



Swick Mining Services Ltd (ABN 20 112 917 905)  
 64 Great Eastern Hwy South Guildford WA 6055  
 PO Box 74 Guildford WA 6935  
 Phone (08) 9277 8800  
 Fax (08) 9277 8844  
 Email: [admin@swickmining.com.au](mailto:admin@swickmining.com.au)  
 Web: [www.swickmining.com.au](http://www.swickmining.com.au)

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ASX ANNOUNCEMENT

## HALF YEAR RESULT & FULL YEAR OUTLOOK

### HIGHLIGHTS

- ❑ **Record first half revenue result of \$48.1 million.**
- ❑ **New contract awards with major mining houses in gold & iron ore.**
- ❑ **Further significant opportunities in gold in Australia & North America.**
- ❑ **Number of rigs in work and fleet utilisation rebounding strongly.**
- ❑ **Forecasting return to previous peak monthly revenue by mid CY09.**
- ❑ **Gross margin from operations maintained throughout the period.**

Swick Mining Services (ASX:SWK) hereby announces a net profit after tax of \$2.3 million on revenue of \$48.1 million for the six months ended 31 December 2008. The Company believes it is well positioned to take advantage of the improving demand for mineral drilling services that is being driven by increasing activity in the gold sector and iron ore sectors.

Revenue of \$48.1 million was marginally below internal expectations but represented a record first half result for the Company. Profitability was negatively impacted by a number of factors including: \$1.315 million in one-off expenses, \$300,000 relating to the expansion program into North America and the expensing of employee options and performance rights totalling \$400,000. Excluding these items, the Company's half year EBITDA was \$12.015 million, the EBITDA margin 24.9% and EBT \$4.215 million.

The half year result (without adjustment for the above) compared to the previous corresponding period is summarised below:

Financial Measure	HY1 FY09	HY1 FY08	Change
Revenue	\$48.1m	\$35.4m	+36%
EBITDA	\$10.0m	\$8.5m	+18%
EBITDA Margin	20.8%	24.0%	-13%
EBIT	\$3.8m	\$4.7m	-18%
EBT	\$2.2m	\$4.5m	-51%
NPAT	\$2.3m	\$3.3m	-29%
NPAT Margin	4.9%	9.3%	-48%
Earnings Per Share	1.53 cents	2.42 cents	-37%

## **Discussion of Result**

### ***Market Conditions***

The half year result reflects the prevailing market conditions where base metal prices in particular were subjected to sudden and significant falls, and hence a number of the Company's base metal clients made the decision to immediately cut their expenditure on drilling services. As a result, the Company saw its rigs in work (across all divisions) fall from a peak of 40 in September 2008 to a low of 22 in January 2009, before improving strongly in February 2009.

### ***Swick's Response to Challenging Market Conditions***

In response to these challenging conditions, the Board of Directors implemented a number of measures designed to mitigate the impact of lower commodity prices and reduced demand for drilling services. A series of labour reduction targets was set to match lower fleet utilisation, resulting in a cutback of approximately 120 employees in November and December amongst operations, engineering and corporate functions. In addition, the Company's new rig build programs were halted in November with the cancellation of approximately \$33 million in new capital expenditure and the postponement of existing builds where possible.

The Company has refocused its business development and marketing activities towards its existing clients and those sectors of the market demonstrating relative strength, including the gold and iron ore sectors. The Company has a strong client base in gold in particular, including Barrick, Newmont, Gold Fields, Newcrest and St Barbara, and has a strong track record in servicing gold clients, as demonstrated by the fact that 42% of FY08 revenue and 45% of HY1 FY09 revenue was derived from the gold industry.

The renewed business development focus on existing clients and the gold and iron ore sectors is already paying dividends, with the Company recently awarded a number of new drilling contracts with blue chip clients that include St Barbara, Rio Tinto, BHP Billiton and Xstrata. As a result, fleet utilisation rates have strongly improved in February and will rebound further during March and April, returning near to the peak level attained in September 2008. A number of exciting opportunities exist with both existing and prospective new customers that if successful will see the Company move beyond its previous peak income.

The actions undertaken by the Board in response to the macroeconomic environment have successfully consolidated the Company's operations and positioned the business for the next upswing in activity. A strong focus on reducing direct operational costs and overheads will position the Company to remain profitable despite the market pressures facing the industry.

### ***Revenue***

The first three months of the half year delivered revenue growth in line with expectations, with revenue peaking at just under \$9 million in September 2008 and forecast to rise further throughout the year as additional rigs were commissioned. Revenue plateaued in October and then decreased in November and December as a result of a sudden reduction in fleet utilisation brought about by the macroeconomic factors as explained above. Despite this, the revenue of \$48.1 million delivered for the half year was only marginally below internal forecasts owing to the positive start to the year and represents a record first half result for the Company.

