

**ETFS OIL SECURITIES LIMITED**

**Registered No: 88371**

**Report and Financial Statements for the  
Year ended 31 December 2011**

## ETFS OIL SECURITIES LIMITED

### CONTENTS

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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 Equity	11
Notes to the Financial Statements	12-19

**ETFFS OIL SECURITIES LIMITED**  
**MANAGEMENT AND ADMINISTRATION**

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**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 Legal Advisers**

Dechert LLP  
160 Queen Victoria Street  
London, EC4V 4QQ

**Jersey Legal Advisers**

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

**German Legal Adviser**

Dechert LLP  
Theresienstraße 6  
80333 Munich  
Germany

**Registrar**

Computershare Investor Services (Jersey) Limited  
Queensway House  
Hilgrove Street  
St Helier  
Jersey, JE11ES

**German Listing and Paying Agent**

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

**Auditor**

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

**Manager**

ETFFS Management Company (Jersey) Limited  
Ordnance House  
PO Box 83  
31 Pier Road  
St Helier  
Jersey, JE4 8PW

**Energy Contract Counterparty**

Shell Trading Switzerland AG  
Baarermatte,  
6340 Baar  
Switzerland

# 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 2011.

### 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 Graeme D Ross

Mr Craig A Stewart

Mr Thomas K Quigley

### 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 and paid monthly in arrears.

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 ("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 an Oil Purchase Agreement with Shell, its Energy Contract Counterparty, enabling the Company to create and cancel Energy Contracts on an ongoing basis. No trading or management of futures contracts is required of the company.

The Company had entered into a service agreement with ETF Securities Limited ("ETFSL"), whereby ETFSL was responsible for advisory or consultancy services required by the Company, including advertising and all costs relating to the listing and issuance of securities. In return for these services, the Company transferred to ETFSL a Management Fee as described above. As a result, amounts in respect of the Management Fee are transferred directly to ETFSL and there are no cash flows through the Company in relation to the Management Fee. 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 in exchange for the Management Fee described above and Creation and Redemption Fees. 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 Energy Securities issued and admitted to trading on the following exchanges:

Security	London Stock Exchange	Borsa Italia	Deutsche Börse	NYSE- Euronext Paris
Brent Energy Securities	5	1	1	1
WTI Energy Securities	5	1	1	1
Carbon Energy Securities	2	-	-	-
Total Energy Securities	12	2	2	2

**ETFS OIL SECURITIES LIMITED**  
**DIRECTORS' REPORT - CONTINUED**

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**Review of Operations – continued**

As at 31 December 2011, assets under management amounted to USD 385.2 million (2010: USD 465.3 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 as follows:

	<b>2011</b>	<b>2010</b>
	<b>USD</b>	<b>USD</b>
Management Fees	2,437,803	2,222,552
Creation and Redemption Fees	58,697	92,708
Total Fee Income	<u>2,496,500</u>	<u>2,315,260</u>

Under the terms of the Service Agreement with ManJer, the Company accrued expenses equal to the Management Fees and Creation and Redemption Fees, which, after taking into account other operating income and expenses, resulted in an operating profit of:

	<b>2011</b>	<b>2010</b>
	<b>USD</b>	<b>USD</b>
Operating Profit for the Year	<u>-</u>	<u>93,231</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.

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

**Country and Currency Risk**

The directors do not consider the Company to have a significant exposure to risk relating to country and currency risk arising from the current economic uncertainties facing a number of countries around the world.

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

Movements in the price of the underlying contract, and thus the value of the Securities, may vary widely which could have an impact on the demand for the Securities issued by the Company. This is considered in notes 7 and 8.

**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**

During the year the Company made payment of dividends amounting to USD 48,508 (2010: USD 52,723). 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.

**ETFSL OIL SECURITIES LIMITED**  
**DIRECTORS' REPORT - CONTINUED**

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**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:

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

**Auditor**

A resolution to reappoint Deloitte LLP as the auditor of the Company will be proposed at the next meeting of the directors.

