

Leadership and Management in a Global Environment: Global Alliances and Strategy Implementation

1. Overview/Goal

By the end of unit 1 students should have learned a general definition of a strategic alliance, the difference between strategic alliance, joint ventures, equity/non-equity strategic alliances, and global alliance.

By the end of unit 2 students should have learned about strategy implementation, governmental influences over implementations, cultural influences on implementations, and E-commerce.

2. Competencies

Unit 1 - Students should see the differences between alliances presented in the module, their advantages and disadvantages, understand what a strategic alliance is, and how are alliances different from each other.

Unit 2 - Students should have gained an understanding of importance of strategy implementation for international operations.

Unit 1: **Strategic Alliances**

3.1. Pre-activity discussion / UNIT 1 – Strategic Alliances

In the beginning students will start a discussion of any business alliances they know. Why did they decide to have partnerships, what are the advantages? Next, they are given a handout with the information about alliance between **Canon Inc.** and **Hewlett-Packard Company** and the teacher may ask a question “Why do you think these companies decided to have an alliance? No content of the unit is revealed yet and students brainstorm based on their current knowledge.

ATTACHMENT 1:
Canon Inc.

QUESTION:
Why do you think these companies decided to have an alliance?

SOURCES:

Article:

<http://www.answers.com/Canon+Inc.++?cat=biz-fin>

<http://www.answers.com/topic/hewlett-packard-company?cat=biz-fin>

Image source: <http://www.s2m2.com.au/>

4.1: Learning activity

(Slide 6): A Strategic Alliance is a relationship between two or more independent firms that decide to combine resources to achieve mutual goals and pursue common benefits. Each partner contributes its own expertise to the relationship and gains access to some special resources or competence that it lacks.

Partners may provide resources such as products, distribution channels, technology, equipment, knowledge, etc. It is intended to provide a competitive advantage through access to a partner's resources including markets, technologies, capital and people. The alliance often involves technology transfer, economic specialization, shared expenses and shared risk. The success of the alliance will depend on creatively joining ideas and energy of firms and the good relationship and understanding of all the parties. It is important to choose a partner with compatible strategic goals and objectives.

Alliances can be structured in various ways, depending on their purpose. Nonequity strategic alliances, equity strategic alliances, and joint ventures are the three basic types of strategic alliances.

The common purposes of strategic alliances include obtaining comparative advantages, acquiring new technologies, entering a new market in new areas or countries, sharing or reducing risk, establishing economies of scale in research or production, giving firms a better ability to provide more products and services, accessing complementary resources and technologies, and helping the firm to adapt to keen competition and a fast-changing environment

Example:

Alliance Between Canon and Hewlett-Packard

SOURCES:

Mohr, J. & Spekman, R. (1994). *Characteristics of Partnership Success: Partnership Attributes, Communication Behavior, and Conflict Resolution Techniques*. *Strategic Management Journal*. 15, 135-152.

Retrieved on March, 2008 from: http://findarticles.com/p/articles/mi_qa5440/is_200512/ai_n21386660/pg_1

(Slide 7): A Joint venture is a legal company created by two or more partners who decide to join operations in order to share risks and mutual profit. Joint ventures involve establishing a formal entity to share revenues, expenses and control of the enterprise. The venture can be for one specific project only, or a continuing business. The companies can complement their skill sets while others offer the foreign company a geographic presence where it is required. Joint ventures are often cooperation between a local and foreign company. Some countries have special requirements for joint ventures. For example, China requires a foreign company to join with locals if they want to have their operations in their country.

The annual rate of Joint Venture formation between US and international firms has been growing at an annual rate of 27 percent since 1985. Rio Tinto, a world leader in finding, mining and processing the earth's mineral resources has joint companies with Chileans state firms. Appendix 3.

SOURCES:

http://www.riotinto.com/media/5157_7049.asp

http://en.wikipedia.org/wiki/Joint_venture

(Slide 8): In Equity Strategic Alliances two or more partners have different relative ownership shares. An equity alliance tends to reflect greater risks. Non equity Strategic involves no equity stake by the participants, and is a much less rigid arrangement. Independent firms agree to work together through **contracts** in a non-equity strategic alliance. Non-equity alliance the partners neither share equity control as in a minority-equity investment nor create a new organizational entity as in a joint venture. Rather, they simply agree to pool resources. Legal and political institutions in host countries might condition the importance of equity alliances.