The Company is expecting a return to the previous peak monthly revenue figure of approximately \$9 million per month by mid CY09. On a fully utilised basis, the Company's current fleet of 63 rigs is capable of generating annualised revenue in the order of \$180 million. The Company's dominant position in the underground diamond drilling market and strong client base in gold provides a strong baseload of work and offers further scope for significantly improving fleet utilisation. It is expected that a recovery in base metal prices will significantly increase demand for drilling services.

### ***Profitability***

Towards the end of FY08 and into the early part of FY09 the Company was investing to ramp-up its operations to support the extensive rig build program then underway. The cancellation of the build program and the unwinding of excess resources resulted in significant costs totalling \$625,000 associated with employee redundancies and the demobilisation of personnel, plant and equipment from sites where work had ceased.

Profitability was also negatively impacted by other one-off expenses totalling \$690,000 relating to various accounting charges, costs relating to the Company's expansion program into North America totalling \$300,000 and the expensing of employee options and performance rights totalling \$400,000 pursuant to the accounting standards (despite the options and performance rights being significantly out of the money).

Notwithstanding the changed macroeconomic climate, the Company's gross margin from operations has remained consistent with prior periods, demonstrating that the underlying business model is sound and profitable. Adjustments to the overhead effected in the latter part of HY1 FY09 position the Company to deliver an improved profitability performance in the second half.

### ***Inventory***

As a result of the significant number of new rig builds and expected job start-ups in both Australia and overseas during FY09, and significant supply constraints present in a booming market in mid 2008, the Company made a significant investment in consumables during the first three months of the half year. This led to an increase in inventories held from \$8.5 million at 30 June 2008 to \$21.9 million at 31 December 2008.

The rapid decline in fleet utilisation has resulted in the Company carrying an excess supply of consumables in a number of areas. This excess reflects an over-supply issue rather than an obsolescence issue. Measures instigated in relation to inventories are having a significant effect on reducing levels and that together with the improving utilisation of rigs provides the Company with confidence that inventory will be reduced to normal levels over the course of the calendar year.

### ***Cash***

The Company's cash balance declined from \$25.3 million at 30 June 2008 to \$4.3 million at 31 December 2008 as a result of the inventory build-up and the purchase of componentry for future rig builds. Componentry for each new rig build is paid in cash and then financed once the rig build has been completed; where builds are not completed, the Company does not complete financing arrangements.

The Company had built 17 new rigs by early November and had purchased componentry for a number of additional builds to be completed throughout the remainder of FY09 before the cancellation of \$33 million in rig builds in November. The cancellation of rig builds has left the Company holding some excess stock of componentry, primarily in the underground diamond drilling division, which will be reduced as future rig builds are completed.

Owing to the investment in inventories and components, cash levels are expected to improve strongly as the stocks of these items are depleted over the course of CY09. In order to support working capital requirements for rigs returning to work, the Company has secured a small working capital facility of \$2.5 million with National Australian Bank.

### ***Debt***

The Company's interest bearing loans and borrowings increased from \$42.1 million at 30 June 2008 to \$58.1 million at 31 December 2008 as a result of new rig builds being undertaken. The debt is all hire purchase arrangements (asset-backed finance).

**Operations Update**

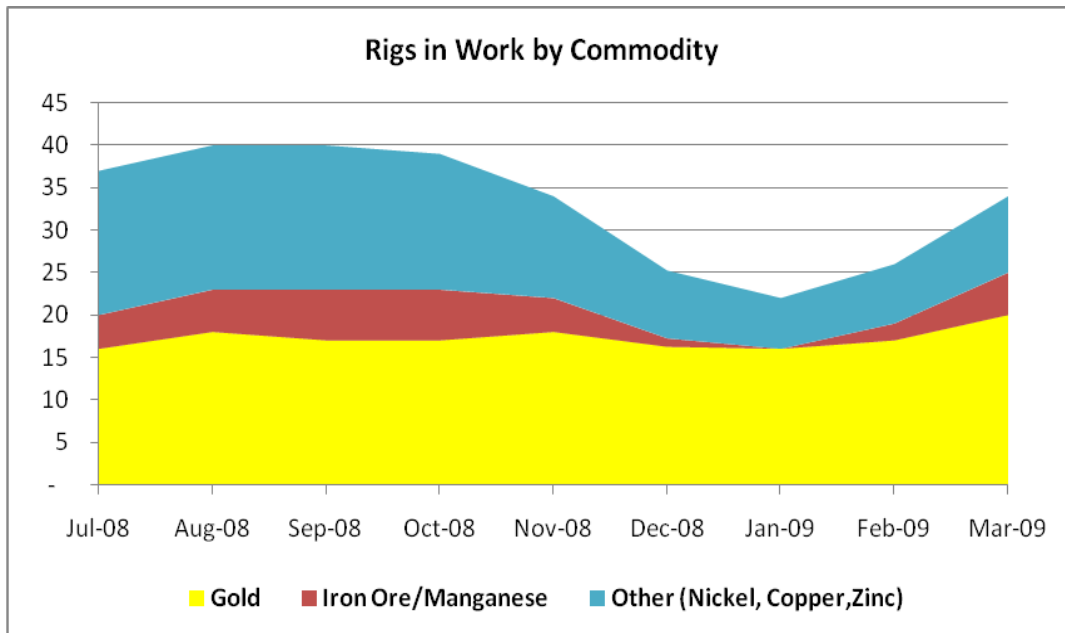
***New Contract Awards - Focus on Gold & Iron Ore***

