

**ETF S OIL SECURITIES LIMITED**

**Registered No: 88371**

**Report and Financial Statements for the  
Year ended 31 December 2009**

# ETFS OIL SECURITIES LIMITED

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**ETFS OIL SECURITIES LIMITED**  
**MANAGEMENT AND ADMINISTRATION**

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**Directors**

Mr Graham J Tuckwell – Chairman  
Mr Greg J Burgess (appointed 2 June 2009)  
Mr Graeme D Ross  
Mr Craig A Stewart

**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 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

**German Legal Adviser**

Dechert LLP  
Theresienstraße 6  
80333 Munich  
Germany

**Registrar**

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

**German Listing and Paying Agent**

HSBC Trinkaus & Burkhardt AG  
Königsallee 21/23  
40212 Düsseldorf  
Germany

**Auditors**

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

**Trustee**

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

# ETFS OIL SECURITIES LIMITED

## DIRECTORS' REPORT

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The directors of ETFS Oil Securities Limited ("OSL" or "the Company") submit herewith the annual report and financial statements of the Company for the year ended 31 December 2009.

### 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 (appointed 2 June 2009)

Mr Graeme D Ross

Mr Craig A Stewart

Dr Leanne M Baker (resigned 2 June 2009)

Mr Benjamin M Cukier (resigned 2 June 2009)

Dr Vince WJ FitzGerald (resigned 2 June 2009)

Mr Jim C Wiandt (resigned 2 June 2009)

### Principal Activities

The Company's principal activity is the listing and issue of energy securities ("Energy Securities"). The Company earns management fees based upon the number of Energy 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.

Energy Securities are financial instruments designed to track the price of commodities, principally oil, 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, Energy Securities involve no need to roll from one futures contract to another, no margin calls, and no other brokerage or other costs in holding or rolling futures contracts (although Security Holders incur other costs in holding Energy Securities).

Energy Securities are backed by energy contracts with terms corresponding to the terms of Energy Securities ("Energy Contracts"). Each time Energy Securities are issued or redeemed, matching Energy Contracts between the Company and the Energy Contract counterparty are created or cancelled by the Company. The Company has entered into a Oil Purchase Agreement with Shell, its Energy Contract counterparty, enabling the Company to create and cancel Energy Contracts on an ongoing basis.

The Company's exposure to risk is discussed in note 12 to the accounts.

### Review of Operations

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

Security	London Stock Exchange	Mexican Stock Exchange	Borsa Italia	Deutsche Börse	NYSE- Euronext Amsterdam	NYSE- Euronext Paris
Brent Energy Securities	4	4	4	4	4	4
WTI Energy Securities	4	4	4	4	4	4
Carbon Energy Securities	2	-	-	-	-	-
Total Energy Securities	10	8	8	8	8	8

As at 31 December 2009, assets under management amounted to USD 514.7 million (2008: USD 218.2 million). The Company recognises its assets (Energy Contracts) and liabilities (Energy 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.

# ETFSL OIL SECURITIES LIMITED

## DIRECTORS' REPORT

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	<b>2009</b>	<b>2008</b>
	<b>USD</b>	<b>USD</b>
Management Fees	2,708,089	860,590
Creation and Redemption Fees	121,261	26,849
Total Fee Income	<u>2,829,350</u>	<u>887,439</u>

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

	<b>2009</b>	<b>2008</b>
	<b>USD</b>	<b>USD</b>
Operating profit for the year	<u>122,164</u>	<u>13,394</u>

The gain or loss on Energy Securities and Energy Contracts is recognised in the statement of comprehensive income in line with the Company's accounting policy, these gains or losses offset each other.

### 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 2009 of USD 211,457. As at 31 December 2009, USD 62,071 had been settled in cash and USD 1,742 settled against Stated Capital receivable by the Company. It is the Company's policy that dividends will only be declared when the directors are of the opinion that there are sufficient distributable reserves.