SOURCES:

Globerman, S. & Nielsen, B. B. (2007). *Equity Versus Non-Equity International Strategic Alliances: The Role of Host Country Governance Management*.

Retrieved on April 08 from: <http://ssrn.com/abstract=985888>

www.gm.com

Image sources: <http://www.cartype.com>
www.iwpc.org

(Slide 9): Global Alliances are business alliances between companies, often more than two across national boundaries and even across industries. Alliances can be formed also with governments and companies. These alliances can be Joint ventures or other alliance previously studied for long term or for a specific work.

Motivation and benefits:

- Avoid import barriers
- Gain access to specific markets
- Share costs and risks of developing products and processes
- Reduce political risk
- Gain rapid entry into a new industry

SOURCES:

Image source: <http://corprisk.timberlakepublishing.com>

(Slide 10): There are different challenges when creating alliances. Organizational issues such as very different system structure, decision making and control can make the most creative alliance unsuccessful. Cultural differences play an important role for alliances since they need to have a good understanding to work together. This is one of the main reasons why foreign alliances fail. Also, desire to control information causes conflicts. When the relationship between partners deteriorates, problems like secrecy arise. This is the beginning of becoming competitors instead of working partners. As global markets open up and competition grows, midsize companies need to be increasingly creative about how and with whom they align themselves to go to the market.

It is important to choose a partner with:

- compatible strategic goals and objectives. A firm that has similar company cultures and parties can develop a trust environment to work.

- firms that complement each other with skills, products, markets, technology, etc that way competitive advantages with others can be strong and there will be little room for competition between the firms in alliance.
- define clearly expected alliance operation, outcomes, elements provided by each party and individual intellectual rights

5.1. Post-activity discussion / UNIT 1 – Strategic Alliances

Students will start a discussion of the reasons these companies decided to have an alliance according to their handouts. Next, they are asked questions “Why these companies decided to have an alliance? What type of alliance do they have?”

ATTACHMENT 1:
Canon Inc.

QUESTIONS:
Why these companies decided to have an alliance?
What type of alliance do they have?

SOURCES:
Article:
<http://finance.yahoo.com/q/pr?s=BBJ>
<http://www.blockbuster.com/corporate/internationalOperations>
Image source: <http://www.thesapps.com/Doug/wallet/current/blockbuster.gif>

Unit 2: **Strategy Implementation**

3.2. Pre-activity discussion / UNIT 2 – Strategy Implementation

In the beginning students are given handouts with the information about PepsiCo, Inc. and its strategy. The teacher may ask questions “What is the strategy Pepsi has internationally? How do they adapt to foreign markets?” No content of the unit is revealed yet and students brainstorm based on their current knowledge.

ATTACHMENT 2:
PepsiCo, Inc.

QUESTION:
What is the strategy Pepsi has internationally?
How do they adapt to foreign markets

SOURCES:
Article:
<http://en.wikipedia.org/wiki/Pepsi>
<http://www.answers.com/topic/pepsico-inc?cat=biz-fin>
<http://finance.yahoo.com/>
Image source: <http://publiuspundit.com/Pepsi.jpg>

4.2: Learning activity

(Slide 15): Strategic implementation is the next step of strategic planning. It is the stage where all the ideas foreseen during planning stages are put into action. It is probably the most important and difficult stage. Strategy implementation involves both **macro-organizational issues** (e.g., technology, decision processes, and structure), and **micro-organizational issues** (e.g., organization culture and resistance to change).

A successful strategy implementation requires a good leadership; a leader who is able to coordinate all factors during the implementation process. Managers with more experience are usually more suitable to implement strategies. The responsibility of guiding employees and staff is one of the more important skills needed in a manager during this time. Good communication between managers and staff is essential. It can involve slogans, posters, events, memos, videos, web sites, etc. An important factor is to see a charismatic leader who believes in the new strategy to be implemented. Along with good communication it is important to remember that all HR inside the company are responsible for the change, and they need to be constantly motivated to do their best.

