LETTER TO OUR SHAREHOLDERS 1-3 / 2014

HIGHLIGHTS

- **Q1 bookings pointing upwards**
- **Continued strong profitability**
- **Market environment for oilfield service industry remains stable**

MANAGEMENT REPORT

Market environment

The global economy increasingly picked up in the first months of 2014, with individual world regions developing at different rates. Decisive growth impulses came from the industrialised nations, first and foremost the US. In the euro zone fragile, but nevertheless progressing economic recovery was observed. Economic growth in the emerging markets developed rather modestly, in line with last year's tendency, but remained at a high level.[1]

Average global demand for oil, according to the International Energy Agency (IEA), arrived at 91.2 million barrels per day (mb/d) in the first quarter of 2014, representing an increase of 0.8 mb/d, or 0.9 %, from the same quarter of last year. The global oil market was well supplied in the first quarter of 2014. Temporarily weaker supplies from OPEC were set off by increased oil production in non-OPEC countries. OPEC's effective spare capacity, according to the IEA, stood at 3.53 million barrels per day and, therefore, slightly above last year's reading (end of first quarter of 2013: 3.47 mb/d).[2]

Prices of WTI and Brent crudes diverged over the first quarter of 2014. US crude WTI started into the new year 2014 at a price of USD 95.14, then, after having reached its quarterly low on 9 January (USD 91.36) was climbing continuously, and closed at a price of USD 101.57 at the end of March 2014, resulting in a rise of just under 7 % in the first quarter of 2014. Brent opened the first quarter of 2014 at a price of USD 107.94, went to its low of USD 105.73 on 20 March 2014, and arrived at USD 105.95 at the end of March. All in all, while the price of Brent fell slightly by around 2 % in the first quarter of 2014, it remained at the usual high level. Both crude oils reached their quarterly highs on 3 March 2014 (WTI: USD 105.34; Brent: USD 111.26).[3] Supply disruptions in the Middle East and North Africa as well as the tense political situation between Russia and the Ukraine drove up oil prices at the beginning of March.[4]

The worldwide rig count[5], the parameter of all globally operating drilling rigs, went up by 3 % year-on-year and arrived at 3597 units at the end of March 2014 (2013: 3488). The international rig count (worldwide rig count without the US and Canada) grew by 6 %, from 1268 units to 1345 units, compared to the end of the first quarter of last year.

In global terms, increases were reported primarily in the Middle East and the United States, whereas declines were posted in Latin America (- 7 % year-on-year) and Canada. Due to the seasonal spring breakup, the Canadian rig count had decreased from 504 at the beginning of the year to 449 rigs at the end of March 2014.

The rig count in the US went up both in the first quarter of 2014 (+ 2 %) and from the previous year (+ 3 %). Here the trend towards oil drilling continued: At the end of March 2014, 82 % of all US wells were oil wells, while gas wells accounted for 18 %. At the end of March 2013 the share had been 78 % for oil wells and 22 % for gas wells. The share of directional and horizontal drilling rigs in the total number of drilling units in North America rose further to 79 % at the end of March, whereas, at the same time of last year, they had accounted for 75 %.

„SBO increased bookings volume by 22 % year-on-year."

Business development

Schoeller-Bleckmann Oilfield Equipment AG (SBO) looks back on stable business development in the first quarter of 2014. With clearly rising numbers of bookings, earnings were generated at the same level seen in the first quarter of last year.

Sales revenues of MEUR 112.4 generated in the first quarter of 2014 came in slightly below the reading of the first quarter of 2013, MEUR 115.8. This was still due to the weaker bookings situation of last year reflected in the sales figures of the first weeks of 2014. Earnings before interest, taxes, depreciation and amortisation (EBITDA) arrived at MEUR 31.8, remaining largely at the level of the first quarter of 2013 (MEUR 32.8). This represented an EBITDA margin of 28.3 % (following 28.3 % in the year before). Earnings before interest and taxes (EBIT) of MEUR 21.9 of the first quarter (following MEUR 23.2) arrived at the same level as in the first quarter of 2013, as did profit before tax of MEUR 20.0 (following MEUR 20.5). Profit after tax was MEUR 14.5, following MEUR 14.2, representing quarterly earnings per share of EUR 0.91 (following EUR 0.88 in the first quarter of 2013), also at the same level of the year before.

