for the year ended 30 June 2006

Note 7 - Trade and other payables

	2006 $	2005 $
Trade payables and sundry creditors	**24,799**	21,139
	24,799	21,139

Note 8 - Distribution paid and payable

	2006	2005
Net amount available for distribution	**894,047**	807,648
Distributed		
($0.0238 per unit) half-year ended 31 December 2005	**443,323**	394,673
($0.0213 per unit) half-year ended 30 June 2006	**450,724**	412,975
	894,047	807,648
Undistributed income	**NIL**	NIL

Note 9 - Auditors' remuneration

Amounts received or due and receivable by the Auditors of the scheme for:

	2006	2005
Auditing the financial report	**7,900**	7,700
Tax and other accounting advice	**2,873**	2,807
	10,773	10,507

Note 10 - Cash flow information

Reconciliation of net cash provided by operating activities with profit (loss) from operating activities

	2006	2005
Net operating profit for the year from ordinary activities	**879,024**	811,556
(Increase) Decrease in accrued income	**(42,976)**	13,547
Unrealised (increment) decrement on fluctuation in value of investments	**15,023**	(3,908)
Increase (Decrease) in accrued charges & creditors	**3,660**	2,217
(Increase) Decrease in debtors	**(2,863)**	(230)
Net cash provided by (used in) operating activities	**851,868**	823,182

Note 11 - Segment information

The Australian Ethical Income Trust operates in the finance market (within the terms of the Australian Ethical Investment charter) in Australia.

Notes to the financial statements for the year ended 30 June 2006

Note 12 - Related party transactions

Australian Ethical Investment Limited (AEIL), as Responsible Entity of the scheme, provides investment services for the scheme in accordance with the scheme's constitution.

Australian Ethical Balanced Trust (AEBT) holds units in the Australian Ethical Income Trust (AEIT) for whom Australian Ethical Investment Limited is also the Responsible Entity.

	2006 $	2005 $
Australian Ethical Investment Limited		
a) Transactions between Australian Ethical Investment Limited and Australian Ethical Income Trust during the financial year consisted of transactions whereby:		
(i) AEIL provides investment services to AEIT in accordance with the scheme's constitution.	**204,962^**	187,911^
(ii) AEIL provides accounting services to AEIT in accordance with the scheme's constitution.	**40,455^**	31,777^
(iii) AEIL seeks expense reimbursement from AEIT in accordance with the scheme's constitution.	**4,528^**	4,480^
b) Outstanding balances at balance date:		
Amounts payable to AEIL in relation to investment services, accounting services and reimbursable expenses:	**24,435***	20,798*
Australian Ethical Balanced Trust		
a) Transactions between Australian Ethical Balanced Trust and Australian Ethical Income Trust during the financial year consisted of transactions whereby:		
(i) AEBT distributions from AEIT	**294,142**	297,701
(ii) AEBT sold units in AEIT	**-**	1,452
b) Outstanding balances at balance date:		
Value of units held by AEBT in AEIT	**6,283,976**	6,268,980
Distribution receivable by AEBT from AEIT	**139,528**	150,612

^ These expenses include non-recoverable Reduced Input Tax Credits (RITC)
* These payables include GST

Notes to the financial statements for the year ended 30 June 2006

Note 13 - Key management personnel compensation

AASB 124 "Related Party Disclosures" requires disclosure of compensation of key management personnel. Key management personnel (KMP) is defined as persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The scheme has no employees, however, the directors and other KMP of the Responsible Entity, as stated below, are deemed to be the KMP of the scheme. These individuals and the Responsible Entity comprise the KMP of the scheme.

Names and positions of key management personnel of the Responsible Entity at any time during the financial year

Directors

Name	*Position*	
George Pooley	Chairperson, non-executive	
Ray De Lucia	Director, non-executive	Resigned 10 October 2005
Caroline Le Couteur	Director, executive	
James Thier	Director, executive	
Howard Pender	Director, executive	
Naomi Edwards	Director, non-executive	

Pauline Vamos was appointed as a non-executive director on 1 July 2006.

Other key management personnel

Name	*Position*	
Anne O'Donnell	Chief executive officer	
David Ferris	Investment manager	
Mark Bateman	Chief financial officer	
Philip George	Company secretary / legal counsel	

No KMP of the Responsible Entity was paid any compensation by the scheme during the period and their compensation paid by the Responsible Entity or related entities of the Responsible Entity are not related to services they render to individual schemes. However, in the interests of complete disclosure, the total compensation paid to each KMP has been disclosed below along with other details required by AASB 124.

