

# australian**ethical**

## MANAGED INVESTMENTS

### - annual report

year ended 30 june 2008

Australian Ethical Balanced Trust

Australian Ethical International Equities Trust

Australian Ethical Equities Trust

Australian Ethical Income Trust

Australian Ethical Large Companies Share Trust

Australian Ethical World Trust

## The year in brief

The financial year of 2007–08 saw the end of a ‘goldilocks’ phase in financial markets. In the goldilocks phase it had seemed to many that large fluctuations in economic growth were a thing of the past and that benign financial conditions would continue indefinitely. Many investors responded by borrowing ever larger amounts to fund the purchase of assets for which they paid ever higher prices. These assets included promises to repay mortgage borrowings by people in the US who had little chance of doing so unless house prices rose continually. At the beginning of 2007–08 a rush to offload holdings of such assets got underway. That rush for the exits caused prices of such assets to fall. Companies that had funded their holdings of such assets with short-term borrowings found themselves unable to obtain refinancing, as borrowings became a larger fraction of the now lower value of their assets. The effects cascaded through world financial markets, as companies threatened by insolvency offloaded liquid assets to repay short-term borrowings, so causing other asset prices to fall and insolvency problems to spread. This de-leveraging process, of assets sales and credit contraction accompanied by asset price falls, was a major feature of financial markets around the world in 2007–08.

US economic growth proved remarkably resilient in the face of this de-leveraging process. The US economy is not officially in recession, although it has slowed. Growth in many other economies around the world, including Australia, has also slowed.

Another major feature of financial markets during 2007–08 was rising prices for many commodities and energy. Due to our commitment to the Charter, the trusts lacked exposure to coal, oil and uranium. Most trusts benefited from investments in companies involved in the extraction of natural gas. Australian Ethical views natural gas as a transition fuel from highly polluting coal to a future focused on renewable energy.

The Australian Ethical Trusts performed creditably in a year of poorly performing financial markets.

Market performance 2007–08	Return (%)
S&P/ASX All Industrials Index	-26.1
S&P/ASX Small Industrials Index	-36.52
MSCI World Index (AUD)	-23.6

In the year, foreign currency hedging was increased for the Equities, Large Companies and World Trusts so that approximately the full value of international equities held by these trusts is now hedged. This will be the hedging position for these Trusts for the foreseeable future. Foreign currency hedging in the Balanced Trust was reduced through 2008 and the value of international equities in this Trust will be unhedged in future.

## Australian Ethical Balanced Trust

The Australian Ethical Balanced Trust returned -10.07% for the 2007–08 year, reflecting its more conservative mixture

30 June 2008	Australian Ethical Balanced Trust		Australian Ethical Equities Trust	
<b>Performance</b>				
Total return	Trust returns	Morningstar Multisector Balanced Market Index*	Trust returns	ASX Small Industrials Index
1 year (%)	-10.1	-6.7	-13.1	-36.5
3 years (% pa)	2.9	5.5	10.7	1.7
5 years (% pa)	7.2	8.0	13.1	10.2
Since inception	7.3	7.5	10.3	7.7
	All figures expressed as compound annual returns			
<b>Earnings</b>				
Full year	Cents per unit	Return* (%)	Cents per unit	Return* (%)
Distributions	4.7	3.6	3.2	1.8
Unit value change	-17.4	-13.7	-26.9	-14.9
Net earnings result (total return)	-12.7	-10.1	-23.7	-13.1
	*assumes reinvestment of distribution			
<b>Asset allocation</b>				
<ul style="list-style-type: none"> <li>Debt equity instruments</li> <li>Units in other Australian Ethical Trusts</li> <li>Equity investments – International</li> <li>Equity investments – Australia and NZ</li> <li>Property</li> <li>Interest-bearing loans</li> <li>Interest-bearing investments</li> <li>Cash</li> </ul>	Fund size: \$231.6 million 		Fund size: \$188.9 million 	



of asset classes, including around 40% in fixed interest investments.

Long-term results for the Balanced Trust remain solid, being 7.2% per annum over five years and 7.3% since inception.

The trust retains a balance between quality domestic and international stocks, property and interest-bearing investments (including a small proportion of private loans). All investments in the portfolio are screened against the Australian Ethical Charter.

Over the year, the trust sold down most of its direct investments in international equities and replaced them with units in the Australian Ethical International Equities (wholesale) Trust that provides an efficient mechanism for the trust to access a well-diversified international equities exposure.

The best performing investments of the trust over the year included Origin Energy, which returned 62% for the year and Vestas Wind Systems, which returned 70% for the year.

## Australian Ethical Equities Trust

The Australian Ethical Equities Trust returned -13.13% for the 2007-08 year. This was a much smaller loss than could reasonably have been expected given the performance of the share market. The trust's benchmark, the S&P/ASX Small Industrials Index, for example, returned -36.5%. As a result, our Equities Trust ranks number one in its category over six months and over one year.

The Equity Trust's relatively strong performance was in large part due to its investments in companies in the production of natural gas (a low carbon transition fuel). Three such companies, Pure Energy (5.8% of the trust), Origin Energy (5.3% of the trust) and Arrow Energy (4.1% of trust) made up the three largest positions in the trust at 30 June 2008.

The best performing investments of the trust over the year were Pure Energy up 167%, Origin Energy up 62%, Arrow Energy up 31% and Hansen Technologies up 37%.

### Vestas Wind Systems AS

Danish company Vestas began wind turbine manufacturing in 1979, and is now a global, market leading producer of high technological wind power solutions. With more than 25 years experience, the company has an extensive portfolio of turbines which are suited to specific conditions and requirements.

### Pure Energy Resources Ltd

Coal seam gas now contributes to approximately 30% of Queensland's natural gas market. Natural gas is the least polluting fossil fuel and can immediately substitute for the use of coal-fired power.

## Australian Ethical Large Companies Share Trust

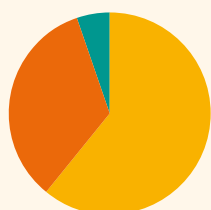
## Australian Ethical World Trust

## Australian Ethical Income Trust

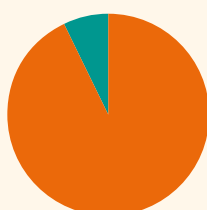
Trust returns	S&P/ASX All Industrials Index	Trust returns	MSCI World measured in AUD	Trust returns	CPI + 2%
-19.0	-26.1	na	-23.6	5.0	6.4
2.9	3.8	na	12.2	5.1	5.5
10.2	10.1	na	36.0	5.0	5.1
9.6	9.1	-17.3	-20.4	4.7	5.1
August 07 – June 08					

Cents per unit	Return* (%)	Cents per unit	Return* (%)	Cents per unit	Return* (%)
2.2	1.2	0.0	0.0	5.8	6.0
-37.1	-20.2	-17.3	-16.8	-1.0	-1.0
-34.8	-19.0	-17.3	-16.8	4.8	5.0

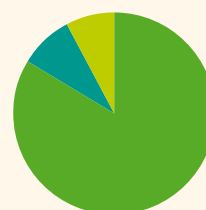
Fund size: \$122.1 million



Fund size: \$6.3 million



Fund size: \$26.8 million



## Australian Ethical Large Companies Share Trust

The Australian Ethical Large Companies Share Trust returned -18.99% for the year. This is a disappointing result for any investment. It is comparable however to the two indices that best represent the types of shares that the Trust invests in – the S&P/ASX All Industrials Index that returned -26.1% for the year and the MSCI World Index in Australian dollars that returned -23.6% for the year. 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, the exclusion of smaller companies makes this trust less volatile than the Australian Ethical Equities Trust. The overseas shares provide access to some key ethical sectors (public transport, bicycles, wind power, solar power, recycling) which are in short supply on the ASX.

The negative performance of the Large Companies Trust in 2007–08 followed four consecutive years of double-digit returns (which over the previous four years were 16%, 16%, 23.8% and 20.6%). The trust's long-term returns remain competitive with other funds and with the market as a whole.

The best-performing investments of the trust over the year were Vestas Wind Systems up 70%, Origin Energy up 62%, metal recycler, Sims Group up 57% and the public transport company Stage Coach up 53%.

### Sims Group Ltd

The Sims Group is the world's leading metals recycling company. Ancillary activities include secondary metals and plastic reprocessing, and interests in renewable energy. The company has also expanded into the recycling of electronics waste in Europe, the US and Australia, including the identification of products and components that can be reused, as well as the extraction of raw materials from the remaining waste. Metal recycling can result in significant pollution, however, and Australian Ethical continues to monitor the activities of this company.

## Australian Ethical World Trust

The Australian Ethical World Trust commenced operation on 2 August 2007, and from that date until 30 June 2008 returned -17.33% compared with the MSCI World Index (measured in Australian dollars) that returned -20.4%.

At 30 June 2008, the Wholesale International Equities Trust, in which this trust holds units, had investments in 48 overseas companies providing a well-diversified international equities exposure, along with access to key ethical sectors (public transport, bicycles, wind power, solar power, recycling), which are in short supply on the ASX.

The best-performing investments of the Wholesale International Equities Trust over the year were Vestas Wind Systems up 70%, the public transport companies Stagecoach Group up 53% and MTR Hong Kong up 32.6%.

### MTR Corporation Ltd

The Mass Transit Railway Corporation was established as a government body in 1975 to operate Hong Kong's commuter railway system. The company was privatised in 2000 as MTR Corporation Ltd, and continues to be focused on the provision of public transport. The company is also involved in the development of residential and commercial property projects associated with existing and new rail lines.

## Australian Ethical Income Trust

The Australian Ethical Income Trust in 2007–08 returned 5.0%, after recording its highest-ever return of 5.3% in the previous year. The Income Trust has now recorded nine consecutive years of stable performance. Australian Ethical continues to manage the trust to achieve returns reflecting current interest rate levels with very low volatility.

As markets were very volatile and the interest rate curve was mostly inverse over the period (meaning that short-term yields were higher than long-term yields), the duration of securities in the portfolio was deliberately kept very short. The AAA-rated mortgage-backed securities in the trust were selected to have a very short-weighted average life in line with the overall portfolio approach of having short-dated or floating rate securities. This means there is little interest rate risk in the portfolio. It is expected that the trust's yield will move broadly in line with the level of interest rates.

To protect investors from credit risk the majority of the portfolio comprised high-quality bank debt and investment grade non-bank debt. Only 14% of interest-bearing securities were non-AAA rated securities (bank and non-bank issued).

