

**ETFS COMMODITY SECURITIES LIMITED**

**Registered No: 90959**

**Report and Financial Statements for the  
Year ended 31 December 2010**

# ETFS COMMODITY SECURITIES LIMITED

## CONTENTS

---

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

# ETFS COMMODITY SECURITIES LIMITED

## MANAGEMENT AND ADMINISTRATION

---

### Directors

Mr Graham J Tuckwell – Chairman  
Mr Graeme D Ross  
Mr Craig A Stewart  
Mr Thomas K Quigley

### Administrator and Company Secretary

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

### Registered Office

Ordnance House  
PO Box 83  
31 Pier Road  
St Helier  
Jersey JE4 8PW

### English and German Legal Advisers

Dechert LLP  
160 Queen Victoria Street  
London EC4V 4QQ

### Jersey Legal Advisers

Mourant Ozannes  
22 Grenville Street  
St Helier  
Jersey JE4 8PX

### Registrar

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

### Manager

ETF Securities Limited  
(up to 31 December 2010)  
Ordnance House  
PO Box 83  
31 Pier Road  
St Helier  
Jersey, JE4 8PW

### Trustee

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

ETFS Management Company (Jersey) Limited  
(effective from 1 January 2011)

Ordnance House  
PO Box 83  
31 Pier Road  
St Helier  
Jersey, JE4 8PW

### Auditors

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

### Calculating Agent

UBS Securities LLC  
PO Box 120305  
Stamford  
Connecticut  
USA, 06901

### Dutch Legal Advisers

Stibbe  
1070 AP, Amsterdam

### Dutch Listing and Paying Agent

Fortis Bank (Nederland) N.V.  
1012 KK Amsterdam

### German Listing and Paying Agent

HSBC Trinkhaus & Burkhardt AG  
40212 Dusseldorf

### Italian Legal Advisers

Studio Legale Cieri Crocenzi  
00197 Roma

### French Legal Advisers

Simmons & Simmons  
75001 Paris

### French Listing and Paying Agent

HSBC France  
75008 Paris

# ETFS COMMODITY SECURITIES LIMITED

## DIRECTORS' REPORT

---

The directors of ETFS Commodity Securities Limited ("CSL" or "the Company") submit herewith the annual report and financial statements of the Company for the year ended 31 December 2010.

### Directors

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

Mr Graham J Tuckwell - Chairman

Mr Greg J Burgess (resigned 3 September 2010)

Mr Graeme D Ross

Mr Craig A Stewart

Mr Thomas K Quigley (appointed 5 October 2010)

### Principal Activities

The Company's principal activity is the listing and issue of commodity securities ("Commodity Securities"). The Company's portfolio of Commodity Securities includes Classic, Forward, Short and Leveraged Commodity Securities. The Company earns management fees and a licence allowance based upon the number of 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.

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 fully cash-collateralised position in near-term futures contracts. However, unlike managing a futures position, 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 costs relating to the management fee and licence allowance in holding Commodity Securities).

Commodity Securities are backed by commodity contracts ("Commodity Contracts") with terms corresponding to the terms of Commodity Securities. Each time 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 a Facility Agreement with UBS, its Commodity Contract counterparty, enabling the Company to create and cancel Commodity Contracts on an ongoing basis.

The Company had entered into a service agreement with ETF Securities Limited ("ETFSL"), whereby ETFSL was responsible for an 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 ETFSL an amount equal to the Management Fee and Licence Allowance charges levied by the Company on the Commodity Securities in issue. As part of a Group restructuring exercise the directors agreed to transfer the management responsibilities of the Company on 1 January 2011 from ETFSL to ETFS Management Company (Jersey) Limited ("ManJer"). ManJer advised that it was willing to continue to provide the services previously provided by ETFSL to the Company. The existing service agreement was therefore novated from ETFSL to ManJer on 1 January 2011.

