

ETFS EQUITY SECURITIES LIMITED

Registered No: 112019

**Report and Financial Statements for the
Period from Incorporation on 6 December 2012 to 31 December 2012**

ETFS EQUITY SECURITIES LIMITED
CONTENTS

Management and Administration	1
Directors' Report	2
Statement of Directors' Responsibilities	6
Independent Auditor's Report	7
Statement of Comprehensive Income	8
Statement of Financial Position	9
Statement of Cash Flows	10
Statement of Changes in Equity	11
Notes to the Financial Statements	12-17

ETFs EQUITY SECURITIES LIMITED
MANAGEMENT AND ADMINISTRATION

Directors

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

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

The directors of ETFS Equity Securities Limited ("ESL" or the "Company") submit herewith the annual report and financial statements of the Company for the period from 6 December 2012 to 31 December 2012.

Directors

The names and particulars of the directors of the Company during the period from 6 December 2012 through to the date of this report were:

Mr Graham J Tuckwell - Chairman	(appointed 6 December 2012)
Mr Graeme D Ross	(appointed 6 December 2012)
Mr Craig A Stewart	(appointed 6 December 2012, resigned 8 November 2013)
Mr Joseph L Roxburgh	(appointed 25 March 2013)

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 period.

ETFS EQUITY SECURITIES LIMITED
DIRECTORS' REPORT - CONTINUED

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 2012, the Company had no Equity Securities or Equity Contracts in issue.

During the period, 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:

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

The gain or loss on the valuation of Equity Securities and Equity Contracts is recognised in the statement of 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 a significant 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 are issued under limited recourse arrangements whereby the holders 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 has no residual exposure to price movements of the Equity Contracts. From a commercial perspective it is clear that gains or losses on the liability represented by the Securities are matched economically by losses or gains attributable to the Equity Contracts. The Company has no net exposure.

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 directors 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>

ETFS EQUITY SECURITIES LIMITED
DIRECTORS' REPORT - CONTINUED

Dividends

During the period the Company did not pay any of dividends. 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.

Directors' Interests

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

Directors

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

Auditor

Deloitte LLP were appointed as Auditor of the Company from 6 December 2012. 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. With the exception of Mr Roxburgh, the directors are either members of the board of the ultimate parent company, ETFSL, or members of the board of the Company's Administrator, R&H Fund Services (Jersey) Limited.

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.

ETFs EQUITY SECURITIES LIMITED
DIRECTORS' REPORT - CONTINUED

Directors' Remuneration

No director has a service contract with the Company.

Internal Control

During the period 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 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.

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.



Graeme D Ross

Director
Jersey

20 November 2013

ETFS EQUITY SECURITIES LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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



Graeme D Ross

Director

20 November 2013

ETFs EQUITY SECURITIES LIMITED
INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements of ETFs Equity Securities Limited for the period from 6 December 2012 to 31 December 2012 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 10. 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 2012 and of its result for the period from 6 December 2012 to 31 December 2012;
- 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

20 November 2013

ETFS EQUITY SECURITIES LIMITED
STATEMENT OF COMPREHENSIVE INCOME

	Note	Period from 6 December 2012 to 31 December 2012 USD
Revenue	2	-
Expenses		
Administration Allowance to ManJer	2	-
Operating result	2	-
Net Gain Arising on Fair Value of Equity Contracts		-
Net Loss Arising on Fair Value of Equity Securities		-
Total Comprehensive Income for the Period		-

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

The notes on pages 12 to 17 form part of these financial statements

ETFs EQUITY SECURITIES LIMITED
STATEMENT OF FINANCIAL POSITION

		As at 31 December 2012
	Note	USD
Current Assets		
Trade and Other Receivables	6	3
Total Assets		<u>3</u>
Equity		
Stated Capital	7	3
Total Equity		<u>3</u>

The financial statements on pages 8 to 17 were approved by the board of directors and signed on its behalf on 20 November 2013.



