LETTER TO OUR SHAREHOLDERS 1-6/2016

HIGHLIGHTS

- Persistently challenging market environment weighs on business result
- Positive operating cashflow and fundamentally strong balance sheet structure with high equity ratio
- Integration of newly acquired Downhole Technology running to schedule
- Further cost reduction: Restructuring of Singapore operations kicked off

„VISIBILITY STILL VERY LOW“

MARKET ENVIRONMENT

During the second quarter of 2016 the market environment for the oilfield service industry deteriorated once again over the first quarter of the year. While the oversupply of the crude oil market was decreasing, expenditure for exploration and production (E&P Spending) continued to shrink. And although the reduction of the global rig count came to a standstill at the end of the second quarter, it is still too early to speak of a sustained reversal of this trend. Visibility in the market remains low.

Excess supply in the crude oil market fell to 0.3 mb/d in the second quarter of 2016. In the first quarter of 2016, it had yet come to as much as 1.2 mb/d, and in the fourth quarter of 2015 to 1.9 mb/d. This development is both due to rising demand and declining supply.

Year-on-year, second-quarter oil supply contracted by 0.5 mb/d to 95.9 mb/d (Q2 2015: 96.4 mb/d). In the first quarter of 2016 it came to 96.6 mb/d, in the fourth quarter of 2015 to 97.4 mb/d. The decline observed in the second quarter of 2016 was the result mainly of two effects: Supply by non-OPEC countries, above all the US, went down in the wake of massive cuts on E&P Spending. Adding to this were production outages caused by forest fires in Canada and local conflicts in Libya and Nigeria.

Oil demand in the second quarter of 2016 was rising by 1.4 mb/d compared to the same quarter of the previous year and came to 95.6 mb/d (Q2 2015: 94.2 mb/d). In the first quarter of 2016, it had stood at 95.4 mb/d, in the fourth quarter of 2015 at 95.5 mb/d. From the first to the second quarter of 2016, demand increased primarily in Europe and the Middle East.[1]

Compared to the previous year, OPEC's spare capacity[2] in July 2016 fell by 0.3 mb/d to 1.9 mb/d (July 2015: 2.2 mb/d).[3] While global oil inventories reached record levels, their build-up slowed down over the second quarter of 2016 due to lower excess supplies.

In the second quarter of 2016, the oil price recovered from its lows recorded at the beginning of the year: The price per barrel of US-crude WTI climbed by 26.1 % during the second quarter, from USD 38.34 per barrel (31 March 2016) to USD 48.33 per barrel (30 June 2016). The price of European crude Brent increased by 25.5 % per barrel, from USD 39.60 (31 March 2016) to USD 49.68 (30 June 2016). Since the decline started in 2014, the oil price eroded by 54.9 % (WTI) and 56.7 % (Brent).[4] At the end of the second quarter, it was above all the UK's vote to exit the European Union (Brexit) and the associated uncertainty in the European markets that put the oil price under severe pressure to the extent that no sustained oil price level could be achieved until recently.

1 International Energy Agency (IEA), Oil Market Report, August 2016.
2 Definition of the International Energy Agency (IEA): „IEA defines spare capacity as the capacity levels that can be reached within 90 days and sustained for an extended period.“
3 International Energy Agency (IEA), Oil Market Report, August 2016.
4 Bloomberg: CO1 Brent Crude (ICE) and CL1 WTI Crude (Nymex).

„EARNINGS UNDER PRESSURE, BUT BALANCE SHEET STRUCTURE REMAINS STRONG“

The second-quarter global rig count[5] fell by another 9.3 %, or 144 rigs, to an average 1,407 rigs in June 2016 (March 2016: 1,551 rigs). Year-on-year, the rig count shrank by 34.1 %, or 729 rigs (June 2015: 2,136 rigs). Since the decline had started in 2014, the rig count contracted by more than 60 %. All regions of the world were hit by the reduction of active drilling rigs, most particular North America: The lowest number of 447 rigs was reached at the end of May 2016, down 54.1 % from the previous year's count (973 rigs). The slight recovery of the North American rig count that followed in June 2016 did not yet trigger any sustained reversal of this trend.

BUSINESS DEVELOPMENT

The oilfield service industry has been confronted with the most severe downturn in more than 30 years. Although the market environment has tightened further, Schoeller-Bleckmann Oilfield Equipment AG (SBO) generated a positive operating cashflow in the first half of 2016 and has a fundamentally sound balance sheet structure. The company's strong liquidity base allows SBO to make targeted investments in implementing the long-term growth strategy even in the current cycle, as illustrated by the acquisition of „Downhole Technology LLC“ (Downhole Technology).

