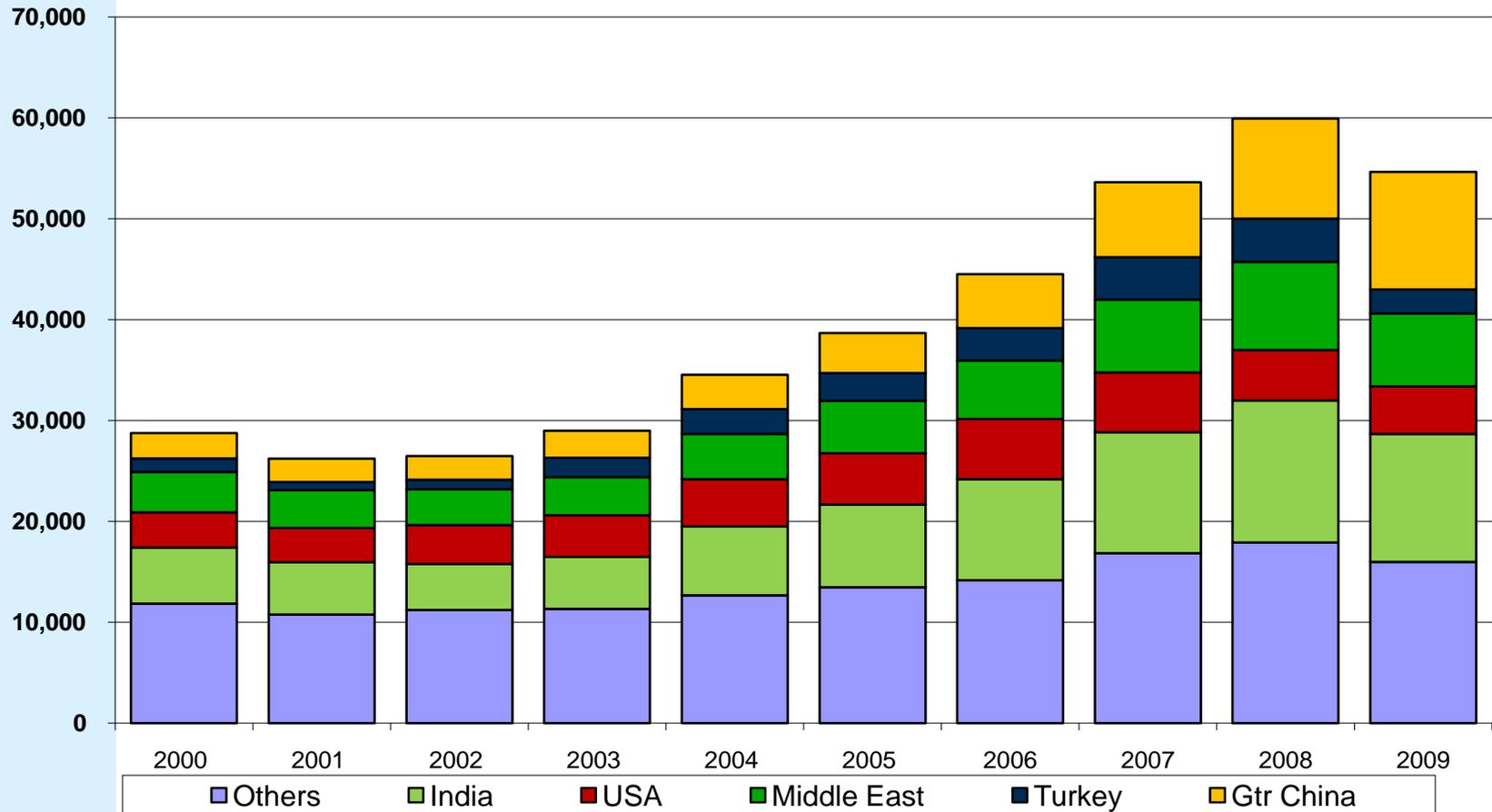


Gold and the Jewellery Supply Chain A Context

Philip Olden: 18th May 2010

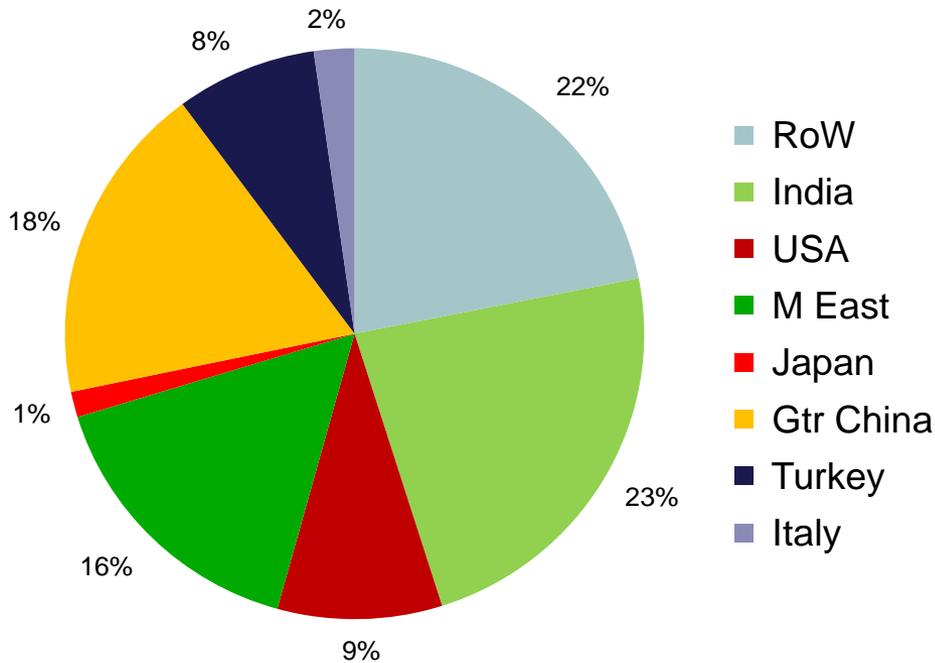
The revitalisation of gold jewellery demand

Gold Jewellery Demand (US\$m)

