Letter to our Shareholders 1-9/2010

HIGHLIGHTS

- Market environment in oilfield service industry continues positive development
- Clear increase of all financial key figures
- SBO acquires Drilling Systems International Ltd. (DSI)

SCHOELLER BLECKMANN OILFIELD EQUIPMENT

MANAGEMENT REPORT

Market environment

The global market environment for the oilfield service industry continued its positive development throughout the third quarter of 2010. Compared with the first nine months of the previous year, Schoeller-Bleckmann Oilfield Equipment AG faced a considerably more favourable business situation driven by strong demand for oil in the emerging markets and a largely positive economic development in the Western industrialized countries.

According to estimates of the International Energy Agency (IEA) global demand for oil in the third quarter of 2010 went to 87.6 million barrels per day, an increase of 2.8 % or 2.4 million barrels per day from last year's 85.2 million barrels per day in the same period. As demand had grown constantly, the IEA revised upwards its forecasts for this year and expects mean global oil demand to rise to 86.9 million barrels per day.[1]

The worldwide rig count, the leading parameter of globally active drilling rigs, grew due to rising oil demand and arrived at 3,122 units in September 2010. This equates to an impressive increase of 41.7 % from last year's level (2,203 units).[2]

In the United States, the market for the oilfield service industry continued to be strongly marked by events following the oil spill in the Gulf of Mexico. The moratorium for granting new offshore drilling licenses naturally brought the number of offshore projects down, but this was compensated for by the expected rise in onshore drilling activities. Three days after the incident, on 23 April 2010, the number of onshore drilling rigs stood at 1,429 units, that of offshore rigs at 53 units. By mid-October 2010 the onshore drilling rig count had gone up to 1,649 units, while the offshore drilling rig count declined to 21 units. All in all, the North American rig count climbed from 1,220 units in early 2010 to 1,670 units in mid-October 2010.[3]

Also, the again higher oil price had positive effects on the industry's overall mood. The oil price of US brand WTI started the third quarter of 2010 at USD 72.95 per barrel (1 July 2010), arrived at its quarterly high of USD 82.52 per barrel on 3 August 2010, and, in the same month, went down to its quarterly low of USD 71.24 per barrel (24 August 2010). By 30 September 2010 the oil price had picked up again and came to stand at USD 79.95 per barrel.

Business development

Against the background of this friendly business environment, Schoeller-Bleckmann Oilfield Equipment AG clearly improved all key financial figures versus the first nine months of the year before. In the process, sales and profit levels were constantly improving from one quarter to the next in the year, and the third quarter of 2010 was completed as the best quarter since the slump of the industry cycle in 2009.

Compared to the same period a year before, aggregate sales in the first three quarters of 2010 rose by 14.0 % to MEUR 215.2. Bookings in the first nine months of 2010 significantly increased by 249 % to MEUR 260.2, following MEUR 74.5 in the previous year.

Increases in sales and bookings were mainly generated in the segment of high-precision components at the production centres in Houston, USA, and Ternitz, Austria. The drilling motor business of the BICO subsidiary also developed excellently. That was a direct result of the strong increase in onshore drilling activities in North America and the sound position held by BICO in that important market. In the final analysis, the Gulf of Mexico incident (Macondo oil spill) had no major effects on SBO. Business development of SBO's production companies in the United Kingdom was still lagging behind expectations.

> Q3 2010 –
> Best quarter since
> industry slump
> in 2009

Increasing sales figures allowed for improved fixed costs coverage and, with it, substantial profit improvement. Earnings before interest and taxes (EBIT) generated in the first nine months of 2010 stood at MEUR 30.3, substantially outperforming the same period of the year before (MEUR 23.6). The EBIT margin of the first nine months of 2010 was 14.1 % (following 12.5 % in the first nine months of 2009). Profit before tax in the first nine months of 2010 also improved significantly by 33.6 % from MEUR 19.4 to MEUR 25.9. As a result, profit after tax in the first nine months of 2010 climbed to MEUR 17.4 (following MEUR 13.6) and the nine-month earnings per share improved by 28.1 % to EUR 1.09 (following EUR 0.85).

A comparison of the second quarter of 2010 with the third quarter of 2010 provides more evidence of the obvious upturn: Sales improved by 18.4 % from MEUR 74.0 to MEUR 87.6, earnings before interest and taxes (EBIT) by 72.6 % from MEUR 9.3 to MEUR 16.1. The quarterly profit before tax almost doubled from MEUR 7.9 to MEUR 14.4. Bookings also improved by 14.2 % from MEUR 82.3 to MEUR 94.0.

The balance-sheet situation as of 30 September 2010 shows a continuous increase in the company's equity capital from MEUR 229.8 at year-end 2009 to MEUR 252.1 and a further net debt decline to MEUR 10.5 (following MEUR 46.5 at the end of 2009). Before the acquisition of DSI (1 October 2010) SBO's gearing ratio was 4.2 % as of 30 September 2010.

