# ETFS METAL SECURITIES LIMITED

Registered No: 95996

## Report and Financial Statements for the Year ended 31 December 2008

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## ETFS METAL SECURITIES LIMITED

## MANAGEMENT AND ADMINISTRATION

**Directors**

Graham Tuckwell – Chairman
Vince FitzGerald
Graeme Ross
Craig Stewart
Leanne Baker
Benjamin Cukier
Jim Wiandt

**Administrator and Company Secretary**

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

**Registered Office**

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PO Box 83
31 Pier Road
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Jersey JE4 8PW

**English Legal Advisers**

Dechert LLP
160 Queen Victoria Street
London EC4V 4QQ

**Jersey Legal Advisers**

Mourant du Feu & Jeune
22 Grenville Street
St Helier
Jersey JE4 8PX

**Registrar**

Computershare Investor Services (Channel Islands) Limited
Ordnance House
PO Box 83
31 Pier Road
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Jersey JE4 8PW

**Manager**

ETF Securities Limited
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31 Pier Road
St Helier
Jersey, JE4 8PW

**Custodian**

HSBC Bank USA, NA, London Branch
8 Canada Square
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E14 5HQ

**Auditors**

Ernst & Young LLP
Liberation House
Castle Street
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Jersey JE1 1EY

**Trustee**

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

The directors of ETFS Metal Securities Limited ("MSL"/"the Company") submit herewith the annual report and financial statements of the Company for the year ended 31 December 2008.

## Directors

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

**Mr Graham John Tuckwell — Chairman (appointed 22 February 2007)**

Mr Tuckwell is a founder and the chairman of Gold Bullion Securities Limited and ETFS Metal Securities Australia Limited, two companies which obtained the world's first listings of a commodity on a stock exchange. He is also founder and chairman of two other companies issuing exchange traded commodities, ETFS Oil Securities Limited and ETFS Commodity Securities Limited. Assets under management in those two companies are in excess of US$1.5 billion. Mr Tuckwell is also the founder and managing director of Investor Resources Limited, a boutique corporate advisory firm established more than nine years ago, which specialises in providing financial, technical and strategic advice to the resources industry. Mr Tuckwell no longer has any association with Investor Resources Limited. He has more than 20 years of corporate and investment banking experience. Prior to establishing Gold Bullion Securities Limited and Investor Resources Limited, Mr Tuckwell was Head of Mining Asia/Pacific at Salomon Brothers, Group Executive Director at Normandy Mining responsible for Strategy and Acquisitions and Head of Mergers and Acquisitions at Credit Suisse First Boston in Australia. He holds a Bachelor of Economics (Honours) and a Bachelor of Laws degree from the Australian National University.

**Dr. Vince FitzGerald — Non-Executive Director (resigned 2 June 2009)**

Dr FitzGerald is Chairman of The Allen Consulting Group Pty Ltd, an Australian consulting company in the fields of economics, public policy and economic and financial regulation. He has been a director of that company since its foundation in 1989. Prior to that time, he was a senior government official in Canberra, his career involving assignments in the Departments of the Treasury, Prime Minister and Cabinet, Deputy head of Finance, Head of the Trade Department and Head of the Employment, Education and Training Department. He is a well known expert on the superannuation industry in Australia, and is a superannuation fund trustee. During the 10 years to 2004, Dr FitzGerald was a director of ING Australia Holdings Ltd and its subsidiaries, and was Chairman of its Audit and Risk Management Committees. He is a non-executive director of Gold Bullion Securities Limited and ETFS Metal Securities Australia Limited and chairs the Audit Committee of ETF Securities Limited and its subsidiaries. He holds a Bachelor of Economics (First class Honours in Econometrics) from the University of Queensland and a PhD in Economics from Harvard University.

**Mr Graeme Ross — Non-Executive Director (appointed 22 February 2007)**

Mr Ross graduated from Abertay University Dundee in 1980 and joined Arthur Young McClelland Moores in Perth, Scotland. He qualified as a chartered accountant in 1984 and joined KPMG Peat Marwick's practice in Jersey shortly afterwards. Graeme joined the Jersey practice of Rawlinson & Hunter, Chartered Accountants, in 1986 as a manager in the fund administration division. In 1994 he was admitted to the Jersey partnership. Graeme has been the managing director of R&H Fund Services (Jersey) Limited since 1996 and has in-depth knowledge and experience of the fund management industry and in particular retail funds. He has worked in the offshore fund management industry for 18 years and also served as a committee member of the Jersey Fund Managers Association for three years. Graeme is also a director of Computershare Investor Services (Channel Islands) Limited and one of his roles is to maintain the day to day operations of the Company and of both ETFS Oil Securities Limited and ETFS Commodity Securities Limited (he is a non-executive director of all three of those companies and of Gold Bullion Securities Limited in Jersey).

Directors - continued

Mr Craig Stewart — Non-Executive Director (appointed 22 February 2007)

Mr Stewart graduated from Edinburgh University in 1987 with a degree in Politics and worked in commercial roles for two blue chip companies headquartered in London. In 1993, he joined Arthur Andersen's Audit and Business Advisory practice in Jersey and qualified as a chartered accountant in 1996. He has specialised in the investment fund sector and been particularly involved with retail, institutional and private equity funds. In 1997, he was promoted to manager with sole responsibility for Andersen's asset management clients in European offshore jurisdictions. He was also the manager on a significant number of consulting assignments including controls reviews, operational reviews, due diligence projects, benchmarking studies and forensic investigations. In April 2000, he joined Rawlinson & Hunter's fund administration division and in January 2001 he was promoted to Director of R&H Fund Services (Jersey) Limited. Craig is also a director of Computershare Investor Services (Channel Islands) Limited and a non-executive director of Gold Bullion Securities Limited, ETFS Oil Securities Limited and ETFS Commodity Securities Limited.

Dr. Leanne M. Baker — Non-Executive Director (resigned 2 June 2009)

Dr. Baker is managing director of Investor Resources LLC, a U.S.-based corporate advisory firm that provides financial, investment banking and investor relations expertise to the natural resources industry. She holds her required U.S. regulatory licenses as an independent contractor with broker-dealer Puplava Securities Inc. She has more than 20 years of Wall Street research and banking experience, including managing the commodity research team at Philipp Brothers, Inc. in the 1980s and helping to build a metals and mining equity research/banking franchise at Salomon Brothers Inc in the 1990s. She also serves on the boards of directors of Agnico-Eagle Mines Ltd., Kimber Resources Inc., Reunion Gold Corporation and U.S. Gold Corporation. Dr. Baker received her M.S. and Ph.D. degrees in mineral economics from Colorado School of Mines.

Mr Benjamin Cukier — Non-Executive Director (resigned 2 June 2009)

Mr Cukier is a Member of Financial Technology Management II, L.L.C. with investment responsibilities in Business Services. Mr Cukier was previously with the Telecommunications and Media Team at Madison Dearborn Partners in Chicago. Prior to joining Madison Dearborn Partners, Mr Cukier was with McKinsey & Co. in New York, where he consulted to clients in the telecommunications, Internet, and healthcare industries. Prior to joining FTVentures, Mr Cukier spent a summer working in the Business Development group at Allegiance Telecom. Mr Cukier received his BS and BA from the University of Pennsylvania and an MBA from Stanford.