## 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](http://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 2008**

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), Australian Ethical Large Companies Share Trust (AELT) and Australian Ethical World Trust (AEWT) (the schemes) presents its directors' report together with the audited financial statements of the schemes for the year ended 30 June 2008 and the accompanying independent auditor's 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 AEWT was registered as a managed investment scheme with ASIC on 2 February 2007 with Australian Ethical Investment Limited as its responsible entity.

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 and state of affairs**

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 -10.10% for the financial year. The scheme paid distributions of 4.68 cents per unit over the year.

The value of the scheme's net assets attributable to unitholders as at 30 June 2008 was \$228,550,266.

##### **Australian Ethical International Equities Trust**

The scheme achieved a total return of -15.10% for the financial year. The scheme paid no distributions over the year.

The value of the scheme's net assets attributable to unitholders as at 30 June 2008 was \$35,107,184.

##### **Australian Ethical Equities Trust**

The scheme achieved a total return of -13.1% for the financial year. The scheme paid distributions of 3.17 cents per unit over the year.

The value of the scheme's net assets attributable to unitholders as at 30 June 2008 was \$186,945,137.

##### **Australian Ethical Income Trust**

The scheme achieved a total return of 5.0% for the financial year. The scheme paid distributions of 5.76 cents per unit over the year.

The value of the scheme's net assets attributable to unitholders as at 30 June 2008 was \$26,590,095.

### **Australian Ethical Large Companies Share Trust**

The scheme achieved a total return of -19.0% for the financial year. The scheme paid distributions of 2.22 cents per unit over the year.

The value of the scheme's net assets attributable to unitholders as at 30 June 2008 was \$122,165,574.

### **Australian Ethical World Trust**

The scheme achieved a total return of -16.8% for the financial year since inception on 2 August 2007. The scheme paid no distributions over the year.

The value of the scheme's net assets attributable to unitholders as at 30 June 2008 was \$6,531,316.

### **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 the appointment of Martin Halloran as the investment manager of the schemes on 27 August 2008 or 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.

### **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

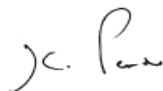
are contained in notes 2 and 3 of the attached financial statements.

### **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  
22 September 2008

**AUSTRALIAN ETHICAL BALANCED TRUST  
AUSTRALIAN ETHICAL INTERNATIONAL EQUITIES TRUST  
AUSTRALIAN ETHICAL BALANCED TRUST CONSOLIDATED  
AUSTRALIAN ETHICAL EQUITIES TRUST  
AUSTRALIAN ETHICAL INCOME TRUST  
AUSTRALIAN ETHICAL LARGE COMPANIES SHARE TRUST  
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 2008 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

22 September, 2008

Liability limited by a scheme approved under Professional Standards Legislation

Balance Sheets as at 30 June 2008

		Balanced Trust ("AEBT")	International Equities Trust ("WIET")	Balanced Trust Consolidated ("AEBTC")	Equities Trust ("AEET")	Income Trust ("AEIT")	Large Companies Share Trust ("AELT")	World Trust ("AEWT")						
	Notes	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$
<b>Assets</b>														
Cash and cash equivalents	4	6,028,098	13,211,898	1,537,377	1,695,985	7,565,475	14,907,883	14,393,893	22,522,435	1,505,838	2,534,365	3,007,434	9,594,534	95,088
Trade and other receivables	5	4,131,077	1,985,592	66,052	11,489	4,197,129	1,980,410	3,013,382	1,053,968	889,535	149,751	2,024,792	623,887	225,633
Financial assets	6	210,713,399	218,834,852	33,613,473	8,132,765	215,279,013	217,156,253	172,582,351	178,942,651	23,018,266	18,793,498	118,283,508	135,780,946	6,218,214
Loans	7	6,015,889	5,579,457	-	-	6,015,889	5,579,457	-	-	2,091,513	2,052,096	-	-	-
Investment properties	8	6,955,000	6,075,000	-	-	6,955,000	6,075,000	-	-	-	-	-	-	-
<b>Total assets</b>		<b>233,843,463</b>	<b>245,686,799</b>	<b>35,216,902</b>	<b>9,840,239</b>	<b>240,012,506</b>	<b>245,699,003</b>	<b>189,989,626</b>	<b>202,519,054</b>	<b>27,505,152</b>	<b>23,529,710</b>	<b>123,315,734</b>	<b>145,999,367</b>	<b>6,538,935</b>
<b>Liabilities</b>														
Trade and other payables	9	443,726	665,170	109,718	12,204	553,444	677,374	438,544	2,653,740	32,337	30,365	360,579	429,409	7,619
Distribution payable	10	4,849,471	15,150,656	-	16,671	4,849,471	15,150,656	2,605,945	27,561,797	882,720	591,018	789,581	15,387,015	-
<b>Total liabilities excluding net assets attributable to unitholders</b>		<b>5,293,197</b>	<b>15,815,826</b>	<b>109,718</b>	<b>28,875</b>	<b>5,402,915</b>	<b>15,828,030</b>	<b>3,044,489</b>	<b>30,215,537</b>	<b>915,057</b>	<b>621,383</b>	<b>1,150,160</b>	<b>15,816,424</b>	<b>7,619</b>
<b>Net assets attributable to unitholders (before minority interests)</b>	3	<b>228,550,266</b>	<b>229,870,973</b>	<b>35,107,184</b>	<b>9,811,364</b>	<b>234,609,591</b>	<b>229,870,973</b>	<b>186,945,137</b>	<b>172,303,517</b>	<b>26,590,095</b>	<b>22,908,327</b>	<b>122,165,574</b>	<b>130,182,943</b>	<b>6,531,316</b>
<b>Minority interests</b>		-	-	-	-	6,059,325	-	-	-	-	-	-	-	-
<b>Net assets attributable to unitholders</b>						<b>228,550,266</b>								
<b>Total liabilities</b>		<b>233,843,463</b>	<b>245,686,799</b>	<b>35,216,902</b>	<b>9,840,239</b>	<b>240,012,506</b>	<b>245,699,003</b>	<b>189,989,626</b>	<b>202,519,054</b>	<b>27,505,152</b>	<b>23,529,710</b>	<b>123,315,734</b>	<b>145,999,367</b>	<b>6,538,935</b>

The accompanying notes form part of these financial statements.



Income Statements for the year ended 30 June 2008

	Balanced Trust ("AEBT")	International Equities Trust ("WIET")	Balanced Trust Consolidated ("AEBTC")	Equities Trust ("AEET")	Income Trust ("AEIT")	Large Companies Share Trust ("AELT")	World Trust ("AEWT")*
Notes	2008	2007	2008	2007	2008	2007	2008
	\$	\$	\$	\$	\$	\$	\$
<b>Investment income</b>							
Currency option revenue	820,834	199,360	-	-	820,834	199,360	1,273,593
Distributions	4,328,747	2,924,776	-	-	4,328,747	2,908,105	2,704,265
Dividends domestic	1,500,408	1,404,741	-	-	1,500,408	1,404,741	2,574,319
Dividends overseas	252,223	547,923	425,556	2,999	677,779	550,922	502,383
Interest	7,803,429	6,235,590	140,985	8,679	7,944,414	6,244,269	1,039,400
Other income	18	26,458	-	-	18	26,458	23,165
Rent	567,277	438,891	-	-	567,277	438,891	-
Profit (loss) on foreign exchange	(1,565,949)	(126,978)	(576,321)	16,365	(2,142,270)	(110,613)	(1,490,381)
Profit (loss) on sale of investments	(7,288,311)	8,335,161	(1,743,325)	-	(9,031,636)	8,335,161	(15,294,629)
Unrealised increment (decrement) on fluctuation in value of investments	(27,540,864)	6,786,305	(3,131,154)	(188,636)	(26,271,687)	6,786,305	(15,656,808)
	(21,122,188)	26,772,227	(4,884,259)	(160,593)	(21,606,116)	26,783,599	(24,324,693)
<b>Less expenditure</b>							
Accounting fees	159,875	112,336	57,515	-	217,390	112,336	126,075
Auditors' remuneration	38,532	35,102	10,728	-	49,260	35,102	30,827
Currency option amortisation	294,496	258,037	-	-	294,496	258,037	665,830
Legal fees	743	4,222	-	-	743	4,222	-
Investment properties - general	58,400	41,549	-	-	58,400	41,549	-
Investment properties - rates & taxes	25,929	200,037	-	-	25,929	200,037	-
Printing & other costs	41,464	50,866	117,355	-	158,819	50,866	70,407
Reimbursable expenses	55,374	54,974	386	14	55,760	54,988	59,050
Responsible entity fees	4,187,618	4,079,615	362,184	11,358	4,549,802	4,090,973	3,702,497
	4,862,431	4,836,738	548,168	11,372	5,410,599	4,848,110	4,654,686
<b>Profit (loss) from operating activities</b>	(25,984,619)	21,935,489	(5,432,427)	(171,965)	(27,016,715)	21,935,489	(28,979,379)
Finance costs - distributions to unitholders	(9,474,158)	(18,392,930)	-	(16,671)	(9,474,158)	(18,392,930)	(3,931,674)
<b>Change in net assets attributable to unitholders (before minority interests)</b>	(35,458,777)	3,542,559	(5,432,427)	(188,636)	(36,490,873)	3,542,559	(32,911,053)
<b>Minority interests</b>	-	-	-	-	(1,032,096)	-	-
<b>Change in net assets attributable to unitholders</b>	(35,458,777)	3,542,559	(5,432,427)	(188,636)	(35,458,777)	3,542,559	(32,911,053)

\* Period from 3 August 2007 to 30 June 2008

The accompanying notes form part of these financial statements.

