



Trusts – the year in brief

year ended 30 June 2007



2006–07 saw solid returns across all of the Australian Ethical trusts. In this period the Australian Ethical Equities Trust was the star performer with a return of 36.9%, buoyed by a strong performance from its small company investments. This was the highest return of any fund – mainstream or ethical – in its Morningstar Research category for the year (Morningstar Research Pty Ltd*).


The other three Australian Ethical trusts also performed strongly against their peer groups, with the Australian Ethical Income Trust ranked third out of 54 funds in its category; the Australian Ethical Large Companies Share Trust ranked eighth out of 31 funds in its category and the Australian Ethical Balanced Trust ranked seventeenth out of 50 funds in its category (all based on data from Morningstar Research Pty Ltd).




All four funds are also in the top (Balanced Trust and Large Companies Share Trust) or second (Income Trust and Equities Trust) performance quartiles for their categories over five years.

Late in 2006–07, an exciting new product, the Australian Ethical World Trust, was launched.

Australian Ethical Balanced Trust



Longer-term returns for this trust – from five years dating back to inception – remain among the best in the balanced fund category. Further, the standard deviation of returns has generally been 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). All investments in the portfolio are screened against the Australian Ethical Charter.

Over the year, at the asset-class level, the trust shifted slightly towards debt securities at the expense of growth assets in anticipation of a market slowdown (which seems to have eventuated in part in early 2007–08). Within the growth asset portfolio, there was a shift at the margin from domestic equities to international and into property. Within the debt security portfolio, preference was given to higher credit quality yield investments to minimise direct exposure to sub-prime mortgage exposure.

New investments

Property

- The trust purchased a new state-of-the-art warehouse with green attributes and a long-term government tenant on a good yield.

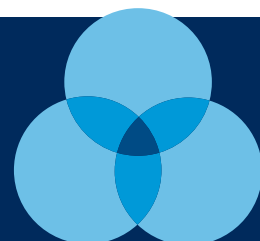
Domestic

There were no new domestic equity investments nor debt issuers added to the portfolio over 2006–07. With the reduction in the exposure to domestic equities, the trust has focused on maintaining its core holdings. The emphasis on quality debt securities has meant no expansion from the previous base of issuers.

International

- The trust established a crossholding in the new Australian Ethical International Equities Trust (wholesale) in June 2007 as the most efficient mechanism for it to access a well-diversified international equities exposure
- Earlier in the financial year, the trust bought into UK public transport companies Arriva, Stagecoach, and National Express. As well it bought into US metering company Itron and New Zealand 100% renewable energy provider Trustpower.

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Australian Ethical Equities Trust

To achieve improved returns, specialist analysts were dedicated to the small company sector over the year. The trust has also become more concentrated, with the decision taken to more aggressively cull non-performing investments and to take more aggressive positions in stocks identified as best value. The strategy has proved successful, with the good absolute and relative-to-peer performance over the year.

The trust was slightly behind its ASX Small Industrials Index benchmark for the year. This is largely because the trust is a mixed fund holding both Australian and international equities. The international equities give the portfolio sector balance and diversification, as well as allowing investment in a range of highly ethical areas (public transport, wind power, solar power, recycling) which are scarce on the Australian Securities Exchange (ASX). However, since the Australian market greatly outperformed world markets in 2006–07, Australian indices rose more than most mixed funds.

New investments
Domestic

- Geothermal (hot fractured rock) clean energy companies Green Rock Energy and Petrathern
- Legal firm Slater and Gordon, has been active in fighting for compensation for victims of asbestos, damaging medication, failed breast implants and smoking related illness

- Clean energy infrastructure fund Viridis Clean Energy Group which invests in a global portfolio of renewable energy assets
- Smart and energy efficient (LED) traffic light manufacturer Traffic Technologies
- GreenCap, which provides consulting services across the areas of environmental services, occupational health and safety, emergency management, fire safety and engineering, and asbestos risk management
- Engineering services AJ Lucas, which provides services particularly for utilities. The company is a specialist in helping pipeline infrastructure to be laid in an environmentally sensitive way
- Natural gas company, Pure Energy Resources.

And a range of small IT, telecommunications and financial services companies.

International

- Carpet manufacturer Interface (US) – one of the world's leading exponents of sustainable business practice. The company has revolutionised its manufacturing processes generating a range of positive environmental outcomes including reductions in waste and energy use, increased use of renewable energy and recycled content, and reduced overall greenhouse gas emissions
- UK socially responsible investment fund manager Impax Group

- Italian utility Hera, which provides natural gas, water and electricity services (including an expanding landfill to energy operation) as well as a range of environmental services
- US information technology company Adobe Systems, which aids worldwide efficiency in document management and production.

Top performers

- Natural gas company Arrow Energy (+351.6%)
- Geothermal (hot fractured rocks) company Geodynamics (+161%)
- Danish wind turbine manufacturer Vestas Wind Systems (+128.2%)
- Enterprise software solution provider Technology One (+79.4%)
- Vitamin and mineral supplement manufacturer Blackmores Ltd (+47.9%)
- Spanish windpower company Gamesa (+61.1%)
- US manufacturer of energy efficient motors, Baldor Electric (+58.1%).

Australian Ethical Large Companies Share Trust

2006–07 represents the fourth consecutive year of double-digit returns (returns over the last four years have been 16%, 16%,

23.8% and 20.6%) and the trust's long-term returns remain competitive with other funds and with the market as a whole.

This trust focuses on companies on the Australian Securities Exchange (ASX) and overseas with a market capitalisation of over \$1 billion. Combined with a more conservative management style, this exclusion of smaller companies makes this trust less volatile than the Australian Ethical Equities Trust.

While performing well against its peer group, the trust lagged its performance benchmark, the S&P/ASX All Industrials Index. Most of the shortfall is explained by the trust being a mixed fund, incorporating both domestic and international equities – the latter to obtain access to some key ethical sectors (public transport, bicycles, wind power, solar power, recycling) which are in short supply on the ASX. As the Australian market outperformed world markets over 2006–07, the returns on mixed funds tended to lag domestic indices.

New investments
Domestic

No new investments – as Australian Ethical has, in the past, thoroughly screened most of the companies on the ASX with a market capitalisation above \$1 billion, additions to the domestic part of this trust are becoming rarer.

International

- UK public transport companies Arriva, Stagecoach and National Express

| 30 June 2007 | Australian Ethical Balanced Trust | | Australian Ethical Equities Trust | | Australian Ethical Large Companies Share Trust | | Australian Ethical World Trust | | Australian Ethical Income Trust | | |
|---|--------------------------------------|--|--------------------------------------|--------------------------------|---|-----------------------------------|--|--|------------------------------------|-------------|--|
| Performance | | | | | | | (together with the Australian Ethical International Equities Trust) | | | | |
| Total return | Trust returns | Morningstar Multisector Balanced Market Index | Trust returns | ASX Small Industrials Index | Trust returns | S&P/ ASX All Industrials Index | | | Trust returns | CPI + 2% | |
| 1 year (%) | 10.6 | 12.5 | 36.9 | 38.2 | 16.0 | 28.7 | The World Trust became available to investors in July 2007. | | 5.3 | 4.7 | |
| 3 years (% pa) | 11.7 | 12.3 | 23.1 | 27.9 | 18.5 | 26.3 | | | 5.0 | 4.4 | |
| 5 years (% pa) | 11.0 | 9.7 | 17.4 | 21.6 | 15.8 | 19.2 | | | 5.0 | 4.5 | |
| All figures expressed as compound annual returns | | | | | | | | | | | |
| Earnings | | | | | | | | | | | |
| Full year | cents per unit | return* (%) | cents per unit | return* (%) | cents per unit | return* (%) | | | cents per unit | return* (%) | |
| Distributions | 10.45 | 8.4 | 29.13 | 19.4 | 22.8 | 12.9 | | | 4.88 | 5.1 | |
| Unit value change | 2.88 | 2.3 | 26.43 | 17.5 | 5.56 | 3.1 | | | 0.14 | 0.1 | |
| Net earnings result (total return) | 13.34 | 10.6 | 55.56 | 36.9 | 28.36 | 16.0 | | | 5.02 | 5.3 | |
| *assumes reinvestment of distribution | | | | | | | | | | | |
| Asset allocation | | | | | | | | | | | |
| <div><div></div>Equity investments – Australia and NZ</div> <div><div></div>Equity investments – International</div> <div><div></div>Interest-bearing investments</div> <div><div></div>Interest-bearing loans</div> <div><div></div>Cash</div> <div><div></div>Property</div> <div><div></div>Units in Australian Ethical Income trust</div> <div><div></div>Debt equity instruments</div> <div><div></div>Equity – small caps</div> | Fund size: \$230.5 million | | Fund size: \$173.6 million | | Fund size: \$130.8 million | | Fund size: \$9.8 million | | Fund size: \$22.9 million | | |

- Major international retail banks Deutsche Postbank, Swedbank and Banco Santander
- Japanese education company Benesse Corporation
- German solar power companies Solarworld and Conergy
- Swedish hospital equipment manufacturer Getinge
- US metering company Itron
- US carpet-maker Interface – renowned for its sustainable business practices
- Italian utility Hera – provides natural gas, water and electricity services (including an expanding landfill to energy operation) as well as a range of environmental services
- New Zealand 100% renewable energy utility Trustpower.

Top performers

- Danish wind turbine manufacturer Vestas Wind Systems (+128.2%)
- Australian blood and vaccine product manufacturer CSL Ltd (+63.7%)
- Spanish windpower company Gamesa Ltd (+61.1%)
- Swiss hearing aid manufacturer Sonova Holding (+43.9%)
- Australian financial services providers Computershare (+43.8%) and ASX Ltd (+49.5%)
- Australian energy providers Babcock and Brown Wind Partners (+29.1%) and Origin Energy (+35.1%).

Australian Ethical Income Trust

The Income Trust has now recorded eight consecutive years of stable performance, this year recording its highest ever return of 5.3%.

Stable performance, is another way of saying low volatility of returns. Volatility of returns is how investment analysts generally measure risk. Australian Ethical continues to manage the trust so as to achieve returns reflecting current interest rate levels with very low volatility.

The AAA-rated mortgage-backed securities in the trust formally have long-dated maturities, but we select lines of these securities which in practice have 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.

The trust is also well protected from the perspective of credit risk. Of the 82% of the portfolio invested in interest-bearing securities, the vast majority are AAA-rated securities or in the senior debt of Australia's regional banks, with only about 5% of the trust held in lower-grade investments (generally credit union debt).

The 9% of the trust held in direct private loans is all invested in long-standing loans with a record of being trouble free. All loans are well secured, with loan to valuation ratios well within the trust's 67% maximum guideline.

As at time of writing, the trust has no obvious direct exposure to sub-prime mortgages of the type that have caused the recent trouble in the United States debt market.

There were no loans or new debt issuers added to this very stable portfolio over the course of 2006–07.

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 **1800 021 227**.

Units in the trusts are offered and issued by Australian Ethical Investment Ltd ABN 47 003 188 930, AFSL 229949. A product disclosure statement is available from our website or by phone and should be considered before deciding whether to acquire, or continue to hold, units in the trusts.

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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Directors' Report

For the year ended 30 June 2007

Australian Ethical Investment Limited, the responsible entity of the Australian Ethical Balanced Trust (AEBT), Australian Ethical International Equities Trust (wholesale - WIET), Australian Ethical Equities Trust (AEET), Australian Ethical Income Trust (AEIT) and Australian Ethical Large Companies Share Trust (AELT) (the schemes) presents its directors' report together with the audited financial statements of the schemes for the year ended 30 June 2007 and the accompanying independent audit report.

Responsible entity

Australian Ethical Investment Limited was appointed the responsible entity of the AEBT, AEET, AEIT and AELT by election of unitholders on 20 August 1999 and those schemes were registered as managed investment schemes with the Australian Securities and Investments Commission (ASIC) on 2 November 1999.

The WIET was registered as a managed investment scheme with ASIC on 23 April 2007 with Australian Ethical Investment Limited as its responsible entity.

The Directors of Australian Ethical Investment Limited during or since the end of the financial year are disclosed in note 20 to the financial statements.

Principal activities

The principal activity of each of the schemes is to pool investors' savings to invest in diversified portfolios of securities, in accordance with their respective investment objectives and guidelines as set out in the current Product Disclosure Statement and within the provisions of each scheme's constitution. The constitution of each scheme authorises investments in a range of assets, which may include capital stable interest bearing securities and equity 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 each scheme's principal activities during the year and there were no significant changes in each scheme's state of affairs.

Review of year's operations

Australian Ethical Balanced Trust

The scheme achieved a total return of 10.6% for the financial year. The scheme paid distributions of 10.45 cents per unit over the year.

The value of the scheme's net assets attributable to unitholders as at 30 June 2007 was \$229,870,973.

Australian Ethical International Equities Trust

WIET began operations on 13 June 2007 and paid a distribution of 0.17 cents per unit for 30 June 2007.

The value of the scheme's net assets attributable to unitholders as at 30 June 2007 was \$9,811,364.

Australian Ethical Equities Trust

The scheme achieved a total return of 36.9% for the financial year. The scheme paid distributions of 29.13 cents per unit over the year.

The value of the scheme's net assets attributable to unitholders as at 30 June 2007 was \$172,303,517.

