

**ETF5 EQUITY SECURITIES LIMITED**

**Registered No: 90959**

**Unaudited Interim Financial Report for the  
Six Months to 30 June 2014**

# ETFS EQUITY SECURITIES LIMITED

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# ETFS EQUITY SECURITIES LIMITED

## DIRECTORS' REPORT

The directors of ETFS Equity Securities Limited ("ESL" or the "Company") submit herewith the unaudited interim financial report and interim financial statements of the Company for the period ended 30 June 2014.

### Directors

The names and particulars of the directors of the Company during or since the end of the financial period 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

During the period there were no significant changes in the nature of the Company's activities.

### Review of Operations

During the period, the Company had the following number of classes, in aggregate, of Equity Securities in issue and admitted to trading 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	2	4	10

As at 30 June 2014, assets under management amounted to USD 7.3 million (31 December 2013: USD Nil). The Company recognises its financial assets (Equity Contracts) and financial liabilities (Equity Securities) at fair value in the Statement of Financial Position.

During the period, the Company generated income from creation and redemption fees, management fees and licence allowance as follows:

	30 June 2014	30 June 2013
	USD	USD
Creation and Redemption Fees	-	-
Management Fees and Licence Allowance	5,139	-
Total Fee Income	5,139	-

Under the terms of the service agreement with ETFS Management Company (Jersey) Limited ("ManJer"), the Company accrued expenses equal to the management fees and licence allowance and creation and redemption fees, which, after taking into account other operating income and expenses, resulted in an operating result for the period of USD Nil (30 June 2013: USD Nil).

**Review of Operations (continued)**

The gain or loss on 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.

IFRS 13 requires the Company to utilise the available market price for the Equity Securities as quoted on the open market.

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 published in the prospectus, and are equal to the published net asset value ("NAV") of each class of Equity Security.

As a result of the difference in valuation methodology between Equity Contracts and Equity Securities there is a mis-match between accounting values, and the results of the Company reflect a gain or loss on the difference between the agreed formula price of the Equity Contracts and the market price of Equity Securities. This gain or loss would be reversed on a subsequent redemption of the Equity Securities and cancellation of the equivalent Equity Contracts.

**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 interim financial statements.

**Dividends**

There were no dividends declared or paid in the current 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.

**Directors' Remuneration**

No director has a service contract with the Company and details of the directors' remuneration which has been paid by ManJer on behalf of the Company for the period is disclosed below.

	<b>30 June 2014</b>	<b>30 June 2013</b>
	<b>GBP</b>	<b>GBP</b>
Mr Graham J Tuckwell - Chairman	Nil	Nil
Mr Graeme D Ross	3,750	Nil
Mr Craig A Stewart	Nil	Nil
Mr Joseph L Roxburgh	Nil	Nil

On behalf of the directors



**Graeme D Ross**  
Director  
Jersey  
27 August 2014

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

Company law requires the directors to prepare interim financial statements for each financial period. Under that law the directors have elected to prepare the interim 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, the 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

27 August 2014

ETFS EQUITY SECURITIES LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Period ended 30 June 2014 Unaudited USD	Period ended 30 June 2013 Unaudited USD
<b>Revenue</b>	2	5,139	-
<b>Expenses</b>	2	(5,139)	-
<b>Operating Result</b>	2	<u>-</u>	<u>-</u>
Net Loss Arising on Contractual and Fair Value of Equity Contracts	5	159,182	-
Net Gain Arising on Fair Value of Equity Securities	6	(202,028)	-
<b>Result and Total Comprehensive Income for the Period</b>	6	<u>(42,846)</u>	<u>-</u>
<sup>1</sup> Adjustment from Market Value to Contractual Formula Price (as set out in the prospectus) of Equity Securities	1	42,846	-
<b>Adjusted Result and Total Comprehensive Income for the Period</b>		<u>-</u>	<u>-</u>

The directors consider the Company's activities as continuing.

<sup>1</sup> The definition of non-statutory adjustments is set out on page 8. This represents the movement in the difference between the agreed formula price of the Equity Contracts and the market price of Equity Securities.

