

**ETF5 EQUITY SECURITIES LIMITED**

**Registered No: 112019**

**Report and Financial Statements for the  
Year ended 31 December 2013**

# ETFs EQUITY SECURITIES LIMITED

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**ETFS EQUITY SECURITIES LIMITED**  
**MANAGEMENT AND ADMINISTRATION**

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**Directors**

Mr Graham J Tuckwell – Chairman  
Mr Joseph L Roxburgh  
Mr Graeme D Ross

**Company Secretary**

R&H Fund Services (Jersey) Limited  
Ordnance House  
PO Box 83  
31 Pier Road  
St Helier  
Jersey, JE4 8PW

**Trustee**

The Law Debenture Trust Corporation plc  
Fifth Floor  
100 Wood Street  
London, EC2V 7EX

**Jersey Legal Advisers**

Mourant Ozannes  
22 Grenville Street  
St Helier  
Jersey, JE4 8PX

**Auditor**

Deloitte LLP  
Lord Coutanche House  
66-68 Esplanade  
St Helier  
Jersey, JE4 8WA

**Registered Office**

Ordnance House  
PO Box 83  
31 Pier Road  
St Helier  
Jersey, JE4 8PW

**Administrator**

ETFS Management Company (Jersey) Limited  
Ordnance House  
PO Box 83  
31 Pier Road  
St Helier  
Jersey, JE4 8PW

**Registrar**

Computershare Investor Services (Jersey) Limited  
Queensway House  
Hilgrove Street  
St Helier  
Jersey, JE1 1ES

**English Legal Advisers**

Reed Smith LLP  
The Broadgate Tower  
20 Primrose Street  
London, EC2 7EX

# ETFS EQUITY SECURITIES LIMITED

## DIRECTORS' REPORT

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The directors of ETFS Equity Securities Limited ("ESL" or the "Company") submit herewith the annual report and financial statements of the Company for the year ended 31 December 2013.

### Directors

The names and particulars of the directors of the Company during and since the end of the financial year are:

Mr Graham J Tuckwell - Chairman

Mr Graeme D Ross

Mr Craig A Stewart (resigned 8 November 2013)

Mr Joseph L Roxburgh (appointed 25 March 2013)

### Directors' Interests

The following table sets out the only director's interests in Ordinary shares as at the date of this report:

<u>Director</u>	<u>Ordinary Shares of Nil Par Value</u>
Graham J Tuckwell (as controlling party of ETF Securities Limited ("ETFSL"))	2

### Principal Activities

The Company's principal activity will be the listing and issuing of Short Equity Securities and Leveraged Equity Securities ("Equity Securities"), which allow investors to gain exposure to movements in various indices (each an "Equity Index") calculated by different index providers. Two types of Securities will be issued; Short Equity Securities track Short Equity Indices and Leveraged Equity Securities Track Leveraged Equity Indices. The Company will earn an administration allowance (the "Administration Allowance") and licence allowance (the "Licence Allowance") based upon the number of Equity Securities in issue. These fees are expressed as an annual percentage, will be calculated on a daily basis and reflected in the Net Asset Value ("NAV") of the securities on a daily basis, and paid monthly in arrears.

Equity Securities are backed by derivative contracts ("Equity Contracts") which reference the relevant index, with terms corresponding to the terms of the Equity Securities. The Equity Contracts are derivative contracts which provide the Issuer with matching exposure to movements in Equity Indices without the requirement to purchase equities or to trade in equity futures contracts.

Each time Equity Securities are issued or redeemed, matching Equity Contracts between the Company and an Equity Contract Counterparty will be created or cancelled by the Company. The Company has entered into a Facility Agreement with Société Générale, its Equity Contract Counterparty, enabling the Company to create and cancel Equity Contracts on an on-going basis.

The Company has entered into a service agreement with ETFS Management Company (Jersey) Limited ("ManJer"), whereby ManJer is responsible for advisory or consultancy services required by the Company, including advertising and all costs relating to the listing and issuance of securities as borne by ManJer. In return for these services, the Company will pay ManJer an amount equal to the Administration Allowance levied by the Company on the Equity Securities in issue and the Creation and Redemption Fees and Application and Redemption Costs. No Administration Allowance was incurred or paid to ManJer during the year.