**Corporate Governance**

There is no standard code of corporate governance in Jersey. The operations, as previously described in the directors' report, are such that the directors do not consider the Company is required to voluntarily apply the UK Corporate Governance Code.

As the board is small there is no Nomination Committee and appointments of new directors are considered by the board as a whole. The board does not consider it appropriate that directors should be appointed for a specific term. Furthermore the structure of the board is such that it is considered unnecessary to identify a senior non-executive director.

The constitution of the board is disclosed above. With the exception of Mr Quigley, the directors are either members of the board of the Ultimate Parent Company, ETFSL, or members of the board of the Company's Administrator, R&H Fund Services (Jersey) Limited, and will continue to have such a composition of directors beyond the next meeting of the directors.

The board of directors meet 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 ManJer on behalf of the Company for the year is disclosed below. In the previous year the fees were paid by ETFSL.

	<u>2011 Fees</u>	<u>2010 Fees</u>
	<u>GBP</u>	<u>GBP</u>
Mr Graham J Tuckwell	Nil	Nil
Mr Graeme D Ross	7,500	5,000
Mr Craig A Stewart	7,500	5,000
Mr Thomas K Quigley	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 Energy Securities, has not undertaken any business, save for issuing and redeeming Energy 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 Energy Securities and performing the obligations and exercising its rights in relation thereto.

**ETFS OIL SECURITIES LIMITED**  
**DIRECTORS' REPORT - CONTINUED**

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**Internal Control - continued**


The Company was dependent upon ManJer to provide management and administration services to it. ManJer has outsourced the administration services to a regulated service provider in Jersey, R&H Fund Services (Jersey) Limited ("R&H"). In addition ManJer is classified as a Managed Entity under Jersey regulation and is reliant upon R&H for the provision of additional Management services under the Manager of a Managed Entity ("MoME") regime. Documented contractual arrangements are in place with the Manager and the Administrator which define the areas where the authority is delegated to them. The performance of the Manager and Administrator are reviewed on an on going basis by the board of the ultimate parent company, ETF Securities Limited through their review of periodic reports and quarterly management accounts of the Company.

ManJer promotes and provides management and other services to both the Company and other companies issuing commodity based securities.

The board having reviewed the effectiveness of the internal control systems of the Manager and R&H, and having a regard to the role of its external 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.



**Graeme D Ross**  
Director  
Jersey  
9 March 2012

## 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.

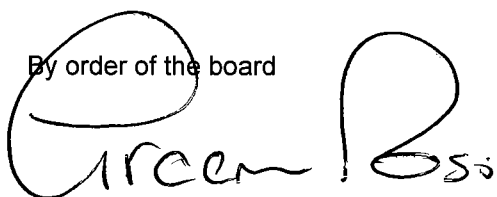
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board.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

By order of the board

A handwritten signature in black ink, appearing to read 'Graeme D Ross', is written over the printed name. The signature is fluid and cursive, with a large initial 'G' and 'R'.

**Graeme D Ross**  
Director

9 March 2012



**ETFS OIL SECURITIES LIMITED**  
**INDEPENDENT AUDITOR'S REPORT**

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We have audited the financial statements of ETFS Oil Securities Limited for the year ended 31 December 2011 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its result for the year then ended;
- have been properly prepared in accordance with IFRSs as issued by the International Accounting Standards Board; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.



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

9 March 2012

**ETFS OIL SECURITIES LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**

	Note	Year ended 31 December	
		2011 USD	2010 USD
<b>Revenue</b>	2	2,496,500	2,315,260
<b>Expenses</b>			
Management Fees to ETFSL	2	-	(2,222,803)
Management Fees to ManJer	2	(2,496,594)	-
Other Operating Income		94	774
<b>Operating Profit</b>	2	-	93,231
Net Gain Arising on Fair Value of Energy Contracts	7	58,191,131	58,419,535
Net Loss Arising on Fair Value of Energy Securities	8	(58,191,131)	(58,419,535)
<b>Profit and Total Comprehensive Income for the Year</b>		-	93,231

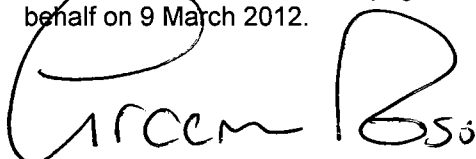
The directors consider the Company's activities are continuing.

