SCHOELLER BLECKMANN OILFIELD EQUIPMENT

Annual Report 2010

ON COURSE

CONTENTS

FINANCIAL HIGHLIGHTS

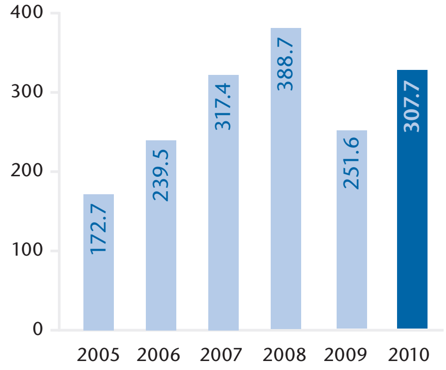
in MEUR

	2010	2009	2008	2007	2006	2005
Sales	307.7	251.6	388.7	317.4	239.5	172.7
Profit from operations	49.4	28.2	88.0	76.1	48.2	25.5
Earnings before Interest, Taxes, Depreciation and Amortization	85.1	61.5	114.2	92.9	61.1	36.6
Profit after tax	27.3	15.3	58.8	50.0	34.4	17.3
Earnings per share[1] (in EUR)	1.71	0.96	3.69	3.13	2.15	1.13
Total assets	561.6	425.5	443.3	357.9	285.3	242.8
Share capital	16.0	15.9	15.9	16.0	16.0	16.0
Shareholders' equity	267.1	229.8	226.2	194.1	171.7	154.7
Return on capital employed (in %)[2]	16.7	9.8	32.2	35.1	27.4	17.8
Dividend per share (in EUR)	1.0[3]	0.50	0.75	1.10	0.80	0.50
Number of shares outstanding at year end	15,960,116	15,880,116	15,880,116	16,000,000	16,000,000	16,000,000

[1] based on average shares outstanding
[2] Return on capital employed = Income from operations after non-recurring items. divided by average capital employed.
Capital employed = Total shareholders´ equity + Bonds + Bank loans and overdrafts + Long-term loans + Finance lease obligations – Cash and cash equivalents
[3] proposed

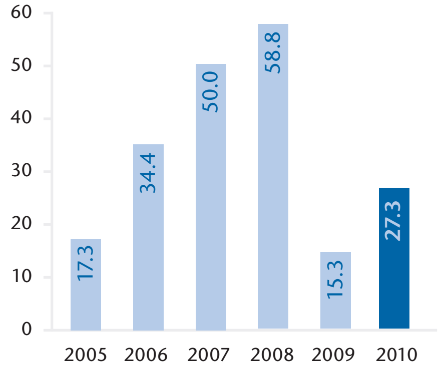
SALES

in MEUR



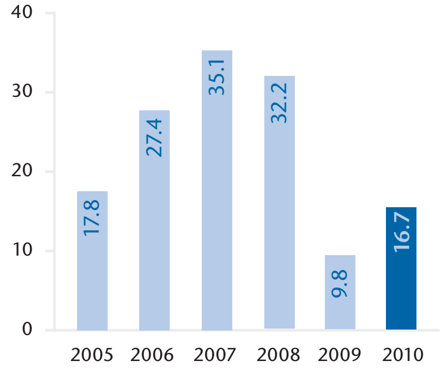
PROFIT AFTER TAX

in MEUR



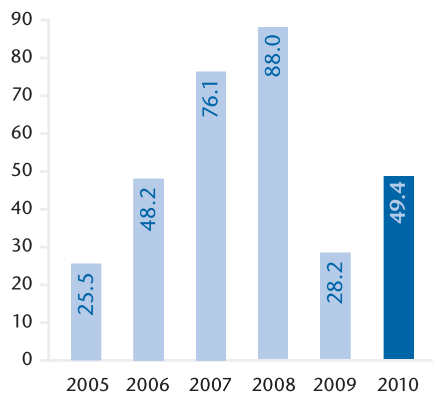
RETURN ON CAPITAL EMPLOYED

in Percent



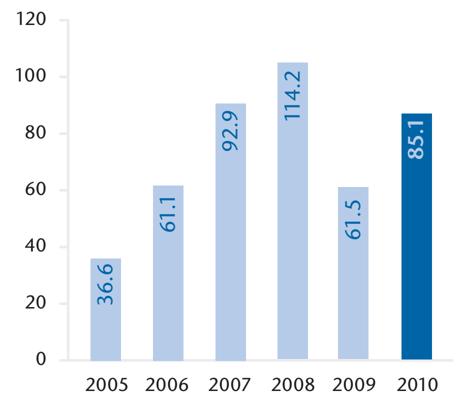
PROFIT FROM OPERATIONS

in MEUR



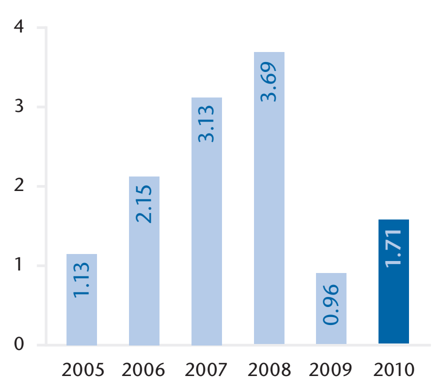
EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION

in MEUR



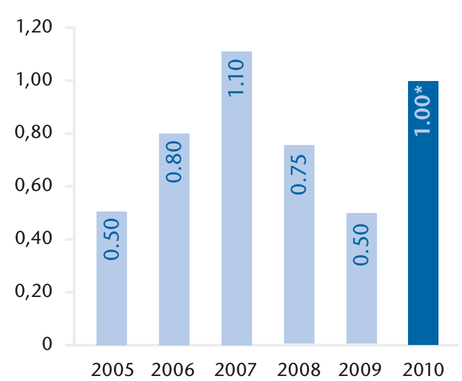
EARNINGS PER SHARE

in EUR



DIVIDEND PER SHARE

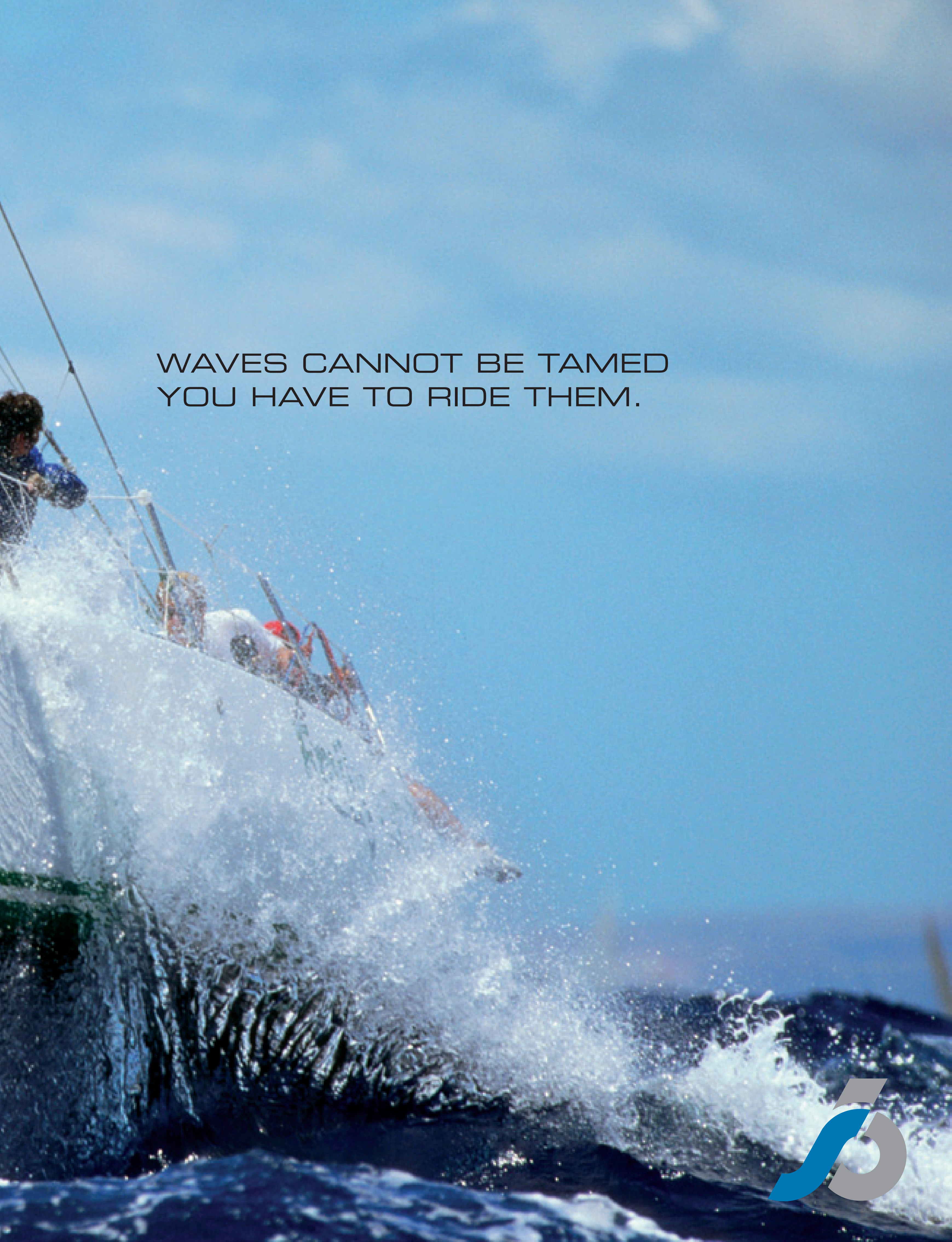
in EUR



* proposed

Annual Report 2010


SMOOTH SAILING IS EASY, BUT ONLY
THE BEST WEATHER THE STORM.


WAVES CANNOT BE TAMED
YOU HAVE TO RIDE THEM.


A PROVEN STRATEGY IS THE BEST WAY
TO CHART A SUCCESSFUL COURSE.


NO STORM SHALL DETER US.

PRECISION CONTROL.

Company Profile

Schoeller-Bleckmann Oilfield Equipment AG (SBO) is the global market leader in high-precision components for the oilfield service industry. The business focus is on producing non-magnetic drillstring components for directional drilling.

Directional drilling is a technology to deviate wells for precisely targeting oil and gas reservoirs that are not directly located below the drilling rig, and is also used for continuous control, monitoring and adjustment of the drilling process. As a result, directional drilling ensures higher recovery factors and well productivity. This is why the technology has become increasingly important over the years and is the only drilling method applied in offshore drilling. In the United States, the share of onshore directional drilling rigs and horizontal drilling rigs (a sub-category of directional drilling) in the total number of drilling rigs went from 29 % in the year 2000 to 68 % at the end of 2010.[1] This clearly demonstrates the growing technological complexity of such activities in the past decade. Directional drilling is considered to be the key technology for tapping future reservoirs.

SBO is a leading provider of high-precision components (MWD/LWD). These tools are used to steer the drill bit based on permanent surveys made during drilling, such as inclination and azimuth (MWD) or petrophysical parameters (LWD).

SBO's core business also comprises production of drilling motors and drilling tools as well as special tools for downhole circulation applications used in oil and gas wells. Additionally, Schoeller-Bleckmann offers customers an extensive range of after-sales services. It was in particular the field of high-tech repair where new technologies and application procedures were developed to optimise product functionality and service life.

Schoeller-Bleckmann Oilfield Equipment AG solves highly complex tasks and offers customised products and, as a leader in terms of quality and technology, has set the industry standard over many years. As a result, SBO counts the major oilfield service companies among its customers and has established itself as market leader. This unique market position, constantly high quality, ongoing innovation coupled with the high technological know-how and long-standing experience of employees in production engineering are major parameters of operational excellence. Schoeller-Bleckmann is present at all major hubs of the global oilfield service industry and accompanies customers when they head for new oil drilling regions.

Providing added value to customers is both the starting point and target of Schoeller-Bleckmann's business activities. Combined with leadership in technology, quality and innovation, a market-oriented growth strategy, high productivity, flexibility and a long-term oriented strategic investment policy, this is the foundation of the proven track record of Schoeller-Bleckmann Oilfield Equipment AG.