### Employees

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

### Directors' Interests

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

	<b>Ordinary Shares of Nil Par Value</b>
Graham J Tuckwell (as controlling party of ETFSL)	1,000

### Directors' Remuneration

The following table discloses the remuneration of the directors of the Company which has been paid by ETFSL:

	<b>2009 Fees</b>	<b>2008 Fees</b>
	<b>GBP</b>	<b>GBP</b>
Mr Graham J Tuckwell	Nil	Nil
Mr Greg J Burgess (appointed 2 June 2009)	Nil	Nil
Mr Graeme D Ross	5,000	5,000
Mr Craig A Stewart	5,000	5,000
Dr Vincent WJ FitzGerald (resigned 2 June 2009)	Nil	Nil
Mr Benjamin M Cukier (resigned 2 June 2009)	Nil	Nil
Mr Jim C Wiandt (resigned 2 June 2009)	Nil	Nil
Dr Leanne M Baker (resigned 2 June 2009)	Nil	Nil

**ETFS OIL SECURITIES LIMITED**

**DIRECTORS' REPORT**

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**Auditors**

Ernst & Young LLP resigned as auditors on 12 December 2009. Deloitte LLP were appointed as auditors on 12 December 2009. A resolution to reappoint Deloitte LLP as the auditors of the Company will be proposed at the next directors meeting.



**Craig A Stewart**

Director

Jersey

29 April 2010

## ETFS OIL SECURITIES LIMITED

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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



Craig A Stewart  
Director

29 April 2010

**ETFS OIL SECURITIES LIMITED**  
**INDEPENDENT AUDITORS' REPORT**

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We have audited the financial statements of ETFS Oil Securities Limited for the year ended 31 December 2009 which comprise the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in shareholders' equity and the related notes 1 to 13. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board are 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 Directors' Report is not consistent with the financial statements, if 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 the Directors' Report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

**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 judgments 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 IFRSs as issued by the International Accounting Standards Board, of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended; and
- The financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991.



Christopher Leck MA, FCA,  
For and on behalf of Deloitte LLP  
Chartered Accountants  
St. Helier, Jersey

29 April 2010



**ETF S OIL SECURITIES LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**

	Note	Year ended 31 December	
		2009 USD	2008 USD
<b>Revenue</b>	2	2,829,350	887,439
<b>Expenses</b>			
Fees to ETFSL	2	(2,708,089)	(860,590)
Other operating income / (expense)		903	(13,455)
<b>Operating Profit</b>	2	<u>122,164</u>	<u>13,394</u>
Net gain / (loss) arising on fair value of Energy Contracts	7	240,988,117	(75,549,408)
Net (loss) / gain arising on fair value of Energy Securities	8	(240,988,117)	75,549,408
<b>Profit and total comprehensive income for the year</b>		<u><u>122,164</u></u>	<u><u>13,394</u></u>

The directors consider the Company's activities are continuing.

The notes on pages 11 to 18 form part of these financial statements

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

	Note	As at 31 December	
		2009	2008
		USD	USD
<b>Current Assets</b>			
Cash and Cash Equivalents		329,827	57,732
Trade and Other Receivables	6	231,259	101,585
Energy Contracts	7	514,743,116	218,225,891
Amounts receivable awaiting settlement	8	-	15,860,711
<b>Total Assets</b>		<b>515,304,202</b>	<b>234,245,919</b>
<b>Current Liabilities</b>			
Energy Securities	8	514,743,116	218,225,891
Amounts payable awaiting settlement	7	-	15,860,711
Trade and Other Payables	9	549,344	58,282
<b>Total Liabilities</b>		<b>515,292,460</b>	<b>234,144,884</b>
<b>Equity</b>			
Stated Capital	10	1,742	1,742
Retained Profits		10,000	99,293
<b>Total Equity</b>		<b>11,742</b>	<b>101,035</b>
<b>Total Equity and Liabilities</b>		<b>515,304,202</b>	<b>234,245,919</b>

The financial statements on pages 7 to 18 were approved by the board of directors and signed on its behalf on 29 April 2010.



Craig A Stewart  
 Director

The notes on pages 11 to 18 form part of these financial statements

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

	Year ended 31 December	
	2009 USD	2008 USD
<b>Cash flows from operating activities</b>		
Cash receipts from operations	2,676,505	904,725
Payments to ETFSL	(2,366,414)	(866,081)
Net proceeds from issue of securities	1,497,290,671	379,859,006
Net payments for dealing in contracts	(1,497,290,671)	(379,859,006)
Cash generated from operations	<u>310,091</u>	<u>38,644</u>
Bank interest received	168	3,192
Bank charges paid	(492)	(381)
Net cash generated from operating activities	<u>309,767</u>	<u>41,455</u>
<b>Cash flows from financing activities</b>		
Loans received	21,500	-
Dividends paid	(60,329)	-
Net cash used in financing activities	<u>(38,829)</u>	<u>-</u>
<b>Net increase in cash and cash equivalents</b>	<u>270,938</u>	<u>41,455</u>
Cash and cash equivalents at the beginning of the year	57,732	31,849
Net increase in cash and cash equivalents	270,938	41,455
Exchange adjustment on revaluation of bank accounts	1,157	(15,572)
Cash and cash equivalents at the end of the year	<u>329,827</u>	<u>57,732</u>