The considerably improved order situation required personnel upsizing mainly at the production sites in Ternitz and Houston. Since the beginning of 2010, 138 new employees were recruited worldwide. In part, SBO could re-hire skilled workers who had to be dismissed during the industry's crisis in 2009. In certain areas overtime had to be worked again.

Capital expenditure

Additions to fixed assets in the first nine months of 2010 in the amount of MEUR 17.1 (following MEUR 28.8 vs. the same period of the year before) remained at a low level, as the current production equipment of the sites suffices to handle current orders in multi-shift operation. As a result, expenditures were spent mainly to ramp up the drilling motor fleet and for maintenance activities. Purchase commitments for expenditure in property, plant and equipment as at 30 September 2010 were MEUR 10.4 (MEUR 7.5 as at 30 September 2009).

Acquisition of DSI

At the beginning of October, Schoeller-Bleckmann Oilfield Equipment AG acquired 100 % of Drilling Systems International Ltd. (DSI). DSI will be fully consolidated from the fourth

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[1] IEA: Oil Market Report, October 2010
[2] Baker Hughes Rig Count
[3] Baker Hughes Rig Count

quarter of 2010. Before the acquisition DSI generated annual sales of around MUSD 30. The transaction is financed both from SBO's cash-flow and existing credit lines.
Headquartered in Dubai, the company is a leading global provider of specialized equipment for downhole circulation technology for oil and gas wells. These tools help to steer the flow direction of drilling muds in the drill string. The company's flagship product is the PBL tool that is part of the drill string. The main purpose of the PBL tool is to avoid mud losses during the drilling process. The PBL tool is also applied in deepwater wells. In the wake of the incident in the Gulf of Mexico the use of such a tool could become increasingly important.
DSI is the market leader in an attractive niche of the oilfield service industry and as such a perfect addition to SBO's product portfolio. Within the SBO group, additional growth potential is seen for DSI, and synergies in the distribution network are expected for DSI and BICO, the drilling motor subsidiary of SBO.

Risk report

Business risks of Schoeller-Bleckmann Oilfield Equipment AG did not change substantially in the first nine months of 2010 over the risks mentioned in the 2009 annual financial statements. We therefore refer to the risks described in the Annual Report 2009, in particular the USD/EUR currency exchange rate and recommend to read this report on the third quarter of 2010 in conjunction with the Annual Report 2009.

The SBO share

The performance of the share of Schoeller-Bleckmann Oilfield Equipment AG in the third quarter of 2010 was most encouraging. The share price went up 28.9% from EUR 37.16 (1 July 2010) to its quarterly high of EUR 47.91 on 30 September 2010. Following its quarterly low of EUR 36.88 on 20 July 2010, the price substantially outperformed Vienna's blue-chip index ATX. Over the year, SBO has been one of the top performers on the Vienna Stock Exchange.

Outlook

The positive environment observed in the oilfield service industry in the past months should continue in the months ahead if global economic development remains stable. Additionally, the robust oil price is a sound pillar for the industry's progress.
The number of onshore oil drilling projects in the US is expected to rise further, while drilling activities in the Gulf of Mexico will most likely need some more time to pick up again. Even after the moratorium for granting new drilling licences was lifted and the US-government published new safety regulations it will take many months before drilling activities in the region will be ramped up again.
In this favourable market environment, SBO expects to end fiscal 2010 with substantially better results than last year.
With the acquisition of DSI (Dubai), the launch of the new production site in Vietnam and the distribution centre in Brazil, SBO started to operate three new sites and extended its global presence within approximately two years. Additionally, SBO's subsidiary Knust has started to establish a new production site in Singapore. This new location is to cover the growing market for SBO-Knust products in the Far East (chassis/internals). Delivery of the first machinery for this greenfield project is scheduled for the first half of 2011.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

The interim report as at 30 September 2010 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 2009 have been applied basically unchanged, with the exception of the standards which came into force in 2010. 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 2009. In the first nine months of 2010 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 (except for the acquisition of DSI as mentioned above).
This report on the third quarter of 2010 of the SBO group has neither been audited nor reviewed by independent accountants.

