SCHOELLER BLECKMANN OILFIELD EQUIPMENT

Letter to our Shareholders 1-6/2011

HIGHLIGHTS

- Positive economic development drives sound business performance
- Sharp sales increase and further profit improvement
- Continued strong bookings situation also in Q 2

MANAGEMENT REPORT

Market environment

In the first half of 2011 global trade and worldwide industrial production saw sharp growth despite the natural and nuclear disaster in Japan and political upheaval in the Middle East and North Africa. Following a very strong first quarter, global economic activity slightly declined in the second quarter of 2011. In particular, growing commodity and energy prices and tighter monetary policies introduced in some emerging markets to combat economic overheating had an impact on the overall development in recent months.[1]

In total, the International Monetary Fund (IMF) expects average global economic growth in 2011 to arrive at 4.3 %, following 5.1 % in 2010.[2]

According to estimates of the International Energy Agency (IEA) global demand for oil in the second quarter of 2011 amounted to 88.2 million barrels per day (following 87.4 million barrels per day in the second quarter of 2010). Compared to demand in the first quarter of 2011 of 89.1 million barrels per day (demand in Q1 2010: 86.9 million barrels per day), this shows that the increase of consumption has flattened out, mainly due to the high oil price level. For full 2011, the IEA projects global demand to average at 89.5 million barrels per day, representing a growth of consumption of 1.2 million barrels per day, or 1.4 %, vs. 2010.[3]

As already seen in the first quarter of the year, political unrest in North Africa and the Middle East left its mark on the oil price in the second quarter. While early in 2011 the price of US-brand WTI had stood at USD 91.59 per barrel, it was climbing to USD 106.19 per barrel, or 16 %, by 31 March 2011. On 29 April 2011 the price of one barrel of WTI reached its half-year high of USD 113.39. The price of one barrel of Brent went as high as USD 126.64 (up 32 % since the beginning of the year) on 2 May 2011.[4]

The IEA announced on 23 June 2011 that industrial countries would release their oil reserves and make available 60 million barrels of crude oil to the market. This was due, it was said, to the ongoing unrest in Libya and the production losses involved and the anticipated rise in oil demand in the third quarter of 2011. Moreover, the IEA wanted to bridge the period until major OPEC producers would supply the market with sufficient additional quantities of crude oil.[5]

On 30 June 2011, the price of one barrel of WTI was USD 95.30, and USD 111.71 per barrel of Brent.[6]

The rig count[7], the number of globally active drilling rigs, went up 10 % from 3227 units at the end of 2010 to 3536 units at the end of February 2011. In June 2011, 3257 rigs were operating worldwide. While the Canadian rig count typically dipped in the spring season, the number of active rigs in the US continued to rise. Unlike before, more than half of all rigs in the US were drilling for oil and not for gas.

Business development

The positive overall economic setting in the first half of 2011 was the foundation of the more than healthy year-on-year development of sales and profit posted by Schoeller-Bleckmann Oilfield Equipment AG (SBO). Strong demand for SBO products was reflected in very high bookings totalling MEUR 208 in the first half, up approximately 25 % from MEUR 166 posted in the same period last year that had already been marked by the upward tendency seen after the economic crisis. The order backlog as at 30 June 2011 worth MEUR 137.1 had also gone up from MEUR 116.7 as at 30 June 2010.

Sales generated in the first half of 2011 surged 52 % vs. 2010, from MEUR 127.6 to MEUR 194.4. Following MEUR 14.2 in the same period last year, earnings before interest and tax (EBIT) climbed to MEUR 40.1, exceeding last year's figures by 183 %, which represents an EBIT margin of 20.6 % (following 11.1 % in the first half of 2010). Profit before tax (PBT) also reached an attractive level of MEUR 34.7 (following MEUR 11.5 in the first half of 2010), bringing the PBT margin to 17.8 % (following 9.0 %).

> „Satisfying bookings situation - Basis of sound sales and profit development in the first quarter"

Profit after tax went up 204 % and came in at MEUR 23.6 in the first half of 2011, from MEUR 7.8 year-on-year, which represents half-year earnings per share of EUR 1.46 (2010: EUR 0.49).