Cash Flow Statements for the year ended 30 June 2008

	Balanced Trust ("AEBT")	International Equities Trust ("WIET")	Balanced Trust Consolidated ("AEBTC")	Equities Trust ("AEET")	Income Trust ("AEIT")	Large Companies Share Trust ("AELT")	World Trust ("AEWT")*							
Notes	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007		
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$		
<b>Cash flows from operating activities</b>														
Interest received	7,496,283	6,010,771	137,692	-	7,633,975	6,010,771	1,031,368	560,308	1,765,951	1,407,562	525,268	372,367	11,721	-
Dividends received	1,825,737	1,938,973	421,804	1,536	2,247,541	1,940,509	3,085,735	4,656,285	-	-	2,806,054	2,271,481	-	-
Distributions received	3,565,350	2,851,495	-	-	3,565,350	2,851,495	2,181,480	1,847,370	-	39,054	1,120,198	1,084,667	-	-
Other income received	1,543,341	671,261	-	26,063	1,543,341	697,324	1,295,689	432,803	45,105	-	1,697,233	254,680	21,090	-
Expenses	(6,542,669)	(4,660,369)	(1,065,889)	(10,213)	(7,608,558)	(4,670,582)	(5,720,036)	(3,965,844)	(378,325)	(343,455)	(4,694,215)	(2,724,016)	(63,998)	-
Net cash provided by (used in) operating activities	7,888,042	6,812,131	(506,393)	17,386	7,381,649	6,829,517	1,874,236	3,530,922	1,432,731	1,103,161	1,454,538	1,259,179	(31,187)	-
<b>Cash flows from investing activities</b>														
Proceeds from sale of investments	184,423,077	154,846,108	38,642,017	-	223,065,094	154,846,108	246,334,843	238,741,076	7,585,620	8,926,333	184,888,842	148,092,602	-	-
Customer loans repaid	988,935	1,102,218	-	-	988,935	1,102,218	-	50,000	72,765	153,028	-	-	-	-
Customer loans granted	(1,094,999)	(1,910,324)	-	-	(1,094,999)	(1,910,324)	-	-	(116,760)	(111,720)	-	-	-	-
Payment for investments	(212,635,263)	(180,159,404)	(69,005,807)	(8,321,401)	(258,004,244)	(178,480,805)	(273,591,811)	(235,081,754)	(12,120,281)	(11,220,463)	(198,359,035)	(165,313,845)	(7,285,355)	-
Net cash provided by (used in) investing activities	(28,318,250)	(26,121,402)	(30,363,790)	(8,321,401)	(35,045,214)	(24,442,803)	(27,256,968)	3,709,322	(4,578,656)	(2,252,822)	(13,470,193)	(17,221,243)	(7,285,355)	-
<b>Cash flows from financing activities</b>														
Proceeds from issue of units	31,686,006	47,850,087	30,711,575	10,000,000	38,760,755	47,850,087	31,311,708	22,355,427	4,125,995	3,113,314	19,437,606	36,242,257	7,846,672	-
Payment of redemption of units	(14,762,124)	(17,387,333)	-	-	(14,762,124)	(17,387,333)	(8,917,728)	(11,543,910)	(1,564,208)	(1,144,976)	(10,955,031)	(11,225,281)	(435,042)	-
Distributions paid	(3,677,474)	(4,161,738)	-	-	(3,677,474)	(4,161,738)	(5,139,790)	(2,451,073)	(444,389)	(397,848)	(3,054,020)	(3,257,565)	-	-
Net cash provided by (used in) financing activities	13,246,408	26,301,016	30,711,575	10,000,000	20,321,157	26,301,016	17,254,190	8,360,444	2,117,398	1,570,490	5,428,555	21,759,411	7,411,630	-
Net increase (decrease) in cash held	(7,183,800)	6,991,745	(158,608)	1,695,985	(7,342,408)	8,687,730	(8,128,542)	15,600,688	(1,028,527)	420,829	(6,587,100)	5,797,347	95,088	-
Cash at 1 July 2007	13,211,898	6,220,153	1,695,985	-	14,907,883	6,220,153	22,522,435	6,921,747	2,534,365	2,113,536	9,594,534	3,797,187	-	-
Cash at 30 June 2008	6,028,098	13,211,898	1,537,377	1,695,985	7,565,475	14,907,883	14,393,893	22,522,435	1,505,838	2,534,365	3,007,434	9,594,534	95,088	-

\* Period from 3 August 2007 to 30 June 2008

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.

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, AELT and AEWT 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 contribution 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 Trust's 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 schemes 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, AELT and AEWT 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 2008

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")		World Trust ("AEWT")	
	2008 Units	2007 Units	2008 Units	2007 Units	2008 Units	2007 Units	2008 Units	2007 Units	2008 Units	2007 Units	2008 Units	2007 Units	2008 Units	2007 Units
On issue at beginning of year	178,923,186	144,542,041	10,093,206	-	178,923,186	144,542,041	97,888,497	84,435,170	23,743,234	21,134,806	71,388,362	52,831,860	-	-
Issued	39,021,855	47,637,050	32,503,984	10,093,206	46,373,917	47,637,050	33,715,842	20,251,091	5,819,309	3,831,521	19,348,460	24,428,385	8,506,492	-
Redeemed	(12,162,280)	(13,255,905)	-	-	(12,162,280)	(13,255,905)	(5,635,751)	(6,797,764)	(1,730,402)	(1,223,093)	(6,728,247)	(5,871,883)	(605,625)	-
On issue at year end	205,782,761	178,923,186	42,597,190	10,093,206	213,134,823	178,923,186	125,968,588	97,888,497	27,832,141	23,743,234	84,008,575	71,388,362	7,900,867	-

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")		World Trust ("AEWT")	
	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$
Opening Balance	229,870,973	181,579,299	9,811,364	-	229,870,973	181,579,299	172,303,517	126,750,399	22,908,327	20,352,730	130,182,943	93,422,490	-	-
Issued	49,040,235	62,390,693	30,728,247	10,000,000	56,131,656	62,390,693	56,667,929	33,813,953	5,672,909	3,744,095	33,898,817	46,327,308	8,187,986	-
Redeemed	(14,902,165)	(17,641,578)	-	-	(14,902,165)	(17,641,578)	(9,115,256)	(11,841,075)	(1,681,245)	(1,194,464)	(11,253,190)	(11,388,153)	(562,937)	-
Change in net assets attributable to unitholders	(35,458,777)	3,542,559	(5,432,427)	(188,636)	(36,490,873)	3,542,559	(32,911,053)	23,580,240	(309,896)	5,966	(30,662,996)	1,821,298	(1,093,733)	-
Total net assets attributable to unitholders	228,550,266	229,870,973	35,107,184	9,811,364	234,609,591	229,870,973	186,945,137	172,303,517	26,590,095	22,908,327	122,165,574	130,182,943	6,531,316	-

Notes to the financial statements for the year ended 30 June 2008

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")		World Trust ("AEWT")	
	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$
Cash at bank	6,028,098	13,211,898	1,537,377	1,695,985	7,565,475	14,907,883	14,393,893	22,522,435	1,505,838	2,534,365	3,007,434	9,594,534	95,088	-
	6,028,098	13,211,898	1,537,377	1,695,985	7,565,475	14,907,883	14,393,893	22,522,435	1,505,838	2,534,365	3,007,434	9,594,534	95,088	-

Cash at bank earns interest at floating rates 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")		World Trust ("AEWT")	
Cash at Bank	6,028,098	13,211,898	1,537,377	1,695,985	7,565,475	14,907,883	14,393,893	22,522,435	1,505,838	2,534,365	3,007,434	9,594,534	95,088	-
	6,028,098	13,211,898	1,537,377	1,695,985	7,565,475	14,907,883	14,393,893	22,522,435	1,505,838	2,534,365	3,007,434	9,594,534	95,088	-

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")		World Trust ("AEWT")	
Dividend receivable	3,712	76,820	5,216	1,463	8,928	78,283	32,405	41,439	-	-	116,210	94,470	-	-
Interest receivable	931,742	624,595	11,973	8,679	943,715	633,274	79,614	71,580	251,005	141,958	21,333	22,502	651	-
Rent and other income receivable	1,066	5,242	-	-	1,066	5,242	-	-	-	-	-	-	-	-
Distributions receivable	1,505,021	741,624	-	-	1,505,021	724,953	1,227,146	704,361	-	-	755,531	287,358	-	-
Debtors	1,689,536	537,311	48,863	1,347	1,738,399	538,658	1,674,217	236,588	638,530	7,793	1,131,718	219,557	224,982	-
	4,131,077	1,985,592	66,052	11,489	4,197,129	1,980,410	3,013,382	1,053,968	889,535	149,751	2,024,792	623,887	225,633	-

Notes to the financial statements for the year ended 30 June 2008

Note 6 - Financial assets at fair value through profit or loss

	Balanced Trust ("AEBT")		International Equities Trust ("WIET")		Balanced Trust Consolidated ("AEBTC")		Equities Trust ("AEET")		Income Trust ("AEIT")		Large Companies Share Trust ("AELT")		World Trust ("AEWT")	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Equities</b>														
Australian listed	37,657,993	41,033,291	-	-	37,657,993	41,033,291	91,196,182	98,858,233	-	-	60,402,869	70,986,113	-	-
International listed	5,384,561	29,555,204	33,613,473	8,132,765	38,998,034	37,687,969	50,451,181	46,641,786	-	-	41,895,112	44,304,402	-	-
Unlisted	253,413	469,043	-	-	253,413	469,043	595,194	833,068	-	-	-	-	-	-
	<b>43,295,967</b>	<b>71,057,538</b>	<b>33,613,473</b>	<b>8,132,765</b>	<b>76,909,440</b>	<b>79,190,303</b>	<b>142,242,557</b>	<b>146,333,087</b>	<b>-</b>	<b>-</b>	<b>102,297,981</b>	<b>115,290,515</b>	<b>-</b>	<b>-</b>
<b>Unit Trusts</b>														
Listed	8,751,963	11,288,150	-	-	8,751,963	11,288,150	-	-	-	-	2,924,747	2,779,449	-	-
Unlisted	46,276,346	18,032,552	-	-	17,228,487	8,221,188	-	-	-	-	-	-	6,071,333	-
	<b>55,028,309</b>	<b>29,320,702</b>	<b>-</b>	<b>-</b>	<b>25,980,450</b>	<b>19,509,338</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,924,747</b>	<b>2,779,449</b>	<b>6,071,333</b>	<b>-</b>
<b>Stapled Securities</b>														
Listed	22,656,139	23,278,069	-	-	22,656,139	23,278,069	27,351,242	30,687,929	476,661	546,948	11,535,612	16,876,093	-	-
Unlisted	-	-	-	-	-	-	1,389,348	850,000	-	-	-	-	-	-
	<b>22,656,139</b>	<b>23,278,069</b>	<b>-</b>	<b>-</b>	<b>22,656,139</b>	<b>23,278,069</b>	<b>28,740,590</b>	<b>31,537,929</b>	<b>476,661</b>	<b>546,948</b>	<b>11,535,612</b>	<b>16,876,093</b>	<b>-</b>	<b>-</b>
<b>Derivatives</b>														
Currency options	257,375	728,817	-	-	257,375	728,817	1,329,682	850,225	-	-	1,525,168	834,889	146,881	-
	<b>257,375</b>	<b>728,817</b>	<b>-</b>	<b>-</b>	<b>257,375</b>	<b>728,817</b>	<b>1,329,682</b>	<b>850,225</b>	<b>-</b>	<b>-</b>	<b>1,525,168</b>	<b>834,889</b>	<b>146,881</b>	<b>-</b>
<b>Interest Bearing Securities</b>														
Notes/debt instruments secured	13,700,102	27,726,101	-	-	13,700,102	27,726,101	-	-	9,072,694	7,655,643	-	-	-	-
Notes/debt instruments unsecured	74,685,507	65,633,625	-	-	74,685,507	65,633,625	269,522	221,410	13,258,911	10,380,907	-	-	-	-
Deposits	1,090,000	1,090,000	-	-	1,090,000	1,090,000	-	-	210,000	210,000	-	-	-	-
	<b>89,475,609</b>	<b>94,449,726</b>	<b>-</b>	<b>-</b>	<b>89,475,609</b>	<b>94,449,726</b>	<b>269,522</b>	<b>221,410</b>	<b>22,541,605</b>	<b>18,246,550</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>210,713,399</b>	<b>218,834,852</b>	<b>33,613,473</b>	<b>8,132,765</b>	<b>215,279,013</b>	<b>217,156,253</b>	<b>172,582,351</b>	<b>178,942,651</b>	<b>23,018,266</b>	<b>18,793,498</b>	<b>118,283,508</b>	<b>135,780,946</b>	<b>6,218,214</b>	<b>-</b>



