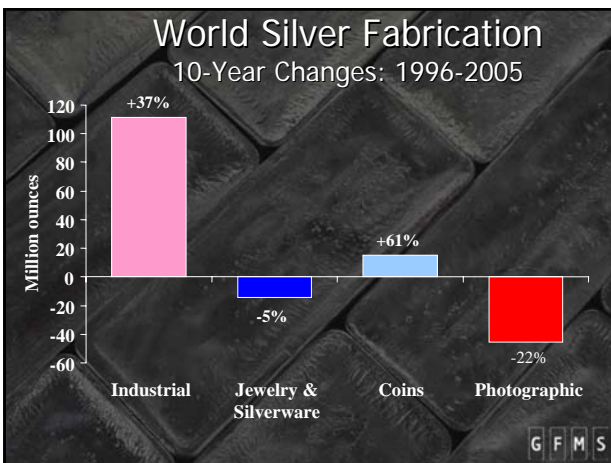
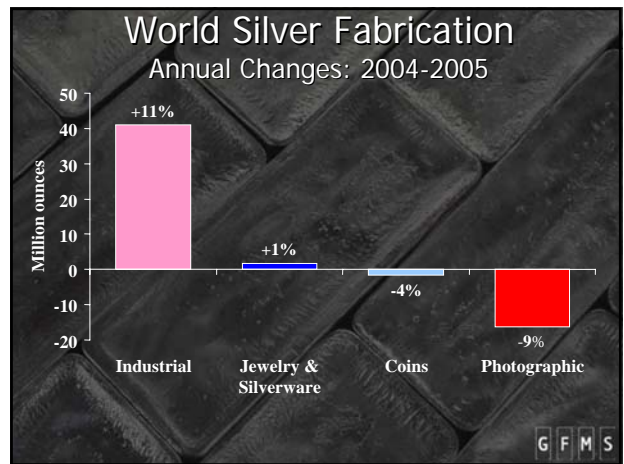
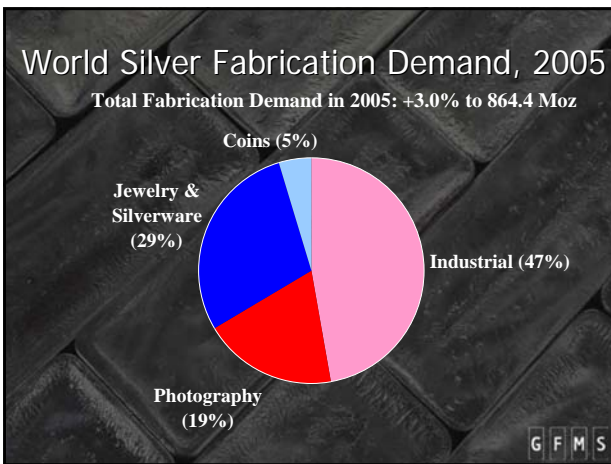