### Review of Operations

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

Security	London Stock Exchange	Borsa Italia	Deutsche Börse	Tokyo Stock Exchange	NYSE- Euronext Paris
Classic Commodity Securities	39	28	28	13	28
Forward Commodity Securities	14	10	10	-	5
Short Commodity Securities	33	10	33	-	-
Leveraged Commodity Securities	33	10	33	-	-
Total Commodity Securities	119	58	104	13	33

# ETFS COMMODITY SECURITIES LIMITED

## DIRECTORS' REPORT

---

As at 31 December 2010, assets under management amounted to USD 6,515 million (2009: USD 5,377 million). The Company recognises its financial assets (Commodity Contracts) and financial liabilities (Commodity Securities) at fair value in the statement of financial position.

During the year, the Company generated income from Creation and Redemption fees and Management Fees and Licence Allowance as follows:

	2010	2009
	USD	USD
Management Fee and Licence Allowance	34,167,933	20,106,476
Creation and Redemption Fees	551,894	375,578
Total Fee and Related Income	<u>34,719,827</u>	<u>20,482,054</u>

Under the terms of the Service agreement with ETFSL, the Company accrued expenses equal to the Management Fees and Licence Allowance, which, after taking into account other operating income and expenses, resulted in an operating profit of:

	2010	2009
	USD	USD
Operating Profit for the Year	<u>547,254</u>	<u>424,470</u>

The gain or loss on 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 13 to the accounts.

### 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 Company has declared dividends for 2010 of USD 347,959 (2009: USD 1,592,255). 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:

#### Directors

	<u>Ordinary Shares of Nil Par Value</u>
Graham J Tuckwell (as controlling party of 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. The Directors are either members of Board of the Parent Company or members of the Board of the Company's administrator, R&H Fund Services Limited, and will continue to have such a composition of Directors beyond the forthcoming Annual General Meeting.

The Board of Directors meet as is required by the operations of the Company, but at least quarterly to review the overall business of the Company and to consider matters specifically reserved for its review.

**Directors' Remuneration**

No Director has a service contract with the Company and details of the Directors remuneration which has been paid by ETFSL on behalf of the Company is disclosed below.

	<b>2010 Fees</b>	<b>2009 Fees</b>
	<b>GBP</b>	<b>GBP</b>
Mr Graham J Tuckwell	Nil	Nil
Mr Greg J Burgess (resigned 3 September 2010)	Nil	Nil
Mr Graeme D Ross	5,000	5,000
Mr Craig A Stewart	5,000	5,000
Mr Thomas K Quigley (appointed 5 October 2010)	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 ETFSL Commodity Securities, has not undertaken any business, save for issuing and redeeming ETFSL 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 ETFSL Commodity Securities and performing the obligations and exercising its rights in relation thereto.

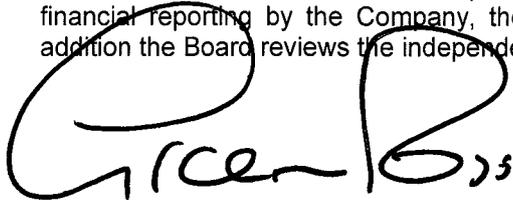
The Company was dependent upon ETFSL to provide management and administration services to it. ETFSL has outsourced the administration services to a regulated service provider in Jersey, R&H Fund Services (Jersey) Limited. Documented contractual arrangements are in place with the Manager and the Administrator which define the areas where the authority is delegated to them.

ETFSL promotes and provides management and other services to both the Company and other companies issuing commodity based securities. As noted above the existing service agreement was novated from ETFSL to a subsidiary of ETFSL, ManJer on 1 January 2011. This change will not impact the nature of the operations of the Company, and the Directors do not consider that the change will impact the governance or internal control environment of the Company.

The Board having reviewed the effectiveness of the internal control systems of the manager, and having a regard to the role of its external auditors, does not consider that there is a need for the Company to establish its own internal audit function.

**Audit Committee**

The Board has not established a separate Audit Committee; instead the Board has met to consider the financial reporting by the Company, the internal controls, and relations with the external auditors. In addition the Board reviews the independence and objectivity of the auditors.

A handwritten signature in black ink, appearing to read 'Graeme D Ross', written over the text of the paragraph above.