The slightly grown net debt of MEUR 68.1 at mid-year (following MEUR 48.9 at the end of 2010) was attributable to an increase of the working capital as a result of larger business volumes. Consequently, SBO's gearing ratio at mid-2011 was 26.6 % (following 8.3 % as at 30 June 2010).

Due to the sound order situation all sectors of SBO could improve their capacity utilisation compared to the first half of 2010 and, as a result, better fixed cost coverage. These factors combined with rising sales figures made a decisive contribution to profit improvement. Essentially, the solid business development was observed in all segments of the company.

Healthy development was posted for BICO's drilling motor business. The new motor type „Spiro Star Supreme" offering improved performance features was accepted well by the market. Another factor was the generally very strong demand for drilling motors against the background of sharply rising shale drilling activities in the US, where BICO's special motors are used.

Drilling Systems International (DSI), a subsidiary acquired last year, developed according to plan and was awarded a major contract by Brazilian oil company Petrobras. While the Service & Supply Shops recorded excellent business in America (Gulf region, orders from Brazil), the Middle and Far East lagged slightly behind that dynamic development.

The headcount as at 30 June 2011 was 1368 (following 1317 at the end of the first quarter of 2011, or 1135 as at 30 June 2010). New employees were mainly recruited in the downhole tools sector and at the Austrian production site in Ternitz.

Capital expenditure

Capital expenditure in the first half of 2011 was MEUR 17.1 (following MEUR 10.6 in the first half of 2010), allocated primarily

[1] *WIFO, 30 June 2011*
[2] *IWF: World Economic Outlook Update, June 2011*
[3] *IEA: Oil Market Report, July 2011; Oil Market Report, April 2011*
[4] *EIA: Spot Prices for Crude Oil and Petroleum Products*
[5] *IEA: Oil Market Report, July 2011*
[6] *EIA: Spot Prices for Crude Oil and Petroleum Products*
[7] *Baker Hughes Worldwide Rig Count; Baker Hughes U.S. Oil & Gas Split*

to expand the drilling motor fleet of subsidiary BICO, and to build the new production site of Knust-SBO Far East in Singapore as planned plus maintenance investments at all sites. Purchase commitments for expenditure in property, plant and equipment as at 30 June 2011 were MEUR 8.8 (MEUR 3.9 as at 30 June 2010). Production will be started up at Knust-SBO Far East in the second half of 2011.

Risk report

Business risks of Schoeller-Bleckmann Oilfield Equipment AG did not change substantially in the first six months of 2011 over the risks mentioned in the annual financial statements 2010. We therefore refer to the risks described in the Annual Report 2010, in particular the USD/EUR currency exchange rate and recommend to read this report on the first half of 2011 in conjunction with the Annual Report 2010.
Turbulences occurring in the international financial markets early in Q3 2011 could have significant repercussions on the global economic climate and therefore on energy demand and energy prices and, as a consequence, on the oilfield service industry and business development of SBO.

The SBO share

The share of Schoeller-Bleckmann Oilfield Equipment AG completed the first half of the year (30 June 2011) at EUR 59.73. Compared to the closing price of EUR 37.33 on 30 June 2010 this represents an increase of 60 %. In the wake of the global stock market plunge, SBO's share price fell 18 % from early 2011 through 11 August 2011, whereas Vienna's ATX blue-chip index went down by 27 %.

Outlook

Basically, we expect the positive development of the oilfield service industry to continue throughout the second half of 2011, although international risks threatening economic activity have been rising sharply due to the turbulences recently occurring in the world trade markets. In particular, high commodity prices in some sectors, current energy cost levels, the Euro crisis and potential flattening of economic growth in the US and Europe could weaken global economic recovery in the second half of 2011.[8]
However, as long as demand for oil and gas – mainly in the still booming emerging markets – remains on a high level, we expect the positive development of the industry cycle to continue, as it would gain additional support from the current oil price.
From today's perspective, Schoeller-Bleckmann Oilfield Equipment AG therefore expects to benefit from a friendly market environment and strong demand in the second half of 2011. However, this trend could revert very rapidly in a global economic downturn. At any rate, SBO has taken precautions to promptly respond to such a scenario by adjusting capacities. In such a case, the company's low debt and strong liquidity would provide a strong buffer to mitigate effects.
Mid- to long-term tendencies showing that the rising demand for oil and gas can only be covered by rising drilling activities and increasingly complex technologies are unchanged and will remain a stable driver for growing demand for products offered by Schoeller-Bleckmann Oilfield Equipment AG.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

