

ETFS HEDGED COMMODITY SECURITIES LIMITED

Registered No: 109413

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

ETFS HEDGED COMMODITY SECURITIES LIMITED

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ETFS HEDGED COMMODITY SECURITIES LIMITED

MANAGEMENT AND ADMINISTRATION

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

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ETFS HEDGED COMMODITY SECURITIES LIMITED

DIRECTORS' REPORT

The directors of ETFS Hedged Commodity Securities Limited ("HCSL" 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 the listing and issue of currency-hedged commodity securities ("Currency-Hedged Commodity Securities"). Currency-Hedged Commodity Securities are designed to enable Australian Dollar, Euro and Pound Sterling investors to gain exposure to a total return from an investment in individual commodities or baskets of commodities priced in US Dollars and to hedge such exposure against exchange rate movements between the US Dollar and the Australian Dollar, Euro or Pound Sterling, respectively. The Company earns management fees and a licence allowance based upon the number of Currency-Hedged Commodity Securities in issue. These fees are expressed as an annual percentage, 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.

Currency-Hedged Commodity Securities are financial instruments designed to track the price of commodity futures, and give investors an exposure similar to that which could be achieved by managing a long fully cash collateralised unleveraged position in futures contracts of specific maturities, less applicable fees. However, unlike managing a futures position, Currency-Hedged Commodity Securities involve no need to roll from one futures contract to another, no margin calls, and no other brokerage or other costs in holding or rolling futures contracts (although Security Holders incur other costs in holding Currency-Hedged Commodity Securities). No trading or management of futures contracts is required by the Company.

Currency-Hedged Commodity Securities are backed by commodity contracts ("Commodity Contracts") with terms corresponding to the terms of Currency-Hedged Commodity Securities. Each time Currency-Hedged Commodity Securities are issued or redeemed, matching Commodity Contracts between the Company and a Commodity Contract counterparty are created or cancelled by the Company. The Company has entered into Facility Agreements with UBS AG ("UBS") and Merrill Lynch International ("Merrill Lynch"), its Commodity Contract counterparties, enabling the Company to create and cancel Commodity Contracts on an ongoing 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. In return for these services, the Company pays ManJer an amount equal to the management fee and licence allowance and the creation and redemption fees. As a result, amounts in respect of the management fee, licence allowance and creation and redemption fees are transferred directly to ManJer and there are no cash flows through the Company.

Review of Operations

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

Security	London Stock Exchange	Borsa Italia	Deutsche Börse
Classic Hedged Commodity Securities	11	16	10
Forward Hedged Commodity Securities	3	2	-
Total Currency-Hedged Commodity Securities	14	18	10

As at 31 December 2012, assets under management amounted to USD 52.2 million (2011: USD Nil). The Company recognises its financial assets (Commodity Contracts) and financial liabilities (Currency-Hedged Commodity Securities) at fair value in the Statement of Financial Position.

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

	2012	2011
	USD	USD
Creation and Redemption Fees	3,148	-
Management Fee and Licence Allowance	191,881	-
Total Fee Income	195,029	-

Under the terms of the service agreement with ManJer, the Company accrued expenses equal to the management fees and licence allowance and creation and redemptions 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-Hedged Commodity Securities and Commodity 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 11 to the financial statements.

Country and Currency Risk

The Company has exposure to country and currency risk as the Currency-Hedged Commodity Securities are priced in US Dollars and hedged against exchange rate movements between the US Dollar and the Australian Dollar, Euro and Pound Sterling. 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-Hedged Commodity Securities are matched economically by losses or gains attributable to the Commodity Contracts. The Company has no net exposure.

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

Movements in the price of the underlying commodity, and thus the value of the Currency-Hedged Commodity Securities, may vary widely which could have an impact on the demand for the Currency-Hedged Commodity Securities issued by the Company. These movements are shown in notes 6 and 7.

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 current year or previous period. It is the Company's policy that dividends will only be declared when the directors are of the opinion that there are sufficient distributable reserves.

Employees

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

Directors' Interests

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

Director	<u>Ordinary Shares of Nil Par Value</u>
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.

The board of directors meet 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/period is disclosed below.