**Graeme D Ross**

Director

Jersey

26 April 2011

## ETFS COMMODITY SECURITIES LIMITED

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

---

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

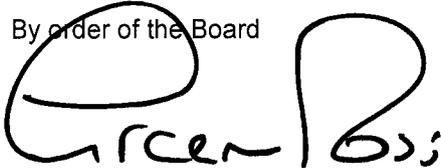
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board. The financial statements are required by law to be properly prepared in accordance with the Companies (Jersey) Law 1991.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, 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

26 April 2011

## ETFS COMMODITY SECURITIES LIMITED

### INDEPENDENT AUDITOR'S REPORT

---

We have audited the financial statements of ETFS Commodity Securities Limited for the year ended 31 December 2010 which comprise the statement of comprehensive income, the statement of financial position, the cash flow statement, the statements of changes in shareholders' equity and the related notes 1 to 15. 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 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.

#### 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 2010 and of its profit 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 proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.



**Andrew Isham**  
For and on behalf of Deloitte LLP  
Chartered Accountants and Recognized Auditors  
St. Helier, Jersey

26 April 2011

**ETFs COMMODITY SECURITIES LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**

---

	Note	Year ended 31 December	
		2010 USD	2009 USD
<b>Revenue</b>	2	34,719,827	20,482,054
<b>Expenses</b>			
Fees to ETFSL	2	(34,167,933)	(20,106,476)
Other Operating (Expense)/ Income		(4,640)	48,892
<b>Operating profit</b>	2	<u>547,254</u>	<u>424,470</u>
Net Gain Arising on Fair Value of Commodity Contracts	8	422,613,702	517,989,260
Net Loss Arising on Fair Value of Commodity Securities	9	(422,613,702)	(517,989,260)
<b>Profit and Total Comprehensive Income for the Year</b>		<u><u>547,254</u></u>	<u><u>424,470</u></u>

The directors consider the Company's activities are continuing.

The notes on pages 12 to 20 form part of these financial statements

**ETFS COMMODITY SECURITIES LIMITED**  
**STATEMENT OF FINANCIAL POSITION**

	Note	As at 31 December	
		2010	2009
		USD	USD
<b>Current Assets</b>			
Cash and Cash Equivalents		17,641	2,840,218
Trade and Other Receivables	7	3,497,546	2,977,882
Commodity Contracts	8	6,514,544,587	5,377,162,774
Amounts Receivable Awaiting Settlement	9	62,132,357	24,069,112
<b>Total Assets</b>		<u>6,580,192,131</u>	<u>5,407,049,986</u>
<b>Current Liabilities</b>			
Commodity Securities	9	6,514,544,587	5,377,162,774
Amounts Payable Awaiting Settlement	8	62,132,357	24,069,112
Trade and Other Payables	10	3,305,890	5,808,098
<b>Total Liabilities</b>		<u>6,579,982,834</u>	<u>5,407,039,984</u>
<b>Equity</b>			
Stated Capital	11	2	2
Retained Profits		209,295	10,000
<b>Total Equity</b>		<u>209,297</u>	<u>10,002</u>
<b>Total Equity and Liabilities</b>		<u>6,580,192,131</u>	<u>5,407,049,986</u>

The financial statements on pages 8 to 20 were approved by the board of directors and signed on its behalf on 26 April 2011.



Graeme D Ross  
 Director

The notes on pages 12 to 20 form part of these financial statements

**ETFs COMMODITY SECURITIES LIMITED**  
**STATEMENT OF CASH FLOWS**

	Year ended 31 December	
	2010 USD	2009 USD
<b>Cash Flows from Operating Activities</b>		
Cash Receipts from Operations	34,200,031	18,560,773
Payments to ETFSL	(36,091,250)	(15,435,590)
Net Proceeds from Issue of Securities	736,887,464	3,600,741,486
Net Payments for Dealing in Contracts	(736,887,464)	(3,600,741,486)
Cash (Used In)/ Generated from Operations	<u>(1,891,219)</u>	<u>3,125,183</u>
Bank Interest Received	1,179	9,676
Bank Charges Paid	(56)	(167)
Net Cash (Used In)/ Generated by Operating Activities	<u>(1,890,096)</u>	<u>3,134,692</u>
<b>Cash Flows from Financing Activities</b>		
Loans Repaid	-	7,126
Dividends Paid	(926,851)	(1,013,361)
Net Cash Used by Financing Activities	<u>(926,851)</u>	<u>(1,006,235)</u>
<b>Net (Decrease)/Increase in Cash and Cash Equivalents</b>	<u>(2,816,947)</u>	<u>2,128,457</u>
Cash and Cash Equivalents at the Beginning of the Year	2,840,218	667,510
Net (Decrease)/ Increase in Cash and Cash Equivalents	(2,816,947)	2,128,457
Exchange Adjustment	(5,630)	44,251
Cash and Cash Equivalents at the End of the Year	<u>17,641</u>	<u>2,840,218</u>