Following the acquisition of Canadian „Resource Well Completion Technologies Inc.“ (Resource) in November 2014, SBO took over US-based Downhole Technology on 1 April 2016. With Resource and Downhole Technology, SBO now has become a leading provider of products in the fields of „sliding sleeve“ and „plug-n-perf“, the two dominating completion technologies.

SBO's sales in the first half of 2016 went down by 52.9 % to MEUR 88.0 (1-6/2015: MEUR 186.9). In the first half of 2015, SBO had still profited from the record bookings posted in 2014. As customers showed strong restraint in ordering, bookings dropped by 28.4 % to MEUR 75.0 (1-6/2015: MEUR 104.8). The order backlog at the end of the first half of 2016 stood at MEUR 21.1, following MEUR 34.3 as at 31 December 2015 and MEUR 60.9 as at 30 June 2015. Downhole Technology has delivered positive contributions to SBO's business development from the beginning of the second quarter of 2016.

Customer restraint in ordering went hand in hand with continued pricing headwinds. Management had responded early, already in year 2014, by launching a set of countermeasures to navigate the company safely through the downturn. This course was pursued systematically in the second quarter of the year. Nevertheless, the market collapse was reflected in the operating result of SBO.

[5] Baker Hughes Inc.

Earnings before interest, taxes, depreciation, and amortisation (EBITDA) were MEUR minus 5.7 (1-6/2015: MEUR 45.1). Operating result (EBIT) before one-off effects came to MEUR minus 28.9. By considering one-off expenses for due diligence of MEUR 2.3 and expenses for impairment on property, plant and equipment, and goodwill as well as restructuring of MEUR 5.0, therefore totalling MEUR 7.3, reported operating result (EBIT) came to MEUR minus 36.2 (1-6/2015: MEUR 19.3).

In June 2016, SBO and the minority shareholders of its subsidiary Resource agreed to revaluate the option for acquiring 33 % of the shares in Resource. Up to that point, valuation of the option had been based on Resource's business prospects and the current EBITDA multiple of SBO. As both parties agreed on a fixed multiple in conformity with market conditions, the strong volatility observed so far was reduced, resulting in a more predictable mode of calculation for SBO. In the first half of 2016, valuation based on this fixed multiple generated a non-cash-effective one-off income of MEUR 10.5. The fixed multiple will be used for valuations of the option in the following periods.

The financial result in the first half of 2016 came to MEUR 9.4 (1-6/2015: MEUR minus 14.6). Profit before tax stood at MEUR minus 26.8 (1-6/2015: MEUR 4.8). Profit after tax was MEUR minus 16.9 (1-6/2015: EUR 0.0). Earnings per share arrived at EUR minus 1.06 (1-6/2015: EUR 0.0). The market collapse was reflected also in the margins: The EBITDA margin was minus 6.5 % (1-6/2015: 24.1 %), the EBIT margin was minus 41.1 % (1-6/2015: 10.4 %). The pre-tax margin came to minus 30.4 % (1-6/2015: 2.6 %).

Regardless of the difficult market conditions, SBO generated a positive cashflow from operating activities of MEUR 18.5 in the first half of 2016 (1-6/2015: MEUR 57.1).

The company has a profoundly strong balance sheet structure: Even after the acquisition of 68 % of the shares in Downhole Technology at a purchase price of MUSD 103, SBO's equity ratio as at 30 June 2016 totalled a sound 54.7 % (31 December 2015: 60.8 %). Liquid funds stood at MEUR 137.9 (31 December 2015: MEUR 196.3) and net debt at MEUR 59.7 (31 December 2015: net liquidity MEUR 26.2). Spending for property, plant and equipment and intangible assets (CAPEX) was curtailed by 54.0 % to MEUR 5.9 (1-6/2015: MEUR 12.9) compared to the first half of 2015. Purchase commitments for expenditure in property, plant and equipment as at 30 June 2016 were MEUR 0.2 (30 June 2015: MEUR 2.5).

„SBO RIGOROUSLY PURSUES COUNTERMEASURES"

DEVELOPMENT OF THE SEGMENTS

SBO subdivides its business activities into two segments: High Precision Components (manufacture of high-precision drillstring components) and Oilfield Equipment (non-magnetic drill collars, drilling motors, circulation tools, completion tools and other components including service and repair). Both segments were appreciably affected by the market contraction.