[1] Baker Hughes: North America Rotary Rig Count

Schoeller-Bleckmann Oilfield Equipment AG

GROUP SALES: MEUR 307.7
HEADCOUNT: 1,275

NORTH AMERICA

Total Sales: MEUR 254.0 Headcount: 564

- **Knust-SBO L.L.C.**
  Houston, Tx/USA
- **Godwin-SBO L.L.C.**
  Houston, Tx/USA
- **BICO Drilling Tools Inc.**
  Houston, Tx/USA
- **BICO Faster Drilling Tools Inc.**
  Nisku, Canada
- **Schoeller-Bleckmann Energy Services L.L.C.**
  Lafayette, La/USA
- **Schoeller-Bleckmann Sales Co. L.L.C.**
  Houston, Tx/USA
- **Schoeller-Bleckmann de Mexico, S.A. de C.V.**
  Monterrey, Mexico

EUROPE

Total Sales: MEUR 139.0 Headcount: 574

- **Schoeller-Bleckmann Oilfield Technology GmbH**
  Ternitz, Austria
- **Darron Tool & Engineering Ltd.**
  Rotherham, UK
- **Schoeller-Bleckmann Darron Ltd.**
  Aberdeen, UK
- **Techman Engineering Ltd.**
  Chesterfield, UK

OTHER

Total Sales: MEUR 17.3 Headcount: 137

- **Schoeller-Bleckmann Oilfield Equipment Middle East FZE**
  Dubai, U.A.E.
- **Drilling Systems International Ltd.**
  Dubai, U.A.E.
- **SB Darron Pte. Ltd.**
  Singapore
- **Knust-SBO Far East Pte. Ltd.**
  Singapore
- **Schoeller-Bleckmann Oilfield Equipment Vietnam L.L.C.**
  Binh Duong, Vietnam
- **Schoeller-Bleckmann Darron Ltd.**
  Noyabrsk, Russia
- **Schoeller Bleckmann do Brasil, Ltda.**
  Macae, Brazil

Non-operative holding companies are not shown
Headcount per 31 December 2010
Total Sales: Year Ending 31 December 2010, not consolidated

Highlights 2010

Q1

- Global economic recovery leads to growing demand for oil
- Steep rise in bookings in Q1 2010
- But operational development still characterised by low order backlog at year-end 2009

Q2

- Level of bookings remains high
- Sharp increase in sales and profit starts to improve

Q3

- Continued improvement of all key performance indicators
- Acquisition of Drilling Systems International (DSI)

Q4

- SBO share climbs to annual high of EUR 65.70 on 21 December 2010
- Establishment of production site Knust Far East in Singapore
- SBO fully back on course
- Rise of global rig count to 3,227 units in December 2010
- WTI oil price reaches annual high of USD 91.48 per barrel on 28 December 2010

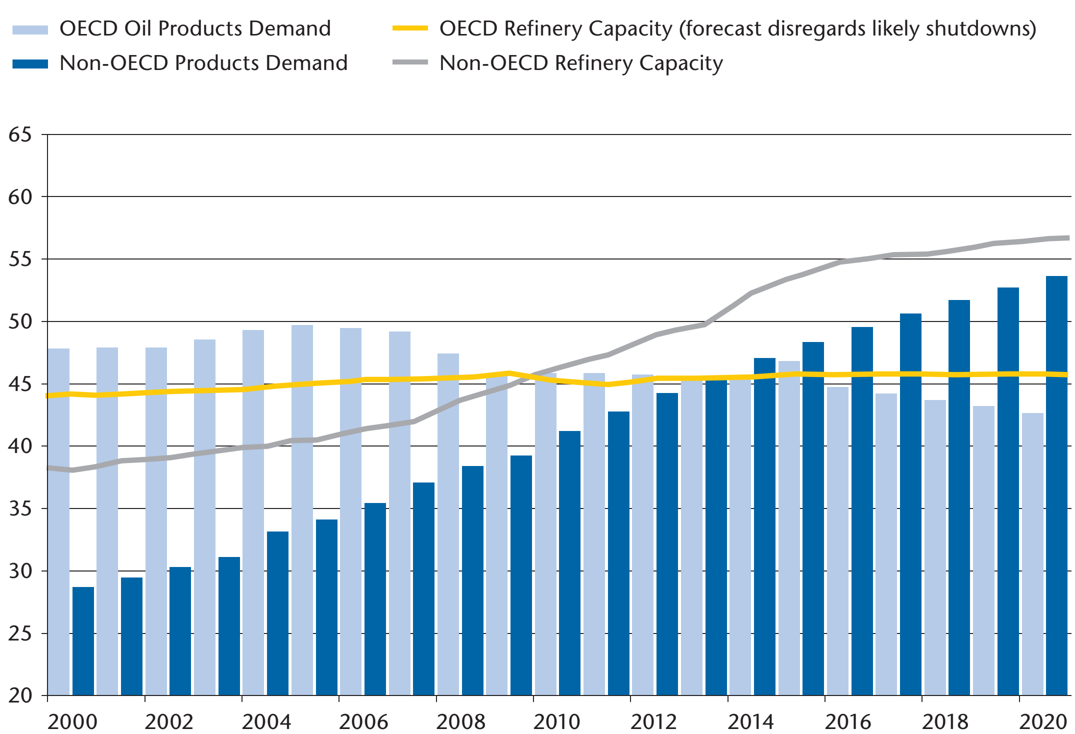
GUEST COMMENT

A Year of Recovery Behind Us, Years of Opportunity Ahead

2010 turned out to be a year of recovery. Global economic and oil demand growth clearly beat expectations, inventories held offshore in tankers were largely drawn down and benchmark crudes gained some 28% compared to 2009 levels, averaging close to $80 per barrel over the course of the year and finishing 2010 just short of $90 per barrel. At any rate, the market was very bullish. Massive amounts of money were pumped into the market exerting upward pressure on commodities while perceptions of the economic recovery improved steadily.

World consumption of oil products rebounded strongly last year by 2.2 million b/d counteracting the contraction by 290,000 b/d in 2008 and 1.05 million b/d in 2009. This is the highest level seen since 2004 (the year that marked the starting point for the commodity boom), resulting in global oil demand reaching the highest yearly average level ever last year (~87.0 million b/d).