The notes on pages 12 to 20 form part of these financial statements

**ETFS COMMODITY SECURITIES LIMITED****STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

---

	<b>Stated Capital USD</b>	<b>Retained Earnings USD</b>	<b>Total Equity USD</b>
Opening Balance at 1 January 2009	2	1,177,785	1,177,787
Total Comprehensive Income for the Year	-	424,470	424,470
Dividends		(1,592,255)	(1,592,255)
Balance at 31 December 2009	<u>2</u>	<u>10,000</u>	<u>10,002</u>
Opening Balance at 1 January 2010	2	10,000	10,002
Total Comprehensive Income for the Year	-	547,254	547,254
Dividends	-	(347,959)	(347,959)
Balance at 31 December 2010	<u>2</u>	<u>209,295</u>	<u>209,297</u>

The notes on pages 12 to 20 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) issued by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss.

The presentation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The only key accounting judgement required to prepare these financial statements is in respect of the valuation of Commodity Contracts and Commodity Securities held at fair value through profit or loss as disclosed in note 9.

*(a) Standards, amendments and interpretations effective on 1 January 2010:*

- Various improvements to IFRSs (effective 1 July 2009 or 1 January 2010)
- IFRIC 17 'Distributions of non-cash assets to owners' (effective 1 July 2009)

The adoption of the improvements and interpretation resulted to additional disclosures but did not have an impact on the Company's financial position or performance.

*(b) Standards, amendments and interpretations effective on 1 January 2010 but not relevant to the Company:*

- IFRS 1 'Revisions to IFRS on first-time adoption of IFRS' (effective 1 July 2009) and 'Additional exemptions for first-time adopters'
- IFRS 2 'Group cash-settled share based payments'
- IFRS 3 (2008) and IAS 27 (2008) 'Business combinations: consolidated and separate financial statements' (effective 1 July 2009)
- IAS 39 'Eligible Hedged Items' (effective 1 July 2009)
- IFRIC 18 'Transfers of assets from customers' (transfers received on or after 1 July 2009)

*(c) Standards, amendments and interpretations that are not yet effective:*

- Amendments to IFRS 7 'Disclosures – Transfers of Financial Assets' (effective 1 July 2011)
- IFRS 9 (as amended in 2010) 'Financial Instruments' (effective 1 January 2013)
- IAS 24 (revised in 2009) 'Related Party Disclosures' (effective 1 January 2013)
- Amendments to IAS 32 'Classification of Rights Issues' (effective 1 February 2010)
- Improvements to IFRSs issued in 2010 (Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011)

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

**Going Concern**

The nature of the Company's business dictates that the outstanding 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 Commodity Securities will coincide with the termination of an equal amount of Commodity Contracts, no liquidity risk is considered to arise. All other liabilities of the Company were met by ETFSL and will continue to be met by ManJer; therefore the directors consider the Company to be a going concern and have prepared the financial statements on this basis.

**Commodity Securities and Contracts**

## i) Issuance and Redemption

The Company has entered into a Facility Agreement with UBS to permit the Company to purchase and redeem Commodity Contracts at prices equivalent to Commodity Securities issued or redeemed on the same day. Each time a Commodity Security is issued or redeemed by the Company a matching number and value of Commodity Contracts are purchased or redeemed from UBS. The Commodity Contracts represent financial assets of the Company and the 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 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 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. 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 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 Commodity Security and Commodity Contract comprises a financial instrument whose redemption price is linked directly to the price of the underlying Commodity future 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 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 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 year end, the monetary amount due to be settled is separately disclosed within the relevant assets and liabilities on the statement of financial position.