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

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

	Note	As at 31 December	
		2011 USD	2010 USD
<b>Current Assets</b>			
Cash and Cash Equivalents		4,006	32,238
Trade and Other Receivables	6	169,578	218,001
Energy Contracts	7	385,168,001	465,309,004
Amounts Receivable Awaiting Settlement	7	-	1,294,327
<b>Total Assets</b>		<b>385,341,585</b>	<b>466,853,570</b>
<b>Current Liabilities</b>			
Energy Securities	8	385,168,001	465,309,004
Amounts Payable Awaiting Settlement	8	-	1,294,327
Trade and Other Payables	9	169,842	197,989
<b>Total Liabilities</b>		<b>385,337,843</b>	<b>466,801,320</b>
<b>Equity</b>			
Stated Capital	10	1,742	1,742
Retained Profits		2,000	50,508
<b>Total Equity</b>		<b>3,742</b>	<b>52,250</b>
<b>Total Equity and Liabilities</b>		<b>385,341,585</b>	<b>466,853,570</b>

The financial statements on pages 8 to 19 were approved by the board of directors and signed on its behalf on 9 March 2012.

  
 Graeme D Ross  
 Director

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

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

	Year ended 31 December	
	2011 USD	2010 USD
<b>Operating Profit for the Year</b>	-	93,231
<i>Changes in Operating Assets and Liabilities</i>		
Decrease in Receivables	48,423	13,258
Decrease in Payables	(28,147)	(351,355)
Cash Generated from/(Used in) Operations	<u>20,276</u>	<u>(244,866)</u>
<b>Cash Flows from Financing Activities</b>		
Dividends Paid	(48,508)	(52,723)
Net Cash Used by Financing Activities	<u>(48,508)</u>	<u>(52,723)</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	<u>(28,232)</u>	<u>(297,589)</u>
Cash and Cash Equivalents at the Beginning of the Year	32,238	329,827
Net Decrease in Cash and Cash Equivalents	(28,232)	(297,589)
Cash and Cash Equivalents at the End of the Year	<u>4,006</u>	<u>32,238</u>

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

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

	<b>Stated Capital USD</b>	<b>Retained Earnings USD</b>	<b>Total Equity USD</b>
Opening Balance at 1 January 2010	1,742	10,000	11,742
Total Comprehensive Income for the Year	-	93,231	93,231
Dividends (USD 52.72 per share)		(52,723)	(52,723)
Balance at 31 December 2010	<u>1,742</u>	<u>50,508</u>	<u>52,250</u>
Opening Balance at 1 January 2011	1,742	50,508	52,250
Total Comprehensive Income for the Year	-	-	-
Dividends (USD 48.51 per share)	-	(48,508)	(48,508)
Balance at 31 December 2011	<u>1,742</u>	<u>2,000</u>	<u>3,742</u>

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

**ETFS OIL SECURITIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**

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**1. Accounting Policies**

The main accounting policies of the Company are described below.

**Basis of Preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss.

The presentation of financial statements in conformity with IFRSs requires the use of 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 notes 7 and 8. Actual results could vary from these estimates.