Mr Jim Wiandt – Non-Executive Director (appointed 14 March 2008 and resigned 2 June 2009)

Jim Wiandt is Editor of the Journal of Indexes and Publisher of IndexUniverse.com and Exchange-Traded Funds Report (ETFR). Wiandt also oversees the Index Research Group and Financial Technology and Design Group (FTDG) subsidiaries of Index Publications LLC, which provide research and consulting services to many companies in the index and ETF business. In the past, Wiandt has served as editor of IndexFunds.com and a researcher for Compton's encyclopaedia and has worked variously as a writer and editor (as well as a legal assistant, teacher and Peace Corps volunteer) in Boston, Japan, New York, West Africa, Venezuela, San Francisco and now Spain. Jim lives with his wife and two young boys in San Sebastian, Spain.

**Mr Greg Burgess – Non-Executive Director (appointed 2 June 2009)**

Mr Burgess is a qualified accountant and is the Chief Financial Officer of the ETF Securities group of companies. He is responsible for all financial, administrative and company secretarial activities within the group, which includes a number of companies whose securities are listed on the London Stock Exchange and other exchanges throughout Europe. He was previously finance director of Investor Resources Limited and Chief Financial Officer of Wizard Information Services. He has held senior positions within the Australian Department of Finance and been internal auditor at Normandy Mining Limited. He holds a Bachelor of Arts (Accountancy) from the University of Canberra and is a Fellow of CPA Australia.

## Principal Activities

The Company's principal activity is the listing and issue of five classes of ETFS Metal Securities to Authorised Participants in exchange for ounces of metal, thereby earning management fees and creation and redemption fees.. The Authorised Participants then sell these securities to other investors. The securities allow investors to gain exposure to the precious metals market without needing to take physical delivery of Bullion. It also allows investors to buy and sell that interest through the trading of a security on the London Stock Exchange and any other exchange to which the Metal Securities may be admitted to trading from time to time.

A Metal Security is an undated secured limited recourse debt obligation of the Issuer (ETFS Metal Securities Limited), which allows a Security Holder (provided it is an Authorised Participant) to require the redemption of the security and on the Redemption Date receive, an amount of Bullion equal to the Metal Entitlement on that date. A Security Holder who is not an Authorised Participant may only require the redemption of a Metal Security if on any given Trading Day there is no Authorised Participant, and the Security Holder submits a valid Redemption Notice on that Trading Day.

Bullion on which the Metal Securities are secured is held in custody by the Custodian (HSBC Bank USA, NA) except in the case of some or all of the platinum and palladium by one or more Zurich sub-custodians at their vault premises. Sub-custodians may also be used but only on a temporary basis for Bullion prior to it being transported to the relevant vault premises. All such Bullion is held in Secured Metal Accounts where it is held in "allocated" form (that is uniquely identifiable Good Delivery bars). A small portion may be held in unallocated form on a short term basis when Bullion is in the process of being allocated or de-allocated for a creation or redemption or for a small portion that cannot be held in whole bars (Good Delivery).

Metal Securities are constituted by the Trust Instrument. Under the terms of the Trust Instrument the Trustee acts as trustee for the Security Holders of each type of Metal Security. The Bullion is the subject of fixed charges under the Security Deeds in favour of the Trustee to secure the obligations owed by the Company to the Trustee and the Security Holders in respect of the Metal Securities. Under the Custodian Agreements the Custodian acknowledges the Security created in favour of the Trustee and agrees that once Bullion is deposited in the Secured Metal Accounts, it may only be removed after approval from the Trustee.

The obligations of the Issuer in respect of each class of Individual Security (and each category of Basket Security to the extent it comprises Individual Securities of that class) is served by a charge over the equivalent class of Bullion in the Secured Metal Accounts held by the Company and over the rights of the Company in respect of those Secured Metal Accounts under the Custodian Agreements.

Clearing in the physical precious metals market is primarily centred in Zurich and London for platinum and palladium and in London for silver and gold. There are two trade associations which act as the coordinator for activities conducted in these markets – the London Platinum and Palladium Market (LPPM) and the London Bullion Market Association (LBMA).

**Review of Operations - continued**

The Company was incorporated on 22 February 2007 and the ETFS Metal Securities issued by the Company were admitted to the official list of the UK Listing Authority. Trading of ETFS Metal Securities has commenced on the London Stock Exchange.

ETFS Metal Securities have been admitted to listing on the Official Market (Amtlicher Markt) of the Frankfurt Stock Exchange, the new ETC segment of Borsa Italiana, Milan (a regulated market), the Eurolist of Euronext SA Paris (a regulated market) and the Eurolist of Euronext Amsterdam.

A total of 1,618,151 (2007: 1,322,267) ETFS Physical Platinum Securities, 1.509,923 (2007: 267,092) ETFS Physical Palladium Securities, 13,096,506 (2007: 11,406,338) ETFS Physical Silver Securities, 18,579,682 (2007: 6,025,729) ETFS Physical Gold Securities and 1,034,258 (2007: 820,588) ETFS Physical Basket Securities were in issue at 31 December 2008.

A total of 140,816 (2007: nil) ETFS Physical Palladium Securities were awaiting redemption and 205,566 (2007: nil) ETFS Physical Gold Securities were awaiting creation at 31 December 2008.

During the year, the Company generated Creation and Redemption fees connected with the issue of and redemption of ETFS Metal Securities. Income from these sources amounted to USD165,816 (2007: USD73,764). In addition, the Company received management fee income, which is a rate per annum of the Bullion held in custody. Income from this source amounted to USD7,745,914 (2007: USD1,039,885). The Company also received bank interest during the period of USD3,303 (2007: USD407). Total income received from these sources amounted to USD7,915,033 (2007: USD1,114,056).

During the period the Company paid to ETF Securities Limited ("ETFSL"), the parent company, a management fee of USD7,745,914 (2007: USD1,039,885). The management fee is quoted as a rate per annum of the Bullion held in custody.

As a result, the Company realised a profit of USD131,529 (2007: USD73,093) after exchange loss and bank charges.

The Company's liability in connection with the issue of ETFS Metal Securities is tied directly to the price of Platinum, Palladium, Silver and Gold. The movement is reflected on the balance sheet and through the income stateme it in accordance with the Company's accounting policy.

The Company holds Platinum, Palladium, Silver and Gold as security for the ETFS Metal Securities in issue and bears no financial risk from the movement in the Platinum, Palladium, Silver and Gold prices. The increase in market value of the Platinum, Palladium, Silver and Gold reflects an appreciation in Platinum, Palladium, Silver and Gold as valued at the balance sheet date compared to the value of the Platinum, Palladium, Silver and Gold acquired by the Company throughout the period.

These items effectively cancel each other out and have no net effect on the income statement.

**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**

The Directors of the Company held a meeting on 2 April 2009 to approve the payment of a dividend to all shareholders on the register as at 31 December 2008. The total dividend approved amounted to £135,000. The dividend payments were made on 16 April 2009.

**Dividends continued**

It was also agreed at the meeting that the administrator, R&H Fund Services (Jersey) Limited would arrange dividend payments from the Company to the shareholders on a quarterly basis following the receipt of the Creation and Redemption fees and that any two directors be authorised to ratify these quarterly dividend payments.