**Revenue Recognition**

Revenue is recognised to the extent that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty.

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

**Interest Income**

Interest income is recognised on an accruals basis.

**Loans and Receivables**

The loans and receivables are non-derivative financial assets with a fixed payment amount and are not quoted in an active market. After initial measurement the loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses on loans and receivables which are impaired are recognised immediately in the statement of comprehensive income.

**Cash and Cash Equivalents**

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

**Foreign Currency Translation**

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

Monetary assets and liabilities denominated in foreign currencies at the year end date are translated at rates ruling at that date. Creation and Redemption fees are translated at the average rate for the quarter in which they are incurred. The resulting differences are accounted for in the statement of comprehensive income.

**Segmental Reporting**

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.

**2. Operating Profit**

Operating profit for the year comprised:

	Year ended 31 December	
	2010	2009
	USD	USD
Creation and Redemption Fees	551,894	375,578
Management Fee	31,007,399	18,246,627
Licence Allowance	3,160,534	1,859,849
<b>Total Revenue</b>	<b>34,719,827</b>	<b>20,482,054</b>
Fees to ETFSL	(34,167,933)	(20,106,476)
Net Finance Income	990	4,461
Net Foreign Exchange (Loss)/ Gain	(5,630)	44,251
<b>Total operating expenses</b>	<b>(34,172,573)</b>	<b>(20,057,584)</b>
<b>Operating Profit</b>	<b>547,254</b>	<b>424,470</b>

Audit fees for the year of GBP 19,500 (2009: GBP 19,500) will be met by ETFSL.

**3. Segmental Reporting**

The Company has four separate types of Commodity Security in issue – Classic, Forward, Short and Leveraged Securities. The Company earns revenues from each of these sources.

For the year ended 31 December 2009:

**ETFs COMMODITY SECURITIES LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

	Classic	Forward	Short	Leveraged	Central	Total
Creation & Redemption Fees	189,761	21,904	78,310	85,603	-	375,578
Management Fees	13,156,329	766,907	1,243,061	3,080,330	-	18,246,627
Licence Allowance	1,341,003	78,170	126,703	313,973	-	1,859,849
Total Revenue	<u>14,687,093</u>	<u>866,981</u>	<u>1,448,074</u>	<u>3,479,906</u>	<u>-</u>	<u>20,482,054</u>
Total Operating Expenses - net	(14,497,332)	(845,077)	(1,369,764)	(3,394,303)	48,892	(20,057,584)
Segmental Profit	<u>189,761</u>	<u>21,904</u>	<u>78,310</u>	<u>85,603</u>	<u>48,892</u>	<u>424,470</u>

For the year ended 31 December 2010:

	Classic	Forward	Short	Leveraged	Central	Total
Creation and Redemption Fees	304,454	23,293	100,842	123,305	-	551,894
Management Fees	20,858,292	1,137,252	2,676,921	6,334,934	-	31,007,399
Licence Allowance	2,126,052	115,918	272,854	645,710	-	3,160,534
	<u>23,288,798</u>	<u>1,276,463</u>	<u>3,050,617</u>	<u>7,103,949</u>	<u>-</u>	<u>34,719,827</u>
Total Operating Expenses	(22,984,344)	(1,253,170)	(2,949,775)	(6,980,644)	(4,640)	(34,172,573)
Segmental Profit	<u>304,454</u>	<u>23,293</u>	<u>100,842</u>	<u>123,305</u>	<u>(4,640)</u>	<u>547,254</u>

Additional information relating to the assets and liabilities associated with these securities is disclosed in notes 8 and 9.

**4. Directors' Remuneration**

The following table discloses the remuneration of the directors of the Company. All Directors' fees were met by ETFSL.