The notes on pages 8 to 14 form part of these financial statement

**ETFS EQUITY SECURITIES LIMITED**

**STATEMENT OF FINANCIAL POSITION**

	Note	As at	
		30 June 2014 Unaudited USD	31 December 2013 Audited USD
<b>Current Assets</b>			
Trade and Other Receivables	4	5,142	3
Equity Contracts	5	7,312,282	-
<b>Total Assets</b>		<u>7,317,424</u>	<u>-</u>
<b>Current Liabilities</b>			
Equity Securities	6	7,355,128	-
Trade and Other Payables	7	5,139	-
<b>Total Liabilities</b>		<u>7,360,267</u>	<u>-</u>
<b>Equity</b>			
Stated Capital	8	3	3
Revaluation Reserve		(42,846)	
<b>Total Equity</b>		<u>(42,843)</u>	<u>3</u>
<b>Total Equity and Liabilities</b>		<u>7,317,424</u>	<u>3</u>

The financial statements on pages 4 to 14 were approved by the board of directors and signed on its behalf on 27 August 2014.



**Graeme D Ross**  
Director

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

	<b>Period ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<b>USD</b>	<b>USD</b>
<b>Operating Result for the Period</b>	-	-
<i>Changes in Operating Assets and Liabilities</i>		
Increase in Receivables	(5,139)	-
Increase in Payables	5,139	-
Cash Generated from/(Used in) Operations	-	-
<b>Net Movement in Cash and Cash Equivalents</b>	-	-
Cash and Cash Equivalents at the Beginning of the Period	-	-
Net Movement in Cash and Cash Equivalents	-	-
Cash and Cash Equivalents at the End of the Period	-	-

Equity Securities are issued or redeemed by receipt/transfer of Equity Contracts and have been netted off in the Statement of Cash Flows.

The notes on pages 8 to 14 form part of these financial statement



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

	Note	Stated Capital		Retained Earnings		Revaluation Reserve <sup>2</sup>		Total Equity		Adjusted Total Equity	
		USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
Opening Balance at 1 January 2013		3	-	-	-	-	-	3	3		3
Total Comprehensive Income for the Period		-	-	-	-	-	-	-	-		-
Unaudited Balance at 30 June 2013		3	-	-	-	-	-	3	3		3
Audited Opening Balance at 1 January 2014		3	-	-	-	-	-	3	3		3
Result and Total Comprehensive Income for the Period		-	(42,846)	-	-	-	-	(42,846)	(42,846)		(42,846)
Transfer to Revaluation Reserve	6	-	42,846	-	-	(42,846)	-	-	-		-
<sup>3</sup> Adjustment from Market Value to Contractual Formula Price (as set out in the prospectus) of Equity Securities	6	-	-	-	-	-	-	-	-		42,846
Unaudited Balance at 30 June 2014		3	-	-	-	(42,846)	-	(42,843)	(42,843)		3

<sup>2</sup> This represents the difference between the agreed formula price of the Equity Contracts and the market price of Equity Securities.

<sup>3</sup> The definition of non-statutory adjustments is set out on page 8.

The notes on pages 8 to 14 form part of these financial statement

# ETFS EQUITY SECURITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. Accounting Policies

The main accounting policies of the Company are described below.

#### Basis of Preparation

The interim financial statements for the six months ended 30 June 2014 have been prepared in accordance with IAS 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. The interim 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 and should be read in conjunction with the annual financial statements for the year ended 31 December 2013.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2013. The interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements as at 31 December 2013.

The presentation of interim 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.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The only key accounting judgement required to prepare these financial statements is in respect of the valuation of Equity Contracts and Equity Securities held at fair value through the profit or loss as disclosed in notes 5 and 6. Actual results could vary from these estimates.

This half yearly report has not been audited or reviewed by the Company's auditors.