**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.

**Company Secretary**

R&H Fund Services (Jersey) Limited were appointed as Secretary of the Company from 22 February 2007.

**Directors' Interests**

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

| Directors | Ordinary Shares of Nil Par Value |
|---|---|
| Graham John Tuckwell (as controlling party of ETFSL, the immediate parent company) | 2 |

**Directors' Remuneration**

The following table discloses the remuneration of the directors of the Company which has been paid by the Company or by the parent company, ETFSL, during the financial period:

| Name | Fees 2008 | Fees 2007 |
|---|---|---|
| **Specified Directors:** | | |
| Graham J Tuckwell | Nil | Nil |
| Graeme D Ross (paid by ETFSL) | £5,000 | £3,750 |
| Craig A Stewart (paid by ETFSL) | £5,000 | £3,750 |
| Vincent WJ FitzGerald (resigned 2 June 2009) | Nil | Nil |
| Leanne M Baker (resigned 2 June 2009) | Nil | Nil |
| Benjamin Cukier (resigned 2 June 2009) | Nil | Nil |
| Jim Wiandt (resigned 2 June 2009) | Nil | Nil |
| Greg Burgess (appointed 2 June 2009) | Nil | Nil |

**Auditors**

The Directors have agreed to put the audit of the financial statements of the Company up for tender once these financial statements have been signed.

On behalf of the Directors

**Graeme Ross**
Director
Jersey
4 June 2009

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Jersey Company law requires the directors to prepare financial statements for each financial period in accordance with any generally accepted accounting principles. The financial statements of the company 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. In preparing these financial statements, the directors should:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- specify which generally accepted accounting principles have been adopted in their preparation; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping accounting records which are sufficient to show and explain its transactions and are such as to disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements prepared by the company comply with the requirements of 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.

As required by the Disclosure and Transparency Rules of the UK Listing Authority, the directors confirm to the best of their knowledge that:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Directors' Report includes a fair review of the developments and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board.

Graeme Ross
Director

4 June 2009

ERNST & YOUNG

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ETFS METAL SECURITIES LIMITED

We have audited the company's financial statements for the year ended 31 December 2008 which comprise the Income Statement, Balance Sheet, Cash Flow Statement, Statement of Changes in Shareholders' Equity and the related notes 1 to 18. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Article 110 of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters that we are required to state to them in an auditors' 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 auditors

The directors are responsible for the preparation of the financial statements in accordance with applicable Jersey law as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you if, in our opinion, the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Report and consider whether it is consistent with the audited financial statements. The other information comprises the Management and Administration, the Directors' Report and the Statement of Directors' Responsibilities. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended and have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Ernst & Young LLP

Jersey, Channel Islands

Date: 5th June 2009

## INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

| | Note | Year ended 31 December 2008 USD | Restated Period ended 31 December 2007 USD |
|---|---|---|---|
| ***Revenue From Ordinary Activities*** | | | |
| Increase in fair value of the Bullion | 8 | - | 96,148,398 |
| Decrease in fair value of the ETFS Metal Securities | 9 | 420,770,673 | - |
| Creation and Redemption Fees | 2 | 165,816 | 73,764 |
| Interest Received and Receivable | | 3,303 | 407 |
| Management Fee – Recharge to Note Holders | 2 | 7,745,914 | 1,039,885 |
| | | 428,685,706 | 97,262,454 |
| ***Expenses From Ordinary Activities*** | | | |
| Increase in fair value of the ETFS Metal Securities | 9 | - | 96,148,398 |
| Decrease in the fair value of the Bullion | 8 | 420,770,673 | - |
| Bank Charges | 2 | 113 | 51 |
| Exchange Loss | | 37,477 | 1,027 |
| Management Fee | 2 | 7,745,914 | 1,039,885 |
| | | 428,554,177 | 97,189,361 |
| ***Profit From Ordinary Activities*** | 2 | 131,529 | 73,093 |
| **Retained Profit** | | | |
| Retained profit brought forward | | 73,093 | - |
| Profit from ordinary activities | | 131,529 | 73,093 |
| **Retained Profit carried forward** | | 204,622 | 73,093 |

The directors consider the Company's activities are continuing.

The notes on pages 13 to 28 form part of these financial statements

ETFS METAL SECURITIES LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2008

| | Note | 2008 USD | Restated 2007 USD |
|---|---|---|---|
| ***Current Assets*** | | | |
| Inventories | 8 | 1,970,289,255 | 942,041,274 |
| Inventories awaiting settlement | 8 | 15,101,256 | - |
| *Other current assets* | | | |
| Trade and other receivables | 7 | 652,208 | 325 |
| Creation and Redemption Fees Receivable | | 31,703 | 35,870 |
| Cash and cash equivalents | | 172,919 | 36,902 |
| Amounts receivable on ETFS Metal Securities awaiting settlement | 9 | 15,109,772 | - |
| ***Total Assets*** | | 2,001,357,113 | 942,114,371 |
| ***Current Liabilities*** | | | |
| *Financial Liabilities at fair value through profit or loss* | | | |
| ETFS Metal Securities in issue | 9 | 1,970,289,255 | 942,041,274 |
| ETFS Metal Securities awaiting settlement | 9 | 15,101,256 | - |
| *Other current liabilities* | | | |
| Creditors | 10 | 652,204 | - |
| Amounts payable on inventories awaiting settlement | 8 | 15,109,772 | - |
| ***Total Liabilities*** | | 2,001,152,487 | 942,041,274 |
| ***Equity*** | | | |
| Share Premium | 11 | 4 | 4 |
| Retained Profits | | 204,622 | 73,093 |
| ***Total Equity*** | | 204,626 | 73,097 |
| ***Total Equity and Liabilities*** | | 2,001,357,113 | 942,114,371 |

The financial statements on pages 9 to 28 were approved by the board of directors and signed on its behalf on 4 June 2009.

Graeme Ross
Director

The notes on pages 13 to 28 form part of these financial statements

ETFS METAL SECURITIES LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

| | Year ended 31 December 2008 USD | Period ended 31 December 2007 USD |
|---|---|---|
| ***Cash Flows From Operating Activities*** | | |
| Creation and Redemption Fees received | 169,983 | 37,894 |
| Bank charges paid | (113) | (51) |
| *Net cash provided by operating activities* | 169,870 | 37,843 |
| ***Cash Flows From Investing Activities*** | | |
| Bank interest received | 3,624 | 86 |
| *Net cash provided by investing activities* | 3,624 | 86 |
| ***Net Increase in Cash and Cash Equivalents*** | 173,494 | 37,929 |
| *Exchange adjustment on revaluation of bank account* | (37,477) | (1,027) |
| *Cash and Cash Equivalents at the beginning of the year/period* | 36,902 | - |
| ***Cash and Cash Equivalents at the end of the year/period*** | 172,919 | 36,902 |

The notes on pages 13 to 28 form part of these financial statements

ETFS METAL SECURITIES LIMITED

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

| | Share Premium USD | Retained profit USD | Total equity USD |
|---|---|---|---|
| Opening Balance at 22 February 2007 | - | - | - |
| Profit for the period | - | 73,093 | 73,093 |
| Share premium issued | 4 | - | 4 |
| **Balance at 31 December 2007** | **4** | **73,093** | **73,097** |
| Opening Balance at 1 January 2008 | 4 | 73,093 | 73,097 |
| Profit for the year | - | 131,529 | 131,529 |
| **Balance at 31 December 2008** | **4** | **204,622** | **204,626** |

The notes on pages 13 to 28 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 (IF :S) 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.