[1] IWF World Economic Outlook (WEO), April 2014
[2] IEA Oil Market Report, April 2014
[3] U.S. Energy Information Administration
[4] IEA Oil Market Report, April 2014
[5] Baker Hughes Inc. Rig Count

„Improved product mix generates attractive gross margin of 32 %."

An improved product mix due to a growing number of high-tech repairs brought the gross margin to as much as 32 % (after 29.3 % in Q1 2013). At the same time, the USD/EUR exchange rate fell by EUR 0.05, which negatively impacted business development: Had the exchange rate remained at the level of the first quarter of 2013, sales revenues would have gone up by approx. MEUR 3.3 and EBIT by approx. MEUR 1.6.

In the first quarter of 2014 SBO posted an increase in bookings of 22 % to MEUR 114.0 (following MEUR 93.3 in the first quarter of 2013). This was seen above all in the segment of high-precision components, which had been hit by a decline in demand in fiscal 2013. All other segments received largely stable bookings when compared to the previous quarters.

In the first quarter of 2014, the product group of downhole tools, oilfield supplies and service continued to develop very positively both in terms of sales and profit, as had been observed in the preceding quarter. This was due, among other factors, to the capital spent last year for expanding the drilling motor and circulation tools fleets.

The headcount as at the end of the first quarter of 2014 was 1625 (1569 as at 31 March 2013, 1574 as at 31 December 2013).

Capital expenditure

Capital expenditure in tangible fixed assets in the first quarter of 2014 amounted to MEUR 11.5 (following MEUR 9.1 in the first quarter 2013) and was spent mainly for maintenance activities at all sites. Moreover, SBO invested both in expanding the drilling motor fleet in the US and Canada, and the circulation tools fleet of DSI. Further spending was allocated to manufacturing at the sites located in Vietnam, the US and Ternitz. Expansion of the new production facility in Ternitz has been completed for the time being: Stage one of this multi-annual spending programme went operational as planned early in 2014. At the next stage, additional production capacities will be installed at the Ternitz site.

Total purchase commitments for expenditure in property, plant and equipment as at 31 March 2014 were MEUR 7.0 (MEUR 21.7 as at 31 March 2013).

Risk report

Business risks of Schoeller-Bleckmann Oilfield Equipment AG did not change substantially in the first three months of 2014 over the risks mentioned in the 2013 annual financial statements. We therefore refer to the risks described in the Annual Report 2013, in particular, as already mentioned, the risk associated with the USD/EUR currency exchange rate. We recommend to read this report on the first quarter of 2014 in conjunction with the Annual Report 2013.

The SBO share

The share of Schoeller-Bleckmann Oilfield Equipment AG started into 2014 at a price of EUR 82.10 (2 January 2014). The quarterly high of EUR 91.00, the new all-time high, was recorded on 13 January 2014. The share ended the first quarter at EUR 84.88 on 31 March 2014. Compared to the previous year, this closing price represented an increase of 8.7 % (28 March 2013: EUR 78.12).

„SBO share price rose 8.7% year-on-year."

Annual General Meeting 2014

The Annual General Meeting held in April 2014 adopted a resolution to distribute an unchanged dividend from last year of EUR 1.50 for the 2013 financial year, of which EUR 0.50 are attributed to the basic dividend and EUR 1.00 to the bonus.

The Executive Board and the Supervisory Board were granted discharge for the 2013 financial year. The existing share buyback programme was renewed. Furthermore, an anticipatory resolution was passed for the next five years to issue new shares for a maximum of 10 % of the existing share capital.

At the elections to the Supervisory Board, Mag. Brigitte Ederer was elected as a new member for a term of five years. Dipl. Ing. Mag. Helmut Langanger, whose Supervisory Board mandate ended at this year's Annual General Meeting by draw, was reappointed for another five years.

For the current fiscal year, SST Schwarz & Schmid Wirtschaftsprüfungsges.m.b.H. was appointed auditor of the annual financial statements of the company, and Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. was appointed auditor of the consolidated financial statements.