The notes on pages 11 to 18 form part of these financial statements

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

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	<b>Stated Capital USD</b>	<b>Retained Earnings USD</b>	<b>Total Equity USD</b>
Opening Balance at 1 January 2008	1,742	85,899	87,641
Total comprehensive income for the year	-	13,394	13,394
Balance at 31 December 2008	<u>1,742</u>	<u>99,293</u>	<u>101,035</u>
Opening Balance at 1 January 2009	1,742	99,293	101,035
Total comprehensive income for the year	-	122,164	122,164
Dividends	-	(221,457)	(221,457)
Balance at 31 December 2009	<u>1,742</u>	<u>10,000</u>	<u>11,742</u>

The notes on pages 11 to 18 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 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 key accounting judgement required to prepare these financial statements is in respect of the valuation of Energy Contracts and Energy Securities held at fair value through profit or loss as disclosed in note 8.

#### *(a) Standards, amendments and interpretations effective on 1 January 2009:*

IAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. It requires non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Company has applied IAS 1 (revised) from 1 January 2009, and has elected to present solely a statement of comprehensive income. The adoption of this revised standard has not resulted in any significant change to the presentation of the Company's performance statement, as the Company has no elements of other comprehensive income.

Amendment to IAS 39 Financial instruments: Recognition and Measurement. The amendment was part of the IASB's annual improvements project published in May 2008. The definition of a financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was amended.

This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. Adoption did not have a significant impact on the Company's financial statements.

Amendment to IFRS 7 Financial instruments: Disclosures. The amendment requires enhanced disclosures regarding fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The fair value hierarchy has the following levels:

- Quoted prices in active markets for the assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The adoption of the amendment results in additional disclosures but does not have an impact on the Company's financial position or performance.

(b) *Standards, amendments and interpretations effective on 1 January 2009 but not relevant to the Company:*

Amendments to IAS 23	Borrowing costs;
Amendments to IAS 39 and IFRIC 9	Embedded derivatives;
Amendments to IAS 39 and IFRS 7	Reclassification of financial assets;
Amendments to IAS 39	Financial instruments: Presentation
Amendments to IFRS 1	First-time adoption of IFRS and IAS 27 Consolidated and separate financial statements;
Amendments to IFRS 2	Share-based payment;
IFRS 8	Operating segments; and
IFRIC 15	Agreements for construction of real estates.

(c) *Standards, amendments and interpretations that are not yet effective and not relevant for the Company's operations:*

The following interpretations are mandatory for the Company's accounting periods beginning on or after 1 July 2009 or later periods but are not relevant for the Company's operations:

Amendments to IAS 27	Consolidated and separate financial statements;
Amendments to IAS 39	Financial instruments: Recognition and measurement;
Amendments to IFRS 1	Additional exemptions for first-time adopters;
Amendments to IFRS 2	Group cash-settled share-based payment transactions;
Amendments to IFRS 3	Business combinations;
IFRIC 17	Distributions of non-cash assets to owners;
IFRIC 18	Transfers of assets from customers; and
IFRS 9	Financial instruments.

'Improvements to IFRS' were issued in May 2008 and April 2009 respectively and contain numerous amendments to IFRS, which the IASB consider to be non-urgent but necessary. It comprises amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual standards. Most of the amendments are effective for annual accounting periods beginning on or after 1 January 2009 and 1 January 2010 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

### **Going Concern**

The nature of the Company's business dictates that the outstanding Energy Securities may be redeemed at any time by the holder and in certain circumstances may be redeemed by the Company. As the redemption of Energy Securities will coincide with the termination of an equal amount of Energy Contracts, no liquidity risk is considered to arise. All other liabilities of the Company are met by ETFSL; therefore the directors consider the Company to be a going concern and have prepared the financial statements on this basis.

### **Energy Securities and Energy Contracts**

#### **i) Issuance and Redemption**

The Company has entered into Oil Purchase Agreements with Shell Trading Switzerland A.G. ("Shell") to permit the Company to purchase and redeem Energy Contracts at prices equivalent to Energy Securities issued or redeemed on the same day. Each time an Energy Security is issued or redeemed by the Company a matching number and value of Energy Contracts are purchased or redeemed from Shell. The Energy Contracts represent financial assets of the Company and the Energy Securities give rise to financial liabilities.