**ETFs EQUITY SECURITIES LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**

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**Review of Operations**

The Company was incorporated on 6 December 2012.

The Company recognises its financial assets (Equity Contracts) and financial liabilities (Equity Securities) at fair value in the statement of financial position. As at 31 December 2013, the Company had no Equity Securities or Equity Contracts in issue.

During the year, the Company generated no income from Creation and Redemption Fees or an Administration Allowance.

Under the terms of the Service Agreement with ManJer, the Company is required to accrue expenses equal to the Administration Allowance, Licence Allowance, Creation and Redemptions Fees and the Application and Redemption Costs, which, after taking into account other operating income and expenses, resulted in an operating profit of:

	<b>2013</b>	<b>2012</b>
	<b>USD</b>	<b>USD</b>
Operating Result for the Year / Period	<u>-</u>	<u>-</u>

The gain or loss on the valuation of Equity Securities and Equity Contracts is recognised in the statement of profit or loss and other comprehensive income in line with the Company's accounting policy, these gains or losses offset each other.

The Company's exposure to risk is discussed in note 9 to the financial statements.

**Country and Currency Risk**

The directors do not consider the Company to have an exposure to risk relating to country and currency risk arising from the current economic uncertainties facing a number of countries around the world.

Each Security comprises a debt instrument whose redemption price is linked directly to the price of the relevant underlying index. The Securities will be issued under limited recourse arrangements whereby the holders will have recourse only to the value of the Equity Contracts and not to the Company. In addition, since any such price movements are wholly attributable to the Security holders, the Company will have no residual exposure to price movements of the Equity Contracts. From a commercial perspective the gains or losses on the liability represented by the Securities are matched economically by losses or gains attributable to the Equity Contracts.

Movements in the price of the underlying index, and thus the value of the Securities, may vary widely which could have an impact on the demand for the Securities issued by the Company.

**Future Developments**

The board of directors (the "board") are not aware of any developments that might have a significant effect on the operations of the Company in subsequent financial periods not already disclosed in this report or the attached financial statements.

The Company intends to initially issue the following number of classes, in aggregate, of Equity Securities to be listed on the following exchanges:

Security	London Stock Exchange	Deutsche Börse	Borsa Italiana
Short Equity Securities	1	2	5
Leveraged Equity Securities	1	2	5
Total Equity Securities	<u>2</u>	<u>4</u>	<u>10</u>

**ETFSL EQUITY SECURITIES LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**

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**Dividends**

There were no dividends declared or paid in the current year or previous period. It is the Company's policy that dividends will only be declared when the directors are of the opinion that there are sufficient distributable reserves.

**Employees**

The Company does not have any employees. It is the Company's policy to use the services of specialist subcontractors or consultants as far as possible.

**Auditor**

A resolution to reappoint Deloitte LLP as the auditor of the Company will be proposed at the next meeting of the directors.

**Corporate Governance**

There is no standard code of corporate governance in Jersey. The operations, as previously described in the directors' report, are such that the directors do not consider the Company is required to voluntarily apply the UK Corporate Governance Code.

As the board of directors (the "board") is small there is no Nomination Committee and appointments of new directors are considered by the board as a whole. The board does not consider it appropriate that directors should be appointed for a specific term. Furthermore the structure of the board is such that it is considered unnecessary to identify a senior non-executive director.

The constitution of the board is disclosed above. The directors are either members of the board of the ultimate parent company, ETFSL, employees within the ETFSL group or members of the board of the Company's Administrator, R&H Fund Services (Jersey) Limited, and will continue to have such a composition of directors beyond the next meeting of the directors.

The board meet as is required by the operations of the Company, but at least quarterly to review the overall business of the Company and to consider matters specifically reserved for its review.

**Directors' Remuneration**

No director has a service contract with the Company.

**Internal Control**

During the year the Company did not have any employees or subsidiaries, and there is no intention that this will change. The Company, being a special purpose company established for the purpose of issuing Equity Securities, has not undertaken any business, save for entering into the documents and performing the obligations and exercising its rights in relation to the issuance and redemption of Equity Securities, since its incorporation. The Company does not intend to undertake any business other than issuing and redeeming Equity Securities and performing the obligations and exercising its rights in relation thereto.