OIL MARKET'S SHIFT FROM OECD TO NON-OECD - DEMAND & REFINING CAPACITY [million barrels per day]



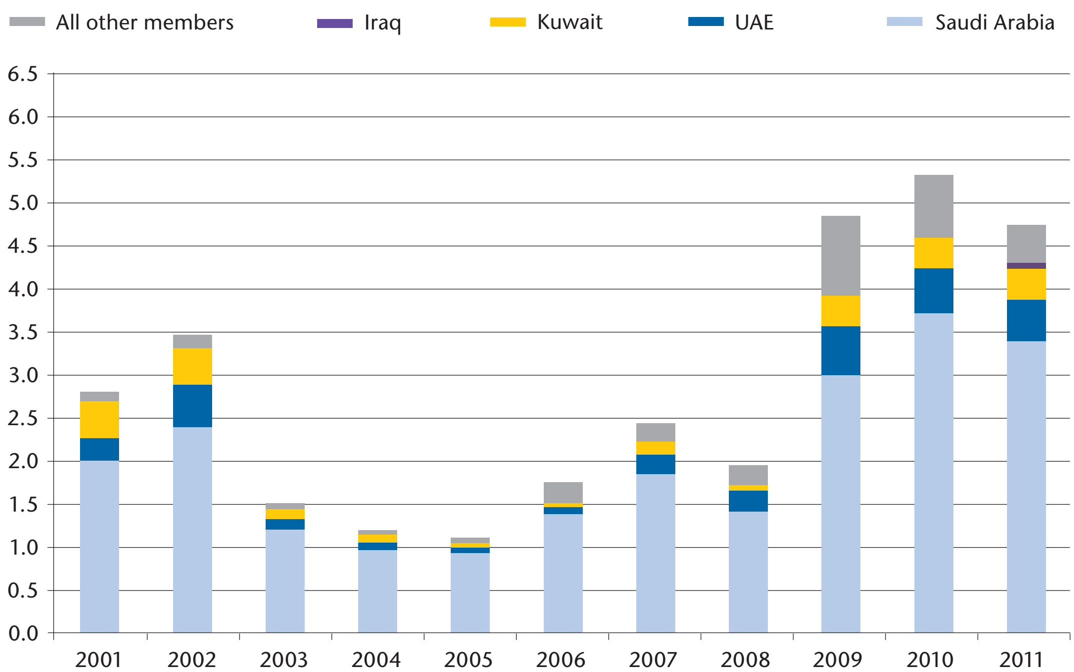
Source: JBC

Once again, emerging economies in general, and China in particular, were the major driving forces behind the upswing in global consumption. China's oil demand moved up by 860,000 b/d last year. Therefore, the country alone accounted for close to 40% of the global demand increase. Helped by a very low baseline, demand in OECD countries also contributed to the rise after having been on the downswing since 2006. The increase in OECD demand can be attributed to a strong rebound in North American consumption, which gained a healthy 400,000 b/d, thereby offsetting basically flat demand in OECD Asia (Japan, South Korea, Australia, New Zealand) and declining consumption in Europe.

Now what's in store for 2011? We believe that global demand growth will reach a healthy level of about 1.5 million b/d this year. While the upward potential appears to be relatively limited, a high baseline effect, elevated food and fuel prices (which weigh on disposable incomes and increase the likelihood of political unrest), good chances of an economic cool-down in Asia and the impact of austerity policies in Europe add pressure to the downside. Irrespective of upside and downside risks, we believe that all of this year's increase will stem once again from emerging economies, in line with the long-term trend. By contrast, consumption in OECD countries is seen constantly on the downswing in the coming years mainly due to substitution efforts and efficiency improvements. The importance of the latter can not be overestimated. Taking the US as an example, and in view of the country's new corporate average fuel economy standards (regulations to improve the fuel economy of cars and light trucks), we see consumption of gasoline in the world's largest oil market declining from 9.1 million b/d in 2010 to below 7 million b/d by the end of the decade.

With Brent benchmark crude exceeding the $100 per barrel threshold in late January for the first time in 28 months, concerns in oil consuming countries seem to have gained momentum that the uptick in global demand will soon overstrain supply capacities, thereby resulting in a situation similar to 2008 (when OPEC lost control over the market and international crude prices peaked at close to $150 per barrel). These fears are greatly fuelled by the perceptions of commentators from outside the oil industry who completely overlook the fact that today's situation is different compared to 2008. Today OPEC has a spare capacity of somewhere close to 5 million b/d with the bulk of it located in Saudi Arabia. Accordingly, the world is facing a completely different fundamental situation compared to three years ago, when OPEC's idle capacity dipped to as low as 1 to 1.5 million b/d during the summer months. With such a small cushion, the group's ability to react to market requirements was highly limited, while substantial tightness was also felt in the global refining industry (whereas nowadays we have a more-than-healthy global refining surplus capacity of some 9 million b/d compared to about 5 million b/d in 2007 before the crisis kicked in and substantial extra capacity came onstream in H2 2008).

OPEC AVAILABLE SPARE CAPACITY [million barrels per day]