Outlook

The International Monetary Fund (IMF) expects to see further consolidation of global economic growth in the months ahead, even though recovery will remain fragile. Following global growth of 3.0 % in 2013, the IMF anticipates an increase of 3.6 % for 2014 and 3.9 % for 2015. Industrialised nations should grow by 2.2 % in 2014, following 1.3 % in 2013. According to the IMF, growth will be strongest in the United States, arriving at 2.8 %. With an anticipated economic growth of 1.2 % in 2014 (following -0.5 % in 2013), the euro zone will most likely leave recession behind. Emerging markets, the IMF says, will come to a total growth rate of 4.9 % in 2014 (following 4.7 % in 2013). The IMF significantly revised downwards growth expectations for some countries (Russia, Brazil), but emerging markets will nonetheless account for two thirds of global growth.[6]

Fundamental data of global economic recovery and, with it, further continuous rise of oil and gas consumption remain intact, despite China's decelerating growth and current political unrest in the Ukraine. As a result, the International Energy Agency currently expects global oil consumption to increase by 1.3 mb/d or 1.4 % to total 92.7 million barrels per day in 2014.[7]

To the oilfield service industry, this spells continuation of a stable environment in the coming months, supported by a well-balanced supply and demand situation for oil, strong drilling activity in North America and robust oil prices.

Also to SBO, the development of bookings in the first quarter points to the right direction. It is a consequence of the rising number of shale, deepwater and ultra deepwater wells requiring particularly high technological efforts. With its ongoing capex programme, SBO is therefore perfectly prepared to fully meet future customer requirements.

[6] *IWF World Economic Outlook (WEO), April 2014*
[7] *IEA Oil Market Report, April 2014*

CONSOLIDATED PROFIT AND LOSS STATEMENT

in TEUR 3 months period ended	31 Mar 2014	31 Mar 2013
Sales	**112,446**	**115,801**
Cost of goods sold	-76,476	-81,894
Gross profit	**35,970**	**33,907**
Selling expenses	-5,501	-4,679
General and administrative expenses	-7,998	-6,319
Other operating expenses	-2,971	-4,516
Other operating income	2,375	4,794
Profit from operations	**21,875**	**23,187**
Interest income	118	154
Interest expenses	-2,375	-2,805
Other financial income	421	0
Financial result	**-1,836**	**-2,651**
Profit before tax	**20,039**	**20,536**
Income taxes	-5,581	-6,325
Profit after tax	**14,458**	**14,211**
Thereof attributable to non-controlling interests	0	199
Thereof attributable to the owners of the parent company	14,458	14,012
	14,458	**14,211**
Average number of shares outstanding	15,912,239	15,960,116
Earnings per share in EUR (basic = diluted)	**0.91**	**0.88**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR 3 months period ended	31 Mar 2014	31 Mar 2013
Profit after tax	**14,458**	**14,211**
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Foreign exchange adjustment - subsidiaries	177	6,310
Foreign exchange adjustment - other items	15	671
Income tax effect	-4	-168
Other comprehensive income, net of tax	**188**	**6,813**
Total comprehensive income, net of tax	**14,646**	**21,024**
Thereof attributable to non-controlling interests	0	334
Thereof attributable to the owners of the parent company	14,646	20,690
	14,646	**21,024**

CONSOLIDATED BALANCE SHEET

ASSETS in TEUR	31 Mar 2014	31 Dec 2013
Current assets		
Cash and cash equivalents	159,794	158,366
Trade accounts receivable	79,693	78,636
Other accounts receivable and prepaid expenses	4,081	7,103
Inventories	132,723	133,057
TOTAL CURRENT ASSETS	**376,291**	**377,162**
Non-current assets		
Property, plant & equipment	191,087	188,430
Goodwill	63,535	63,517
Other intangible assets	44,348	45,625
Long-term receivables and assets	16,497	17,046
Deferred tax assets	11,278	11,681
TOTAL NON-CURRENT ASSETS	**326,745**	**326,299**
TOTAL ASSETS	**703,036**	**703,461**

