

RIO TINTO

DIAMONDS

INDUSTRY REVIEW

2003



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FOREWORD

The purpose of this Industry Review is to provide an update on:

- global market conditions;
- the diamond industry pipeline; and
- Rio Tinto Diamonds marketing plans for Argyle Diamonds and Diavik Diamond Mines Inc.

Rio Tinto's diamond mining and marketing interests consist of 100% of the Argyle Diamond Mine in Australia and a 60% share in the Diavik Diamond Mine in Canada. These productions are complementary and allow Rio Tinto Diamonds to supply rough diamonds across all categories.

The first sale of diamonds from the Diavik Diamond Mine occurred in July of this year. There has been strong demand for this product and we look forward to the first full year of sales in 2004.

The Argyle Diamond Mine is in its nineteenth year of operation. It continues to support strong and profitable growth for its customers. Argyle's open pit has been extended and it is undertaking a full feasibility study into underground mining.

Rio Tinto Diamonds operates as a wholesaler of rough diamonds. Our customer base has been selected primarily on its ability to add value to our products. Rio Tinto Diamonds activities are based on three key principles:

- Deliver to our customers a reliable supply of consistent assortments;
- Manage our supply to protect customers' investment; and
- Support our products in the market.

I hope you find this review useful and welcome any feedback.

GORDON GILCHRIST
MANAGING DIRECTOR, RIO TINTO DIAMONDS

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I . INTRODUCTION

Rio Tinto is a world leader in finding, mining and processing mineral resources. In order to deliver superior returns to shareholders over many years Rio Tinto takes a long term view when developing its mining operations. As such it sets high environmental, safety and community standards with a commitment to making lasting contributions to local communities.

Rio Tinto's turnover in 2002 was US\$11B with adjusted earnings of US\$1.5B. The Rio Tinto group employs approximately 36,000 people worldwide. In addition to diamonds the group has world class interests in iron ore, copper, aluminium, industrial minerals and energy products.

Diamonds are an important and growing product group for Rio Tinto. Currently, the company produces about 25% of the world's rough diamonds by volume through its 100% control of the Argyle mine which last year produced 32.6 million carats. By 2004, when the Diavik Diamond Mine is in full production, Rio Tinto will also be positioned as a major gem diamond producer, whilst maintaining its position as one of the largest overall diamond producers globally. The group continues to expend a significant proportion of its exploration budget in the search for world-class diamond deposits.

Rio Tinto Diamonds was established in Antwerp, Belgium in June 2002 and employs approximately 50 people including a representative office in Mumbai, India. It was established to provide a sales and marketing service to Argyle, Diavik Diamond Mines Inc. and any future diamond mines where Rio Tinto has ownership.

World mine production is estimated to increase at 3% pa in real terms to 2008

Value of World Production - 2002

PRODUCER	US\$B
Botswana	2.2
Russia	1.5
Angola	1.0
South Africa	0.8
D.R. Congo	0.6
Canada	0.6
Namibia	0.4
Australia	0.4
Other	0.4
TOTAL	7.9

Source: Rio Tinto Diamonds

2. INDUSTRY CONTEXT

2.1 SUPPLY/DEMAND OUTLOOK

SUPPLY

Rio Tinto Diamonds estimates the total value of 2002 world mine production to have been approximately US\$7.9B. Additionally an estimated US\$1.1B was sold from producer stocks.

Total world mine production is estimated to increase at an annual rate of 3% by value in real terms through to 2008.

It is assumed that:

- Production from De Beers South African mines increases between 2003 and 2008. Botswana's production remains relatively unchanged through to 2008.
- The commencement of the Diavik Diamond Mine in 2003 adds to Canadian production, particularly from 2004 onwards when the mine is expected to reach full production.
- Russian production increases as ALROSA pursues its expansionary targets. Russian destocking occurs in a measured way and at lower levels than in the past.
- Angolan production increases to reflect improved levels of stability in the country and increased investment in diamond mining.
- Limited stockpile sales from De Beers beyond 2003, as their working capital target is reached.

DEMAND

Historical diamond demand performance shows real growth in the region of 2% per annum over the last 20 years. There has been a more modest performance in recent periods with less than 1% over the last five years and -1% over the last 10 years. The period of growth in diamond demand between 1982 and 1992 was strongly reinforced by the significant appreciation of the Yen against the US dollar. This historical data highlights the challenge facing the industry as it seeks to achieve higher levels of growth through increased advertising and the development of competing brands.

World rough demand is ultimately driven by retail diamond jewellery sales. The US market accounts for around 50% of total world retail diamond jewellery sales. This dependence on consumer spending in one market remains a key vulnerability of the diamond and jewellery industry. US consumer confidence is showing some signs of recovery in mid 2003 and together with stable economic growth, will be a critical element in expanding future rough diamond demand. Reducing US dollar strength also has the potential to make diamonds more attractive in local currency terms, in markets outside the US.

The Japanese consumer market for polished diamonds was once equivalent in size to the US. The relative importance of Japan has reduced but it is still the second biggest consumer market for diamond jewellery. Despite demand for diamonds in 2002 being recorded at its lowest level in real terms since the 1970's, there is some cause for optimism as the economy is showing signs of recovery in 2003.

Whilst there is a historical relationship between GDP and demand for diamonds, in recent times diamonds have under-performed against GDP. The diamond industry is optimistic that the recent focus on increasing marketing spend will result in demand growth that at least matches GDP. The industry challenge is to develop demand-driven strategies that will transform the relationship between diamond consumption and GDP to new highs.

These strategies are likely to be assisted by the development of new markets in countries such as China and India, where economic growth is rapid and diamond consumption is likely to rise faster than in the established western markets.