The Company recently refocused its business development and marketing activities to take advantage of the relative strength of the gold and iron ore sectors and strong relationships with existing clients. As a result, Swick Mining Services has recently been awarded a number of new drilling contracts with blue chip clients, including the following:

- ❑ St Barbara, Gwalia & Marvel Loch Gold Mines - awarded new underground diamond drilling contract for two years; currently one rig drilling, with an additional rig expected to be mobilised to site in March.
- ❑ Rio Tinto, Silvergrass Iron Ore Mine - notified of award of surface RC drilling contract for one rig for 25,000m program (one season).
- ❑ Xstrata Nickel Australia, Cosmos & Sinclair Nickel Mines - notified of award of all of site underground diamond drilling contract at the Cosmos and Sinclair Operations for two years; currently two rigs drilling with two further rigs to be mobilised to site in March and potential for up to five rigs in total.
- ❑ BHP Billiton, Groote Eylandt Manganese Mine - notified of award of surface RC drilling contract for one rig for up to two years.
- ❑ Aditya Birla, Nifty Copper Mine - notified of award of a two year underground longhole drilling management contract for two rigs commencing March 2009.

Swick Mining Services has a strong presence and client base in the gold mining sector and is actively progressing a number of new drilling opportunities with both existing and prospective clients. The Company is also progressing discussions with a number of base metal clients to take advantage of any upswing in demand from this sector.

The Company currently has a fleet of 63 drill rigs, including five underground diamond rigs in North America. After the low point in fleet utilisation reached in January 2009, a strong rebound in the number of rigs in work is occurring as a result of new contract awards, as demonstrated by the graph below.



Further improvements in utilisation are expected throughout the second half of FY09 owing to a strong pipeline of additional opportunities in the gold and iron ore sectors.

### ***North American Expansion - Focus on Major Gold Mining Houses***

The Company's North American expansion program is gaining momentum as a result of five underground diamond drill rigs arriving in Sudbury, Canada in January 2009. Three of these rigs are ready for work after completion of electrical commissioning. The final two are poised for electrical commissioning in the coming weeks.

Market conditions in North America are similar to those in Australia, with falls in base metal prices resulting in the deferral or suspension of drilling programs. The level of activity in the gold sector in North America remains strong and is the focus of the Company's business development and marketing activities. On-going discussions are being held with a number of major gold mining houses in both Canada and the United States, including Barrick, Newmont and Goldcorp, with respect to underground diamond drilling trials and tenders. The Company hopes to secure its first contract in the near future.

The North American market offers very significant mineral drilling opportunities in both gold and base metals, notwithstanding the market conditions for base metals being unfavourable at this time. The Company's North American expansion program therefore remains a high priority. Swick Mining Services continues to demonstrate world's best practice drilling services across a number of its divisions and is therefore confident of successfully penetrating the North American mining industry.

### ***Waterhammer Development***

A prototype waterhammer longhole rig completed a successful trial at the Golden Grove Mine in Western Australia in mid 2008, and has since undergone a final series of design modifications. The first fully electric/hydraulic waterhammer longhole rig in the Australian mining industry is now ready for work and advanced discussions are now in train with Newmont for use at the Jundee Gold Mine in Western Australia. Market interest for this method and style of production drilling is very high and expected to lead to a new and significant division within the Company.

### **Full Year Guidance**

The challenging macroeconomic environment for the mining industry is expected to continue into the second half of FY09. However, the gold and iron ore sectors are expected to demonstrate relative strength during this period, which is likely to translate to improved demand for mineral drilling services in these areas of the market.

The Company's fleet utilisation rate has rebounded off the recent low and is forecast to improve throughout the remainder of the financial year. The Company is expecting its performance to be similar in revenue terms during the second half of FY09, but with improved profitability owing to the cost control and efficiency measures taken during the first half of FY09.

### **Results Teleconference for Analysts**

Swick Mining Services will host a teleconference on Friday 27 February 2009 at 9am (WDST) to discuss the half year result. Analysts interested in participating in the teleconference should email their details to the Company at [info@swickmining.com.au](mailto:info@swickmining.com.au), following which participation and dial-in details will be confirmed.

Yours faithfully



**KENT SWICK**  
MANAGING DIRECTOR

**About Swick Mining Services:**

Swick Mining Services (ASX:SWK) is one of Australia's largest mineral drilling contractors and provides high quality underground and surface drilling services. The Company has a strong reputation for innovation in rig design and drilling practices and delivering increased productivity, safety and value to its clients.

For further information about this announcement, please contact the following on (08) 9277 8800:

**Kent Swick** - Managing Director

**Michael Fry** - Finance Director

**Jason Giltay** - Company Secretary