Notes to the financial statements for the year ended 30 June 2008

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")		World Trust ("AEWT")	
	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$
Secured	6,015,889	5,579,457	-	-	6,015,889	5,579,457	-	-	2,091,513	2,052,096	-	-	-	-
Unsecured	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>6,015,889</b>	<b>5,579,457</b>	<b>-</b>	<b>-</b>	<b>6,015,889</b>	<b>5,579,457</b>	<b>-</b>	<b>-</b>	<b>2,091,513</b>	<b>2,052,096</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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")		World Trust ("AEWT")	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Residential	205,000	205,000	-	-	205,000	205,000	-	-	-	-	-	-	-	-
Commercial	6,750,000	5,870,000	-	-	6,750,000	5,870,000	-	-	-	-	-	-	-	-
Total investment properties	<b>6,955,000</b>	<b>6,075,000</b>	<b>-</b>	<b>-</b>	<b>6,955,000</b>	<b>6,075,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>At Fair Value</b>														
Opening balance at 1 July	6,075,000	2,817,091	-	-	6,075,000	2,817,091	-	-	-	-	-	-	-	-
Acquisitions	-	2,970,000	-	-	-	2,970,000	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net gain (loss) from fair value adjustment	880,000	287,909	-	-	880,000	287,909	-	-	-	-	-	-	-	-
Closing balance at 30 June	<b>6,955,000</b>	<b>6,075,000</b>	<b>-</b>	<b>-</b>	<b>6,955,000</b>	<b>6,075,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Notes to the financial statements for the year ended 30 June 2008

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")		World Trust ("AEWT")	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Rental income	567,277	438,891	-	-	567,277	438,891	-	-	-	-	-	-	-	-
Direct operating expenses from property that generate rental income	(82,862)	(240,721)	-	-	(82,862)	(240,721)	-	-	-	-	-	-	-	-
Direct operating expenses from property that did not generate rental income	(1,467)	(865)	-	-	(1,467)	(865)	-	-	-	-	-	-	-	-
	<b>482,948</b>	197,305	-	-	<b>482,948</b>	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")		World Trust ("AEWT")	
Within one year	315,909	304,344	-	-	315,909	304,344	-	-	-	-	-	-	-	-
Later than one year but not later than 5 years	431,483	723,578	-	-	431,483	723,578	-	-	-	-	-	-	-	-
Later than 5 years	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>747,392</b>	1,027,922	-	-	<b>747,392</b>	1,027,922	-	-	-	-	-	-	-	-

Notes to the financial statements for the year ended 30 June 2008

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")		World Trust ("AEWT")	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Trade payables and sundry creditors	391,406	456,152	109,718	12,204	501,124	468,356	384,115	379,063	32,337	30,365	250,112	279,665	7,619	-
Accrued redemptions	52,320	209,018	-	-	52,320	209,018	54,429	274,677	-	-	110,467	149,744	-	-
Investment purchases	-	-	-	-	-	-	-	2,000,000	-	-	-	-	-	-
	<b>443,726</b>	665,170	<b>109,718</b>	12,204	<b>553,444</b>	677,374	<b>438,544</b>	2,653,740	<b>32,337</b>	30,365	<b>360,579</b>	429,409	<b>7,619</b>	-

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")		World Trust ("AEWT")	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Net amount available for distribution	9,474,158	18,392,930	-	16,671	9,474,158	18,392,930	3,931,674	28,464,763	1,557,169	1,121,569	1,854,102	16,183,109	-	-
Distributed														
half-year ended 31 December 2007	4,624,687	3,242,274	-	-	4,624,687	3,242,274	1,325,729	902,966	674,449	530,551	1,064,521	796,094	-	-
half-year ended 30 June 2008	4,849,471	15,150,656	-	16,671	4,849,471	15,150,656	2,605,945	27,561,797	882,720	591,018	789,581	15,387,015	-	-
	<b>9,474,158</b>	18,392,930	-	16,671	<b>9,474,158</b>	18,392,930	<b>3,931,674</b>	28,464,763	<b>1,557,169</b>	1,121,569	<b>1,854,102</b>	16,183,109	-	-

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")		World Trust ("AEWT")	
Amounts received or due and receivable by the Auditors of the Trust for:														
Auditing the financial report	31,000	28,200	8,000	-	39,000	28,200	22,800	20,200	9,400	8,500	14,500	13,200	2,000	-
Tax and other accounting advice	7,532	6,902	2,728	-	10,260	6,902	8,027	7,154	3,353	3,081	5,685	5,218	750	-
	<b>38,532</b>	35,102	<b>10,728</b>	-	<b>49,260</b>	35,102	<b>30,827</b>	27,354	<b>12,753</b>	11,581	<b>20,185</b>	18,418	<b>2,750</b>	-

Notes to the financial statements for the year ended 30 June 2008

**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")		World Trust ("AEWT")	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Net operating profit (loss) for the year from ordinary activities	(25,984,619)	21,935,489	(5,432,427)	(171,965)	(27,016,715)	21,935,489	(28,979,379)	52,045,003	1,247,273	1,127,535	(28,808,894)	18,004,407	(1,093,733)	-
(Increase) Decrease in accrued income	(993,260)	(300,534)	(7,046)	(10,142)	(1,000,306)	(294,005)	(521,785)	(387,549)	(109,047)	(21,196)	(488,743)	(79,417)	(651)	-
Unrealised (increment) decrement on fluctuation in value of investments	27,540,864	(6,786,305)	3,131,154	188,636	26,271,687	(6,786,305)	15,656,808	(26,422,045)	309,895	(5,965)	13,626,837	(5,219,252)	973,260	-
Increase (Decrease) in accrued charges & creditors	(65,952)	85,928	97,514	12,204	31,562	98,132	(6,902)	113,448	3,669	3,434	(32,933)	77,925	5,821	-
(Increase) Decrease in debtors	(191,798)	(45,323)	(38,913)	(1,347)	(230,711)	(46,670)	(234,965)	(36,832)	(19,059)	(647)	(182,532)	(33,388)	(9,766)	-
(Profit) Loss on sale of investments	7,288,311	(8,335,161)	1,743,325	-	9,031,636	(8,335,161)	15,294,629	(22,048,083)	-	-	16,548,178	(11,747,027)	-	-
Currency option amortisation	294,496	258,037	-	-	294,496	258,037	665,830	266,980	-	-	792,625	255,931	93,882	-
Net cash provided by (used in) operating activities	7,888,042	6,812,131	(506,393)	17,386	7,381,649	6,829,517	1,874,236	3,530,922	1,432,731	1,103,161	1,454,538	1,259,179	(31,187)	-

**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 2008 financial year the schemes invested in international listed securities at market value as at 30 June 2008 (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")		World Trust ("AEWT")	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
International Listed	5,384,561	29,555,204	33,613,473	8,132,765	38,998,034	37,687,969	50,451,181	46,641,786	-	-	41,895,112	44,304,402	-	-
Dividends earned by the schemes during the year from these investments.	252,223	547,923	425,556	2,999	677,779	550,922	502,383	687,291	-	-	792,799	589,154	-	-



Notes to the financial statements for the year ended 30 June 2008

**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 Equities Trust (AEET), 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 Consolidated ("AEBTC")		Equities Trust ("AEET")		Income Trust ("AEIT")		Large Companies Share Trust ("AELT")		World Trust ("AEWT")	
	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$
Management Fees	4,187,618	4,079,615	362,184	11,358	4,549,802	4,090,973	3,702,497	3,138,921	287,897	248,394	2,642,987	2,367,291	27,731	-
Accounting Fees	159,875	112,336	57,515	-	217,390	112,336	126,075	89,876	50,301	40,455	79,587	62,927	22,115	-
Reimbursable Expenses	55,374	54,974	386	14	55,760	54,988	59,050	52,307	4,835	4,179	47,179	45,014	5,578	-
	<b>4,402,867</b>	4,246,925	<b>420,085</b>	11,372	<b>4,822,952</b>	4,258,297	<b>3,887,622</b>	3,281,104	<b>343,033</b>	293,028	<b>2,769,753</b>	2,475,232	<b>55,424</b>	-

The amounts due and payable at 30 June 2008 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")		World Trust ("AEWT")	
Management Fees, Accounting Fees and Reimbursable Expenses	358,279	412,430	47,633	12,204	405,912	424,634	338,036	354,366	31,754	27,400	217,771	258,332	5,821	-

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

AEIL purchase of units	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution payments to AEIL	7,311	6,237	-	-	7,311	6,237	-	-	-	-	-	-	-	-
AEIL Sale of Securities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Value of units held by AEIL	349,891	404,626	-	-	349,891	404,626	-	-	-	-	-	-	-	-
Distribution receivable by AEIL	7,400	26,591	-	-	7,400	26,591	-	-	-	-	-	-	-	-

Notes to the financial statements for the year ended 30 June 2008

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")		World Trust ("AEWT")	
	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$
Distributions from AEET	41,877	-	-	-	-	-	-	-	-	-	-	-	-	-
Distributions from AEIT	168,670	318,025	-	-	-	-	-	-	-	-	-	-	-	-
Distributions from WIET	-	16,149	-	-	-	-	-	-	-	-	-	-	-	-
Units sold in AEIT	300,000	-	-	-	-	-	-	-	-	-	-	-	-	-
Units purchased in AEET	7,725,155	-	-	-	-	-	-	-	-	-	-	-	-	-
Units purchased in WIET	23,620,155	10,000,000	-	-	-	-	-	-	-	-	-	-	7,091,421	-
Value of units held in AEET	6,981,285	-	-	-	-	-	-	-	-	-	-	-	-	-
Value of units held in AEIT	6,129,706	6,293,104	-	-	-	-	-	-	-	-	-	-	-	-
Value of units held in WIET	29,105,426	9,821,698	-	-	-	-	-	-	-	-	-	-	6,071,333	-
Distribution receivable from AEET	94,661	-	-	-	-	-	-	-	-	-	-	-	-	-
Distribution receivable from AEIT	196,929	162,348	-	-	-	-	-	-	-	-	-	-	-	-
Distribution receivable from WIET	-	16,149	-	-	-	-	-	-	-	-	-	-	-	-

## Notes to the financial statements for the year ended 30 June 2008

### Note 15 - Financial instruments

#### a) Financial Risk Management Policies

Each Investment Trusts' 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 include loans and investment properties and AEIT's financial instruments include loans.