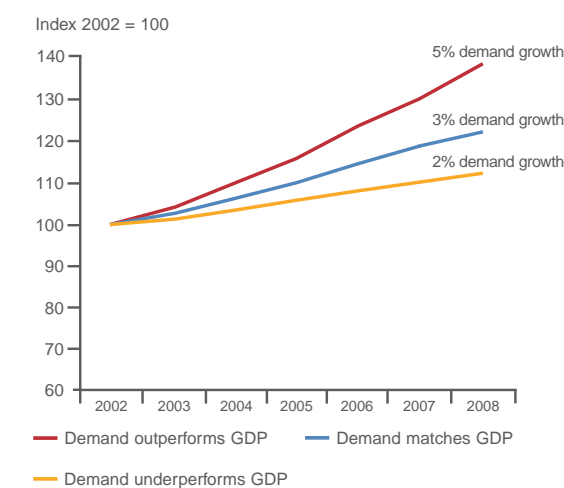
Historical Performance of Diamond Demand

	NOMINAL	REAL (US\$2002)
1982 - 1992	9.4%	5.6%
1992 - 2002	1.8%	-0.7%
1982 - 2002	5.6%	2.4%
1998 - 2002	3.1%	0.6%

Source: Rio Tinto Diamonds

Historical diamond demand shows real growth of some 2% per annum for the last 20 years

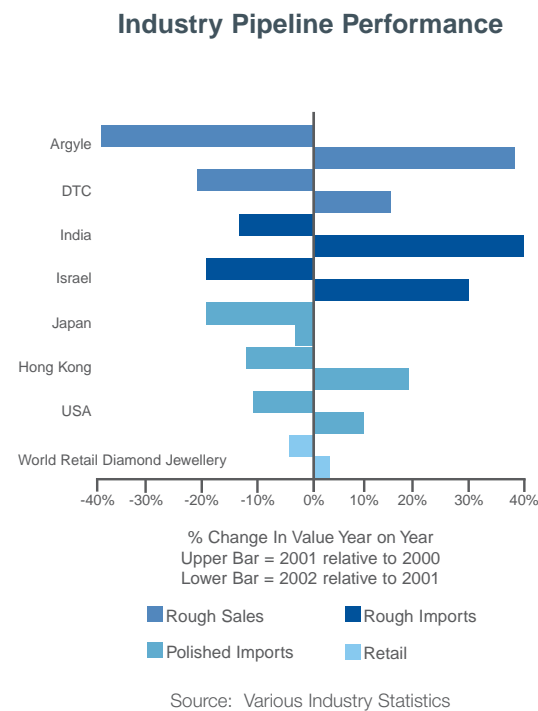
Demand Growth Scenarios 2002 - 2008



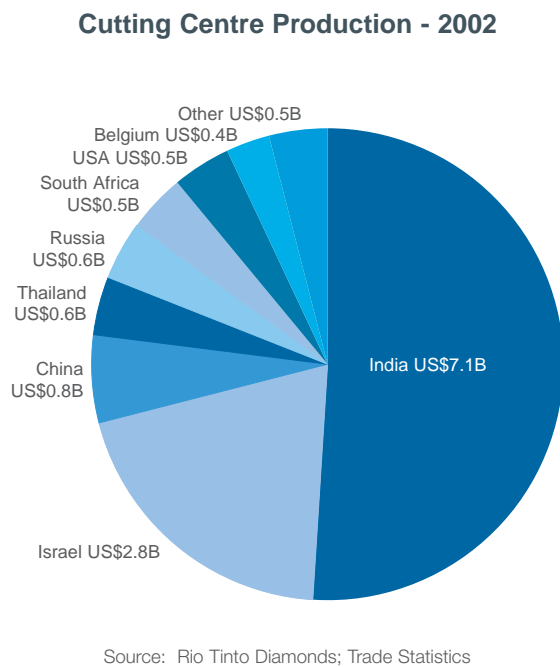
Source: Rio Tinto Diamonds

Real demand growth through to 2008 could be between 2% and 5% depending on the relationship to GDP

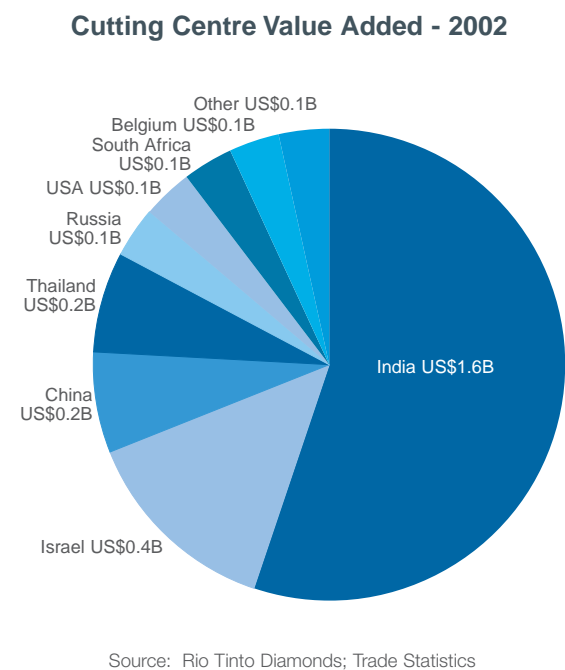
Overall the diamond pipeline recovered in 2002 relative to 2001



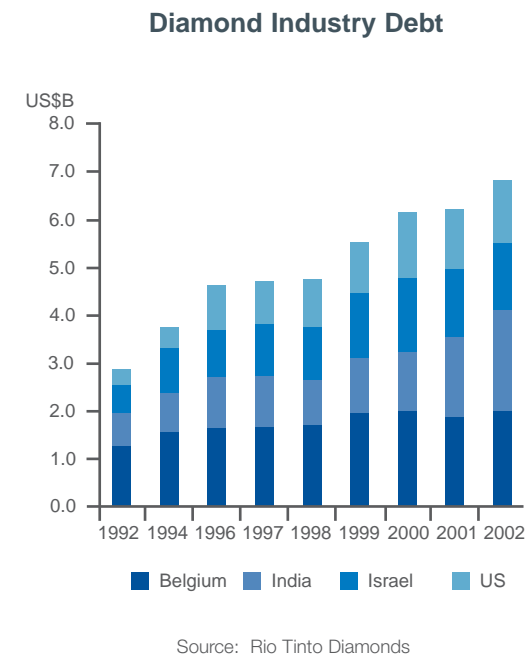
India is the dominant cutting centre in terms of polished diamonds



India continues to be the leading cutting centre in terms of value added



Cutting centre debt is at an historical high



PRICE

Whilst supply/demand fundamentals indicate rough price pressures due to the build up of inventory in the pipeline, this was not the case in the second half of 2002 and throughout 2003. Rough prices during 2003 have remained strong and have continually outperformed polished prices. Rough supply has generally been higher than required to meet retail consumption of diamonds, resulting in an increase in polished inventories in the cutting centres.

Looking ahead, the rough diamond market is anticipated to remain strong for some time. Although production is forecast to increase, there will be substantially less sales out of producer inventories in the years to come. If industry marketing efforts prove to be a success and new markets perform as hoped, the outlook for the industry as a whole is positive.

VALUE ADDED

Value added is defined as the value of polished produced from local manufacturing less the cost of rough used to produce it. India continues to be the leading cutting centre in terms of value added ensuring its strong competitive position.