#### Accounting Standards

(a) *Standards, amendments and interpretations effective on 1 January 2014 but not relevant to the Company:*

- Amendments to IFRS 10 Consolidated Financial Statements - Investment Entities
- Amendments to IFRS 12 Disclosure of Interests in Other Entities - Investment Entities
- Amendments to IAS 27 Separate Financial Statements - Investment Entities
- Amendments to IAS 36 Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IAS 32 Financial Instruments: Presentation
- IAS 39 Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting
- IFRIC 21 Levies

(b) *Standards, amendments and interpretations that are in issue but 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 IFRS 11 Joint Arrangements - accounting for acquisitions of an interest in a joint operation (effective for annual periods beginning on or after 1 January 2016)
- IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016)
- IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2017)
- Amendments to IAS 16 Property, Plant and Equipment - clarification of acceptable methods of depreciation and amortisation and bringing bearer plants within scope (effective for annual periods beginning on or after 1 January 2016)

**1. Accounting Policies (continued)**

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

- IAS 19 Employee Benefits - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014)
- Amendments to IAS 38 Intangible Assets - clarification of acceptable methods of depreciation and amortisation (effective for annual periods beginning on or after 1 January 2016)
- Amendments to IAS 41 Agriculture - bringing bearer plants into the scope of IAS 16 (effective for annual periods beginning on or after 1 January 2016)
- Annual Improvements to IFRS (effective for annual periods beginning on or after 1 July 2014)

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 concluded that they would not have a material impact on the future financial periods when they become available.

**Going Concern**

The nature of the Company's business dictates that the outstanding 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 redemption of an equal amount of Equity Contracts, no liquidity risk is considered to arise. All other liabilities of the Company are met by ManJer; therefore the directors consider the Company to be a going concern for the foreseeable future 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.

When Equity Contracts are redeemed from Société Générale they are redeemed from the earliest Equity Contract issued and then the next earliest contract until the redemption has been satisfied. This method is known as first in first out ("FIFO").

**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 have been valued using the market price under IFRS 13 which requires the Company to utilise the available market price as the Equity Securities are quoted on the open market. Consequently differences arising in the pricing of Equity Securities are 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. The cumulative differences between the actual settlement value of the Equity Securities and the fair value are presented as a non-statutory movement entitled 'Adjustment from Market Value to Contractual Formula Price (as set out in the prospectus) of Equity Securities'.

# ETFS EQUITY SECURITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 1. Accounting Policies (continued)

#### Equity Securities and Contracts

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.

#### 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 30 June 2014.

### 2. Operating Result

Operating result for the period comprised:

	Period ended 30 June	
	2014	2013
	Unaudited	Unaudited
	USD	USD
Creation and Redemption Fees	-	-
Administration Allowance	4,672	-
Licence Allowance	467	-
<b>Total Revenue</b>	<b>5,139</b>	<b>-</b>
Management Fees to ManJer	(5,139)	-
<b>Total Operating Expenses</b>	<b>-</b>	<b>-</b>
<b>Operating Result</b>	<b>-</b>	<b>-</b>

### 3. Taxation

The Company is subject to Jersey Income Tax at the rate of 0%.

**ETFS EQUITY SECURITIES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**4. Trade and Other Receivables**

	As at	
	30 June 2014 Unaudited USD	31 December 2013 Audited USD
Management Fee and Licence Allowance	5,139	-
Creation and Redemption Fees	-	-
Stated Capital	3	3
	5,142	3

**5. Equity Contracts**

	Fair Value at 30 July 2014 Unaudited USD	Fair Value at 31 December 2013 Audited USD
	Short Equity Contracts	4,591,102
Leveraged Equity Contracts	2,721,180	-
Total Equity Contracts	7,312,282	-
	Change in Fair Value at 30 June 2014 Unaudited USD	Change in Fair Value at 31 December 2013 Audited USD
Short Equity Contracts	1,148,104	-
Leveraged Equity Contracts	(988,922)	-
Total Equity Contracts	159,182	-

**6. Equity Securities**

Whilst the Equity Securities are quoted on the open market, the Company's liability 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, the actual contractual issue and redemption of Equity Securities occur at a price that fully match gains or losses on the Equity Contracts. As a result the Company has no net exposure to gains or losses on the Equity Securities and Equity Contracts.

Through the adoption of IFRS 13, the Company needs to measure the Equity Securities at their transferable value rather than their settlement value. The transferable value is deemed to be the prices quoted on stock exchanges or other markets where the Equity Securities are listed or traded. However Equity Contracts continue to be valued based on the agreed formula (which is equal to the published NAVs of each class of Equity Security).