(Slide 16): When management chooses new strategy for a company, it is often announced to the organization expecting that all members collaborate with the implementation. It is hard for employees to learn new techniques or just adapt to different systems. It is always easier to maintain the original status even if it is not beneficial for the company. It is important to incorporate variables as culture, technology, etc when thinking on a new strategy for the company. That way the change can be smoother. Usually when something is changed in a company, it has an effect on other parts of the organization, which in turn have their own ripple effects, and so on. Changing only few things in the company usually does not bring significant changes for the company. Even if it means a drastic change, it is often important to revive the companies' mission and vision for the overall benefit of all.

(Slide 17): By the time a company is in the implementing stage, most of the governmental factors should have been already considered. Unpredictable changes can be fatal for a foreign investment. Some of the changes in governmental regulations can be: policy changes, a political change, currency devaluation, etc.

March 2008. Vietnamese business is losing money due to dollar devaluation. Their contracts made in US dollars with international companies make them lose money every time they sell. "Automobile assemblers are complaining that they are suffering big losses due to the dollar price decrease. Just several months ago, they were happy as cars were selling like hot cakes. However, the situation is quite different now. As car producers set sale prices in dollars, they are losing a lot of money with the dollar devaluating. On a car that has the price of \$45-55,000, sellers are losing VND 30-40mil per unit.

Rice exporters have been incurring heavy losses with export contracts. The director of a rice export company related that in early January 2008 his company signed a contract to export 25% broken rice to the Philippines at \$365/tonne. At that time, the paddy price was VND

3,600/kg, while a dollar could be sold to banks at VND 15,890/US\$1. However, the paddy price has soared to VND4,500-4,600/kg now, while banks are buying dollars for only VND15,580/US\$1. “

SOURCES:

<http://english.vietnamnet.vn/biz/2008/03/773075/>

(Slide 18): As people from different cultural backgrounds work together to design a process to address the issues that divide them, they can ask questions about cultural preferences about time and space and how these may affect a negotiation or conflict-resolution process, and thus inoculate against the use of culture as a tactic or an instrument to advance power.

(Slide 19): Some examples of important cultural differences that can play an important role during negotiation and implementation process can be:

- **Polite space for conversations and negotiations.**

North Americans tend to prefer a large amount of space, Europeans in the other hand, tend to stand more closely with each other when talking, and are used to smaller personal spaces.

- **Differences over time**

Negotiators from North America will prefer to start and end on time, while people from Brazil will not be so punctual.

- **Silence use**

In intercultural studies, Japanese negotiators have been observed to use the most silence, Americans a moderate amount, and Brazilians almost none at all.

SOURCES:

Adler, N. (1997). *International Dimensions of Organizational Behavior*. Cincinnati, OH: South-Western College Publishing, p. 217.

(Slide 20): With all companies operating over the internet, it is important to efficiently match large numbers of buyers and sellers or to help organize a new e-business. An e-commerce enabler is a third company that facilitates a business meet potential new customers, others facilitate the steps leading up to a transaction, such as bidding, product identification and purchase orders.

“E-commerce is now big enough to support specialized enablers who plug into and enhance other sites. Companies are now addressing ratings, mediation, deep community features, trade credit and fraud screening, among other services. Initially, these features simply bring online marketplaces up to par with their physical-world competitors. Ultimately, though, they promise to take e-commerce beyond what is possible offline”

SOURCES:

Werbach, K. (2000). *E-Commerce Enablers: What it Takes to Make a Market*. In: Esther Dyson's Monthly Report 18(9)

Retrieved on April 08 from: <http://downloads.oreilly.com/radar/r1/10-00.pdf>

5.2. Post-activity discussion / UNIT 2 – Decision Making in Global World

In the beginning students were given handouts with the information about PepsiCo, Inc. and its strategy. The teacher may ask a question “What are the international marketing strategies Pepsi has in specific countries?”

ATTACHMENT 2:
Blockbuster Inc. (BBI)

QUESTION:
What are the international marketing strategies Pepsi has in specific countries ?