The responsible entity has an Investment Committee and a Compliance and Risk Committee. These are board committees which are responsible under their Charters for the oversight of various policies and procedures to manage financial risks.

#### i) Treasury Risk Management

The activities of the Investment Trusts expose them to a variety of financial risks: liquidity risk, credit risk and market risk (which includes interest rate risk and foreign currency risk, and represents the risk that a financial instrument's value will fluctuate as a result of changes in the market.)

The Investment Committee's Charter requires it to oversight the processes which govern the investment of monies of the Investment Trusts for which Australian Ethical Investment Limited is the responsible entity. The Investment Committee bears primary responsibility for the oversight of processes for the management of the above financial risks. It meets on a regular basis to analyse financial risk exposure and to evaluate management strategies in the context of the most recent economic conditions and forecasts. The Investment Committee monitors and is responsible for maintaining the primary risk management tool for financial risks – a documented set of Trust Investment Parameters. The activities of the Investment Committee aim to minimise the potential adverse affects on Investment Trust performance of the unpredictability of financial markets, while maintaining the individual qualities of each Investment Trust as defined in the Trust Investment Parameters.

#### ii) Financial Exposures and Management

The most significant risks the Investment Trusts are exposed to through their financial instruments are interest rate risk, foreign currency and credit risk. The Investment Trusts also have an exposure to liquidity risk.

##### Interest rate risk

None of the Investment Trusts borrow money from counter-parties. The exposure the Investment Trusts have to interest rate changes is investing in interest rate sensitive financial assets such as loans, notes and mortgage backed securities, with other parties. The returns from these investments are exposed to variation in prevailing interest rates and are dependant upon the prevailing interest rate offered and other market conditions.

Interest rate risk represents the risk that the Investment Trusts' financial performance will be adversely affected by fluctuations in interest rates.

##### Foreign currency risk

Foreign currency risk arises when recognised assets and liabilities and future commercial transactions are denominated in a currency that is not the entity's functional currency. Each Investment Trust (other than the Australian Ethical Income Trust) invests internationally and is exposed to foreign currency risk arising from exposure to a variety of different currencies.

The responsible entity uses derivative financial instruments, such as foreign currency options, to hedge the foreign currency risk exposures. The foreign currency exposure of the Investment Trusts are reviewed regularly and updated as required. The use of derivative financial instruments is subject to policies and parameters set out in the responsible entities' Derivatives Risk Statement and Trust Investment Parameters. The Investment Committee is responsible for monitoring adherence to the Derivatives Risk Statement and the Trust Investment Parameters.

##### Liquidity risk

Liquidity risk is the risk that the Investment Trusts will encounter difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments. To control liquidity risk, the Investment Trusts invest a significant portion of their funds in financial instruments which under normal market conditions are readily convertible into cash. The Investment Trusts operate within established limits to ensure there is no concentration of risk. The responsible entity maintains liquidity guidelines. The Investment Committee and the Compliance and Risk Committee monitor liquidity and the implementation of the guidelines.

All payables of the Investment Trusts are classed as normal operating obligations and are to be paid within six months of balance date.

##### Credit risk

Credit risk represents the risk that a counterparty will fail to perform contractual obligations under a contract. Each Trusts' 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. The Trust Investment Parameters established by the responsible entity ensures credit risk is managed within accepted pre-determined guidelines. The Investment Committee meets regularly to review and if necessary, recommend modifications to the Trust Investment Parameters.

The Investment Trusts do not have any material credit risk exposure to a single receivable or group receivables under financial instruments entered into by the Trusts.

Notes to the financial statements for the year ended 30 June 2008

Note 15 - Financial instruments - continued

b) Financial Instrument Composition and Maturity Analysis

The table below reflects the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. 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 Investment Trusts' exposure to that interest rate risk is as follows:

AEBT	Fixed Interest Rate Maturing													
	Weighted average interest rate		Floating interest rate		Fixed interest rate within 1 year		Fixed interest rate 1 to 5 years		Fixed interest rate over 5 years		Non-interest bearing		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	%	%	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	7	6	6,028,098	13,211,898	-	-	-	-	-	-	-	-	6,028,098	13,211,898
Trade and other receivables			-	-	-	-	-	-	-	-	4,131,077	1,985,592	4,131,077	1,985,592
Financial assets	9	7	67,272,819	87,739,207	22,202,790	5,720,420	-	990,100	-	-	121,237,790	124,385,126	210,713,399	218,834,852
Loans	10	9	400,000	200,000	-	-	3,919,270	4,187,181	-	-	1,696,619	1,192,276	6,015,889	5,579,457
Investment properties			-	-	-	-	-	-	-	-	6,955,000	6,075,000	6,955,000	6,075,000
<b>Total financial assets</b>			<b>73,700,917</b>	<b>101,151,105</b>	<b>22,202,790</b>	<b>5,720,420</b>	<b>3,919,270</b>	<b>5,177,281</b>	<b>-</b>	<b>-</b>	<b>134,020,486</b>	<b>133,637,994</b>	<b>233,843,463</b>	<b>245,686,799</b>
Trade and other payables			-	-	-	-	-	-	-	-	443,726	665,170	443,726	665,170
Distribution payable			-	-	-	-	-	-	-	-	4,849,471	15,150,656	4,849,471	15,150,656
<b>Total financial liabilities</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,293,197</b>	<b>15,815,826</b>	<b>5,293,197</b>	<b>15,815,826</b>

WIET	Fixed Interest Rate Maturing													
	Weighted average interest rate		Floating interest rate		Fixed interest rate within 1 year		Fixed interest rate 1 to 5 years		Fixed interest rate over 5 years		Non-interest bearing		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	%	%	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	7	6	1,537,377	1,695,985	-	-	-	-	-	-	-	-	1,537,377	1,695,985
Trade and other receivables			-	-	-	-	-	-	-	-	66,052	11,489	66,052	11,489
Financial assets	-	-	-	-	-	-	-	-	-	-	33,613,473	8,132,765	33,613,473	8,132,765
Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investment properties			-	-	-	-	-	-	-	-	-	-	-	-
<b>Total financial assets</b>			<b>1,537,377</b>	<b>1,695,985</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,679,525</b>	<b>8,144,254</b>	<b>35,216,902</b>	<b>9,840,239</b>
Trade and other payables			-	-	-	-	-	-	-	-	109,718	12,204	109,718	12,204
Distribution payable			-	-	-	-	-	-	-	-	-	16,671	-	16,671
<b>Total financial liabilities</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>109,718</b>	<b>28,875</b>	<b>109,718</b>	<b>28,875</b>

Notes to the financial statements for the year ended 30 June 2008

Note 15 - Financial instruments - continued

AEET	Fixed Interest Rate Maturing													
	Weighted average interest rate		Floating interest rate		Fixed interest rate within 1 year		Fixed interest rate 1 to 5 years		Fixed interest rate over 5 years		Non-interest bearing		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	%	%	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	7	6	14,393,893	22,522,435	-	-	-	-	-	-	-	-	14,393,893	22,522,435
Trade and other receivables			-	-	-	-	-	-	-	-	3,013,382	1,053,968	3,013,382	1,053,968
Financial assets			-	-	-	-	-	-	-	-	172,582,351	178,942,651	172,582,351	178,942,651
Loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total financial assets</b>			<b>14,393,893</b>	<b>22,522,435</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>175,595,733</b>	<b>179,996,619</b>	<b>189,989,626</b>	<b>202,519,054</b>
Trade and other payables			-	-	-	-	-	-	-	-	438,544	2,653,740	438,544	2,653,740
Distribution payable			-	-	-	-	-	-	-	-	2,605,945	27,561,797	2,605,945	27,561,797
<b>Total financial liabilities</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,044,489</b>	<b>30,215,537</b>	<b>3,044,489</b>	<b>30,215,537</b>

AEIT	Fixed Interest Rate Maturing													
	Weighted average interest rate		Floating interest rate		Fixed interest rate within 1 year		Fixed interest rate 1 to 5 years		Fixed interest rate over 5 years		Non-interest bearing		Total	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	%	%	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	7	6	1,505,838	2,534,365	-	-	-	-	-	-	-	-	1,505,838	2,534,365
Trade and other receivables			-	-	-	-	-	-	-	-	889,535	149,751	889,535	149,751
Financial assets	8	7	15,563,549	14,857,052	6,978,056	3,389,498	-	-	-	-	476,661	546,948	23,018,266	18,793,498
Loans	11	9	-	-	-	-	2,091,513	2,052,096	-	-	-	-	2,091,513	2,052,096
<b>Total financial assets</b>			<b>17,069,387</b>	<b>17,391,417</b>	<b>6,978,056</b>	<b>3,389,498</b>	<b>2,091,513</b>	<b>2,052,096</b>	<b>-</b>	<b>-</b>	<b>1,366,196</b>	<b>696,699</b>	<b>27,505,152</b>	<b>23,529,710</b>
Trade and other payables			-	-	-	-	-	-	-	-	32,337	30,365	32,337	30,365
Distribution payable			-	-	-	-	-	-	-	-	882,720	591,018	882,720	591,018
<b>Total financial liabilities</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>915,057</b>	<b>621,383</b>	<b>915,057</b>	<b>621,383</b>

Notes to the financial statements for the year ended 30 June 2008

Note 15 - Financial instruments - continued

AELT	Fixed Interest Rate Maturing														
	Weighted average interest rate		Floating interest rate		Fixed interest rate within 1 year		Fixed interest rate 1 to 5 years		Fixed interest rate over 5 years		Non-interest bearing		Total		
	2008 %	2007 %	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	
Cash and cash equivalents	7	6	3,007,434	9,594,534	-	-	-	-	-	-	-	-	3,007,434	9,594,534	
Trade and other receivables			-	-	-	-	-	-	-	-	-	2,024,792	623,887	2,024,792	623,887
Financial assets			-	-	-	-	-	-	-	-	-	118,283,508	135,780,946	118,283,508	135,780,946
Loans			-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total financial assets</b>			<b>3,007,434</b>	<b>9,594,534</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>120,308,300</b>	<b>136,404,833</b>	<b>123,315,734</b>	<b>145,999,367</b>
Trade and other payables			-	-	-	-	-	-	-	-	-	360,579	429,409	360,579	429,409
Distribution payable			-	-	-	-	-	-	-	-	-	789,581	15,387,015	789,581	15,387,015
<b>Total financial liabilities</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,150,160</b>	<b>15,816,424</b>	<b>1,150,160</b>	<b>15,816,424</b>