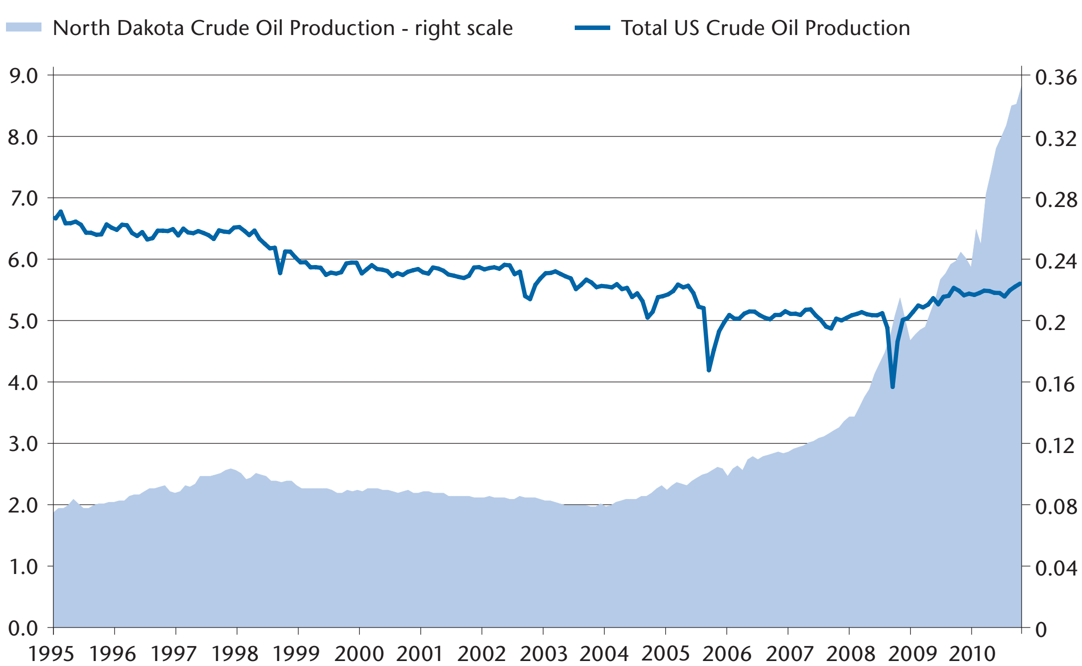
Source: JBC

Keeping this in mind, OPEC is now widely believed to be willing to take some action if crude falls back to/below levels of close to $70 per barrel. Consequently, the organisation supports a price level that also most private oil companies would deem as appropriate for their investment plans. The more difficult question to answer is how dedicated the exporters' group will be to establishing an upper price ceiling in the current market environment. While OPEC's hawkish members have dismissed the idea of implementing such a measure out of hand, in order to prop up national budgets, Saudi Arabia as the organisation's most influential member state has constantly blamed speculators for price levels that are regarded as uncomfortable by oil consuming countries. The Kingdom announced that it is only ready to supply substantially more crude oil when the oil is actually required by its customers on the physical market. Indeed, complaints that OPEC and/or the Saudis are deliberately keeping a tight grip on the market are not backed by the fundamentals. A weakening of compliance with output allocations among the group's member states as well as additional output of natural gas liquids, which do not fall under any production restrictions, have kept inventories at elevated levels. As of the beginning of 2011, OECD stocks are seen at 58-60 days of forward demand cover, which is considerably higher than OPEC's long-term target of 53-54 days (the first half of 2008 saw an average of 53 days).

Meanwhile, elevated stock levels have also been supported by the surprisingly positive performance of non-OPEC production in the recent past. Thanks to healthy prices, strong investment, technological progress and no major geopolitical events disturbing supplies, production outside the exporters' group increased by around 0.9 million b/d in 2009 and over 1 million b/d last year, with the US, Russia, China, Brazil and Colombia being the major driving factors behind this development.

Focusing on the US, as the most interesting market for the majority of international E&P service providers, high production levels achieved in the Gulf of Mexico and increased drilling activity onshore have been the major factors behind the recent upstream bonanza. Besides comparatively low hurricane activity, the strong output figures from the Gulf in 2009 and 2010 came on the back of a bunch of major cutting-edge technology developments coming onstream. Unfortunately, the short-term production outlook for the Gulf appears rather dire in view of BP's Macondo accident and the ensuing deepwater drilling moratorium. While the moratorium has already expired, it is still plaguing the industry as the US government has become very cautious in issuing new drilling permits.

CRUDE OIL PRODUCTION IN THE US AND NORTH DAKOTA [million barrels per day]



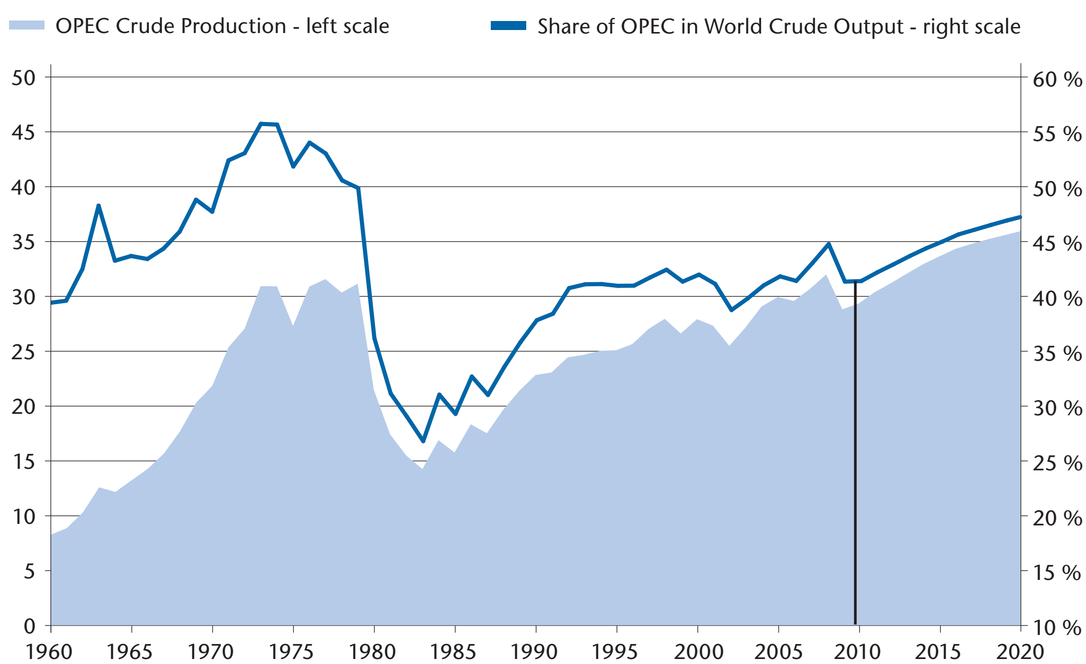
Source: EIA

Still, in the longer run we expect business in the Gulf to return back to normal, although stricter safety standards should lead to a modest rise in project costs and some smaller E&P players might prefer to team up/consolidate with bigger ones.

