

May 2007

## Chief Executive's report

### Profit increase

Australian Ethical has performed strongly in the first half of the 2006–07 financial year. Australian Ethical achieved a consolidated net profit after tax of \$765 880 for the half year ending 31 December 2006. This is a significant increase on the \$551 080 net profit after tax for the previous corresponding period.

The six month period also saw Australian Ethical experience strong growth in funds under management (FUM), the core of our business. FUM increased 26% between 30 June and 31 December 2006 to \$526 million (ex distribution). On 10 April 2007 FUM were \$563 million. Growth in FUM increases the company's revenue and helps build economies of scale. However, this benefit has been offset to some degree due to increased employment costs as a result of a tight labour market.

Building on the economies of scale we have achieved to date remains a key challenge. We remain vigilant in monitoring costs and finding better ways to run the business. With this in mind the decision has been made to change two key service providers. Australian Ethical Superannuation is switching its outsourced provider of administration services to Pillar Administration. The custodian of the trusts and the superannuation fund is being changed to National Custodian Services, a business unit within National Australia Bank Limited.

### Trevor Pearcey House

Another recent change for Australian Ethical has been the move to our green premises at Trevor Pearcey House in Bruce, ACT. I'm pleased that we're able to provide Australian Ethical staff with a comfortable workplace after so many years of less than optimal accommodation. Although Australian Ethical has a relatively stable movement of employees in an industry which is traditionally beset by staff turnover, it is hoped our new environmentally exemplary, staff friendly building

will help to attract and retain excellent staff. This is especially important in the ACT which has a very tight labour market and an unemployment rate hovering around 3%.

### Outlook

Australian Ethical held its annual strategic planning day on 29 March 2007.

The board is excited about our potential going forward and we remain committed to the staff and to the values set out in the Australian Ethical Charter. A key emphasis of the day was looking at ways to strengthen and target our marketing message. We are looking at ways to attract increased wholesale investment from institutions and financial advisers and to build our profile as the expert authority in ethical investment.

### World Trust

The Australian Ethical World Trust is on track for its launch on 1 July 2007. It is already receiving an enthusiastic response from potential investors. The addition of the World Trust complements our current suite of trusts and addresses an increasing desire from investors for deep green international investments.

I'd like to thank shareholders for their ongoing support of Australian Ethical and wish them all the best for the rest of 2007.



A handwritten signature in black ink, appearing to be the name of the Chief Executive, written in a cursive style.

## Financial summary

The Australian Ethical half year result to 31 December 2006 is a net profit after tax of \$765 880. This is a solid result and is 39% greater than the previous corresponding period.

The result is underpinned by continued strong funds under management (FUM) growth resulting in increased revenue from management fees. A significant part of the FUM growth is attributable to capital growth on assets under management. Traditionally, fund inflows, particularly from superannuation, are stronger in the second half of the financial year.

The cost to income ratio has plateaued in this half year after a number of half years of steady reduction. This is predominantly attributable to salary and personnel adjustments as part of our strategy to retain our high performing staff and remain competitive in a tight labour market.

Over the coming years the company is hopeful of securing further reductions in its cost to income ratio as economies of scale are realised and cost savings from changed outsourcing arrangements arise. This may be tempered by increased marketing activity.

The balance sheet remains strong with \$6.9 million in net assets and no corporate debt.

## ASX announcements

You can receive Australian Ethical's announcements to the Australian Securities Exchange in your email. You can subscribe to the mailing list online at [www.austethical.com.au/news/announcements](http://www.austethical.com.au/news/announcements)

## Sustainability report

Australian Ethical has recently released its 2006 Sustainability Report. The report is available on our website at [www.austethical.com.au/company\\_information/company\\_reports](http://www.austethical.com.au/company_information/company_reports)



## Share price history

The Australian Ethical share price has experienced considerable movement over the last twelve months. Media coverage of Australian Ethical's achievements may have contributed to this upward trend.

In November 2006 *The Bulletin* ran an article *Small wonders* which rated Australian Ethical as a top 10 'emerging company promising to hit the heights in 2007'. The article said 'Australian Ethical's unique approach to investing has not only provided strong returns but also has been a successful marketing pitch'.

This was followed by an article *Risky alarm bells failed to ring* published in *The Australian* during December which mentioned in the four years since listing Australian Ethical's 'share price has since more than doubled and funds under management more than tripled'.