In accordance with IAS 8, the prior period financial statements have been corrected as a result of a change in presentation. The prior year adjustment is in respect of the loan due from ETFSL and the loan notes due to ETFSL both in the sum of USD350,000,000. Given that both the loan and loan notes carry the same key terms eg. expiry date and interest rate, and that no physical cash passed in respect of the loan/loan notes or in respect of the interest accruing on the loan/loan notes, it is the opinion of the directors that, by offsetting the loan notes and intercompany loan, along with any related interest amounts, the substance of the transaction is reflected.

The presentation of financial statements in conformity with IFRS requires the use of accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies and to disclose areas where accounting estimates/judgements have the most significant impact on the financial statement amounts. The accounting policies appropriate to the company are detailed below.

The following new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these financial statements. The directors believe that there will be no significant impact on the Company's financial statements upon the introduction of these standards. The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2009.

| Standard | Subject of amendment | Effective date |
|---|---|---|
| IFRS 1 - *First-time Adoption of International Financial Reporting Standards (Revised)* | The Revised Standard allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. | 01-Jul-09 |
| IFRS 2 - *Share-Based Payment* | The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. | 01-Jan-09 |
| IFRS 3 - *Business Combinations (Revised)* | The Revised Standard introduces a number of changes in the accounting for business combinations occurring after 1 July 2009 that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. | 01-Jul-09 |
| IFRS 8 - *Operating Segments* | New standard on segment reporting (replaces IAS 14). | 01-Jan-09 |
| IAS 1 - *Presentation of Financial Statements (Revised)* | The Revised Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. | 01-Jan-09 |

| | | |
|---|---|---|
| IAS 23 - *Borrowing Costs (Revised)* | The revised standard requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. | 01-Jan-09 |
| IAS 27 - *Consolidated and Separate Financial Statements* | The amendment requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statement. | 01-Jan-09 |
| IAS 27 - *Consolidated and Separate Financial Statements (Amended)* | The Amended Standard requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. | 01-Jul-09 |
| IAS 32 - *Financial Instruments: Presentation* | The amendment provides a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. | 01-Jan-09 |
| IAS 39 - *Financial Instruments: Recognition and Measurement* | The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of ihflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. | 01-Jul-09 |

2008 Annual Improvements to IFRS

| | | |
|---|---|---|
| IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations* | An entity that is committed to a sale plan involving loss of control of a subsidiary shall classify all the assets and liabilities of that subsidiary as held for sale, regardless of whether the entity will retain a non-controlling interest in its former subsidiary after the sale. | 01-Jul-09 |
| IAS 1 - *Presentation of Financial Statements* | Assets and liabilities classified as held for trading in accordance with IAS 39 are not automatically classified as current in the balance sheet. | 01-Jan-09 |
| IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors* | Clarification that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies. | 01-Jan-09 |
| IAS 10 - *Events after the Reporting Period* | Clarification that dividends declared after the end of the reporting period are not obligations. | 01-Jan-09 |
| IAS 16 - *Property, Plant and Equipment* | Replacement of the term 'net selling price' with 'fair value less costs to sell' in the definition of recoverable amount. | 01-Jan-09 |
| IAS 18 – *Revenue* | Replacement of the term 'direct costs' with 'transaction costs' as defined in IAS 39. | 01-Jan-09 |
| IAS 19 - *Employee Benefits* | Revised the definition of 'past service costs', 'return on plan assets' and 'short term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37. | 01-Jan-09 |

| | | |
|---|---|---|
| IAS 20 - *Accounting for Government Grants and Disclosure of Government Assistance* | Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. | 01-Jan-09 |
| IAS 23 - *Borrowing Costs* | The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39. | 01-Jan-09 |
| IAS 27 - *Consolidated and Separate Financial Statements* | When a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale. | 01-Jan-09 |
| IAS 28 - *Investments in Associates* | If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance. | 01-Jan-09 |
| IAS 29 - *Financial Reporting in Hyperinflationary Economies* | Revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list. | 01-Jan-09 |
| IAS 31 - *Interests in Joint Ventures* | If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply. | 01-Jan-09 |
| IAS 34 - *Interim Financial Reporting* | Earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33. | 01-Jan-09 |
| IAS 36 - *Impairment of Assets* | Disclosure regarding estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives | 01-Jan-09 |
| IAS 38 - *Intangible Assets* | Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed. | 01-Jan-09 |

| | | |
|---|---|---|
| IAS 39 - *Financial Instruments: Recognition and Measurement* | Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. Removed the reference in IAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting. | 01-Jan-09 |
| IAS 40 - *Investment Property* | Revision of the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability. | 01-Jan-09 |
| IAS 41 - *Agriculture* | Removed the reference to the use of a pre-tax discount rate to determine fair value. Removed the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Also, replaced of the term 'point-of-sale costs' with 'costs to sell'. | 01-Jan-09 |
| <u>Interpretations</u><br>IFRIC 15 - *Agreements for the Construction of Real Estate* | This interpretation clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. | 01-Jan-09 |

The following new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these financial statements. The directors believe that there will be an impact on the Company's financial statements upon the introduction of these standards. The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2009.

| | | |
|---|---|---|
| IFRS 7 – Financial Instruments – Disclosures | The amendment requires fair value measurement to be disclosed by the source of inputs, using a three-level hierarchy:<br>- Quoted priced (unadjusted) in active markets for identical assets or liabilities (Level 1).<br>- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices) (Level 2).<br>- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).<br><br>In addition the amendment revises the specified minimum liquidity risk disclosures including amongst others: the contractual maturity of non derivative and derivative financial liabilities, and a description of how this is managed. | 01-Jan-09 |

## 1. Accounting Policies – continued

***Going concern***

These financial statements have been prepared on the going concern basis as the Directors consider the operations of the Company to be ongoing. However, due to the nature of the company's business, consideration must be given to the following points as these situations may arise at some point and this may result in the early redemption of the outstanding Metal Securities.

The Issuer may, at any time, upon not less than 30 days' notice by RIS announcement to the Security Holders, redeem all Metal Securities of a particular type. The Trustee may, at any time, where an Issuer Insolvency Event has occurred and is continuing, upon not less than two Business Days' notice, give notice to the Issuer and by RIS announcement to the Security Holders that all the Metal Securities outstanding are to be redeemed.

The Issuer may, at any time by not less than seven and not more than fourteen days' written notice, redeem any Metal Securities held by Prohibited US Persons or Prohibited Benefit Plan Investors or other Security Holders who have not provided appropriate certifications as to their status in accordance with the Conditions or in certain other circumstances specified in the Conditions.

