

Governance Performance

Corporate governance at Argyle is focussed on an internally developed model that outlines seven main areas of governance:

- Risk management;
- Financial controls;
- Performance evaluation and assurance;
- Asset security, ethics and business conduct;
- Legal compliance and knowledge management;
- Quality control and improvement methodology; and
- Health, safety, environment and community.

Governance Structure

Argyle is managed by a team of five General Managers under the direction of the Managing Director. While this group has the responsibility for the overall management of the business, other structures exist to manage key focus areas.

The Health and Safety Leadership Team continues to oversee the Health and Safety Policy and strategic health and safety direction of the business.

The Underground Steering Committee, comprising the Managing Director, General Managers, selected Managers and other staff, plus a number of external people with relevant underground expertise, continues to meet on a quarterly basis and manages the progress and assurance for the technical rigour of the Underground Feasibility Study. The Steering Committee is supported by a Technical Committee.

Argyle introduced the IST (Information Systems and Technology) Steering Committee in 2004. The purpose of this committee is to review Argyle's long-term strategies for managing the information system environment with a key focus on simplifying the system's delivery environment.

Argyle introduced the External Affairs Steering Committee in 2004 to manage both the communication of the organisation's key business initiatives to external and internal stakeholders and its external business profile.

2004 also saw the creation of the Sustainability Steering Group, comprising Argyle's Managing Director and General Managers, representatives from

Murdoch University and Sustainable Consulting, to ensure that Argyle has a whole-of-business approach to transforming the AK1 diamond asset into other enduring assets.

Risk Management

Good corporate governance is about having an effective internal control environment that ensures business risks are properly identified and managed. This in turn provides a framework within which the business strategy can be successfully implemented and the business objectives can be achieved. Argyle's risk management philosophy is that any event that has the potential to prevent the business from achieving its objectives must be assessed under the risk management systems.

In 2004 Argyle further embedded the risk management system across the business. There were over 60 team-based risk workshops to identify key risks and controls and mitigating practices to manage those risks across the business. Argyle's business risks are assessed in terms of their financial, legal, health and safety, reputation, environment or social impacts, and this data is stored in a database that will allow for the periodic review of Argyle's risk profile and that will monitor the risk control environment.





In December 2004 the Argyle Risk Management Standard and the Team-Based Risk Assessment Tool Guideline was released to define roles, accountabilities and processes related to the management of Argyle's business risks.

In early 2005 Argyle will set up an Audit and Risk Steering Committee, which will include:

- Internal and external company auditors
- A link with the Rio Tinto internal auditors (responsible for internal audit and control issues within Rio Tinto)
- The Managing Director and the General Management Team

This steering committee will be responsible for ensuring a robust control environment within Argyle and will identify and control key risks within the business.

Financial Controls

In 2004 Argyle issued its Authority Level Policy which sets out all the decision-making authorities for key decisions within the business. It is an important mechanism for the proper understanding and controls of financial business decisions.

In line with moves in the world business community to uniformly adopt international accounting standards, Argyle started the process of adopting the international accounting standards for all its external reporting in 2004. This provides the business with additional transparency in its reporting.

As Rio Tinto is a Securities and Exchange Commission (SEC) registrant in the United States and the passage and commencement of the Sarbanes-Oxley Act in 2004, Argyle has dedicated resources to process mapping the business controls across the entire business. The aim of this is to improve the overall control environment within Argyle. This process started in 2004 and will continue in 2005.

Performance Evaluation and Assurance

The Performance Management Scheme, the Health and Safety Policy, the Code of Conduct and the Fair Treatment Policy that were set out in the 2003 Sustainability Report continue to govern performance evaluation processes within the business.

The monthly production of a comprehensive performance review report is now complemented by a monthly meeting of the general management team who use this information to address performance issues in a timely manner.

The Sustainability Steering Group monitors Argyle's performance on transforming the AK1 diamond asset into other enduring assets.