Australian Ethical Income Trust

The scheme achieved a total return of 5.3% for the financial year. The scheme paid distributions of 4.88 cents per unit over the year.

The value of the scheme's net assets attributable to unitholders as at 30 June 2007 was \$22,908,327.

Australian Ethical Large Companies Share Trust

The scheme achieved a total return of 16.00% for the financial year. The scheme paid distributions of 22.8 cents per unit over the year.

The value of the scheme's net assets attributable to unitholders as at 30 June 2007 was \$130,182,943.

Likely developments

The responsible entity is reviewing the schemes it manages and depending on that analysis may, during the course of the financial year, make decisions to commence the development of new products to compliment 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

Except as otherwise noted, 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 schemes, the results of those operations, or the state of affairs of the schemes in future financial years.

The Responsible Entity commenced operations of the Australian Ethical World Trust on 3 August 2007.

Distributions paid and/or payable

Distributions paid and/or payable by the schemes 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 schemes for insurance cover provided to the responsible entity, its officers or auditor of the schemes. So long as the responsible entity acts in accordance with each 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 schemes is not indemnified out of the assets of the schemes.

Interest of the responsible entity

Fees paid to the responsible entity and its associates out of scheme property and interests held in the schemes are shown in note 14 of the attached financial statements.

Interests in the schemes

Full details of:

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

are contained in notes 2 and 3 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.



Howard Pender
Director
Australian Ethical Investment Limited
ABN 47 003 188 930
27 September 2007

**AUSTRALIAN ETHICAL BALANCED TRUST
AUSTRALIAN ETHICAL INTERNATIONAL EQUITIES TRUST
AUSTRALIAN ETHICAL EQUITIES TRUST
AUSTRALIAN ETHICAL BALANCED TRUST CONSOLIDATED
AUSTRALIAN ETHICAL INCOME TRUST
AUSTRALIAN ETHICAL LARGE COMPANIES SHARE TRUST**

**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 2007 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



R. C. GEEVES PARTNER

SYDNEY
27 September, 2007

Liability limited by a scheme approved under Professional Standards Legislation

Balance Sheets as at 30 June 2007

| | | Balanced Trust | | International Equities Trust | | Balanced Trust Consolidated | | Equities Trust | | Income Trust | | Large Companies | |
|---|-------|--------------------|-------------|------------------------------|------|-----------------------------|------|--------------------|-------------|-------------------|------------|----------------------|-------------|
| | | ("AEBT") | | ("WIET") | | ("AEBTC") | | ("AEET") | | ("AEIT") | | Share Trust ("AELT") | |
| | Notes | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Assets | | | | | | | | | | | | | |
| Cash and cash equivalents | 4 | 13,211,898 | 6,220,153 | 1,695,985 | - | 14,907,883 | - | 22,522,435 | 6,921,747 | 2,534,365 | 2,113,536 | 9,594,534 | 3,797,187 |
| Trade and other receivables | 5 | 1,985,592 | 1,865,495 | 11,489 | - | 1,980,410 | - | 1,053,968 | 2,874,074 | 149,751 | 127,908 | 623,887 | 523,858 |
| Financial assets | 6 | 218,834,852 | 181,746,291 | 8,132,765 | - | 217,156,253 | - | 178,942,651 | 131,436,355 | 18,793,498 | 16,493,405 | 135,780,946 | 101,960,904 |
| Loans | 7 | 5,579,457 | 4,890,961 | - | - | 5,579,457 | - | - | 1,000 | 2,052,096 | 2,093,404 | - | - |
| Investment properties | 8 | 6,075,000 | 2,817,091 | - | - | 6,075,000 | - | - | - | - | - | - | - |
| Total assets | | 245,686,799 | 197,539,991 | 9,840,239 | - | 245,699,003 | - | 202,519,054 | 141,233,176 | 23,529,710 | 20,828,253 | 145,999,367 | 106,281,949 |
| Liabilities | | | | | | | | | | | | | |
| Trade and other payables | 9 | 665,170 | 811,067 | 12,204 | - | 677,374 | - | 2,653,740 | 1,571,842 | 30,365 | 24,799 | 429,409 | 416,507 |
| Distribution payable | 10 | 15,150,656 | 15,149,625 | 16,671 | - | 15,150,656 | - | 27,561,797 | 12,910,935 | 591,018 | 450,724 | 15,387,015 | 12,442,952 |
| Total liabilities excluding net assets attributable to unitholders | | 15,815,826 | 15,960,692 | 28,875 | - | 15,828,030 | - | 30,215,537 | 14,482,777 | 621,383 | 475,523 | 15,816,424 | 12,859,459 |
| Net assets attributable to unitholders | 3 | 229,870,973 | 181,579,299 | 9,811,364 | - | 229,870,973 | - | 172,303,517 | 126,750,399 | 22,908,327 | 20,352,730 | 130,182,943 | 93,422,490 |
| Total liabilities | | 245,686,799 | 197,539,991 | 9,840,239 | - | 245,699,003 | - | 202,519,054 | 141,233,176 | 23,529,710 | 20,828,253 | 145,999,367 | 106,281,949 |

The accompanying notes form part of these financial statements.

Income Statements for the year ended 30 June 2007

| | Balanced Trust ("AEBT") | | International Equities Trust ("WIET") * | | Balanced Trust Consolidated ("AEBTC") | | Equities Trust ("AEET") | | Income Trust ("AEIT") | | Large Companies Share Trust ("AELT") | |
|---|----------------------------|--------------|--|------------|--|------------|----------------------------|--------------|--------------------------|------------|---|--------------|
| Notes | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Investment income | | | | | | | | | | | | |
| Currency option revenue | 199,360 | 178,724 | - | - | 199,360 | - | 214,134 | 142,426 | - | - | 211,847 | 183,601 |
| Distributions | 2,924,776 | 1,849,867 | - | - | 2,908,105 | - | 2,193,588 | 897,177 | 39,054 | - | 1,122,172 | 754,824 |
| Dividends domestic | 1,404,741 | 1,748,662 | - | - | 1,404,741 | - | 3,938,745 | 2,504,528 | - | - | 1,701,740 | 1,668,502 |
| Dividends overseas | 547,923 | 600,303 | 2,999 | - | 550,922 | - | 687,291 | 487,298 | - | - | 589,154 | 609,120 |
| Interest | 6,235,590 | 4,668,808 | 8,679 | - | 6,244,269 | - | 631,888 | 577,424 | 1,428,757 | 1,165,257 | 394,868 | 270,889 |
| Other income | 26,458 | 11 | - | - | 26,458 | - | 80,701 | 30,030 | - | 2,572 | 24,500 | 11 |
| Rent | 438,891 | 247,928 | - | - | 438,891 | - | - | - | - | - | - | - |
| Profit (loss) on foreign exchange | (126,978) | (80,213) | 16,365 | - | (110,613) | - | (560,389) | (74,595) | - | - | (225,554) | (90,624) |
| Profit (loss) on sale of investments | 8,335,161 | 4,868,521 | - | - | 8,335,161 | - | 22,048,083 | 9,329,157 | - | - | 11,747,027 | 5,472,923 |
| Unrealised increment (decrement) on fluctuation in value of investments | 6,786,305 | 4,643,160 | (188,636) | - | 6,786,305 | - | 26,422,045 | 4,415,919 | 5,965 | (15,023) | 5,219,252 | 4,972,932 |
| | 26,772,227 | 18,725,771 | (160,593) | - | 26,783,599 | - | 55,656,086 | 18,309,364 | 1,473,776 | 1,152,806 | 20,785,006 | 13,842,178 |
| Less expenditure | | | | | | | | | | | | |
| Accounting fees | 14 112,336 | 112,336 | - | - | 112,336 | - | 89,876 | 89,876 | 40,455 | 40,455 | 62,927 | 62,927 |
| Auditors' remuneration | 11 35,102 | 29,927 | - | - | 35,102 | - | 27,354 | 23,941 | 11,581 | 10,773 | 18,418 | 16,759 |
| Currency option amortisation | 258,037 | 186,730 | - | - | 258,037 | - | 266,980 | 175,085 | - | - | 255,931 | 152,564 |
| Legal fees | 4,222 | (10) | - | - | 4,222 | - | - | 1,291 | - | - | - | - |
| Investment properties - general | 41,549 | 37,524 | - | - | 41,549 | - | - | - | - | - | - | - |
| Investment properties - rates & taxes | 200,037 | 164,848 | - | - | 200,037 | - | - | - | - | - | - | - |
| Printing & other costs | 50,866 | 45,943 | - | - | 50,866 | - | 35,645 | 36,658 | 41,632 | 13,064 | 31,018 | 27,853 |
| Reimbursable expenses | 14 54,974 | 54,985 | 14 | - | 54,988 | - | 52,307 | 51,453 | 4,179 | 4,528 | 45,014 | 38,301 |
| Responsible entity fees | 14 4,079,615 | 3,210,497 | 11,358 | - | 4,090,973 | - | 3,138,921 | 2,468,072 | 248,394 | 204,962 | 2,367,291 | 1,709,841 |
| | 4,836,738 | 3,842,780 | 11,372 | - | 4,848,110 | - | 3,611,083 | 2,846,376 | 346,241 | 273,782 | 2,780,599 | 2,008,245 |
| Profit (loss) from operating activities | 21,935,489 | 14,882,991 | (171,965) | - | 21,935,489 | - | 52,045,003 | 15,462,988 | 1,127,535 | 879,024 | 18,004,407 | 11,833,933 |
| Finance costs - distributions to unitholders | 10 (18,392,930) | (17,896,219) | (16,671) | - | (18,392,930) | - | (28,464,763) | (13,922,630) | (1,121,569) | (894,047) | (16,183,109) | (13,340,546) |
| Change in net assets attributable to unitholders | 3 3,542,559 | (3,013,228) | (188,636) | - | 3,542,559 | - | 23,580,240 | 1,540,358 | 5,966 | (15,023) | 1,821,298 | (1,506,613) |

* Period from 13 June 2007 to 30 June 2007

Australian Ethical World Trust was registered with ASIC on 2 February 2007 and commenced trading on 3 August 2007

The accompanying notes form part of these financial statements.

Cash Flow Statements for the year ended 30 June 2007

| | Balanced Trust ("AEBT") | | International Equities Trust ("WIET") | | Balanced Trust Consolidated ("AEBTC") | | Equities Trust ("AEET") | | Income Trust ("AEIT") | | Large Companies Share Trust ("AELT") | |
|---|----------------------------|---------------|--|------------|--|------------|----------------------------|---------------|--------------------------|--------------|---|---------------|
| Notes | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Cash flows from operating activities | | | | | | | | | | | | |
| Interest received | 6,010,771 | 4,636,408 | - | - | 6,010,771 | - | 560,308 | 618,177 | 1,407,562 | 1,122,281 | 372,367 | 292,568 |
| Dividends received | 1,938,973 | 2,321,774 | 1,536 | - | 1,940,509 | - | 4,656,285 | 2,984,287 | - | - | 2,271,481 | 2,240,539 |
| Distributions received | 2,851,495 | 1,498,034 | - | - | 2,851,495 | - | 1,847,370 | 539,035 | 39,054 | - | 1,084,667 | 552,798 |
| Other income received | 671,261 | 371,473 | 26,063 | - | 697,324 | - | 432,803 | 97,861 | - | 2,572 | 254,680 | 92,988 |
| Expenses | (4,660,369) | (3,677,219) | (10,213) | - | (4,670,582) | - | (3,965,844) | (2,700,453) | (343,455) | (272,985) | (2,724,016) | (1,852,975) |
| Net cash provided by (used in) operating activities | 12 6,812,131 | 5,150,470 | 17,386 | - | 6,829,517 | - | 3,530,922 | 1,538,907 | 1,103,161 | 851,868 | 1,259,179 | 1,325,918 |
| Cash flows from investing activities | | | | | | | | | | | | |
| Proceeds from sale of investments | 154,846,108 | 127,657,056 | - | - | 154,846,108 | - | 238,741,076 | 163,961,035 | 8,926,333 | 8,473,633 | 148,092,602 | 90,660,921 |
| Customer loans repaid | 1,102,218 | 1,033,185 | - | - | 1,102,218 | - | 50,000 | 512,313 | 153,028 | 655,801 | - | - |
| Customer loans granted | (1,910,324) | (853,576) | - | - | (1,910,324) | - | - | - | (111,720) | (266,946) | - | - |
| Payment for investments | (180,159,404) | (157,959,803) | (8,321,401) | - | (178,480,805) | - | (235,081,754) | (172,932,558) | (11,220,463) | (11,166,757) | (165,313,845) | (115,122,004) |
| Net cash provided by (used in) investing activities | (26,121,402) | (30,123,138) | (8,321,401) | - | (24,442,803) | - | 3,709,322 | (8,459,210) | (2,252,822) | (2,304,269) | (17,221,243) | (24,461,083) |
| Cash flows from financing activities | | | | | | | | | | | | |
| Proceeds from issue of units | 47,850,087 | 45,275,824 | 10,000,000 | - | 47,850,087 | - | 22,355,427 | 16,165,909 | 3,113,314 | 4,605,502 | 36,242,257 | 29,803,410 |
| Payment of redemption of units | (17,387,333) | (13,138,255) | - | - | (17,387,333) | - | (11,543,910) | (7,717,070) | (1,144,976) | (1,919,202) | (11,225,281) | (6,023,609) |
| Distributions paid | (4,161,738) | (4,341,020) | - | - | (4,161,738) | - | (2,451,073) | (4,408,400) | (397,848) | (405,675) | (3,257,565) | (2,616,526) |
| Net cash provided by (used in) financing activities | 26,301,016 | 27,796,549 | 10,000,000 | - | 26,301,016 | - | 8,360,444 | 4,040,439 | 1,570,490 | 2,280,625 | 21,759,411 | 21,163,275 |
| Net increase (decrease) in cash held | 6,991,745 | 2,823,881 | 1,695,985 | - | 8,687,730 | - | 15,600,688 | (2,879,864) | 420,829 | 828,224 | 5,797,347 | (1,971,890) |
| Cash at 1 July 2006 | 6,220,153 | 3,396,272 | - | - | 6,220,153 | - | 6,921,747 | 9,801,611 | 2,113,536 | 1,285,312 | 3,797,187 | 5,769,077 |
| Cash at 30 June 2007 | 4 13,211,898 | 6,220,153 | 1,695,985 | - | 14,907,883 | - | 22,522,435 | 6,921,747 | 2,534,365 | 2,113,536 | 9,594,534 | 3,797,187 |

The accompanying notes form part of these financial statements.

