

**ETFS FOREIGN EXCHANGE LIMITED**

**Registered No: 103518**

**Report and Financial Statements for the  
Year ended 31 December 2012**

# ETFS FOREIGN EXCHANGE LIMITED

## CONTENTS

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Management and Administration	1
Directors' Report	2-5
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	12-19

**ETFS FOREIGN EXCHANGE LIMITED**  
**MANAGEMENT AND ADMINISTRATION**

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**Directors**

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

**Registered Office**

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

**Jersey Legal Advisers**

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

**Manager**

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

**Auditor**

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

**Administrator and Company Secretary**

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

**English Legal Advisers**

Denton Wilde Sapte LLP  
1 Fleet Place  
London, EC4M 7WS  
United Kingdom

**Registrar**

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

**Trustee**

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

**Currency Transaction Counterparty**

Morgan Stanley & Co International Plc  
25 Cabot Square  
Canary Wharf  
London, E14 4QA  
United Kingdom

# ETFS FOREIGN EXCHANGE LIMITED

## DIRECTORS' REPORT

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The directors of ETFS Foreign Exchange Limited ("FXL" or the "Company") submit herewith the annual report and financial statements of the Company for the year ended 31 December 2012.

### 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

Mr Thomas K Quigley (resigned 20 December 2012)

Mr Joseph L Roxburgh (appointed 20 December 2012)

### Principal Activities

The Company's principal activity is to issue collateralised currency securities ("Currency Securities"). Currency Securities provide investors with long or short exposure to the daily foreign exchange performance of developed and emerging market currencies measured against the US Dollar ("USD"), the Euro ("EUR") or the British Pound ("GBP"). This is achieved by the Currency Securities tracking published currency indices. The price of the Currency Securities is calculated on a daily basis to reflect the change in the relevant currency index and takes into account the payment of a management fee and a daily spread. The Currency Securities are denominated in either USD, EUR or GBP.

Currency Securities are backed by unfunded currency transactions ("Currency Transactions") with terms corresponding to the terms of Currency Securities. Each time Currency Securities are issued or redeemed, matching Currency Transactions between the Company and a Currency Transaction Counterparty are created or cancelled by the Company. A daily payment amount will be calculated in respect of each Currency Transaction on each day to reflect the movement in the relevant currency index and this amount will be payable by either the Company or the Currency Transaction Counterparty. All other cash held by the Company linked to Currency Transactions entered with a Currency Transaction Counterparty will be used to enter into a USD or EUR denominated daily repurchase transaction with such party in exchange for eligible collateral on the terms described in the Company's prospectus. No trading or management of futures contracts is required of the Company.

The Company has entered into a facility agreement with Morgan Stanley & Co. International plc ("Morgan Stanley"), currently the only Currency Transaction Counterparty, enabling the Company to create and cancel Currency Transactions on an ongoing basis.

The Company earns a management fee expressed as an annual percentage, calculated on a daily basis and reflected in the net asset value of the securities on a daily basis, paid monthly in arrears.

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 and the creation and redemption fees. As a result, amounts in respect of the management fee and creation and redemption fees are transferred directly to ManJer and there are no cash flows through the Company in relation to the management fee and creation and redemption fees.

**ETFS FOREIGN EXCHANGE LIMITED**  
**DIRECTORS' REPORT - CONTINUED**

**Review of Operations**

During the year, the Company had the following number of classes, in aggregate, of Currency Securities in issue and admitted to trading on the following exchanges:

Security	London Stock Exchange	Borsa Italia	Deutsche Börse	NYSE- Euronext Paris	Tokyo Stock Exchange
USD Currency Securities	52	-	-	-	-
EUR Currency Securities	-	12	18	-	-
GBP Currency Securities	26	-	-	-	-
Total Commodity Securities	78	12	18	-	-

As at 31 December 2012, assets under management amounted to USD 339.0 million (2011 USD 331.5 million). The Company recognises its financial assets (Currency Transactions) and financial liabilities (Currency Securities) at fair value in the Statement of Financial Position.

During the year, the Company generated income from creation and redemption fees and management fees as follows:

	2012 USD	2011 USD
Creation and Redemption Fees	20,452	84,962
Management Fees	1,875,207	1,599,393
Total Fee Income	1,895,659	1,684,355

Under the terms of the service agreement with ManJer, the Company accrued expenses equal to the management fee and creation and redemption fees, which, after taking into account other operating income and expenses, resulted in an operating result for the year of USD Nil (2011: USD Nil).