The segment High Precision Components developed in line with considerably curtailed spending by customers in the first half of 2016. Segment sales dropped by 61.8 % to MEUR 33.7 (1-6/2015: MEUR 88.1). Operating result (EBIT) before one-off effects in the segment arrived at MEUR minus 14.3 (1-6/2015: MEUR 6.1).

In the segment Oilfield Equipment the sharp drop in global drilling activity had a dampening effect on the business. Although customers preferred to use high-quality products even in the downturn, declining demand put downward pressure on prices. As a result, sales revenues generated in the segment fell by 45.0 % to MEUR 54.3 (1-6/2015: MEUR 98.7). Operating result (EBIT) before one-off effects in the segment arrived at MEUR minus 11.2 (1-6/2015: MEUR 12.3).

MEASURES TO COMBAT THE DOWNTURN

SBO has gained vast experience in managing the cycles in the oilfield service industry and has promptly responded to the current downturn in order to combat deteriorating market conditions at an early stage. The company launched initial corrective measures already in the second half of 2014 and systematically continued to pursue that course throughout the first half of 2016:

› At the end of the second quarter of 2016, SBO decided to merge its two Singapore-based subsidiaries: „Knust-SBO Far East Pte Ltd." and „SB DARRON Pte. Ltd." will be merged into „Knust-SBD Pte Ltd". Both sites will be operating under joint management. Restructuring will create structural and sustainable cost benefits and should be completed in 2017.

- Capital expenditure was further reduced in the first half of 2016, with the exception of spending for research & development.

- SBO further adjusted personnel capacities as dictated by the markets and the decline in demand: Short-time work was extended at the plant in Ternitz until 31 January 2017. The headcount as at 30 June 2016 was 1,183, or 1,028 without Downhole Technology (1,135 as at 31 December 2015 and 1,279 as at 30 June 2015). This represents a reduction of more than 40 % (31 December 2014: 1,720 employees) since the downturn started in 2014.

- In the first half of 2016, SBO also largely completed the merger of its two US-based subsidiaries „Godwin-SBO L.L.C." and „Knust-SBO L.L.C.", after merger of its two neighbouring subsidiaries „Techman Engineering Ltd." and „Darron Tool & Engineering Ltd." at the site of Techman beginning from the third quarter of 2014. Some remaining activities will be finally settled by the end of the year. Through the merger of the companies each at one location, structural and sustainable cost benefits will be created without curtailing existing capacities. As a result, SBO will be excellently positioned to fully meet the demand that should re-emerge from the next upswing.

- Newly founded sales companies in Saudi Arabia and Mexico offer additional market opportunities, primarily for SBO's subsidiary DSI and its downhole circulation technology, but also for other SBO companies.

RISK REPORT

The business risks of SBO did not change substantially in the first half of 2016 over the risks described in the 2015 annual financial statements. The entire oilfield service industry continues to be confronted with considerable cuts on capital expenditure due to low oil prices and large quantities of crude offered in the market. This has a significant influence on the assets and financial position of SBO, regardless of the corrective measures described in previous quarterly reports and already initiated. Additionally, we refer to all risks described in the Annual Report 2015. We recommend to read this report on the first half of 2016 in conjunction with the risk report contained in the Annual Report 2015.

„SBO CONTINUES TO PURSUE ITS LONG-TERM GROWTH STRATEGY AS PLANNED“

SBO SHARE

The share of SBO started the second quarter of 2016 on 1 April 2016 at a price of EUR 52.94 and closed at EUR 54.34 on 30 June 2016. This represented a share price increase of 2.6 % during the second quarter of the year. Since the decline started in 2014, the share price dropped by 43.4 %, strongly outperforming the development of the oil price (down 54.9 % for WTI and 56.7 % for Brent).

OUTLOOK

Following the Brexit referendum, the International Monetary Fund (IMF) revised down its forecast for global economic growth in 2016 and 2017 by 0.1 percentage points each in July 2016. The IMF now expects growth to come to 3.1 % in 2016 and 3.4 % in 2017. This revision refers to the industrialised economies, where growth should reach 1.8 % both in 2016 and 2017, following 1.9 % in 2015. The emerging markets and developing countries, which, according to the IMF, will hardly see any effect from the Brexit, should grow by an unchanged 4.1 % in 2016 and post an accelerated growth rate of 4.6 % in 2017.[6]

The downturn that has hit the oilfield service industry since the fourth quarter of 2014 is not over yet. As a result of persistent oversupplies of the oil market, oil companies are continuously and heavily cutting back on their spending for E&P in the current financial year, following their massive reduction by 21 % in 2015. Current projections suggest that global E&P spending will be curbed by another 26 % in 2016. The decline in North America is expected to come to 41 %, and 21 % internationally.[7] Compared to the E&P Spending consensus at the date of issue of the report on the first quarter of 2016, projections have thus deteriorated once again.