Note 1 - Statement of significant accounting policies

These Financial Reports are general purpose financial reports that have been prepared in accordance with the Constitutions of each scheme, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The Financial Reports cover each scheme as an individual entity, (except for "Balanced Trust Consolidated"). All reports comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety. The schemes are established and domiciled in Australia.

In previous years each scheme has produced and issued separate Financial Reports to unitholders. As the schemes have the same Responsible Entity, the Financial Reports for the schemes are presented in a single document as permitted by ASIC class order 06/441.

The following is a summary of the material accounting policies adopted by the schemes in the preparation of the Financial Reports. The accounting policies have been consistently applied, unless otherwise stated.

Reporting Basis and Conventions

The Financial Reports have been prepared on an accruals basis and are 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.

AEBT, AEET and AELT hold derivatives which 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 Statements 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.

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

AEBT holds investment property (principally leasehold office complexes), 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 schemes, 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.

(h) Applications and redemptions

Applications received for units in each scheme are recorded net of any entry fees payable prior to the issue of units in each scheme. No exit fees are charged. Unit prices are determined by reference to the net assets of each scheme divided by the number of units on issue at close of business each day.

All or part of an investment can be switched between the Australian Ethical schemes, the contribution fee charged on a switch is the difference between the contribution fee for the original scheme and the new scheme. Further details can be found in the Australian Ethical Investment Trusts Product Disclosure Statement.

Note 1 - Statement of significant accounting policies - *continued*

(i) Goods and Services Tax (GST)

The schemes qualify 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 Sheets 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.

(j) Income tax

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

(k) Foreign currency transactions and balances

AEBT, AEET, AELT and WIET 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 Statements in the period they arise.

(l) Currency options

AEBT, AEET and AELT hold options which 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.

(m) Comparative figures

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

(n) Principles of consolidation

A controlled entity is any entity where the schemes have the power to control the financial and operating policies so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 16 to the financial statements. All controlled entities have a June year-end.

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the consolidated group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Notes to the financial statements for the year ended 30 June 2007

Note 2 - Number of Issued Units

| | Balanced Trust ("AEBT") | | International Equities Trust ("WIET") | | Balanced Trust Consolidated ("AEBTC") | | Equities Trust ("AEET") | | Income Trust ("AEIT") | | Large Companies Share Trust ("AELT") | |
|-------------------------------|----------------------------|---------------|--|---------------|--|---------------|----------------------------|---------------|--------------------------|---------------|---|---------------|
| | 2007 Units | 2006 Units | 2007 Units | 2006 Units | 2007 Units | 2006 Units | 2007 Units | 2006 Units | 2007 Units | 2006 Units | 2007 Units | 2006 Units |
| On issue at beginning of year | 144,542,041 | 109,183,136 | - | - | 144,542,041 | - | 84,435,170 | 66,993,432 | 21,134,806 | 17,920,218 | 52,831,860 | 35,622,071 |
| Issued | 47,637,050 | 45,615,849 | 10,093,206 | - | 47,637,050 | - | 20,251,091 | 22,297,268 | 3,831,521 | 5,247,616 | 24,428,385 | 20,428,409 |
| Redeemed | (13,255,905) | (10,256,944) | - | - | (13,255,905) | - | (6,797,764) | (4,855,530) | (1,223,093) | (2,033,028) | (5,871,883) | (3,218,620) |
| On issue at year end | 178,923,186 | 144,542,041 | 10,093,206 | - | 178,923,186 | - | 97,888,497 | 84,435,170 | 23,743,234 | 21,134,806 | 71,388,362 | 52,831,860 |

Note 3 - Net assets attributable to unitholders

| | Balanced Trust ("AEBT") | | International Equities Trust ("WIET") | | Balanced Trust Consolidated ("AEBTC") | | Equities Trust ("AEET") | | Income Trust ("AEIT") | | Large Companies Share Trust ("AELT") | |
|--|----------------------------|--------------|--|------------|--|------------|----------------------------|-------------|--------------------------|-------------|---|-------------|
| | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Opening Balance | 181,579,299 | 138,376,943 | - | - | 181,579,299 | - | 126,750,399 | 98,512,249 | 20,352,730 | 17,230,833 | 93,422,490 | 62,651,882 |
| Issued | 62,390,693 | 59,777,713 | 10,000,000 | - | 62,390,693 | - | 33,813,953 | 34,505,126 | 3,744,095 | 5,123,285 | 46,327,308 | 38,505,756 |
| Redeemed | (17,641,578) | (13,562,129) | - | - | (17,641,578) | - | (11,841,075) | (7,807,334) | (1,194,464) | (1,986,365) | (11,388,153) | (6,228,535) |
| Change in net assets attributable to unitholders | 3,542,559 | (3,013,228) | (188,636) | - | 3,542,559 | - | 23,580,240 | 1,540,358 | 5,966 | (15,023) | 1,821,298 | (1,506,613) |
| Total net assets attributable to unitholders | 229,870,973 | 181,579,299 | 9,811,364 | - | 229,870,973 | - | 172,303,517 | 126,750,399 | 22,908,327 | 20,352,730 | 130,182,943 | 93,422,490 |

Notes to the financial statements for the year ended 30 June 2007

Note 4 - Cash and cash equivalents

| | Balanced Trust ("AEBT") | | International Equities Trust ("WIET") | | Balanced Trust Consolidated ("AEBTC") | | Equities Trust ("AEET") | | Income Trust ("AEIT") | | Large Companies Share Trust ("AELT") | |
|-----------------------------|----------------------------|------------------|--|------------|--|------------|----------------------------|------------------|--------------------------|------------------|---|------------------|
| | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Cash at bank | 13,211,898 | 33,401 | 1,695,985 | - | 14,907,883 | - | 22,522,435 | 42,600 | 2,534,365 | 10,000 | 9,594,534 | 38,160 |
| Short term deposits at call | - | 6,186,752 | - | - | - | - | - | 6,879,147 | - | 2,103,536 | - | 3,759,027 |
| | 13,211,898 | 6,220,153 | 1,695,985 | - | 14,907,883 | - | 22,522,435 | 6,921,747 | 2,534,365 | 2,113,536 | 9,594,534 | 3,797,187 |

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

For the purposes of the Cash Flow Statement, Cash includes Cash at Bank and Cash on Deposit. Cash at the end of the year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

| | Balanced Trust ("AEBT") | | International Equities Trust ("WIET") | | Balanced Trust Consolidated ("AEBTC") | | Equities Trust ("AEET") | | Income Trust ("AEIT") | | Large Companies Share Trust ("AELT") | |
|-----------------------------|----------------------------|------------------|--|----------|--|----------|----------------------------|------------------|--------------------------|------------------|---|------------------|
| Cash at Bank | 13,211,898 | 33,401 | 1,695,985 | - | 14,907,883 | - | 22,522,435 | 42,600 | 2,534,365 | 10,000 | 9,594,534 | 38,160 |
| Short Term Deposits at Call | - | 6,186,752 | - | - | - | - | - | 6,879,147 | - | 2,103,536 | - | 3,759,027 |
| | 13,211,898 | 6,220,153 | 1,695,985 | - | 14,907,883 | - | 22,522,435 | 6,921,747 | 2,534,365 | 2,113,536 | 9,594,534 | 3,797,187 |

Note 5 - Trade and other receivables

| | Balanced Trust ("AEBT") | | International Equities Trust ("WIET") | | Balanced Trust Consolidated ("AEBTC") | | Equities Trust ("AEET") | | Income Trust ("AEIT") | | Large Companies Share Trust ("AELT") | |
|----------------------------------|----------------------------|------------------|--|----------|--|----------|----------------------------|------------------|--------------------------|----------------|---|----------------|
| Dividend receivable | 76,820 | 63,128 | 1,463 | - | 78,283 | - | 41,439 | 71,687 | - | - | 94,470 | 75,059 |
| Interest receivable | 624,595 | 416,277 | 8,679 | - | 633,274 | - | 71,580 | - | 141,958 | 120,763 | 22,502 | - |
| Investment sales | - | 489,045 | - | - | - | - | - | 2,311,752 | - | - | - | 102,990 |
| Rent and other income receivable | 5,242 | - | - | - | 5,242 | - | - | - | - | - | - | - |
| Trust distributions receivable | 741,624 | 668,341 | - | - | 724,953 | - | 704,361 | 358,143 | - | - | 287,358 | 249,854 |
| Debtors | 537,311 | 228,704 | 1,347 | - | 538,658 | - | 236,588 | 132,492 | 7,793 | 7,145 | 219,557 | 95,955 |
| | 1,985,592 | 1,865,495 | 11,489 | - | 1,980,410 | - | 1,053,968 | 2,874,074 | 149,751 | 127,908 | 623,887 | 523,858 |

Note 6 - Financial assets

| | Balanced Trust ("AEBT") | | International Equities Trust ("WIET") | | Balanced Trust Consolidated ("AEBTC") | | Equities Trust ("AEET") | | Income Trust ("AEIT") | | Large Companies Share Trust ("AELT") | |
|------------------------------------|----------------------------|-------------|--|------------|--|------------|----------------------------|-------------|--------------------------|------------|---|-------------|
| | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Equities | | | | | | | | | | | | |
| Australian listed | 41,033,291 | 48,724,512 | - | - | 41,033,291 | - | 98,858,233 | 70,045,410 | - | - | 70,986,113 | 55,579,536 |
| International listed | 29,555,204 | 27,718,044 | 8,132,765 | - | 37,687,969 | - | 46,641,786 | 34,125,415 | - | - | 44,304,402 | 26,756,935 |
| Unlisted | 469,043 | 469,044 | - | - | 469,043 | - | 833,068 | 1,867,470 | - | - | - | - |
| | 71,057,538 | 76,911,600 | 8,132,765 | - | 79,190,303 | - | 146,333,087 | 106,038,295 | - | - | 115,290,515 | 82,336,471 |
| Unit Trusts | | | | | | | | | | | | |
| Listed | 11,288,150 | 10,922,790 | - | - | 11,288,150 | - | - | 2,096,079 | - | - | 2,779,449 | 4,283,601 |
| Unlisted | 18,032,552 | 8,302,476 | - | - | 8,221,188 | - | - | - | - | - | - | - |
| | 29,320,702 | 19,225,266 | - | - | 19,509,338 | - | - | 2,096,079 | - | - | 2,779,449 | 4,283,601 |
| Stapled Securities | | | | | | | | | | | | |
| Listed | 23,278,069 | 20,231,741 | - | - | 23,278,069 | - | 30,687,929 | 22,862,369 | 546,948 | 402,600 | 16,876,093 | 15,002,989 |
| Unlisted | - | - | - | - | - | - | 850,000 | - | - | - | - | - |
| | 23,278,069 | 20,231,741 | - | - | 23,278,069 | - | 31,537,929 | 22,862,369 | 546,948 | 402,600 | 16,876,093 | 15,002,989 |
| Derivatives | | | | | | | | | | | | |
| Currency options | 728,817 | 283,136 | - | - | 728,817 | - | 850,225 | 227,305 | - | - | 834,889 | 337,843 |
| | 728,817 | 283,136 | - | - | 728,817 | - | 850,225 | 227,305 | - | - | 834,889 | 337,843 |
| Interest Bearing Securities | | | | | | | | | | | | |
| Notes/debt instruments secured | 27,726,101 | 9,112,426 | - | - | 27,726,101 | - | - | - | 7,655,643 | 4,025,787 | - | - |
| Notes/debt instruments unsecured | 65,633,625 | 54,892,122 | - | - | 65,633,625 | - | 221,410 | 212,307 | 10,380,907 | 11,855,018 | - | - |
| Deposits | 1,090,000 | 1,090,000 | - | - | 1,090,000 | - | - | - | 210,000 | 210,000 | - | - |
| | 94,449,726 | 65,094,548 | - | - | 94,449,726 | - | 221,410 | 212,307 | 18,246,550 | 16,090,805 | - | - |
| | 218,834,852 | 181,746,291 | 8,132,765 | - | 217,156,253 | - | 178,942,651 | 131,436,355 | 18,793,498 | 16,493,405 | 135,780,946 | 101,960,904 |