At the end of 2002 cutting centre debt was estimated at US\$6.9B, an 11% increase over 2001, driven primarily by India and followed by Antwerp. In 2003 cutting centre debt has continued to increase reaching levels of US\$7.5B by the middle of the year. This is attributed to increased activity levels within the industry as well as a reflection of extended credit terms. In the current climate of low interest rates, the service levels of these debts are manageable but they could become a concern if interest rates begin to rise.

2.2 PIPELINE PERFORMANCE

Overall the diamond pipeline recovered in 2002 relative to 2001. Prices at producer levels declined in the first quarter and then improved in quarter two and the latter part of the year.

2.3 CUTTING CENTRES

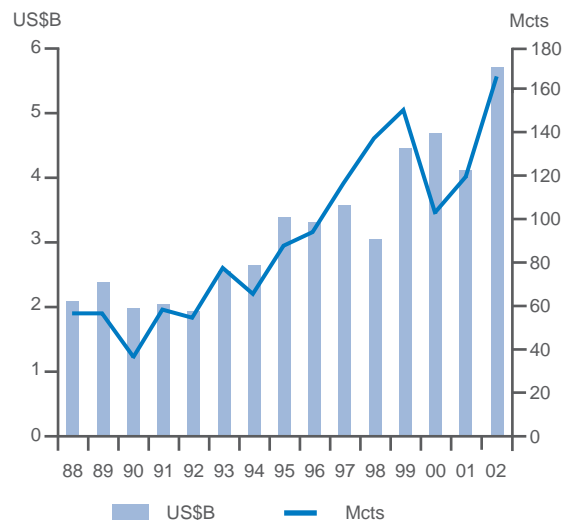
India and Israel are the dominant cutting centres accounting for 72% of the world's total polished output in 2002.

The next tier of cutting centres is comprised of Russia, Thailand, South Africa, USA, Belgium and China. Other cutting and polishing operations are located in a number of countries that make up the balance of polished output including Sri Lanka, Mauritius, Botswana, Namibia, Canada and Australia.

All cutting centres recorded increases in both value and volume imported in 2002, with India showing the biggest increase of around 40% for both. The average price of imports remained constant for India and Antwerp whilst Israel recorded a 12% increase.

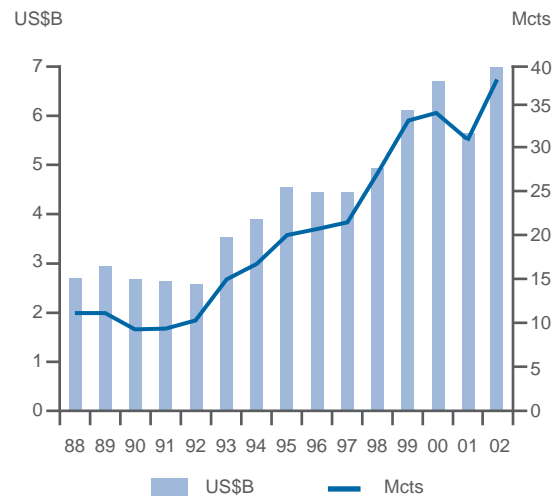
India's share of world production showed significant growth in 2002

Indian Rough Imports



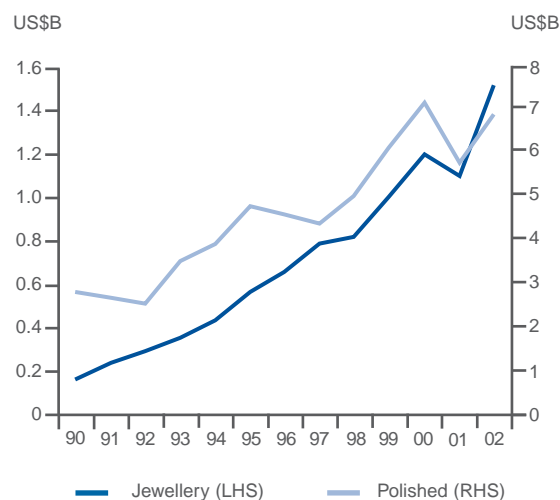
Source: Gem & Jewellery Export Promotion Council

Indian Polished Exports



Source: Gem & Jewellery Export Promotion Council

Indian Diamond Exports - Loose Polished and Jewellery



Source: Gem & Jewellery Export Promotion Council

Demand for Indian polished has increased along with its manufacturing capability

The long term outlook for the Indian diamond industry continues to be positive

INDIA

India's share of world production showed significant growth in 2002. Rough imports into India in 2002 totalled US\$5.7B, a 41% increase on 2001 levels. In volume terms Indian imports totalled 166.3 million carats, 40% up on 2001. The average price of imports at US\$34/ct was at the same level as in 2001.

DTC direct sights to India increased substantially in 2002 reflecting an increase in allocations to Indian manufacturers. De Beers has successfully worked with Indian manufacturers to promote specific product areas within the Indian consumer market.

India is the world's largest exporter of polished diamonds in terms of weight and value. Demand for Indian polished increased in 2002. India continues to expand its manufacturing capabilities and can now process goods that have traditionally been left to cutting centres such as Israel. Indian polished exports in 2002 totalled US\$6.8B, 24% above 2001 levels. In volume terms Indian exports totalled 38 million carats, 30% above 2001. The average price of exports at US\$176/ct was 5% down on 2001 levels.

The long term outlook for the Indian diamond and jewellery industry remains positive. India's competitive advantage centres on its skilled labour combined with a ready adoption of leading edge technology and an increasing degree of vertical integration. Since 1990 India's jewellery exports have increased almost ten fold. This, together with Indian exports of loose polished diamonds which have more than doubled in the same period of time, indicates the success and strength of the Indian diamond and jewellery export industry.

ISRAEL

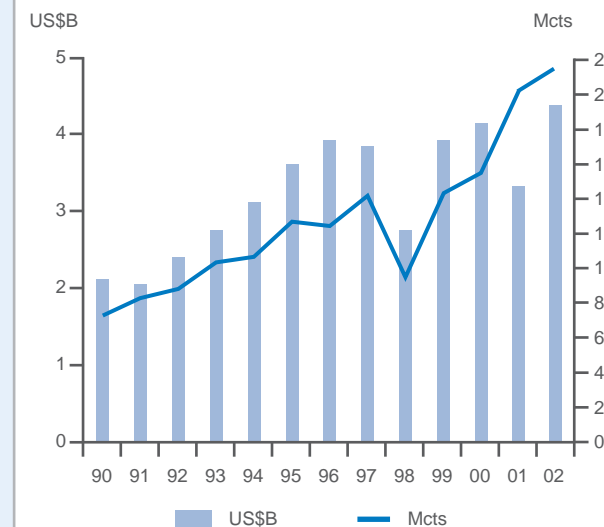
Israel is still the world's major manufacturer of medium to large better quality gem diamonds. Although some small, better quality polished is still manufactured in Israel, the majority of production is geared towards polished diamonds above 0.15 carats. In value terms Israel polished exports dominate the US market. In 2002 Israel exported 68% of their total to the US market giving it a 50% market share in dollar terms.