The Custodian has only agreed to act as Custodian to the Issuer for a fixed term of five years from 18 April 2007. If the Custodian does not agree to act as Custodian beyond such date, then unless the Issuer is able to find a suitable replacement Custodian, the Issuer will elect to redeem the outstanding Metal Securities.

In addition the Metal Sale Counterparty Agreement will terminate automatically if the Secured Unallocated Account Agreement is terminated. In the event that the Metal Sale Counterparty Agreement is to be terminated and no replacement Metal Sale Counterparty Agreement is entered into, the Issuer will elect to redeem the outstanding Metal Securities. Consequently, an investment in Metal Securities may be redeemed earlier than desired by a Security Holder.

***Foreign currency translation***

The presentational and functional currencies of the Company are both USD.

Transactions of the Company that are denominated in foreign currencies are translated into USD at the rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at rates ruling at that date. The resulting differences are accounted for in the income statement.

***Segmental Reporting***

The Company has not provided segment information, as the Company has only one business/geographical segment and all information relevant to the understanding of the Company's activities is included in these financial statements.

***Inventories***

Inventories are valued at fair value less cost to sell, in accordance with IAS 2 paragraph 3b, to ensure that the inventory value matches the liability due to holders of the Debt Securities.

***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.

1. Accounting Policies - continued

***Revenue Recognition (continued)***

Fees received for the issue and redemption of securities are recognised at the date on which the transaction becomes legally binding. Other income/expenses are recognised on an accruals basis.

Gains or losses recognised on ETFS Metal Securities and Inventories represent the difference between the fair value of the ETFS Metal Securities/Inventories on issue/purchase and their fair value at the balance sheet date. These are shown in the income statement as revenue/expenses.

***Capital Management***

The Company's principal activity is the listing and issue of ETFS Metal Securities. These securities are issued as demand requires. The Company holds a corresponding amount of bullion which exactly matches the total securities issued. The parent of the issuer, ETFS Securities Limited ("ETFSL"), supplies and/or arranges the supply of all administrative services to the Company and will pay all management and administration costs of the Company, including the fees of the Trustee and the Custodian, in return for which the Company will pay ETFSL a Management Fee. The Management Fee will vary with the type of Bullion and will range from 0.39 per cent to 0.49 per cent per annum and will be deducted daily from the Metal Entitlement. At the end of each month, an amount of Bullion equivalent to the cumulative daily Management fee for that month will be transferred from the Secured Metal Accounts.

As all Metal Securities on issue are supported by an equivalent amount of physical Bullion held by the Custodian and the running costs of the Company are paid by ETFSL, the Directors of this Company consider the capital management and value of Shareholders' Funds to be adequate to maintain the on-going listing and issue of ETFS Metal Securities.

***Financial Instruments***

***Cash and Cash Equivalents***

Cash and Cash Equivalents include deposits held at call with banks.

***Loans and Receivables***

The loan notes and the loan are not disclosed on a gross basis in the primary statements and have effectively been offset against each other. This is as a result of the key terms of both the loan and loan notes being identical. There is no net impact on the profit for the year/period as the interest received from the loan exactly matches the interest which would be paid on the loan notes. In addition, no interest amounts were paid/received during the year.

***ETFS Metal Securities***

i) Issuance and Redemption

The Company has entered into a Trust Instrument with The Law Debenture Trust corporation plc ("Law Debenture") to permit the Company to issue ETFS Metal Securities. The conditions of issue are set out in the Trust Instrument. The Trustee holds its rights and entitlements under the Trust Instrument as trustee for the Security Holders of all types of Metal Securities.

Financial assets and liabilities are recognised and de-recognised on the trade date (the date on which the Authorised Participant applies for or redeems ETFS Metal Securities).

ETFS Physical Platinum Securities and ETFS Physical Palladium Securities (and Basket Securities comprising ETFS Physical Platinum Securities and/or ETFS Physical Palladium Securities) are created and redeemed based on a day count (ie. day T, T+1 etc) using days which are both London business Days and Zurich Business Days). Other Metal Securities are created and redeemed based on a day count using days which are London Business Days.

Metal Securities may be created at any time during the period of 12 months from the date of the most recent Prospectus. There is no maximum or minimum number of Metal Securities that may be applied for. Only Authorised Participants may lodge an Applications Form.

A Security Holder, who is an Authorised Participant may, at any time, by lodging a valid Redemption Form with the Registrar, require the redemption of all or any of its Metal Securities.

ii) Pricing

There is a separate Metal Entitlement for each class of Individual Security, which are reduced daily by the Management Fee. Whenever new securities are issued or existing securities redeemed, this will be done at the then prevailing Metal Entitlement, thereby ensuring that all securities of the same class have the same Metal Entitlement and are fully fungible.

The Metal Entitlement used when converting from the number of securities to metal ounces is the Metal Entitlement on the date that the ounces are transferred. Similarly the market price used to calculate the value of the individual creations and redemptions is the AM rate applicable on the date the ounces are transferred.

The Metal Entitlement will be calculated daily by the Issuer, to nine places of decimals with 0.0000000005 troy ounces (or fine troy ounces in the case of gold) rounded upwards, and will be published on the Issuer's website.

An ETFS Physical Basket Security is a single security comprised of 1/10$^{th}$ of one ETFS Physical Platinum Security, 2/10ths of one ETFS Physical Palladium Security, 12/10ths of one ETFS Physical Silver Security and 4/10ths of one ETFS Physical Gold Security. It therefore has a combined initial Metal Entitlement comprising each of the four metals. The Metal Entitlement of the Basket Securities will reduce by the Management Fee applicable to the Individual Securities of which they are comprised.

Metal Entitlement – means as at any date and in relation to any Metal Security the amount of Bullion to which the Security Holder is entitled on Redemption of that Metal Security on that date.

iii) **Designation to** Fair **Value through** Profit or Loss

The securities on issue are designated as "fair value through profit or loss" under International Accounting Standard 39. The fair value is calculated using the latest quote provided by the London Platinum and Palladium Market (LPPM) and the London Bullion Market Association (LBMA). The quote used in the accounts is the last quoted price on the LPPM and LBMA websites for 2008.

The Fixing prices make it possible for an interested party, be they supplier, customer, dealer or investor, to trade at the price at which every current interest is satisfied. The Fixings are fully transparent benchmarks and are widely accepted as the basis for pricing spot transactions as well as a variety of other transactions.

These instruments are designated as at fair value through the profit or loss on issue. This is in order to eliminate a measurement mismatch enabling gains or losses on both the Metal Security and Inventory to be shown in the income statement. This treatment is appropriate for the assets and liabilities (Inventory and ETFS Metal Securities) as it is intended that the asset and liability are equally matched.

## 2. Profit from Ordinary Activities

Profit from ordinary activities includes the following items of revenue and expense:

| | | Year ended 31 December 2008 USD | Period ended 31 December 2007 USD |
|---|---|---|---|
| a) | Revenue from ordinary activities includes: | | |
| | Creation and Redemption Fees | 165,816 | 73,764 |
| | Management Fee – Recharge to Note Holders | 7,745,914 | 1,039,885 |
| | | 7,911,730 | 1,113,649 |

The Creation and Redemption Fees are receivable from the Authorised Participants. The amount received was £500 for each day that an Authorised Participant creates and/or redeems, regardless of the number of creations and/or redemptions that they issue and/or redeem.

| | | Year ended 31 December 2008 USD | Period ended 31 December 2007 USD |
|---|---|---|---|
| b) | Expenses include: | | |
| | Bank Charges | 113 | 51 |
| | Management Fee | 7,745,914 | 1,039,885 |
| | | 7,746,027 | 1,039,936 |

In conducting its business, the Company receives and pays for services from a number of Jersey and UK based suppliers. The establishment costs were paid by individual shareholders of the parent company and are not liabilities of, or recorded within, the financial statements of the Company.