Compensation policy

Directors

The aggregate amount of compensation payable to directors for the performance of their duties as directors is set by the company in general meeting from time to time. In proposing any motions on director compensation to a general meeting, the board has regard to market rates for directorships in similar companies operating in similar industries. It also has regard to recommendations from its Remuneration Committee. Within the approved aggregate amount, fees paid to individual directors for services as a director are determined by the Board. Currently, the chair receives a higher amount, with other directors receiving an equal amount.

Under the constitution, directors are also entitled to be paid reasonable expenses, compensation for extra services, retirement benefits and superannuation contributions.

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

Other key management personnel

The company's fundamental compensation policy is to treat all staff (including other KMP) in an equitable fashion and not to have special compensation arrangements (including individual performance-based arrangements) for particular staff. All permanent staff (including the CEO, executive directors and secretaries) receive a cash salary and participate in a staff bonus and employee share ownership scheme. These arrangements do not apply to non-executive directors.

Compensation policy also accords with the Australian Ethical Charter, as set out in the constitution of the company. It is designed to ensure the company does not

"exploit people through the payment of low wages or the provision of poor working conditions"

and to facilitate:

"*the development of workers participation in the ownership and control of their work organisations and places.*"

The company reviews individual compensation annually and externally benchmarks compensation levels every two years. Individual staff compensation is then considered with reference to the benchmarks and in accordance with guidelines approved by the Board. The board aims to compensate responsibly and fairly, with reference to the market.

All permanent staff are eligible to participate in an annual staff bonus. Under the company's constitution, before the directors recommend any dividend to be paid out of profits of any one year, they must pay a bonus to current employees which are set by reference to the profit of the company for that year. Each full time staff member receives the same bonus amount and part-time staff (or those not employed full-time through the full year) receives a pro-rata amount. The company's constitution provides that the bonus can be (and often has been) satisfied by the issue of shares, under the employee share ownership scheme.

Notes to the financial statements for the year ended 30 June 2006

Note 13 - Key management personnel compensation - continued

Also under the employee share ownership scheme, a pool of options which would, if exercised, amount to 5% of the company's existing ordinary share capital is issued to staff. All permanent, non-probationary staff are eligible to participate in the plan. The options are issued for nil consideration and the price at which the options can be exercised is set at 10% in excess of the market price of the shares as at the date of grant. The number of options received by an individual staff member depends on their compensation. Options are not exercisable for a period of three years from their date of grant. At the end of the three year period, options must be exercised within a three month exercise window or they lapse. During the three month exercise window, options can also be sold once, with the transferee then needing to exercise during the three month window, or the options lapse. In most circumstances, options will also lapse where an employee's employment ceases before the options are exercisable. The options confer no voting or dividend rights.

Performance-based compensation and company performance

The payment of the staff bonus is set by reference to the profit of the company for a relevant year. Higher company profits in a year correspondingly increase the aggregate amount that directors could determine be paid to current employees as a bonus.

Details of options issued under the employee share ownership plan are set out under compensation policy above. Options are performance based in two ways. Firstly, in most cases, staff must remain an employee for three years from the date of grant of the options to be entitled to exercise them. Option value can only be realised if an employee contributes a significant further period of service to the company. Secondly, option value can only be realised if the market value of the underlying shares increase by 10% between the period of grant and the period when the options can be exercised.

The compensation policy discussed above has broadly been in place for the current and the previous five financial years.

Key management personnel compensation details for the year ended 30 June 2006

Directors' compensation

	Short-term employee benefits			Post Employment benefits	Other Long-term Benefits	Termination Benefits	Share-based Payment		
2006	**Cash Salary and Fees**	**Bonus Cash**	**Other**	**Super**			**Bonus Shares**	**Options**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
George Pooley	57,188	-	-	-	-	-	-	-	57,188
Ray De Lucia	3,259	-	-		-	-	-	-	3,259
Caroline Le Couteur	131,882	-	-	11,484	3,196	-	4,300	7,536	158,398
James Thier	124,586	2,153	-	10,300	1,638	-	1,000	6,048	145,725
Howard Pender	113,237	-	-	10,291	1,791	-	1,613	3,128	130,060
Naomi Edwards	28,420	-	-	2,558	-	-	-	-	30,978
Total	458,572	2,153	-	34,633	6,625	-	6,913	16,712	525,608
2005									
George Pooley	45,964	-	-	-	-	-	-	-	45,964
Ray De Lucia	12,974	-	-	-	-	-	-	-	12,974
Trevor Lee	5,000	-	-	450	-	-	-	-	5,450
Caroline Le Couteur	128,468	-	-	10,639	2,206	-	3,500	3,141	147,954
James Thier	112,845	1,800	-	9,802	1,835	-	1,000	2,573	129,855
Howard Pender	111,609	-	-	6,132	951	-	1,225	1,076	120,993
Naomi Edwards	21,689	-	-	1,502	-	-	-	-	23,191
Total	438,549	1,800	-	28,525	4,992	-	5,725	6,790	486,381