Graeme D Ross
Director

The notes on pages 12 to 17 form part of these financial statements

ETFS EQUITY SECURITIES LIMITED
STATEMENT OF CASH FLOWS

	Period from 6 December 2012 to 31 December 2012 USD
Operating Result for the Period	-
Net Decrease in Cash and Cash Equivalents	-
Cash and Cash Equivalents at the Beginning of the Period	-
Net Decrease in Cash and Cash Equivalents	-
Cash and Cash Equivalents at the End of the Period	-

The notes on pages 12 to 17 form part of these financial statements

ETF5 EQUITY SECURITIES LIMITED
STATEMENT OF CHANGES IN EQUITY

	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>

The notes on pages 12 to 17 form part of these financial statements

ETFS EQUITY SECURITIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS

1. 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 estimate or assumptions that affect the balances reported.

(a) Standards, amendments and interpretations effective on 1 January 2012:

No new and revised standards and interpretations have been adopted in the current period 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).

(b) Standards, amendments and interpretations effective on 1 January 2012 but not relevant to the Company:

- Amendments to IFRS 7 "Disclosures – Transfers of Financial Assets"
- Amendments to IAS 12 "Income Taxes"

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

- IFRS 9 "Financial Instruments" (effective 1 January 2015)
- IFRS 13 "Fair Value Measurement" (effective 1 January 2013)
- Amendments to IFRS 7 "Financial Instruments: Disclosures" (effective 1 January 2013)
- Amendments to IAS 1 "Presentation of Financial Statements" (effective 1 July 2012)
- Amendments to IAS 32 "Financial Instruments: Presentation" (effective 1 January 2014)
- Various improvements to IFRSs issued in 2011 (effective 1 January 2013)

The directors anticipate that the adoption of these standards in future periods will have no material financial impact; however the amendments may change the presentation of the financial statements. The directors have considered other new and revised standards and they believe that they are not relevant to the Company's activities.

1. Accounting Policies - continued

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 are 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 are 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.

ii) Pricing

The Equity Contracts and Equity Securities are 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.

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 are 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 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 are recognised at the date on which the transaction becomes legally binding. All other income and expenses are recognised on an accruals basis.

1. Accounting Policies - continued

Interest Income

Interest income is recognised on an accruals basis.

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 in the statement of comprehensive income.

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.

Cash and Cash Equivalents

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

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 are translated at rates ruling at that date. Creation and Redemption fees are translated at the average rate for the quarter in which they are incurred. The resulting differences are accounted for in the statement of comprehensive income.

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 2012.

ETFs EQUITY SECURITIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

2. Operating Result

Operating result for the period comprised:

	Period from 6 December 2012 to 31 December 2012
	USD
Creation and Redemption Fees	-
Administration Allowance	-
Licence Allowance	-
Total Revenue	-
Administration Allowance to ManJer	-
Total operating expenses	-
Operating Result	-

Audit fees for the period of GBP 5,000 will be met by ManJer.

3. Directors' Remuneration

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

4. Taxation

Profits arising in the Company are subject to tax at the rate of zero per cent.

5. Employee Benefits

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

6. Trade and Other Receivables

	As at 31 December 2012
	USD
Stated Capital	3

7. Stated Capital

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

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 ETFs Holdings (Jersey) Limited ("HoldCo").

8. 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 2012, 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.

9. 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) 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.

(b) 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 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.

(c) 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.

(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 period from 6 December 2012 to 31 December 2012; therefore no sensitivity analysis is required.

ETFs EQUITY SECURITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

9. Financial Risk Management - continued

(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.

(f) 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.

(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.

Whilst the Equity Securities will be quoted on the open market, the Company's liability will relate to its contractual obligations to trade with certain counterparties at set prices on each trading day. These prices will be based on an agreed formula, and will be equal to the published NAV's of each class of Equity Security. Therefore, Equity Securities and Equity Contracts will be classified as level 2 financial liabilities and financial assets respectively, as the Company's asset and liability will be calculated using third party pricing sources supported by observable, verifiable inputs.

	Fair Value
	2012
Level 2	USD
Equity Contracts	-
Equity Securities	-

There are no assets or liabilities classified in levels 1 or 3. There were no reclassifications between levels during the period.

10. Ultimate Controlling Party

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