

ETFS COMMODITY SECURITIES LIMITED

Registered No: 90959

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

ETFS COMMODITY SECURITIES LIMITED

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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
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St Helier
Jersey, JE4 8PW

Registered Office

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St Helier
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Trustee

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ETFS COMMODITY SECURITIES LIMITED

DIRECTORS' REPORT - CONTINUED

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 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 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, and paid monthly in arrears.

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). No trading or management of futures contracts is required by the Company.

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. On 14 March 2011, the Company entered into a Facility Agreement with Merrill Lynch, to provide the Company with a further facility for the creation and cancellation of Commodity Contracts.

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 paid ETFSL an amount equal to the Management Fee and Licence Allowance charges levied by the Company on the Commodity Securities in issue. 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 and Licence Allowance charges levied by the Company on the Commodity Securities in issue and the Creation and Redemption Fees. The existing service agreement was therefore novated from ETFSL to ManJer on 1 January 2011.

ETFS COMMODITY SECURITIES LIMITED

DIRECTORS' REPORT - CONTINUED

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	NYSE-Euronext Paris	Tokyo Stock Exchange
Classic Commodity Securities	38	32	29	29	14
Forward Commodity Securities	14	13	10	5	-
Short Commodity Securities	33	33	33	-	-
Leveraged Commodity Securities	33	33	33	-	-
Total Commodity Securities	118	111	105	34	14

As at 31 December 2011, assets under management amounted to USD 4,419 million (2010: USD 6,515 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, Management Fee and Licence Allowance as follows:

	2011 USD	2010 USD
Management Fee and Licence Allowance	39,729,816	34,167,933
Creation and Redemption Fees	557,143	551,894
Total Fee and Related Income	40,286,959	34,719,827

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

	2011 USD	2010 USD
Operating Profit for the Year	-	547,254

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

ETFS COMMODITY SECURITIES LIMITED

DIRECTORS' REPORT - CONTINUED

Country and Currency Risk - continued

Movements in the price of the underlying commodity, 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 8 and 9.

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 payments of dividends amounting to USD 209,295 (2010: USD 347,959). 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-executivedirector.

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.

ETFS COMMODITY SECURITIES LIMITED

DIRECTORS' REPORT - CONTINUED

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.

	2011 Fees GBP	2010 Fees GBP
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 Commodity Securities, has not undertaken any business, save for issuing and redeeming 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 Commodity Securities and performing the obligations and exercising its rights in relation thereto.

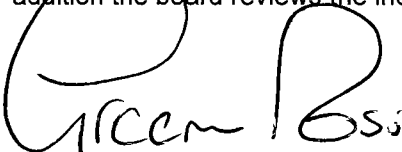
The Company was dependent upon ManJer to provide management and administration services to it. ManJer has outsourced the administration services to a regulated service provider in Jersey, R&H Fund Services (Jersey) Limited ("R&H"). In addition ManJer is classified as a Managed Entity under Jersey regulation 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 COMMODITY SECURITIES LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

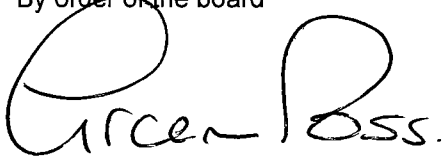
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board.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

9 March 2012

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 2011 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statements of Changes in Equity and the related notes 1 to 14. 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 COMMODITY SECURITIES LIMITED
STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December	
		2011 USD	2010 USD
Revenue	2	40,286,959	34,719,827
Expenses			
Management Fees to ETFSL	2	-	(34,167,933)
Management Fees to ManJer	2	(40,290,992)	-
Other Operating Income/(Expense)		4,033	(4,640)
Operating profit	2	-	547,254
Net(Loss)/Gain Arising on Fair Value of Commodity Contracts	8	(1,211,158,051)	422,613,702
Net Gain/(Loss) Arising on Fair Value of Commodity Securities	9	1,211,158,051	(422,613,702)
Profit and Total Comprehensive Income for the Year		-	547,254

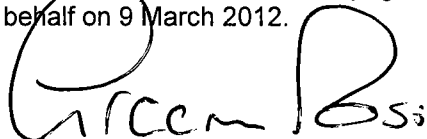
The directors consider the Company's activities are continuing.