Other key management personnel compensation

	Short-term employee benefits			Post Employment benefits	Other Long-term Benefits	Termination Benefits	Share-based Payment		
	Cash Salary and Fees	**Bonus Cash**	**Other**	**Super**			**Bonus Shares**	**Options**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
2006									
Anne O'Donnell	172,147	-	-	15,225	4,817	-	4,300	10,100	206,589
David Ferris	134,878	-	-	11,764	3,044	-	4,135	8,773	162,594
Mark Bateman	113,643	4,300	-	10,008	3,287	-	-	7,076	138,314
Philip George	140,622	2,718	-	12,330	2,926	-	-	5,208	163,804
Total	561,290	7,018	-	49,327	14,074	-	8,435	31,157	671,301
2005									
Anne O'Donnell	147,608	-	-	12,695	3,229	-	3,500	3,581	170,613
David Ferris	129,520	-	-	11,025	2,849	-	3,500	3,189	150,083
Mark Bateman	131,505	-	-	10,766	3,191	-	3,500	2,498	151,460
Philip George	78,760	-	-	6,545	1,641	-	-	-	86,946
Christopher Lee	29,569	-	-	2,449	-	-	3,291	-	35,309
Total	516,962	-	-	43,480	10,910	-	13,791	9,268	594,411

Notes to the financial statements for the year ended 30 June 2006

Note 13 - Key management personnel compensation - continued

Cash bonus compensation benefits

Details of cash bonuses paid to key management personal are included in the compensation tables set out above. The bonuses were paid on 21 September 2005. The nature of the cash bonuses and the criteria used to determine the payment of the bonuses are detailed in the compensation policy and in the discussion on performance-based compensation and company performance.

Options granted as compensation (1) – disclosures required under AASB 124

	Vested No.	**Granted No. (1)**	**Grant Date**	**Value per Option at Grant Date (2) $**	**Exercise Price $**	**First Exercise Date**	**Last Exercise /Expiry Date**
Directors							
George Pooley	-	-	-	-	-	-	-
Ray De Lucia	-	-	-	-	-	-	-
Caroline Le Couteur	2,218	2,243	21.09.05	3.36	24.82	21.09.08	20.12.08
James Thier	1,688	1,800	21.09.05	3.36	24.82	21.09.08	20.12.08
Howard Pender	981	931	21.09.05	3.36	24.82	21.09.08	20.12.08
Naomi Edwards	-	-	-	-	-	-	-
	4,887	4,974					
Other key management personnel							
Anne O'Donnell	2,620	3,006	21.09.05	3.36	24.82	21.09.08	20.12.08
David Ferris	2,313	2,611	21.09.05	3.36	24.82	21.09.08	20.12.08
Mark Bateman	1,752	2,106	21.09.05	3.36	24.82	21.09.08	20.12.08
Philip George	-	1,550	21.09.05	3.36	24.82	21.09.08	20.12.08
	6,685	9,273					

(1) Each option above is granted by Australian Ethical Investment Limited (AEI) and is for one ordinary share in AEI.
(2) Options were granted as part of compensation and the recipient did not otherwise pay for the grant of the options.

Details of shareholdings - changes to shareholdings, including as a result of the exercise of options granted as compensation
Number of Shares held by key management personnel.