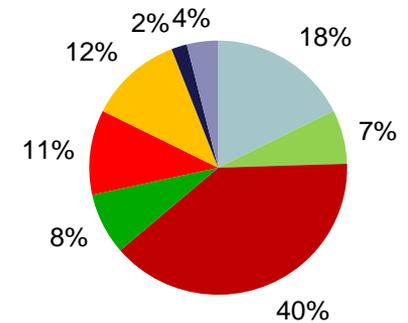


Source: GFMS, WGC

Market profiles, gold and diamond jewellery



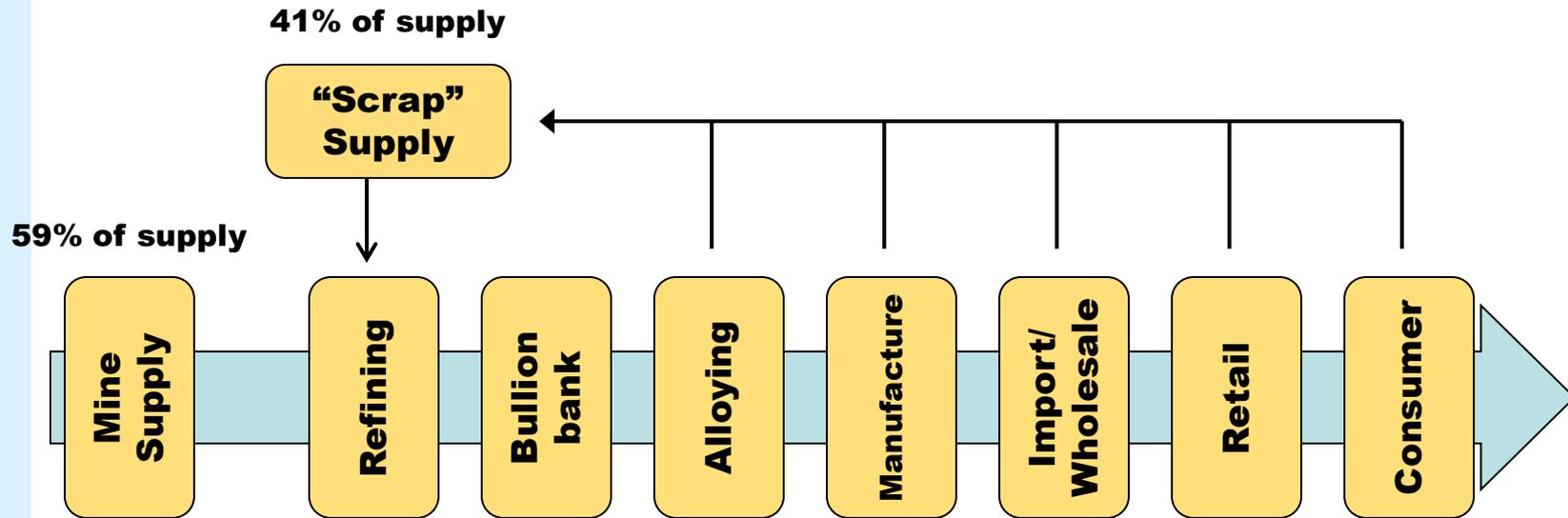
**Gold Demand 2008:
\$60 billion at av. gold price**