Notes to the financial statements for the year ended 30 June 2007

Note 7 - Loans

| | Balanced Trust ("AEBT") | | International Equities Trust ("WIET") | | Balanced Trust Consolidated ("AEBTC") | | Equities Trust ("AEET") | | Income Trust ("AEIT") | | Large Companies Share Trust ("AELT") | |
|-----------|----------------------------|------------|--|------------|--|------------|----------------------------|------------|--------------------------|------------|---|------------|
| | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Secured | 5,579,457 | 4,890,961 | - | - | 5,579,457 | - | - | - | 2,052,096 | 2,093,404 | - | - |
| Unsecured | - | - | - | - | - | - | - | 1,000 | - | - | - | - |
| | 5,579,457 | 4,890,961 | - | - | 5,579,457 | - | - | 1,000 | 2,052,096 | 2,093,404 | - | - |

Note 8 - Investment properties

| | Balanced Trust ("AEBT") | | International Equities Trust ("WIET") | | Balanced Trust Consolidated ("AEBTC") | | Equities Trust ("AEET") | | Income Trust ("AEIT") | | Large Companies Share Trust ("AELT") | |
|-----------------------------|----------------------------|-----------|--|---|--|---|----------------------------|---|--------------------------|---|---|---|
| Residential | 205,000 | 204,091 | - | - | 205,000 | - | - | - | - | - | - | - |
| Commercial | 5,870,000 | 2,613,000 | - | - | 5,870,000 | - | - | - | - | - | - | - |
| Total investment properties | 6,075,000 | 2,817,091 | - | - | 6,075,000 | - | - | - | - | - | - | - |

At Fair Value

| | | | | | | | | | | | | |
|--|-----------|-----------|---|---|-----------|---|---|---|---|---|---|---|
| Opening balance at 1 July | 2,817,091 | 515,995 | - | - | 2,817,091 | - | - | - | - | - | - | - |
| Acquisitions | 2,970,000 | 2,354,147 | - | - | 2,970,000 | - | - | - | - | - | - | - |
| Disposals | - | (77,000) | - | - | - | - | - | - | - | - | - | - |
| Net gain (loss) from fair value adjustment | 287,909 | 23,949 | - | - | 287,909 | - | - | - | - | - | - | - |
| Closing balance at 30 June | 6,075,000 | 2,817,091 | - | - | 6,075,000 | - | - | - | - | - | - | - |

Note 8 - Investment properties - *continued*

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

| | Balanced Trust ("AEBT") | | International Equities Trust ("WIET") | | Balanced Trust Consolidated ("AEBTC") | | Equities Trust ("AEET") | | Income Trust ("AEIT") | | Large Companies Share Trust ("AELT") | |
|---|----------------------------|------------|--|------------|--|------------|----------------------------|------------|--------------------------|------------|---|------------|
| | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Rental income | 438,891 | 247,928 | - | - | 438,891 | - | - | - | - | - | - | - |
| Direct operating expenses from property that generate rental income | (240,721) | (200,107) | - | - | (240,721) | - | - | - | - | - | - | - |
| Direct operating expenses from property that did not generate rental income | (865) | (2,265) | - | - | (865) | - | - | - | - | - | - | - |
| | 197,305 | 45,556 | - | - | 197,305 | - | - | - | - | - | - | - |

(b) Valuation basis

The basis of the valuation of investment properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. The fair value model is applied to all investment properties. Valuations are performed every 18 months 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:

| | Balanced Trust ("AEBT") | | International Equities Trust ("WIET") | | Balanced Trust Consolidated ("AEBTC") | | Equities Trust ("AEET") | | Income Trust ("AEIT") | | Large Companies Share Trust ("AELT") | |
|--|----------------------------|-----------|--|---|--|---|----------------------------|---|--------------------------|---|---|---|
| Within one year | 304,344 | 279,435 | - | - | 304,344 | - | - | - | - | - | - | - |
| Later than one year but not later than 5 years | 723,578 | 1,027,922 | - | - | 723,578 | - | - | - | - | - | - | - |
| Later than 5 years | - | - | - | - | - | - | - | - | - | - | - | - |
| | 1,027,922 | 1,307,357 | - | - | 1,027,922 | - | - | - | - | - | - | - |

Notes to the financial statements for the year ended 30 June 2007

Note 9 - Trade and other payables

| | Balanced Trust ("AEBT") | | International Equities Trust ("WIET") | | Balanced Trust Consolidated ("AEBTC") | | Equities Trust ("AEET") | | Income Trust ("AEIT") | | Large Companies Share Trust ("AELT") | |
|-------------------------------------|----------------------------|------------|--|------------|--|------------|----------------------------|------------|--------------------------|------------|---|------------|
| | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Trade payables and sundry creditors | 456,152 | 369,158 | 12,204 | - | 468,356 | - | 379,063 | 271,562 | 30,365 | 24,799 | 279,665 | 201,969 |
| Accrued redemptions | 209,018 | 3,000 | - | - | 209,018 | - | 274,677 | - | - | - | 149,744 | - |
| Investment purchases | - | 438,909 | - | - | - | - | 2,000,000 | 1,300,280 | - | - | - | 214,538 |
| | 665,170 | 811,067 | 12,204 | - | 677,374 | - | 2,653,740 | 1,571,842 | 30,365 | 24,799 | 429,409 | 416,507 |

Note 10 - Distribution payable

| | Balanced Trust ("AEBT") | | International Equities Trust ("WIET") | | Balanced Trust Consolidated ("AEBTC") | | Equities Trust ("AEET") | | Income Trust ("AEIT") | | Large Companies Share Trust ("AELT") | |
|---------------------------------------|----------------------------|------------|--|---|--|---|----------------------------|------------|--------------------------|---------|---|------------|
| Net amount available for distribution | 18,392,930 | 17,896,219 | 16,671 | - | 18,392,930 | - | 28,464,763 | 13,922,630 | 1,121,569 | 894,047 | 16,183,109 | 13,340,546 |
| Distributed | | | | | | | | | | | | |
| half-year ended 31 December 2006 | 3,242,274 | 2,746,594 | - | - | 3,242,274 | - | 902,966 | 1,011,695 | 530,551 | 443,323 | 796,094 | 897,594 |
| half-year ended 30 June 2007 | 15,150,656 | 15,149,625 | 16,671 | - | 15,150,656 | - | 27,561,797 | 12,910,935 | 591,018 | 450,724 | 15,387,015 | 12,442,952 |
| | 18,392,930 | 17,896,219 | 16,671 | - | 18,392,930 | - | 28,464,763 | 13,922,630 | 1,121,569 | 894,047 | 16,183,109 | 13,340,546 |

Note 11 - Auditors' remuneration

| | Balanced Trust ("AEBT") | | International Equities Trust ("WIET") | | Balanced Trust Consolidated ("AEBTC") | | Equities Trust ("AEET") | | Income Trust ("AEIT") | | Large Companies Share Trust ("AELT") | |
|--|----------------------------|--------|--|---|--|---|----------------------------|--------|--------------------------|--------|---|--------|
| Amounts received or due and receivable by the Auditors of the Trust for: | | | | | | | | | | | | |
| Auditing the financial report | 28,200 | 24,000 | - | - | 28,200 | - | 20,200 | 17,700 | 8,500 | 7,900 | 13,200 | 12,000 |
| Tax and other accounting advice | 6,902 | 5,927 | - | - | 6,902 | - | 7,154 | 6,241 | 3,081 | 2,873 | 5,218 | 4,759 |
| | 35,102 | 29,927 | - | - | 35,102 | - | 27,354 | 23,941 | 11,581 | 10,773 | 18,418 | 16,759 |

Note 12 - Cash flow information

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

| | Balanced Trust ("AEBT") | | International Equities Trust ("WIET") | | Balanced Trust Consolidated ("AEBTC") | | Equities Trust ("AEET") | | Income Trust ("AEIT") | | Large Companies Share Trust ("AELT") | |
|---|----------------------------|-------------|--|------------|--|------------|----------------------------|-------------|--------------------------|------------|---|-------------|
| | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Net operating profit for the year from ordinary activities | 21,935,489 | 14,882,991 | (171,965) | - | 21,935,489 | - | 52,045,003 | 15,462,988 | 1,127,535 | 879,024 | 18,004,407 | 11,833,933 |
| (Increase) Decrease in accrued income | (300,534) | (392,093) | (10,142) | - | (294,005) | - | (387,549) | (324,930) | (21,196) | (42,976) | (79,417) | (217,429) |
| Unrealised (increment) decrement on fluctuation in value of investments | (6,786,305) | (4,643,160) | 188,636 | - | (6,786,305) | - | (26,422,045) | (4,415,919) | (5,965) | 15,023 | (5,219,252) | (4,972,932) |
| Increase (Decrease) in accrued charges & creditors | 85,928 | 77,458 | 12,204 | - | 98,132 | - | 113,448 | 43,635 | 3,434 | 3,660 | 77,925 | 61,508 |
| (Increase) Decrease in debtors | (45,323) | (92,935) | (1,347) | - | (46,670) | - | (36,832) | (72,795) | (647) | (2,863) | (33,388) | (58,803) |
| (Profit) Loss on sale of investments | (8,335,161) | (4,868,521) | - | - | (8,335,161) | - | (22,048,083) | (9,329,157) | - | - | (11,747,027) | (5,472,923) |
| Currency option amortisation | 258,037 | 186,730 | - | - | 258,037 | - | 266,980 | 175,085 | - | - | 255,931 | 152,564 |
| Net cash provided by (used in) operating activities | 6,812,131 | 5,150,470 | 17,386 | - | 6,829,517 | - | 3,530,922 | 1,538,907 | 1,103,161 | 851,868 | 1,259,179 | 1,325,918 |

Note 13 - Segment information

The schemes operate in the finance market (within the terms of the Australian Ethical Investment charter) mainly in Australia. During the 2007 financial year the schemes invested in international listed securities at market value as at 30 June 2007 (refer note 6) as follows:

| | Balanced Trust ("AEBT") | | International Equities Trust ("WIET") | | Balanced Trust Consolidated ("AEBTC") | | Equities Trust ("AEET") | | Income Trust ("AEIT") | | Large Companies Share Trust ("AELT") | |
|---|----------------------------|------------|--|---|--|---|----------------------------|------------|--------------------------|---|---|------------|
| International Listed | 29,555,204 | 27,718,044 | 8,132,765 | - | 37,687,969 | - | 46,641,786 | 34,125,415 | - | - | 44,304,402 | 26,756,935 |
| Dividends earned by the schemes during the year from these investments. | 547,923 | 600,303 | 2,999 | - | 550,922 | - | 687,291 | 487,298 | - | - | 589,154 | 609,120 |

Note 14 - Related party disclosures

Australian Ethical Investment Limited (AEIL), as Responsible Entity of each scheme, provides investment services for the schemes in accordance with each scheme's constitution. Transactions with the Responsible Entity are undertaken on commercial terms and conditions.

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

During the year the following amounts were paid to the Responsible Entity in accordance with each scheme's Constitution:

Australian Ethical Investment Limited

| | Balanced Trust ("AEBT") | | International Equities Trust ("WIET") | | Balanced Trust ("AEBTC") | | Equities Trust ("AEET") | | Income Trust ("AEIT") | | Large Companies ("AELT") | |
|-----------------------|----------------------------|------------|--|------------|-----------------------------|------------|----------------------------|------------|--------------------------|------------|-----------------------------|------------|
| | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Management Fees | 4,079,615 | 3,210,497 | 11,358 | - | 4,090,973 | - | 3,138,921 | 2,468,072 | 248,394 | 204,962 | 2,367,291 | 1,709,841 |
| Accounting Fees | 112,336 | 112,336 | - | - | 112,336 | - | 89,876 | 89,876 | 40,455 | 40,455 | 62,927 | 62,927 |
| Reimbursable Expenses | 54,974 | 54,985 | 14 | - | 54,988 | - | 52,307 | 51,453 | 4,179 | 4,528 | 45,014 | 38,301 |
| | 4,246,925 | 3,377,818 | 11,372 | - | 4,258,297 | - | 3,281,104 | 2,609,401 | 293,028 | 249,945 | 2,475,232 | 1,811,069 |

The amounts due and payable at 30 June 2007 to the Responsible Entity, inclusive of GST but before input tax credits, in accordance with each scheme's Constitutions were:

| | Balanced Trust ("AEBT") | | International Equities Trust ("WIET") | | Balanced Trust Consolidated ("AEBTC") | | Equities Trust ("AEET") | | Income Trust ("AEIT") | | Large Companies Share Trust ("AELT") | |
|--|----------------------------|---------|--|---|---|---|----------------------------|---------|--------------------------|--------|--|---------|
| Management Fees, Accounting Fees and Reimbursable Expenses | 412,430 | 334,290 | 12,204 | - | 424,634 | - | 354,366 | 244,126 | 27,400 | 24,435 | 258,332 | 184,589 |