Rough imports into Israel in 2002 totalled US\$4.4B, 30% up on 2001 levels. In volume terms Israel imports totalled 21.4 million carats, 16% up on 2001. The average price of imports at US\$206/ct was 12% up on 2001 levels.

Polished exports from Israel in 2002 totalled US\$5.2B, 15% up on 2001 levels. In volume terms Israel exports totalled 4.5 million carats, 15% up on 2001. The average price of exports stayed the same as the previous year at US\$1,147/ct.

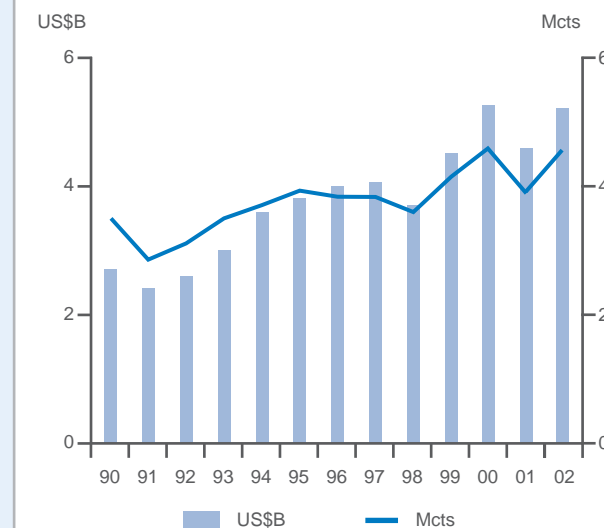
Some Israeli diamantaires have relocated their manufacturing operations to lower cost countries such as China. Israel's polished imports from India have also increased. These trends are likely to continue and may enable Israeli companies to maintain their competitive position in the market.

Israeli Rough Imports



Source: Israel Ministry of Industry & Trade

Israeli Polished Exports

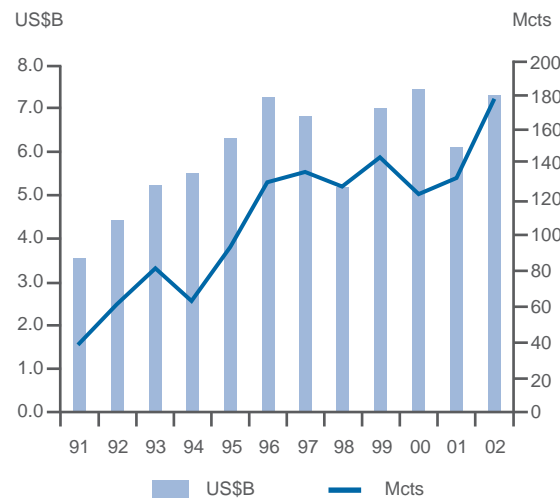


Source: Israel Ministry of Industry & Trade

Israel remains the world's major manufacturer of medium to large better quality gem diamonds

Belgium remains the world's largest diamond trading centre

Belgium Rough Imports



Source: Antwerp Diamond High Council

BELGIUM

Belgium remains the world's largest diamond trading centre with a diamond turnover in 2002 totalling US\$26B with the industry providing direct employment for around 12,000 people. It is estimated that eight out of ten of all rough diamonds are handled in Antwerp and one out of two of all polished diamonds pass through Antwerp at some stage.

Polished diamonds manufactured locally were estimated at US\$0.3B in 2002. The majority of Belgian diamond cutters are employed in the better quality, large stone sector as the high labour rates have made it uneconomic to process the smaller sizes. Rough diamond imports in 2002 totalled US\$7.2 billion, 17% above 2001 levels. In volume terms imports reached 177 million carats, 17% above 2001 levels.

The majority of rough imported into Belgium is exported to the major cutting centres of India and Israel. In 2002 India was the destination for 78% by volume and 48% by value of Belgium's total rough exports. Israel, the next biggest destination of Belgium rough exports accounted for 4% by volume and 10% by value.

The Antwerp Diamond High Council (HRD) is engaged in activities to ensure that Antwerp remains an important trading centre for rough and polished diamonds. Additionally, the HRD is focusing on widening Antwerp's role to incorporate diamond jewellery wholesale activities and the establishment of a prominent retail jewellery shopping centre.

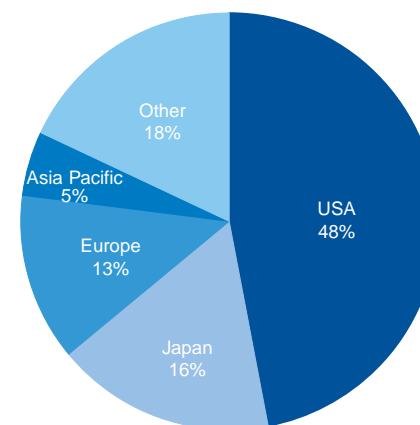
2.4 CONSUMER MARKETS

In 2002, world retail diamond jewellery sales increased by 3%. Diamond content valued at polished wholesale prices rose 4% and the number of pieces sold rose 6%. This growth in the market has occurred in spite of weak economic conditions. In the US market, retail sales of diamond jewellery increased by 5% consolidating the US at 48% of world sales.

The US Conference Board's Consumer Confidence Index, which contracted 24% for the year, indicated the challenge for US retail diamond demand in 2002. Notwithstanding this, polished imports in US dollar terms into the important US market increased in 2002 by 10% on 2001 levels.

The Consumer Confidence Index has been volatile throughout 2003. It continued to decline in the first quarter of 2003 followed by a significant increase as a result of the outcome of war in Iraq. The rate of increase was not sustained with the overall index for the second quarter stable at best. Nevertheless, consumer spending has remained robust, which could support a view of an improving economy through the rest of this year and into next year.

