Just over a fortnight ago BHP announced a record profit for the Company of $752 million. The profit pleases us not merely because it is the tangible return on our work over the last year but also because it more clearly identifies the direction in which the Company is moving. It is the direction, the strategy of the Company that is the subject of this address.

Recent Profit Trends
Our 1981 result was a record profit to that date. The steel business problems of 1982 and 1983 held back our earnings in those years. This was reversed in 1984 when we turned the steel business back into profit, a trend that continued this year.

As shown in figure 1, the Company’s strong earnings growth in 1984 continued throughout 1985. Our results for 1985 were another record. The recent weakness of the Australian dollar against the US dollar has further helped our revenues and profit margins. Its beneficial effects were only apparent in the last quarter of the 1985 results. The effect of the increased cost, in Australian dollars, of debt repayment has been more than balanced by the increased value, in Australian dollars, of assets held outside Australia.

Divisional Profit Contributions
Figure 2 shows the results by business groups over 5 years. The Petroleum division’s increase in profit by $58M to $485M is due to higher crude oil sales volumes made possible by record production levels and Government approval for crude oil exports.

This year was the first that Utah was included for a full twelve months. Utah gained from the strength of the US dollar because its export sales from the Queensland coal operations are denominated in US dollars. It also gained from increased coal shipments.

The lower result of $63 million profit for the Minerals division was due principally to reduced investment allowance claims and the consequential increase in tax expenses. This Group’s prospects are good, with improving demand and increased margins, particularly for iron ore and manganese.

As from June 1 we have reorganised our steel interests into the BHP Steel International Group which includes both the old steel division and John Lysaght Australia. However the figures illustrated relate to the old divisional structure. They show the further improvements in our steel division result to a $129 million profit and a profit for JLA of $44.5 million. The new restructured BHP Steel International Group would have reported a profit of $165 million.
Looking over the five years shown in figure 3, you can see the changing nature of our businesses. Although steel profits improved in 1984 and 1985, the growth in our other businesses has meant that steel is now a smaller proportion of the total. Figure 3 shows the changing mix in terms of sales. We had a strong growth in Petroleum revenues and we have added Utah. Sales to the year ending May 1985 were $7.1 billion.

**FIGURE 3**
**BHP GROUP SALES**

Looking at the data in Figure 3, we can observe the changing nature of our businesses. Although steel profits improved in 1984 and 1985, the growth in our other businesses has meant that steel is now a smaller proportion of the total. Figure 3 shows the changing mix in terms of sales. We had a strong growth in Petroleum revenues and we have added Utah. Sales to the year ending May 1985 were $7.1 billion.

**Investment Aspects**

Our dividend payouts have been increased substantially in each of the last three half yearly periods and, as announced, we will further increase the dividend rate for the November dividend.

In common with many companies, BHP has made bonus and rights issues for the benefit of its shareholders. Therefore, while the declared dividend rate has moved from 20 cents a share to 27.5 cents a share, as shown in figure 4, the effect of these bonuses and rights issues has been almost to double the payment from 14 to 27.5 cents.

**FIGURE 4**
**BHP INVESTMENT DATA**

BHP's Future Strategy

BHP sees itself as a resource supplier and developer with the advantage of being positioned strategically to supply the growing demands of the Asia-Pacific region. Our Australian Resources are relatively close to deep water ports and give us a competitive advantage in shipping to South East Asia. BHP is competitive not only with overseas suppliers but also other Australian producers.

**BHP’s Financial Capacity**

We have the financial capacity to compete not only in the region, but also we have structured our capabilities to compete globally.

- We are the largest Australian company with a market capitalization currently of A$7 billion.
- In the past two years, BHP's earnings have improved substantially.
- This earnings growth has enabled us to increase our dividend.
- Our cash flow is substantial and so is the asset backing.
- We have a low debt ratio and high interest coverage. Even in a poor year, like 1983, interest coverage was three times. For 1984/5 year it was roughly 6 times.

The next figures illustrate these points in detail. Firstly, cash flow, which is shown in figure 5.

Our cash flow represents a significant financial strength. Over the five years, we have generated $4.2 billion of cash flow internally. To this we added $1.7 billion of external capital.

**FIGURE 5**
**SIMPLIFIED BHP GROUP FUNDS, 1981-1985**

**INFLOWS**

<table>
<thead>
<tr>
<th>External Fund Sources</th>
<th>900</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital calls from shareholders</td>
<td></td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>800</td>
</tr>
<tr>
<td>(incl. non-recourse)</td>
<td></td>
</tr>
<tr>
<td>Internal Funds Generation</td>
<td></td>
</tr>
<tr>
<td>Depreciation &amp; other non-cash charges</td>
<td>2,000</td>
</tr>
<tr>
<td>Retained profits</td>
<td>2,200</td>
</tr>
<tr>
<td></td>
<td>5,900</td>
</tr>
</tbody>
</table>

**OUTFLOWS**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Utah acquisition</td>
<td>1,700</td>
</tr>
<tr>
<td>ERG acquisition</td>
<td>600</td>
</tr>
<tr>
<td>Capital developments in new and existing businesses</td>
<td>3,200</td>
</tr>
<tr>
<td></td>
<td>5,500</td>
</tr>
</tbody>
</table>

**INCREASE IN CASH**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>400</td>
</tr>
<tr>
<td></td>
<td>5,900</td>
</tr>
</tbody>
</table>

On A$1.00 par basis, adjusted for bonus and rights issues.
These funds were invested as follows:

In capital developments in our existing business $3.2 billion and for acquisitions of new businesses such as:

- Utah 1.7
- ERG 0.6
- Total 2.3

We have also increased our cash position, and as illustrated in figure 6 our net cash flow after dividend payments has increased strongly, with our net cash flow being $1.3 billion in our 1985 year.

