

GROWTH THROUGH TECHNOLOGY AND TEAMWORK

 **SWIFT** ENERGY
COMPANY
1997 SECOND QUARTER REPORT



Letter to Stockholders

With an all-time high in production that offset reduced oil and natural gas prices, Swift Energy posted net earnings of \$4.1 million on total revenues of \$16.9 million during the second quarter of 1997, reflecting increases of 12% and 35%, respectively, over the corresponding numbers for the second quarter of 1996. Net income was \$0.28 per share compared to \$0.29 in 1996, a slight decline due to the addition of over two million average shares outstanding as a result of the conversion of our 1993 convertible debentures to common stock last August. Net cash provided by operating activities was \$10.7 million for the quarter compared to \$8.7 million in 1996, a 23% increase.

As we have stated previously, our ability to consistently increase production, especially natural gas production, which accounts for over 80% of our sales, has been an invaluable hedge against persistently fluctuating product prices. With increases of 47% in gas production and 7% in oil production during the second quarter of 1997 compared to the same period in 1996, our total sales reached \$14.1 million. This was 30% above our second-quarter 1996 sales in spite of a decline in the average prices we received for gas (\$2.20 per thousand cubic feet versus \$2.29 in 1996) and oil (\$17.08 per barrel versus \$18.73 in 1996).

For the first six months of the year, the percentage increase in sales was even greater (58%) owing to higher first-quarter prices (\$3.06 per thousand cubic feet for gas compared to \$2.16 in 1996, and \$20.13 per barrel for oil compared to \$17.78 in 1996). As a result, our six-months revenues and earnings were both up 61% from 1996, net income per share was up 33%, and net cash provided by operating activities was up 103%.

Our increasing production continues to flow primarily from the AWP Olmos Field in McMullen County, Texas, and from the Austin Chalk trend traversing several counties in southeastern Texas. During the second quarter, these two regions accounted for 83% of our total production, averaging 55.7 million cubic feet of gas equivalent per day, which was 59% above their second-quarter production in 1996. With these increases, our total production for the first half of the year was 12.0 billion cubic feet of gas equivalent, which is 41% higher than our production for the first half of 1996 and exceeds our total production for 1995.

In the AWP Field we completed 45 successful development wells during the second quarter, bringing to 94 the total number of producers drilled in the area during the first half of the year. Continuing to tailor our sand-fracturing technique to obtain maximum production from each well, we plan to add another 43 wells in 1997 and to continue developing the area throughout and beyond 1998. We currently hold approximately 36,000 net acres in the AWP Field, of which 16,000 acres have been developed. Data from a seismic survey conducted over some of the undeveloped acreage last May are still being interpreted.

In the Texas Austin Chalk trend, where we have approximately 75,000 net undeveloped acres, our second-quarter activities focused on horizontal development wells in Fayette County. An early dual-lateral second-quarter development well mentioned in our last report as an exceptionally high producer, the Orsak #1-OL, has not suffered the relatively rapid decline in production typical of horizontal wells, and, in fact, was still producing approximately 11 million cubic feet of gas and 565 barrels of oil per day in mid-July. A second dual-lateral development well, the Canik #1-OL, is producing approximately 8 million cubic feet of gas and 55 barrels of oil per day. We operate both wells and have retained a 34.5% working interest in each. We also have a 34.5% working interest in a third successful second-quarter development well drilled in Fayette County by another operator.

Also during the second quarter we drilled an exploratory horizontal well in the Austin Chalk trend in Walker County, Texas; however, the results to date have not been encouraging.

Based on our second-quarter successes in Fayette County and a highly successful first-quarter well in Washington County (the Schwickert #1-OL), our 1997 Austin Chalk drilling program is continuing to expand with rigs operating in both of these counties and in Trinity County. We are also initiating 11 two-dimensional seismic line surveys in Fayette County to help identify additional drilling locations.

In other third-quarter work, we have drilled an exploratory well in Claiborne Parish, Louisiana, with positive results in four different formations. In addition, we will be conducting two two-dimensional seismic swaths in Lafayette County, Arkansas, in September. Finally, analysis of the seismic data we obtained in New Zealand last May is progressing on schedule.

As Swift Energy continues to grow, the Board of Directors deemed it prudent to establish a shareholder rights plan designed to protect shareholders against the consequences of any abusive takeover tactics that might take place. The plan, which cannot be exercised unless aggressive moves are taken by an outside party, was announced on August 1.

This move by the Board is consistent with Swift Energy's overall philosophy that all of the Company's stakeholders should receive equal consideration in our plans for the future as we move forward together.

