PRESS RELEASE
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Real World Analysis of the UK Gold Jewellery Market

It has recently been suggested in certain press reports that gold jewellery (in the UK in particular) is losing its gilt-edged status and that the modern British jewellery lover is someone who drapes their body with "hunks of worthless 9 carat gold crap". As we discuss below, GFMS believe that this is a simplistic caricature of the UK market which reflects a fundamental misunderstanding of its structure and the consumer profile of the typical purchaser.

Over the past decade, the UK jewellery market has enjoyed growth rates which have been the envy of much of continental Europe. For example, French consumption in 2004 was 18% below the level of a decade ago, whilst for Germany the decline was even greater at 71%. And finally, the 34% decline for Italy (over the same period) left its 2004 consumption at a shade under 80 tonnes, compared with the United Kingdom, whose jewellery consumption was roughly 70% higher than in 1995.

During this period, much of the growth in the United Kingdom has been driven by significantly higher demand for 9-carat jewellery and, in particular, yellow gold articles. Despite the fact that this trend is well known and recognised within the UK jewellery industry, this market has been caricatured in certain quarters as appealing primarily to a fringe sub-culture.

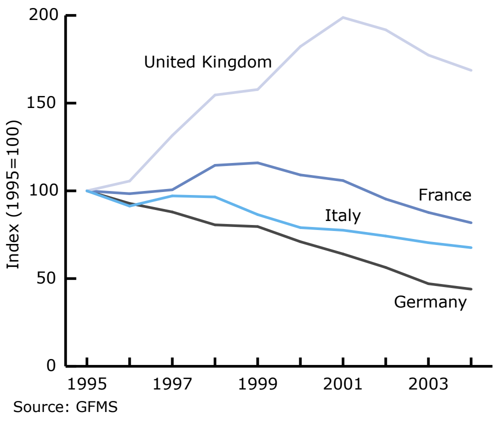
Nothing could be further from the truth. Indeed, the reality is that 9-carat jewellery accounts for the bulk of the UK market and is anything but a marginalised niche in the jewellery space. For example, by fine weight, hallmarked 9-carat pieces make up more than two-thirds of the total, *but this rises significantly when the number of articles sold is considered*.

On this basis, 9-carat accounts for around 85% of total hallmarking, at close to 20 million pieces (basis 2004 data). This is equivalent to a gross weight of more than 85 tonnes (in other words the actual weight of pieces sold in the UK high street) and a fine gold weight (factoring in the alloy composition for 9-carat of 37.5% gold content) of a little over 32 tonnes. Furthermore, consumer research provided to GFMS by the World Gold Council, shows that last year 21% of women bought gold jewellery, either as a gift or for self purchase. Hardly marginalised and hardly niche!

The final flaw in this argument is eloquently exposed when one looks at the type of pieces sold and especially the average weight. This can be easily derived from the above data (this is not conjecture either - all of this data is readily available and in the public domain). What this shows is that, on a gross weight basis, the average weight of 9-carat pieces sold domestically was only 4.5 grammes last year, compared with 4.7 grammes in 1998 - a fact that flies in the face of assertions that this market has moved to heavier pieces. From a gold offtake perspective, the fallacy of this assertion is all the more evident if the fine weight of 9-carat sales is used instead. On this basis, the average weight falls to just 1.6 grammes of gold! This low weight also contributes to largely affordable retail prices, which in turn fully democratises the jewellery market in the UK.

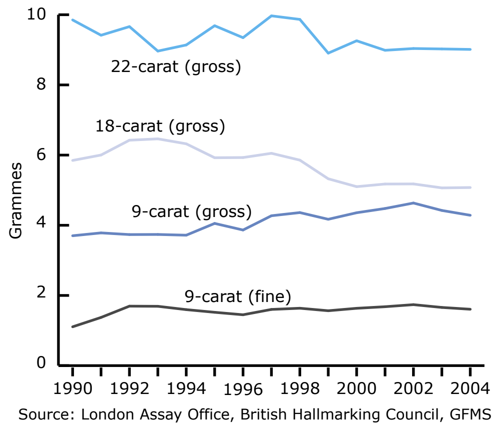
At the other end of the spectrum is the 22-carat segment. In terms of the number of articles sold its share of the hallmarked total is only 3%, although this rises to 11% on a gross weight basis. However, in sharp contrast to the 9-carat segment, the average weight (again, in

European Jewellery Consumption



Source: GFMS

Average Weight of Hallmarked UK Jewellery



Source: London Assay Office, British Hallmarking Council, GFMS

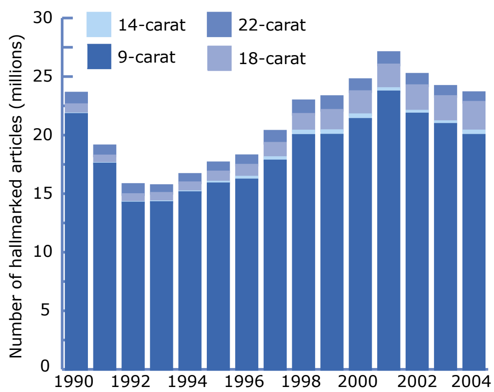
terms of the gross, or actual weight of jewellery sold) is more than double that of 9-carat, at over nine grammes! This is hardly surprising, given that the bulk of the 22-carat market is accounted for by relatively large, investment pieces, such as bangles - hardly the territory of your average “chav”!

The contrast with the bulk of 9-carat purchases could not be clearer. Although there is an element of large 9-carat purchases (such as heavy chains) this represents only a small fraction of the market, a point which is clearly highlighted by the earlier analysis on average weights (even allowing for the importance of hollow ware jewellery).

Finally, this discussion would not be complete without reference to the 18-carat sector. By 2004, this had achieved a record level of sales, with its share of hallmarked items rising to over 10% - hardly suggestive of sophisticated and wealthier buyers having been put off by 9-carat. Indeed, this growth has partly been achieved through a degree of upgrading from lower carat articles (and has also been accompanied by a shift towards higher end, heavier pieces). Once again, the data (which is readily available if the effort is made to obtain it) reveals an average gross weight for 18-carat sales of over five grammes, (although this has also been in decline; in 1998 it stood at close to six grammes), nearly one-fifth higher than for 9-carat products.

What conclusions can be drawn from this analysis about the UK gold market? Overall, average weights have been steady over the past 10 years, but actually declined in 2004 - certainly they have not been rising as has been suggested elsewhere. Consolidating the above results (and including the niche 14-carat sector) reveals that the average gross weight of products going out of the jewellery store is just 4.5 grammes. With regards to 9-carat, it is the dominant sector in the UK market (and indeed has been the dominant carat standard for over a hundred years), has enormous appeal across a wide section of the public and, looking at its sales over the past decade, it is patently clear that it does not suffer from an image problem. Furthermore, the segmentation of the UK jewellery market is in fact one of its key strengths. Finally, some of the lightest pieces sold in the United Kingdom are 9-carat, a point which has been lost on some market commentators.

UK Gold Jewellery Hallmarking - by carat



Source: London Assay Office, British Hallmarking Council

Note to Editors about GFMS Limited: GFMS Limited is the world’s foremost precious metals consultancy, specialising in research into the global gold, silver, platinum and palladium markets. GFMS is based in London, UK, but has representation in Australia, China, India and Russia, and a vast range of contacts and associates across the world.

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