	Year ended 31 December	
	2010	2009
	GBP	GBP
Mr Graham J Tuckwell	Nil	Nil
Mr Greg J Burgess (resigned 3 September 2010)	Nil	Nil
Mr Graeme D Ross	5,000	5,000
Mr Craig A Stewart	5,000	5,000
Mr Thomas K Quigley (appointed 5 October 2010)	Nil	Nil

**5. Taxation**

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

**6. Employee Benefits**

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

7. Trade and Other Receivables

	Year ended 31 December	
	2010 USD	2009 USD
Management Fee Receivable	3,305,890	2,787,408
Creation and Redemption Fees Receivable	191,656	167,854
Creation and Redemption Fees Due from Related Company	-	22,488
Bank Interest Receivable	-	132
	<u>3,497,546</u>	<u>2,977,882</u>

8. Commodity Contracts

	Change in Fair Value USD	Fair Value at 31 December 2009 USD
Classic Commodity Contracts	457,503,748	4,293,656,633
Forward Commodity Contracts	14,137,725	268,369,128
Short Commodity Contracts	(35,499,768)	198,419,056
Leveraged Commodity Contracts	81,847,555	616,717,957
Total Commodity Contracts	<u>517,989,260</u>	<u>5,377,162,774</u>

	Change in Fair Value USD	Fair Value at 31 December 2010 USD
Classic Commodity Contracts	562,417,547	5,204,734,194
Forward Commodity Contracts	6,210,425	227,417,854
Short Commodity Contracts	(59,357,052)	251,849,986
Leveraged Commodity Contracts	(86,657,218)	830,542,553
Total Commodity Contracts	<u>422,613,702</u>	<u>6,514,544,587</u>

At the year end there were certain Commodity Contracts awaiting the creation or (redemption) of securities with trade dates before the year end and settlement dates in 2011. The amount receivable or (payable) on completion of these trades is (USD 62,132,357) (2009: USD 24,069,112).

**9. Commodity Securities**

	<b>Change in Fair Value USD</b>	<b>Fair Value at 31 December 2009 USD</b>
Classic Commodity Securities	457,503,748	4,293,656,633
Forward Commodity Securities	14,137,725	268,369,128
Short Commodity Securities	(35,499,768)	198,419,056
Leveraged Commodity Securities	81,847,555	616,717,957
<b>Total Commodity Securities</b>	<b>517,989,260</b>	<b>5,377,162,774</b>

	<b>Change in Fair Value USD</b>	<b>Fair Value at 31 December 2010 USD</b>
Classic Commodity Securities	562,417,547	5,204,734,194
Forward Commodity Securities	6,210,425	227,417,854
Short Commodity Securities	(59,357,052)	251,849,986
Leveraged Commodity Securities	(86,657,218)	830,542,553
<b>Total Commodity Securities</b>	<b>422,613,702</b>	<b>6,514,544,587</b>

At the year end there were certain Commodity Securities awaiting the creation or (redemption) with trade dates before the year end and settlement dates in 2011. The amount receivable or (payable) on completion of these trades is USD 62,132,357 (2009: USD (24,069,112)).

**10. Trade and Other Payables**

	<b>2010 USD</b>	<b>2009 USD</b>
Management Fee and Licence Allowance	3,305,890	5,229,206
Dividends	-	578,892
	<b>3,305,890</b>	<b>5,808,098</b>

**11. Stated Capital**

	<b>2010 USD</b>	<b>2008 USD</b>
2 Shares of Nil Par Value	2	2

The Company has 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.

On 22 December 2010 the entire share capital of the Company was transferred from ETFSL to ETFS Holdings (Jersey) Limited ("HoldCo").

**12. Related Party Disclosures**

The immediate parent Company is HoldCo, a Jersey registered Company. The ultimate beneficiary is Graham J Tuckwell through his shareholding in ETFSL. ETFSL is the parent Company of HoldCo.

Entities and individuals which have a significant influence over the Company either through the ownership of HoldCo shares, or by virtue of being a director of the Company are related parties.

# ETF COMMODITY SECURITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

The following balances were due to ETFSL at year end:

	<b>2010</b>	<b>2009</b>
	<b>USD</b>	<b>USD</b>
Management Fees and Licence Allowance Payable	(3,305,890)	(5,229,206)
Loan Receivable	-	2,534
Net Amounts Due to ETFSL	<u>(3,305,890)</u>	<u>(5,226,672)</u>

As disclosed in note 4 above, ETF Securities Limited paid Directors fees in respect of the Company of GBP 10,000 (2009 GBP 10,000).