The interim report as at 30 June 2011 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.
The accounting and valuation methods of 31 December 2010 have been applied basically unchanged, with the exception of the standards which came into force in 2011. 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 2010. In the first six months of 2011 no changes occurred in the scope of consolidation.
Business development of SBO is not subject to seasonal influences.
No important events have occurred after the balance sheet date.
This report on the first half of 2011 of the SBO group has neither been audited nor reviewed by independent accountants.

[8] *WIFO, 30 June 2011*

STATEMENT OF ALL LEGAL REPRESENTATIVES

We confirm to the best of our knowledge that the 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 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 interim financial statements, and of the principal risks and uncertainties for the remaining nine months of the financial year and of the major related party transactions to be disclosed.

Gerald Grohmann
Chairman of the
Executive Board, CEO

Franz Gritsch
Member of the
Executive Board, CFO

CONSOLIDATED PROFIT AND LOSS STATEMENT

in TEUR	6 months ended 30.06.2011	6 months ended 30.06.2010	3 months ended 30.06.2011	3 months ended 30.06.2010
Sales	**194,412**	**127,571**	**97,064**	**74,012**
Costs of goods sold	-132,968	-99,435	-66,328	-56,281
Gross profit	**61,444**	**28,136**	**30,736**	**17,731**
Selling expenses	-7,531	-5,324	-3,634	-2,858
General and administrative expenses	-10,922	-9,857	-5,354	-5,762
Other operating expenses	-8,406	-5,402	-3,022	-3,584
Other operating income	5,545	6,645	1,444	3,815
Profit from operations	**40,130**	**14,198**	**20,170**	**9,342**
Interest income	387	340	220	215
Interest expenses	-3,196	-2,601	-1,587	-1,405
Other financial income	0	0	0	0
Other financial expenses	-2,642	-394	-1,391	-300
Financial result	**-5,451**	**-2,655**	**-2,758**	**-1,490**
Profit before tax	**34,679**	**11,543**	**17,412**	**7,852**
Income taxes	-11,054	-3,783	-5,356	-2,543
Profit after tax	**23,625**	**7,760**	**12,056**	**5,309**
Thereof attributable to non-controlling interests	298	0	190	0
Thereof attributable to the owners of the parent company	23,327	7,760	11,866	5,309
	23,625	**7,760**	**12,056**	**5,309**
Average number of shares outstanding	15,960,116	15,918,514	15,960,116	15,930,116
Earnings per share in EUR (basic = diluted)	**1.46**	**0.49**	**0.74**	**0.33**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	6 months ended 30.06.2011	6 months ended 30.06.2010	3 months ended 30.06.2011	3 months ended 30.06.2010
Profit after tax	23,625	7,760	12,056	5,309
Foreign exchange adjustment - subsidiaries	-16,973	28,340	-3,874	18,343
Foreign exchange adjustment - other items	-3,122	5,718	-730	3,140
Income tax effect	780	-1,430	182	-785
Hedging of a net investment	0	-1,088	0	-678
Income tax effect	0	272	0	169
Other comprehensive income, net of tax	-19,315	**31,812**	-4,422	**20,189**
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**4,310**	**39,572**	**7,634**	**25,498**
Thereof attributable to non-controlling interests	-118	0	96	0
Thereof attributable to the owners of the parent company	4,428	39,572	7,538	25,498
	4,310	**39,572**	**7,634**	**25,498**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

in TEUR	6 months ended 30.06.2011	6 months ended 30.06.2010
As at 1 January	267,127	229,808
Profit after tax	23,625	7,760
Other comprehensive income, net of tax	-19,315	31,812
Total comprehensive income, net of tax	4,310	39,572
Dividend paid	-15,960	-7,965
Disposal of own shares	0	2,864
Income tax effect	0	-278
AS AT 30 JUNE	**255,477**	**264,001**