**Diamond Demand 2008:
\$14 billion at rough prices**

Source: GFMS, WGC, IDEX, Tacy

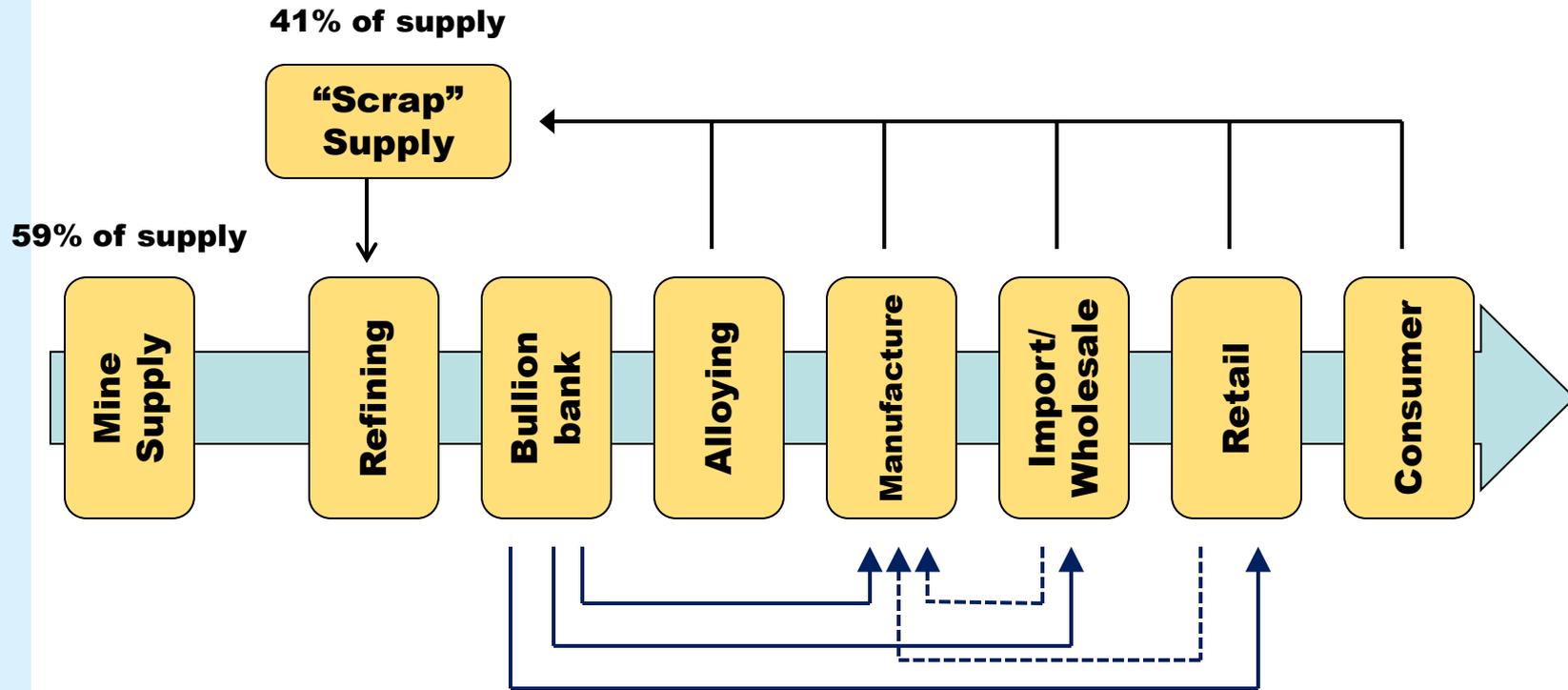
Gold supply chain is not linear



“Scrap” supply is a major component and makes the supply chain cyclical.