The gain or loss on Currency Securities and Currency Transactions 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 10 to the financial statements.

**Country and Currency Risk**

The Company has exposure to country and currency risk as the Currency Securities provide investors with long or short exposure to the daily foreign exchange performance of developed and emerging market currencies measured against USD, EUR or GBP. However, 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 as the gains or losses on the liability represented by the Currency Securities are matched economically by losses or gains attributable to the Currency Transactions. The Company has no net exposure.

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

Movements in the price of the underlying transaction, and thus the value of the Currency Securities, may vary widely which could have an impact on the demand for the Currency Securities issued by the Company. These movements are shown in notes 5 and 6.

**ETF FOREIGN EXCHANGE LIMITED**  
**DIRECTORS' REPORT - CONTINUED**

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**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.

**Dividends**

There were no dividends declared or paid in the year (2011: USD 26,700). 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 as at the date of this report:

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

**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 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 Quigley and 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, and will continue to have such a composition of directors beyond the next meeting of the directors. Mr Quigley resigned as a director of the Company on 20 December 2012.

The board of directors meets regularly to consider matters specifically reserved for its review. Further meetings will be held as required by the operations of the Company.

**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 year is disclosed below.

	<b>2012 Fees</b>	<b>2011 Fees</b>
	<b>GBP</b>	<b>GBP</b>
Mr Graham J Tuckwell	Nil	Nil
Mr Graeme D Ross	7,500	7,500
Mr Craig A Stewart	7,500	7,500
Mr Thomas K Quigley	Nil	Nil
Mr Joseph L Roxburgh	Nil	Nil

### **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 Currency Securities, has not undertaken any business, save for issuing and redeeming Currency Securities, entering into the documents and performing the obligations and exercising its rights in relation thereto, since its incorporation. The Company does not intend to undertake any business other than issuing and redeeming Currency Securities and performing the obligations and exercising its rights in relation thereto.

The Company was dependent upon ManJer to provide management and administration services to it. During the year ended 31 December 2012, ManJer was classified as a Managed Entity under Jersey regulation and was reliant upon R&H Fund Services (Jersey) Limited ("R&H"), a regulated service provider in Jersey, for the provision of additional management services under the Manager of a Managed Entity ("MoME") regime. ManJer is licensed under the Financial Services (Jersey) Law 1998 to conduct classes U, V and Z of Fund Services Business. Whilst ManJer is no longer reliant upon R&H for the provision of additional management services, ManJer has outsourced the administration services to 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 ongoing basis by the board of the ultimate parent company, ETF Securities Limited, 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 securities.

The board having reviewed the effectiveness of the internal control systems of the Manager and R&H, and having a regard to the role of its external auditors, 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 auditors. In addition the board reviews the independence and objectivity of the auditors.



**Graeme D Ross**

Director  
Jersey

25 March 2013

## ETFS FOREIGN EXCHANGE 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 year. 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 year 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

25 March 2013



**ETFS FOREIGN EXCHANGE LIMITED**  
**INDEPENDENT AUDITOR'S REPORT**

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We have audited the financial statements of ETFS Foreign Exchange Limited for the year ended 31 December 2012 which comprises 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 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 2012 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 and Recognized Auditor  
St. Helier, Jersey

25 March 2013

**ETFS FOREIGN EXCHANGE LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**

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	Note	Year ended 31 December	
		2012 USD	2011 USD
<b>Revenue</b>	2	1,895,659	1,684,355
<b>Expenses</b>	2	(1,895,659)	(1,684,355)
<b>Operating Result</b>	2	<u>-</u>	<u>-</u>
Net Loss Arising on Fair Value of Currency Transactions	5	(5,100,653)	(16,310,777)
Net Gain Arising on Fair Value of Currency Securities	6	5,100,653	16,310,777
<b>Result and Total Comprehensive Income for the Year</b>		<u>-</u>	<u>-</u>

The directors consider the Company's activities as continuing.

