

Economic Performance

The Argyle mine accounts for approximately one fifth of the world's natural diamond production by volume. It makes a major contribution to the Western Australian economy, particularly in the Kimberley region where it provides the most significant single source of wealth generation.

This economic scorecard covers two aspects of Argyle's economic performance:

- Financial performance of the business
- Argyle's performance in transforming the AK1 diamond asset into other enduring assets.

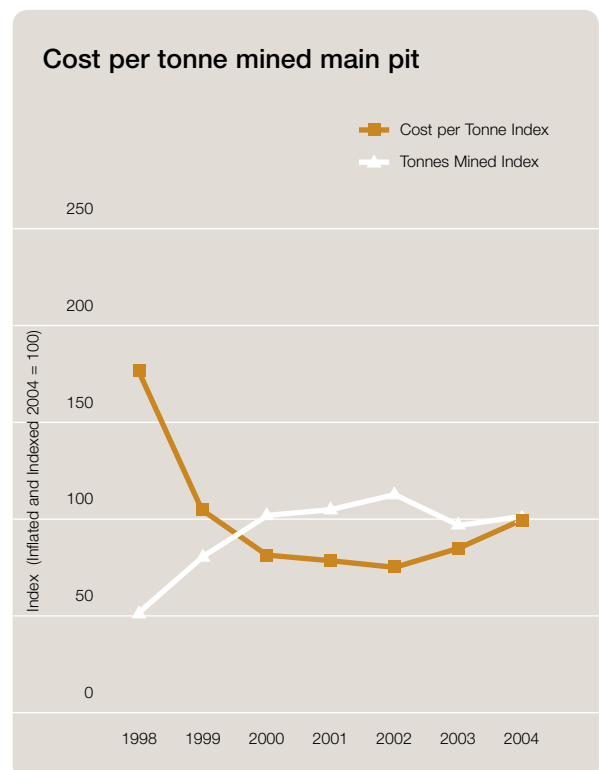
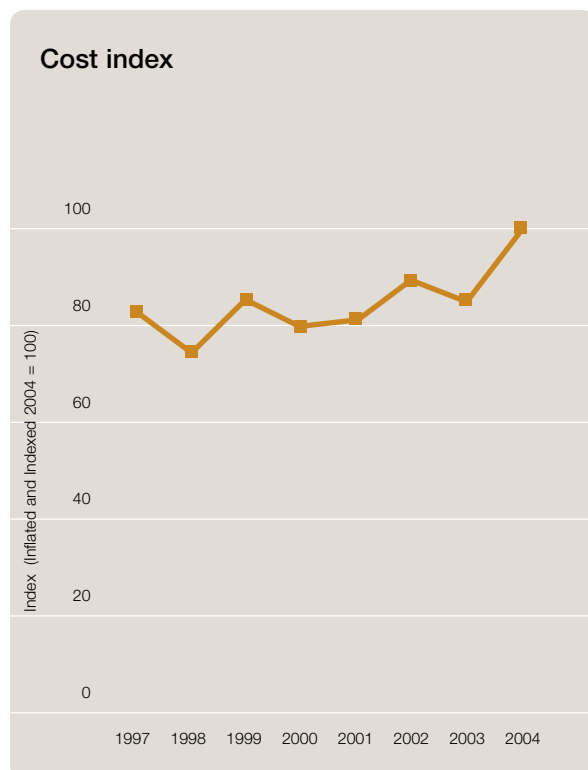
Financial Performance

The economic performance of Argyle is driven by operating costs, diamond prices, sales volumes and exchange rates. Production in 2004 was under plan, which reduced Argyle's revenue base for the year. Improvements in global rough diamond prices during 2004 were largely offset by the appreciation of the Australian dollar relative to the US dollar.

Costs

For most areas of the business, cost performance was on plan. However, the age of our mining equipment in particular led to higher maintenance costs.