Graeme D Ross and Craig A Stewart are directors of R&H Fund Services (Jersey) Limited ("R&H"), the administrator. Graeme D Ross is also a director of Computershare Investor Services (Jersey) Limited, the registrar. During the year, R&H charged ETFSL secretarial and administration fees in respect of the Company of GBP 200,162 (2009: GBP 190,000), of which GBP 50,000 (2009: GBP 18,750) was outstanding at the year end. Computershare charged ETFSL fees in respect of the Company of GBP 283,760 (2009: GBP 117,955), of which GBP 70,674 (2009: GBP 20,000) was outstanding at the year end.

The Company is owed USD nil (2009: USD 22,488) from ETF Metal Securities Limited, a subsidiary of ETFSL in respect of creation and redemption fees paid to them, in error.

As part of a Group restructuring exercise the directors agreed to transfer the management responsibilities of the Company on 1 January 2011 from ETFSL to ETF Management Company (Jersey) Limited ("ManJer"). ManJer advised that it was willing to continue to provide the services previously provided by ETFSL to the Company. The existing service agreement was therefore novated from ETFSL to ManJer on 1 January 2011.

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

### 13. 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) Interest Rate Risk

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

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 bank's variable rate. Due to the level of cash held in the account the directors do not believe that any move in interest rates would seriously affect the operations of the Company.

#### (b) Market Risk

The Company's liability in respect of the 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 which exactly match the liability created by the issue of Commodity Securities. The Company therefore bears no financial risk from a change in the price of 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 Commodity Securities, may vary widely. The market price of Commodity Securities is a function of supply and demand amongst investors wishing to buy and sell Commodity Securities and the bid-offer spread that the market makers are willing to quote.

*(c) Credit Risk*

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

The obligation of UBS under the Commodity Contracts ranks only as an unsecured claim against UBS. To cover the credit risk under the Commodity Contracts, UBS is 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, the Company has rights over the amounts placed in this pledge account.

The Company's cash is held at Royal Bank of Scotland International in Jersey. The directors do not feel that there is a great risk to the Company by holding all the cash with the one bank as the Company intends to distribute the monies held quarterly to the shareholders by way of a dividend. As a result there will be minimal cash held in the bank account at any given time.

*(d) 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.

*(e) Sensitivity Analysis*

IFRS 7 requires disclosure of a sensitivity analysis for each type of market risk to which the entity is exposed to at the reporting date, showing how comprehensive income and shareholders equity would have been affected by a reasonably possible change to the relevant risk variable.

As disclosed in the director's report, the Company's liability in connection with the issue of 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.

*(f) Capital Management*

The Company's principal activity is the listing and issue of 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. ETFSL 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 paid ETFSL a fee equal to the Management Fee and Licence Allowance charged to the Commodity Securities. This relationship will be continued by ManJer as discussed in Note 12

As all Commodity Securities on issue are supported by an equivalent amount of Commodity Contracts held by UBS and the running costs of the Company were paid by ETFSL and will continued to be paid by ManJer, the directors of the Company consider the capital management and value of Shareholders Funds are adequate to maintain the on-going listing and issue of Commodity Securities.

*(g) Settlement Risk*

The directors believe that settlement risk would only be caused by the risk of the Company's trading counterparty not delivering cash or securities on the settlement date. The directors feel that this risk is mitigated as a result of the cash or securities settling through the registrar's CREST system. The system ensures that the transaction does not settle until both parties have fulfilled their sides of the bargain.

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

*(h) Market Price Risk*

Whilst the 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 Commodity Security. Therefore, 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.

	<b>Fair value 2010 USD</b>	<b>Fair value 2009 USD</b>
Level 2	<u>6,514,544,587</u>	<u>5,377,162,774</u>

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

**14. Ultimate Controlling Party**

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

**15. Events after the Reporting Period**

On 22 December 2010 the directors agreed that all manager responsibilities of the Company would be transferred from ETFSL to ManJer as part of the Group restructuring exercise. It was agreed that this change would take effect from 1 January 2011.

The directors believe that the restructuring exercise will have no material impact on the operation of the Company.