Asset Security, Ethics and Business Conduct

In 2004, the protection of Argyle's assets continued to be directed by the wholly-owned subsidiary, Resource Protection Group (RPG). These initiatives focussed on staff training, the introduction of quality management concepts, a significant review of the security operating procedures for the Perth office, approval of the re-specified Designated Area at site and better management co-ordination through the inauguration of the Security Leadership Team. Additional projects initiated in 2004, with anticipated completion in 2005, include:

- Digital upgrade of site and Perth surveillance equipment;
- The introduction of an organisation wide diamond control philosophy;
- Alignment of security and fraud risk assessments with the ADM enterprise risk framework;
- Detailed resource planning for both "Go" or "No Go" underground decision; and
- A major review of disaster management procedures.

The Kimberley Process, which defines the movement of diamonds between countries in order to limit the sale of conflict diamonds, progressed in 2004 with further meetings of the Kimberley Council, representing over 50 diamond-trading countries.

Argyle issued its Conflict of Interest Policy in 2004, which continues the assurance of business integrity.

Legal Compliance and Knowledge Management

The Rio Tinto Compliance Modules were rolled out to the workforce in 2004 and included the following core units:

- Careful Communication;
- Preventing Workplace Harassment;
- Rio Tinto: The Way We Work; and
- What You Need to Know About Email

Approximately 49% of the workforce has completed the core modules. A classroom program will be developed in 2005 so that these modules can be rolled out to those employees who do not have computer access.

It is anticipated that this will ensure all permanent staff complete the core modules in 2005. These compliance modules provide guidance to employees regarding their behaviour, both internally and externally.

All sales staff and key sales support team members completed the LRN Rio Tinto Australia Trade Practices and Competition Law Compliance module, together with appropriate training in competition law applicable in countries in which they sell.

In 2004, Argyle implemented a new Document Management System. The strategic intent of the system is to provide a rigorous system for managing controlled documents, electronic records and hard copy filing/archiving. The system must provide full evidence of implementation of ISO14001 and AS4801 document control and records management requirements, meet Sarbanes-Oxley requirements and addresses the Rio Tinto Compliance Guideline for Records Control. While the technical and initial implementation was completed in 2004, there is a continuing body of work to manage the change, monitor usage and ensure strategic goals are being met.



Quality Control and Improvement Methodology

During 2004 Argyle started a business improvement methodology, commencing with the introduction of selected business improvement tools. An assessment of eight foundational and core competencies, deemed prerequisites for world-class manufacturing, was undertaken in two key areas of the business. These results provided a baseline for improvement and served as an indicator as to where efforts needed to be focused.

The tools chosen were *visual management*, *5S workplace organisation*, *standardised operations and quick changeover (SMED)*. These are regarded as key to achieving stability and predictability in Argyle's processes, whilst at the same time engaging the workforce in cultural change. Rollout of the tools was evolutionary rather than revolutionary, commencing in mobile maintenance and creating a 'pull' effect on other areas of the business. This approach gave staff ample time to observe and absorb the changes and helped prevent the creation of unrealistic expectations.

Later in the year a major improvement project titled 'Back to Basics' was initiated for mining activity, incorporating the planning, production and maintenance components. 'Back to Basics', which was facilitated by external consultants, was aimed at optimising the fundamental management systems and processes that are necessary within the mining activity to ensure that a significant improvement in efficiency and performance is realised. The business improvement tools and the 'Back to Basics' program complemented each other and each continued successfully for the year. Benefits from each are not all immediately apparent due to lag effects, although early benefits in mobile maintenance was evident well before the end of 2004.



Social Performance

Most of the provisions of the Participation Agreement commenced upon its signing in September 2004. The balance of the commitments in the agreement commence upon registration, which is expected to be in the first half of 2005.

Workshops and one-on-one discussions have helped accountable managers to better understand the commitments they are responsible for meeting under the Participation Agreement. To this end, they have been provided with a summary of the commitments and Argyle's key deliverables as well as a checklist to assist them in integrating commitments into the performance management system, annual planning process and standardised business policies and procedures.

A video is also in production that will explain the contents of the agreement to both Traditional Owners and Argyle staff.

Argyle expects that its performance on commitments under the Participation Agreement will be subject to the same internal and external audit processes as apply to other planned deliverables across the business.