On the other hand, there are increasing indications that supply and demand in the oil market should gradually move towards reaching a balance. In the second quarter of 2016 the oversupply fell to 0.3 mb/d, albeit attributable to unexpected, one-off production outages such as those caused by forest fires in Canada. But even for full 2016, the IEA expects production in North America to drop by 0.6 mb/d and by 0.9 mb/d in non-OPEC countries (including North America) as a result of sharply scaled back E&P Spending and the associated decline in global drilling activity. OPEC is largely producing at maximum capacity. At the same time, growth in demand may likely be stronger than

[6] IMF World Economic Outlook, Update July 2016.
[7] Evercore ISI Research, June 2016; likewise Barclays, Oil & Gas Weekly, 22 March 2016.

expected only a couple of months ago. In its recent forecast issued in August, the IEA assumes that global demand should go up by 1.5 mb/d in 2016, while 1.2 mb/d had been projected only in May.

Assuming that we continue to see a decline in production combined with rising demand for oil, it is fair to expect that we are heading towards a significant global supply deficit. At that point in time, new spending will be required. It remains unclear when exactly this will be the case. It is widely believed that a balance between supply and demand should be reached in 2017. In any event, past experience in the oilfield service industry has told us one thing: The sharper and longer the downturn, the steeper the next upswing usually is.

With its strong cash balance, low net debt and high equity ratio, SBO is prepared even for a lengthy downturn. The company is carefully reviewing potential cost saving measures and continues the course initiated in 2014 and 2015 to combat the decline in 2016. SBO is improving its cost base and invests specifically in growth: Cost-cutting programmes are implemented consistently and capacities are adjusted further to the market situation. The strategy to develop new markets for the products of SBO in the Oilfield Equipment segment will be pursued.

Based on targeted investments to expand the Completion business and the implementation of ongoing restructuring activities, SBO will be well prepared to benefit fully from the next upswing as technology and market leader.

CONSOLIDATED PROFIT AND LOSS STATEMENT

in TEUR	6 months period ended 30.06.2016	6 months period ended 30.06.2015	3 months period ended 30.06.2016	3 months period ended 30.06.2015
Sales	**88,011**	**186,855**	**41,229**	**79,339**
Cost of goods sold	-90,347	-140,792	-43,807	-61,346
Gross profit	**-2,336**	**46,063**	**-2,578**	**17,993**
Selling expenses	-9,228	-11,113	-4,956	-5,110
General and administrative expenses	-17,249	-16,540	-7,422	-8,119
Other operating expenses	-5,866	-10,165	-959	-805
Other operating income	3,445	11,104	1,553	-732
Profit from operations before impairments and restructuring measures	**-31,234**	**19,349**	**-14,362**	**3,227**
Restructuring income	1,625	0	1,625	0
Restructuring expenses	-1,576	0	-1,576	0
Impairment on tangible assets	-1,738	0	-1,738	0
Impairment on goodwill	-3,273	0	-3,273	0
Profit from operations after impairments and restructuring measures	**-36,196**	**19,349**	**-19,324**	**3,227**
Interest income	1,661	**280**	**970**	**180**
Interest expenses	-2,808	**-4,012**	**-1,524**	**-1,620**
Other financial income	50	**1,229**	**6**	**512**
Other financial expenses	-1	**0**	**0**	**0**
Income/expense from revaluation of option commitments	10,519	**-12,078**	**13,310**	**-12,078**
Financial result	**9,421**	**-14,581**	**12,762**	**-13,006**
Profit/loss before tax	**-26,775**	**4,768**	**-6,562**	**-9,779**
Income taxes	9,876	-4,731	4,702	-559
Profit/loss after tax	**-16,899**	**37**	**-1,860**	**-10,338**
Average number of shares outstanding	15,985,033	15,978,818	15,988,000	15,981,604
Earnings per share in EUR (basic = diluted)	**-1.06**	**0.00**	**-0.12**	**-0.65**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	6 months period ended 30.06.2016	6 months period ended 30.06.2015	3 months period ended 30.06.2016	3 months period ended 30.06.2015
Profit/loss after tax	**-16,899**	**37**	**-1,860**	**-10,338**
Other comprehensive income to be reclassified to profit or loss in subsequent periods				
Foreign exchange adjustment - subsidiaries	-7,842	30,523	8,167	-13,557
Foreign exchange adjustment - other items	-474	1,784	453	-942
Income tax effect	118	-466	-114	215
Other comprehensive income, net of tax	**-8,198**	**31,841**	**8,506**	**-14,284**
Total comprehensive income, net of tax	**-25,097**	**31,878**	**6,646**	**-24,622**