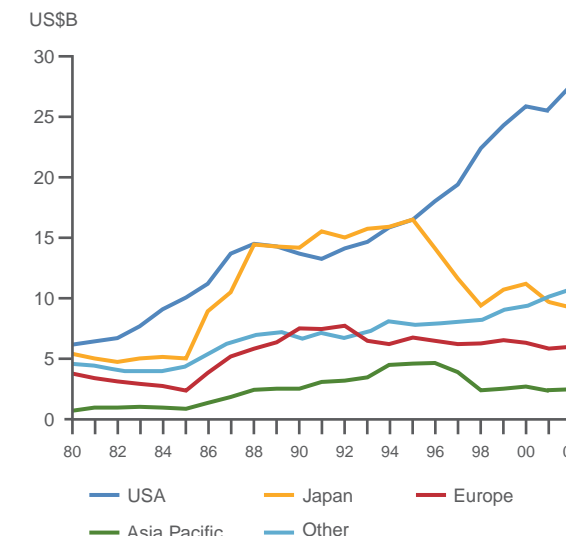
Retail Diamond Jewellery Sales 2002 Market Share



Source: De Beers, Rio Tinto Diamonds

World retail diamond jewellery sales increased in spite of weak economic conditions

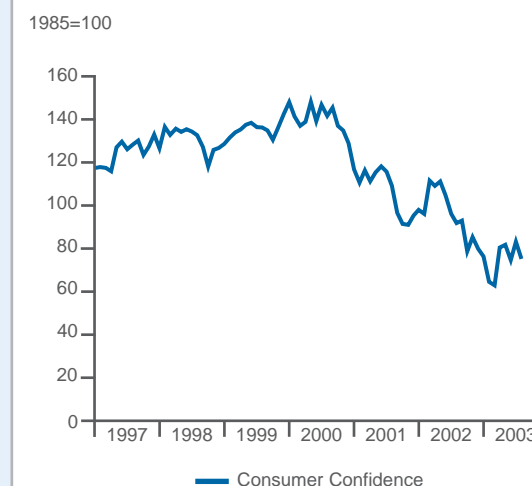
Retail Diamond Jewellery Sales Value Nominal



Source: De Beers, Rio Tinto Diamonds

The US market has been the only significant growth market

Consumer Confidence Index

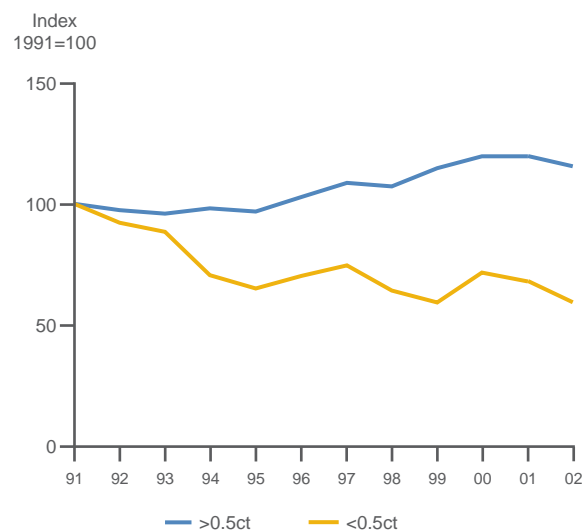


Source: US Census Bureau

Consumer spending has remained robust in spite of volatile consumer confidence

The US market has become increasingly polarised

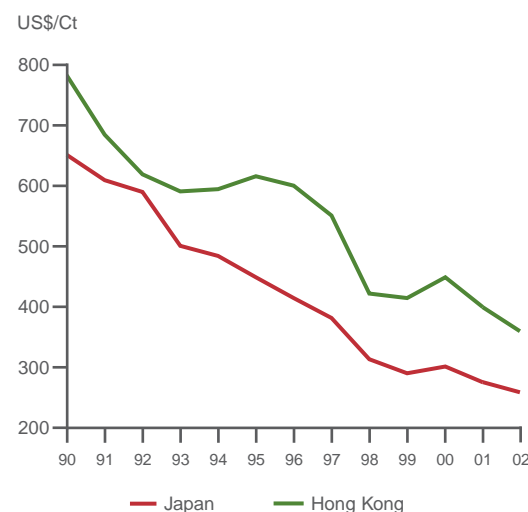
US Polished Imports Index of Average Price



Source: US Department of Commerce

There are some signs of improvement in the Japanese economy however great uncertainty remains

Japan & Hong Kong Polished Imports Average Price



Source: US Department of Commerce; Jewellery Trade Centre, Japan; Census and Statistics Department, Hong Kong

The Japanese and East Asian markets continue to trade down to more affordable diamonds

Over the last decade the US market has become increasingly polarised with strong growth both at the luxury end and in the more affordable diamond jewellery market. The average price of US polished imports for diamonds greater than 0.5ct has increased 21% since 1991 with volumes increasing by a factor of 3.8. The average price of US polished imports for diamonds less than 0.5ct has reduced by 46% since 1991 whilst volumes imported have more than doubled.

The economy of Japan, the world's second largest diamond consuming market, remained depressed in 2002. The year started with demand for diamonds in Japan at its lowest level, in real terms, since De Beers began serious diamond promotion there in the early 1970's. A weak Yen, deteriorating Nikkei, expectations of a further contraction in the economy and ongoing pessimistic business sentiment weighed against demand for diamonds. Notwithstanding this, the Nikkei has shown steady improvement in the second quarter of 2003, reaching the psychologically important 10,000 points mark. There are other signs of improvement in the Japanese economy but overall the outlook remains uncertain.

In Japan, polished imports for 2002 were 2.6 million carats with a value of US\$0.9B, 3% above the 2001 volume but 4% below the 2001 value. Given the economic situation in recent years, it is not surprising that Japan has been slowly "trading down" to cheaper goods. India continues to increase its market share of polished imports into Japan. 2002 polished imports to Japan from India were 1.9 million carats with a value of US\$0.4B, 3% above 2001 volume and 4% above 2001 value.

As with the Japanese market, East Asia continues to trade down. Whilst polished imports into Hong Kong increased by 19% in value terms over 2001, the average price of imports continued to decline, falling from \$271/ct in 2001 to \$258/ct in 2002.

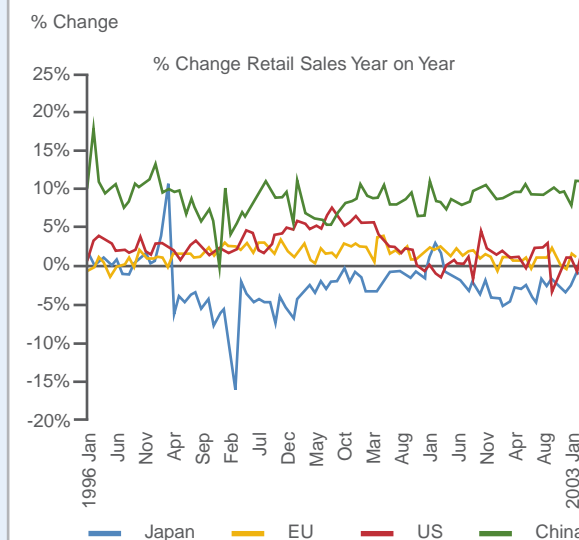
Both China and India represent potential new sources of demand for diamonds. China has the potential to become the world's largest economic power and biggest consumer market of this century. China's total retail sales have shown strong growth relative to other centres.