With effect from the commencement of the Company's activities, a Service Agreement was entered into by the Company and ETF Securities Limited, Jersey registered company no 88370 ("ETFSL"/the Holding Company). Pursuant to this Agreement, ETFSL is responsible for supplying the following services required by the Company:

- any advisory or consultancy services required by the Company in connection with establishing or running the Programme, and
- any advertising services in connection with the Programme, together with such other services as the parties may from time to time agree.

The Agreement also requires all transactions to be carried out at arms length.

In return for ETFSL performing its obligations under the Service Agreement, the Company must transfer to ETFSL amounts of Bullion as a Management Fee. The Management Fee is quoted as a rate per annum of the Bullion held in custody:

| Metal | Fee Rate |
|---|---|
| Platinum | 49 basis points per annum |
| Palladium | 49 basis points per annum |
| Silver | 49 basis points per annum |
| Gold | 39 basis points per annum |

The Management Fee for the Basket Securities will be the aggregate of the Management Fee for the Individual Securities of which they are comprised.

There is no cash flow through ETFS MSL in relation to the Management Fee, as it is received by MSL and paid to ETFSL in ounces of metal.

## 3. Directors' Remuneration

The directors of ETFS Metal Securities Limited during the year were:

- Mr Graham John Tuckwell
- Dr Vincent William John FitzGerald (resigned 2 June 2009)
- Mr Graeme David Ross
- Mr Craig Andrew Stewart
- Dr Leanne Baker (resigned 2 June 2009)
- Mr Benjamin Cukier (resigned 2 June 2009)
- Mr Jim Wiandt (resigned 2 June 2009)
- Mr Greg Burgess ( appointed 2 June 2009)

The parent entity reviews and revises remuneration packages of all specified directors from time-to-time. The following table discloses the remuneration of the directors of the Company, and details of whether these have been paid by the Company or ETFSL during the year:

| | Year ended 31 December 2008 Fees | Period ended 31 December 2007 Fees |
|---|---|---|
| **Specified Directors:** | | |
| Graham J Tuckwell | Nil | Nil |
| Vincent W J FitzGerald | Nil | Nil |
| Graeme D Ross (paid by ETFSL) | £5,000 | £3,750 |
| Craig A Stewart (paid by ETFSL) | £5,000 | £3,750 |
| Leanne Baker | Nil | Nil |
| Benjamin Cukier | Nil | Nil |
| Jim Wiandt | Nil | Nil |

Mr Tuckwell, Dr FitzGerald, Dr Baker, Mr Cukier and Mr Wiandt are not entitled to receive any emoluments in respect of their Directorships. None of the Directors have agreed to waive or have waived any of their emoluments from the Company.

## 4. Jersey Exempt Company

Under Article 123A of the Income Tax (Jersey) law 1961, as amended, the Company has obtained Jersey exempt company status for the year and is therefore exempt from Jersey income tax on non-Jersey source income and bank interest (by concession). A £600 annual exempt company fee is payable by the company. This fee is paid by ETFSL and is not recognised within these financial statements. As from 1 January 2009, the exempt company regime will no longer apply. The general rate of corporation tax for companies resident in Jersey will be 0% from this date.

## 5. Remuneration of Auditors

| | Year ended 31 December 2008 GBP | Period ended 31 December 2007 GBP |
|---|---|---|
| Audit of annual financial statements | 25,600 | 22,500 |

The fees paid or payable in respect of the Company for the financial year are paid by the parent entity.

## 6. Employee Benefits

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

7. **Trade and other receivables**

| | 2008 USD | 2007 USD |
|---|---|---|
| Unpaid share premium (see note 13) | 4 | 4 |
| Accrued Income | - | 321 |
| Management Fee receivable | 652,204 | - |
| | 652,208 | 325 |

8. **Inventories**

| | 2008 USD | 2007 USD |
|---|---|---|
| Inventories held at fair value as security for securities issued: | | |
| Platinum | 153,492,032 | 213,997,340 |
| Palladium | 31,242,808 | 15,686,076 |
| Silver | 153,425,699 | 182,275,061 |
| Gold | 1,632,128,716 | 530,082,797 |
| | 1,970,289,255 | 942,041,274 |
| Inventories awaiting settlement: | | |
| Palladium | (2,562,710) | - |
| Gold | 17,663,966 | - |
| | 15,101,256 | - |

The Platinum is recorded at market value using the AM fix on 31 December 2008 quoted by the London Platinum and Palladium Market of USD899 (2007: USD1,529) per troy ounce. The AM fix on 31 December 2008 was used to value the Platinum as this was the last fix price available from the LPPM for the year.

The Palladium is recorded at market value using the AM fix on 31 December 2008 quoted by the London Platinum and Palladium Market of USD183.50 (2007: USD365) per troy ounce. The AM fix on 31 December 2008 was used to value the Palladium as this was the last fix price available from the LPPM for the year.

The Silver is recorded at market value using the fix on 31 December 2008 quoted by the London Bullion Market Association of USD10.79 (2007: USD14.76) per troy ounce.

The Gold is recorded at market value using the AM fix on 31 December 2008 quoted by the London Bullion Market Association of USD865 (2007: USD836.50) per fine troy ounce. The AM fix on 31 December 2008 was used to value the Gold as this was the last fix price available from the LBMA for the year.

At the year end there were 13,965.723 ounces of palladium awaiting redemption of securities which were due to settle before the year end, however the relevant securities had not physically been returned to the Company by 31 December 2008. Also, at the year end there were 20,420.770 ounces of gold awaiting creation of securities, with trade dates before the year end and settlement dates in 2009. The net amount receivable on completion of these trades is USD15,109,772, and their fair value at year end is USD15,101,256.

The Metal Securities are constituted by a Trust Instrument entered into between the Issuer and The Law Debenture Trust Corporation p.l.c. as trustee for the Security Holders of each type. The Trustee holds all rights and entitlements under the Trust Instrument on trust for the Security Holders. In addition, the Issuer and the Trustee have entered into a separate Security Deed in respect of each Pool. The rights and entitlements held by the Trustee under each Security Deed are held by the Trustee on trust for the Security Holders of that particular class of Metal Security.

Platinum and palladium is held by the Custodian at its London vault premises or, in the case of some or all of the platinum and palladium, by one or more Zurich Sub-Custodians at their vault premises. Silver and gold is held by the Custodian at its London vault premises or temporarily in the vaults of a sub-custodian appointed by the Custodian or by a delegate of a sub-custodian.

