

# BHP AND THE NEXT FIVE YEARS

An Address by

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to The Securities Institute of Australia, New South Wales Division, April 19, 1984. Since this address, Mr Loton has spoken to the Victorian Division of The Securities Institute of Australia. The title of the address, held on May 31, 1984, was "BHP's World of Change".

Some of you may remember that when I last had the pleasure of addressing you (in November 1979) the subject of those remarks was "BHP's world of change."

Having on that occasion taken you on a rapid Cook's tour of the Company's operations, recent developments and aspirations, I was able to sum up to the effect that:—

'the 1970s saw BHP grow in virtually every dimension. (For example, over the decade) Group sales rose by 290 per cent, shareholders' funds by 170 per cent and net profit by 225 per cent .....' and so on.

And I felt confident enough to add that:—

'We are a much bigger and more diversified company at the end of the Seventies and in a good position to take part in the challenges and opportunities which the Eighties may bring .....

It is not every day, perhaps, that representatives of corporate management choose to trot out their previous forecasts — and if such forecasts were always fulfilled I suppose life in the securities industry would be very pleasant indeed!

We in BHP have had our cyclical as well as structural problems which have involved us in testing times and difficult choices — and as you well know, the period of the early Eighties has had its fair share of troubles and tough decisions.

Nevertheless, it is hoped you may be persuaded that on balance BHP has in the past five years both built on the performance of the past and delivered on the promise of better and more exciting things to come.

In recent days the Company has reported third quarter profits much improved — by a multiple of five excluding non-recurring items — on the corresponding figure of 1982-83. Net profit attributable to BHP shareholders, before extraordinary items came out at \$160 million against \$27.5 million, with steel reporting a profit of \$17 million compared with the \$53.1 million

loss of the corresponding 1982-83 quarter. This gave attributable earnings of \$442 million for the first nine months of the financial year.

Also this month, the Company has entered a new era of diversified resource development in Australia and overseas with the Utah transactions completed on April 2.

As is well known, the substantial price tag on the Utah assets in Australia has been shared between BHP and a number of venture partners, but with BHP taking the overseas part and gaining the major share of the overall acquisition.

This development may be seen as significant on two separate counts, each of them with direct bearing on BHP's next five years, the subject of this talk.

In the first place, it will not have been overlooked by you, and the investment community generally, that BHP was able to entertain and proceed with a substantial acquisition at a time of exceptionally difficult trading conditions for some branches of the business. That must say something for the Company's financial position and more particularly for the aggregate strength of its diversified resource operations within the unified corporate structure.

This is one theme I should like to develop this afternoon — the proposition that BHP shareholders have been, and are, well-served by the agglomeration of capital, inter-connected industrial experience and technical expertise that BHP represents.

Secondly, it should be apparent that the addition of Utah producing mines, properties and people opens the door for what in one respect will be a continuum, and, in another, a new phase in BHP's corporate development. And that is the second theme of these introductory remarks; that the new assets are both a logical extension of BHP activities, fully in keeping with existing corporate strategies and objectives; and also the beginning of an exciting era of product and geographic diversification.

## BHP's FUTURE DIRECTION

You are no doubt well aware that in its 98 years BHP has undergone some fundamental transformations — from its beginnings as a miner of silver, lead and zinc; to its half-century (1915-65) as one of the world's most vertically integrated steel companies; to its emergence as Australia's largest multi-product (including oil) resources developer. To these we now add geographical diversification.

Each of the past development phases has run logically — and from the viewpoint of shareholders smoothly — into the next.

The new era is no exception, as you may judge from a succinct statement of Group purpose which has the imprimatur of the management and Board namely:

'to be a major successful resources development company seeking profitably to grow and diversify both geographically and in product areas'.

On the one hand, there is no plan to cast off operations or activities that are contributing positively and adequately to the corporate results. On the other hand, there is every intention of increasing the locational and product spread of operations in such a way as to improve on earnings.

In the decade of the 1960s BHP and Esso found oil and gas in Bass Strait, inaugurating the fine industry which thereafter pushed at the frontiers of technology to yield its valuable harvest of some three-fifths of Australia's present-day liquid hydrocarbon requirements.

More recently came:—

- coal production for export, with acquisitions and developments in Queensland and New South Wales;
- gold production in the joint venture at Telfer in Western Australia;
- participation in the North-West Shelf natural gas developments in circumstances to which I shall revert in a moment;
- and, in joint ventures that are in process of commissioning at this moment, alumina at Worsley and gold/copper at Ok Tedi.

Supported by an active exploration program, it has been a very considerable effort at growth, which has greatly altered the composition of Group earnings.

However, so far earnings have changed by much more than the Group's ultimate involvement in one form or another with the steel industry. For that there are a number of reasons, among the most important being the markets for our mines now producing export tonnages of iron ore, coking coal and manganese ore.

In short, these operations owe their existence to the raw material requirements of overseas steelmakers; and therefore stand to be as much affected by worldwide steel industry conditions as any other BHP activities and perhaps more so.