AEWT	Fixed Interest Rate Maturing													
	Weighted average interest rate		Floating interest rate		Fixed interest rate within 1 year		Fixed interest rate 1 to 5 years		Fixed interest rate over 5 years		Non-interest bearing		Total	
	2008 %	2007 %	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$
Cash and cash equivalents	7	-	95,088	-	-	-	-	-	-	-	-	-	95,088	-
Trade and other receivables			-	-	-	-	-	-	-	-	-	225,633	-	225,633
Financial assets			-	-	-	-	-	-	-	-	-	6,218,214	-	6,218,214
Loans			-	-	-	-	-	-	-	-	-	-	-	-
<b>Total financial assets</b>			<b>95,088</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,443,847</b>	<b>-</b>	<b>6,538,935</b>
Trade and other payables			-	-	-	-	-	-	-	-	-	7,619	-	7,619
Distribution payable			-	-	-	-	-	-	-	-	-	-	-	-
<b>Total financial liabilities</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,619</b>	<b>-</b>	<b>7,619</b>

Notes to the financial statements for the year ended 30 June 2008

Note 15 - Financial instruments - continued

c) Net Fair Values

All Financial Assets are marked to market and carried at fair value as determined by an independent source where available. The net fair values of listed investments have been valued at the quoted market bid price at balance date. For other assets and other liabilities where no independent pricing source exists, the net fair value approximates their carrying value. Financial assets are valued in accordance with the Compliance Plan to ensure carrying values are recorded at fair value. The Compliance Plan is overseen by the Compliance and Risk Committee. The Compliance and Risk Committee meets on a regular basis to ensure adherence to the Compliance Plan and that the correct basis for valuations are followed by the responsible entity. The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the balance sheet and in the notes to the financial statements.

	Net Fair Values 2008													
	Balanced Trust		International Equities Trust		Balanced Trust Consolidated		Equities Trust		Income Trust		Large Companies Share Trust		World Trust	
	("AEBT")		("WIET")		("AEBTC")		("AEET")		("AEIT")		("AELT")		("AEWT")	
	Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Financial assets</b>														
Financial assets at fair value through profit or loss	210,713,399	210,713,399	33,613,473	33,613,473	215,279,013	215,279,013	172,582,351	172,582,351	23,018,266	23,018,266	118,283,508	118,283,508	6,218,214	6,218,214
Investment Properties	6,955,000	6,955,000	-	-	6,955,000	6,955,000	-	-	-	-	-	-	-	-
Loans	6,015,889	6,015,889	-	-	6,015,889	6,015,889	-	-	2,091,513	2,091,513	-	-	-	-
Trade and other receivables	4,131,077	4,131,077	66,052	66,052	4,197,129	4,197,129	3,013,382	3,013,382	889,535	889,535	2,024,792	2,024,792	225,633	225,633
	227,815,365	227,815,365	33,679,525	33,679,525	232,447,031	232,447,031	175,595,733	175,595,733	25,999,314	25,999,314	120,308,300	120,308,300	6,443,847	6,443,847
<b>Financial liabilities</b>														
Trade and other payables	443,726	443,726	109,718	109,718	553,444	553,444	438,544	438,544	32,337	32,337	360,579	360,579	7,619	7,619

	Net Fair Values 2007													
	Balanced Trust		International Equities Trust		Balanced Trust Consolidated		Equities Trust		Income Trust		Large Companies Share Trust		World Trust	
	("AEBT")		("WIET")		("AEBTC")		("AEET")		("AEIT")		("AELT")		("AEWT")	
	Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value	Carrying amount	Net fair value
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Financial assets</b>														
Financial assets at fair value through profit or loss	218,834,852	218,834,852	8,132,765	8,132,765	217,156,253	217,156,253	178,942,651	178,942,651	18,793,498	18,793,498	135,780,946	135,780,946	-	-
Investment Properties	6,075,000	6,075,000	-	-	6,075,000	6,075,000	-	-	-	-	-	-	-	-
Loans	5,579,457	5,579,457	-	-	5,579,457	5,579,457	-	-	2,052,096	2,052,096	-	-	-	-
Trade and other receivables	1,985,592	1,985,592	11,489	11,489	1,980,410	1,980,410	1,053,968	1,053,968	149,751	149,751	623,887	623,887	-	-
	232,474,901	232,474,901	8,144,254	8,144,254	230,791,120	230,791,120	179,996,619	179,996,619	20,995,345	20,995,345	136,404,833	136,404,833	-	-
<b>Financial liabilities</b>														
Trade and other payables	665,170	665,170	12,204	12,204	677,374	677,374	2,653,740	2,653,740	30,365	30,365	429,409	429,409	-	-



Notes to the financial statements for the year ended 30 June 2008

Note 15 - Financial instruments - continued

d) Sensitivity Analysis

Foreign currency risk

In assessing foreign currency risk, management has considered the foreign currencies to which it is exposed and assumed a plus/minus 5% movement in the AUD against the underlying currencies. Management has determined a plus/minus 5% movement in these currencies to be an appropriate sensitivity following analysis of foreign exchange volatility. This sensitivity analysis is conducted at balance date and details the effects on the financial instruments held by the Investment Trusts on balance date. The analysis is based on movements in foreign currency from the spot rates prevailing at balance date.

FX Sensitivity Analysis  
Change in Profit

Currency	FX Exposure	Balanced Trust		International Equities Trust		Balanced Trust Consolidated		Equities Trust		Income Trust		Large Companies Share Trust		World Trust	
		("AEBT")		("WIET")		("AEBTC")		("AEET")		("AEIT")		("AELT")		("AEWT")	
		2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
+5% AUD v's	CHF	(12,949)	(105,018)	(15,650)	(24,618)	(12,949)	(105,018)	-	-	-	-	(53,342)	(69,821)	(2,701)	-
-5% AUD v's	CHF	12,949	105,018	15,650	24,618	12,949	105,018	-	-	-	-	53,342	69,821	2,701	-
+5% AUD v's	DKK	(157,585)	(308,162)	(56,690)	(44,803)	(157,585)	(308,162)	(122,643)	(121,967)	-	-	(195,750)	(264,953)	(9,785)	-
-5% AUD v's	DKK	157,585	308,162	56,690	44,803	157,585	308,162	122,643	121,967	-	-	195,750	264,953	9,785	-
+5% AUD v's	EUR	(263,864)	(65,460)	(347,661)	(198,763)	(263,864)	(65,460)	(222,065)	132,281	-	-	(500,312)	84,097	(34,867)	-
-5% AUD v's	EUR	306,849	310,481	347,661	198,763	306,849	310,481	528,765	372,374	-	-	618,798	317,270	60,006	-
+5% AUD v's	GBP	(139,379)	(118,502)	(184,806)	(77,811)	(139,379)	(118,502)	(249,019)	(353,730)	-	-	(17,325)	(122,451)	(13,619)	-
-5% AUD v's	GBP	139,379	131,931	184,806	77,811	139,379	131,931	277,487	373,549	-	-	149,806	163,010	18,810	-
+5% AUD v's	HKD	(61,098)	(18,998)	(73,843)	(18,998)	(61,098)	(18,998)	-	-	-	-	(57,759)	-	(12,745)	-
-5% AUD v's	HKD	61,098	18,998	73,843	18,998	61,098	18,998	-	-	-	-	57,759	-	12,745	-
+5% AUD v's	JPY	(140,875)	(156,877)	(225,560)	(98,990)	(140,875)	(156,877)	(5,630)	(76,176)	-	-	(3,804)	(50,670)	(12,626)	-
-5% AUD v's	JPY	182,551	174,933	225,560	98,990	182,551	174,933	164,685	110,232	-	-	123,585	72,039	38,815	-
+5% AUD v's	NOK	(90,247)	(165,679)	(35,689)	(31,914)	(90,247)	(165,679)	(194,047)	(194,623)	-	-	(86,906)	(142,638)	(6,160)	-
-5% AUD v's	NOK	90,247	165,679	35,689	31,914	90,247	165,679	194,047	194,623	-	-	86,906	142,638	6,160	-
+5% AUD v's	NZD	(99,686)	(114,574)	(63,566)	(17,250)	(99,686)	(114,574)	-	-	-	-	(2,621)	(54,745)	603	-
-5% AUD v's	NZD	103,100	114,574	63,566	17,250	103,100	114,574	-	-	-	-	8,127	54,745	6,058	-
+5% AUD v's	SEK	(64,673)	(42,388)	(70,655)	(42,388)	(64,673)	(42,388)	(171,174)	(171,542)	-	-	(32,120)	(110,069)	(12,195)	-
-5% AUD v's	SEK	64,673	42,388	70,655	42,388	64,673	42,388	171,174	171,542	-	-	32,120	110,069	12,195	-
+5% AUD v's	SGD	(132,971)	(16,887)	(156,898)	(16,887)	(132,971)	(16,887)	(86,871)	(86,871)	-	-	-	-	(27,081)	-
-5% AUD v's	SGD	132,971	16,887	156,898	16,887	132,971	16,887	86,871	86,871	-	-	-	-	27,081	-
+5% AUD v's	USD	(342,710)	(319,050)	(449,656)	(127,381)	(342,710)	(319,050)	110,721	(459,470)	-	-	55,782	(396,875)	20,185	-
-5% AUD v's	USD	366,836	326,267	449,656	127,381	366,836	326,267	449,649	628,734	-	-	228,701	499,540	52,887	-
+5% AUD v's	Total change in profit	(1,506,038)	(1,431,596)	(1,680,674)	(699,803)	(1,506,038)	(1,431,596)	(940,728)	(1,332,098)	-	-	(894,158)	(1,128,126)	(110,991)	-
-5% AUD v's	Total change in profit	1,618,238	1,715,318	1,680,674	699,803	1,618,238	1,715,318	1,995,322	2,059,891	-	-	1,554,895	1,694,085	247,243	-