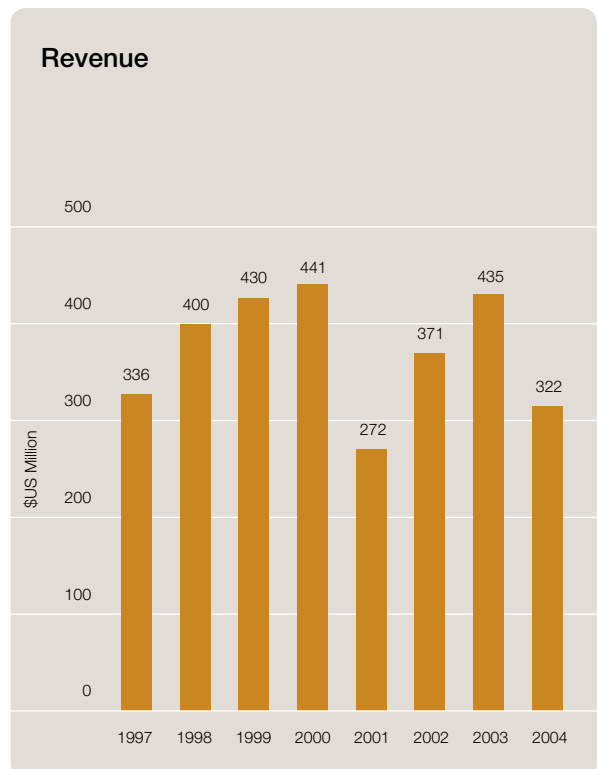
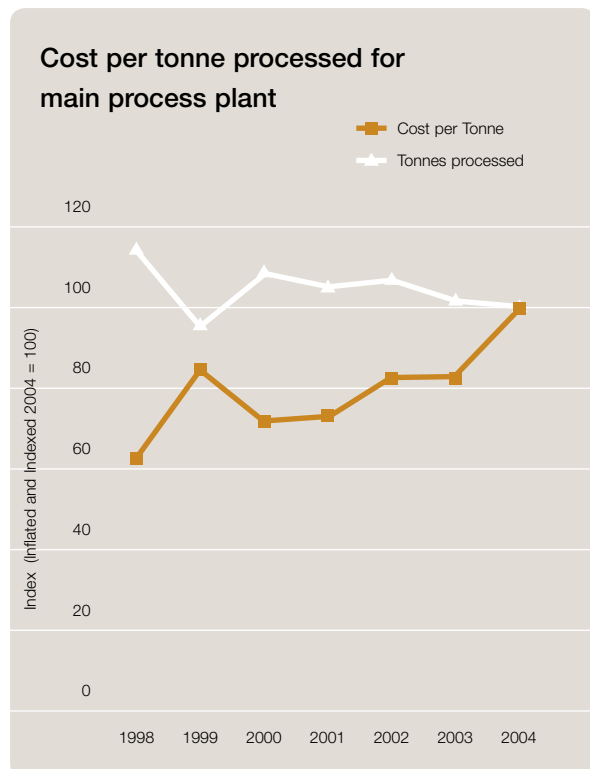
The worldwide increase in fuel prices and Argyle's increased power requirements raised the organisation's fuel costs in 2004. In the open pit mine, additional work was carried out by Roche Mining to move waste rock in Cut Back Two, requiring an additional 10 trucks, one shovel and ancillary fleet. Increased electricity consumption associated with the acceleration of the exploratory decline also increased fuel costs. Argyle is now looking at a long-term renewable energy source for the underground project.



Revenue

Argyle sold approximately 24 million carats of rough and polished diamonds onto the world market in 2004, generating a revenue base of approximately US\$320 million. This is much lower than its previous average of 30 million carats per year.

In 2005 Argyle expects to resume normal production levels and sales.





Earnings

Diamond Price

With relatively strong world economic growth in 2004 the diamond industry showed strong growth with corresponding price increase. This price increase helped offset Argyle's lower production sales and foreign exchange movements.