Transactions between Australian Ethical Investment Ltd and the schemes during the financial year were:

| | | | | | | | | | | | | |
|---------------------------------|---------|-----------|---|---|---------|---|---|---|---|---|---|---|
| AEIL purchase of units | - | 400,000 | - | - | - | - | - | - | - | - | - | - |
| Distribution payments to AEIL | 6,237 | 6,564 | - | - | 6,237 | - | - | - | - | - | - | - |
| AEIL Sale of Securities | - | 2,066,913 | - | - | - | - | - | - | - | - | - | - |
| Value of units held by AEIL | 404,626 | 395,582 | - | - | 404,626 | - | - | - | - | - | - | - |
| Distribution receivable by AEIL | 26,591 | 32,914 | - | - | 26,591 | - | - | - | - | - | - | - |

Note 14 - Related party disclosures - continued**Australian Ethical Income Trust/Australian Ethical Equities Trust/Australian Ethical International Equities Trust**

Transactions between the schemes during the financial year were:

| | Balanced Trust ("AEBT") | | International Equities Trust ("WIET") | | Balanced Trust Consolidated ("AEBTC") | | Equities Trust ("AEET") | | Income Trust ("AEIT") | | Large Companies Share Trust ("AELT") | |
|-----------------------------------|----------------------------|------------|--|------------|--|------------|----------------------------|------------|--------------------------|------------|---|------------|
| | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Distributions from AEIT | 318,025 | 294,142 | - | - | - | - | - | - | - | - | - | - |
| Distributions from WIET | 16,149 | - | - | - | - | - | - | - | - | - | - | - |
| Value of units held in AEIT | 6,293,104 | 6,283,976 | - | - | - | - | - | - | - | - | - | - |
| Value of units held in WIET | 9,821,698 | - | - | - | - | - | - | - | - | - | - | - |
| Distribution receivable from AEIT | 162,348 | 139,528 | - | - | - | - | - | - | - | - | - | - |
| Distribution receivable from WIET | 16,149 | - | - | - | - | - | - | - | - | - | - | - |

Note 15 - Financial instruments**a) Financial risk management**

Each scheme's financial instruments consist of cash and cash equivalents, trade and other receivables, financial assets, trade and other payables and distribution payable. In addition to these AEBT's financial instruments consists of loans and investment properties and AEIT's financial instruments consists of loans.

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

b) Interest rate risk

Interest rate risk, 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. Each schemes' exposure is as follows:

| AEBT | Weighted average interest rate | | Floating interest rate | | Fixed interest rate within 1 year | | Fixed interest rate within 1 to 5 years | | Fixed interest rate over 5 years | |
|------------------------------------|--------------------------------|-----------|------------------------|-------------------|-----------------------------------|------------------|---|------------------|----------------------------------|------------|
| | 2007 % | 2006 % | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Cash and cash equivalents | 6 | 5 | 13,211,898 | 6,220,153 | - | - | - | - | - | - |
| Trade and other receivables | | | - | - | - | - | - | - | - | - |
| Financial assets | 7 | 6 | 56,878,378 | 58,841,113 | 8,231,879 | 5,259,884 | 29,413,314 | 993,550 | - | - |
| Loans | 9 | 7 | 200,000 | 350,000 | - | 1,138,453 | 4,187,181 | 2,190,622 | - | - |
| Investment properties | | | - | - | - | - | - | - | - | - |
| Total financial assets | | | 70,290,276 | 65,411,266 | 8,231,879 | 6,398,337 | 33,600,495 | 3,184,172 | - | - |
| Trade and other payables | | | - | - | - | - | - | - | - | - |
| Distribution payable | | | - | - | - | - | - | - | - | - |
| Total financial liabilities | | | - | - | - | - | - | - | - | - |

Note 15 - Financial instruments - continued

| AEBT | Non-interest bearing | | Total | |
|------------------------------------|----------------------|--------------------|--------------------|--------------------|
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |
| Cash and cash equivalents | - | - | 13,211,898 | 6,220,153 |
| Trade and other receivables | 1,985,592 | 1,865,495 | 1,985,592 | 1,865,495 |
| Financial assets | 124,311,281 | 116,651,744 | 218,834,852 | 181,746,291 |
| Loans | 1,192,276 | 1,211,886 | 5,579,457 | 4,890,961 |
| Investment properties | 6,075,000 | 2,817,091 | 6,075,000 | 2,817,091 |
| Total financial assets | 133,564,149 | 122,546,216 | 245,686,799 | 197,539,991 |
| Trade and other payables | 665,170 | 811,067 | 665,170 | 811,067 |
| Distribution payable | 15,150,656 | 15,149,625 | 15,150,656 | 15,149,625 |
| Total financial liabilities | 15,815,826 | 15,960,692 | 15,815,826 | 15,960,692 |

| WIET | Weighted average interest rate | | Floating interest rate | | Fixed interest rate within 1 year | | Fixed interest rate within 1 to 5 years | | Fixed interest rate over 5 years | |
|------------------------------------|--------------------------------|------|------------------------|------|-----------------------------------|------|---|------|----------------------------------|------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | % | % | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Cash and cash equivalents | 6 | - | 1,695,985 | - | - | - | - | - | - | - |
| Trade and other receivables | - | - | - | - | - | - | - | - | - | - |
| Financial assets | - | - | - | - | - | - | - | - | - | - |
| Loans | - | - | - | - | - | - | - | - | - | - |
| Investment properties | - | - | - | - | - | - | - | - | - | - |
| Total financial assets | | | 1,695,985 | - | - | - | - | - | - | - |
| Trade and other payables | - | - | - | - | - | - | - | - | - | - |
| Distribution payable | - | - | - | - | - | - | - | - | - | - |
| Total financial liabilities | | | - | - | - | - | - | - | - | - |

| WIET | Non-interest bearing | | Total | |
|------------------------------------|----------------------|------|------------------|------|
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |
| Cash and cash equivalents | - | - | 1,695,985 | - |
| Trade and other receivables | 11,489 | - | 11,489 | - |
| Financial assets | 8,132,765 | - | 8,132,765 | - |
| Loans | - | - | - | - |
| Investment properties | - | - | - | - |
| Total financial assets | 8,144,254 | - | 9,840,239 | - |
| Trade and other payables | 12,204 | - | 12,204 | - |
| Distribution payable | 16,671 | - | 16,671 | - |
| Total financial liabilities | 28,875 | - | 28,875 | - |

Notes to the financial statements for the year ended 30 June 2007

Note 15 - Financial instruments - continued

| AEET | Weighted average interest rate | | Floating interest rate | | Fixed interest rate within 1 year | | Fixed interest rate within 1 to 5 years | | Fixed interest rate over 5 years | |
|------------------------------------|--------------------------------|------|------------------------|------------------|-----------------------------------|----------|---|----------|----------------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | % | % | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Cash and cash equivalents | 6 | 5 | 22,522,435 | 6,921,747 | - | - | - | - | - | - |
| Trade and other receivables | | | - | - | - | - | - | - | - | - |
| Financial assets | | | - | - | - | - | - | - | - | - |
| Loans | - | - | - | - | - | - | - | - | - | - |
| Total financial assets | | | 22,522,435 | 6,921,747 | - | - | - | - | - | - |
| Trade and other payables | | | - | - | - | - | - | - | - | - |
| Distribution payable | | | - | - | - | - | - | - | - | - |
| Total financial liabilities | | | - | - | - | - | - | - | - | - |

| AEET | Non-interest bearing | | Total | |
|------------------------------------|----------------------|--------------------|--------------------|--------------------|
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |
| Cash and cash equivalents | - | - | 22,522,435 | 6,921,747 |
| Trade and other receivables | 1,053,968 | 2,874,074 | 1,053,968 | 2,874,074 |
| Financial assets | 178,942,651 | 131,436,355 | 178,942,651 | 131,436,355 |
| Loans | - | 1,000 | - | 1,000 |
| Total financial assets | 179,996,619 | 134,311,429 | 202,519,054 | 141,233,176 |
| Trade and other payables | 2,653,740 | 1,571,842 | 2,653,740 | 1,571,842 |
| Distribution payable | 27,561,797 | 12,910,935 | 27,561,797 | 12,910,935 |
| Total financial liabilities | 30,215,537 | 14,482,777 | 30,215,537 | 14,482,777 |

| AEIT | Weighted average interest rate | | Floating interest rate | | Fixed interest rate within 1 year | | Fixed interest rate within 1 to 5 years | | Fixed interest rate over 5 years | |
|------------------------------------|--------------------------------|------|------------------------|-------------------|-----------------------------------|------------------|---|------------------|----------------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | % | % | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Cash and cash equivalents | 6 | 5 | 2,534,365 | 2,113,536 | - | - | - | - | - | - |
| Trade and other receivables | | | - | - | - | - | - | - | - | - |
| Financial assets | 7 | 6 | - | 11,746,594 | 6,903,303 | 4,344,211 | 11,352,242 | - | - | - |
| Loans | 9 | 9 | - | - | 111,782 | 976,700 | 1,940,314 | 1,116,704 | - | - |
| Total financial assets | | | 2,534,365 | 13,860,130 | 7,015,085 | 5,320,911 | 13,292,556 | 1,116,704 | - | - |
| Trade and other payables | | | - | - | - | - | - | - | - | - |
| Distribution payable | | | - | - | - | - | - | - | - | - |
| Total financial liabilities | | | - | - | - | - | - | - | - | - |

Notes to the financial statements for the year ended 30 June 2007

Note 15 - Financial instruments - continued

| AEIT | Non-interest bearing | | Total | |
|------------------------------------|----------------------|----------------|-------------------|-------------------|
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |
| Cash and cash equivalents | - | - | 2,534,365 | 2,113,536 |
| Trade and other receivables | 149,751 | 127,908 | 149,751 | 127,908 |
| Financial assets | 537,953 | 402,600 | 18,793,498 | 16,493,405 |
| Loans | - | - | 2,052,096 | 2,093,404 |
| Total financial assets | 687,704 | 530,508 | 23,529,710 | 20,828,253 |
| Trade and other payables | 30,365 | 24,799 | 30,365 | 24,799 |
| Distribution payable | 591,018 | 450,724 | 591,018 | 450,724 |
| Total financial liabilities | 621,383 | 475,523 | 621,383 | 475,523 |

| AELT | Weighted average interest rate | | Floating interest rate | | Fixed interest rate within 1 year | | Fixed interest rate within 1 to 5 years | | Fixed interest rate over 5 years | |
|------------------------------------|--------------------------------|------|------------------------|------------------|-----------------------------------|----------|---|----------|----------------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | % | % | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Cash and cash equivalents | 6 | 5 | 9,594,534 | 3,797,187 | - | - | - | - | - | - |
| Trade and other receivables | | | - | - | - | - | - | - | - | - |
| Financial assets | | | - | - | - | - | - | - | - | - |
| Loans | | | - | - | - | - | - | - | - | - |
| Total financial assets | | | 9,594,534 | 3,797,187 | - | - | - | - | - | - |
| Trade and other payables | | | - | - | - | - | - | - | - | - |
| Distribution payable | | | - | - | - | - | - | - | - | - |
| Total financial liabilities | | | - | - | - | - | - | - | - | - |

| AELT | Non-interest bearing | | Total | |
|------------------------------------|----------------------|--------------------|--------------------|--------------------|
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |
| Cash and cash equivalents | - | - | 9,594,534 | 3,797,187 |
| Trade and other receivables | 623,887 | 523,858 | 623,887 | 523,858 |
| Financial assets | 135,780,946 | 101,960,904 | 135,780,946 | 101,960,904 |
| Loans | - | - | - | - |
| Total financial assets | 136,404,833 | 102,484,762 | 145,999,367 | 106,281,949 |
| Trade and other payables | 429,409 | 416,507 | 429,409 | 416,507 |
| Distribution payable | 15,387,015 | 12,442,952 | 15,387,015 | 12,442,952 |
| Total financial liabilities | 15,816,424 | 12,859,459 | 15,816,424 | 12,859,459 |

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. Each 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 schemes 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 schemes invest in financial instruments which under normal market conditions are readily convertible into cash. In addition, the schemes operate within established limits to ensure there is no concentration of risk.

f) Net fair values

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 - Controlled Entities

| Controlled Entities Consolidated Parent Entity | Country of Establishment | Percentage Owned | |
|--|--------------------------|------------------|------|
| | | 2007 | 2006 |
| Australian Ethical Balanced Trust | Australia | | |
| Subsidiaries of Australian Ethical Balanced Trust: | | | |
| Australian Ethical International Equities Trust | Australia | 100 | 0 |

Acquisitions - Disposals of Controlled Entities

Australian Ethical Balanced Trust acquired units in Australian Ethical International Equities Trust during the year.

Note 17 - Events after the Balance Sheet date

Since the end of the financial year, other than Australian Ethical World Trust commencement of trading on 3 August 2007, 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 18 - Scheme details

The registered office and principal place of business of the schemes is Trevor Pearcey House, Traeger Court, 34 Thynne St, Bruce ACT. The principal activity of the schemes is to pool investors' savings to invest in securities, including 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.