	Balance 01.07.05	Share in lieu of Cash Bonus	Options Exercised/ Shares Issued (1)	Net Change Other (2)	Balance 30.06.06 (3)&(4)
Directors					
George Pooley	-	-	-	-	-
Caroline Le Couteur	41,869	190	2,218	-	44,277
James Thier	60,110	44	1,688	(1,688)	60,154
Howard Pender	51,107	71	981	(981)	51,178
Naomi Edwards	-	-	-	-	-
Other key management personnel					
Anne O'Donnell	3,125	190	2,620	(2,620)	3,315
David Ferris	2,031	183	2,313	(1,765)	2,762
Mark Bateman	2,268	-	1,752	(3,038)	982
Philip George	375	-	-	-	375
Total	160,885	678	11,572	(10,092)	163,043

(1) The amount paid for shares issued on exercise of options is $18.26 in all cases.
(2) Net change other refers to shares purchased or sold during the financial year.
(3) Shares issued are fully paid
(4) Balance represents shareholdings by KMP including their related parties as required by AASB 124 Related Party Disclosures.

Notes to the financial statements for the year ended 30 June 2006

Note 13 - Key management personnel compensation - continued

Equity instrument disclosures relating to key management personnel

Option holdings
Number of options held by key management personnel

	Balance 01.07.05	Granted as Remun-eration	Options Exercised	Net Change Other	Balance 30.06.06	Total Vested 30.06.06	Total Exer-cisable 30.06.06	Total Unexer-cisable 30.06.06
Directors								
George Pooley	-	-	-	-	-	-	-	-
Caroline Le Couteur	7,377	2,243	(2,218)	-	7,402	-	-	7,402
James Thier	5,820	1,800	(1,688)	-	5,932	-	-	5,932
Howard Pender	2,699	931	(981)	-	2,649	-	-	2,649
Naomi Edwards	-	-	-	-	-	-	-	-
Other key management personnel								
Anne O'Donnell	8,287	3,006	(2,620)	-	8,673	-	-	8,673
David Ferris	7,362	2,611	(2,313)	-	7,660	-	-	7,660
Mark Bateman	5,712	2,106	(1,752)	-	6,066	-	-	6,066
Philip George	-	1,550	-	-	1,550	-	-	1,550
Total	37,257	14,247	(11,572)	-	39,932	-	-	39,932

Alterations to the terms of options

The terms of all options issued under the employee share ownership plan (including those held by key management personnel) were altered by ordinary resolution at the Annual General Meeting held 24 November 2005. The resolution passed at the meeting changed the condition that:

> *Options issued under these arrangements [being the employee share ownership plan] are not transferable.*

to:

> *Options issued under these arrangements are not transferable, except that during the exercise period they may be transferred from the employee to another party. That party is entitled to exercise any option so transferred (in accordance with these terms and conditions) but cannot further transfer the options to any other party or otherwise deal with the options other than by way of exercising them.*

No other terms or conditions were changed.

It is the view of the directors that the total of the fair value of the options affected by the alteration immediately before the alteration and the total of the fair value of the options immediately after the alteration was the same. The change was approved by shareholders so as to enable employees to have an alternative mechanism to realise any option value at the time of exercise, rather than to change the underlying value of the options.

Explanation of relative proportions of elements of compensation that are related to performance

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

The compensation of KMP is not subject to individual performance conditions. People holding these positions are entitled to participate in the staff bonus and employee share ownership scheme described above. These make up a very small proportion of the overall compensation of people holding these positions.

Employment contracts of directors and senior executives

For each individual whose compensation has been disclosed in this report and is employed under an employment contract, the details of the employment contract are as follows:

Name	***Duration of contract***	***Period of termination notice required***	***Termination payment provided for under the contract***
Caroline Le Couteur James Thier Howard Pender Anne O'Donnell David Ferris Mark Bateman Philip George	Ongoing	As per minimum requirements under the Workplace Relations Act 1996	None except for accrued leave and any payment in-lieu of notice

Notes to the financial statements for the year ended 30 June 2006

Note 14 - Financial instruments

a) Financial risk management

The scheme's financial instruments consist of cash and cash equivalents, trade and other receivables, financial assets, loans, trade and other payables and distribution payable.

The scheme's activities expose it to a variety of financial risks. The scheme's overall risk management objective is to manage the potential adverse effects of these risks on the distributable earnings of the scheme in a cost effective manner. Risk management is carried out in accordance with scheme investment parameters approved by the Board of Directors.

b) Interest rate risk

The scheme's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted average interest rate		**Floating interest rate**		**Fixed interest rate within 1 year**	
	2006	2005	**2006**	2005	**2006**	2005
	%	%	**$**	$	**$**	$
Cash and cash equivalents	**5**	5	**2,113,536**	1,285,312	**-**	-
Trade and other receivables			**-**	-	**-**	-
Financial assets	**6**	6	**11,746,594**	12,081,046	**4,344,211**	1,734,261
Loans	**9**	8	**-**	-	**976,700**	1,248,354
Total financial assets			**13,860,130**	13,366,358	**5,320,911**	2,982,615
Trade and other payables			**-**	-	**-**	-
Distribution payable			**-**	-	**-**	-
Total financial liabilities			**-**	-	**-**	-