Meanwhile, the positive momentum of US onshore drilling is set to continue in the foreseeable future. In this context, shale gas players have increasingly switched their focus on oilier shales, thereby cashing in on the price differential between crude oil and natural gas. Shale oil, which is oil trapped in low permeability shale rock, must not be confused with oil shale deposits as the ones found in Colorado's Green River region (kerogen-rich rocks which require a lot of heat to extract the hydrocarbons). The key to success for shale oil is the same as for shale gas: horizontal drilling (in order to expose more of the well to hydrocarbon-bearing reservoir layers) and fracturing (cracking the rock and making it more permeable). However, the additional hurdle with shale oil is that liquids naturally flow with more difficulty than gas due to their higher viscosity, meaning that the boundaries of shale oil developments are tighter compared to shale gas projects. Shale oil formations that are considered as particularly crude and condensate rich, and therefore promising for the future, include the Bakken play in North Dakota, Montana and in Canada's Saskatchewan province as well as the Eagle Ford play in Texas. Crude production in North Dakota has been the main beneficiary of the Bakken boom. It has increased from an annual average of 85,000 b/d in 2004 to more than 300,000 b/d during the second half of 2010. As a result, North Dakota is now the fourth largest state in terms of crude oil output in the US, which means that it has even surpassed the traditional oil producing states of Oklahoma and Louisiana.

While the long-term impact of liquids-rich shale on total US production is still a matter of debate, oil analysts all over the world unanimously agree that it will be Brazil that will dominate oil production growth in non-OPEC countries over the next decade. In fact, the upside potential to the country's oil output has never been better, with offshore discoveries such as Tupi (5 to 8 billion barrels of estimated recoverable reserves), Iara (3 to 4 billion barrels) or Guara (1.2 to 2 billion barrels) making the heart of oilers all over the world beat faster. Nevertheless, given the location of these discoveries in very deep waters far away from Brazil's coastline (Tupi was drilled in more than 2,100 metres of water depth some 250 kilometres south of Rio de Janeiro), huge investment will be required to bring all of these barrels to the market. According to various industry estimates, Brazil's state-controlled oil company Petrobras will need to spend some $400 billion in E&P by 2020 in order to achieve its goal of almost doubling domestic oil production by the end of the decade.

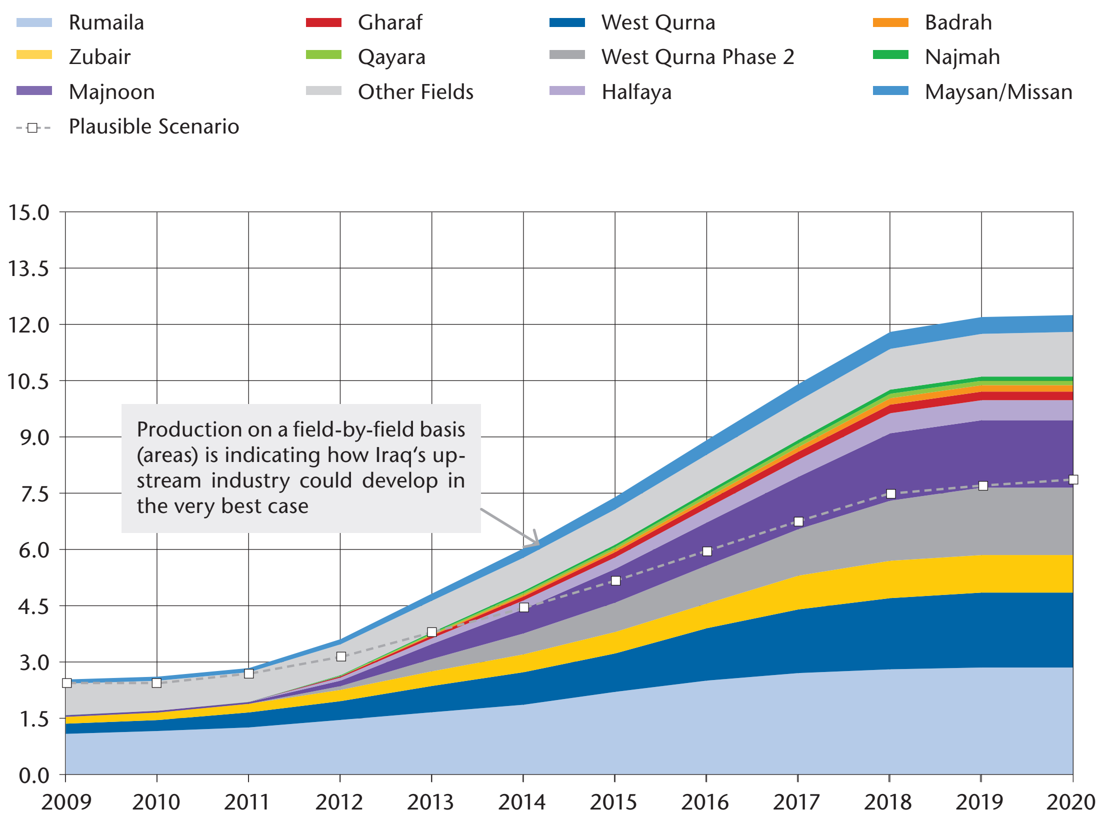
OPEC CRUDE OUTPUT (HISTORIC MEMBERS) AND OPEC SHARE IN WORLD CRUDE SUPPLY [million barrels per day; %]



Source: JBC

Nevertheless, all of the euphoria surrounding countries such as Brazil or Ghana (which recently became a significant crude oil net-exporter due to the start-up of the giant Jubilee field in late 2010) should not hide the fact that there are also significant non-OPEC problem areas such as the North Sea or Mexico. While this is not necessarily bad news for service providers, as mature oil producing countries might have even a bigger incentive to invest in cutting-edge technology in order to limit the fall in production, we still believe that the increase in non-OPEC supplies will slow down over the coming years. Importantly, this does not mean that we see any supply shortages emerging. OPEC will be more than happy to jump into the open gap by bringing onstream additional volumes. As a result, we expect OPEC's share in world oil production to increase from around 40% in 2010 to some 45% in 2020. However, what looks like a dramatic shift in power towards the exporters' group at a first glance turns out to be a more moderate upswing when looked at in an historical context. In fact, OPEC's market share already exceeded 50% during the 1970s before it declined to close to 30% in the 1980s and has remained steady at about 40% since the 1990s.