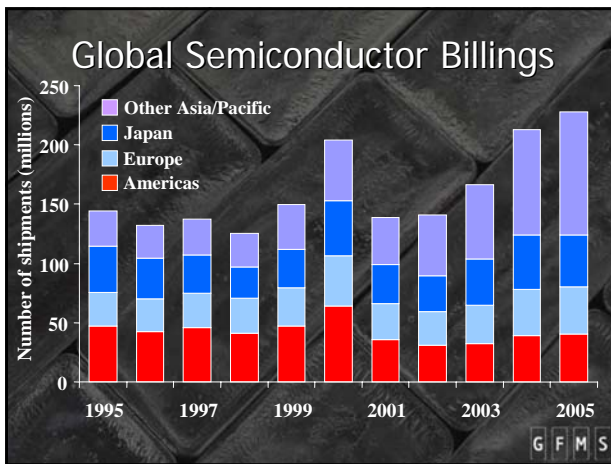
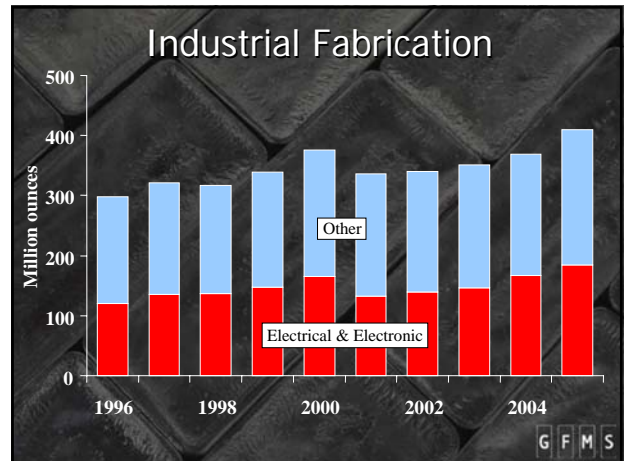
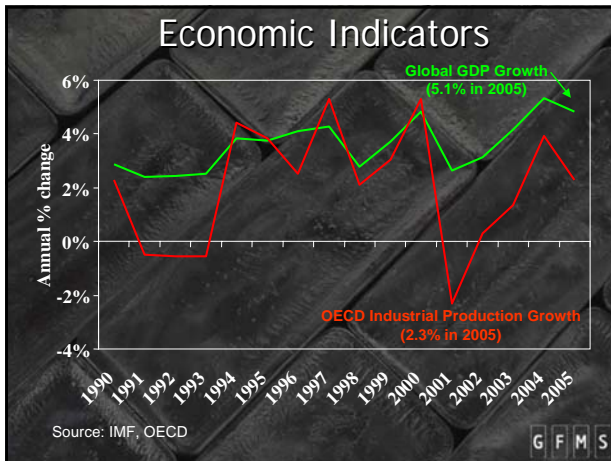
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### Industrial Fabrication

- Continued economic growth and robust consumer demand led to an 11% increase in industrial fabrication in 2005.
- Electronics demand up by 10% y-o-y to new record level.



### Industrial Fabrication

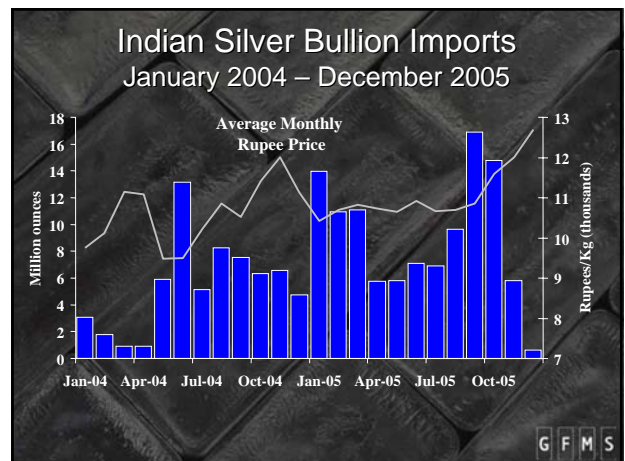
- Continued economic growth and robust consumer demand led to an 11% increase in Industrial fabrication in 2005.
- Electronics demand up by 10% y-o-y to new record level.
- Strong growth and record level of fabrication in the United States, China, India and Japan.
- Silver being used in a wide variety of new "digital" products. Digital technology has on balance favored silver demand!