Industrial production growth in China has risen from 9% per annum to 16% over the last four years, and the country already consumes more copper and steel than the USA. The liberalisation of China's economy and its large urban population with a relatively high disposable income suggest that growth in consumer demand may keep pace with industrial production in the future.

A promising example is provided by Chinese platinum demand which has grown 15% per annum over the last four years. Today China is the largest consumer of platinum jewellery in the world, with a 50% market share. Retail sales of diamond jewellery in China are estimated to have increased in nominal terms from US\$234M in 1993 to US\$1B in 2002, 13% p.a. growth in real terms. Over this same period China's GDP has increased at a rate of 9% per annum in real terms.

India's rich elite and growing middle class also represent potential in terms of diamond consumption. India's annual GDP growth averaged almost 6.5% during the second half of the 1990's, amongst the highest growth rates in the world. The possession of diamond or gold jewellery is highly treasured by Indians who currently consume polished with a wholesale value estimated to be US\$1 billion.

Total Retail Sales of Major Diamond Consuming Regions

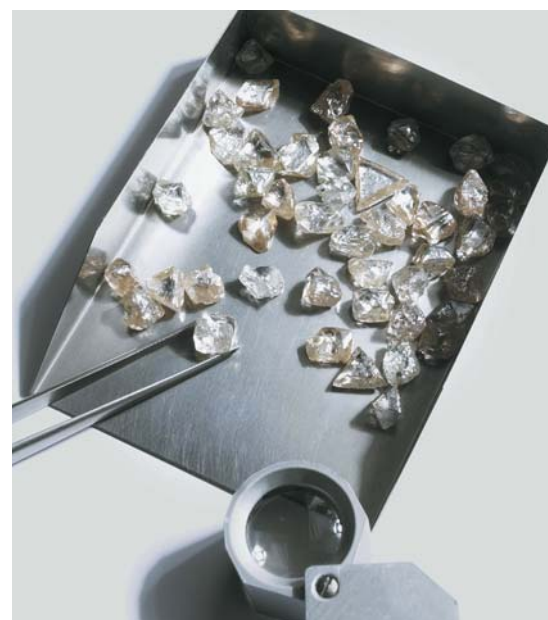
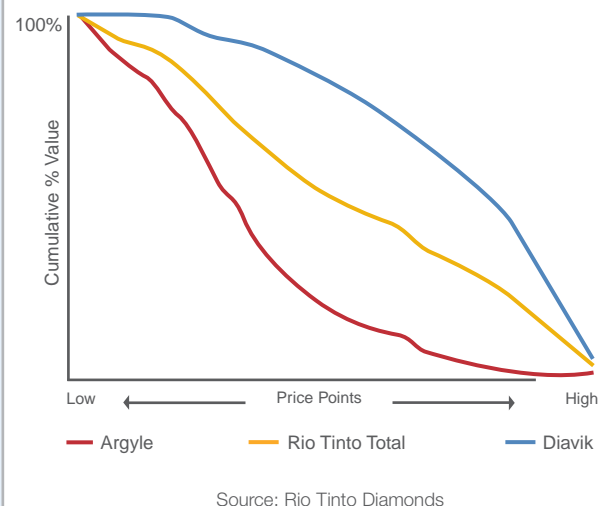


Source: Rio Tinto Economics

Both China and India represent potential new sources of demand for diamonds

Rio Tinto Diamonds is able to supply rough diamonds across all categories

Complementary Product from Argyle and Diavik



New customers for Diavik complemented the existing Argyle customers

3. SALES AND MARKETING

3.1 PRODUCT

Rio Tinto Diamonds markets the rough diamond production from Argyle and its 60% share from the Diavik Diamond Mine as separate product streams. As a result, the national identity of the product is maintained and can be used by customers interested in promoting country of origin.

The Argyle and Diavik productions are complementary and allow Rio Tinto Diamonds to supply rough diamonds across all categories. The Diavik ore bodies have a significant proportion of their value in gemstones with good clarity and colour in larger sizes. The Argyle production is predominantly one of small, coloured, affordable diamonds. In between there exists an overlap which makes existing Argyle customers well placed to manufacture and distribute the Diavik product.

In Rio Tinto's product profile the outlook for top end goods remains strong with increasing reports of scarcity. Demand for affordable diamonds has continued and the Indian diamond industry continues to grow as markets such as Japan have traded down in quality.

A number of new customers were taken on for the Diavik product, mainly for the better quality large goods where there was significant value relative to the Argyle profile. In product segments where the Argyle and Diavik production overlap, existing customers were given opportunities for growth. Included in the new customers for the Diavik product was a group of manufacturers based in the Northwest Territories of Canada, most of whom are planning to take advantage of market interest in goods mined and manufactured in Canada. All Rio Tinto Diamonds sales take place on a willing buyer willing seller basis, including those to customers in the Northwest Territories. Currently around 10% of the total value of Diavik production is being sold to the Northwest Territories cutters, who are limited in what type of rough diamonds they can use by the economics of cutting in Canada. The Northwest Territories manufacturers' share of +2cts better end white goods is higher at around 25% of value.

3.2 RESULTS

Rio Tinto Diamonds commenced selling its 60% share of production from the Diavik Diamond Mine in July 2003. The product profile meant that the rough diamonds were keenly sought by the market, as it provides polished goods appropriate for today's market conditions. The production was of a coarser size distribution and a better quality profile than initially indicated in earlier bulk sample analysis.

Argyle's rough and polished sales in 2002 totalled US\$371M, 36% above 2001 sales revenue. The higher level of sales revenue was primarily a result of increased production and the sale of stock withheld from the market in 2001. Argyle's rough production in 2002 was readily absorbed by the Indian market worth US\$5.7B.

3.3 MARKET DEVELOPMENT AND PROMOTION

Rio Tinto Diamonds continues to build on its strategic alliance with the Indian diamond industry. The Indo Argyle Diamond Council (IADC) was launched in 1994 and aims to increase the competitive advantage of Indian diamond jewellery manufacturers in the US market. The focus of the current IADC programme is on the top 40 US retailers.