The movement in the bullion held in the year can be analysed as follows:

| | Platinum | | Palladium | | Silver | |
|---|---|---|---|---|---|---|
| | Ounces | USD | Ounces | USD | Ounces | USD |
| Balance b/f | 139,959.019 | 213,997,340 | 42,975.550 | 15,686,076 | 12,349,258.859 | 182,275,061 |
| Value of creations | 405,821.878 | 725,888,698 | 333,203.952 | 156,335,467 | 9,241,772.363 | 141,555,205 |
| Value of redemptions | (373,743.216) | (562,685,898) | (218,876.215) | (71,641,093) | (7,312,184.889) | (119,012,537) |
| Ounces held awaiting receipt of securities | - | - | 13,965.723 | 2,569,693 | - | - |
| Management fee | (1,301.271) | (2,166,822) | (1,008.476) | (335,579) | (59,597.057) | (864,150) |
| Movement in fair value | - | (221,541,286) | - | (71,371,756) | - | (50,527,880) |
| Balance c/f | 170,736.410 | 153,492,032 | 170,260.534 | 31,242,808 | 14,219,249.276 | 153,425,699 |

| | Gold | | Total 2008 | Total 2007 |
|---|---|---|---|---|
| | Ounces | USD | USD | USD |
| Balance b/f | 633,691.329 | 530,082,797 | 942,041,274 | - |
| Value of creations | 2,124,606.696 | 1,897,188,678 | 2,920,968,048 | 896,577,721 |
| Value of redemptions | (866,364.661) | (713,426,586) | (1,466,766,114) | (50,684,845) |
| Ounces held awaiting receipt of securities | - | - | 2,569,693 | - |
| Management fee | (5,079.356) | (4,386,422) | (7,752,973) | - |
| Movement in fair value | - | (77,329,751) | (420,770,673) | 96,148,398 |
| Balance c/f | 1,886,854.008 | 1,632,128,716 | 1,970,289,255 | 942,041,274 |

## 9. ETFS Metal Securities

| | 2008 USD | 2007 USD |
|---|---|---|
| Fair value bought forward plus fair value on purchase of trades during the year | 2,391,059,928 | 845,892,876 |
| Movement in fair value | (420,770,673) | 96,148,398 |
| Fair value of ETFS Metal Securities in issue at year end | 1,970,289,255 | 942,041,274 |
| Fair value of ETFS Metal Securities awaiting settlement at year end | 15,101,256 | - |

The Company issues ETFS Metal Securities which are undated secured limited recourse debt obligations issued by the Company, which entitles the Security Holder to require the redemption of the security and on the settlement date receive an amount of Bullion equal to the Metal entitlement of that date.

The ETFS Metal Securities are quoted on the London Stock Exchange, Euronext SA, Borsa Italiana, the Frankfurt Stock Exchange and Euronext Amsterdam.

| | Platinum | Palladium | Silver | Gold | Basket |
|---|---|---|---|---|---|
| **Number of securities in issue at 22 Feb 07** | - | - | - | - | - |
| Created in 2007 | 1,391,264 | 347,092 | 11,686,028 | 6,295,765 | 960,588 |
| Redeemed in 2007 | (68,997) | (80,000) | (279,690) | (270,036) | (140,000) |
| **Number of securities in issue At 31Dec 07** | 1,322,267 | 267,092 | 11,406,338 | 6,025,729 | 820,588 |
| Created in 2008 | 3,963,478 | 3,117,836 | 7,915,854 | 20,889,156 | 1,147,104 |
| Redeemed in 2008 | (3,667,594) | (2,015,821) | (6,225,686) | (8,335,203) | (933,434) |
| Awaiting receipt in 2008 | - | 140,816 | - | - | - |
| **Number of securities in issue at 31 Dec 08** | 1,618,151 | 1,509,923 | 13,096,506 | 18,579,682 | 1,034,258 |
| Transfer basket securities to Corresponding metals | 103,426 | 206,852 | 1,241,110 | 413,703 | - |
| **Total at 31 Dec 08** | 1,721,577 | 1,716,775 | 14,337,616 | 18,993,385 | - |
| Metal entitlement at 31 Dec 08 | 0.099174438 | 0.099174438 | 0.991744351 | 0.099342691 | - |
| **Entitlement to metal (ounces)** | 170,736.410 | 170,260.534 | 14,219,249.276 | 1,886,854.008 | - |
| FV rate quoted by LBMA/LPPM At 31 Dec 08 (USD per ounce) – see Note 9 | 899 | 183.50 | 10.79 | 865 | - |
| **Fair value of securities in issue at 31 Dec 08 (USD)** | 153,492,032 | 31,242,808 | 153,425,699 | 1,632,128,716 | - |

The only assets of the Company attributable to Metal Securities will be the Secured Metal Accounts and rights under the Custodian Agreement. The liabilities of the Company will primarily be the Company's obligations under Metal Securities.

As detailed in the Security Deed, the secured property is the bullion held in the Secured Allocated Metal Accounts maintained with the Custodian. These accounts are controlled exclusively by the Trustee, whereby only the Trustee can authorise any payment or transfer out of either of the Secured Metal Accounts. Each time the Holder transfers a Metal Security to a new Holder, the beneficial interest in the bullion transfers to the new Holder.

- Only Authorised Participants may deal with the Company in applying for or redeeming Metal Securities, save in relation to redemptions where at any time there are no Authorised Participants.
- Securities can be compulsorily redeemed by the Company on provision of 30 days notice or in the case of insolvency. Therefore an investment in Metal Securities may be redeemed earlier than desired by the Security Holder.

Holders of Metal Securities have no right to the payment of any interest and there is no final maturity date.

At the year end there were 140,816 palladium securities awaiting redemption which were due to settle before the year end, however the securities had physically not been returned to the Company by 31 December 2008. Also at the year end there were 205,566 gold securities awaiting creation, with trade dates before the year end and settlement dates in 2009. The net amount payable on completion of these trades is USD15,109,772, and their fair value at year end is USD15,101,256.

## 10. Creditors

| | 2008<br>USD | 2007<br>USD |
|---|---|---|
| Management Fee payable to ETFS | 652,204 | - |

## 11. Share premium

| | 2008 USD | 2007 USD |
|---|---|---|
| 2 shares issued for a premium of £1 each | 4 | 4 |

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

All shares issued by ETFS Metal Securities Limited carry one vote per share without restriction and carry the right to dividends. All shares are held by the parent entity, ETFSL, a Jersey registered company. The share premium is not fully paid.

## 12. Contingent Liabilities and Contingent Assets

The Company does not have any material contingent liabilities or contingent assets at 31 December 2008.

## 13. Related Party Disclosures

The immediate and ultimate parent company is ETFSL, a Jersey company registered No: 88370.

Entities which have a significant influence over the Company through the ownership of ETFSL shares, or by virtue of being a director or trustee of the Company or the holding company are related parties of ETFS Metal Securities Limited.

The Company also pays a management fee to ETFSL, under a Service Agreement (refer to Note 2).

| | 2008 USD | 2007 USD |
|---|---|---|
| The following balances with ETFSL were receivable/payable at the year end: | | |
| Share premium receivable | 4 | 4 |
| Management fees payable | (652,204) | - |

As disclosed in note 3 above, ETFSL paid Directors fees in respect of the Company of £10,000 (2007: £7,500).