LIABILITIES AND SHAREHOLDERS´ EQUITY in TEUR	31 Mar 2014	31 Dec 2013
Current liabilities		
Bank loans and overdrafts	32,181	32,132
Current portion of long-term loans	12,624	12,622
Finance lease obligations	40	81
Accounts payable trade	22,479	35,347
Government grants	291	294
Income taxes payable	13,238	10,872
Other payables	29,824	27,522
Other provisions	9,461	9,310
TOTAL CURRENT LIABILITIES	**120,138**	**128,180**
Non-current liabilities		
Bonds	19,983	19,980
Long-term loans	109,098	110,166
Government grants	458	462
Employee benefit obligations	6,077	5,987
Other payables	35,481	37,617
Deferred tax liabilities	18,823	18,882
TOTAL NON-CURRENT LIABILITIES	**189,920**	**193,094**
Shareholders´ equity		
Share capital	15,912	15,912
Contributed capital	61,567	61,567
Legal reserve - non-distributable	785	785
Other reserves	25	26
Currency translation reserve	-30,015	-30,203
Retained earnings	344,704	332,257
Equity attributable to the owners of the parent company	392,978	380,344
Non-controlling interests	0	1,843
TOTAL SHAREHOLDERS´ EQUITY	**392,978**	**382,187**
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY	**703,036**	**703,461**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

1-3 / 2014 in TEUR	Share capital	Contributed capital	Legal reserve	Other reserves	Currency translation reserve	Retained earnings	Total parent company	Non-controlling interests	Total
1 January 2014	15,912	61,567	785	26	-30,203	332,257	380,344	1,843	382,187
Profit after tax						14,458	14,458		14,458
Other comprehensive income, net of tax					188		188		188
Total comprehensive income, net of tax	0	0	0	0	188	14,458	14,646	0	14,646
Dividend							0	-997	-997
Disposal of non-controlling interests						-2,012	-2,012	-846	-2,858
Change in reserves				-1		1	0		0
31 March 2014	15,912	61,567	785	25	-30,015	344,704	392,978	0	392,978

1-3 / 2013 in TEUR	Share capital	Contributed capital	Legal reserve	Other reserves	Currency translation reserve	Retained earnings	Total parent company	Non-controlling interests	Total
1 January 2013	15,960	65,203	785	29	-15,956	295,382	361,403	1,727	363,130
Profit after tax						14,012	14,012	199	14,211
Other comprehensive income, net of tax					6,678		6,678	135	6,813
Total comprehensive income, net of tax	0	0	0	0	6,678	14,012	20,690	334	21,024
Change in reserves				-1		1	0		0
31 March 2013	15,960	65,203	785	28	-9,278	309,395	382,093	2,061	384,154

CONSOLIDATED CASH-FLOW STATEMENT

in TEUR 3 months period ended	31 Mar 2014	31 Mar 2013
Cash and cash equivalents at the beginning of the period	**158,366**	**138,260**
Cash earnings	25,390	22,859
Cash flow from operating activities	15,169	26,072
Cash flow from investing activities	-10,986	-8,544
Cash flow from financing activities	-2,755	30,077
Effects of exchange rate changes	0	1,387
Cash and cash equivalents at the end of the period	159,794	187,252

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Basis of preparation

The interim report as at 31 March 2014 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 quarter of 2014 of the SBO group has neither been audited nor reviewed by independent accountants.

Accounting Policies

The accounting and valuation methods of 31 December 2013 have been applied basically unchanged, with the exception of the standards which came into force in 2014. 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 2013.

IFRS 12 was applied for the first time which requires disclosures relating to interests in subsidiaries, joint arrangements and associates. The disclosures are considerably more extensive than the current requirements of IAS 27, 28 and 31 and will accordingly lead to additional notes disclosures.

Scope of consolidation

In order to condense the group structure, a resolution to merge the two non-operating entities Schoeller-Bleckmann Drilling and Production Equipment GmbH, Ternitz, and BICO-DSI Investment GmbH, Ternitz, with SCHOELLER-BLECKMANN Oilfield Equipment Aktiengesellschaft, Ternitz, was adopted on 21 February 2014. In this regard the minority shareholder of BICO-DSI Investment GmbH withdrew in the first quarter 2014 and was compensated with 57,761 SBO shares. Non-controlling interests fully ceased to exist; the factual transfer of the shares occurred in April 2014. No further effects on the consolidated financial statements occurred in this context.