*The Australian Financial Review* printed *Uncovering gems in the microcosm of nano-caps* in January which mentioned Australian Ethical as 'a small cap stock that's about to step into the big league'. Frank Villante of Soul Funds Management was quoted

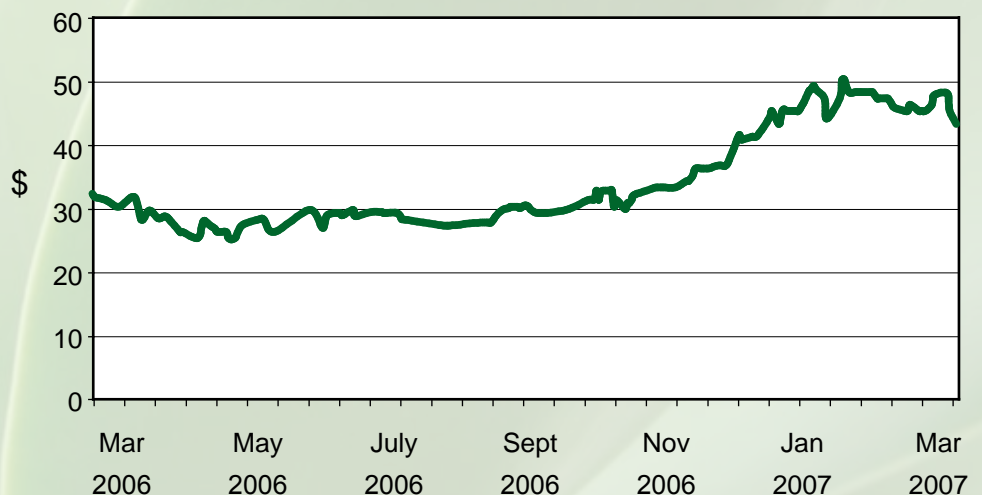
saying Australian Ethical was one of his favourites and 'the company has been an exceptional performer for quite a few years'.

In February the share price peaked at \$50.00 and at 30 March was traded at \$46.00.

In spite of increased public recognition, the company is still a small listed stock and its share price can be quite volatile. The past performance of the share price is not a reliable indicator of its future performance.

## Share trading history

(daily closing prices)



## New premises officially opened

Australian Ethical's new premises at Block E Trevor Pearcey House in the Canberra suburb of Bruce was officially opened by Senator Bob Brown on 23 March 2007.

Guests at the opening took tours of the building to see first hand the green refurbishment and fit out works. The green refurbishment aims to increase staff comfort and productivity through better access to natural light and natural ventilation, providing a more comfortable feeling of warmth/'coolth' and improved indoor air quality.

The works also aim to achieve significant environmental benefits, with an estimated 75% reduction in CO2 emissions through reduced energy use and a 75% reduction in water use.

A Green Star Office Design rating is currently being sought.

Australian Ethical's postal and phone contact details remain unchanged.



*Anne O'Donnell, Howard Pender, Senator Bob Brown and Pauline Vamos at the official opening ceremony.*

More information on the building is available from [www.austethical.com.au/company\\_info/about\\_us](http://www.austethical.com.au/company_info/about_us)

## Justine Hickey joins Australian Ethical board



Justine Hickey was recently appointed as an independent director of Australian Ethical Investment Ltd.

Justine has over 15 years experience in investment and funds management. Previously Justine was Head of Equities at Suncorp Investment Management and, prior to that, a Portfolio Manager at Flemings Investment Management (now JP Morgan) in the UK.

Justine is a current director of Hyperion Flagship Investments Ltd and chairs the Youth Enterprise Trust Foundation, a group which supports disadvantaged youth. She is also a member of the investment committees of Dalton Nicol Reid and the University of Melbourne.

The Australian Ethical board now comprises three independent directors and three executive directors. Assuming the availability of suitable candidates who have skills which complement the current directors, over time the Australian Ethical board expects to move toward a majority of independent directors.

## Increased adviser focus

Australian Ethical has had two of its trusts, the Large Companies Share Trust and the Equities Trust, added to the Macquarie Wrap.

Eighty per cent of retail investment money in Australia goes through wraps (via financial dealer groups). The Macquarie Wrap is one of three market leaders. Macquarie joins a number of other major platforms including ASGARD, Navigator and Summit in offering Australian Ethical products.

As well as an increased presence on adviser approved lists and platforms, Australian Ethical has been educating interested advisers about ethical

investment through our adviser roadshow seminars, our Guide for Advisers information kit and an increased presence at Financial Planning Association events.

Australian Ethical has increased the number of research house ratings for the Equities Trust and Large Companies Share Trust to improve adviser access to our products. Previous ratings from Lonsec were updated in November 2006 and the Large Companies Share Trust received a three star rating from Standard and Poors in January 2007.