A. Earl Swift
President, Chief Executive Officer,
and Chairman

Consolidated Balance Sheets

Swift Energy Company and Subsidiaries

(in Thousands)

	June 30, 1997	December 31, 1996
	(Unaudited)	
Assets		
Current assets	\$ 54,944	\$ 101,619
Property and equipment, net	253,949	202,974
Other	6,326	5,782
	<u>\$ 315,219</u>	<u>\$ 310,375</u>
Liabilities and Stockholders' Equity		
Current liabilities	\$ 29,401	\$ 32,915
Long-term debt	115,000	115,000
Deferred revenues	3,641	4,404
Deferred income taxes	20,062	15,294
Stockholders' equity	147,115	142,762
	<u>\$ 315,219</u>	<u>\$ 310,375</u>

Second-Quarter Volumes and Prices

	1997	1996	% Change
Natural gas production (Mcf)	5,142,947	3,501,426	+47%
Oil & condensate production (barrels)	160,341	150,124	+7%
Average gas price per Mcf	\$ 2.20	\$ 2.29	-4%
Average oil price per barrel	\$ 17.08	\$ 18.73	-9%

Mcf = 1,000 cubic feet

Consolidated Statements of Income

Swift Energy Company and Subsidiaries

(Unaudited)

(in Thousands Except Income per Share)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1997	1996	1997	1996
Revenues:				
Oil and gas sales	\$ 14,072	\$ 10,815	\$ 32,441	\$ 20,507
Fees from limited partnerships and joint ventures	165	90	264	160
Supervision fees	1,273	1,095	2,521	2,127
Interest income	751	18	1,750	26
Other, net	665	540	1,195	927
	<u>16,926</u>	<u>12,558</u>	<u>38,171</u>	<u>23,747</u>
Costs and Expenses:				
Oil and gas production	2,669	1,811	5,432	3,658
General and administrative, net	1,494	1,414	3,069	2,852
Depreciation, depletion, and amortization	5,711	3,630	11,108	6,900
Interest expense, net	1,044	222	2,393	294
	<u>10,918</u>	<u>7,077</u>	<u>22,002</u>	<u>13,704</u>
Income Before Income Taxes	6,008	5,481	16,169	10,043
Provision for Income Taxes	1,894	1,803	5,286	3,282
Net Income	<u>\$ 4,114</u>	<u>\$ 3,678</u>	<u>\$ 10,883</u>	<u>\$ 6,761</u>
Per Share Amounts—				
Primary	<u>\$ 0.28</u>	<u>\$ 0.29</u>	<u>\$ 0.72</u>	<u>\$ 0.54</u>
Fully diluted	<u>\$ 0.27</u>	<u>\$ 0.25</u>	<u>\$ 0.68</u>	<u>\$ 0.47</u>
Weighted Average Shares				
Outstanding	<u>14,911</u>	<u>12,631</u>	<u>15,048</u>	<u>12,586</u>

Consolidated Statements of Cash Flows

Swift Energy Company and Subsidiaries

(Unaudited)
(in Thousands)

	Six Months Ended June 30,	
	1997	1996
Cash Flows from Operating Activities:		
Net income	\$ 10,883	\$ 6,761
Non-cash revenue and expense items	15,730	8,842
Net change in operating assets and liabilities	3,672	(699)
Net Cash Provided by Operating Activities	<u>30,285</u>	<u>14,904</u>
Cash Flows from Investing Activities:		
Additions to property and equipment	(64,043)	(29,968)
Proceeds from the sale of property and equipment	1,648	1,052
Net cash received (distributed) as operator of oil and gas properties	(1,741)	(16,412)
Net cash received (distributed) as operator of partnerships and joint ventures	2,364	8,424
Limited partnership formation and marketing costs	(345)	(848)
Prepaid drilling costs	—	(120)
Other	248	(75)
Net Cash Used in Investing Activities	<u>(61,869)</u>	<u>(37,947)</u>
Cash Flows from Financing Activities:		
Net proceeds from bank borrowings	—	15,210
Net proceeds from issuances of common stock	1,429	1,588
Purchase of treasury stock	(8,417)	—
Net Cash Provided by (Used in) Financing Activities	<u>(6,988)</u>	<u>16,798</u>
Net Decrease in Cash and Cash Equivalents	\$ (38,572)	\$ (6,245)
Cash and Cash Equivalents at Beginning of Period	<u>77,795</u>	<u>7,574</u>
Cash and Cash Equivalents at End of Period	<u>\$ 39,223</u>	<u>\$ 1,329</u>

Investor Information

BOARD OF DIRECTORS

A. Earl Swift
Chairman of the Board
Swift Energy Company

Virgil N. Swift
Vice Chairman of the Board
Swift Energy Company

G. Robert Evans
Chairman of the Board
Material Sciences Corporation

Raymond O. Loen
President
R. O. Loen Company

Henry C. Montgomery
Executive Vice President
SyQuest Technology, Inc.

Clyde W. Smith, Jr.
President
Somerset Properties, Inc.

Harold J. Withrow
Consultant

OFFICERS

A. Earl Swift
President
Chief Executive Officer

Terry E. Swift
Executive Vice President
Chief Operating Officer

Virgil N. Swift
Executive Vice President—Business Development

John R. Alden
Senior Vice President—Finance,
Chief Financial Officer, Secretary

James M. Kitterman
Senior Vice President—Operations

Bruce H. Vincent
Senior Vice President—Funds Management

Joe A. D'Amico
Vice President—Exploration & Development

Alton D. Heckaman, Jr.
Vice President
Controller

James P. Mitchell
Vice President—Land

Victor R. Moran
Vice President—Natural Gas Marketing/
Business Development

Khushroo N. J. Patel
Vice President—Geophysics

Tara L. E. Seaman
Vice President—Acquisitions, Dispositions,
& Reserves

James R. Stewart
Vice President—Drilling & Production

Adrian D. Shelley
Treasurer

D. Wynn Ibach
General Counsel

CORPORATE HEADQUARTERS

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New York Stock Exchange
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Symbol "SFY"

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