The Company is dependent upon ManJer to provide management and administration services to it. ManJer is licensed under the Financial Services (Jersey) Law 1998 to conduct classes U, V and Z of Fund Services Business to conduct the regulated activities. ManJer has outsourced the administration services to a regulated service provider in Jersey, R&H Fund Services (Jersey) Limited ("R&H"). Documented contractual arrangements are in place with the Manager and the Administrator which define the areas where the authority is delegated to them. The performance of the Manager and Administrator are reviewed on an on-going basis by the board of the ultimate parent company, ETFSL, through their review of periodic reports and quarterly management accounts of the Company.

ManJer promotes and provides management and other services to both the Company and other companies issuing commodity based and other securities.

**ETFS EQUITY SECURITIES LIMITED**  
**DIRECTORS' REPORT (CONTINUED)**


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**Internal Control (continued)**

The board, having reviewed the effectiveness of the internal control systems of ManJer and R&H, and having a regard to the role of its external auditor, does not consider that there is a need for the Company to establish its own internal audit function.

**Audit Committee**

The board has not established a separate audit committee; instead the board meets to consider the financial reporting by the Company, the internal controls, and relations with the external auditor. In addition the board reviews the independence and objectivity of the auditor.



Mr Graeme D Ross  
Director  
Jersey  
25 February 2014



## ETFS EQUITY SECURITIES LIMITED

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

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The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

International Accounting Standard 1 requires that financial statements present fairly for each financial period the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board



Mr Graeme D Ross  
Director

25 February 2014

**ETFS EQUITY SECURITIES LIMITED**  
**INDEPENDENT AUDITOR'S REPORT**

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We have audited the financial statements of ETFS Equity Securities Limited for the year ended 31 December 2013 which comprise the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

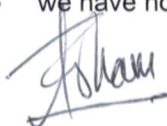
In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its result for the year then ended;
- have been properly prepared in accordance with IFRSs as issued by the International Accounting Standards Board; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.



**Andrew Isham, BA, FCA**  
For and on behalf of Deloitte LLP  
Chartered Accountants  
St. Helier, Jersey

26 February 2014

ETFS EQUITY SECURITIES LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 December 2013 USD	Period from 6 December 2012 to 31 December 2012 USD
Revenue	3	-	-
Expenses	3	-	-
Operating result	3	-	-
Net Gain/(Loss) Arising on Contractual and Fair Value of Equity Contracts		-	-
Net (Loss)/Gain Arising on Fair Value of Equity Securities		-	-
<b>Result and Total Comprehensive Income for the Year/Period</b>		-	-

The directors consider the Company's activities to be continuing.

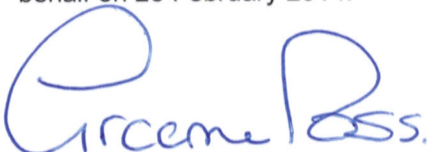


**ETFS EQUITY SECURITIES LIMITED**  
**STATEMENT OF FINANCIAL POSITION**

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		As at 31 December 2013	As at 31 December 2012
	Note	USD	USD
<b>Current Assets</b>			
Trade and Other Receivables	7	3	3
<b>Total Assets</b>		<u>3</u>	<u>3</u>
<b>Equity</b>			
Stated Capital	8	3	3
<b>Total Equity</b>		<u>3</u>	<u>3</u>

The financial statements on pages 8 to 19 were approved by the board of directors and signed on its behalf on 25 February 2014.