The notes on pages 12 to 21 form part of these financial statements

ETFS COMMODITY SECURITIES LIMITED
STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December	
		2011 USD	2010 USD
Current Assets			
Cash and Cash Equivalents		4,035	17,641
Trade and Other Receivables	7	2,752,367	3,497,546
Commodity Contracts	8	4,418,950,726	6,514,544,587
Amounts Receivable Awaiting Settlement	9	20,720,022	62,132,357
Total Assets		4,442,427,150	6,580,192,131
Current Liabilities			
Commodity Securities	9	4,418,950,726	6,514,544,587
Amounts Payable Awaiting Settlement	8	20,720,022	62,132,357
Trade and Other Payables	10	2,756,400	3,305,890
Total Liabilities		4,442,427,148	6,579,982,834
Equity			
Stated Capital	11	2	2
Retained Profits		-	209,295
Total Equity		2	209,297
Total Equity and Liabilities		4,442,427,150	6,580,192,131

The financial statements on pages 8 to 21 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 21 form part of these financial statements

ETFs COMMODITY SECURITIES LIMITED
STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2011 USD	2010 USD
Operating Profit for the Year	-	547,254
<i>Changes in Operating Assets and Liabilities</i>		
Decrease/(Increase) in Receivables	745,179	(519,664)
Decrease in Payables	(549,490)	(2,502,208)
Cash Generated from/(Used by) Operations	195,689	(2,474,618)
Cash Flows from Financing Activities		
Dividends Paid	(209,295)	(347,959)
Net Cash Used by Financing Activities	(209,295)	(347,959)
Net Decrease in Cash and Cash Equivalents	<u>(13,606)</u>	<u>(2,822,577)</u>
Cash and Cash Equivalents at the Beginning of the Year	17,641	2,840,218
Net Decrease in Cash and Cash Equivalents	(13,606)	(2,822,577)
Cash and Cash Equivalents at the End of the Year	<u>4,035</u>	<u>17,641</u>

The notes on pages 12 to 21 form part of these financial statements

ETFS COMMODITY SECURITIES LIMITED
STATEMENT OF CHANGES IN EQUITY

	Stated Capital USD	Retained Earnings USD	Total Equity USD
Opening Balance at 1 January 2010	2	10,000	10,002
Total Comprehensive Income for the Year	-	547,254	547,254
Dividends (USD 173,979.50 per share)	-	(347,959)	(347,959)
Balance at 31 December 2010	<u>2</u>	<u>209,295</u>	<u>209,297</u>
Opening Balance at 1 January 2011	2	209,295	209,297
Total Comprehensive Income for the Year	-	-	-
Dividends (USD 104,647.50 per Share)	-	(209,295)	(209,295)
Balance at 31 December 2011	<u>2</u>	<u>-</u>	<u>2</u>

The notes on pages 12 to 21 form part of these financial statements

ETFS COMMODITY SECURITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

The main accounting policies of the Company are described below.

Basis of preparation

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

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

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial 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 notes 8 and 9. 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 1 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.

1. Accounting Policies - continued**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 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 and Merrill Lynch 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 or Merrill Lynch. 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 and Merrill Lynch they are redeemed from the earliest Commodity Contract issued and then the next earliest contract until the redemption has been satisfied. This method is known as first in first out ("FIFO").

ii) Pricing

The Commodity Contracts and Securities are priced using the product of commodity indices published by Dow Jones & Company and a multiplier calculated by the Company and agreed with UBS and Merrill Lynch. The multiplier takes into account the daily accrual of the Management Fee and Licence Allowance as well as the incremental capital enhancement component of the 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 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.