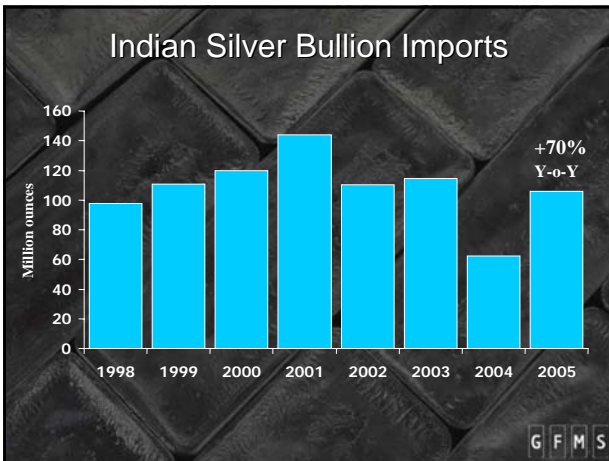
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### Jewelry & Silverware

- World total rose at the margin, but remained the second lowest figure of the last 10 years.
- Indian fabrication up 9% year-on-year, but from low base. Demand poor since Q4 2005 due to record rupee prices. Not all silver imported in 2005 consumed (large bullion stocks built up in India).

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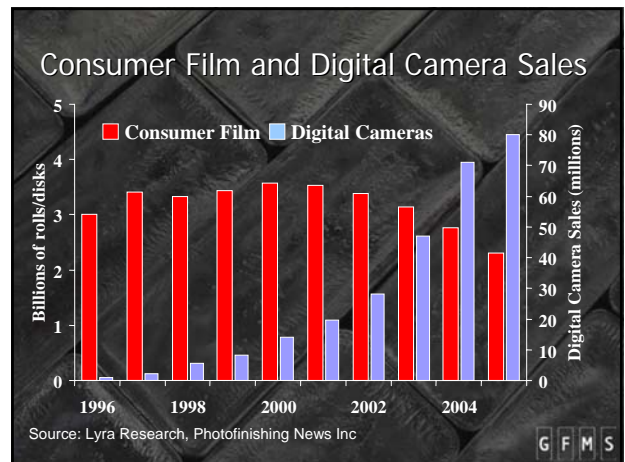


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- Indian fabrication up 9% year-on-year, but from low base. Demand poor since Q4 2005 due to record rupee prices. Not all silver imported in 2005 consumed (large bullion stocks built up in India).
- Outside India, jewelry & silverware down slightly year-on-year. Thai and Chinese fabrication higher driven by growth in jewelry exports. Growth in US jewelry consumption.
- Impact of high price "moderate" outside India.