	<u>2012 Fees</u>	<u>2011 Fees</u>
	GBP	GBP
Mr Graham J Tuckwell	Nil	Nil
Mr Graeme D Ross	7,500	Nil
Mr Craig A Stewart	7,500	Nil
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-Hedged Commodity Securities, has not undertaken any business, save for issuing and redeeming Currency-Hedged Commodity 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-Hedged Commodity 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 to conduct the regulated activities. 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 on going 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 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 has met 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 auditors.

Graeme D Ross
 Director
 Jersey
 31 January 2013

ETFS HEDGED COMMODITY SECURITIES LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

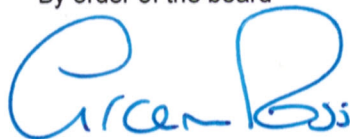
Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board. 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

31 January 2013

We have audited the financial statements of ETFS Hedged Commodity Securities Limited for the year ended 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 12. 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

31 January 2013

ETFS HEDGED COMMODITY SECURITIES LIMITED
STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2012 USD	Period from 11 November 2011 to 31 December 2011 USD
Revenue	2	195,029	-
Expenses	2	(195,029)	
Operating Result	2	<u>-</u>	<u>-</u>
Net Gain Arising on Fair Value of Commodity Contracts	6	2,868,768	-
Net Loss Arising on Fair Value of Currency-Hedged Commodity Securities	7	(2,868,768)	-
Result and Total Comprehensive Income for the Year/Period		<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 HEDGED COMMODITY SECURITIES LIMITED
STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December	
		2012	2011
		USD	USD
Current Assets			
Trade and Other Receivables	5	34,513	3
Commodity Contracts	6	52,246,987	-
Commodity Contracts Awaiting Settlement	6	455,238	-
Currency-Hedged Commodity Securities Awaiting Settlement	7	218,534	-
Total Assets		52,955,272	3
Current Liabilities			
Currency-Hedged Commodity Securities	7	52,246,987	-
Currency-Hedged Commodity Securities Awaiting Settlement	7	455,238	-
Commodity Contracts Awaiting Settlement	6	218,534	-
Trade and Other Payables	8	34,510	-
Total Liabilities		52,955,269	-
Equity			
Stated Capital	9	3	3
Retained Profits		-	-
Total Equity		3	3
Total Equity and Liabilities		52,955,272	3

The financial statements on pages 8 to 19 were approved by the board of directors and signed on its behalf on 31 January 2013.


 Graeme D Ross
 Director

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

ETFS HEDGED COMMODITY SECURITIES LIMITED
STATEMENT OF CASH FLOWS

	Year ended 31 December 2012 USD	Period from 11 November 2011 to 31 December 2011 USD
Operating Result for the Year/Period	-	-
<i>Changes in Operating Assets and Liabilities</i>		
Increase in Receivables	(34,510)	(3)
Increase in Payables	34,510	-
Cash Generated from/(Used in) Operations	-	(3)
<i>Cash Flows from Financing Activities</i>		
Issue of Shares	-	3
Cash Generated from Financing Activities	-	3
Net Movement in Cash and Cash Equivalents	-	-
Cash and Cash Equivalents at the Beginning of the Year/Period	-	-
Net Movement in Cash and Cash Equivalents	-	-
Cash and Cash Equivalents at the End of the Year/Period	-	-

Currency-Hedged Commodity Securities issued or redeemed by receipt/transfer of Commodity Contracts have been excluded in the Statement of Cash Flows.

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

ETFS HEDGED COMMODITY SECURITIES LIMITED

STATEMENT OF CHANGES IN EQUITY

	Stated Capital USD	Retained Earnings USD	Total Equity USD
Shares Issued	3	-	3
Total Comprehensive Income for the Period	-	-	-
Balance at 31 December 2011	3	-	3
Opening Balance at 1 January 2012	3	-	3
Total Comprehensive Income for the Year	-	-	-
Balance at 31 December 2012	3	-	3

The notes on pages 12 to 19 form part of these 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.

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 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 Commodity Contracts and Currency-Hedged Commodity Securities held at fair value through profit or loss as disclosed in notes 6 and 7. 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-Hedged Commodity 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-Hedged Commodity Securities will coincide with the redemption of an equal amount of Commodity 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.