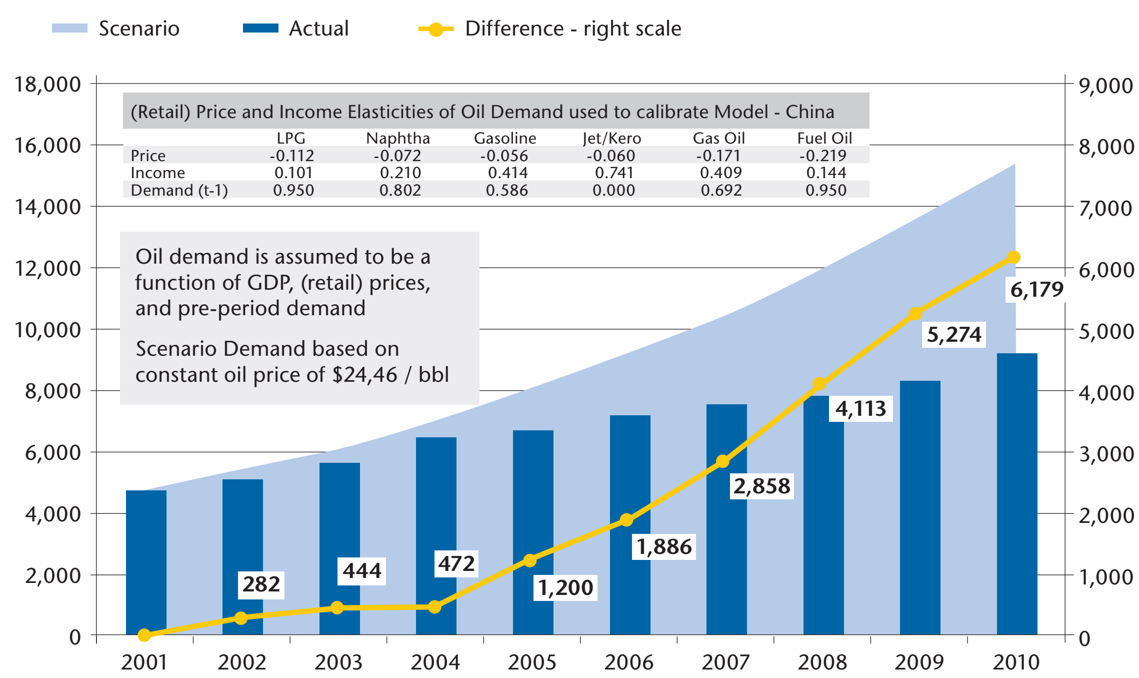
IRAQ - CRUDE PRODUCTION CAPACITY - VARIOUS SCENARIOUS [million barrels per day]



Source: JBC Energy, Iraqi Oil Ministry

Accordingly, while OPEC is expected to increase its market share over the next decade, the big question remains which member countries will increase their market power and to what extent, with Iraq being the big wildcard within the organisation. With respect to all of the service contracts that were awarded to foreign companies over the course of the last two years, more than 12 million b/d of crude capacity could become available in Iraq by 2017/18 in the very best case. At first glance, these rosy assumptions suggest that Iraq could be in a position to challenge Saudi Arabia as OPEC's kingpin within the next ten years. However, to arrive at a more realistic outlook we have to take into consideration various risk factors (such as the security situation or infrastructure hurdles) that are still clouding the country's upstream future. Accordingly, JBC Energy strongly doubts that Iraqi production capacity will reach the aforementioned level by 2017. In our view, a crude oil production capacity of 6-8 million b/d by 2020 (with most of the increase being felt from 2013 onwards) is a much more realistic scenario. Nevertheless, even if the country is successful in becoming one of the world's major oil producers (next to Russia and Saudi Arabia), the impact on international crude prices is set to be moderated by the demand sensitivity patterns seen in non-OECD countries. Just to give an example: in 2010 China's oil consumption averaged 9.1 million b/d compared with 4.8 million b/d in 2001. However, had prices during the last ten years remained at the 2001 level of $24 per barrel, Chinese oil demand in 2010 would have reached a much higher level of more than 15 million b/d, according to our analysis. Given these dramatic demand reactions in non-OECD countries, we would expect a possible flood of Iraqi supplies to result in only a very moderate downward pressure on prices (possibly in the 2013-2015 period when the bulk of the increase should be felt). In our view, this should be enough to spur additional demand in non-OECD countries while some Iraqi barrels might also be accommodated via a moderately higher OPEC spare capacity.

TOTAL OIL DEMAND - CHINA [thousand barrels per day]



Source: JBC

Altogether, we strongly doubt that international crude oil prices will ever fall back again to levels below $60 per barrel on a yearly-average basis during the next decade (of course short- term market shocks on the back of the psychological overreactions of human beings can never be fully ruled out). In our base case, we see an increase in prices from last year's Brent average of $79.47 per barrel to a level of somewhere close to $110 per barrel in 2013 before additional Iraqi supplies result in a moderate calm-down period until 2015, which is offset again by rising prices towards the end of the decade.

One crucial factor related to our healthy price projections that also has to be taken into consideration is the cost of bringing the marginal barrel onstream. This lies in the deepwater and ultra-deepwater projects in the golden triangle off West Africa, the US and Brazil. All of these projects will require cutting-edge technological solutions, with one of the major hurdles that need to be overcome being coping with the intense pressure and heat that oilers face when trying to tap these resources. Accordingly, manifold technological challenges lie ahead for the E&P industry in the coming years. However, this will also offer tremendous opportunities for market players in the oilfield services sector that are capable of offering state-of-the-art technological solutions.

In this respect, Schoeller-Bleckmann (SBO) as a provider of directional and horizontal drilling technology should be among the main beneficiaries. A recent survey by Barclays Capital predicts that global E&P spending is set to increase by more than 10% this year, while horizontal drilling is now considered the second most important technology in the field of E&P, with one quarter of respondents ranking it as the most crucial technology in the upstream sector (behind 28% for fracturing/stimulation but way ahead of 19%

for 3-D/4-D seismic). The same survey also found out that measurement-while-drilling (MWD) technology, another core field of SBO, ranked at the 8th position among E&P professionals, which can be seen as another indicator for the strong portfolio of SBO. Meanwhile, the trend towards enhanced drilling is also reflected in rig data provided by Baker Hughes. While in general a strong upward trend in the number of active drilling rigs was observed last year (with the number of active rigs increasing by 45% in North America and 30% in the rest of the world), 57% of all active oil and gas rigs in the US were performing horizontal drilling operations as of the beginning of 2011. This is a substantial increase compared to the 48% in early 2010 and a dramatic upswing compared to only 16% as of the beginning of 2006. All of this illustrates that the opportunities for players in the field of modern drilling technology might have never been better, with SBO investors having a chance to participate in the global upstream bonanza.

