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HD **Rio Tinto returns to form**

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Sam Walsh has lost some old friends at Rio Tinto but made a whole lot more for the miner in the year since he drew a line in the financial sands and set out to recover standing as the investment of choice in the mining sector.

Through the first of what was planned as a three-year push to recover the love of his anguished owners, Walsh has out-performed all expectations than perhaps his own.

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Called up from the executive interchange bench to replace the ousted American Tom Albanese, Walsh arrived with an agenda built around the sustainable extraction of $US5 billion of costs over two years and to generate a recovery of free cash flows through more disciplined capital management and allocation.

Walsh then promptly made a chief financial officer of the equally wizened Chris Lynch (ex Transurban chief executive officer and ex-BHP Billiton CFO) and the pair set about quietly over-reaching those ambitions.

This idea, of itself, represents something of change of approach at the modern Rio.

Somewhere along the way from spending $US38 billion on Alcan to avoiding post-global financial crisis oblivion by the skin of a past management team's teeth, Rio had got into the habit of talking too big about what it was going to achieve only to find itself constantly falling short of the expectations it had seeded.

In this, and so much else, Walsh has recovered tradition.

The victims of the Walsh-Lynch assault on costs have stretched from Pilbara contractors, who are doing the same work now for 14 per cent less, to Chinese suppliers and to executives who haven't hit targets.

Walsh wanted to remove $US2 billion from operating cash costs through his first year. He has over-achieved. The company's cost profile is $US2.3 billion lighter.

Last February, Walsh set three other indicators of early success in his hunt for market credibility. And Rio has stepped comfortably beyond each. Walsh wanted to rebuild cash flows, reduce debt and to continue to increase dividends.

Cash flow has surged by 22 per cent to $US20 billion, debt has been cut by $US4 billion to $US18 billion and the Walsh-Lynch team has fabricated a consensus topping underlying profit growth of 10 per cent. And all of that has been delivered on flat revenues that have been sustained as increased production mitigated softer pricing.

And the result of all that is confidence and capital enough to increase dividends by 15 per cent.

The 1300 Forge Group workers retrenched on Wednesday and the contractor's 6000 or so shareholders must be wondering what on earth has happened to a **company** that in October rewarded management with substantially over-the-odds bonuses on the basis of a claimed out-performance in 2013.

Just two weeks ago that same management insisted things were tough but business life would sustain through a cash flow crunch. Like so often in recent times, they got that wrong. On Tuesday, Forge called in Ferriers as administrators after the ANZ put a cork in funding. On Wednesday KordaMentha were anointed receivers and managers. And by Thursday, it was confirmed Forge's assets will need to be sold to cover the entitlements of workers.

KordaMentha reports that there is no money to pay employees and no work to perform after a wealth of Forge's now former clients in Western Australia and Queensland recovered direction of their projects.

The receiver nominated the Commonwealth and its basic entitlements scheme as being the other source of succour to workers that are owed a yet uncertain amount of wages and other payments.

The problem there, mind you, is that the scheme only kicks in when an employers goes into liquidation. And that can only happen after a second creditors meeting.

The first of those meetings is due to be held in Perth on February 21.

The contracts lost to Forge include a pair of power stations being built in the Pilbara for Rio Tinto, another power project under way for BHP Billiton and $830m worth of work for Gina Reinhart's Roy Hill**iron ore** project. And the list goes on.

As things stand, Forge owns two contracts, one of which is the loss making Dimantina power project outside Mt Isa, the other a WA power job that was booked at $87 **million** and is now slated to cost $91 **million**.

And the Dimantina power project, well, it was supposed to cost $417 **million**, and its current budget is $443 **million**. The balance of that has come out of Forge's kitty. The project was supposed to generate a margin of 8.9 per cent. It is currently negative 14.6 per cent.

When shareholders meet in October to confirm a bonus that was 160 per cent of maximum bonus for boss David Simpson, Forge shares were changing hands at $4.72 giving it a market capitalisation of $406 **million**. All of that has been dusted in the interim.

Let's reflect on that bonus for a moment. With boardroom discretion, new CEO David Simpson was granted a $800,000 bonus. His employment contract put a cap of $500,000 on any cash bonus. He was also granted 653,396 performance rights. And that on top of a $1 **million** a year package and a $800,000 sign-on bonus.

What made that all a bit unusual was that Forge was nothing like an out-rider in performance in the 2013 financial year. Profit was 27 per cent down, operating cash flow off even more and its share price had slipped from the $6 highs it reached before major shareholder Clough cashed in its 35 per cent **stake** in March.

The are many now regretting their failure to identify Clough's departure as their "ah-ha" moment.

As things stand right now, Forge boasts liabilities of $500 **million** and its Australian assets are limited pretty much to office furniture and two contracts of work, both of which appear to be out of the money.

Forge's two overseas subsidiaries, the Webb and Taggart groups, remain cash flow positive and are on the market. That process could take months. What's more, the prices that might be achieved are likely to get no where near the offers that Forge apparently rejected as part of a refinancing process that has been going on for the past three months or so. To give you some idea of the value there, Taggart was acquired last year for $43 **million** and the deal carries $25 **million** of further milestone payments in 2016 if earning targets are met. That deal was fully funded by the ANZ and, given the circumstances, it is frankly hard to see the bank recovering all of that.Glencore

One business quietly getting on with managing industrial relations the Tony Abbott way is, surprise, surprise, Ivan Glasenberg's Glencore.

Last September, Glencore (nee Glencore Xstrata, nee Xstrata) shut the Collinsville mine after failing to secure a new enterprise agreement in the wake of a decision to internalise the **coal** mine of legend's management. That decision left 245 union members without the jobs.

They had been employed by contractor Thiess. Glencore's decision not to make the expected direct transfer of those workers onto its book followed seven months of negotiations with the **coal mining** union over changes to rostering and work practices at Collinsville.

The issue there was that, after 17 years under Thiess management, Collinsville was producing about 3.4 **million** tonnes of **coal** from a project that has a nameplate capacity of 6 **million** tonnes per annum.

Now, five months on, workers have returned to Collinsville and begun a long slow ramp up that will see the mine get much closer to optimum production. Glencore has employed 20 staff on the individual arrangements available under the Fair Work Act and a further 30 or so contractors. The plan is to build the workforce to something near 250 that will include labour hire workers and other contractors. So far Glencore has received 2300 applications for those positions. The plan is that those directly hired by Glencore will be employed on individual terms.

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