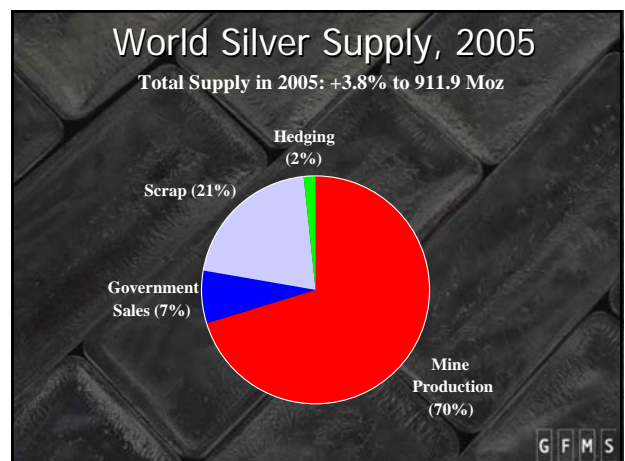
### Photography

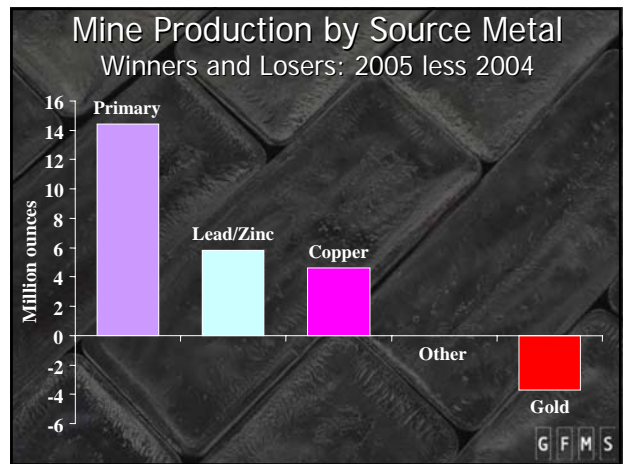
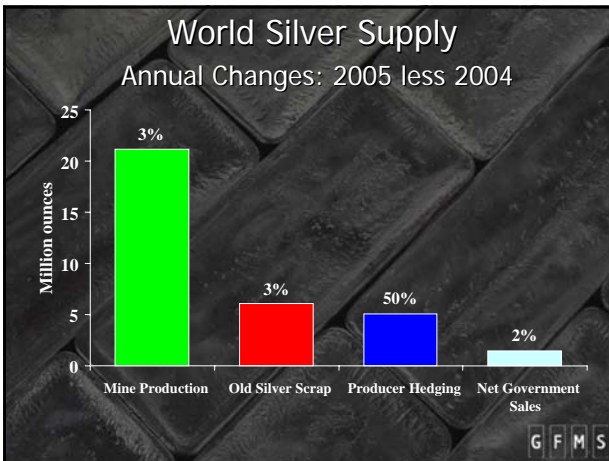
- Photographic demand continued its secular decline in 2005, with a 9% fall year-on-year.
- Digital technology hitting silver demand, especially for color film production.
- Photographic paper sales lower than expected.
- Fall in radiographic film demand less pronounced; silver demand for motion picture films grew at the margin.
- Consumers in developing countries rapidly adapting digital technology.



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## Scrap Supply

- Scrap volumes up 3% in 2005.
- Increased jewelry recycling (especially in India) in latter part of year offset decline in photographic scrap.
- Photographic scrap fell for sixth year in a row, due especially to falling sales of color film.
- Scrap supply for silver far less price-sensitive than for gold due to much lower share of low margin "investment" jewelry in overall fabrication.

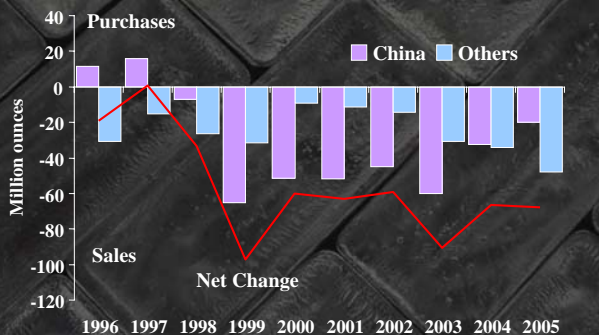
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## Government Sales

- Government sales up at the margin in 2005 to 68 Moz.
- Russian and Chinese government sales both declined.
- Indian sales of some 26 Moz offset the above-mentioned declines.
- Small level of sales from other countries, principally in form of coin stocks.

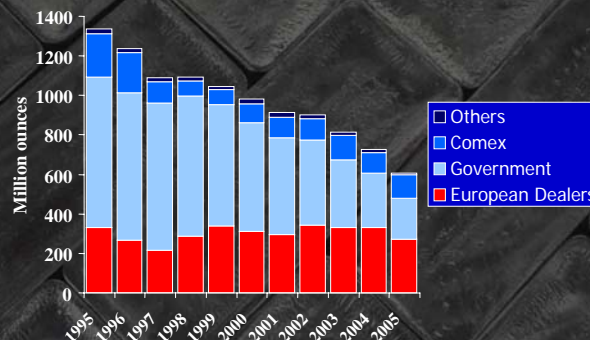
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## Changes in Government Stocks



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## Identified Bullion Stocks (end-year)