Mr Graeme D Ross  
Director

**ETFs EQUITY SECURITIES LIMITED**  
**STATEMENT OF CASH FLOWS**

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	Year ended 31 December 2013 USD	Period from 6 December 2012 to 31 December 2012 USD
<b>Operating Result for the Year/Period</b>	-	-
<b>Net Decrease in Cash and Cash Equivalents</b>	-	-
Cash and Cash Equivalents at the Beginning of the Year/Period	-	-
Net Decrease in Cash and Cash Equivalents	-	-
Cash and Cash Equivalents at the End of the Year/Period	-	-

The notes on pages 12 to 19 form part of these financial statements

**ETFS EQUITY SECURITIES LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**

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	Stated Capital USD	Retained Earnings USD	Total Equity USD
Opening Balance at 6 December 2012	-	-	-
Shares Issued	3	-	3
Closing Balance at 31 December 2012	<u>3</u>	<u>-</u>	<u>3</u>
Opening Balance at 1 January 2013	3	-	3
Total Comprehensive Income for the Year	-	-	-
Balance at 31 December 2013	<u>3</u>	<u>-</u>	<u>3</u>

The notes on pages 12 to 19 form part of these financial statements

# ETFs EQUITY SECURITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. General Information

ETFs Equity Securities Limited (the "Company") is a company incorporated in Jersey. The address of the registered office is Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW.

The ETF Securities Group, of which the Company is a part, specialises in the development and issuance of Exchange Traded Products ("ETPs"). ETPs are transparent securities designed to ensure the price of the securities issued tracks the net asset value of the underlying commodity, index or currency while providing market liquidity for the investor.

The purpose of the Company is to provide a vehicle that permits trading of the Equity Securities, not to make gains from trading in the underlying assets themselves. The Securities are issued under limited recourse arrangements whereby the Company has no residual exposure to price movements of the underlying assets, therefore gains and losses recognised in respect of Equity Contracts held will always be offset by an equal and opposite loss or gain on the Equity Securities. Further details regarding the risks of the Company are disclosed in note 10.

ETPs typically are not actively managed, are significantly lower in cost when compared to actively managed mutual funds and are easily accessible to investors. No trading or management of futures contracts is required of the Company because the Company has entered into arrangements to acquire an equivalent asset exposure to the underlying assets from a third party which fully hedges the exposure of the Company.

The Company is entitled to:

- (1) management and licence fees which are calculated by applying a fixed percentage to the market value of debt securities in issue on a daily basis (according to each Security prospectus); and
- (2) creation and redemption fees on the issue and redemption of the securities.

No management and licence fees, nor creation and redemption fees are payable when investors trade in the Securities on a listed market such as the London Stock Exchange.

The Company has entered into a service agreement with ETFs Management Company (Jersey) Limited ("ManJer"), whereby ManJer is responsible for advisory or consultancy services required by the Company, including advertising and all costs relating to the listing and issuance of securities. In return for these services, the Company pays ManJer an amount equal to the Management Fee charge levied by the Company on the Equity Securities in issue and the Creation and Redemption Fees. As a result there are no profits or losses recognised through the Company.

### 2. Accounting Policies

The main accounting policies of the Company are described below.

#### Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss. There were no financial assets or financial liabilities held at fair value through profit or loss during the period.

The presentation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

During the period, there were no significant estimates or assumptions that affect the balances reported.



## 2. Accounting Policies (continued)

### Accounting Standards

#### (a) *Standards, amendments and interpretations effective on 1 January 2013:*

The following new and revised Standards and Interpretations have been adopted in the current year which may have affected these financial statements. Details of other Standards and Interpretations adopted that have had no effect on these financial statements are set out in section (b).

#### IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

In general the disclosure requirements in IFRS 13 are more extensive than those previously required, and include more detailed quantitative and qualitative disclosures based on the three-level fair value hierarchy covering all assets and liabilities within its scope.

#### Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories:

- a) items that will not be reclassified subsequently to profit or loss; and
- b) items that will be reclassified subsequently to profit or loss when specific conditions are met.

Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments also introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1 the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'.

The presentation of items of other comprehensive income has been modified accordingly.

#### (b) *Standards, amendments and interpretations effective on 1 January 2013 but not relevant to the Company during the period:*

- Amendments to IFRS 7 Financial Instruments: Disclosures
- Amendments to IAS 32 Financial Instruments: Presentation
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 27 (as revised in 2011) Separate Financial Statements
- IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures
- Amendments to IFRS 10 Consolidated Financial Statements
- Amendments to IFRS 12 Disclosure of Interests in Other Entities
- Amendments to IAS 27 Consolidated and Separate Financial Statements
- Amendments to IFRS 11 (Joint Arrangements)
- Amendments to IAS 1 Presentation of Financial Statements
- IAS 19 (as revised in 2011) Employee Benefits
- Amendments to IAS 16 Property, Plant and Equipment issued as part of the annual improvements to IFRSs issued in 2009 – 2011