ETFs COMMODITY SECURITIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

1. Accounting Policies - continued

Loans and Receivables

The loans and receivables are non-derivative financial assets with a fixed payment amount and are not quoted in an active market. After initial measurement the loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. 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 which is the UK and Europe. The directors believe that each type of Commodity Security – Classic, Forward, Short and Leveraged – comprises a segment and results of each are disclosed separately in note 3.

2. Operating Profit

Operating profit for the year comprised:

	Year ended 31 December	
	2011	2010
	USD	USD
Creation and Redemption Fees	557,143	551,894
Management Fee	36,054,808	31,007,399
Licence Allowance	3,675,008	3,160,534
Total Revenue	40,286,959	34,719,827
Management Fees to ETFSL	-	(34,167,933)
Management Fees to ManJer	(40,290,992)	-
Net Finance Income	550	990
Net Foreign Exchange Gain/(Loss)	3,483	(5,630)
Total operating expenses	(40,286,959)	(34,172,573)
Operating Profit	-	547,254

Audit fees for the year of GBP 20,100 will be met by ManJer. In the previous year the fees of GBP19,500 were met by ETFSL.

ETFs COMMODITY SECURITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

3. Segmental Reporting

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

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
Total Revenue	23,288,798	1,276,463	3,050,617	7,103,949	-	34,719,827
Total Operating Expenses	(22,984,344)	(1,253,170)	(2,949,775)	(6,980,644)	(4,640)	(34,172,573)
Segmental Profit	304,454	23,293	100,842	123,305	(4,640)	547,254

For the year ended 31 December 2011:

	Classic	Forward	Short	Leveraged	Central	Total
Creation and Redemption Fees	307,260	33,475	78,125	138,283	-	557,143
Management Fees	23,396,437	1,246,896	3,607,548	7,803,927	-	36,054,808
Licence Allowance	2,384,761	127,094	367,711	795,442	-	3,675,008
	26,088,458	1,407,465	4,053,384	8,737,652	-	40,286,959
Total Operating Expenses	(26,091,070)	(1,407,605)	(4,053,790)	(8,738,527)	4,033	(40,286,959)
Segmental (Loss)/Profit	(2,612)	(140)	(406)	(875)	4,033	-

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 ManJer. In the previous year the fees were met by ETFSL.

	Year ended 31 December	
	2011	2010
	GBP	GBP
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

ETFS COMMODITY SECURITIES LIMITED

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

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

	As at 31 December	
	2011	2010
	USD	USD
Management Fee	2,503,525	3,305,890
Creation and Redemption Fees	248,842	191,656
	<u>2,752,367</u>	<u>3,497,546</u>

8. Commodity Contracts

	Change in Fair Value at 31 December 2010 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>

	Change in Fair Value at 31 December 2011 USD	Fair Value at 31 December 2011 USD
Classic Commodity Contracts	(827,091,539)	3,260,447,177
Forward Commodity Contracts	(36,471,404)	198,573,502
Short Commodity Contracts	60,690,677	380,797,943
Leveraged Commodity Contracts	(408,285,785)	579,132,104
Total Commodity Contracts	<u>(1,211,158,051)</u>	<u>4,418,950,726</u>

At 31 December 2011 there were certain Commodity Contracts awaiting the creation or (redemption) of securities with trade dates before the year end and settlement dates in 2012. The amount receivable or (payable) on completion of these trades is USD (20,720,022) (2010: USD (62,132,357)).

ETFS COMMODITY SECURITIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

9. Commodity Securities

	Change in Fair Value at 31 December 2010 USD	Fair Value at 31 December 2010 USD
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
Total Commodity Securities	422,613,702	6,514,544,587

	Change in Fair Value at 31 December 2011 USD	Fair Value at 31 December 2011 USD
Classic Commodity Securities	(827,091,539)	3,260,447,177
Forward Commodity Securities	(36,471,404)	198,573,502
Short Commodity Securities	60,690,677	380,797,943
Leveraged Commodity Securities	(408,285,785)	579,132,104
Total Commodity Securities	(1,211,158,051)	4,418,950,726

At 31 December 2011 there were certain Commodity Securities awaiting the (creation) or redemption with trade dates before the year end and settlement dates in 2012. The amount (receivable) or payable on completion of these trades is USD (20,720,022) (2010: USD (62,132,357)).