CONSOLIDATED BALANCE SHEET

ASSETS in TEUR	30.06.2016	31.12.2015
Current assets		
Cash and cash equivalents	137,854	196,278
Trade accounts receivable	41,197	49,199
Other accounts receivable and prepaid expenses	10,370	9,525
Assets held for sale	6,688	2,230
Inventories	118,078	133,748
TOTAL CURRENT ASSETS	**314,187**	**390,980**
Non-current assets		
Property, plant & equipment	173,547	193,024
Goodwill	167,968	81,718
Other intangible assets	75,157	50,749
Long-term receivables and assets	12,164	12,864
Deferred tax assets	19,922	11,168
TOTAL NON-CURRENT ASSETS	**448,758**	**349,523**
TOTAL ASSETS	**762,945**	**740,503**

CONSOLIDATED BALANCE SHEET

LIABILITIES AND SHAREHOLDERS´ EQUITY in TEUR	30.06.2016	31.12.2015
Current liabilities		
Bank loans and overdrafts	31,909	32,174
Current portion of long-term loans	7,234	12,783
Finance lease obligations	43	63
Trade accounts payable	9,890	11,150
Government grants	192	205
Income taxes payable	1,375	1,502
Other payables	23,046	24,696
Other provisions	4,368	4,708
TOTAL CURRENT LIABILITIES	**78,057**	**87,281**
Non-current liabilities		
Long-term loans	158,402	125,049
Finance lease obligations	12	27
Government grants	154	153
Employee benefit obligations	5,230	5,821
Other payables	85,396	52,459
Deferred tax liabilities	18,058	19,353
TOTAL NON-CURRENT LIABILITIES	**267,252**	**202,862**
Shareholders´ equity		
Share capital	15,988	15,982
Contributed capital	68,718	68,357
Legal reserve - non-distributable	785	785
Other reserves	17	19
Currency translation reserve	41,968	50,166
Retained earnings	290,160	315,051
TOTAL SHAREHOLDERS´ EQUITY	**417,636**	**450,360**
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY	**762,945**	**740,503**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

1-6/2016 in TEUR	Share capital	Contributed capital	Legal reserve	Other reserves	Currency translation reserve	Retained earnings	Total
1 January 2016	**15,982**	**68,357**	**785**	**19**	**50,166**	**315,051**	**450,360**
Profit/loss after tax						-16,899	-16,899
Other comprehensive income, net of tax					-8,198		-8,198
Total comprehensive income, net of tax	0	0	0	0	-8,198	-16,899	-25,097
Dividend payment						-7,994	-7,994
Share based payment	6	361					367
Change in reserves				-2		2	0
30 June 2016	**15,988**	**68,718**	**785**	**17**	**41,968**	**290,160**	**417,636**

1-6/2015 in TEUR	Share capital	Contributed capital	Legal reserve	Other reserves	Currency translation reserve	Retained earnings	Total
1 January 2015	**15,976**	**67,560**	**785**	**22**	**13,834**	**357,498**	**455,675**
Profit/loss after tax						37	37
Other comprehensive income, net of tax					31,841		31,841
Total comprehensive income, net of tax	0	0	0	0	31,841	37	31,878
Dividend payment						-23,973	-23,973
Share based payment	6	504					510
Change in reserves				-2		2	0
30 June 2015	**15,982**	**68,064**	**785**	**20**	**45,675**	**333,564**	**464,090**