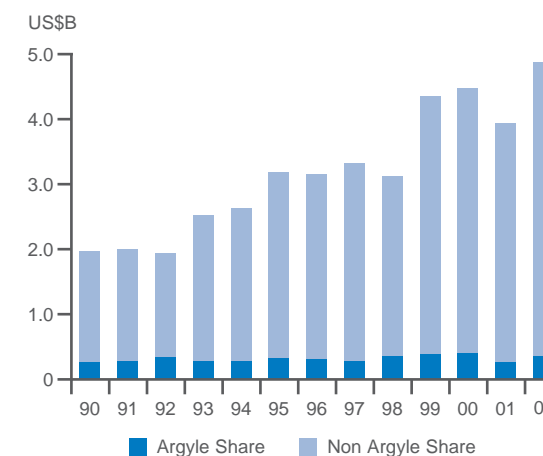
The programme comprises the following major elements:

- Retail market entry strategies;
- Product development, pricing and follow-through to sales;
- Differentiation of member product offerings;
- Management of buyer communication;
- Staff training;
- Representation at the JCK show in Orlando and Las Vegas; and
- Exclusive Viewing Shows for product exhibitions to targeted retailers.

Additional marketing programmes are aimed at stimulating demand for champagne and cognac diamonds, important elements of the Argyle profile.

With the market entry phase for Diavik production completed in 2002 and 2003, marketing attention going forward will be focussed on leveraging the Canadian origin of the product. Rio Tinto Diamonds supports industry efforts to stimulate the consumer market and believes that Canadian origin diamonds are an exciting new product offering for the consumer and may generate additional demand.

Indian Net Rough Diamond Imports



Source: Rio Tinto Diamonds; Gem and Jewellery Export Promotion Council

Argyle's rough production in 2002 was readily absorbed by the Indian market



Rio Tinto Diamonds is planning additional marketing programmes in 2004

Rio Tinto
Diamonds Indian
office has a critical
role in its
marketing strategy



3.4 ROLE OF RIO TINTO DIAMONDS INDIA

Rio Tinto Diamonds Indian office in Mumbai plays an important role in its marketing strategy. It consults regularly with Indian based customers to share information and understand their issues and concerns. The office manages product promotion in India and is a key contributor to the market intelligence network.

Rio Tinto Diamonds Mumbai office is also responsible for the planning and implementation of the IADC initiative in the US. The IADC has helped the Indian diamond jewellery industry establish a strong and growing presence in the most competitive market in the world. In addition it provides technical assistance to the customer base aimed at improving downstream efficiency and margins. This has included developing improved cutting techniques, publishing a technical bulletin, providing training assistance and presentations and seminars at the Indian Jewellery Show.

In August 2003 Rio Tinto Diamonds India launched the Rio Tinto Diamonds Business Excellence Model (BEM). This model, specifically for the Indian diamond and jewellery industry, is structured around health and safety, quality and environmental and social responsibility. It offers a set of management tools to enable organisations to manage their business risks and improve their performance. BEM certification will drive safety, product assurance, quality management and continuous improvement in the diamond and jewellery manufacturing industries and retail trade in India.

3.5 POLISHED DIAMOND SALES

A small proportion of Argyle's production, less than one per cent, is the highly prized pink diamond, the signature stone of the Argyle diamond mine. Argyle is the world's primary source of these much sought after gems and they are recovered in a range of shades from light rose to purple reds. Through its sales of pink diamonds, Argyle accesses many important dealers, manufacturers and jewellers.

Argyle retains its pink rough diamonds for cutting and polishing. Once a year, Argyle conducts its Pink Diamond Tender for an exclusive clientele. There is strong competition to acquire these goods which are displayed in seven locations - Tokyo, Hong Kong, Geneva, Antwerp, Perth, London and New York - before sale by tender.

In 2002, demand for Argyle's pink polished diamonds was strong with further price improvement being achieved throughout the year. The 2002 Pink Diamond Tender comprised 43 stones totalling 40.13 carats. There were thirteen successful bidders and all stones were sold.



Demand for
Argyle's pink
polished stones
is strong

The Diavik Diamond Mine is expected to have a 20 year life producing more than 6 million carats at its peak



4. PRODUCTION

4.1 DIAVIK DIAMOND MINE

The Diavik Diamond Mine is an unincorporated joint venture between Diavik Diamond Mines Inc. (DDMI) (60%) and Aber Diamond Mines Ltd. (ADML) (40%). DDMI is headquartered in Yellowknife, Northwest Territories, Canada and is a wholly owned subsidiary of Rio Tinto plc of London, England. ADML is a wholly owned subsidiary of Aber Diamond Corporation (formerly Aber Resources Ltd) a publicly listed company based in Toronto, Canada. The two joint venture participants retain the right to market independently their respective share of the diamonds to be produced from the Diavik Diamond Mine. DDMI is the manager of the project.

The Diavik Diamond Mine consists of four diamond bearing kimberlite pipes that will be mined sequentially. The Diavik Diamond Mine has one of the highest in-situ values per tonne of ore from any diamond mine in the world, more than twice that of BHP's Ekati mine in the same region.

The Diavik Diamond Mine is expected to have a twenty year mine life and is scheduled to produce more than 6 million carats of diamonds a year at its peak. The Diavik Diamond Mine has a significant proportion of value in gemstones with good clarity and colour.

The A154-South pipe is the largest and commercial production commenced in January 2003. The second largest pipe is A418, which is forecast to commence production in 2010. Production from the smaller A154 North and A21 pipes will be blended with production from the larger pipes. All four kimberlite pipes will be accessed via open pit mining, followed by underground mining of the two richer pipes, A154 South and A418.

The Diavik Diamond Mine operates to very high health, safety and environmental standards and has developed respectful and beneficial relationships with local communities. Through ongoing consultations, training, employment and business opportunities, local and aboriginal communities are benefiting from the operation.

4.2 ARGYLE DIAMONDS

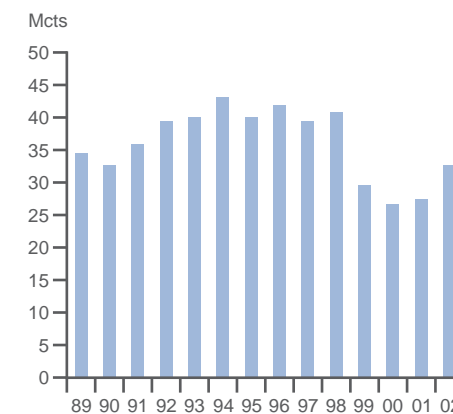
Argyle's production in 2002 was 32.6 million carats, approximately twenty percent of the world's annual production.

The current high rate of waste mining, consisting of a series of cut backs to expose new ore, will continue well into 2004. At the conclusion of the final cutback, the waste mining rate will reduce to a level that supports the ongoing mining of 10 million tonnes of diamondiferous ore per year. This is planned to continue until 2007, resulting in an average production rate of around 30 million carats per annum.