In addition, no further changes occurred in the scope of consolidation in the first three months of 2014.

Saisonality

Business development of SBO is not subject to seasonal influences.

Segment Infomation

The operating result in the total column corresponds to the profit of operations in the income statement. Therefore, the reconciliation to profit before tax can be taken from the income statement.

in TEUR	Europa	North America	other Regions	SBO-Holding & Consolidation	Group
Jan - Mar 2014					
External sales	33,503	61,694	17,249	0	112,446
Intercompany sales	21,226	5,392	973	- 27,591	0
Total sales	54,729	67,086	18,222	- 27,591	112,446
Operating profit	10,405	8,135	4,232	- 897	21,875
Jan - Mar 2013					
External sales	36,715	66,372	12,714	0	115,801
Intercompany sales	26,316	4,477	1,128	- 31,921	0
Total sales	63,031	70,849	13,842	- 31,921	115,801
Operating profit	14,190	7,802	2,404	- 1,209	23,187

Related Party Transactions

With respect to business transactions with related parties there were no substantial changes compared to 31 December 2013. 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 2013.

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		31.3.2014	Stufe 2	Stufe 3
Assets				
Derivates	Other receivables and assets	213	213	0
Liabilities				
Derivates	Other liabilities	- 11,240	- 139	- 11,101

in TEUR		31.12.2013	Stufe 2	Stufe 3
Assets				
Derivates	Other receivables and assets	394	394	0
Liabilities				
Derivates	Other liabilities	- 13,259	- 139	- 13,120

During the reporting period 2014 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 commitment relating to cancelable non-controlling interests to purchase the offered shares from the minority shareholders. The development in the reporting period 2014 was as follows:

in TEUR	1-3/2014
As at 1 Jan 2014	- 13,120
Addition of accrued interest	- 520
Gains from the revaluation	421
Disposals from settlements	2,118
Currency adjustment	0
As at 31 Mar 2014	**- 11,101**

The foreign currency forward contracts are measured based on observable spot exchange rates. The fair value of interest swaps has been determined using a discounted cash flow model based on interest curves observable on the market.

The contingent purchase price payments from business combinations and the option commitment 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 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 with a residual term of further 1-5 years. The exercise price of the option commitment relating to cancelable non-controlling interests is based on the achieved financial results of the acquired entity. The liabilities are discounted using a risk adequate discount rate for the duration of each liability.

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 commitment relating to cancelable non-controlling interests	Net results	+/- 10 %	+ 403	- 405
	Interest rate 38.3%	+/- 10 %	- 1,184	+ 2,378
Contingent purchase price payments from business combinations	Sales	+/- 10 %	+ 1,313	- 1,311
	Interest rate 38.3%,16.3%, 4%	+/- 10 %, +/- 1 %, +/- 1 %	- 140	+ 153

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:

in TEUR	Level	31 Mar 2014 Carrying value	31 Mar 2014 Fair value	31 Dec 2013 Carrying value	31 Dec 2013 Fair value
Liabilities					
Bonds	1	- 19,983	- 21,213	- 19,980	- 21,400
Borrowings from banks, finance lease obligations and other loans	2	- 153,944	- 155,628	- 155,001	- 155,130

For assessing the fair value of lendings, borrowings and leasing obligations, the expected cash-flows have been discounted using market interest rates. The fair value for bonds was derived from the stock exchange price. 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.

Events after the balance sheet date

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 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 three 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.

Ternitz, 20 May 2014

Gerald Grohmann
Chairman of the
Executive Board, CEO

Franz Gritsch
Member of the
Executive Board, CEO

- 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 1,625 (end of 2013: 1,574), thereof 436 in Ternitz/Austria and 635 in North America (including Mexico).

This report includes information and forecasts that are based on the future development of the SBO Group and its member companies. These forecasts represent estimates, which were prepared based on the information available at this time. If the assumptions underlying these forecasts are not realized or risks – as described in the risk report – should in fact occur, actual results may differ from the results expected at this time.

This report is not connected with a recommendation to buy or sell shares in Schoeller-Bleckmann Oilfield Equipment AG.

The English translation of this report is for convenience. Only the German version is binding.

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