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

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

## **ETFS OIL SECURITIES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009**

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#### ii) Pricing

The Energy Contracts and Securities are priced at the end of each pricing day for each of the respective classes of security, using appropriate values of forward contracts to which they relate. Each class of Energy Security and Energy Contract has different characteristics as it looks at different forward periods.

#### iii) Designation at Fair Value through Profit or Loss

Each Energy Security or Energy Contract comprises a financial instrument whose redemption price is linked directly to the price of the underlying oil future on a one-to-one basis.

These instruments are designated as 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 Energy Security and Energy Contract to be recorded in the statement of consolidated income.

#### **Energy Contracts and Securities Awaiting Settlement**

The issue and redemption of Energy Securities, and the purchase and sale of Energy Contracts, is accounted for on the trade date (T). Where settlement pricing is applied, the trade will not settle until T+3. Where trades are awaiting settlement at the year end, they are separately disclosed within the relevant assets and liabilities recognised 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 expense are recognised on an accruals basis.

#### **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**

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

#### **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 consolidated income.

#### **Cash and Cash Equivalents**

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

**ETFSL OIL SECURITIES LIMITED****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009****2. Operating Profit**

Operating profit for the year comprised:

	Year ended 31 December	
	2009	2008
	USD	USD
Creation and Redemption Fees	121,261	26,849
Management Fee	2,708,089	860,590
<b>Total income</b>	<b>2,829,350</b>	<b>887,439</b>
Fees to ETFSL	(2,708,089)	(860,590)
Finance charges	(254)	2,117
Net foreign exchange gain / (loss)	1,157	(15,572)
<b>Total operating expenses</b>	<b>(2,707,186)</b>	<b>(874,045)</b>
<b>Operating Profit</b>	<b>122,164</b>	<b>13,394</b>

Audit fees for the year of GBP 17,000 (2008: GBP 19,500) were met by ETFSL.

**3. 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	
	2009	2008
	GBP	GBP
Mr Graham J Tuckwell	Nil	Nil
Mr Greg J Burgess (appointed 2 June 2009)	Nil	Nil
Dr Vince WJ FitzGerald (resigned 2 June 2009)	Nil	Nil
Mr Graeme D Ross	5,000	5,000
Mr Craig A Stewart	5,000	5,000
Dr Leanne M Baker (resigned 2 June 2009)	Nil	Nil
Mr Benjamin M Cukier (resigned 2 June 2009)	Nil	Nil
Mr Jim C Wiandt (resigned 2 June 2009)	Nil	Nil

**4. Taxation**

With effect from the 2009 year of assessment, Jersey abolished the exempt company regime for existing companies. Profits arising in the Company for the 2009 year of assessment and future periods will be subject to tax at the rate of zero per cent. In the prior year the Company was exempt from taxation under the provisions of Article 123A of the Income Tax (Jersey) Law 1961 as amended.

**5. Employee Benefits**

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



**6. Trade and Other Receivables**

	31 December 2009	31 December 2008
	USD	USD
Loans and receivables	-	21,500
Creation and redemption fees receivable	25,829	20,061
Management fee receivable	205,360	58,282
Stated Capital receivable	-	1,742
Accrued income	70	-
	<u>231,259</u>	<u>101,585</u>

**7. Energy Contracts**

Energy Contracts held as at the year end can be analysed as follows:

	Year Ended 31 December	
	2009	2008
	USD	USD
Fair value on purchase	273,754,999	293,775,299
Change in fair value	240,988,117	(75,549,408)
Energy Contracts	<u>514,743,116</u>	<u>218,225,891</u>

As at 31 December 2008, there were certain amounts of Energy Contracts awaiting the creation of securities with trade dates before the year end and settlement dates in the following year. The amount receivable on completion of these trades was USD 15,860,711 (2009: nil).

**8. Energy Securities**

	Year Ended 31 December	
	2009	2008
	USD	USD
Fair value on issue	273,754,999	293,775,299
Change in fair value	240,988,117	(75,549,408)
Energy Securities	<u>514,743,116</u>	<u>218,225,891</u>

As at 31 December 2008, there were certain amounts of Energy Securities awaiting creation with trade dates before the year end and settlement dates in the following year. The amount payable on completion of these trades was USD 15,860,711 (2009: nil).

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

	Fair Value 2009 USD	Fair Value 2008 USD
Level 2	<u>514,743,116</u>	<u>218,225,891</u>

**ETFSL OIL SECURITIES LIMITED****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009**

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

**9. Trade and other Payables**

	2009	2008
	USD	USD
Fees payable to ETFSL	399,958	58,282
Dividends payable to ETFSL	149,386	-
	<u>549,344</u>	<u>58,282</u>

**10. Stated Capital**

	2009	2008
	USD	USD
1,000 shares of GBP 1 each	<u>1,742</u>	<u>1,742</u>

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

All shares issued by the Company carry one vote per share without restriction and carry the right to dividends. All shares are held by ETFSL.