“Scrap” gold: “recycled”, “pre-owned”, “laundered”?

Gold supply chain is not linear



Gold can be owned and supplied by multiple participants in the supply chain. This also makes the supply chain non-linear.

"Unallocated" bullion can be sold, leased, loaned, swapped etc.

“Unallocated” and “allocated” gold

Unallocated gold:

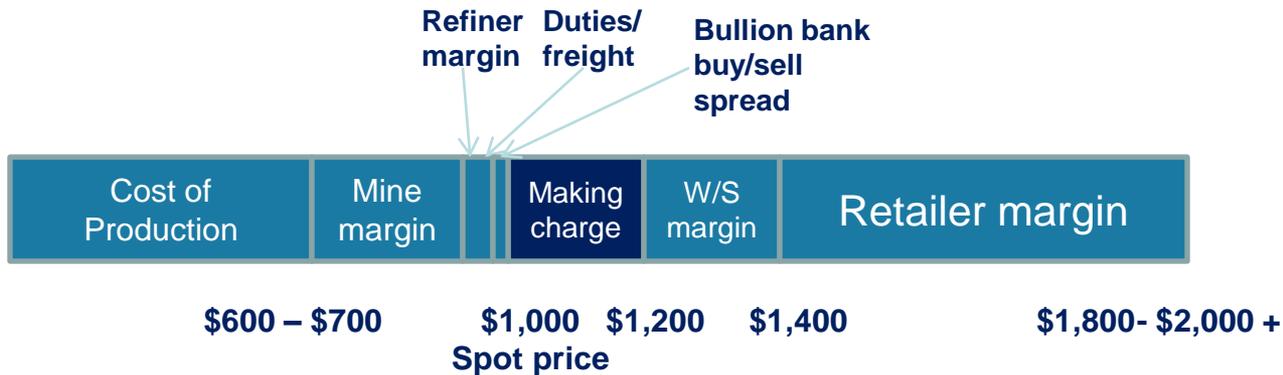
- gold as money
- not individually identified and owned
- can be leased, loaned, swapped by bullion bank
- stored and insured by bullion bank
- the simplest and cheapest way of owning gold
- not traceable (yet?)

Allocated gold:

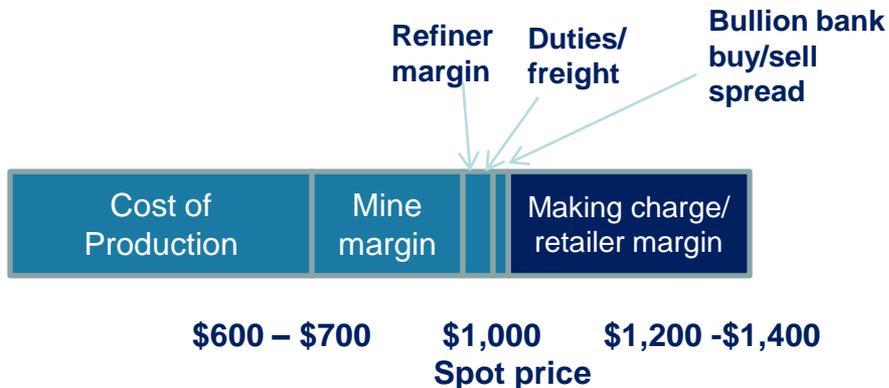
- gold as a product
- individually identified and owned (bar serial numbers)
- bullion bank cannot “deal” in the gold
- separately stored and insured at cost to owner
- used where integrity of inventory is essential (e.g. ETFs)
- traceable

All gold jewellery is bought by weight

1 oz, branded “fixed price” gold jewellery (c. 1/3 of total)



1 oz, unbranded “commoditised” gold jewellery (c. 2/3 of total)



Perceived obstacles to gold chain of custody



- Gold as money
- Tight margins
- Large “above ground stock” and “scrap” supply
- Non-linear supply chain
- Over-capacity in refining
- Lack of will
- Existing gold chains of custody are insignificant

Opportunities to create a gold chain of custody



- Mine supply is traceable
- Establish dedicated/allocated refining
- Integration of mining and refining
- Use of allocated gold accounts
- Involve bullion banks in RJC process
- Collaboration of RJC and ICMM membership
- Impact of “Freetrade/Fairmined” gold
- Focus on “branded” fixed price market in US/EU
- Create reputational and financial value

Reputational risk of “dirty” gold



- It's about mining practices
- Gold is a consumer product
- NGOs influence public opinion and media in US/EU
- Gold sector is fragmented and lacks leadership
- “No Dirty Gold” Golden Rules unenforceable?