Note 19 - Accounting standards

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

| AASB Amendment | Standards Affected | Outline of Amendment | Application date of Standard | Application date for scheme |
|----------------|--|---|---------------------------------|--------------------------------|
| AASB 2005-10 | 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 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 133: Earnings per Share | 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 |
| | AASB 139: Financial Instruments: Recognition and Management | No change , no impact | 1 Jan 07 | 1 Jul 07 |
| AASB 7 | AASB 132: Financial Instruments: Disclosure and Presentation | No affect on amounts recognised but will impact the type of information disclosed in relation to financial instruments. | 1 Jan 07 | 1 Jul 07 |

Note 20 - 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.

a) Key management personnel

Names and positions of key management personnel (directors and named executives) of the Responsible Entity at any time during the financial year

Parent entity directors

| Name | Position | |
|---------------------|----------------------------|---|
| George Pooley | Chairperson, non-executive | Resigned 13 October 2006 |
| Pauline Vamos | Chairperson, non-executive | Appointed as non-executive 1 July 06, and as Chairperson 13 October 2006 |
| Caroline Le Couteur | Director, executive | |
| James Thier | Director, executive | |
| Howard Pender | Director, executive | |
| Naomi Edwards | Director, non-executive | |
| Justine Hickey | Director, non-executive | Appointed 1 March 2007 |

Subsequent to year end Pauline Vamos has resigned as Chairperson and as a director of the company with effect from 31 August 2007

Other key management personnel

| Name | Position | |
|----------------|-----------------------------------|---------------------------|
| Anne O'Donnell | Chief executive officer | |
| David Ferris | Investment manager | |
| Mark Bateman | Chief financial officer | Resigned 2 February 2007 |
| Gary Leckie | Chief financial officer | Appointed 2 February 2007 |
| 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.

Remuneration policyDirectors

The aggregate amount of remuneration 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 remuneration 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, remuneration for extra services, retirement benefits and superannuation contributions.

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

Secretaries, senior managers, executive directors and group executives

The company's fundamental remuneration policy is to treat all staff (including secretaries, senior managers, executive directors and group executives) in an equitable fashion and not to have special remuneration 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.

Remuneration 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 remuneration annually and externally benchmarks remuneration levels every two years. Individual staff remuneration is then considered with reference to the benchmarks and in accordance with guidelines approved by the board. The board aims to remunerate responsibly and fairly, with reference to the market.

Note 20 - Key management personnel compensation - continued

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[1] to current employees which is 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) receive 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.

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[2] 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 remuneration. 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 remuneration 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 remuneration 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 remuneration policy discussed above has broadly been in place for the current and the previous five financial years.

Key Management Personnel Remuneration details for the year ended 30 June 2007**Parent entity directors' remuneration**

| | Short-term employee benefits | | | Post Employment benefits | Other Long-term Benefits | Termination Benefits | Share-based Payment | | Total |
|---------------------|------------------------------|--------------|----------|--------------------------|--------------------------|----------------------|---------------------|---------------|----------------|
| | Cash Salary and Fees | Bonus Cash | Other | | | | Bonus Shares | Options | |
| 2007 | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| George Pooley | 19,749 | - | - | - | - | - | - | - | 19,749 |
| Caroline Le Couteur | 142,449 | 5,500 | - | 12,017 | 3,431 | - | - | 7,907 | 171,304 |
| James Thier | 143,516 | - | - | 11,804 | 2,016 | - | 3,759 | 5,928 | 167,023 |
| Howard Pender | 138,954 | 3,575 | - | 11,633 | 2,089 | - | - | 6,082 | 162,333 |
| Naomi Edwards * | 39,300 | - | - | 3,150 | - | - | - | - | 42,450 |
| Pauline Vamos | 52,223 | - | - | 4,205 | - | - | - | - | 56,428 |
| Justine Hickey * | 17,314 | - | - | 741 | - | - | - | - | 18,055 |
| Total | 553,505 | 9,075 | - | 43,550 | 7,536 | - | 3,759 | 19,917 | 637,342 |

* Naomi Edwards had a one off contract with the company to assist in establishing a product profitability model. Justine Hickey had a one off contract with the company to provide consulting service on an integrated IFSA project. The terms and conditions of these contracts are no more favourable than those that is reasonable to expect the entity would have adopted if dealing at arm's length with an unrelated individual. Naomi Edwards also received sponsorship money totalling \$2,500 in relation to a conservation and social justice event.

| 2006 | | | | | | | | | |
|---------------------|----------------|--------------|----------|---------------|--------------|----------|--------------|---------------|----------------|
| 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 |

Note 20 - Key management personnel compensation - continued

Named executives (including other key management personnel) remuneration

| | Short-term employee benefits | | | Post Employment benefits Super | Other Long-term Benefits | Termination Benefits | Share-based Payment | | Total |
|----------------|------------------------------|------------|-------|-----------------------------------|--------------------------|----------------------|---------------------|---------|---------|
| | Cash Salary and Fees | Bonus Cash | Other | | | | Bonus Shares | Options | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| 2007 | | | | | | | | | |
| Anne O'Donnell | 190,804 | 5,500 | - | 17,259 | 5,659 | - | - | 12,043 | 231,265 |
| David Ferris | 158,681 | - | - | 13,843 | 5,046 | - | 5,290 | 9,307 | 192,167 |
| Mark Bateman | 140,481 | 5,500 | - | 7,076 | - | - | - | 7,916 | 160,973 |
| Philip George | 162,880 | 5,500 | - | 14,088 | 3,503 | - | - | 9,754 | 195,725 |
| Gary Leckie | 118,374 | 5,500 | - | 10,257 | 2,849 | - | - | 5,974 | 142,954 |
| Total | 771,220 | 22,000 | - | 62,523 | 17,057 | - | 5,290 | 44,994 | 923,084 |
| 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 |

Cash bonus compensation benefits

Details of cash bonuses paid to key management personal are included in the remuneration tables set out above. The bonuses were paid on 22 September 2006. The nature of the cash bonuses and the criteria used to determine the payment of the bonuses are detailed in the remuneration policy and in the discussion on performance-based remuneration and company performance.

Options granted as remuneration – 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 |
|--------------------------------|------------|-----------------|------------|--|----------------------|---------------------|----------------------------|
| Parent Entity Directors | | | | | | | |
| George Pooley | - | - | - | - | - | - | - |
| Caroline Le Couteur | 2,646 | 1,910 | 22/09/2006 | 4.14 | 32.50 | 22/09/2009 | 22/12/2009 |
| James Thier | 2,074 | 1,432 | 22/09/2006 | 4.14 | 32.50 | 22/09/2009 | 22/12/2009 |
| Howard Pender | 857 | 1,469 | 22/09/2006 | 4.14 | 32.50 | 22/09/2009 | 22/12/2009 |
| Naomi Edwards | - | - | - | - | - | - | - |
| Pauline Vamos | - | - | - | - | - | - | - |
| Justine Hickey | - | - | - | - | - | - | - |
| | 5,577 | 4,811 | | | | | |

Named executives (including other key management personnel)

| | | | | | | | |
|----------------|-------|--------|------------|------|-------|------------|------------|
| Anne O'Donnell | 2,802 | 2,909 | 22/09/2006 | 4.14 | 32.50 | 22/09/2009 | 22/12/2009 |
| David Ferris | 2,498 | 2,248 | 22/09/2006 | 4.14 | 32.50 | 22/09/2009 | 22/12/2009 |
| Mark Bateman | 1,962 | 1,912 | 22/09/2006 | 4.14 | 32.50 | 22/09/2009 | 22/12/2009 |
| Philip George | - | 2,356 | 22/09/2006 | 4.14 | 32.50 | 22/09/2009 | 22/12/2009 |
| Gary Leckie | 819 | 1,443 | 22/09/2006 | 4.14 | 32.50 | 22/09/2009 | 22/12/2009 |
| | 8,081 | 10,868 | | | | | |

(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 remuneration and the recipient did not otherwise pay for the grant of the options.

Note 20 - Key management personnel compensation - continued

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

| | Balance 01.07.06 | Share in lieu of Cash Bonus | Options Exercised/ Shares Issued (1) | Net Change Other (2) | Balance 30.06.07 (3)&(4) |
|--------------------------------|---------------------|--------------------------------------|---|----------------------------|-----------------------------|
| Parent Entity Directors | | | | | |
| George Pooley | - | - | - | - | - |
| Caroline Le Couteur | 44,277 | - | 2,646 | - | 46,923 |
| James Thier | 60,154 | 127 | 2,074 | (200) | 62,155 |
| Howard Pender | 51,178 | - | 857 | (370) | 51,665 |
| Naomi Edwards | - | - | - | - | - |
| Pauline Vamos | - | - | - | - | - |
| Justine Hickey | - | - | - | 700 | 700 |

Named executives (including other key management personnel)

| | | | | | |
|----------------|----------------|------------|---------------|-----------------|----------------|
| Anne O'Donnell | 3,315 | - | 2,802 | - | 6,117 |
| David Ferris | 2,762 | 179 | 2,498 | - | 5,439 |
| Mark Bateman | 982 | - | 1,962 | (1,962) | 982 |
| Philip George | 375 | - | - | - | 375 |
| Gary Leckie | - | - | 819 | (819) | - |
| Total | 163,043 | 306 | 13,658 | (2,651) | 174,356 |

(1) The amount paid for shares issued on exercise of options is \$14.11 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 directors and named executives including their related parties as required by AASB 124 Related Party Disclosures. Relevant interests required by the Corporations Act 2001 would result in the balance changing for James Thier to 47,681, Howard Pender to 49,634 and Philip George to 250.

Options granted as remuneration – disclosures required under the Corporations Act 2001

c) Equity instrument disclosures relating to key management personnel
Option Holdings

Number of options held by key management personnel.

| | Balance 01.07.06 | Granted as Remun- eration | Options Exercised | Net Change Other | Balance 30.06.07 | Total Vested 30.06.07 | Total Exer- cisable 30.06.07 | Total Unexer- cisable 30.06.07 |
|--|---------------------|------------------------------------|----------------------|------------------------|---------------------|-----------------------------|---------------------------------------|---|
| Parent Entity Directors | | | | | | | | |
| George Pooley | - | - | - | - | - | - | - | - |
| Caroline Le Couteur | 7,402 | 1,910 | (2,646) | - | 6,666 | - | - | 6,666 |
| James Thier | 5,932 | 1,432 | (2,074) | - | 5,290 | - | - | 5,290 |
| Howard Pender | 2,649 | 1,469 | (857) | - | 3,261 | - | - | 3,261 |
| Naomi Edwards | - | - | - | - | - | - | - | - |
| Pauline Vamos | - | - | - | - | - | - | - | - |
| Justine Hickey | - | - | - | - | - | - | - | - |
| Named executives (including other key management personnel) | | | | | | | | |
| Anne O'Donnell | 8,673 | 2,909 | (2,802) | - | 8,780 | - | - | 8,780 |
| David Ferris | 7,660 | 2,248 | (2,498) | - | 7,410 | - | - | 7,410 |
| Mark Bateman | 6,066 | 1,912 | (1,962) | (6,016) | - | - | - | - |
| Philip George | 1,550 | 2,356 | - | - | 3,906 | - | - | 3,906 |
| Gary Leckie | 3,481 | 1,443 | (819) | - | 4,105 | - | - | 4,105 |
| Total | 43,413 | 15,679 | (13,658) | (6,016) | 39,418 | - | - | 39,418 |

Note 20 - Key management personnel compensation - continued*Explanation of relative proportions of elements of remuneration that are related to performance*

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

The remuneration of executive directors, secretaries and senior managers 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. Options granted during the financial year, when valued using a Black Scholes valuation methodology as at grant date, make up a very small proportion of the overall remuneration of people holding these positions.

Employment contracts of directors and senior executives

For each individual whose remuneration 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 | | | |
| Gary Leckie | | | |
| Philip George | | | |

Directors' Declaration

The Directors of Australian Ethical Investment Limited (the responsible entity) declare that:

1. The financial statements of Australian Ethical Balanced Trust, Australian Ethical International Equities Trust, Australian Ethical Equities Trust, Australian Ethical Income Trust and Australian Ethical Large Companies Share Trust and notes, as set out on pages 4 to 28 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 2007 and of the performance for the financial year ended on that date for each scheme.
2. In the Directors' opinion there are reasonable grounds to believe that each scheme will be able to pay its debts as and when they become due and payable.
3. The schemes have operated during the financial year ended 30 June 2007 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.



Howard Pender
Director
Australian Ethical Investment Limited
ABN 47 003 188 930
27 September 2007

INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF

AUSTRALIAN ETHICAL BALANCED TRUST AUSTRALIAN ETHICAL INTERNATIONAL EQUITIES TRUST AUSTRALIAN ETHICAL EQUITIES TRUST AUSTRALIAN ETHICAL INCOME TRUST AUSTRALIAN ETHICAL LARGE COMPANIES SHARE TRUST

We have audited the accompanying financial reports of Australian Ethical Balanced Trust, Australian Ethical International Equities Trust, Australian Ethical Balanced Trust Consolidated, Australian Ethical Equities Trust, Australian Ethical Income Trust and Australian Ethical Large Companies Share Trust ("the schemes"), which comprises the balance sheets as at 30 June 2007, and the income statements, and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the schemes.

The Directors of the Responsible Entity's Responsibility for the Financial Report

The Directors of the Responsible Entity, Australian Ethical Investment Limited are responsible for the preparation and fair presentation of the financial reports in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial reports that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial reports, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial reports based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial reports are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial reports. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial reports, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the schemes preparation and fair presentation of the financial reports in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of each schemes internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001

Auditors Opinion

In our opinion:

- (a) the financial reports of Australian Ethical Balanced Trust, Australian Ethical International Equities Trust, Australian Ethical Balanced Trust Consolidated, Australian Ethical Income Trust and Australian Ethical Large Companies Share Trust are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view each scheme's financial position as at 30 June, 2007 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial reports also comply with International Financial Reporting Standards as disclosed in Note 1; and
- (c) the financial reports are in accordance with the provisions of each of the schemes constitutions.