10. Trade and Other Payables

	As at 31 December	
	2011	2010
	USD	USD
Fees Payable to ETFSL	-	3,305,890
Fees Payable to ManJer	2,756,400	-
	2,756,400	3,305,890

11. Stated Capital

	As at 31 December	
	2011	2010
	USD	USD
2 Shares of No Par Value, Issued at £1 Each	2	2

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

ETF S COMMODITY SECURITIES LIMITED**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED****12. 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.

Fees paid to ETFSL during the year ended 31 December 2011:

	As at 31 December	
	2011	2010
	USD	USD
Management Fees, Licence Allowance and Creation and Redemption Fees	-	34,167,933

Fees paid to ManJer during the year ended 31 December 2011:

	As at 31 December	
	2011	2010
	USD	USD
Management Fees, Licence Allowance and Creation and Redemption Fees	40,290,992	-

The following balances were due to ETFSL at year end:

	As at 31 December	
	2011	2010
	USD	USD
Fees Payable	-	3,305,890

The following balances were due to ManJer at year end:

	As at 31 December	
	2011	2010
	USD	USD
Fees Payable	2,756,400	-

As disclosed in note 4 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 ETFSL.

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 356,921 (2010: GBP 200,162), of which GBP 89,230 (2010: GBP 50,000) was outstanding at the year end.

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) 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 and Merrill Lynch 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.

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. 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) Credit Risk

With regard to the insurance of the Commodity Securities, the Company pays a monthly Insurance Allowance to ManJer which is used towards payment of the costs of insuring the Company's Metal.

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 Merrill Lynch and may be affected by the credit rating attached to UBS and Merrill Lynch.

The obligation of UBS and Merrill Lynch under the Commodity Contracts ranks only as an unsecured claim against UBS and Merrill Lynch. To cover the credit risk under the Commodity Contracts, UBS and Merrill Lynch are obliged to place an equivalent amount of collateral into a pledge account with Bank of New York based on the total outstanding value of the Commodity Contracts at the end of the previous trading day. In the event of default by UBS or Merrill Lynch, the Company has rights over the amounts placed in this pledge account.

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 has minimal cash held in the bank account at any given time.

(c) Liquidity Risk

Generally, there is no liquidity risk to the Company because the maturity profile of the securities and contracts is exactly matched. Therefore, the Company does not have to wait for a longer-term contract to mature in order to pay its debts to ex-security holders.

(d) Sensitivity Analysis

IFRS 7 requires disclosure of a sensitivity analysis for each type of market risk to which the entity is exposed to at the reporting date, showing how comprehensive income and shareholders 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 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.

ETFS COMMODITY SECURITIES LIMITED
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

13. Financial Risk Management - continued

(e) 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. ManJer supplied and arranged for the supply of all administrative services to the Company and paid all management and administration costs of the Company, in return for which the Company paid ManJer a fee equal to the Management Fee, Licence Allowance and Creation and Redemption Fees charged to the Commodity Securities. The Company is not subject to any capital requirements imposed by a regulator and there were no changes in the Company approach to capital management during the year.

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

(f) Settlement Risk

The directors believe that settlement risk would only be caused by the risk of the Company's trading counterparty not delivering cash or securities on the settlement date. The directors feel that this risk is mitigated as a result of the cash or securities settling through the 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.

(g) Fair Value Hierarchy

The levels in the hierarchy are defined as follows:

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

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

Whilst the 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.

	Fair Value	
	2011	2010
Level 2	USD	USD
Commodity Contracts	4,418,950,726	6,514,544,587
Commodity Securities	4,418,950,726	6,514,544,587

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.