SOURCES:
Article: <http://en.wikipedia.org/wiki/Pepsi>
<http://www.answers.com/topic/pepsico-inc?cat=biz-fin>
<http://finance.yahoo.com/>
Image source: <http://publiuspundit.com/Pepsi.jpg>

6. Assignment specifications

Give ideas to Pepsi on what could they do to become number one soft drink worldwide.
What are their competitors doing better than Pepsi?

7. Post activity discussion

- What are the international marketing strategies Pepsi has in specific countries ?
-

8. Assessment

9. References

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http://www.riotinto.com/media/5157_7049.asp
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Retrieved on April 08 from: <http://downloads.oreilly.com/radar/r1/10-00.pdf>

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Image source:

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<http://www.cdl.com.sg>
<http://corprisk.timberlakepublishing.com>

Appendix 1

SOURCE:

Alliance Between Canon and Hewlett-Packard

<http://www.answers.com/Canon+Inc.++?cat=biz-fin>

<http://www.answers.com/topic/hewlett-packard-company?cat=biz-fin>

Canon Inc.

(NYSE:CAJ)

Type: Public

On the web: <http://www.canon.com/>

Employees: 118,499

Employee growth: 2.5%

Canon is still banging away at the document reproduction market. The company makes printers and other computer peripherals for home and office use. Its other well-known lines include copiers, fax machines, and scanners. Canon's optical segment features products used in such diverse applications as semiconductor manufacturing equipment, television broadcast lenses, and devices used for eye examinations. Canon still operates its original camera business, which makes digital cameras, camcorders, liquid-crystal display projectors, lenses, and binoculars.

Key numbers for fiscal year ending December, 2006:

Sales: \$34,916.8M

One year growth: 9.4%

Net income: \$3,824.7M

Income growth: 17.1%

Competitors:

Hewlett-Packard

Ricoh

Xerox

Canon Inc. has ranked as one of the world's leading manufacturers of electronics, principally optical electronics, since the late 1970s. Year in and year out one of the top three companies receiving U.S. patents, Canon has a history of innovation that has brought it a leadership position in copiers, laser and ink-jet printers, fax machines, scanners, multifunction devices, film-based and digital cameras, and camcorders. The company also manufactures and markets binoculars, camera lenses, liquid crystal display (LCD) projectors, calculators, semiconductor production equipment, LCD production equipment, and medical and broadcasting equipment.

Canon has been involved in an important alliance with Hewlett-Packard Company (HP) since 1985 whereby Canon produces laser printers that are sold by HP under the HP LaserJet brand; approximately one-fifth of Canon's total revenues are derived from this partnership. The company is also linked with Toshiba Corporation in a joint venture focusing on surface-

conduction electron-emitter display (SED) television sets, a high-definition alternative to plasma and LCD sets. Canon still manufactures the majority of its products in Japan, while also operating manufacturing subsidiaries in the United States, Germany, France, Taiwan, China, Malaysia, Thailand, and Vietnam along with a manufacturing joint venture in Korea. Fully 73 percent of the firm's revenues are generated outside Japan, with the Americas and Europe accounting for about 30 percent each.

Canon began a long-running partnership with Hewlett-Packard Company (HP) in 1985 when the two companies teamed up to develop HP's top-selling line of LaserJet printers. Canon produced the guts of the machines, including their high-quality laser motors, a key part of such printers, enabling HP to focus on its area of expertise, the software linking printers to PCs. Canon eventually derived as much as one-fifth of its total revenues from this alliance.

Hewlett-Packard Company

(NYSE:HPQ)

Type: Public

On the web: <http://www.hp.com>

Employees: 156,000

Employee growth: 4.0%

While Hewlett-Packard may be known for product innovation, the company's corporate development is a tale of reinvention. HP provides enterprise and consumer customers a full range of high-tech equipment, including personal computers, servers, storage devices, printers, and networking equipment. Its software portfolio includes operating systems, print management tools, and OpenView, a suite that encompasses application, business, network infrastructure, and product lifecycle management. HP also boasts an IT service organization that is among the world's largest.