THOMAS DAVIS & CO.



R.C. GEEVES

PARTNER

Chartered Accountants

SYDNEY

27 September, 2007

Liability limited by a scheme approved under Professional Standards Legislation

Australian Ethical World Trust

Directors' Report

For the period ended 30 June 2007

Australian Ethical Investment Limited, the responsible entity of the Australian Ethical World Trust (AEWT) (the scheme) presents its directors' report together with the financial statements of the scheme for the period ended 30 June 2007.

Responsible entity

The AEWT was registered as a managed investment scheme with the Australian Securities and Investments Commission (ASIC) on 2 February 2007 with Australian Ethical Investment Limited as its responsible entity. The AEWT did not commence operations prior to the period ended 30 June 2007.

The Directors of Australian Ethical Investment Limited during or since the end of the financial year are disclosed in note 16 to the financial statements.

Principal activities

The principal activity of the scheme is to pool investors' savings to invest in a diversified portfolio of securities, in accordance with the investment objectives and guidelines as set out in the current Product Disclosure Statement and within the provisions of the scheme's constitution. The constitution of the scheme authorises a wide range of investments. 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. It is the intention of the responsible entity that the trust will make investments through holding units in the Australian Ethical International Equities Trust.

The responsible entity commenced operations of the Australian Ethical World Trust on 3 August 2007. The Trust did not undertake any activities during the reporting period. The responsible entity sought from the Australian Securities and Investments Commission (ASIC) an exemption from the need to produce a directors' report and financial report but was advised by ASIC that an exemption would not be granted.

Likely developments

The responsible entity is reviewing the schemes it manages and depending on that analysis may, during the course of the financial year, make decisions to commence the development of new products to compliment 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

Except as otherwise noted, 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.

The Responsible Entity commenced operations of the Australian Ethical World Trust on 3 August 2007.

Distributions paid and/or payable

No Distributions were paid or payable during the year.

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.

Australian Ethical World Trust

Interest of the responsible entity

No fees were paid to the responsible entity during the year.


Interests in the schemes

Full details of:

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

are contained in notes 2 and 3 of the attached financial statements.

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



Howard Pender

Director

Australian Ethical Investment Limited

ABN 47 003 188 930

30 October 2007

AUSTRALIAN ETHICAL WORLD TRUST

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 2007 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



R. C. GEEVES PARTNER

SYDNEY

30 October, 2007

Liability limited by a scheme approved under Professional Standards Legislation

Australian Ethical World Trust

Balance Sheets as at 30 June 2007

| | Notes | World Trust ("AEWT") 2007 \$ |
|---|-------|---------------------------------------|
| Assets | | |
| Cash and cash equivalents | 4 | - |
| Trade and other receivables | 5 | - |
| Financial assets | 6 | - |
| Total assets | | <u>-</u> |
| Liabilities | | |
| Trade and other payables | 7 | - |
| Distribution payable | 8 | - |
| Total liabilities excluding net assets attributable to unitholders | | <u>-</u> |
| Net assets attributable to unitholders | 3 | - |
| Total liabilities | | <u>-</u> |

The accompanying notes form part of these financial statements.

Australian Ethical World Trust

Income Statements for the period ended 30 June 2007

**World Trust
("AEWT")**

| | Notes | 2007 \$ |
|--|-------|------------|
| Investment income | | |
| Currency option revenue | | - |
| Distributions | | - |
| Dividends domestic | | - |
| Dividends overseas | | - |
| Interest | | - |
| Other income | | - |
| Rent | | - |
| Profit (loss) on foreign exchange | | - |
| Profit (loss) on sale of investments | | - |
| Unrealised increment (decrement) on fluctuation in value of investments | | - |
| | | <hr/> |
| | | <hr/> |
| Less expenditure | | |
| Accounting fees | 11 | - |
| Auditors' remuneration | 9 | - |
| Currency option amortisation | | - |
| Legal fees | | - |
| Investment properties - general | | - |
| Investment properties - rates & taxes | | - |
| Printing & other costs | | - |
| Reimbursable expenses | 11 | - |
| Responsible entity fees | 11 | - |
| | | <hr/> |
| | | <hr/> |
| Profit (loss) from operating activities | | - |
| Finance costs - distributions to unitholders | 8 | - |
| Change in net assets attributable to unitholders | 3 | <hr/> |
| | | <hr/> |

The accompanying notes form part of these financial statements.

Australian Ethical World Trust

Cash Flow Statements for the period ended 30 June 2007

**World Trust
("AEWT")**

| | Notes | 2007 \$ |
|---|-------|------------|
| Cash flows from operating activities | | |
| Interest received | | - |
| Dividends received | | - |
| Distributions received | | - |
| Other income received | | - |
| Expenses | | - |
| Net cash provided by (used in) operating activities | 10 | - |
| Cash flows from investing activities | | |
| Proceeds from sale of investments | | - |
| Customer loans repaid | | - |
| Customer loans granted | | - |
| Payment for investments | | - |
| Net cash provided by (used in) investing activities | | - |
| Cash flows from financing activities | | |
| Proceeds from issue of units | | - |
| Payment of redemption of units | | - |
| Distributions paid | | - |
| Net cash provided by (used in) financing activities | | - |
| Net increase (decrease) in cash held | | - |
| Cash at 1 July 2006 | | - |
| Cash at 30 June 2007 | 4 | - |

The accompanying notes form part of these financial statements.

Australian Ethical World Trust

Notes to the financial statements for the period ended 30 June 2007

Note 1 - Statement of significant accounting policies

These Financial Reports are general purpose financial reports that have been prepared in accordance with the Constitution of the scheme, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The Financial Report covers the scheme as an individual entity. All reports comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety. The scheme is established and domiciled in Australia.

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

Reporting Basis and Conventions

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

The AEWT was registered as a managed investment scheme with the Australian Securities and Investments Commission (ASIC) on 2 February 2007 with Australian Ethical Investment Limited as its responsible entity. The AEWT did not commence operations prior to the period ended 30 June 2007.

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.

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.

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 the scheme the income (generally net taxable income plus non-taxable income, not including realised capital gains) earned by the scheme 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 scheme.

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.

Australian Ethical World Trust

Notes to the financial statements for the period ended 30 June 2007

Note 1 - Statement of significant accounting policies - *continued*

(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) Applications and redemptions

Applications received for units in the scheme are recorded net of any entry fees payable prior to the issue of units in each scheme. No exit fees are charged. Unit prices are determined by reference to the net assets of the scheme divided by the number of units on issue at close of business each day.

All or part of an investment can be switched between the Australian Ethical schemes, the contribution fee charged on a switch is the difference between the contribution fee for the original scheme and the new scheme. Further details can be found in the Australian Ethical Investment Trusts Product Disclosure Statement.

(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 Sheets 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 Statements in the period they arise.

Australian Ethical World Trust

Notes to the financial statements for the period ended 30 June 2007

Note 2 - Number of Issued Units

| | World Trust ("AEWT") |
|---------------------------------|-------------------------|
| | 2007 Units |
| On issue at beginning of period | - |
| Issued | - |
| Redeemed | - |
| | <hr/> |
| On issue at period end | <hr/> <hr/> |

Note 3 - Net assets attributable to unitholders

| | World Trust ("AEWT") |
|--|-------------------------|
| | 2007 \$ |
| Opening Balance | - |
| Issued | - |
| Redeemed | - |
| Change in net assets attributable to unitholders | - |
| | <hr/> |
| Total net assets attributable to unitholders | <hr/> <hr/> |

Note 4 - Cash and cash equivalents

| | World Trust ("AEWT") |
|-----------------------------|-------------------------|
| | 2007 \$ |
| Cash at bank | - |
| Short term deposits at call | - |
| | <hr/> |
| | <hr/> <hr/> |

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

For the purposes of the Cash Flow Statement, Cash includes Cash at Bank and Cash on Deposit. Cash at the end of the period as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

| | World Trust ("AEWT") |
|-----------------------------|-------------------------|
| Cash at Bank | - |
| Short Term Deposits at Call | - |
| | <hr/> |
| | <hr/> <hr/> |

Note 5 - Trade and other receivables

| | World Trust ("AEWT") |
|----------------------------------|-------------------------|
| Dividend receivable | - |
| Interest receivable | - |
| Investment sales | - |
| Rent and other income receivable | - |
| Trust distributions receivable | - |
| Debtors | - |
| | <hr/> |
| | <hr/> <hr/> |

Australian Ethical World Trust

Notes to the financial statements for the period ended 30 June 2007

Note 6 - Financial assets

World Trust
("AEWT")

2007
\$

Equities

Australian listed
International listed
Unlisted

-
-
-

Unit Trusts

Listed
Unlisted

-
-

Stapled Securities

Listed
Unlisted

-
-

Derivatives

Currency options

-

Interest Bearing Securities

Notes/debt instruments secured
Notes/debt instruments unsecured
Deposits

-
-
-

Note 7 - Trade and other payables

World Trust
("AEWT")

2007
\$

Trade payables and sundry creditors
Accrued redemptions
Investment purchases

-
-
-

Note 8 - Distribution payable

World Trust
("AEWT")

Net amount available for distribution

-

Distributed

period ended 30 June 2007

-

Note 9 - Auditors' remuneration

World Trust
("AEWT")

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

Auditing the financial report
Tax and other accounting advice

-
-

Australian Ethical World Trust

Notes to the financial statements for the period ended 30 June 2007

Note 10 - Cash flow information

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

| | World Trust ("AEWT") |
|---|-------------------------|
| | 2007 \$ |
| Net operating profit for the period from ordinary activities | - |
| (Increase) Decrease in accrued income | - |
| Unrealised (increment) decrement on fluctuation in value of investments | - |
| Increase (Decrease) in accrued charges & creditors | - |
| (Increase) Decrease in debtors | - |
| (Profit) Loss on sale of investments | - |
| Currency option amortisation | - |
| Net cash provided by (used in) operating activities | <u>-</u> |

Note 11 - Related party disclosures

Australian Ethical Investment Limited (AEIL), as Responsible Entity of the scheme, provides investment services for the scheme in accordance with the scheme's constitution. Transactions with the Responsible Entity are undertaken on commercial terms and conditions.

During the period the following amounts were paid to the Responsible Entity in accordance with the scheme's Constitution:

Australian Ethical Investment Limited

| | World Trust ("AEWT") |
|-----------------------|-------------------------|
| | 2007 \$ |
| Management Fees | - |
| Accounting Fees | - |
| Reimbursable Expenses | - |
| | <u>-</u> |

The amounts due and payable at 30 June 2007 to the Responsible Entity, inclusive of GST but before input tax credits, in accordance with the scheme's Constitutions were:

| | World Trust ("AEWT") |
|--|-------------------------|
| Management Fees, Accounting Fees and Reimbursable Expenses | <u>-</u> |

Note 12 - 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 activities of the scheme exposes it to a variety of financial risks. The 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 the scheme's investment parameters as approved by the Responsible Entity's Board of Directors.

b) Interest rate risk

Interest rate risk, 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. The schemes' exposure is as follows:

| AEWT | Weighted average interest rate | Floating interest rate | Fixed interest rate within 1 year | Fixed interest rate within 1 to 5 years | Fixed interest rate over 5 years |
|------------------------------------|--------------------------------|------------------------|-----------------------------------|---|----------------------------------|
| | 2007 % | 2007 \$ | 2007 \$ | 2007 \$ | 2007 \$ |
| Cash and cash equivalents | - | - | - | - | - |
| Trade and other receivables | - | - | - | - | - |
| Financial assets | - | - | - | - | - |
| Loans | - | - | - | - | - |
| Total financial assets | | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Trade and other payables | | - | - | - | - |
| Distribution payable | | - | - | - | - |
| Total financial liabilities | | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

| AEWT | Non-interest bearing | Total |
|------------------------------------|----------------------|------------|
| | 2007 \$ | 2007 \$ |
| Cash and cash equivalents | - | - |
| Trade and other receivables | - | - |
| Financial assets | - | - |
| Loans | - | - |
| Total financial assets | <u>-</u> | <u>-</u> |
| Trade and other payables | - | - |
| Distribution payable | - | - |
| Total financial liabilities | <u>-</u> | <u>-</u> |

Australian Ethical World Trust

Notes to the financial statements for the period ended 30 June 2007

Note 12 - 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

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 13 - 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 14 - Scheme details

The registered office and principal place of business of the scheme is Trevor Pearcey House, Traeger Court, 34 Thynne St, Bruce ACT. The principal activity of the scheme is to pool investors' savings to invest in international securities. 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.