**2. Accounting Policies (continued)****Accounting Standards (continued)**

(b) *Standards, amendments and interpretations effective on 1 January 2013 but not relevant to the Company during the period (continued):*

- Amendments to IAS 32 Financial Instruments: Presentation issued as part of the annual improvements to IFRSs issued in 2009 – 2011
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

(c) *Standards, amendments and interpretations that are in issue but not yet effective:*

The Company has not adopted the following new and revised IFRSs that have been issued but are not yet effective:

- IFRS 9 Financial Instruments (as amended in 2009)
- IFRS 9 Financial Instruments (as amended in 2010)
- IFRS 9 Financial Instruments (as amended in 2013) (hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)
- Amendments to IAS 36 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014)
- IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after 1 January 2014)
- IAS 19 Employee Benefits - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014)
- Annual Improvements to IFRS (effective for annual periods beginning on or after 1 July 2014)
- IFRIC 21 Levies (effective for annual periods beginning on or after 1 January 2014)

The directors do not expect the adoption of the standards, amendments and interpretations that are in issue but not yet effective listed above will have a material impact on the financial statements of the Company in future periods. Beyond the information above it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

The directors have considered other standards and interpretations in issue but not effective and concluded that they would not have a material impact on the future financial periods when they become available.

**Going Concern**

Upon the future issuance of securities, Equity Securities may be redeemed at any time by the holder and in certain circumstances may be redeemed by the Company. As the redemption of Equity Securities will coincide with the termination of an equal amount of Equity Contracts, no liquidity risk will arise.

All expenses and liabilities of the Company will be met by ManJer; therefore the directors consider the Company to be a going concern and have prepared the financial statements on this basis.

**Equity Securities and Contracts****i) Issuance and Redemption**

The Company has entered into a Facility Agreement with Société Générale to permit the Company to purchase and redeem Equity Contracts at prices equivalent to Equity Securities issued or redeemed on the same day. Each time an Equity Security is issued or redeemed by the Company a matching number and value of Equity Contracts will be purchased or redeemed from Société Générale. The Equity Contracts represent financial assets of the Company and the Equity Securities give rise to financial liabilities.

Financial assets and liabilities will be recognised and de-recognised on the trade date.



**2. Accounting Policies (continued)****Equity Securities and Contracts (continued)**

## ii) Pricing

The Equity Contracts will be priced using the product of the relevant indices published by the relevant Equity Index Sponsor, a Multiplier calculated by the Company and agreed with Société Générale and the Adjustment Factor. The multiplier takes into account the daily accrual of the Administration Allowance, the Licence Allowance and the Swap Spread and Collateral Cost payable to the Equity Contract Counterparty. The Adjustment Factor will only be relevant in specific circumstances as outlined in the prospectus.

The Equity Securities will be priced using the mid market price on the statement of financial position date taken just before the final close of the market. IFRS 13 requires the Company to utilise the available market price as the Equity Securities will be quoted on the open market. Consequently differences arising in the pricing of Equity Securities will be included in the statement of financial position and the statement of profit or loss and total comprehensive income in order to fair value the liability.

## iii) Designation at fair value through Profit or Loss

Each Equity Security and Equity Contract shall comprise a financial instrument whose redemption price will be linked directly to the price of the underlying Equity Index on a one-to-one basis.

These instruments will be designated at fair value through the profit or loss upon initial recognition. This is in order to eliminate a measurement mismatch enabling gains or losses on both the Equity Security and Equity Contract to be recorded in the statement of profit or loss and other comprehensive income.

**Equity Contracts and Securities Awaiting Settlement**

The issue or redemption of Equity Securities, and the purchase or sale of Equity Contracts, is accounted for on trade date ("T"). Where settlement pricing is applied, the trade will not settle until T+3. Where trades are awaiting settlement at the period end, the monetary amount due to be settled is separately disclosed within the relevant assets and liabilities on the statement of financial position.

**Revenue Recognition**

Revenue is recognised to the extent that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty.