# Financial report

to 31 December 2006

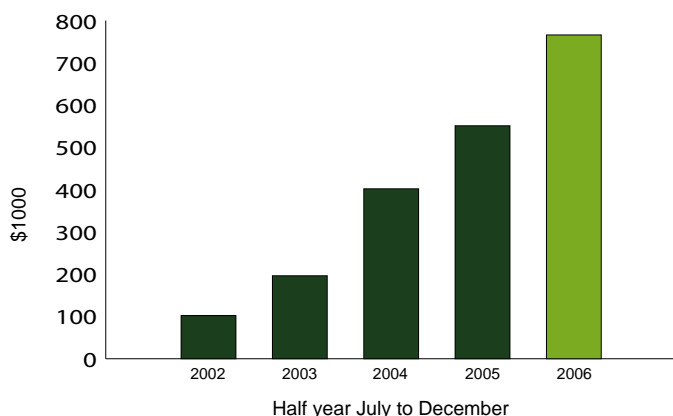
## Financial performance

Half year ending	Jul to Dec 2006	Jul to Dec 2005	Jul to Dec 2004	Jul to Dec 2003
Revenue (\$'000)	5 666	4 457	3 482	2 789
Net profit after tax (\$'000)	766	551	390	196
Basic earnings per share (cents)	82.9	61.4	44.9	22.6

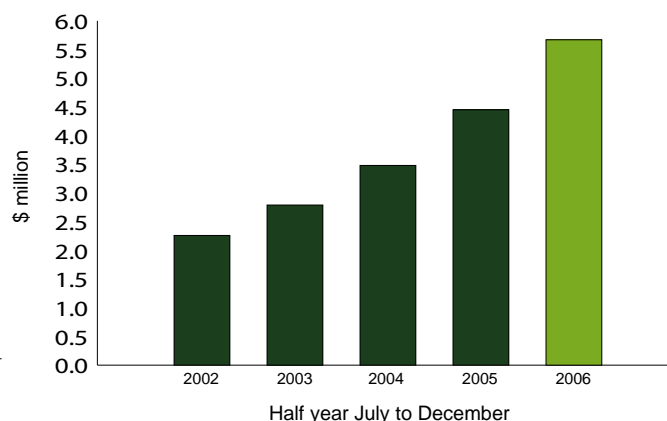
## Financial position

as at	31 Dec 2006	31 Dec 2005	31 Dec 2004	31 Dec 2003
Current assets (\$'000)	5 395	6 308	5 187	4 894
Non-current assets (\$'000)	3 678	2 977	540	478
Current liabilities (\$'000)	2 139	3 439	1 097	942
Non-current liabilities (\$'000)	74	81	51	65
Net assets (\$'000)	6 860	5 765	4 579	4 365

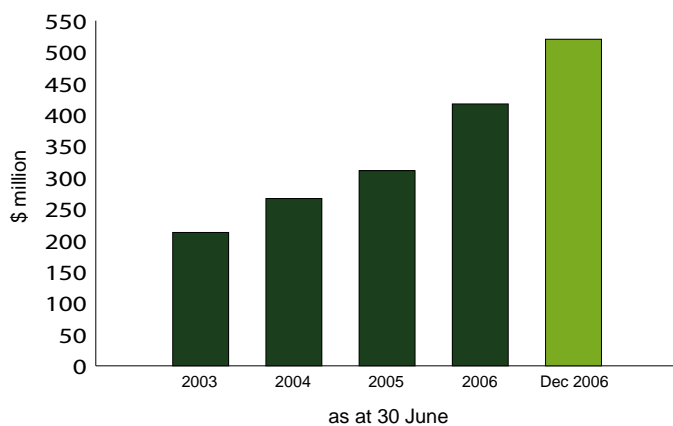
Profit after tax



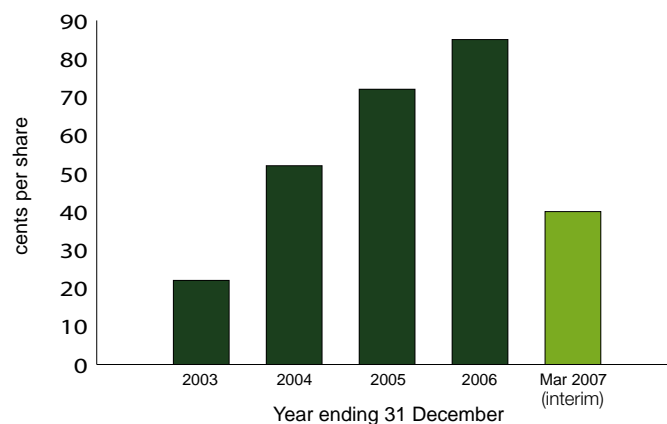
Revenue



Funds under management



Dividends paid



## Shareholder contacts:

### Philip George

Company Secretary  
Phone: 02 6201 1994  
pgeorge@austethical.com.au

### Donna Cameron

Assistant Company Secretary  
Phone: 02 6201 1913  
dcameron@austethical.com.au

## Share registry:

### Registries Limited

Phone: 02 9290 9600  
registries@registriesltd.com.au