CONSOLIDATED BALANCE SHEET

ASSETS in TEUR	30.06.2011	31.12.2010
Current assets		
Cash and cash equivalents	106,682	136,989
Trade accounts receivable	65,638	57,876
Other accounts receivable and prepaid expenses	6,202	5,655
Inventories	109,129	100,517
TOTAL CURRENT ASSETS	**287,651**	**301,037**
Non-current assets		
Property, plant & equipment	134,581	138,757
Goodwill	53,682	57,089
Other intangible assets	46,864	52,761
Long-term receivables	9,031	5,620
Deferred tax assets	5,167	6,303
TOTAL NON-CURRENT ASSETS	**249,325**	**260,530**
TOTAL ASSETS	**536,976**	**561,567**

LIABILITIES AND SHAREHOLDERS´ EQUITY in TEUR	30.06.2011	31.12.2010
Current liabilities		
Bank loans and overdrafts	33,178	36,227
Current portion of long-term loans	22,602	17,839
Finance lease obligations	391	418
Accounts payable trade	36,041	39,760
Government grants	398	401
Income taxes payable	5,368	6,981
Other payables	18,816	19,266
Other provisions	6,495	5,903
TOTAL CURRENT LIABILITIES	**123,289**	**126,795**
Non-current liabilities		
Bonds	39,884	39,864
Long-term loans	78,320	90,887
Finance lease obligations	390	611
Government grants	1,085	1,115
Employee benefit obligations	3,990	3,690
Other payables	24,184	19,289
Deferred tax liabilities	10,357	12,189
TOTAL NON-CURRENT LIABILITIES	**158,210**	**167,645**
Shareholders´ equity		
Share capital	15,960	15,960
Contributed capital	65,203	65,203
Legal reserve - non-distributable	785	785
Other reserves	34	36
Currency translation reserve	-39,751	-20,852
Retained earnings	212,266	204,897
Equity attributable to the owners of the parent company	254,497	266,029
Non-controlling interests	980	1,098
TOTAL SHAREHOLDERS´ EQUITY	**255,477**	**267,127**
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY	**536,976**	**561,567**

CONSOLIDATED CASH-FLOW STATEMENT

in TEUR	6 months ended 30.06.2011	6 months ended 30.06.2010
Cash and cash equivalents at the beginning of the period	136,989	96,640
Cash earnings	45,874	19,231
Cash flow from operating activities	15,883	38,993
Cash flow from investing activities	-15,219	-9,911
Cash flow from financing activities	-26,222	-12,570
Effects of exchange rate changes and revaluations	-4,749	6,792
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**106,682**	**119,944**

DIVIDEND PAID

	Total amount TEUR	Number of shares (ordinary shares)	Per share EUR
For the business year 2010 paid in 2011	15,960	15,960,116	1,00
For the business year 2009 paid in 2010	7,965	15,930,116	0,50

SEGMENT INFORMATION

in TEUR	Europe	North America	Other regions	SBO-Holding & Consolidation	Group
1-6/2011					
External sales	33,493	138,762	22,157	0	194,412
Intercompany sales	66,856	10,352	589	-77,797	0
Total sales	100,349	149,114	22,746	-77,797	194,412
Operating profit	16,668	22,457	3,744	-2,739	40,130
1-6/2010					
External sales	25,573	99,222	2,776	0	127,571
Intercompany sales	27,671	7,141	709	-35,521	0
Total sales	53,244	106,363	3,485	-35,521	127,571
Operating profit	4,327	8,592	-880	2,159	14,198

- Schoeller-Bleckmann Oilfield Equipment AG is the global market leader in high-precision components for the oilfield service industry.
- The business focus is on non-magnetic drillstring components for high-tech directional drilling.
- Worldwide, the company employs a workforce of 1,368 (end of 2010: 1,275), thereof 392 in Ternitz/Austria and 603 in North America (including Mexico).

For additional information please contact: Schoeller-Bleckmann Oilfield Equipment AG, A-2630 Ternitz/Austria, Hauptstraße 2
phone: +43 2630 315 251, fax: +43 2630 315 501, e-mail: f.schuetz@sbo.co.at, Internet: www.sbo.at