Foreign Exchange

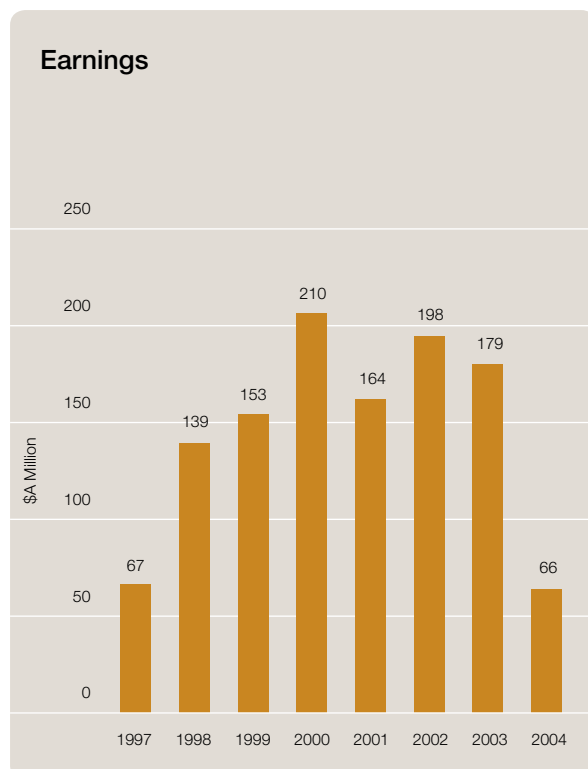
While there was a marked strengthening of the Australian dollar during 2004, the average exchange rate for the year was approximately 74 cents, which had some negative implications for Argyle's AUD\$ revenue and therefore a lower profitability for the business.

Open Pit Productivity

There were a number of reasons for Argyle's 2004 production being under plan, the main one being tight mining conditions primarily due to geological factors. This was exacerbated by the relatively high turnover of staff and the inability to recruit replacements in time. From the third quarter of 2004, the national skills shortage being experienced by the mining industry started to impact on Argyle's operations. A combination of uncertainty about Argyle's mine life, the possibility of the mine closing at the end of open pit mine life and a buoyant labour market meant that experienced operators and trades people started to leave the business in higher numbers. This impacted on both the productivity of operators and the maintenance crew, resulting in less than optimal use of some equipment in the pit.

There were also issues in terms of ore grade. Production was primarily in the northern part of the open pit, which has a lower grade. Argyle was also mining from stockpiles which have a relatively high clay content. This led to challenges with processing ore from those stockpiles. Maintenance issues early in the year in the process plant also led to less than optimal processing throughput.

The fleet availability was less than expected for the 2004 plan. A continuous improvement strategy was introduced in 2004 across the entire site operations, with an initial focus on maintenance. In late 2004 Argyle saw improvements in maintenance and the fleet availability which are expected to carry over into 2005.



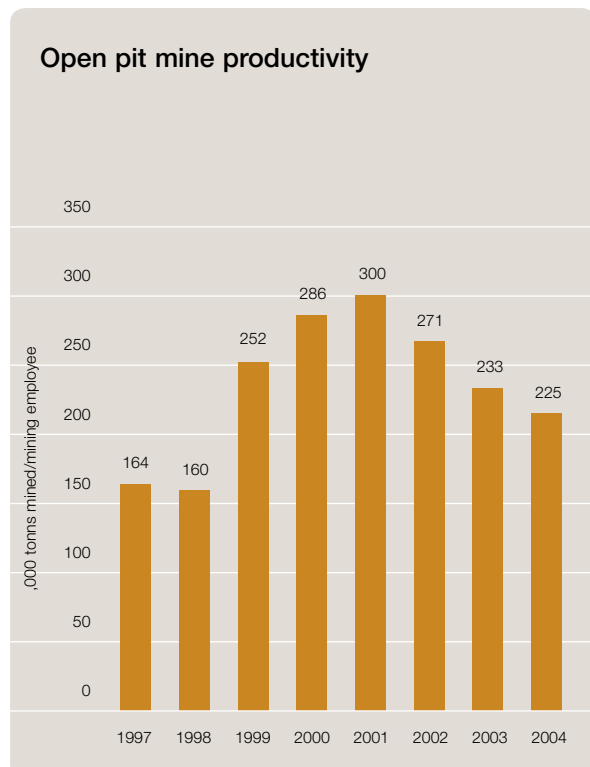


Tyres

During 2004, Argyle realised that there was a likely to be a shortage of truck tyres over the next few years because of the resource boom and commenced a campaign to increase tyre life by improving the road works in the mining operations. Roads leading to the waste dumps, corners, narrow areas and mining benches themselves are progressively being sheeted with coarse tailings and molasses is increasingly being used to seal the road base. The subsequent increase in tyre life is expected to result in a corresponding improvement in maintenance, truck downtime and costs in 2005.