The jewellery industry's reputation



- Damaged by blood/conflict diamonds, dirty gold
 - High profile with NGOs and media
 - But little impact on sales
- Strong alignment by industry leaders to address reputational issues, despite fragmentation
- Industry remains very defensive
- Fine jewellery losing market share
- Losing relevance and desirability with younger consumers

Trust: the new opportunity?



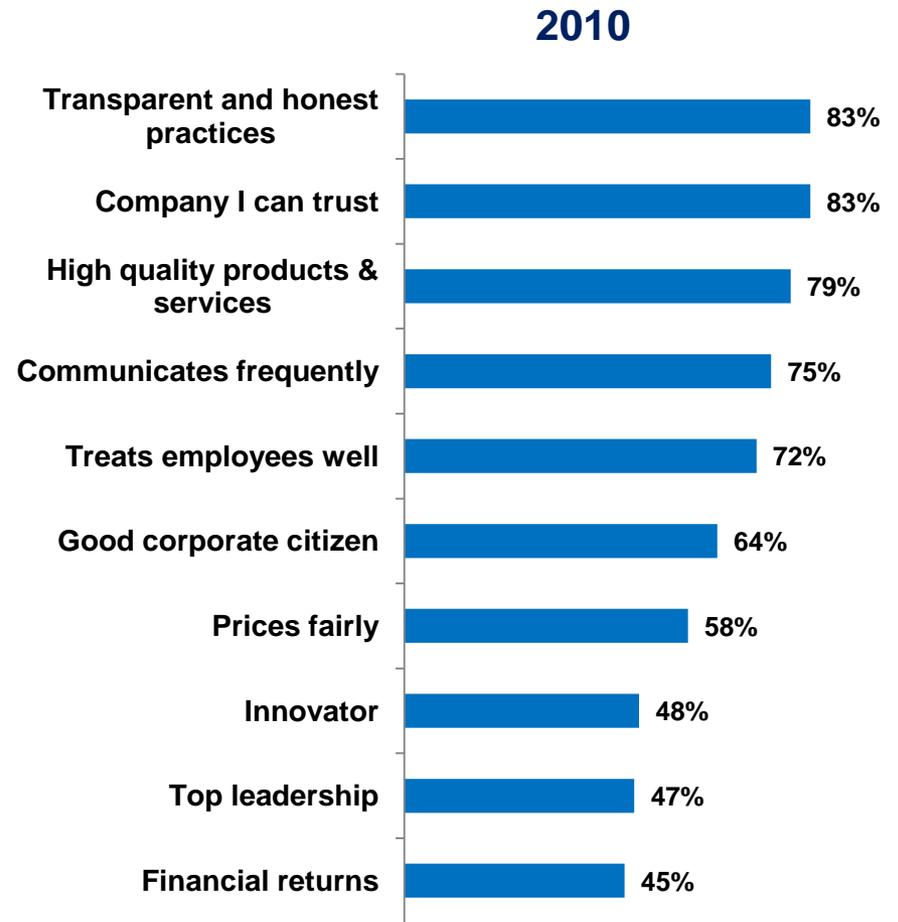
- Consumers have lost trust in businesses/companies
 - 2009 in US was all-time low of 38%
- 91% bought products from companies they trust
- 77% refused to buy from distrusted companies
- 55% paid a premium price from a trusted company

Source: Edelman Trust Barometer 2009, 2010

Trust will change jewellery marketing



Q: What shapes your trust in a company?



Q: How important are these factors to corporate reputation?

Trust: the new opportunity?



- Trust is now;
 - a major market differentiator
 - a source of reputational value
 - a source of financial value and price premium

We can create competitive advantage



- The best responsible sourcing guidelines in the premium/luxury market
- Leading players in industry driving change
- Be more positive, less defensive
- Create reputational and financial value
- Improve market share and consumer demand
- Chain of custody is important to enable this
- Must connect with consumers at retail level

We need a chain of custody in gold



- Gold is largest and broadest category
- Consumers will demand it, esp. in US and Europe
- It is possible, esp. in high margin US/EU markets
- Requires the will to change
- Needs to be significant to be credible
- Enables a more positive competitive position
- Will drive reputational and financial value



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