

# SWICK MINING SERVICES

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ASX ANNOUNCEMENT

## SWICK DELIVERS FY09 PROFIT & POSITIVE FY10 OUTLOOK

### HIGHLIGHTS

- Revenue maintained in FY09 despite challenging market conditions.
- Improved revenue outlook for FY10.
- New Australian contracts secured in FY09 with a number of blue chip mining houses.
- Rapid rebound in rigs in work underpinned by strong gold presence.
- EBITDA performance in second half of FY09 provides a springboard into FY10.
- North American momentum building with three trials secured.

Swick Mining Services (ASX:SWK) is pleased to announce a net profit after tax of \$2.1 million for FY09 from revenue of \$84.9 million. The result highlights the Company's strong presence in the industry and resilience in weathering the effects of the global financial crisis and resulting downturn in activity in the mining industry. Swick looks to FY10 with renewed optimism with a record number of rigs in work in Australia and the North American expansion program delivering a foundation client base to support future growth opportunities.

The Company's projected revenue growth in FY09 was impacted by the downturn in demand for drilling services stemming from the global financial crisis. Despite this, Swick was able to maintain revenue in line with FY08 as a result of strong demand for its market leading drill rigs from blue chip clients during the second half of the year, particularly in gold and iron ore.

The following table summarises the FY09 result versus the FY08 result:

Financial Measure	FY09	FY08	Change
Revenue	\$84.9m	\$84.2m	+1%
EBITDA	\$20.1m	\$23.3m	-14%
EBITDA Margin	23.8%	28.1%	-15%
EBIT	\$6.6m	\$15.5m	-57%
EBT	\$2.6m	\$14.9m	-83%
NPAT	\$2.1m	\$10.3m	-80%
NPAT Margin	2.5%	12.2%	-79%
Earnings Per Share	1.38 cents	7.17 cents	-81%

## Discussion of FY09 Performance

Drilling services revenue in FY09 of \$84.6 million was slightly higher than the previous year (FY08: \$82.8 million), with the underground diamond division maintaining its strong performance, contributing 70% of drilling services revenue (FY08: 75%). Revenue from the surface drilling divisions continued to improve during the year and came as a direct result of \$30 million of new investment in surface fleet during the first half of FY09.

The Company continues to build a foundation of blue chip clients, with new contracts secured in the past 12 months with BHP Billiton, Rio Tinto, Xstrata, Gold Fields and Newcrest, adding to existing Swick customers, Barrick, Newmont, OZ Minerals and St Barbara.

Swick has successfully refocused its business development activities towards opportunities with clients operating in sectors of the market that continue to demonstrate strength, including gold and iron ore. This strategy has helped Swick offset the reduced activity experienced in the base metals sector.

Whilst Swick experienced some pressure to drilling rates during the year, this was contained largely to the surface drilling divisions, with the Company able to offset the resulting lower revenue received with cost savings generated from the restructuring of the business that occurred in the latter part of the first half of FY09.

Although Swick experienced a drop in net profit for FY09, a number of non-recurring factors combined to contribute \$2.3 million to this fall, including establishment costs of the North American expansion program (\$1.0 million), business restructuring costs (\$0.4 million) and expensing of employee options and performance rights (\$0.7 million).

The Company is confident in its ability to improve profitability margins moving forward as a result of a strong operational focus, the development of economies of scale and market leading innovation in the core drilling divisions.

## Second Half versus First Half Performance

The following table summarises the second half FY09 result versus the first half FY09 result:

Financial Measure	HY2	HY1	FY09
Revenue	\$36.8m	\$48.1m	\$84.9m
EBITDA	\$10.1m	\$10.0m	\$20.1m
EBITDA Margin	27.4%	20.8%	23.8%
EBIT	\$2.8m	\$3.8m	\$6.6m
EBT	\$0.4m	\$2.2m	\$2.6m

Second half revenue was lower than the first half owing to the reduced number of rigs in work from January 2009 and reduced drilling rates in some areas. Notwithstanding the lesser income in HY2, the Company generated similar EBITDA compared with HY1 from a much stronger EBITDA margin. The improvement in margins reflects the positive result of the restructuring initiatives implemented by Swick towards the latter part of HY1.

EBIT, EBT and NPAT were adversely impacted in HY2 by higher costs of depreciation and interest, owing to the significant investment made by Swick in drilling rigs and support equipment in the first half of FY09. With improved utilisation towards the latter part of HY2, the benefit of this investment should be realised in FY10.

### **Operational Outlook - Australia**

Swick currently has in excess of 40 drill rigs in operation at minesites throughout Australia. The Company has a solid baseload of work in gold and a growing position in iron ore, both of which supported the strong rebound in rigs in work during HY2. Swick has historically had a strong presence in base metals, in particular in nickel and copper, and believes that it is well positioned to capitalise on any increased drilling activity in the sector.

The Company continues to pursue new tendering opportunities and potential for increased scope with existing clients, and is therefore confident that the number of rigs in work in Australia will continue to improve throughout FY10.

### **Operational Outlook - North America**

Swick's North American expansion program has gained significant momentum in recent months, with three drilling agreements secured for three underground diamond rigs. Two of these agreements are for drilling trials with leading Canadian gold miners, thereby offering considerable potential should Swick deliver its typical high quality trial performance. Drilling operations under all three agreements are expected to commence in September 2009.

Much of the initial business development focus in North America was centred on drilling opportunities in nickel in Canada. With the sudden drop in base metal prices and drilling activity, the potential rewards from the business development efforts have been delayed. Business development activities were subsequently refocused on the gold sector. The Company remains confident that a number of new opportunities in nickel will arise in Canada when base metal prices stabilise.

### **FY10 Outlook**

With a record number of rigs in work in Australia and initial drilling trials secured in North America, Swick looks forward to FY10 with renewed optimism after successfully weathering the effects of the global financial crisis in FY09. The Company has invested heavily in its rig fleet over the last two years, delivering an inherent capacity to further grow revenue through improved utilisation of the existing fleet without having to invest significant capital in new equipment.

The Company is anticipating revenue growth in FY10 and an EBITDA margin for FY10 in line with the margin delivered in HY2 FY09. However, given the macroeconomic environment, Swick will be delaying releasing specific guidance for FY10 until at least the end of the first quarter of the financial year such that the sustainability of recent improvements in revenue and profitability can be confirmed.

### **Results Teleconference for Analysts**

Swick Mining Services will host a teleconference on Friday 28 August 2009 at 11:00am (WST) to discuss the FY09 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 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, providing high quality, high value underground and surface drilling services to a diverse group of blue chip mining houses. The Company has a strong reputation for innovation in rig design and drilling practices, and for delivering increased productivity, safety, versatility and value to its clients. Swick recently committed to expanding its operations outside of Australia and building a global brand through an expansion into targeted international markets, with an initial focus on North America.

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

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