	Fixed interest rate within 1 to 5 years	
Cash and cash equivalents	**-**	-
Trade and other receivables	**-**	-
Financial assets	**-**	-
Loans	**1,116,704**	1,233,905
Total financial assets	**1,116,704**	1,233,905
Trade and other payables	**-**	-
Distribution payable	**-**	-
Total financial liabilities	**-**	-

	Non-interest bearing		**Total**	
Cash and cash equivalents	**-**	-	**2,113,536**	1,285,312
Trade and other receivables	**127,908**	82,069	**127,908**	82,069
Financial assets	**402,600**	-	**16,493,405**	13,815,307
Loans	**-**	-	**2,093,404**	2,482,259
Total financial assets	**530,508**	82,069	**20,828,253**	17,664,947
Trade and other payables	**24,799**	21,139	**24,799**	21,139
Distribution payable	**450,724**	412,975	**450,724**	412,975
Total financial liabilities	**475,523**	434,114	**475,523**	434,114

Notes to the financial statements for the year ended 30 June 2006

Note 14 - Financial instruments - continued

c) Credit risk

Credit risk represents the risk that a counterparty will fail to perform contractual obligations under a contract. The scheme's maximum credit risk exposure at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Balance Sheet.

d) Market risk

Market risk represents the risk that a financial instrument's value will fluctuate as a result of changes in the market. Market risk is managed through ensuring that all investment activities are undertaken in accordance with established limits and investment strategies.

e) Liquidity and cash flow risk

Liquidity risk is the risk that the scheme will encounter difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments. Cash flow risk is the risk that future cash flows associated with financial instruments will fluctuate in amount. To control liquidity and cash flow risk, the scheme invests in financial instruments, which under normal market conditions are readily convertible into cash. In addition, the scheme operates within established limits to ensure there is no concentration of risk.

f) Net fair values

The net fair values of:

Listed investments have been valued at the quoted market bid price at balance date. For unlisted investments where there is no organised financial market, the net fair value has been based on a reasonable estimation of the underlying net assets.

Other assets and other liabilities approximate their carrying value.

Note 15 - Events after the Balance Sheet date

Since the end of the financial year, no material events that may have an impact on these financial statements have occurred.
The financial report was authorised for issue on director's declaration date by the directors of the Responsible Entity.

Note 16 - Scheme details

The registered office and principal place of business of the scheme is Canberra Business Centre, Bradfield St, Downer ACT 2602.

The principal activity of the scheme is to pool investors' savings to invest in a portfolio of capital stable, interest bearing securities of short, medium and long term duration. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the scheme investors) with a competitive financial return.

Australian Ethical Income Trust ARSN 089 919 120

Notes to the financial statements for the year ended 30 June 2006

Note 17 - Accounting standards

The following Australian Accounting Standards have been issued or amended and are applicable to the scheme but are not yet effective and have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	AASB Standard affected	Nature of change in accounting policy and impact	Application date of the standard	Application date for the scheme
2004-3	AASB 1: First-time Adoption of AIFRS	No change, no impact	1-Jan-06	1-Jul-06
	AASB 101: Presentation of Financial Statements	No change, no impact	1-Jan-06	1-Jul-06
	AASB 124: Related Party Disclosures	No change, no impact	1-Jan-06	1-Jul-06
2005-10	AASB 139: Financial Instruments: Recognition and Management	No change, no impact	1-Jan-07	1-Jul-07
	AASB 101: Presentation of Financial Statements	No change, no impact	1-Jan-07	1-Jul-07
	AASB 114: Segment Reporting	No change, no impact	1-Jan-07	1-Jul-07
	AASB 117: Leases	No change, no impact	1-Jan-07	1-Jul-07
	AASB 132: Financial Instruments: Disclosure and Presentation	No change, no impact	1-Jan-07	1-Jul-07
	AASB 133: Earnings per Share	No change, no impact	1-Jan-07	1-Jul-07
	AASB 1: First-time Adoption of AIFRS	No change, no impact	1-Jan-07	1-Jul-07
	AASB 4: Insurance Contracts	No change, no impact	1-Jan-07	1-Jul-07
	AASB 1023: General Insurance Contracts	No change, no impact	1-Jan-07	1-Jul-07
	AASB 1038: Life Insurance Contracts	No change, no impact	1-Jan-07	1-Jul-07
New Standard	AASB 7: Financial Instruments: Disclosure	No affect on amounts recognised but will impact the type of information disclosed in relation to financial instruments.	1-Jan-07	1-Jul-07

All other pending Standards issued between the previous financial report and the current reporting date have no application to the scheme.