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

**ETFS FOREIGN EXCHANGE LIMITED**  
**STATEMENT OF FINANCIAL POSITION**

	Note	As at 31 December	
		2012	2011
		USD	USD
<b>Current Assets</b>			
Cash and Cash Equivalents		-	1,475
Trade and Other Receivables	4	152,638	157,098
Currency Transactions	5	339,041,371	331,538,318
Currency Transactions Awaiting Settlement	5	42,994	726,633
<b>Total Assets</b>		<u>339,237,003</u>	<u>332,423,524</u>
<b>Current Liabilities</b>			
Currency Securities	6	339,041,371	331,538,318
Currency Securities Awaiting Settlement	6	42,994	726,633
Trade and Other Payables	7	150,854	156,789
<b>Total Liabilities</b>		<u>339,235,219</u>	<u>332,421,740</u>
<b>Equity</b>			
Stated Capital	8	3	3
Retained Profits		1,781	1,781
<b>Total Equity</b>		<u>1,784</u>	<u>1,784</u>
<b>Total Equity and Liabilities</b>		<u>339,237,003</u>	<u>332,423,524</u>

The financial statements on pages 8 to 19 were approved by the board of directors and signed on its behalf on 1 March 2013.

Graeme D Ross  
 Director

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

**ETFFS FOREIGN EXCHANGE LIMITED**  
**STATEMENT OF CASH FLOWS**

	Year ended 31 December	
	2012 USD	2011 USD
<b>Operating Result for the Year</b>	-	-
<i>Changes in Operating Assets and Liabilities</i>		
Decrease in Receivables	4,460	431,214
Decrease in Payables	(5,935)	(403,041)
Cash (Used in)/Generated from Operations	<u>(1,475)</u>	<u>28,173</u>
<i>Cash Flows from Financing Activities</i>		
Dividends Paid	-	(26,700)
Net Cash Used in Financing Activities	<u>-</u>	<u>(26,700)</u>
<b>Net (Decrease)/Increase in Cash and Cash Equivalents</b>	<u>(1,475)</u>	<u>1,473</u>
Cash and Cash Equivalents at the Beginning of the Year	1,475	2
Net (Decrease)/Increase in Cash and Cash Equivalents	<u>(1,475)</u>	<u>1,473</u>
Cash and Cash Equivalents at the End of the Year	<u>-</u>	<u>1,475</u>

Currency Securities issued or redeemed by receipt/transfer of Currency Transactions have been netted off in the Statement of Cash Flows.

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

**ETF5 FOREIGN EXCHANGE LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**

	<b>Stated Capital USD</b>	<b>Retained Earnings USD</b>	<b>Total Equity USD</b>
Opening Balance at 1 January 2011	3	28,481	28,484
Total Comprehensive Income for the Year	-	-	-
Dividends (USD 13,350 per share)	-	(26,700)	(26,700)
Balance at 31 December 2011	<u>3</u>	<u>1,781</u>	<u>1,784</u>
Opening Balance at 1 January 2012	3	1,781	1,784
Total Comprehensive Income for the Year	-	-	-
Balance at 31 December 2012	<u>3</u>	<u>1,781</u>	<u>1,784</u>

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

**ETFS FOREIGN EXCHANGE 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 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.

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.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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 Currency Transactions and Currency Securities held at fair value through the profit or loss as disclosed in notes 5 and 6. Actual results could vary from these estimates.

**Accounting Standards**

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

No 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).

*(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**

The nature of the Company's business dictates that the outstanding Currency Securities may be redeemed at any time by the holder and in certain circumstances may be redeemed by the Company. As the redemption of Currency Securities will coincide with the redemption of an equal amount of Currency Transactions, 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 and have prepared the financial statements on this basis.

**Currency Securities and Currency Transactions****i) Issuance and Redemption**

The Company has entered into a facility agreement with Morgan Stanley to permit the Company to purchase and redeem Currency Transactions at prices equivalent to Currency Securities issued or redeemed on the same day. Each time a Currency Security is issued or redeemed by the Company a matching number and value of Currency Transactions are purchased or redeemed from Morgan Stanley. The Currency Transactions represent financial assets of the Company and the Currency Securities give rise to financial liabilities.

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

**ii) Pricing**

A single price is established for each Currency Security as at the end of each Pricing Day. Currency Securities are priced by reference to the MSFXsm Indices. The Currency Indices are total return indices and are calculated and published by Morgan Stanley. The indices are incorporated in accordance with the MSFXsm Indices Manual.