**FIGURE 6**
CASH FLOW FROM EXISTING OPERATIONS

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit Before Tax</th>
<th>Depreciation and Other Charges</th>
<th>Less: Income Tax Paid</th>
<th>Dividends</th>
<th>Available for Reinvestment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>$664</td>
<td>$361</td>
<td>$318</td>
<td>$132</td>
<td>$575</td>
</tr>
<tr>
<td>1983</td>
<td>$462</td>
<td>$396</td>
<td>$270</td>
<td>$137</td>
<td>$451</td>
</tr>
<tr>
<td>1984</td>
<td>$1,198</td>
<td>$463</td>
<td>$280</td>
<td>$159</td>
<td>$1,222</td>
</tr>
<tr>
<td>1985</td>
<td>$1,445</td>
<td>$524</td>
<td>$404</td>
<td>$276</td>
<td>$1,289</td>
</tr>
</tbody>
</table>

Over recent years almost half of our cash flow has been reinvested in our businesses and the remainder has been available for new investment opportunities including for instance our increased interest in Woodside Petroleum. As you would know our purchase with Shell of a controlling stake in Woodside has insured that the North West Shelf Project goes ahead on time.

**FIGURE 7**
LEVERAGING RATIO

Leverage and Debt (Figure 7)

We have been able to seize opportunities because BHP has always maintained a low debt ratio. For example, we were able to acquire Utah at a period when our cash flows were significantly reduced. A large portion of our debt is denominated in U.S. dollars. This makes sense since we have a large asset base in the U.S. and over 40 per cent of our revenues are U.S. dollar related.

BHP has ready access to the principal financial markets of the world.

**BHP's Strategies**

We have identified and are actively pursuing the following strategies for the future:

To Develop Existing Resources

We are seeking to find substantial mineral or petroleum resources wherever they may occur. In addition to intense exploration programmes in Australia, we have identified opportunities such as Escondida in Chile and Kalimantan in Indonesia.

To Seek Out New Opportunities

We will continue to seek out new opportunities for profitable investment of our cash, technical expertise and management. With these internal strengths we can take advantage of changes in the resources industry.

In our acquisition programme we have not only sought high grade reserves of raw materials but also the highest quality of technical expertise to complement our own talents.

As an example, we acquired ERG and are using it as a bridgehead to increase our exploration activities and to seek out new development opportunities from amongst their exploration successes. We have also built on the proved success of Utah’s coal operations by purchasing a further share of the Queensland Coal Trust from General Electric.

To Focus Organisation More Sharply on Markets

To become more attuned to the markets for our products we are restructuring our organisation: dedicating ourselves innovatively to meet customer needs, and to broaden our markets by the provision of goods and services from the most cost effective source — whether it is internal or external.

To Maintain a High Level of Exploration

As part of our strategy of developing and maintaining our reserves of key resources we intend to maintain a high level of exploration expenditures for hydrocarbons and mineral resources in the most promising areas worldwide. Hydrocarbon resources are finite.

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and we believe that the world demand for them will restore prices to more realistic levels by the end of the decade. It was in this context that we, with Shell, made our successful bid for Woodside. This move will give us a larger share of the profits from the North West Shelf.

**To Exploit Geographic Advantage**
We will maximise our geographic advantage in the Asia-Pacific Basin. We will and are using our familiarity with these markets to further develop them.

**To Capitalize on Technical Competence**
We will exploit and add to our technical competence and research activities to penetrate new and different markets for our resources.

**To Add Value Where Appropriate**
We will add value, where appropriate, to our resources if that improves our market penetration and adds to profits. Here I would give the example of our Coated Products Division’s steel processing plants both in the region and in the United States.

Through our modernisation and productivity improvement programmes, we plan to make BHP the lowest cost, most profitable private steelmaker in the world.

**To Broaden Markets**
Japan is a natural market for our resources and will continue to be an important trading partner. In addition we are expanding into other export markets. We are acutely conscious of balancing our exposure to different markets to reinforce the viability of our operations.

**To Take Advantage of BHP Business Interfaces**
One of our principal competitive strengths is derived from the interface between our various businesses. For instance, our knowledge and expertise developed as a steelmaker has assisted us in making mineral and energy developments. BHP has a unique position as both a producer and user of energy and metals which gives us an advantage in exploiting markets in both areas.

**Current Issues**
The first issue is the effective management of volative exchange rates.

To address this, we are matching exposures in various currencies where appropriate. We also maintain the ability to access overseas financial markets when currency movements dictate.

Our second concern is managing our capital expenditure and acquisition programme to ensure that shareholders’ interests are maximised.

All new projects and acquisitions must meet target hurdle rates and other criteria so that all capital spending is directed towards ultimate shareholder benefit.

Another of our issues and objectives is to broaden our shareholder base internationally and provide a wider and deeper market for BHP shares.

**Summary**
BHP has a comprehensive strategy for profits, growth and service to shareholders, as figure 8 shows.

**FIGURE 8**

*BHP Market Capitalisation*  
*As at 31st May*

We have acquired significant international resources through Utah and ERG. We have developed an experienced, internationally-oriented management team. We are positioned to serve Asian-Pacific growth markets. We have the financial strength to seize opportunities. We are committed to superior performance.