*(a) Standards, amendments and interpretations effective on 1 January 2011:*

- Various improvements to IFRSs issued in 2010 (Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011)
- IAS 24 (revised in 2009) "Related Party Disclosures" (effective 1 January 2011)
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"

The adoption of the improvements and interpretation resulted in 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 2011 but not relevant to the Company:*

- IFRIC 14 "Prepayments of a Minimum Funding Requirement" (effective January 2011)
- Amendments to IAS 31 "Classification of Rights Issues"
- Improvements to IFRSs issued in 2010

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

- IFRS 7 "Disclosures" (effective 1 July 2011)
- IFRS 9 "Financial Instruments" (effective 1 January 2015)
- IFRS 10 "Consolidated financial Statements" (effective 1 January 2013)
- IFRS 11 "Joint Arrangements" (effective 1 January 2013)
- IFRS 12 "Disclosure of Interest in Other Entities" (effective 1 January 2013)
- IFRS 13 "Fair Value Measurement" (effective 1 January 2013)
- Amendments to IAS 1 "Presentation of items of other comprehensive income" (effective 1 July 2012)
- Amendments to IAS 19 "Employee Benefits" (effective 1 January 2013)
- IAS 27 (Revised May 2011) "Separate Financial statements" (effective 1 January 2013)
- IAS 28 (Revised May 2011) "Investments in Associates and Joint Ventures" (effective 1 January 2013)
- Various improvements to IFRSs issued in 2011 (effective 1 January 2013)

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

## **ETFS OIL SECURITIES LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

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#### **1. Accounting Policies - continued**

##### **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 were met by ManJer; 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").

###### **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 comprehensive 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, 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 expense are recognised on an accruals basis.

# ETFSL OIL SECURITIES LIMITED

## NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

### 1. Accounting Policies - continued

#### 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 comprehensive income.

#### Cash and Cash Equivalents

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

### 2. Operating Profit

Operating profit for the year comprised:

	Year ended 31 December	
	2011 USD	2010 USD
Creation and Redemption Fees	58,697	92,708
Management Fee	2,437,803	2,222,552
<b>Total Revenue</b>	<b>2,496,500</b>	<b>2,315,260</b>
Management Fees to ETFSL	-	(2,222,803)
Management Fees to ManJer	(2,496,594)	-
Net Finance Charges	(47)	(259)
Net Foreign Exchange Gain	141	1,033
<b>Total Operating Expenses</b>	<b>(2,496,500)</b>	<b>(2,222,029)</b>
<b>Operating Profit</b>	<b>-</b>	<b>93,231</b>

Audit fees for the year of GBP 18,000 will be met by ManJer. In the previous year the fees of GBP 17,500 were met by ETFSL.



**ETFFS OIL SECURITIES LIMITED****NOTES TO THE FINANCIAL STATEMENTS - CONTINUED****3. Directors' Remuneration**

The following table discloses the remuneration of the directors of the Company. All directors' fees were met by ManJer. In the previous year the fees were met by ETFSL.

	<b>Year ended 31 December</b>	
	<b>2011</b>	<b>2010</b>
	<b>GBP</b>	<b>GBP</b>
Mr Graham J Tuckwell	Nil	Nil
Mr Graeme D Ross	7,500	5,000
Mr Craig A Stewart	7,500	5,000
Mr Thomas K Quigley	Nil	Nil

**4. Taxation**

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

**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**

	<b>As at 31 December</b>	
	<b>2011</b>	<b>2010</b>
	<b>USD</b>	<b>USD</b>
Creation and Redemption Fees	13,911	20,012
Management Fee	155,667	197,989
	<u>169,578</u>	<u>218,001</u>

**7. Energy Contracts**

	<b>As at 31 December</b>	
	<b>2011</b>	<b>2010</b>
	<b>USD</b>	<b>USD</b>
Change in Fair Value for the Year	<u>58,191,131</u>	<u>58,419,535</u>
Energy Contracts	<u>385,168,001</u>	<u>465,309,004</u>

As at 31 December 2011, there were no Energy Contracts awaiting the creation or (redemption) of securities with trade dates before the year end and settlement dates in the following year. The amount receivable or (payable) on completion of these trades was USD Nil (2010: USD 1,294,327).