CONSOLIDATED CASHFLOW STATEMENT

in TEUR	6 months period ended 30.06.2016	6 months period ended 30.06.2015
OPERATING ACTIVITIES		
Profit/loss after tax	-16,899	37
Depreciation, amortization and impairments	30,503	25,729
Other non-cash expenses and revenues	-13,076	-7,260
Cashflow from profit	**528**	**18,506**
Change in working capital	**17,926**	**38,624**
Cashflow from operating activities	**18,454**	**57,130**
INVESTING ACTIVITIES		
Expenditures for property, plant & equipment and intangibles	**-5,948**	**-12,941**
Expenditures for the acquisition of subsidiaries less cash acquired	**-90,028**	**0**
Other activities	**1,233**	**1,839**
Cashflow from investing activities	**-94,743**	**-11,102**
FREE CASHFLOW	**-76,289**	**46,028**
FINANCING ACTIVITIES		
Dividend payment	**-7,994**	**-23,973**
Repayments of bonds	**0**	**-20,000**
Change in bank loans and overdrafts & finance lease	**27,484**	**27,982**
Cashflow from financing activities	**19,490**	**-15,991**
Change in cash and cash equivalents	**-56,799**	**30,037**
Cash and cash equivalents at the beginning of the period	**196,278**	**130,220**
Effects of exchange rate changes on cash and cash equivalents	**-1,625**	**5,452**
Cash and cash equivalents at the end of the period	**137,854**	**165,709**

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1

BASIS OF PREPARATION

The interim report as at 30 June 2016 has been prepared in accordance with the principles of the International Financial Reporting Standards (IFRS), rules for interim financial reporting (IAS 34), to be applied in the European Union.

This report on the first half of 2016 of the SBO group has neither been audited nor reviewed by independent accountants.

NOTE 2

ACCOUNTING POLICIES

The accounting and valuation methods of 31 December 2015 have been applied basically unchanged, with the exception of the standards which came into force in 2016. The new regulations do not have a significant implication on the consolidated financial statements. In this context, we refer to the consolidated financial statements for the year ended 31 December 2015.

NOTE 3

SCOPE OF CONSOLIDATION

Acquisition Downhole Technology

As of 1 April 2016 SBO acquired 67,73 % of the shares of Downhole Technology LLC, Houston, US. Therefore, assets and liabilities related to this acquisition were consolidated by the Group starting from 1 April 2016.

The company is a technologically leading provider of patent protected “composite frac plugs” for completion of oil and gas wells and achieved sales at MEUR 38.4 in 2015. Well completion relates to the preparation of the well for the production of oil and gas. Downhole Technology offers composite frac plugs for the so called plug-and-perforation completions process. The patented design, the manufacturing know-how and the high quality standard of its products enable completion of the well to be done faster, more efficiently and more securely. As a consequence, Downhole Technology has reached an outstanding acceptance on the market. With Downhole Technology SBO is now in a position to offer a wider range of tight formation completion tools.

The purchase price allocation of this business combination in the second quarter 2016 has not been finalized. The final valuation of the purchase price allocation will be completed within 12 months after the date of acquisition, once all the bases for calculating the fair values, in particular relating to acquired technology, trademarks, non-compete agreements as well as deferred taxes, have been analyzed in detail.

The purchase price allocation at the time of acquisition based on preliminarily estimated fair values is as follows:

in TEUR	2016
Purchase price paid in cash	90,421
Option commitment relating to cancellable non-controlling interests	42,915
Subtotal	133,336
Net assets	-46,490
Goodwill	86,846

Net assets acquired at the time of acquisition based on preliminarily estimated fair values are as follows:

in TEUR	Fair value
Intangible assets	30,222
Property, plant and equipment	5,372
Inventories	6,178
Trade accounts receivable	7,088
Other receivables and assets	589
Cash and cash equivalents	393
	49,842
Trade accounts payable	-2,004
Other liabilities	-1,348
Net assets	**46,490**

The gross amount of acquired trade accounts receivable amounted to TEUR 8,502. Provisions for expected bad debts were TEUR 1,414. Other receivables and assets correspond to their fair values and were not impaired.

Net cashflows from the acquisition were as follows:

in TEUR	2016
Purchase price paid in cash	90,421
Cash and cash equivalents acquired	-393
	90,028

In the course of this business combination, the Company entitled the non-controlling interests to sell their shares to the Company at any time on or after 1 April 2019. The Company has committed itself to purchase the offered shares. In addition the Company obtained the right to purchase the shares from the non-controlling interests at any time on or after 1 April 2019. The non-controlling interests have committed themselves to sell the respective shares (put- and call option) in this case. The purchase price depends on the profits generated by the acquired company. As the option can be exercised by both parties at equivalent terms, the Group has effectively acquired 100 % of the shares of the subsidiary at the time of the business combination. The anticipated discounted purchase amount under this option is determined based on current planning figures and is recognized in other liabilities as granting of the option created an unconditional payment obligation for the Group. From a group perspective, due to this option agreement, 100 % of the shares of this subsidiary are consolidated. Profits of the respective entity are fully allocated to the owners of the parent company.