Key numbers for fiscal year ending October, 2007:

Sales: \$104,286.0M

One year growth: 13.8%

Net income: \$7,264.0M

Income growth: 17.2%

Competitors:

Canon

Dell

IBM

Following a trend that developed in the information processing industry in the late 1980s and early 1990s, HP forged alliances with a number of companies that had previously been competitors. These included Hitachi, a microchip company; Canon, which provided the engines for HP's best-selling laser printer line; and 3Com, with which HP had a marketing and research agreement. Purchases during this period included Eon Systems, a manufacturer of equipment that monitored computer networks; and Hilco Technologies, a maker of factory software in which HP obtained a 25 percent stake.

The print mechanisms in HP's tremendously popular LaserJet line of laser printers depend almost entirely on Canon's components (print engines), which in turn use technology developed by Xerox. HP develops the hardware, firmware, and software that convert data into dots for the mechanism to print.

Appendix 2

SOURCE:

PepsiCo, Inc.

<http://en.wikipedia.org/wiki/Pepsi>

<http://www.answers.com/topic/pepsico-inc?cat=biz-fin>

PepsiCo, Inc.

The company's soft drinks include Pepsi, Mountain Dew, and Slice. It owns Frito-Lay, the world's #1 maker of snacks such as corn chips (Doritos, Fritos) and potato chips (Lay's, Ruffles). Cola is not the company's only beverage: PepsiCo sells Tropicana orange juice brands, Gatorade sports drink, and Aquafina water. PepsiCo also sells Dole juices (licensed) and Lipton ready-to-drink tea (licensed from Unilever). Its Quaker Foods division offers breakfast cereals (Life), pasta (Pasta Roni), rice (Rice-A-Roni), and side dishes (Near East).

Key numbers for fiscal year ending December, 2006:

Sales: \$35,137.0M

One year growth: 7.9%

Net income: \$5,642.0M

Income growth: 38.4%

Officers:

Chairman and CEO: Indra K. Nooyi

CFO: Richard Goodman

Chief Health and Wellness Innovation Officer: Antonio Lucio

Competitors:

Cadbury Schweppes

Coca-Cola

Kraft Foods

The PepsiCo International division offers salty and sweet snack brands, including Gamesa, Lay's, Doritos, Walkers, Cheetos, Ruffles, and Sabritas; Quaker brand cereals and snacks; and beverage concentrates, fountain syrups, and finished goods under the brands Pepsi, 7UP, Mirinda, Mountain Dew, Gatorade, and Tropicana.

Overall, Coca-Cola continues to outsell Pepsi in almost all areas of the world. Saudi Arabia, Pakistan (Pepsi has been a dominant sponsor of the Pakistan cricket team since the 1990s), the Canadian provinces of Quebec and Prince Edward Island and the U.S. states of Michigan and South Carolina are the exceptions.

Pepsi had long been the drink of Canadian Francophones and it continues to hold its dominance by relying on local Québécois celebrities (especially Claude Meunier, of La Petite Vie fame) to sell its product. "Pepsi" eventually became an offensive nickname for Francophones viewed as a lower class by Anglophones in the middle of the 20th century. By most accounts, Coca-Cola was India's leading soft drink until 1977 when it left India after a new government ordered The Coca-Cola Company to turn over its secret formula for Coke

and dilute its stake in its Indian unit as required by the Foreign Exchange Regulation Act (FERA). In 1988, PepsiCo gained entry to India by creating a joint venture with the Punjab government-owned Punjab Agro Industrial Corporation (PAIC) and Voltas India Limited. This joint venture marketed and sold Lehar Pepsi until 1991 when the use of foreign brands was allowed; PepsiCo bought out its partners and ended the joint venture in 1994. In 1993, The Coca-Cola Company returned in pursuance of India's Liberalization policy. In 2005, The Coca-Cola Company and PepsiCo together held 95% market share of soft-drink sales in India. Coca-Cola India's market share was 52.5%.

In Russia, Pepsi initially had a larger market share than Coke but it was undercut once the Cold War ended. In 1972, Pepsico company struck a barter agreement with the then government of the Soviet Union, in which Pepsico was granted exportation and Western marketing rights to Stolichnaya vodka in exchange for importation and Soviet marketing of Pepsi-Cola. This exchange led to Pepsi-Cola being the first foreign product sanctioned for sale in the U.S.S.R..