Graeme Ross and Craig Stewart are directors of Computershare Investor Services (Channel Islands) Limited, the registrar, and R&H Fund Services (Jersey) Limited, the administrator. During the period, ETFSL paid registrar, secretarial and administration fees to the registrar and administrator of £40,000 (2007: £16,183). £10,000 (2007: £10,000) was outstanding at the year end.

Benjamin Cukier is also a Partner of FTVentures (L.P.) ("FTV"). FTV own the majority of the preference shares in the Company's holding company, ETFSL.

## 14. Financial risk management

The Company is exposed to interest rate risk, market risk, liquidity risk, credit risk and settlement risk arising from its activities. The risk management policies employed by the Company to manage these risks are discussed below.

### (a) *Interest Rate Risk*

The Company's exposure to the risk relates to the interest on the long term loan notes that carry interest at a rate of 5% per annum. The risk is minimised by the fact that the holder of the loan notes is the Company's Holding Company, ETF Securities Limited, who owns the entire share capital of ETFS Metal Securities Limited.

The risk is further minimised due to the fact that during the year that Company provided ETFSL with a loan which also carries interest at a rate of 5% per annum. Therefore as the interest on the loan notes is equal to the interest on the loan the net effect at entity level is nil.

Further disclosure is given in note 18.

(b) *Market Risk*

The ETFS Metal Securities bear no interest. The Company's liability is related to the platinum, palladium, silver and gold prices and is managed by the Company by holding platinum, palladium, silver and gold in exactly the same quantity as its liability. The Company therefore bears no financial risk from a change in the price of platinum, palladium, silver or gold bullion.

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

The Company holds a current account at a large International Bank and this is where the cash received from the creation and redemption fees is held. The rate of interest received on the account is at the Banks variable rate. Due to the level of cash held in the account the Director's do not believe that any move in interest rates would seriously effect the operations of the Company.

(c) *Liquidity Risk*

The Directors believe that the loan notes will not give rise to any liquidity problems as it is anticipated that the corresponding loan receivable from ETFSL will mature at the same time. Both the loan notes and the loan are due to mature on 17 April 2012 (see note 18).

When the authorised participants redeem securities, the Company returns the corresponding inventory determined by the metal entitlement. The market value of the inventory returned will always be the same as that of the securities being redeemed. Therefore, redemption of securities does not impact the liquidity of the Company.

(d) *Credit Risk*

The Company's exposure to the risk relates to the long term loan of USD350,000,000 that the Company holds. The risk is minimised by the fact that the borrower of the loan is the Company's Holding Company, ETF Securities Limited, who is therefore well known to the Company. This risk is greater minimised by the fact that ETFSL is also the holder of the Company's loan notes, which have the same carrying amount. It is stated in the loan agreement that the loan and loan notes can be offset against each other in part or in their entirety on default. As described in notes 1 and 18, the loan notes and intercompany loan have been offset in the financial statements.

The loan totals USD350,000,000 at the year end and carries interest at 5% per annum, the loan is due to mature on 17 April 2012. The initial loan was in the sum of USD150,000,000 and was entered into on 18 April 2007, the loan was increased to USD350,000,000 on 9 August 2007.

With regard to the insurance of the Bullion, the Custodian may make such insurance arrangements in connection with its custodial obligations with respect to Bullion in allocated form as it considers fit. The Custodian has no obligation to insure such Bullion against loss, theft or damage and the Company does not intend to insure against such risks. In addition, the Trustee is not responsible for ensuring that adequate insurance arrangements have been made, or for insuring the Bullion held in the Secured Metal Accounts, and shall not be required to make any enquiry regarding such matters.

Accordingly, there is a risk that the Bullion could be lost, stolen or damaged and the Company would not be able to satisfy its obligations in respect of the Metal Securities.

(e) *Settlement Risk*

There is an element of risk in respect of the settlement of the securities, given that the Authorised Participants could fail to deliver the bullion/securities on the given settlement date.

Amounts outstanding in respect of positions yet to settle are disclosed in Notes 8 and 9.

**15. Additional Company Information**

ETFS Metal Securities Limited is a public company incorporated and domiciled in Jersey, Channel Islands, the debt securities of which have been admitted to the official list of the UK Listing Authority under the debt listing rules and admitted to trading on the London Stock Exchange (LSE).

The Company's ETFS Metal Securities were quoted on the LSE on 24 April 2007, Euronext Amsterdam on 10 May 2007, the Frankfurt Stock Exchange on 8 May 2007, Euronext SA on 10 May 2007 and Borsa Italiana on 20 June 2007.

**16. Ultimate Controlling Party**

The ultimate controlling party is Graham Tuckwell.

**17. Events After the Balance Sheet Date**

The Directors of the Company held a meeting on 2 April 2009 to approve the payment of a dividend to all shareholders on the register as at 31 December 2008. The total dividend approved amounted to £135,000. The dividend payments were made on 16 April 2009.

It was also agreed at the meeting that the administrator, R&H Fund Services (Jersey) Limited would arrange dividend payments from the Company to the shareholders on a quarterly basis following the receipt of the Creation and Redemption fees and that any two directors be authorised to ratify these quarterly dividend payments.

On 2 June 2009, the Company announced the resignation of Leanne Baker, Benjamin Cukier, Vince FitzGerald and Jim Wiandt from their positions as directors of the Company.

The Company also announced the appointment of Greg Burgess as a director of the Company with effect from 2 June 2009. Mr Burgess' appointment has been approved by the Jersey Financial Services Commission.

## 18. Off-balance sheet intercompany loan and loan notes

Under the UCITS directive, a UCITS Fund subscribing to ETFS Metal Securities Limited is prohibited from holding more than 10 per cent of the debt securities issued by MSL, debt securities include Metal Securities and loan notes. MSL proposed to issue a 5% unsecured limited recourse note due 2012 to ETFSL. The issue of these notes will increase the number of securities in issue, which will in turn increase the number of securities that a UCITS Fund will be able to subscribe for.

ETFSL and ETFS Metal Securities Limited therefore entered into an Intercompany Loan Agreement on 18 April 2007. The principal amount of the loan was USD150,000,000, the loan is a 5% unsecured limited recourse loan due 2012. The loan was further increased to USD350,000,000 on 9 August 2007.

Interest is accrued on the loan due from ETFSL and loan notes due to ETFSL of USD350,000,000 at a rate of 5% per annum annually in arrears and is due on each interest payment date per the terms of the loan agreement and conditions of the loan notes.

No physical cash was exchanged in respect of the loan and the loan notes or on the related interest. Both parties did not feel that there would be any benefit to either party in transferring the money as the key terms and conditions, being the principal amount, the interest and the repayment terms, were identical for both the intercompany loan and the loan note agreements. Both parties also felt that it would be more beneficial to avoid the large bank charges that would be incurred in moving such monies.

The loan notes and the loan are not disclosed on a gross basis in the primary statements and have effectively been offset against each other. This is as a result of the key terms of both the loan and loan notes being identical. There is no impact on the profit for the period as the interest received from the loan exactly matches the interest which would be paid on the loan notes. In addition, no interest amounts were paid/received during the year. As a result, in the opinion of the directors, offsetting the intercompany loan and loan notes, along with any related interest amounts, reflects the substance of the transaction.