Currency-Hedged Commodity Securities and Commodity Contracts**i) Issuance and Redemption**

The Company has entered into a Facility Agreement with UBS and Merrill Lynch to permit the Company to purchase and redeem Commodity Contracts at prices equivalent to Currency-Hedged Commodity Securities issued or redeemed on the same day. Each time a Currency-Hedged Commodity Security is issued or redeemed by the Company a matching number and value of Commodity Contracts are purchased or redeemed from UBS or Merrill Lynch. The Commodity Contracts represent financial assets of the Company and the Currency-Hedged Commodity Securities give rise to financial liabilities.

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

When Commodity Contracts are redeemed from UBS and Merrill Lynch they are redeemed from the earliest Commodity 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 Commodity Contracts and Currency-Hedged Commodity Securities are priced using the product of commodity indices published by Dow Jones & Company and a multiplier calculated by the Company and agreed with UBS and Merrill Lynch. The multiplier takes into account the daily accrual of the Management Fee and Licence Allowance as well as the incremental capital enhancement component of the Currency-Hedged Commodity Security, and is the same across all securities within the same class (i.e. all Classic Commodity Securities use the same multiplier).

iii) Designation at fair value through Profit or Loss

Each Currency-Hedged Commodity Security and Commodity Contract comprises a financial instrument whose redemption price is linked directly to the price of the underlying Commodity 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 Currency-Hedged Commodity Security and Commodity Contract to be recorded in the Statement of Comprehensive Income.

Commodity Contracts and Securities Awaiting Settlement

The issue or redemption of Currency-Hedged Commodity Securities, and the purchase or sale of Commodity 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

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.

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 Dollar, 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 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 Currency-Hedged Commodity Security – Classic and Forward – comprises a segment and results of each are disclosed separately in note 3.

2. Operating Result

Operating result for the year/period comprised:

	Year ended 31 December 2012	Period from 11 November 2011 to 31 December 2011
	USD	USD
Creation and Redemption Fees	3,148	-
Management Fees	174,114	-
Licence Allowance	17,767	-
Total Revenue	195,029	-
Management Fees to ManJer	(195,029)	-
Total Operating Expenses	(195,029)	-
Operating Result	-	-

Audit fees for the year of GBP 19,500 will be met by ManJer (2011: GBP 5,000).

ETFS HEDGED COMMODITY SECURITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

3. Segmental Reporting

The Company has two separate types of Currency-Hedged Commodity Security in issue – Classic and Forward Securities. The Company earns revenues from each of these sources.

For the year ended 31 December 2012:

	Classic	Forward	Central	Total
Management Fees	170,515	3,599	-	174,114
Licence Allowance	17,400	367	-	17,767
Creation and Redemption Fees	2,441	707	-	3,148
Total Revenue	190,356	4,673	-	195,029
Total Operating Expenses	190,356	4,673	-	195,029
Segmental Profit	-	-	-	-

Additional information relating to the assets and liabilities associated with these securities is disclosed in notes 6 and 7.

4. Taxation

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

5. Trade and Other Receivables

	As at 31 December	
	2012	2011
	USD	USD
Management Fee and Licence Allowance	33,702	-
Creation and Redemption Fees	808	-
Stated Capital Receivable	3	3
	34,513	3

6. Commodity Contracts

	Change in Fair Value at 31 December 2011	Fair Value at 31 December 2011
	USD	USD
Classic Commodity Contracts	-	-
Forward Commodity Contracts	-	-
Total Commodity Contracts	-	-
	Change in Fair Value at 31 December 2012	Fair Value at 31 December 2012
	USD	USD
Classic Commodity Contracts	2,947,886	51,619,833
Forward Commodity Contracts	(79,118)	627,154
Total Commodity Contracts	2,868,768	52,246,987

ETFs HEDGED COMMODITY SECURITIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

6. Commodity Contracts - continued

As at 31 December 2012, there were certain amounts of Commodity Contracts awaiting the creation or (redemption) of securities with trade dates before the year end and settlement dates in the following year. The amount receivable was USD 455,238 and the amount (payable) was (USD 218,534) (2011: USD Nil).