Reminiscent of the way that Coca-Cola became a cultural icon and its global spread spawned words like "coca colonization", Pepsi-Cola and its relation to the Soviet system turned it into an icon. In the early 1990s, the term, "Pepsi-stroika", began appearing as a pun on "perestroika", the reform policy of the Soviet Union under Mikhail Gorbachev. Critics viewed the policy as a lot of fizz without substance and as an attempt to usher in Western products in deals there with the old elites. Pepsi, as one of the first American products in the Soviet Union, became a symbol of that relationship and the Soviet policy.

Appendix 3

SOURCE:

Rio Tinto

http://www.riotinto.com/media/5157_7049.asp

Rio Tinto signs joint venture agreement with CODELCO for copper exploration in Chile

Rio Tinto has signed an exploration joint venture agreement with CODELCO, the world's largest copper producer. Under the terms of the agreement, Rio Tinto and CODELCO's 100%-owned subsidiary SCM Los Andes will jointly contribute mineral rights in Chile to the joint venture, which will be managed by Rio Tinto. This is the first joint venture that Rio Tinto has entered into with state-owned CODELCO.

Bret Clayton, chief executive, Copper, Rio Tinto said "This landmark agreement combines the strengths of two highly experienced copper producers. Together, we hope to unlock value from a highly prospective copper belt in the biggest copper producing country in the world. We look forward to a long and deepening relationship with CODELCO".

The property to be explored is the Exploradora prospect in northern Chile. Rio Tinto has the option to earn a 55 per cent interest in the prospect through an exploration investment of US\$20 million, with the potential to increase ownership to 60 per cent.

Rio Tinto has been exploring in Chile since 1989 and has several copper exploration properties under title which are scheduled for drill-testing in 2008.

About Rio Tinto

Rio Tinto is a leading international mining group headquartered in the UK, combining Rio Tinto plc, a London listed company, and Rio Tinto Limited, which is listed on the Australian Securities Exchange.

Rio Tinto's business is finding, mining, and processing mineral resources. Major products are aluminium, copper, diamonds, energy (coal and uranium), gold, industrial minerals (borax, titanium dioxide, salt, talc) and iron ore. Activities span the world but are strongly represented in Australia and North America with significant businesses in South America, Asia, Europe and southern Africa.

Forward-Looking Statements

This announcement includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this announcement, including, without limitation, those regarding Rio Tinto's financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to Rio Tinto's products, production forecasts and reserve and resource positions), are forward-looking statements. Such forward-looking

statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Rio Tinto, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Such forward-looking statements are based on numerous assumptions regarding Rio Tinto's present and future business strategies and the environment in which Rio Tinto will operate in the future. Among the important factors that could cause Rio Tinto's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, levels of demand and market prices, the ability to produce and transport products profitably, the impact of foreign currency exchange rates on market prices and operating costs, operational problems, political uncertainty and economic conditions in relevant areas of the world, the actions of competitors, activities by governmental authorities such as changes in taxation or regulation and such other risk factors identified in Rio Tinto's most recent Annual Report on Form 20-F filed with the United States Securities and Exchange Commission (the "**SEC**") or Form 6-Ks furnished to the SEC. Forward-looking statements should, therefore, be construed in light of such risk factors and undue reliance should not be placed on forward-looking statements. These forward-looking statements speak only as of the date of this announcement. Rio Tinto expressly disclaims any obligation or undertaking (except as required by applicable law, the City Code on Takeovers and Mergers (the "**Takeover Code**"), the UK Listing Rules, the Disclosure and Transparency Rules of the Financial Services Authority and the Listing Rules of the Australian Securities Exchange) to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in Rio Tinto's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Nothing in this announcement should be interpreted to mean that future earnings per share of Rio Tinto plc or Rio Tinto Limited will necessarily match or exceed its historical published earnings per share.

Subject to the requirements of the Takeover Code, none of Rio Tinto, any of its officers or any person named in this announcement with their consent or any person involved in the preparation of this announcement makes any representation or warranty (either express or implied) or gives any assurance that the implied values, anticipated results, performance or achievements expressed or implied in forward-looking statements contained in this announcement will be achieved.