Notes to the financial statements for the year ended 30 June 2008

Note 15 - Financial instruments - continued

FX Sensitivity Analysis  
Change in net assets attributable to unitholders

Currency	FX Exposure	Balanced Trust		International Equities Trust		Balanced Trust Consolidated		Equities Trust		Income Trust		Large Companies Share Trust		World Trust	
		("AEBT")		("WIET")		("AEBTC")		("AEET")		("AEIT")		("AELT")		("AEWT")	
		2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
+5% AUD v's	CHF	(12,949)	(105,018)	(15,650)	(24,618)	(12,949)	(105,018)	-	-	-	-	(53,342)	(69,821)	(2,701)	-
-5% AUD v's	CHF	12,949	105,018	15,650	24,618	12,949	105,018	-	-	-	-	53,342	69,821	2,701	-
+5% AUD v's	DKK	(157,585)	(308,162)	(56,690)	(44,803)	(157,585)	(308,162)	(122,643)	(121,967)	-	-	(195,750)	(264,953)	(9,785)	-
-5% AUD v's	DKK	157,585	308,162	56,690	44,803	157,585	308,162	122,643	121,967	-	-	195,750	264,953	9,785	-
+5% AUD v's	EUR	(263,864)	(65,460)	(347,661)	(198,763)	(263,864)	(65,460)	(222,065)	132,281	-	-	(500,312)	84,097	(34,867)	-
-5% AUD v's	EUR	306,849	310,481	347,661	198,763	306,849	310,481	528,765	372,374	-	-	618,798	317,270	60,006	-
+5% AUD v's	GBP	(139,379)	(118,502)	(184,806)	(77,811)	(139,379)	(118,502)	(249,019)	(353,730)	-	-	(17,325)	(122,451)	(13,619)	-
-5% AUD v's	GBP	139,379	131,931	184,806	77,811	139,379	131,931	277,487	373,549	-	-	149,806	163,010	18,810	-
+5% AUD v's	HKD	(61,098)	(18,998)	(73,843)	(18,998)	(61,098)	(18,998)	-	-	-	-	(57,759)	-	(12,745)	-
-5% AUD v's	HKD	61,098	18,998	73,843	18,998	61,098	18,998	-	-	-	-	57,759	-	12,745	-
+5% AUD v's	JPY	(140,875)	(156,877)	(225,560)	(98,990)	(140,875)	(156,877)	(5,630)	(76,176)	-	-	(3,804)	(50,670)	(12,626)	-
-5% AUD v's	JPY	182,551	174,933	225,560	98,990	182,551	174,933	164,685	110,232	-	-	123,585	72,039	38,815	-
+5% AUD v's	NOK	(90,247)	(165,679)	(35,689)	(31,914)	(90,247)	(165,679)	(194,047)	(194,623)	-	-	(86,906)	(142,638)	(6,160)	-
-5% AUD v's	NOK	90,247	165,679	35,689	31,914	90,247	165,679	194,047	194,623	-	-	86,906	142,638	6,160	-
+5% AUD v's	NZD	(99,686)	(114,574)	(63,566)	(17,250)	(99,686)	(114,574)	-	-	-	-	(2,621)	(54,745)	603	-
-5% AUD v's	NZD	103,100	114,574	63,566	17,250	103,100	114,574	-	-	-	-	8,127	54,745	6,058	-
+5% AUD v's	SEK	(64,673)	(42,388)	(70,655)	(42,388)	(64,673)	(42,388)	(171,174)	(171,542)	-	-	(32,120)	(110,069)	(12,195)	-
-5% AUD v's	SEK	64,673	42,388	70,655	42,388	64,673	42,388	171,174	171,542	-	-	32,120	110,069	12,195	-
+5% AUD v's	SGD	(132,971)	(16,887)	(156,898)	(16,887)	(132,971)	(16,887)	(86,871)	(86,871)	-	-	-	-	(27,081)	-
-5% AUD v's	SGD	132,971	16,887	156,898	16,887	132,971	16,887	86,871	86,871	-	-	-	-	27,081	-
+5% AUD v's	USD	(342,710)	(319,050)	(449,656)	(127,381)	(342,710)	(319,050)	110,721	(459,470)	-	-	55,782	(396,875)	20,185	-
-5% AUD v's	USD	366,836	326,267	449,656	127,381	366,836	326,267	449,649	628,734	-	-	228,701	499,540	52,887	-
+5% AUD v's	Total change in equity	(1,506,038)	(1,431,596)	(1,680,674)	(699,803)	(1,506,038)	(1,431,596)	(940,728)	(1,332,098)	-	-	(894,158)	(1,128,126)	(110,991)	-
-5% AUD v's	Total change in equity	1,618,238	1,715,318	1,680,674	699,803	1,618,238	1,715,318	1,995,322	2,059,891	-	-	1,554,895	1,694,085	247,243	-

Notes to the financial statements for the year ended 30 June 2008

Note 15 - Financial instruments - continued

Interest Rate Risk

Management has performed a sensitivity analysis relating to the Investment Trusts' exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and net assets attributable to unitholders which could result from a change in these risks. In the analysis it is assumed that the amount of financial assets exposed to fluctuations in interest rates as at balance date is representative of balances held throughout the financial year. No other flow on effects of fluctuations in interest rates have been taken into account.

At 30 June 2008, the effect on profit and net assets attributable to unitholders, as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

Interest Rate Sensitivity Analysis Change in Profit													
Balanced Trust ("AEBT")		International Equities Trust ("WIET")		Balanced Trust Consolidated ("AEBTC")		Equities Trust ("AEET")		Income Trust ("AEIT")		Large Companies Share Trust ("AELT")		World Trust ("AEWT")	
2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Change in profit</b>													
737,009	1,011,511	15,374	16,960	752,383	1,028,471	143,939	225,224	170,694	173,914	30,074	95,945	951	-
(737,009)	(1,011,511)	(15,374)	(16,960)	(752,383)	(1,028,471)	(143,939)	(225,224)	(170,694)	(173,914)	(30,074)	(95,945)	(951)	-
Increase in interest rate by 1%													
Decrease in interest rate by 1%													

Interest Rate Sensitivity Analysis Change in 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")		World Trust ("AEWT")	
2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Change in net assets attributable to unitholders</b>													
737,649	1,011,511	15,374	16,960	753,023	1,028,471	143,939	225,224	170,694	173,914	30,074	95,945	951	-
(737,649)	(1,011,511)	(15,374)	(16,960)	(753,023)	(1,028,471)	(143,939)	(225,224)	(170,694)	(173,914)	(30,074)	(95,945)	(951)	-
Increase in interest rate by 1%													
Decrease in interest rate by 1%													

**Notes to the financial statements for the year ended 30 June 2008**

**Note 16 - Controlled Entities**

<b>Controlled Entities Consolidated Parent Entity</b>	<b>Country of Establishment</b>	<b>Percentage Owned</b>
		<b>2008</b>
Subsidiaries of Australian Ethical Balanced Trust:	Australia	2007
Australian Ethical International Equities Trust	Australia	<b>82.74</b> 100

**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, 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 Australian Ethical Investment Limited, but are not yet effective and have not been adopted in preparation of the financial statements statements at reporting date are:

<b>AASB Amendment</b>	<b>Standard Affected</b>	<b>Nature of Change in Accounting Policy and Impact</b>	<b>Application Date of the Standard</b>	<b>Application Date of the Company</b>
2007-3	AASB 107: Cash Flow Statements AASB 119: Employee Benefits AASB 127: Consolidated and Separate Financial Statements AASB 134: Interim Financial Reporting AASB 136: Impairment of Assets	These amendments are necessitated by the issuance of AASB 8 Operating Segments. The amendments are mainly to ensure that terminology and references related to AASB 8 are updated in the standards affected and there will be little impact on future financial reports. There will be changes to segment information (more comprehensive) in the interim financial report.	01-Jan-09 01-Jan-09 01-Jan-09 01-Jan-09 01-Jan-09	01-Jul-09 01-Jul-09 01-Jul-09 01-Jul-09 01-Jul-09
New Standard	AASB 8: Operating Segments	The group will provide more comprehensive explicit information related to its investment management segment and its superannuation segment per the new standard. This information is implicit with this current financial report.	01-Jan-09	01-Jul-09
2007-8	AASB 101: Presentation of Financial Statements	The revised AASB 101: Presentation of Financial Statements issued in September 2007 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity	01-Jan-09	01-Jul-09
AASB 101	AASB 101: Presentation of Financial Statements	As above	01-Jan-09	01-Jul-09
2008-1	AASB 2: Share Based Payments	These amendments clarify that vesting conditions comprise service conditions and performance conditions only and that other features of a share-based payment transaction are not vesting conditions. They also specify that all cancellations, whether by the entity or by other parties, should the same accounting treatment. No impact on future financial reports.	01-Jan-09	01-Jul-09

**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 schemes have 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) at any time during the financial year.

Parent entity directors

Name	Position		
Pauline Vamos	Chairperson, non-executive	Resigned 31 August 2007	
Caroline Le Couteur	Director, executive		
James Thier	Director, executive		
Howard Pender	Director, executive		
Naomi Edwards	Chairperson, non-executive		
Justine Hickey	Director, non-executive		
Anne O'Donnell	Managing Director, executive		Appointed 29 May 2008
Les Coleman	Director, non-executive		Appointed 1 July 2008
Andre Morony	Director, non-executive		Appointed 1 July 2008

Other key management personnel

Name	Position	
David Ferris	Investment Manager	Resigned 27 March 2008
Gary Leckie	Chief Financial Officer	
Tim Xirakis	Finance Investment Manager	Appointed 14 January 2008
Philip George	Company Secretary / Legal Counsel	
Paul Harding Davis	Head of Distribution	

**b) Key management personnel compensation**

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. In particular, directors are paid for serving on board committees.

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

Secretaries, senior managers, executive directors and group executives

During the reporting period, the company's remuneration policy was to treat all staff (including secretaries, senior managers, executive directors and group executives) in an equitable fashion. During the reporting period, remuneration for one senior manager included an 'at risk' component linked to performance criteria. All permanent staff (including secretaries, senior managers, executive directors) received a cash salary and participated in a staff bonus and employee share ownership scheme. The arrangements did not apply to non-executive directors.

For the one senior manager with an at risk component, the performance conditions required the manager to achieve business development objectives on: funds under management; engagement with asset consultants, ratings agencies and institutional clients; and development of marketing strategies / collateral. These performance conditions were chosen to align the manager's objectives with those set out in the company's strategic plan. The managing director was responsible for assessing whether the performance conditions were met. The managing director was able to assess both the quantitative and qualitative aspects of the performance criteria.

The company's general 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."*

**Note 20 - Key management personnel compensation - continued**

The company reviews individual remuneration annually. As part of this process it benchmarks its remuneration levels and its policies on employee benefits and work / life balance. Individual staff remuneration is 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.