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

Currency Securities in issue and Currency Transactions are designated at fair value through profit or loss upon initial recognition. This is in order to eliminate a measurement mismatch enabling gains or losses on both the Currency Security and Currency Contract to be recorded in the Statement of Comprehensive Income.

**Currency Transactions and Securities Awaiting Settlement**

The issue or redemption of Currency Securities, and the purchase or sale of Currency Transactions, is accounted for on the trade date ("T"). Where settlement pricing is applied, the trade will not settle until T+3. Where trades are awaiting settlement at the year 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. Other income and expenses are recognised on an accruals basis.

**1. 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. 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 exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Gains and losses on loans and receivables which are impaired are recognised immediately in the Statement of Comprehensive Income.

**Interest Income**

Interest income is recognised on an accruals basis.

**Cash and Cash Equivalents**

Cash and cash equivalents included deposits held on call with banks.

**Foreign Currency Translation**

The financial statements of the Company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the financial statements, the results and financial position of the Company are expressed in United States Dollars, which is the functional currency of the Company, and the presentational currency of the financial statements.

Monetary assets and liabilities denominated in foreign currencies at the year 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**

The Company has not provided segmental information as the Company has only one business or product group, Currency Securities, and geographical segment which is the UK and Europe. All information relevant to the understanding of the Company's activities is included in these financial statements.



**ETFS FOREIGN EXCHANGE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**2. Operating Result**

Operating result for the year comprised:

	Year ended 31 December	
	2012 USD	2011 USD
Creation and Redemption Fees	20,452	84,962
Management Fees	1,875,207	1,599,393
<b>Total Revenue</b>	<b>1,895,659</b>	<b>1,684,355</b>
Management Fees to ManJer	(1,872,803)	(1,680,019)
Creation and Redemption Fees Written Off	(22,781)	-
Net Finance Charges	(110)	(18)
Net Foreign Exchange Gain/(Loss)	35	(4,318)
<b>Total Operating Expenses</b>	<b>(1,895,659)</b>	<b>(1,684,355)</b>
<b>Operating Result</b>	<b>-</b>	<b>-</b>

Audit fees for the year of GBP 23,000 will be met by ManJer (2011: GBP 23,000).

During the year the Company revised its agreements with a number of the Authorised Participants regarding the fee charged for the creation and redemption of securities. As a result of the revised agreements, certain future creation and redemption fees were waived. The revised agreement backdated the charge, which meant that some of the historically charged creation and redemption fees were waived and written off.

**3. Taxation**

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

**4. Trade and Other Receivables**

	As at 31 December	
	2012 USD	2011 USD
Management Fee	152,635	136,229
Creation and Redemption Fees	-	20,866
Amounts Receivable on Stated Capital	3	3
	<b>152,638</b>	<b>157,098</b>

**5. Currency Transactions**

	As at 31 December	
	2012 USD	2011 USD
Change in Fair Value for the Year	(5,100,653)	(16,310,777)
Currency Transactions	339,041,371	331,538,318

**5. Currency Transactions - continued**

As at 31 December 2012, there were certain amounts of Currency Transactions awaiting the creation or (redemption) of securities with trade dates before the year end and settlement dates in the following year. The amount receivable or (payable) on completion of these trades is USD 42,994 (2011: USD 726,633).

**6. Currency Securities**

	As at 31 December	
	2012	2011
	USD	USD
Change in Fair Value for the Year	5,100,653	16,310,777
Currency Securities	339,041,371	331,538,318

As at 31 December 2012, there were certain amounts of Currency Securities awaiting the (creation) or redemption of securities with trade dates before the year end and settlement dates in the following year. The amount (receivable) or payable on completion of these trades is (USD 42,994) (2011: USD 726,633).

**7. Trade and Other Payables**

	As at 31 December	
	2012	2011
	USD	USD
Management Fees Payable to ManJer	150,854	156,789

**8. Stated Capital**

	As at 31 December	
	2012	2011
	USD	USD
2 Shares of Nil Par Value, Issued at GBP 1 Each	3	3

The Company can issue an unlimited capital of nil 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 year:*

	Year ended 31 December	
	2012	2011
	USD	USD
Management Fees	1,872,803	1,680,019

**9. Related Party Disclosures - continued**

The following balances were due to ManJer at the year end:

	As at 31 December	
	2012	2011
	USD	USD
Management Fees Payable	150,854	156,789

The following balances were due from HoldCo at the year end:

	As at 31 December	
	2012	2011
	USD	USD
Stated Capital	3	3

As disclosed in the Directors' Report, ManJer paid directors' fees in respect of the Company of GBP 15,000 (2011: GBP 15,000).