2005 Initiatives

The campaign to improve roads and therefore tyre life in the mining operations will continue throughout 2005. The continuous improvement campaign that commenced in 2004 will also continue, focussing on training, maintenance and availability, equipment productivity improvements, maintenance and reliability improvements and process recovery improvements.



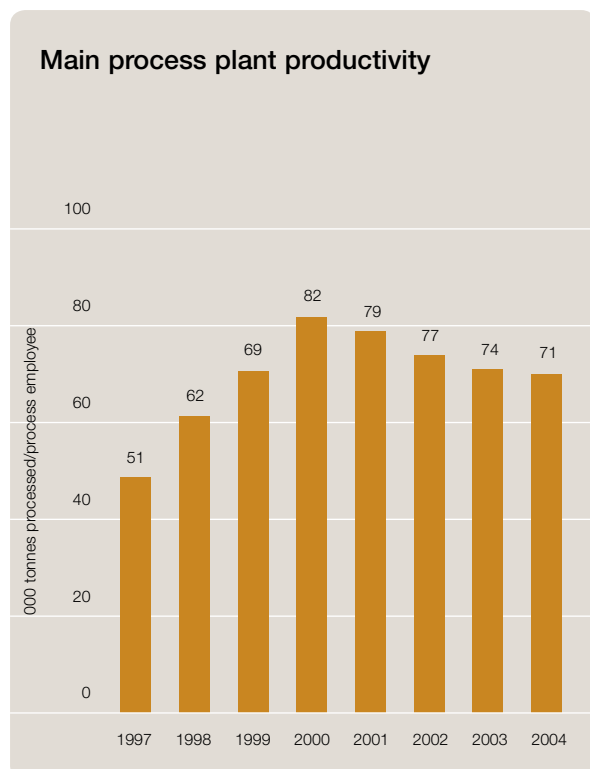


Process Plant Productivity

In 2004, the productivity of the main process plant was reduced because of a decrease in the amount of tonnage requiring treatment. This reduction was caused by a difficult clay ore type and operating delays due to equipment failures. It is expected that process plant productivity will return to normal in 2005.

Labour Costs

Argyle's payroll expenditure in Perth was \$57.8M in 2004, down from \$67.7M in 2003, reflecting the shift from a Perth-based workforce which commutes to the site operations, to a more localised East Kimberley based workforce.



Through its localisation policy, Argyle is continuing to divert salary and wage payments from Perth to the East Kimberley, increasing its total payroll expenditure in the Kimberley from \$6.7M in 2003 to \$16.3M in 2004. In addition, Argyle increased its direct training expenditure (which includes trainee wages) from \$0.73M in 2003 to \$1.17M in 2004, with an expectation of increasing that to \$1.81M in 2005.

This diversion creates not only immediate economic benefits for the region, but also the unquantifiable benefits that flow from improving the skills of the workforce and increasing the participation of Aboriginal people in the regional economy. The development of role models, the improved confidence and capacity of young people and the demonstration of the rewards of a good education are leading to positive and long-term changes in the East Kimberley community.

Local Procurement of Goods and Services

In 2003 Argyle spent \$18.8M on purchasing goods and services from East Kimberley based suppliers. In 2004 this figure increased by over 45% to \$27.3M. In addition to the direct stimulation this offers to the East Kimberley economy, this increased expenditure also has a multiplier effect throughout the local economy.

It is useful to consider the impact that this policy of increased local expenditure has through the examples of fuel prices and regional transport.

Fuel Prices

In 2003, the operator of the Wyndham fuel farm indicated that it was withdrawing from the area. Argyle worked with the Ord River District Co-operative to develop a sustainable fuel supply for the mine and the region. In preference to transporting diesel fuel from Broome or Darwin, Argyle still obtains all its diesel requirements from the Wyndham fuel farm, which is now operated by the Ord River District Co-operative. This benefits all residents and businesses in the East Kimberley by assuring reliability of supply and lowering fuel prices. Argyle accounts for approximately 65% of the diesel fuel consumed in the East Kimberley. Without this demand, fuel prices would increase by an estimated



six cents per litre. This impacts on industry across the region, especially those businesses which operate machinery and equipment with high fuel consumption, such as road haulage companies, earthmovers, pastoralists and farmers.