Fees received for the issue and redemption of securities will be recognised at the date on which the transaction becomes legally binding. All other income and expenses will be recognised on an accruals basis.

**Interest Income**

Interest income is recognised on an accruals basis.

**Cash and Cash Equivalents**

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

**2. Accounting Policies (continued)**

**Loans and Receivables**

The loans and receivables are non-derivative financial assets with a fixed payment amount and are not quoted in an active market. After initial measurement the loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses on loans and receivables which are impaired are recognised immediately through profit or loss.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the debt instrument (or where appropriate a shorter period) to the net amount initially recognised. Future cash receipts include all fees and amounts paid or received that form an integral part of the transaction, transaction costs and other premiums or discounts.

**Foreign Currency Translation**

The presentational and functional currencies of the Company are both US Dollars ("USD").

Monetary assets and liabilities denominated in foreign currencies at the period end date will be translated at rates ruling at that date. Creation and Redemption fees will be translated at the average rate for the quarter in which they will be incurred. The resulting differences will be accounted for through profit or loss.

**Segmental Reporting**

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company reports information on its operations for each of the Company's business segments only, as the Company only has one geographic segment which is the UK and Europe. The directors believe that each type of Equity Security – Short and Leveraged – comprises a segment. There is no separate disclosure of results by segment as there have been no operations in the period ended 31 December 2013.

**3. Operating Result**

Operating result for the year / period comprised:

	Year ended 31 December 2013	Period from 6 December 2012 to 31 December 2012
	USD	USD
Creation and Redemption Fees	-	-
Administration Allowance	-	-
Licence Allowance	-	-
<b>Total Revenue</b>	-	-
Administration Allowance to ManJer	-	-
<b>Total operating expenses</b>	-	-
<b>Operating Result</b>	-	-

Audit fees for the year of GBP 5,000 will be met by ManJer (2012: GBP 5,000).



**ETF S EQUITY SECURITIES LIMITED****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**4. Directors' Remuneration**

No Directors' fees have been incurred or paid by Company during the year.

**5. Taxation**

The Company is subject to Jersey Income Tax. The Jersey Income Tax rate for the foreseeable future is zero percent.

**6. Employee Benefits**

The Company has no employees and has paid no remuneration or benefits during the year in respect of employees.

**7. Trade and Other Receivables**

	As at 31 December 2013	As at 31 December 2012
	USD	USD
Stated Capital	<u>3</u>	<u>3</u>

**8. Stated Capital**

	As at 31 December 2012	As at 31 December 2012
	USD	USD
2 Shares of No Par Value, Issued at GBP 1 Each	<u>3</u>	<u>3</u>

The Company has an unlimited capital of no par value shares.

All shares issued by the Company carry one vote per share without restriction and carry the right to dividends. All shares are held by ETF S Holdings (Jersey) Limited ("HoldCo").

**9. Related Party Disclosures**

The immediate parent company is HoldCo, a Jersey registered company. The ultimate controlling party is Graham J Tuckwell through his shareholding in ETFSL. ETFSL is the parent company of HoldCo.

As at 31 December 2013, USD 3 is receivable from HoldCo.

Entities and individuals which have a significant influence over the Company either through the ownership of HoldCo shares, or by virtue of being a director of the Company are related parties.

Graeme D Ross and Craig A Stewart are directors of R&H Fund Services (Jersey) Limited ("R&H"), the administrator.

Graham J Tuckwell is also a director of ETFSL, ManJer and HoldCo.

Joseph L Roxburgh is also a director of ManJer and HoldCo.

**10. Financial Risk Management**

The Company will be exposed to a number of risks arising from its activities. The risk management policies employed by the Company to manage these are discussed below.

*(a) Credit Risk*

The value of Equity Securities and the ability of the Company to repay the redemption price is dependent on the receipt of such amount from Société Générale and may be affected by the credit rating attached to Société Générale.

The obligations of Société Générale under the Equity Contracts rank only as an unsecured claim against Société Générale. To cover the credit risk under the Equity Contracts, Société Générale will be required to place an equivalent amount of collateral into a pledge account with the Bank of New York Mellon (Luxemburg) S.A. based on the total outstanding value of the Equity Contracts two business days before. In the event of default by Société Générale, the Company has rights over the amounts placed in this pledge account.