Graeme D Ross and Craig A Stewart are directors of R&H Fund Services (Jersey) Limited ("R&H"), the administrator. During the year, R&H charged ManJer secretarial and administration fees in respect of the Company of GBP 102,500 (2011: GBP 105,000), of which GBP 25,625 (2011: GBP 26,250) was outstanding at the year end.

Graeme D Ross is also a director of ManJer. Craig A Stewart was a director of ManJer until 14 June 2012.

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

**10. Financial Risk Management**

The Company is 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*

i) *Price Risk*

The Currency Securities bear no interest. The Company's liability is related to the index prices of the currency securities and is managed by the Company by entering into corresponding Currency Transactions, which gives rights to eligible collateral from the class collateral pool. The obligation of the Company to Security holders is limited to the net proceeds of the class collateral pool. The Company bears no financial risk from a change in the price of Currency Securities.

However, there is an inherent risk from the point of view of investors as the values of currencies is becoming more volatile due to, amongst other things, changing supply and demand for a particular currency, government and monetary authority policy or intervention, interest rate levels and global or regional political, economic or financial events.

ii) *Interest Rate Risk*

The Company holds custody accounts at a large international bank and this is where the cash received from and used by the trade of Currency Securities and the entering of Currency Transactions is held. The Company does not have significant exposure to interest rate risk since none of its assets or liabilities bear any interest.

The Company held a current account at a large international bank. The rate of interest received on the account was at the bank's variable rate. Due to the current account being closed during the year, the directors do not believe that the Company will be affected by any move in interest rates.

**10. Financial Risk Management - continued***(b) Credit Risk*

The Company's credit exposure to any Currency Transaction Counterparty in respect of Currency Transactions is intended to be limited on any day to the daily payment amounts due but not settled as at such day.

The Security holder's ability to reclaim assets is equivalent to the assets realised by the Company, therefore limiting the credit risk of the Company in connection with the issue of the Currency Securities.

*(c) Liquidity Risk*

When the authorised participants redeem securities, the Company receives from the Currency Transaction Counterparty funds from the Counterparty Collateral Pools equal to the value of securities redeemed. Therefore, redemption of securities would not impact the liquidity of the Company.

*(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 profit or loss and equity would have been affected by a reasonably possible change to the relevant risk variable.

As disclosed in the Directors' Report, the Company's liability in connection with the issue of Currency Securities is matched by movements in corresponding Currency Transactions giving access to assets in the equivalent class collateral pool. Consequently, the Company is not exposed to market price risk. Therefore, in the directors' opinion, no sensitivity analysis is required to be disclosed.

*(e) Capital Management*

The Company's principal activity is the listing and issue of Currency Securities. These securities are issued as demand requires. The Company holds a corresponding amount of Currency Transactions which exactly matches the total securities issued. ManJer supplied and arranged the supply of all administrative services to the Company and paid all management and administration costs of the Company, including trustee and custodian fees, in return for which the Company paid ManJer a management fee and creation and redemption fees.

As all Currency Securities on issue are supported by an equivalent amount of Currency Transactions and the running costs of the Company were paid by ManJer, the directors of the Company consider the capital management and value of its current capital resources are adequate to maintain the ongoing listing and issue of Currency Securities.

*(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 CREST system. The system ensures that the transaction does not settle until both parties have fulfilled their sides of the bargain.

Amounts outstanding in respect of positions yet to settle are disclosed in notes 5 and 6.

*(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.

**10. Financial Risk Management - continued**

*(g) Fair Value Hierarchy - continued*

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 Currency 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 Currency Security. Therefore, Currency Securities and Currency Transactions are classified as level 2 financial liabilities and financial assets as they are calculated using third party pricing sources supported by observable, verifiable inputs.

	<b>Fair Value</b>	
	<b>2012</b>	<b>2011</b>
<b>Level 2</b>	<b>USD</b>	<b>USD</b>
Currency Transactions	339,041,371	331,538,318
Currency Securities	339,041,371	331,538,318

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

**11. 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.