Regional Transport

Skywest currently operates three Fokker F100 flights per week from Perth to the Argyle site. Argyle's commercial support of Skywest has enabled the airline to expand its fleet and establish services connecting Broome, Darwin and Exmouth to Perth. It has also provided the springboard for Skywest to improve the range of aerial services into the East Kimberley. Argyle Diamonds' local workforce (and, potentially, the large numbers of construction workers who will be employed should the underground development proceed), will support improved year-round passenger transport services into Kununurra. Skywest is planning two additional flights in 2005 that will service Perth, Argyle and Kununurra.

Social Infrastructure Development

Through the Argyle Participation Agreement and the partnerships that it has initiated in the East Kimberley, Argyle is contributing to the development of social infrastructure that will outlast the mine's life. These include:

- Health - with United First People of Australia and the Warmun Community - Warmun Diabetes Program.
- Health - with Jirrawun Arts - Jirrawun Health Strategy.
- Education - with Commonwealth and State governments and East Kimberley schools and families - Yachad Accelerated Learning Program, Halls Creek District High School.
- Education - with Commonwealth and State governments and East Kimberley schools and families - "Follow The Dream" program at Kununurra District High School.
- Business Development - with Gelganyem Trust - business incubator, enterprise facilitation and governance support.
- Governance Capacity - with Traditional Owners - the creation and support of Gelganyem and Kilkayi Trusts (the trusts established under the Participation Agreement to manage a range of partnership and long term capital funds).
- Governance Capacity - with Traditional Owners - the Relationship Committee, which brings together senior Traditional Owners and senior Argyle representatives to oversee and monitor the implementation of the agreement.
- Skills Acquisition - with the Department of Employment and Workplace Relations (DEWR) - creating 150 traineeships and apprenticeships for local Aboriginal people.

- Cultural Protection - with Traditional Owners - the transmission and continuation of traditional culture is being assisted by active support of traditional ownership, weekly induction Manthe, commitment to cross-cultural training, support for Aboriginal art and cultural enterprises, support for men's and women's law and the inclusion of young people in all site protection clearance surveys and land management consultations.

Enduring Assets

Under the Participation Agreement, Argyle agrees to hold the grazing lease on trust for Traditional Owners for the life of the operation. The grazing lease will then transfer to Traditional Owners upon surrender of the tenements. This enables Traditional Owners to lodge a claim for full strength native title over the grazing lease area which Argyle is committed to supporting. The intention of the agreement is that upon surrender of the tenements, Traditional Owners will have dual enduring assets of a Consent Determination of Exclusive Possession as well as full beneficial ownership of a grazing lease.

Under the Participation Agreement, a portion of the Traditional Owners' income stream from the agreement is allocated on an annual basis to seven estate groups for community development initiatives. The intention is that for the life of the operation, part of the income stream from the mine is being used by Traditional Owners to develop community and social infrastructure.

Under the Participation Agreement, the majority of the Traditional Owners' income stream from the agreement goes into the Sustainability Fund, an enduring capital fund that is managed by the Traditional Owners' Gulganyem Trust. If the mine continues as an underground operation, the income from the Capital Fund is likely to be sufficient to replace the income Traditional Owners receive from the mine. In this way, Argyle and Traditional Owners are creating an enduring capital base that will provide a long-term security of income for Traditional Owners.

Diamond Industry

The true significance of Argyle's product rests in the degree to which it has driven profitable growth in the Indian diamond industry. Over 90% of Argyle's production ends up in India. The combination of India's low cost labour and processing technology and the high 'value added' aspect of the Argyle product has led to significant employment growth and economic development in regional cutting centres throughout Gujarat, such as Surat, Navsari, Ahmedabad and Bhavnagar. Research indicates there are some 250,000 employees in Ahmedabad alone with 70% employed in manufacturing Argyle diamonds.

The Indian diamond expertise that has been built up to manufacture and market the Argyle product has been growing strongly for many years, to the point where it has now established a world-wide diamond manufacturing and marketing capability. India is the dominant cutting centre with 53% global market share. Many Indian companies are now vertically integrating their operations and moving into product areas that were traditionally sent to cutting centres such as New York and Israel.