**ETFFS OIL SECURITIES LIMITED****NOTES TO THE FINANCIAL STATEMENTS - CONTINUED****8. Energy Securities**

	<b>Year Ended 31 December</b>	
	<b>2011</b>	<b>2010</b>
	<b>USD</b>	<b>USD</b>
Change in Fair Value for the Year	58,191,131	58,419,535
Energy Securities	385,168,001	465,309,004

As at 31 December 2011, there were no Energy Securities awaiting (creation) or redemption with trade dates before the year end and settlement dates in the following year. The amount (receivable) or payable on completion of these trades was USD Nil (2010: USD 1,294,327).

**9. Trade and other Payables**

	<b>As at 31 December</b>	
	<b>2011</b>	<b>2010</b>
	<b>USD</b>	<b>USD</b>
Fees Payable to ETFSL	-	197,989
Fees Payable to ManJer	169,842	-
	169,842	197,989

**10. Stated Capital**

	<b>As at 31 December</b>	
	<b>2011</b>	<b>2010</b>
	<b>USD</b>	<b>USD</b>
1,000 Shares Issued at GBP 1 Each	1,742	1,742

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 ETFFS Holdings (Jersey) Limited ("HoldCo").

**11. Related Party Disclosures**

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

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

Management fees paid to ETFSL during the year ended 31 December 2011:

	<b>As at 31 December</b>	
	<b>2011</b>	<b>2010</b>
	<b>USD</b>	<b>USD</b>
Management Fees	197,989	2,222,803

**ETFS OIL SECURITIES LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**

**11. Related Party Disclosures - continued**

Management fees paid to ManJer during the year ended 31 December 2011:

	<u>As at 31 December</u>	
	2011	2010
	USD	USD
Management Fees	<u>2,496,594</u>	<u>-</u>

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

	<u>As at 31 December</u>	
	2011	2010
	USD	USD
Management Fees	<u>-</u>	<u>197,989</u>

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

	<u>As at 31 December</u>	
	2011	2010
	USD	USD
Management Fees	<u>169,842</u>	<u>-</u>

As disclosed in note 3 above, ManJer paid directors' fees in respect of the Company of GBP 15,000. In the previous year the fees of GBP 10,000 were paid by ETSFL.

Graeme D Ross and Craig A Stewart are directors of R&H Fund Services (Jersey) Limited ("R&H"), the administrator. During the year, R&H charged ManJer (ETFSL in respect of 2010) secretarial and administration fees in respect of the Company of GBP 37,500 (2010: GBP 37,811), of which GBP 9,375 (2010: GBP 9,375) was outstanding at the year end.

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

**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. 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 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.

## 12. Financial Risk Management – continued

### (b) *Market Risk - continued*

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 letter of credit is not guaranteed by any other entity within the Shell Group.

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 major oil 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 does not 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. ManJer supplied and arranged the supply of all administrative services to the Company and paid all management and administration costs of the Company, including Trustee fees, in return for which the Company paid ManJer a Management Fee and Creation and Redemption Fees. The Company is not subject to any capital requirements imposed by a regulator and there were no changes in the Company approach to capital management during the year.

As all Energy Securities on issue are supported by an equivalent amount of Energy Contracts held by Shell and the running costs of the Company were 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 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. Therefore, in the directors' opinion, no sensitivity analysis is required to be disclosed.

**12. Financial Risk Management - continued**

*(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.

*(h) Fair Value Hierarchy*

The levels in the hierarchy are defined as follows:

- Level 1 – fair value based on quoted prices in active markets for identical assets
- Level 2 – fair values based on valuation techniques using observable inputs other than quoted prices within level 1
- Level 3 – fair values based on valuation techniques using inputs that are not based on observable market data

Categorisation within the hierarchy is determined on the basis of the lowest level input that is significant to the fair value measurement of each relevant asset/liability.

Whilst the 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.

	<b>Fair Value</b>	
	<b>2011</b>	<b>2010</b>
	<b>USD</b>	<b>USD</b>
Level 2	385,168,001	465,309,004

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

**13. Ultimate Controlling Party**

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