7. Currency-Hedged Commodity Securities

	Change in Fair Value at 31 December 2011 USD	Fair Value at 31 December 2011 USD
Classic Currency-Hedged Commodity Securities	-	-
Forward Currency-Hedged Commodity Securities	-	-
Total Currency-Hedged Commodity Securities	-	-
	Change in Fair Value at 31 December 2012 USD	Fair Value at 31 December 2012 USD
Classic Currency-Hedged Commodity Securities	(2,947,886)	51,619,833
Forward Currency-Hedged Commodity Securities	79,118	627,154
Total Currency-Hedged Commodity Securities	(2,868,768)	52,246,987

As at 31 December 2012, there were certain amounts of Currency-Hedged Commodity 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) was (USD 455,238) and the amount payable was USD 218,534 (2011: USD Nil).

8. Trade and Other Payables

	As at 31 December	
	2012	2011
	USD	USD
Management Fees Payable to ManJer	34,510	-

9. 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").

ETFS HEDGED COMMODITY SECURITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

10. 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/period:

	Year ended 31 December	
	2012	2011
	USD	USD
Management Fees	195,029	-

The following balances were due to ManJer at year/period end:

	As at 31 December	
	2012	2011
	USD	USD
Management Fees Payable	34,510	-

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

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 60,000 (2011: GBP Nil), of which GBP 15,000 (2011: GBP Nil) 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.

11. 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 Company's liability in respect of the Currency-Hedged Commodity Securities issued is related to the commodity price by reference to the futures market as quoted on the relevant futures Exchanges and is managed by the Company by entering into Commodity Contracts with UBS and Merrill Lynch which exactly match the liability created by the issue of Currency-Hedged Commodity Securities. The Company therefore bears no financial risk from a change in the price of a commodity by reference to the futures price.

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

ii) *Interest Rate Risk*

The Company does not have significant exposure to interest rate risk as neither the Commodity Contracts or the Currency-Hedged Commodity Securities bear any interest.

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

The value of Currency-Hedged Commodity Securities and the ability of the Company to repay the redemption price is dependent on the receipt of such amount from UBS and Merrill Lynch and may be affected by the credit rating attached to UBS and Merrill Lynch.

The obligation of UBS and Merrill Lynch under the Commodity Contracts ranks only as an unsecured claim against UBS and Merrill Lynch. To cover the credit risk under the Commodity Contracts, UBS and Merrill Lynch are obliged to place an equivalent amount of collateral into a pledge account with Bank of New York based on the total outstanding value of the Commodity Contracts at the end of the previous trading day. In the event of default by UBS or Merrill Lynch, 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 securities and contracts is exactly matched. Therefore, the Company does 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 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-Hedged Commodity Securities is matched by movements in corresponding Commodity Contracts. 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-Hedged Commodity Securities. These securities are issued as demand requires. The Company holds a corresponding amount of Commodity Contracts which exactly matches the total securities issued. ManJer supplied and arranged for the supply of all administrative services to the Company and paid all management and administration costs of the Company, in return for which the Company pays ManJer a fee equal to the management fee, licence allowance and creation and redemption fees charged to the Currency-Hedged Commodity 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 year.

As all Currency-Hedged Commodity Securities on issue are supported by an equivalent amount of Commodity Contracts held by UBS and Merrill Lynch and the running costs of the Company were paid by ManJer, the directors of the Company consider the capital management and its current capital resources are adequate to maintain the on-going listing and issue of Currency-Hedged Commodity 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 6 and 7.

ETFs HEDGED COMMODITY SECURITIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

11. Financial Risk Management - continued

(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 Currency-Hedged Commodity 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 NAV's of each class of Currency-Hedged Commodity Security. Therefore, Currency-Hedged Commodity Securities and Commodity Contracts are classified as level 2 financial liabilities and financial assets respectively, as the Company's asset and liability is calculated using third party pricing sources supported by observable, verifiable inputs.

	Fair Value	
	2012	2011
Level 2	USD	USD
Commodity Contracts	52,246,987	-
Currency-Hedged Commodity Securities	52,246,987	-

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

12. 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.