Goodwill determined based on the preliminary purchase price allocation is allocated to the segment „Oilfield Equipment" and refers to the expected business development and employee know-how considering the expected synergies arising from the acquisition. It is expected that part of the recognized goodwill can be tax deductible for a period of 15 years.

Reported sales of the Group were increased due to the acquisition by TEUR 7,952, reported profit from operations considering amortization of intangible assets by TEUR 1,087. Had the business been acquired at the beginning of the year, Group's sales would have increased by TEUR 10,923 and profit from operations considering amortization of intangible assets by TEUR 1,489.

In 2016, transaction costs at TEUR 2,544 were paid, thereof an amount of TEUR 2,337 is included in general and administrative expenses in the reporting period.

Formation Adriana Holding

In June 2016 Adriana Holding Company Limited with its corporate seat in Dubai was established.

NOTE 4

SEASONALITY

Business development of SBO is not subject to significant seasonal influences.

NOTE 5

DIVIDEND PAID

	Total amount TEUR	Number of shares (ordinary shares)	Per share EUR
For the business year 2015 paid in 2016	7,994	15,987,900	0.50
For the business year 2014 paid in 2015	23,973	15,981,900	1.50

NOTE 6

SEGMENT INFORMATION

Manufacturing and service sites are combined to the segments "High Precision Components" and "Oilfield Equipment" in accordance with product groups and services offered and existing customer groups, respectively.

The segment "High Precision Components" includes complex machining of high-precision components with utmost high dimensional accuracy which are ordered by the engineering divisions of our customers. The segment "Oilfield Equipment" covers non-magnetic drill collars, drilling motors, circulation tools, completion tools and other components including service and repair work directly ordered by the operating oilfield organizations of our customers.

Internal management of the group as well as the allocation of resources is based on the financial performance of these segments.

Results in the total column correspond to the amounts in the income statement.

1-6/2016 in TEUR	High Precision Components	Oilfield Equipment	SBO-Holding & Consolidation	Group
External sales	33,685	54,326	0	88,011
Intercompany sales	11,853	6,007	-17,860	0
Total sales	45,538	60,333	-17,860	88,011
Profit from operations before impairments and restructuring measures	-14,308	-11,151	-5,775	-31,234
Profit before taxes	-15,823	-4,098	-6,854	-26,775

1-6/2015 in TEUR	High Precision Components	Oilfield Equipment	SBO-Holding & Consolidation	Group
External sales	88,125	98,730	0	186,855
Intercompany sales	30,080	37,110	-67,190	0
Total sales	118,205	135,840	-67,190	186,855
Profit from operations before impairments and restructuring measures	6,082	12,275	992	19,349
Profit before taxes	6,195	280	-1,707	4,768

NOTE 7

OWN SHARES

During the reporting period the company transferred 6,000 SBO shares to the Chief Executive Officer based on the share based payment program introduced in 2014.

NOTE 8

RESTRUCTURING EXPENSES AND INCOME

Restructuring expenses amounting to MEUR 1.6 refer to the combination of production sites in the US in the segment High Precision Components which was started in 2015 and continued in 2016. In combination with these restructuring measures machines which were classified as held for sale in the group financial statements 2015 were sold in 2016. This sale resulted in income of MEUR 1.6 reported as restructuring income in the reporting period.

NOTE 9

IMPAIRMENT

The group performed impairment tests as of 30 June 2016. These resulted in an impairment charge related to the cash generating unit Resource Well Completion Technologies Inc. within the segment Oilfield Equipment mainly due to increasing WACCs caused by external factors. Impairment expenses at MEUR 3.3 are reported in the profit and loss item „impairment on goodwill".

In connection with the mentioned combination of production sites in the US the decision to sell property not needed anymore for manufacturing purposes was made during the reporting period. Immediately before reclassification to assets held for sale, impairment was recorded at MEUR 1.7 due to evaluation of the building at its fair value. This impairment amount is reported in the profit and loss account in the line item "impairment on tangible assets".

NOTE 10

RELATED PARTY TRANSACTIONS

With respect to business transactions with related parties there were no substantial changes compared to 31 December 2015. All transactions with related parties are carried out at generally acceptable market conditions. For further information on individual business relations please refer to the consolidated financial statements of SBO AG for the year ended 31 December 2015.