*(b) Liquidity Risk*

Generally, there is no liquidity risk to the Company because the maturity profile of the Equity Securities and Equity Contracts will be exactly matched. Therefore, the Company will not have to wait for a longer-term contract to mature in order to pay its debts to ex-security holders.

*(c) Settlement Risk*

The directors believe that settlement risk would only be caused by the risk of the Company's trading counterparty not delivering cash or securities on the settlement date. The directors feel that this risk is mitigated as a result of the cash or securities settling through the registrar's CREST system. The system ensures that the transaction does not settle until both parties have fulfilled their sides of the bargain.

*(d) Sensitivity Analysis*

IFRS 7 requires disclosure of a sensitivity analysis for each type of market risk to which the entity is exposed to at the reporting date, showing how comprehensive income and shareholders' equity would have been affected by a reasonably possible change to the relevant risk variable.

There have been no operations in the year ended 31 December 2013, and there was no market exposure at 31 December 2013; therefore no sensitivity analysis is required.

*(e) Capital Management*

The Company's principal activity will be the listing and issuing of Equity Securities. These securities will be issued as demand requires. The Company will hold a corresponding amount of Equity Contracts which exactly matches the total securities issued. ManJer will supply and arrange for the supply of all administrative services to the Company and will pay all management and administration costs of the Company, in return for which the Company will pay ManJer a fee equal to the Administration Allowance and Creation and Redemption Fees charged to the Equity Securities. The Company is not subject to any capital requirements imposed by a regulator and there were no changes in the Company approach to capital management during the period.

As all Equity Securities on issue will be supported by an equivalent amount of Equity Contracts held by Société Générale and the running costs of the Company will be paid by ManJer, the directors of the Company consider the capital management and its current capital resources are adequate.



**10. Financial Risk Management (continued)**

(f) *Market Risk*

The Company's liability in respect of the Equity Securities issued will be related to the index price by reference to the futures market as quoted on the relevant futures exchanges and will be managed by the Company by entering into Equity Contracts with Société Générale which exactly match the liability created by the issue of Equity Securities. The Company, therefore, will bear no financial risk from a change in the price of Equity by reference to the futures price.

However there is an inherent risk from the point of view of investors as the price of indices, and thus the value of the Equity Securities, may vary widely. The market price of Equity Securities is a function of supply and demand amongst investors wishing to buy and sell Equity Securities and the bid-offer spread that the market makers are willing to quote.

(g) *Fair Value Hierarchy*

The levels in the hierarchy are defined as follows:

- Level 1 – fair value based on quoted prices in active markets for identical assets.
- Level 2 – fair values based on valuation techniques using observable inputs other than quoted prices within level 1.
- Level 3 – fair values based on valuation techniques using inputs that are not based on observable market data.

Categorisation within the hierarchy is determined on the basis of the lowest level input that is significant to the fair value measurement of each relevant asset/liability.

The Company's liability in respect of Equity Securities relates to its contractual obligations to trade with certain counterparties at set prices on each trading day. These prices are based on an agreed formula, and are equal to the published NAVs of each class of Equity Security. In applying IFRS 13, the Company must utilise the available market price as the Equity Securities will be quoted on the open market. As a result the Equity Securities will be reclassified as Level 1 financial liabilities.

The Company's rights in respect of Equity Contracts relates to its contractual obligations to trade with certain counterparties at set prices on each trading day. These prices are based on an agreed formula, and are equal to the published NAVs of each class of Equity Security. Therefore, Equity Contracts are classified as level 2 financial assets, as the Company's asset is calculated using third party pricing sources supported by observable, verifiable inputs.

	Fair Value	
	2013	2012
<b>Level 1</b>	<b>USD</b>	<b>USD</b>
Equity Securities (Liabilities)	-	-
	<b>USD</b>	<b>USD</b>
Equity Contracts (Assets)	-	-

There are no assets or liabilities classified in level 3. There were no reclassifications between levels during the period.

**11. Ultimate Controlling Party**

The ultimate controlling party is Graham J Tuckwell, through his majority shareholding in ETFSL.