**11. Related Party Disclosures**

The immediate and ultimate parent company is ETFSL, a Jersey company.

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

The following balances were due (to) / from ETFSL at the year end:

	2009	2008
	USD	USD
Fees payable at the end of the year	(399,958)	(58,282)
Loan receivable	-	21,500
Stated capital receivable	-	1,742
Net amounts due to ETFSL	<u>(399,958)</u>	<u>(35,040)</u>

As disclosed in note 3 above, ETF Securities Limited paid Directors fees in respect of the Company of GBP 10,000 (2008: GBP 10,000).

Graeme D Ross and Craig A Stewart are directors of R&H Fund Services (Jersey) Limited, the administrator and Computershare Investor Services (Jersey) Limited, the registrar. During the period, R&H charged ETFSL secretarial and administration fees in respect of the Company of GBP 43,750 (2008: GBP 40,000), of which GBP 9,375 (2008: GBP 10,000) was outstanding at the year end. Computershare charged ETFSL registrar fees in respect of the Company of GBP 12,809 (2008: nil), of which GBP 4,772 (2008: nil) was outstanding at the year end.

Graham J Tuckwell is also a director of the parent company, ETFSL.

## **12. 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 Energy Contracts or the Energy 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 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 affect the operations of the Company.

### *(b) Market Risk*

The Company's liability in respect of the Energy Securities issued is related to the oil and carbon emissions prices by reference to the futures market as quoted on the relevant futures Exchanges and is managed by the Company by entering into Energy Contracts with Shell Trading Switzerland A.G. which exactly match the liability created by the issue of Energy Securities. The Company bears no financial risk from a change in the price of oil by reference to the futures price.

However, there is an inherent risk from the point of view of investors as the price of crude oil and carbon emissions, and thus the value of the Energy Securities, may vary widely. The market price of Energy Securities is a function of supply and demand amongst investors wishing to buy and sell Energy Securities and the bid or offer spread that the market makers are willing to quote.

### *(c) Credit Risk*

The value of Energy Securities and the ability of the Company to repay the redemption price is dependent on the receipt of such amount from Shell Trading Switzerland A.G. ("Shell") and may be affected by the credit rating attached to Shell.

The obligation of Shell under the Energy Contracts ranks only as an unsecured claim against Shell. However, those obligations are supported by a Standby Credit from Shell Treasury Dollar Company Limited.

The Company manages its credit risk by only entering into Energy Contracts with major oil companies or any other company which owns oil, the rights to oil or has assets linked to the oil price and has an investment grade credit rating.

The risk is further mitigated by the fact that the Company has certain choices if the credit rating of Shell or another Major Oil Company falls below certain levels. If Shell's long term senior debt credit rating falls below A+ from Standard and Poor's or A1 from Moody's then the Company may, on redemption of Energy Securities, elect to redeem any matching Energy Contracts of Shell. Further, the Company may split Energy Securities and Energy Contracts of the same class into two pools if, for example, one Oil Major Company suffered a significant credit rating downgrade.

### *(d) Liquidity Risk*

There is no liquidity risk to the Company because the maturity profile of the securities and contracts is exactly matched, therefore the Company doesn't have to wait for a longer-term contract to mature in order to pay its debts to ex-security holders.

### *(e) Capital Management*

The Company's principal activity is the listing and issue of Energy Securities. These securities are issued as demand requires. The Company holds a corresponding amount of Energy Contracts which exactly matches the total securities issued. ETFSL supplies and arranges the supply of all administrative services to the Company and pays all management and administration costs of the Company, including Trustee fees, in return for which the Company will pay ETFSL fee equal to the Management Fee and charged to Energy Securities.

As all Energy Securities on issue are supported by an equivalent amount of Energy Contracts held by Shell and the running costs of the Company are paid by ETFSL, 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 Energy Securities.

*(f) Sensitivity Analysis*

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

As disclosed in the directors' report, the Company's liability in connection with the issue of Energy Securities is matched by movements in corresponding Energy Contracts. Consequently the Company is not exposed to market price risk.

*(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 7 and 8.

**13. Ultimate Controlling Party**

As the majority shareholder in the Company's parent entity, ETFSL, the ultimate controlling party is Graham J Tuckwell.