Note 15 - Accounting standards

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

| AASB Amendment | Standards Affected | Outline of Amendment | Application date of Standard | Application date for scheme |
|----------------|--|---|------------------------------|-----------------------------|
| AASB 2005-10 | 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 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 133: Earnings per Share | 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 |
| | AASB 139: Financial Instruments: Recognition and Measurement | No change , no impact | 1 Jan 07 | 1 Jul 07 |
| AASB 7 | AASB 132: Financial Instruments: Disclosure and Presentation | No affect on amounts recognised but will impact the type of information disclosed in relation to financial instruments. | 1 Jan 07 | 1 Jul 07 |

Australian Ethical World Trust

Notes to the financial statements for the period ended 30 June 2007

Note 16 - 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.

a) Key management personnel

Names and positions of key management personnel (directors and named executives) of the Responsible Entity at any time during the financial year

Parent entity directors

| Name | Position | |
|---------------------|----------------------------|--|
| George Pooley | Chairperson, non-executive | Resigned 13 October 2006 |
| Pauline Vamos | Chairperson, non-executive | Appointed as non-executive 1 July 06, and as Chairperson 13 October 2006 |
| Caroline Le Couteur | Director, executive | |
| James Thier | Director, executive | |
| Howard Pender | Director, executive | |
| Naomi Edwards | Director, non-executive | |
| Justine Hickey | Director, non-executive | Appointed 1 March 2007 |

Subsequent to year end Pauline Vamos has resigned as Chairperson and as a director of the company with effect from 31 August 2007

Other key management personnel

| Name | Position | |
|----------------|-----------------------------------|---------------------------|
| Anne O'Donnell | Chief executive officer | |
| David Ferris | Investment manager | |
| Mark Bateman | Chief financial officer | Resigned 2 February 2007 |
| Gary Leckie | Chief financial officer | Appointed 2 February 2007 |
| 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.

Remuneration policy

Directors

The aggregate amount of remuneration 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 remuneration 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, remuneration for extra services, retirement benefits and superannuation contributions.

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

Secretaries, senior managers, executive directors and group executives

The company's fundamental remuneration policy is to treat all staff (including secretaries, senior managers, executive directors and group executives) in an equitable fashion and not to have special remuneration 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.

Remuneration 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 remuneration annually and externally benchmarks remuneration levels every two years. Individual staff remuneration is then considered with reference to the benchmarks and in accordance with guidelines approved by the board. The board aims to remunerate responsibly and fairly, with reference to the market.

Australian Ethical World Trust

Notes to the financial statements for the period ended 30 June 2007

Note 16 - Key management personnel compensation - continued

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[1] to current employees which is 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) receive 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.

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[2] 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 remuneration. 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 remuneration 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 remuneration 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 remuneration policy discussed above has broadly been in place for the current and the previous five financial years.

Key Management Personnel Remuneration details for the year ended 30 June 2007

Parent entity directors' remuneration

| | Short-term employee benefits | | | Post Em- ployment benefits | Other Long-term Benefits | Termination Benefits | Share-based Payment | | Total |
|---------------------|------------------------------|---------------|-------|----------------------------------|--------------------------------|-------------------------|---------------------|---------|---------|
| 2007 | Cash Salary and Fees | Bonus Cash | Other | Super | | | Bonus Shares | Options | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| George Pooley | 19,749 | - | - | - | - | - | - | - | 19,749 |
| Caroline Le Couteur | 142,449 | 5,500 | - | 12,017 | 3,431 | - | - | 7,907 | 171,304 |
| James Thier | 143,516 | - | - | 11,804 | 2,016 | - | 3,759 | 5,928 | 167,023 |
| Howard Pender | 138,954 | 3,575 | - | 11,633 | 2,089 | - | - | 6,082 | 162,333 |
| Naomi Edwards * | 39,300 | - | - | 3,150 | - | - | - | - | 42,450 |
| Pauline Vamos | 52,223 | - | - | 4,205 | - | - | - | - | 56,428 |
| Justine Hickey * | 17,314 | - | - | 741 | - | - | - | - | 18,055 |
| Total | 553,505 | 9,075 | - | 43,550 | 7,536 | - | 3,759 | 19,917 | 637,342 |

* Naomi Edwards had a one off contract with the company to assist in establishing a product profitability model. Justine Hickey had a one off contract with the company to provide consulting service on an integrated IFSA project. The terms and conditions of these contracts are no more favourable than those that is reasonable to expect the entity would have adopted if dealing at arm's length with an unrelated individual. Naomi Edwards also received sponsorship money totalling \$2,500 in relation to a conservation and social justice event.

2006

| | | | | | | | | | |
|---------------------|---------|-------|---|--------|-------|---|-------|--------|---------|
| 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 |

Australian Ethical World Trust

Notes to the financial statements for the period ended 30 June 2007

Note 16 - Key management personnel compensation - continued

Named executives (including other key management personnel) remuneration

| | Short-term employee benefits | | | Post Em- ployment benefits Super | Other Long-term Benefits | Termination Benefits | Share-based Payment | | Total |
|----------------|------------------------------|---------------|-------|---|--------------------------------|-------------------------|---------------------|---------|---------|
| | Cash Salary and Fees | Bonus Cash | Other | | | | Bonus Shares | Options | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| 2007 | | | | | | | | | |
| Anne O'Donnell | 190,804 | 5,500 | - | 17,259 | 5,659 | - | - | 12,043 | 231,265 |
| David Ferris | 158,681 | - | - | 13,843 | 5,046 | - | 5,290 | 9,307 | 192,167 |
| Mark Bateman | 140,481 | 5,500 | - | 7,076 | - | - | - | 7,916 | 160,973 |
| Philip George | 162,880 | 5,500 | - | 14,088 | 3,503 | - | - | 9,754 | 195,725 |
| Gary Leckie | 118,374 | 5,500 | - | 10,257 | 2,849 | - | - | 5,974 | 142,954 |
| Total | 771,220 | 22,000 | - | 62,523 | 17,057 | - | 5,290 | 44,994 | 923,084 |
| 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 |

Cash bonus compensation benefits

Details of cash bonuses paid to key management personal are included in the remuneration tables set out above. The bonuses were paid on 22 September 2006. The nature of the cash bonuses and the criteria used to determine the payment of the bonuses are detailed in the remuneration policy and in the discussion on performance-based remuneration and company performance.

Options granted as remuneration – 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 |
|--------------------------------|---------------|--------------------|---------------|---|-------------------------|---------------------------|----------------------------------|
| Parent Entity Directors | | | | | | | |
| George Pooley | - | - | - | - | - | - | - |
| Caroline Le Couteur | 2,646 | 1,910 | 22/09/2006 | 4.14 | 32.50 | 22/09/2009 | 22/12/2009 |
| James Thier | 2,074 | 1,432 | 22/09/2006 | 4.14 | 32.50 | 22/09/2009 | 22/12/2009 |
| Howard Pender | 857 | 1,469 | 22/09/2006 | 4.14 | 32.50 | 22/09/2009 | 22/12/2009 |
| Naomi Edwards | - | - | - | - | - | - | - |
| Pauline Vamos | - | - | - | - | - | - | - |
| Justine Hickey | - | - | - | - | - | - | - |
| | 5,577 | 4,811 | | | | | |

Named executives (including other key management personnel)

| | | | | | | | |
|----------------|-------|--------|------------|------|-------|------------|------------|
| Anne O'Donnell | 2,802 | 2,909 | 22/09/2006 | 4.14 | 32.50 | 22/09/2009 | 22/12/2009 |
| David Ferris | 2,498 | 2,248 | 22/09/2006 | 4.14 | 32.50 | 22/09/2009 | 22/12/2009 |
| Mark Bateman | 1,962 | 1,912 | 22/09/2006 | 4.14 | 32.50 | 22/09/2009 | 22/12/2009 |
| Philip George | - | 2,356 | 22/09/2006 | 4.14 | 32.50 | 22/09/2009 | 22/12/2009 |
| Gary Leckie | 819 | 1,443 | 22/09/2006 | 4.14 | 32.50 | 22/09/2009 | 22/12/2009 |
| | 8,081 | 10,868 | | | | | |

(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 remuneration and the recipient did not otherwise pay for the grant of the options.

Australian Ethical World Trust

Notes to the financial statements for the period ended 30 June 2007

Note 16 - Key management personnel compensation - continued

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

| | Balance 01.07.06 | Share in lieu of Cash Bonus | Options Exercised/ Shares Issued (1) | Net Change Other (2) | Balance 30.06.07 (3)&(4) |
|--------------------------------|---------------------|--------------------------------------|---|----------------------------|-----------------------------|
| Parent Entity Directors | | | | | |
| George Pooley | - | - | - | - | - |
| Caroline Le Couteur | 44,277 | - | 2,646 | - | 46,923 |
| James Thier | 60,154 | 127 | 2,074 | (200) | 62,155 |
| Howard Pender | 51,178 | - | 857 | (370) | 51,665 |
| Naomi Edwards | - | - | - | - | - |
| Pauline Vamos | - | - | - | - | - |
| Justine Hickey | - | - | - | 700 | 700 |

Named executives (including other key management personnel)

| | | | | | |
|----------------|----------------|------------|---------------|----------------|----------------|
| Anne O'Donnell | 3,315 | - | 2,802 | - | 6,117 |
| David Ferris | 2,762 | 179 | 2,498 | - | 5,439 |
| Mark Bateman | 982 | - | 1,962 | (1,962) | 982 |
| Philip George | 375 | - | - | - | 375 |
| Gary Leckie | - | - | 819 | (819) | - |
| Total | 163,043 | 306 | 13,658 | (2,651) | 174,356 |

(1) The amount paid for shares issued on exercise of options is \$14.11 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 directors and named executives including their related parties as required by AASB 124 Related Party Disclosures. Relevant interests required by the Corporations Act 2001 would result in the balance changing for James Thier to 47,681, Howard Pender to 49,634 and Philip George to 250.

Options granted as remuneration – disclosures required under the Corporations Act 2001

c) Equity instrument disclosures relating to key management personnel

Option Holdings

Number of options held by key management personnel.

| | Balance 01.07.06 | Granted as Remun- eration | Options Exercised | Net Change Other | Balance 30.06.07 | Total Vested 30.06.07 | Total Exer- cisable 30.06.07 | Total Unexer- cisable 30.06.07 |
|--|---------------------|------------------------------------|----------------------|------------------------|---------------------|-----------------------------|---------------------------------------|---|
| Parent Entity Directors | | | | | | | | |
| George Pooley | - | - | - | - | - | - | - | - |
| Caroline Le Couteur | 7,402 | 1,910 | (2,646) | - | 6,666 | - | - | 6,666 |
| James Thier | 5,932 | 1,432 | (2,074) | - | 5,290 | - | - | 5,290 |
| Howard Pender | 2,649 | 1,469 | (857) | - | 3,261 | - | - | 3,261 |
| Naomi Edwards | - | - | - | - | - | - | - | - |
| Pauline Vamos | - | - | - | - | - | - | - | - |
| Justine Hickey | - | - | - | - | - | - | - | - |
| Named executives (including other key management personnel) | | | | | | | | |
| Anne O'Donnell | 8,673 | 2,909 | (2,802) | - | 8,780 | - | - | 8,780 |
| David Ferris | 7,660 | 2,248 | (2,498) | - | 7,410 | - | - | 7,410 |
| Mark Bateman | 6,066 | 1,912 | (1,962) | (6,016) | - | - | - | - |
| Philip George | 1,550 | 2,356 | - | - | 3,906 | - | - | 3,906 |
| Gary Leckie | 3,481 | 1,443 | (819) | - | 4,105 | - | - | 4,105 |
| Total | 43,413 | 15,679 | (13,658) | (6,016) | 39,418 | - | - | 39,418 |

Australian Ethical World Trust

Notes to the financial statements for the period ended 30 June 2007

Note 16 - Key management personnel compensation - continued

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

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

The remuneration of executive directors, secretaries and senior managers 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. Options granted during the financial year, when valued using a Black Scholes valuation methodology as at grant date, make up a very small proportion of the overall remuneration of people holding these positions.

Employment contracts of directors and senior executives

For each individual whose remuneration 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 | | | |
| Gary Leckie | | | |
| Philip George | | | |

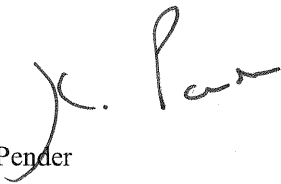
Australian Ethical World Trust

Directors' Declaration

The Directors of Australian Ethical Investment Limited (the responsible entity) declare that:

1. The financial statements of Australian Ethical World Trust and notes, as set out on pages 4 to 17 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 2007 and of the performance for the period ended on that date for the scheme.
2. In the Directors' 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 period ended 30 June 2007 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.



Howard Pender
Director
Australian Ethical Investment Limited
ABN 47 003 188 930
30 October 2007

**INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF
AUSTRALIAN ETHICAL WORLD TRUST**

We have audited the accompanying financial report of Australian Ethical World Trust ("the scheme"), which comprises the balance sheet as at 30 June 2007, and the income statement, and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the scheme.

The Directors of the Responsible Entity's Responsibility for the Financial Report

The Directors of the Responsible Entity, Australian Ethical Investment Limited are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the schemes preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness the schemes internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001

Auditors Opinion

In our opinion:

- (a) the financial report of Australian Ethical World Trust is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the scheme's financial position as at 30 June, 2007 and of the performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and
- (c) the financial report is in accordance with the provisions of the schemes constitution.



THOMAS DAVIS & CO.



R.C. GEEVES

PARTNER

Chartered Accountants

SYDNEY
30 October, 2007

Liability limited by a scheme approved under Professional Standards Legislation