**ETFS EQUITY SECURITIES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**6. Equity Securities (continued)**

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. The fair values and changes thereof during the period based on prices available on the open market as recognised in the financial statements are:

	<b>Market Fair Value at 30 July 2014 Unaudited USD</b>	<b>Market Fair Value at 31 December 2013 Audited USD</b>
Short Equity Securities	4,616,141	-
Leveraged Equity Securities	2,738,987	-
<b>Total Equity Securities</b>	<b>7,355,128</b>	<b>-</b>
	<b>Change in Fair Value at 30 June 2014 Unaudited USD</b>	<b>Change in Fair Value at 31 December 2013 Audited USD</b>
Short Equity Securities	1,173,144	-
Leveraged Equity Securities	(971,116)	-
<b>Total Equity Securities</b>	<b>202,028</b>	<b>-</b>

The contractual redemption values and changes thereof during the period/year based on the contractual settlement values are:

	<b>Change in Contractual Redemption Value at 30 June 2014 Unaudited USD</b>	<b>Change in Contractual Redemption Value at 31 December 2013 Audited USD</b>
Short Equity Securities	1,148,104	-
Leveraged Equity Securities	(988,922)	-
<b>Total Equity Securities</b>	<b>159,182</b>	<b>-</b>
	<b>Contractual Redemption Value at 30 June 2014 Unaudited USD</b>	<b>Contractual Redemption Value at 31 December 2013 Audited USD</b>
Short Equity Securities	4,591,102	-
Leveraged Equity Securities	2,721,180	-
<b>Total Equity Securities</b>	<b>7,312,282</b>	<b>-</b>

The gain or loss on the difference between the agreed formula price of the Equity Contracts and the market price of Equity Securities would be reversed on a subsequent redemption of the Equity Securities and cancellation of the equivalent Equity Contracts. This gain or loss has been transferred to a Revaluation Reserve which is non-distributable.

**6. Equity Securities (continued)**

The overall impact is that through the mis-matched accounting values, the results of the Company reflect a gain or loss on the movement in the difference between the agreed formula price of the Equity Contracts and the market price of Equity Securities. The mismatched accounting values are as shown below and represent the non-statutory adjustment presented on the statement of profit or loss and other comprehensive income:

	<b>Period Ended 30 June 2014 Unaudited USD</b>	<b>Year Ended 31 December 2013 Audited USD</b>
Net Gain Arising on Contractual and Fair Value of Equity Contracts	159,182	-
Net Loss Arising on Contractual Redemption Value of Equity Securities	(202,028)	-
	<u>(42,846)</u>	<u>-</u>

**7. Trade and Other Payables**

	<b>As at</b>	
	<b>30 June 2014 Unaudited USD</b>	<b>31 December 2013 Audited USD</b>
Management Fees Payable to ManJer	<u>5,139</u>	<u>-</u>

**8. Stated Capital**

	<b>As at</b>	
	<b>30 June 2014 Unaudited USD</b>	<b>31 December 2013 Audited USD</b>
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 ETFS Holdings (Jersey) Limited ("HoldCo").

**9. Related Party Disclosures**

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.

*Management Fees paid to ManJer during the period:*

	<b>Period Ended 30 June 2014 Unaudited USD</b>	<b>Year Ended 31 December 2013 Audited USD</b>
Management Fees	5,139	-

*The following balances were due to ManJer at period end:*

	<b>As at</b>	
	<b>30 June 2014 Unaudited USD</b>	<b>31 December 2013 Audited USD</b>
Management Fees Payable	5,139	-

As disclosed in the Directors' Report, ManJer paid directors' fees in respect of the Company of GBP 3,750 (30 June 2013: GBP Nil).

As at 30 June 2014, USD 3 is receivable from HoldCo.

Graeme D Ross and Craig A Stewart are directors of R&H Fund Services (Jersey) Limited ("R&H"), the administrator. During the period, R&H charged ManJer secretarial and administration fees in respect of the Company of GBP 19,500 (30 June 2013: GBP Nil), of which GBP 9,750 (30 June 2013: GBP Nil) was outstanding at the period end.

Craig A Stewart was appointed as director of ManJer on 18 July 2013.

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

**10. Ultimate Controlling Party**

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.