All permanent staff are eligible to participate in an annual staff bonus. Under the company's constitution, before the directors recommend any dividend to be paid out of profits of any one year, they must pay a bonus to current employees which 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 an employee share ownership scheme which operated during the reporting period, a pool of options which would, if exercised, amount to 5% of the company's existing ordinary share capital were issued to staff. All permanent, non-probationary staff were eligible to participate in the plan. The options<sup>[1]</sup> were issued for nil consideration and the price at which the options are exercisable was 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 depended 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, except that an individual performance based element was introduced for one senior manager during the reporting period.

**Key Management Personnel Remuneration details for the year ended 30 June 2008****Parent entity directors' remuneration**

2008	Short-term employee benefits			Post Em- ployment benefits	Other Long-term Benefits	Termination Benefits	Share-based Payment		Total
	Cash Salary and Fees	STI cash bonus	Other	Super			Bonus Shares	Options	
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Caroline Le Couteur	142,503	6,000	-	13,230	3,544	-	-	15,044	180,321
James Thier	157,324	4,800	-	13,566	3,191	-	-	12,743	191,624
Howard Pender	159,245	3,900	-	13,420	3,171	-	-	12,709	192,445
Naomi Edwards	58,416	-	-	5,257	-	-	-	-	63,673
Pauline Vamos	9,249	-	-	750	-	-	-	-	9,999
Justine Hickey	26,651	-	-	2,408	-	-	-	-	29,059
Anne O'Donnell	213,858	6,000	-	18,760	6,250	-	-	25,410	270,278
<b>Total</b>	<b>767,246</b>	<b>20,700</b>	<b>-</b>	<b>67,391</b>	<b>16,156</b>	<b>-</b>	<b>-</b>	<b>65,906</b>	<b>937,399</b>
<b>2007</b>									
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
<b>Total</b>	<b>553,505</b>	<b>9,075</b>	<b>-</b>	<b>43,550</b>	<b>7,536</b>	<b>-</b>	<b>3,759</b>	<b>19,917</b>	<b>637,342</b>

## Note 20 - Key management personnel compensation - continued

## Key Management Personnel Remuneration

	Short-term employee benefits			Post Em- ployment benefits	Other Long-term Benefits	Termination Benefits	Share-based Payment		Total
	Cash Salary and Fees	STI cash bonus	Other	Super			Bonus Shares	Options	
	\$	\$	\$	\$	\$	\$	\$	\$	
<b>2008</b>									
David Ferris	165,939	-	-	10,938	-	-	5,885	20,378	203,140
Philip George	177,416	6,000	-	15,365	3,643	-	-	20,740	223,164
Gary Leckie	152,178	6,000	-	13,594	4,572	-	-	14,843	191,187
Tim Xirakis	160,430	6,000	-	15,381	3,515	-	-	14,918	200,244
Paul Harding Davis	91,566	16,000	-	8,950	1,749	-	-	-	118,265
<b>Total</b>	<b>747,529</b>	<b>34,000</b>	<b>-</b>	<b>64,229</b>	<b>13,479</b>	<b>-</b>	<b>5,885</b>	<b>70,879</b>	<b>936,000</b>
<b>2007</b>									
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
<b>Total</b>	<b>771,220</b>	<b>22,000</b>	<b>-</b>	<b>62,523</b>	<b>17,057</b>	<b>-</b>	<b>5,290</b>	<b>44,994</b>	<b>923,084</b>

Cash bonus compensation benefits

Details of cash bonuses paid to key management personal are included in the remuneration tables set out above. The annual staff cash bonuses were paid on 24 September 2007. The cash bonus for Mr Harding-Davis was paid on 13 June 2008. The nature of the cash bonuses and the criteria used to determine the amount of the payments are detailed in the remuneration policy and in the discussion on performance-based remuneration and company performance.

## Analysis of bonuses included in remuneration

	Short term incentive bonus			
	Cash bonus <sup>(1)</sup>	Performan ce bonus (\$)	% vested in year	% forfeited in year <sup>(2)</sup>
<b>Parent Entity Directors</b>				
Caroline Le Couteur	6000	-	100%	-
James Thier	4800	-	100%	-
Howard Pender	3900	-	100%	-
Anne O'Donnell	6000	-	100%	-
<b>Named executives (including other key management personnel)</b>				
Philip George	6000	-	100%	-
Gary Leckie	6000	-	100%	-
Tim Xirakis	6000	-	100%	-
Paul Harding Davis	-	16000	0%	0%

(1) Details of cash and performance bonus have been provided above in the remuneration policy

(2) The amounts forfeited are due to the performance or service criteria not being met in relation to the current financial year



**Note 20 - Key management personnel compensation - continued***Equity based remuneration*

Equity based remuneration consists of grants of options under the company's employee share ownership plan. Details of the employee share ownership plan (including the service and performance criteria) are provided in the section on remuneration policy above and in Note 24 of the attached financial report.

**Options granted as remuneration**

	number of options vested during 2008	number of options granted during 2008 (1)	Grant date	fair value per option at grant date (2) (\$)	Exercise price per option (\$)	First exercise /expiry date	Last exercise /expiry date
<b>Parent Entity Directors</b>							
Caroline Le Couteur	2,513	1,791	24/09/2007	8.40	57.57	24/09/2010	23/12/2010
James Thier	2,058	1,517	24/09/2007	8.40	57.57	24/09/2010	23/12/2010
Howard Pender	861	1,513	24/09/2007	8.40	57.57	24/09/2010	23/12/2010
Naomi Edwards	-	-		-	-	-	-
Pauline Vamos	-	-		-	-	-	-
Justine Hickey	-	-		-	-	-	-
Anne O'Donnell	2,865	3,025	24/09/2007	8.40	57.57	24/09/2010	23/12/2010
	<u>8,297</u>	<u>7,846</u>					

**Named executives (including other key management personnel)**

David Ferris	2,551	2,426	24/09/2007	8.40	57.57	24/09/2010	23/12/2010
Philip George	-	2,469	24/09/2007	8.40	57.57	24/09/2010	23/12/2010
Gary Leckie	1,275	1,767	24/09/2007	8.40	57.57	24/09/2010	23/12/2010
Tim Xirakis	-	1,776	24/09/2007	8.40	57.57	24/09/2010	23/12/2010
Paul Harding Davis	-	-		-	-	-	-
	<u>3,826</u>	<u>8,438</u>					

(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.

**Exercise of options during the reporting period**

During the reporting period the following shares were issued on the exercise of options previously granted as compensation. There are no amounts unpaid on the shares.

	Number of shares	Amount paid \$ /share
<b>Parent Entity Directors</b>		
Caroline Le Couteur	2513	16.28
James Thier	2058	16.28
Howard Pender	861	16.28
Anne O'Donnell	2865	16.28
<b>Named executives (including other key management personnel)</b>		
David Ferris	2551	16.28
Gary Leckie	1275	16.28

Modification of terms of options

Terms of options issued under the employee share ownership plan were not altered or modified during the reporting period.

**Note 20 - Key management personnel compensation - continued**Hedging policy

On 27 August 2008, the board introduced a policy whereby directors and executives participating in the company's equity-based plans are prohibited from entering into any transaction which would have the effect of hedging or otherwise transferring to any other person the risk of any fluctuation in the value of any unvested entitlement in the company's securities.

*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.

Except as discussed below, 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.

For one senior manager, the performance related component of their remuneration accounted for 13.5% of their total remuneration.

**Option Holdings**

	Balance 01.07.07	Granted as Remun- eration	Options Exercised	Net Change Other	Balance 30.06.08	Total Vested 30.06.08	Total Exer- cisable 30.06.08	Total Unexer- cisable 30.06.08
<b>Parent Entity Directors</b>								
Caroline Le Couteur	6,666	-	-	-	6,666	-	-	6,666
James Thier	5,290	-	-	-	5,290	-	-	5,290
Howard Pender	3,261	-	-	-	3,261	-	-	3,261
Naomi Edwards	-	-	-	-	-	-	-	-
Pauline Vamos	-	-	-	-	-	-	-	-
Justine Hickey	-	-	-	-	-	-	-	-
Anne O'Donnell	8,780	-	-	-	8,780	-	-	8,780

**Named executives (including other key management personnel)**

David Ferris	7,410	-	-	( 7,285)	125	-	-	125
Philip George	3,906	-	-	-	3,906	-	-	3,906
Gary Leckie	4,105	-	-	-	4,105	-	-	4,105
Tim Xirakis	1,387	-	-	-	1,387	-	-	1,387
Paul Harding Davis	-	-	-	-	-	-	-	-
<b>Total</b>	<b>40,805</b>	<b>-</b>	<b>-</b>	<b>( 7,285)</b>	<b>33,520</b>	<b>-</b>	<b>-</b>	<b>33,520</b>

## Note 20 - Key management personnel compensation - continued

## Shareholdings

Number of Shares held by key management personnel.

	Balance 01.07.07	Share in lieu of Cash Bonus	Options Exercised/ Shares Issued (1)	Net Change Other (2)	Balance 30.06.08 (3)
<b>Parent Entity Directors</b>					
Caroline Le Couteur	46,923	-	-	-	46,923
James Thier	62,155	-	-	5	62,160
Howard Pender	51,665	-	-	( 783)	50,882
Naomi Edwards	-	-	-	-	-
Pauline Vamos	-	-	-	-	-
Justine Hickey	700	-	-	-	700
Anne O'Donnell	6,117	-	-	-	6,117

**Named executives (including other key management personnel)**

David Ferris	5,439	-	-	( 888)	4,551
Philip George	375	-	-	6	381
Gary Leckie	-	-	-	( 1,275)	( 1,275)
Tim Xirakis	-	-	-	-	-
Paul Harding Davis	-	-	-	-	-
Total	173,374	-	-	( 2,935)	170,439

(1) The amount paid for shares issued on exercise of options is \$16.28 in all cases.

(2) Net change other refers to shares purchased or sold during the financial year.

(3) Shares issued are fully paid

**Directors' holdings in registered schemes made available by the company**

Caroline Le Couteur holds 918.6569 units in the Australian Ethical Balanced Trust.

Anne O'Donnell holds 4,061.8233 units in the Australian Ethical Large Companies Share Trust.

## 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, Australian Ethical Large Companies Share Trust and Australian Ethical World Trust and notes as set out on pages 4 to 33 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 2008 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 2008 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  
22 September 2008

## **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 AUSTRALIAN ETHICAL WORLD 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, Australian Ethical Large Companies Share Trust and Australian Ethical World Trust ("the schemes"), which comprises the balance sheets as at 30 June 2008, 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 Equities Trust, Australian Ethical Income Trust, Australian Ethical Large Companies Share Trust and Australian Ethical World 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, 2008 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,

22 September, 2008

Liability limited by a scheme approved under Professional Standards Legislation