AASB Amendment	AASB Standard affected
2005-1	AASB 139: Financial Instruments: Recognition and Management
2005-4	AASB 139: Financial Instruments: Recognition and Management
	AASB 132: Financial Instruments: Disclosure and Presentation
	AASB 1: First-time Adoption of AIFRS
	AASB 1023: General Insurance Contracts
	AASB 1038: Life Insurance Contracts
2005-5	AASB 1: First-time Adoption of AIFRS
	AASB 139: Financial Instruments: Recognition and Management
2005-6	AASB 3: Business Combinations
2005-9	AASB 4: Insurance Contracts
	AASB 1023: General Insurance Contracts
	AASB 139: Financial Instruments: Recognition and Management
	AASB 132: Financial Instruments: Disclosure and Presentation
2006-1	AASB 121: The Effects of Changes in Foreign Exchange Rates
New Standard	AASB 119: Employee Benefits

DIRECTORS' DECLARATION

The Directors of Australian Ethical Investment Limited, the responsible entity of Australian Ethical Income Trust, declare that:

1. the financial statements and notes, as set out on pages 4 to 19 are in accordance with the Corporations Act 2001:

   (a) comply with accounting standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the financial position as at 30 June 2006 and of the performance for the financial year ended on that date.

2. in the director's opinion there are reasonable grounds to believe that the scheme will be able to pay its debts as and when they become due and payable.

3. the scheme has operated during the financial year ended 30 June 2006 in accordance with the provisions of the scheme's constitution.

This declaration is made in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.

George Pooley

George Pooley
Director
Australian Ethical Investment Limited
ABN 47 003 188 930
25 September 2006

Australian Ethical Income Trust ARSN 089 919 120

INDEPENDENT AUDIT REPORT TO THE UNITHOLDERS

Scope

We have audited the financial report of Australian Ethical Income Trust consisting of the Balance Sheet, the Income Statement, the Cash Flow Statement, the accompanying notes to the Financial Statements and the Directors' Declaration for the financial year ended 30 June, 2006. The Directors of the Responsible Entity, Australian Ethical Investment Ltd., are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the Unitholders.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia, and statutory requirements and the provisions of the scheme's constitution, so as to present a view which is consistent with our understanding of the scheme's financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Australian Ethical Income Trust for the year ended 30 June, 2006 is in accordance with:

(a) the Corporations Act 2001, including

   (i) giving a true and fair view of the scheme's financial position as at 30 June, 2006 and of its performance for the year ended on that date; and

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

(b) other mandatory professional reporting requirements; and

(c) the provisions of the scheme's constitution.

Thomas Davis & Co

THOMAS DAVIS & CO.

R C Geeves

R. C. GEEVES PARTNER

Chartered Accountants

Sydney,
25 September 2006

Liability limited by a scheme approved under Professional Standards Legislation.

Management services directory

Responsible entity

Australian Ethical Investment Ltd (ABN: 47 003 188 930)
GPO Box 2435
Canberra ACT 2601

Telephone:	1300 139 447
Facsimile:	(02) 6201 1987
Internet:	**www.austethical.com.au**
AFSL:	229949

The custodians of the trusts

Sandhurst Trustees Ltd (ABN: 16 004 030 737)
Level 1, 410 Collins Street
Melbourne VIC 3000

RBC Global Services Australia Pty Ltd
(ABN: 61 096 853 888)
Level 18, 56 Pitt Street
Sydney NSW 2000

The auditor of the trusts

Thomas Davis & Co (ABN: 72 607 310 376)
20th Floor, 68 Pitt Street
Sydney NSW 2000

Directors of the responsible entity

Caroline Le Couteur
Canberra

George Pooley
(Chair) Canberra

Howard Pender
Canberra

James Thier
Sydney

Pauline Vamos
Sydney

Naomi Edwards
Tasmania

Trust	ARS Number
Income Trust	089 919 120
Balanced Trust	089 919 225
Large Companies Share Trust	089 919 166
Equities Trust	089 919 175