For present purposes there is no need to recapitulate for you the structural and other problems which engulfed the world steel industry in the early 1970's. What does seem most relevant in the present context is that, having recognised the problems, BHP took steps to seek out new avenues for profitable investment of the funds entrusted to its management by shareholders.

The Company's major involvement in the North West Shelf project began in 1976. Serious interest in possibilities of both alumina and aluminium development were signalled in 1979. Firm commitment to Ok Tedi was forthcoming, following a long period of intensive study, in 1981. In the same period BHP made substantial further commitment of funds to the search for oil in many parts of Australia, onshore and off, as well as making a major investment of time and expertise in overseas oil exploration possibilities. That rigorous program led, among other things, to BHP's inclusion in 1983 in the first international consortium to be awarded exploration rights in the China Seas.

I would hope that this brief account of BHP's expanded interests and activities has itself conveyed the main elements of a coherent strategy of geographic and product diversification. For there has been and is a considered, sensible strategy; one that is well on the way to being implemented; and one into which the new Utah interests fit like a hand into a glove, with every appearance of affinity and industrial logic.

## BHP's BLOW-BY-BLOW STRATEGY

Having painted the future in broad strokes, it is necessary to fill in some important detail so that your picture of BHP's corporate strategy can be complete.

In the first place, and this perhaps needs to be stressed, BHP will not be walking away from the Australian steel industry in which it has played such a large and generally rewarding role for the past 70 years. We do not have a policy of persevering with steel no matter what. It has got to be established that steelmaking operations have a strong and profitable future. On that basis the Group will provide funds to refurbish steelmaking plant so as to ensure its long-term efficiency and competitiveness.

In this the Company has been markedly successful in the past two years. The Steel Division took the drastic action required both to curtail production (and capacity) in line with reduced market, and, at one and the same time, to hoist productivity — output per man — as needed to achieve improved intermaterial and

international competitiveness. As a combined objective it was extremely stressful and difficult to attain. Nevertheless profitability was restored in the first quarter of this financial year and the recovery, though still fragile, has been maintained.

In this turn-round there was some help from the Government, first in temporary quotas and more recently (since January 1) in the form of the well-publicised five-year Steel Industry Plan. There was also some slight improvement in the market.

However, there can be no doubt that the main contribution to this industry recovery has come from within the Company. We mean to maintain the recovery; and given the support of the workforce and a modicum of stability on the world scene, are reasonably confident of the chances of achieving it.

On the international trading front there is capacity to spare in steelmaking raw materials, and consequently BHP will be looking to non-ferrous metals and other minerals for mining opportunities in the next five years. Likewise, it is safe to assume that BHP will continue to seek out development opportunities in the energy sphere, including steaming coal, natural gas and — of course — oil.

Already there are development prospects, dependent on markets and some other factors, some of which have been found by exploration and others secured with the purchase of Utah.

Next, the Group will be maintaining active exploration programs in Australia and overseas in the never-ending search for materials capable of meeting customer needs at a profit.

In the petroleum sphere, the Group will continue to look for prospective drilling locations and will be increasingly prominent as the operator in future Australian and possibly Papua New Guinea exploration. As a short-term priority, more drilling will be done to establish the commercial significance of the Jabiru find. We have an exploration program mapped out for further ahead and I may say here that the choice of locations will not be confined to Australia and will be influenced by the tax regimes encountered (and to be encountered) in the areas under consideration.

Our objective is to replace our Bass Strait reserves which we are currently depleting at the rate of about 70 million barrels per year (our share). We have more than doubled our staff of geologists and this year will spend about \$115 million on oil and gas exploration. Over the next few years this will increase:

## MAJOR MANAGEMENT CHANGE

I do not often have the opportunity to talk about the management philosophy at BHP and would like to do so now because that has not been stationary while investments have been so successfully on the move.

Additions to the scale and complexity of BHP operations have necessitated periodic review of management structures and functions for many years now. These resulted for example in the divisionalisation of Group operations which occurred in the 1960s. More recently, we have given much thought to the delegation of responsibility for operations and more generally to the development of management potential at all levels within each of the reporting businesses.

In the past couple of years this management approach has been shaped and formalised by various means including detailed studies drawing on the experience of others; thorough discussion by senior management brought together for that purpose; and appropriate attention to consultation with and motivation of middle-order management.

There of course continues to be a corporate function and that in the final analysis is to co-ordinate where co-ordination will be productive; and to allocate the Group's investment priorities and capital resources.

Clearly it is a Group function to identify attractive development opportunities. We do not see it as an appropriate or tolerable burden on the Group to subsidise operations that are not pulling their weight or are not seen as being capable of yielding a satisfactory return on investment.

There has also been another reason for the attention given to this matter, namely the need to recognise increasing sophistication of the people who make up the modern management team. In fact, in BHP we are not aiming to create specialist management talents, but rather to have a team of management people who can be relied on to give of their best when slotted into any one of a number of responsibilities across the spectrum of activities. Similarly we aim to get the best out of all our people by sharing information about work objectives and producing a collective effort to maximise the business results.

## FUTURE PROSPECTS

In conclusion, I would be happy to answer your questions, but hope I have said enough to show that BHP can hold its place in the changing world, adapting and improving its competitive performance long term.