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 nine months of the financial year and their impact on the interim financial statements, and of the principal risks and uncertainties for the remaining three 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	9 months ended		3 months ended	
	30.09.2010	30.09.2009	30.09.2010	30.09.2009
Sales	**215,221**	**188,731**	**87,650**	**51,161**
Costs of goods sold	-162,283	-145,316	-62,848	-41,573
Gross profit	**52,938**	**43,415**	**24,802**	**9,588**
Selling expenses	-7,418	-7,531	-2,094	-2,205
General and administrative expenses	-15,199	-12,873	-5,342	-3,895
Other operating expenses	-7,387	-6,569	-1,985	-1,811
Other operating income	7,384	7,155	739	1,629
Operating profit	**30,318**	**23,597**	**16,120**	**3,306**
Interest income	598	438	258	156
Interest expenses	-3,927	-4,153	-1,326	-1,324
Other financial income	0	0	0	0
Other financial expenses	-1,048	-462	-654	-32
Financial result	**-4,377**	**-4,177**	**-1,722**	**-1,200**
Income before taxation	**25,941**	**19,420**	**14,398**	**2,106**
Income taxes	-8,497	-5,849	-4,714	-675
Income after taxation	**17,444**	**13,571**	**9,684**	**1,431**
Average number of shares outstanding	15,935,501	15,880,116	15,960,116	15,880,116
Earnings per share in EUR (basic = diluted)	**1.09**	**0.85**	**0.61**	**0.09**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	9 months ended		3 months ended	
	30.09.2010	30.09.2009	30.09.2010	30.09.2009
Income after taxation	17,444	13,571	9,684	1,431
Currency translation	12,096	-4,291	-21,962	-9,281
Income tax effect	-673	242	757	461
Hedging of a net investment	-1,607	434	-519	186
Income tax effect	402	-109	130	-47
Other comprehensive income, net of tax	**10,218**	**-3,724**	**-21,594**	**-8,681**
TOTAL COMPREHENSIVE INCOME	**27,662**	**9,847**	**-11,910**	**-7,250**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

in TEUR	9 months ended	
	30.09.2010	30.09.2009
As at 1 January	229,808	226,216
Income after taxation	17,444	13,571
Other comprehensive income, net of tax	10,218	-3,724
Total comprehensive income	27,662	9,847
Dividend paid	-7,965	-11,910
Disposal of own shares	2,864	0
Income tax effect	-278	0
AS AT 30 SEPTEMBER	**252,091**	**224,153**

CONSOLIDATED BALANCE SHEET

ASSETS in TEUR	30.09.2010	31.12.2009
Current assets		
Cash and cash equivalents	138,340	96,640
Trade accounts receivable	53,752	41,033
Other accounts receivable and prepaid expenses	6,951	4,934
Inventories	87,595	88,899
TOTAL CURRENT ASSETS	**286,638**	**231,506**
Non-current assets		
Property, plant & equipment	133,920	136,697
Goodwill	40,692	38,979
Other intangible assets	8,905	7,873
Long-term receivables	4,587	4,128
Deferred tax assets	5,119	6,358
TOTAL NON-CURRENT ASSETS	**193,223**	**194,035**
TOTAL ASSETS	**479,861**	**425,541**

LIABILITIES AND SHAREHOLDERS´ EQUITY in TEUR	30.09.2010	31.12.2009
Current liabilities		
Bank loans and overdrafts	35,609	34,590
Current portion of long-term loans	10,335	19,829
Finance lease obligations	434	394
Accounts payable trade	25,993	8,709
Government grants	1,013	810
Income taxes payable	840	1,056
Other payables	17,008	10,884
Other provisions	8,768	7,952
TOTAL CURRENT LIABILITIES	**100,000**	**84,224**
Non-current liabilities		
Bonds	39,855	39,824
Long-term loans	61,920	47,485
Finance lease obligations	715	1,026
Government grants	1,477	1,564
Retirement benefit obligations	3,533	3,204
Other payables	8,930	7,875
Deferred tax payables	11,340	10,531
TOTAL NON-CURRENT LIABILITIES	**127,770**	**111,509**
Shareholders´ equity		
Share capital	15,960	15,880
Contributed capital	64,314	61,808
Legal reserve – non-distributable	785	785
Other reserves	37	39
Translation component	-24,012	-34,230
Retained earnings	195,007	185,526
TOTAL SHAREHOLDERS´ EQUITY	**252,091**	**229,808**
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY	**479,861**	**425,541**

CONSOLIDATED CASH-FLOW STATEMENT

in TEUR	9 months ended 30.09.2010	9 months ended 30.09.2009
Cash and cash equivalents at the beginning of the period	96,640	49,348
Cash earnings	41,417	34,192
Cash flow from operating activities	58,761	41,502
Cash flow from investing activities	-14,593	-26,119
Cash flow from financing activities	-3,712	9,694
Effects of exchange rate changes and revaluations	1,244	-664
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**138,340**	**73,761**

DIVIDEND PAID

	Total amount TEUR	Number of shares (ordinary shares)	Per share EUR
For the business year 2009 paid in 2010	7,965	15,930,116	0.50
For the business year 2008 paid in 2009	11,910	15,880,116	0.75

SEGMENT INFORMATION

in TEUR	Europe	North America	Other regions	SBO-Holding & Consolidation	Group
1-9/2010					
External sales	39,702	169,679	5,840		215,221
Intercompany sales	50,342	11,433	1,137	-62,912	0
Total sales	90,044	181,112	6,977	-62,912	215,221
Operating profit	10,358	20,755	-1,198	403	30,318
1-9/2009					
External sales	36,335	148,115	4,281		188,731
Intercompany sales	58,477	6,875	696	-66,048	0
Total sales	94,812	154,990	4,977	-66,048	188,731
Operating profit	8,550	16,064	-125	-892	23,597

- 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 1,194 (end of 2009: 1,056), thereof 371 in Ternitz/Austria and 517 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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