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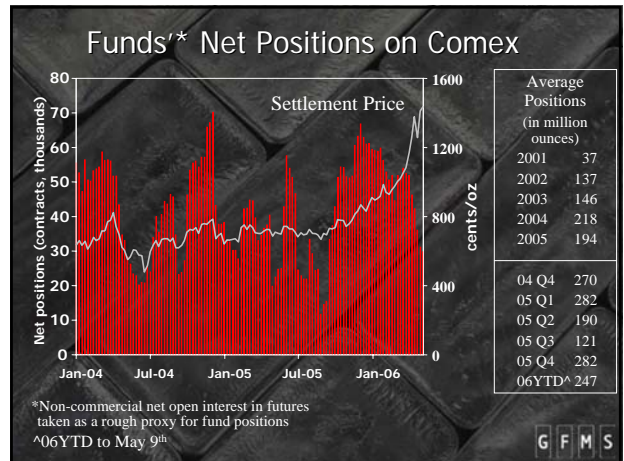
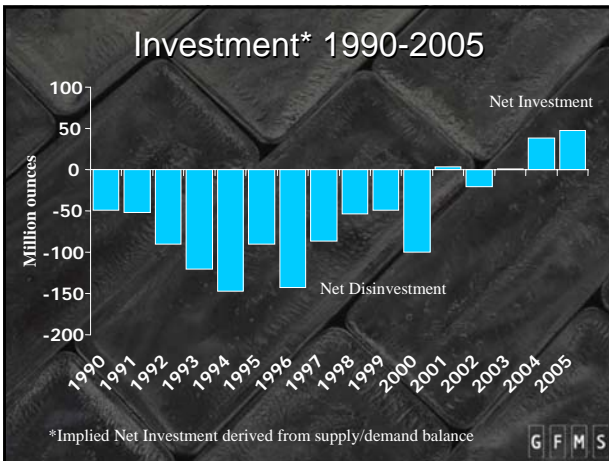
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## Investment

- 2005 the second year of substantial investment demand. Supply/demand residual shows implied net investment of 47.5 Moz last year.
- Net long position in futures rose significantly in Q4 2005. Prior to this for much of the year investor demand easing.
- Rally in gold and base metals from September onwards an important factor.
- Speculative buying in both OTC and futures markets ahead of expected launch of ETF, particularly in final months 2005 and even more so in Jan-Apr 2006.

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### Silver Exchange Traded Fund

- Latter part of 2005 and first four months of 2006 saw investors buying silver in anticipation of silver ETF.
- In addition, and particularly in 2006, there has been substantial precautionary borrowing, which has driven lease rates up notably.



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- Latter part of 2005 and first four months of 2006 saw investors buying silver in anticipation of silver ETF.
- In addition, and particularly in 2006, there has been substantial precautionary borrowing, which has driven lease rates up notably.
- ETF holdings reached 73 Moz on 19<sup>th</sup> May.
- Relatively subdued price trend in May in large part due to offsetting sales from other investors' long positions.



## World Silver Survey 2006

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## Conclusion

- Investors' hunger for silver has kept the price of the metal above its fundamental equilibrium.
- Supply has not reacted sufficiently to balance this:
  - Mine production relatively inelastic in the short term – rising, but at a limited pace. Faster growth will be more a 2007-08 story.
  - Producer hedging a much less significant factor for silver than gold.
  - Declining government sales from China and Russia partly offset the impact of the emergence of India as a seller.
  - Industrial scrap supply price inelastic. Photographic scrap on a secular decline.
- Much fabrication demand is largely price-insensitive in the short run
- Continued strength of industrial fabrication offsetting weak photography and unimpressive jewelry figures

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## 2006 Price Outlook

- Investment demand remains the key driver.
- Will the silver ETF continue to attract investors? So far holdings have been growing by an average 4 Moz a day but largely offset by other investor sales.
- Long awaited decline in the US dollar plus higher oil price would help via silver's link to gold.
- Growth in commodity investments:
  - Will the recent inflows of money persist at a similar pace?
  - Will pension funds continue to enter the market?
- Silver vulnerable to slowdown in GDP growth (impact on industrial demand + investment?).
- Good chance that we will still see higher prices this year.

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