In July 2001 Argyle embarked on a pre-feasibility study looking at the technical and economic viability of an underground mine. In 2003 a full feasibility study is being undertaken. An underground option would complement possible further open pit expansions and extend productive mine life from 2007 to about 2020.

A range of consultation and formal approval processes with traditional owners and government will be required to enable project commencement. Argyle continues to recognise and respect local traditional owners and local aboriginal communities and is working with them and the Kimberley Land Council to conclude an Indigenous Land Use Agreement.

Argyle Mine Production



Source: Argyle Operations Division

In 2003 Argyle commenced a full feasibility study into underground mining





5. SUSTAINABLE DEVELOPMENT

Diamonds leave a relatively small footprint but have a strong economic multiplier effect. In their production the environmental impact is minimal and in their use they are recycled forever as a store of value and as an enduring symbol of love and commitment.

To give some sense of the relatively small footprint of diamonds, the total weight of all the diamonds mined in the world in 2001 was estimated to be 135 million carats or 27 tonnes. This compared to 450 million tonnes of iron ore, for example, yet the total value of all the iron ore mined was only one and a half times that of the rough diamonds.

The environmental impacts of diamond cutting and polishing are very small. The consumables involved in the process are primarily electricity and diamond powder. Argyle Diamonds estimates that the greenhouse gas emissions from the energy used in running a small polishing operation for pink diamonds in Perth equate to running a 60 watt light bulb for five months for each one carat of polished diamond manufactured. This energy usage is insignificant compared to the economic value addition of the process.

Whilst the environmental impacts are small the social and economic impacts are not. The diamond pipeline is a source of great wealth and job creation, with around two million people estimated to be employed directly in the industry.

Rio Tinto's stewardship interest is focussed on the exploration, production and sale of rough diamonds. Rio Tinto's commitment is to provide a legacy of stronger, healthier, environmentally secure communities wherever it does business and so, where possible, it seeks to influence the standard of operation of its customers and its customers' customers.

Both Argyle and the Diavik Diamond Mine are committed to delivering sustainable outcomes for all stakeholders. 'Sustainable outcomes' mean different things to different people. For some it will mean jobs and new skills, improved health and education and local community self-sufficiency. For others it will mean business development and personal growth opportunities. For the shareholders it means improved returns on their investment and enhanced reputation whilst for the traditional owners it includes access to and continual custodianship of their land.

Argyle is committed to working together with the communities it operates in to leave a lasting and positive effect. Regionally, Argyle is a significant contributor to the East Kimberley in employment, infrastructure, tourism and flow on business. In addition Argyle contributes funds to charitable, educational, cultural and community based programmes and special projects.

Community commitment underpins the Diavik Diamond Mine's approach to sustainable development in the Northwest Territories. A number of interests have come together to shape the Diavik Diamond Mine - the understanding and respect for the land of aboriginal people, the perseverance of all Northerners searching for opportunities for themselves and their children, the technical and scientific skills of the mining industry and the financial resources of investors from around the world. These interests have come together to ensure that the legacy of the Diavik Diamond Mine is one that supports the well-being of the communities it operates in and the land, waters and wildlife on which they depend.

Diamonds leave a relatively small footprint but have a strong economic multiplier effect

Both Argyle and the Diavik Diamond Mine are committed to delivering sustainable outcomes for all stakeholders



6. OTHER RIO TINTO PRODUCTIONS

Rio Tinto has a significant exploration budget devoted to finding new diamond resources. In addition to Argyle and the Diavik Diamond Mine, Rio Tinto has been involved in the following diamond mining activities.

MERLIN

The Merlin Diamond Project comprised a small-scale diamond mining and processing operation in the Northern Territory of Australia. The Merlin Diamond Project, 100% owned by Rio Tinto Limited was part of the purchase of Ashton Mining Limited in November 2000. Argyle Diamonds (100% owned by Rio Tinto Limited) was the operator.

As at the end of May 2003, Rio Tinto closed the Merlin Diamond Project as it was considered not of the scale required for Rio Tinto's diamond mining strategy.

MUROWA

Rio Tinto has a majority interest in the Murowa diamond project in Zimbabwe. There are still a number of requirements that need to be addressed before bringing the mine into operation. If plans proceed to schedule Murowa will commence production in 2004 with a limited initial output but with the possibility of future expansion.

Rio Tinto is a world leader in finding, mining and processing mineral resources

7. SENIOR MANAGEMENT

GORDON GILCHRIST

Managing Director, Rio Tinto Diamonds

Gordon Gilchrist took up the position of Managing Director, Rio Tinto Diamonds in June 2002. Gordon was previously Managing Director at Argyle Diamonds for 9 years. He has been with Rio Tinto since 1974.

PETER TOPEN

General Manager Sales, Rio Tinto Diamonds

Peter Topen took up the position of General Manager Sales, Rio Tinto Diamonds in June 2002. In this role Peter is responsible for all rough diamond sales activities including pricing and customer management. He has been with Rio Tinto since 1983.

NIGEL JONES

General Manager Marketing, Rio Tinto Diamonds

Nigel Jones took up the position of General Manager Marketing, Rio Tinto Diamonds in September 2002. In this role Nigel is responsible for all marketing activities, NWT government liaison and providing a market intelligence capability. He has been with Rio Tinto since 1995.

FRANCIS HOARE

General Manager Finance and Administration, Rio Tinto Diamonds

Francis Hoare took up the position of General Manager Finance and Administration, Rio Tinto Diamonds in June 2002. Francis is responsible for all financial and commercial aspects of Rio Tinto Diamonds. He has been with Rio Tinto since 1985.

SNEZA LAZARUS

Manager Marketing Services, Rio Tinto Diamonds

Sneza Lazarus holds the position of Manager Marketing Services. In this role Sneza is responsible for providing an integrated picture of key industry trends, sales and customer analysis and supply/demand forecasting. She has been with Rio Tinto since 1987.

LEO SMANS

Manager Sorting & Valuations, Rio Tinto Diamonds

Leo Smans took up the position of Manager Sorting & Valuation in September 2002. In this role Leo is responsible for sorting and valuation of the Argyle and Diavik productions with an emphasis on ensuring the consistency of assortments. He has been with Rio Tinto since 1984.

NIRUPA BHATT

Manager Product & Customer Services, Rio Tinto Diamonds

Nirupa Bhatt manages Rio Tinto Diamonds' representative office in Mumbai. In this role Nirupa is responsible for industry liaison and promotional activities in India and the US including the IADC and customer support. She has been with Rio Tinto since 1989.