NOTE 11

FINANCIAL INSTRUMENTS

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have significant effects on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at balance sheet date, the Group held the following classes of financial instruments measured at fair value:

in TEUR	Balance sheet item	30.06.2016	Level 2	Level 3
Liabilities				
Derivatives	Other liabilities	-63,450	-25	-63,425

in TEUR	Balance sheet item	31.12.2015	Level 2	Level 3
Liabilities				
Derivatives	Other liabilities	-30,432	-87	-30,345

During the reporting period 2016 there were no transfers between level 1 and level 2 fair value measurements. In general, if required, transfers are carried out at the end of each reporting period.

Derivatives shown under level 3 consist only of contingent liabilities for purchase price payments and the option commitments relating to cancelable non-controlling interests to purchase the offered shares from the minority shareholders. The development in the reporting period 2016 was as follows:

in TEUR	Contingent purchase price payments	Option commitments
As at 1 January 2016	-2,290	-28,055
Additions from business combinations	0	-42,915
Addition of accrued interest	-1	-1,026
Gains from revaluation	50	680
Losses from revaluation	-1	-9,351
Disposals from settlements	2,169	0
Currency adjustment	55	-1,931
Disposal from contract amendments	0	32,220
Addition from contract amendments	0	-13,029
As at 30 June 2016	**-18**	**-63,407**

The foreign currency forward contracts are measured based on observable spot exchange rates.

The contingent purchase price payments from business combinations and the option commitments relating to cancelable non-controlling interests are measured at balance sheet date according to the underlying agreements based on the expected discounted payments using the most recent sales forecast. The liabilities are discounted using a risk adequate discount rate for the duration of each liability.

The contingent purchase price payments determined as a certain percentage of achieved sales (to a certain extent when sales are exceeding a contractually agreed upon amount) are to be paid on a yearly basis. One agreement on contingent purchase prices was finally fulfilled with the payment of the last portion during the reporting period 2016 based on sales of 2015. The remaining liabilities for contingent purchase price payments have a residual term of further three years. Gains from revaluation refer to unrealized profits and are reported in the income statement within “other financial income“.

The exercise price of the option commitments relating to cancelable non-controlling interests is based on the achieved financial results of the acquired entities. During the reporting period one option agreement was amended replacing the EBITDA multiple of SBO at the exercise date by a fixed multiple. Gains and losses from revaluation refer to non cash-effective unrealized gains and losses and are reported in the income statement together with the disposal and addition from contract amendments within “income/expense from revaluation of option commitments”.

The sensitivity analysis for significant, non-observable input factors is as follows:

in TEUR	Assumption	Change in assumption	If assumption increases, liability changes by	If assumption decreases, liability changes by
Option commitments relating to cancellable non-controlling interests	Net results	+/-10 %	+6,342	-6,340
	Interest rate 27.5 % resp. 1.1 % resp. 1.9 %	+/-10 resp.+/-1 percentage points	-2,166	+2,040
Contingent purchase price payments from business combinations	Sales	+/- 10%	+2	-2
	Interest rate 13.4 %	+/-1 percentage point	0	1

For each category of financial instruments which are amortized at acquisition costs, both the carrying value and the deviating fair value are provided in the table below:

		30.06.2016		31.12.2015	
in TEUR	Level	Carrying value	Fair value	Carrying value	Fair value
Liabilities					
Borrowings from banks, finance lease obligations and other loans	2	-197,600	-203,447	-170,096	-171,377

For assessing the fair value of lendings, borrowings and leasing obligations, the expected cashflows have been discounted using market interest rates. Regarding bank and other long-term loans with variable interest, the interest rates charged are current market rates, resulting in the fact that the carrying values equal the fair values to a large extent. Cash and cash equivalents, trade receivables and payables and all other items have mostly short residual lives. Therefore, the carrying values equal the fair values at the balance sheet date.

NOTE 12

EVENTS AFTER THE BALANCE SHEET DATE

Based on the resolution of the Annual General Meeting of 27 April 2016 relating to the authorization to acquire treasury shares the company acquired 40,597 own shares at a purchase price of TEUR 2,167 after the balance sheet date.

Furthermore, no important events have occurred after the balance sheet date.

STATEMENT OF ALL LEGAL REPRESENTATIVES

We confirm to the best of our knowledge that the condensed interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the half-year group management report gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the condensed interim financial statements, and of the principal risks and uncertainties for the remaining six months of the financial year and of the major related party transactions to be disclosed.

Ternitz, 23 August 2016

Gerald Grohmann **Klaus Mader**

Executive Board

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