Johannes Benigni
Managing Director
JBC Energy GmbH

The statements made in this comment are based on the views expressed by Johannes Benigni, Managing Director JBC Energy GmbH, and do not necessarily reflect the views of the management of Schoeller-Bleckmann Oilfield Equipment AG and/or one of its affiliated companies.

TEAMWORK WAS THE KEY TO OUR SUCCESS IN 2010.

Preface of the Executive Board

Dear shareholders and business partners,

It is for good reason that the front page of the Annual Report 2010 features a sailing yacht "on course". Following the turbulences of fiscal 2009, whose storms we weathered well, our company now looks back on a successful business year 2010, characterised by continuous buoyancy over the quarters. For the time being, the global recession seems to be overcome, as our industry got back into gear again in 2010, and Schoeller-Bleckmann Oilfield Equipment AG returned to its course for growth.

As expected, the recovery of the global economy in 2010 went hand in hand with rising demand for oil. Especially, the hunger for energy of the thriving Asian economies has not lost momentum. Apart from economic stimulus packages launched in Europe and the United States, it was China, Indian and Brazil that had a major share in global economic recovery, triggering higher energy consumption. The fact that the oil price settled at a relatively stable level of USD 70 to 80 per barrel also reflected the upwards tendency observed in demand for energy.

International oil companies responded to the increasing demand for oil and gas and a medium-term positive global outlook by ramping up their exploration and production budgets. Increased spending in this field also benefitted the oilfield service industry and, with it, Schoeller-Bleckmann, the global market leader in high-precision components in this industry.

As bookings were rising to favourable levels, SBO was steadily improving its operational result from one quarter of 2010 to the next. In the process, revenues generated in the past year grew by 22.3 % to MEUR 307.7 and the annual pretax profit by a remarkable 82.7 % to MEUR 42.9, bringing fiscal 2010 to a very satisfying end. Concerning our key figures, we still lagged behind the record-setting levels achieved in 2008, but we came in very close to fiscal 2007, another excellent business year. However, as a result of the boom years in the past cycle there are still sufficient production capacities in the market, and our customers still held rather high inventories in 2010. This is why product pricing remained depressed despite growing production volumes.

The prompt rebound of the industry's cycle early in 2010 did not take us by surprise. SBO ramped up production capacities as required by the growing number of bookings received. We did not have to fall back on short-time work arrangements originally planned for the first half of 2010 at the Ternitz site. Additional staff was hired again at some locations throughout 2010. In part, we could take on employees who had been required to leave the company due to the decline in orders seen in 2009, but had been given the prospect of being rehired when the order situation would have improved.

Regardless of massive cuts on spending in 2009 we continued to pursue our strategy for growth and build our new sites in Vietnam and Brazil. This was the right decision to take as both sites got off to a good start in 2010.

Following an in-depth evaluation phase, we acquired Drilling Systems International Ltd. (DSI), providing an ideal addition to our product portfolio. DSI is a specialist supplier of downhole circulation technology for oil and gas wells and the world market leader in this niche. DSI fulfilled exactly the criteria we defined for acquisition: Supplementing SBO's technology in our cores business, high profitability, further growth potential and a management team that fits SBO. Synergies will result mainly with our successful subsidiary BICO, a leading supplier of high-performance drilling motors in the United States. We are confident that both companies will achieve even greater market penetration in offering their range of products.

„SBO fully profited from upswing from the beginning and ramped up production capacities as required by bookings situation"

The acquisition was financed by using own resources and existing credit facilities. At the end of 2010, our equity ratio stood at 47.6 % and the net debt was MEUR 48.9, delivering continued sound balance-sheet figures. Even after that transaction SBO could take over other similar-sized companies without having to strengthen our capital base.

With the acquisition of DSI and the launch of our greenfield projects in Vietnam and Brazil we have added three new sites to our previously 14 locations in the past two years, substantially enhancing our global presence. Additionally, preliminary steps were taken in the fourth quarter of 2010 to establish another site of Knust-SBO in Singapore for improved market penetration in Asia.

Although 2010 was marked by economic recovery in the oilfield service industry, the Macondo oil spill in the Gulf of Mexico caused a temporary setback. However, the incident had no negative effect on the sales and earnings situation of SBO. We assume that the industry has learnt its lesson and, from now on, will avoid the mistakes that were made. The growing technological complexity of drilling projects calls for more stringent safety measures. With its specialist lost-circulation tool manufactured by SBO's new subsidiary DSI, Schoeller-Bleckmann will make a contribution to increase safety levels in offshore activities.

The fact that the industry cycle in the oilfield service industry rebounded throughout 2010 - and, specifically, growing numbers of technologically challenging directional drilling projects - again demonstrated the long-term upwards tendency for our industry. New discoveries offshore South America and other regions in addition to shale plays in North America indicate sustained growth for directional drilling, the key segment for SBO products. Moreover, we see great potential in the expansion of our drilling motor business and for our recently acquired subsidiary DSI.

„Acquisition of DSI is an ideal addition to the product portfolio“

All in all, we are very confident about the future of our company. Oil and gas will continue to be the primary energy sources for humankind in the decades to come. Production rates of existing oil fields decline by six to eight per cent annually, while developing new oil fields requires deployment of increasingly complex technologies. All those factors will remain the key drivers of growth for SBO.

At this point, we would like to thank our employees for their commitment. Our thanks also go to our customers and shareholders for their confidence in our company.

Gerald Grohmann
Chairman of the Executive Board

Franz Gritsch
Member of the Executive Board

IT TAKES A TEAM TO
WIN THE RACE.

Human Resources

While the industry's crisis in 2009 required massive manpower downsizing, employees had to be re-hired in response to the significantly improved order situation in 2010. Additional staff was recruited primarily at the Ternitz and Houston sites. In part, skilled labour that had to be dismissed during the crisis was taken on again.

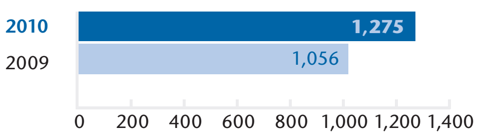
Since early 2010, the global headcount of SBO rose by 21 % to 1,275 as of 31 December 2010. In Europe, the number of employees was 574, up 9 % from the previous year. In North America and Mexico, the number of employees grew by 26 % to 564. The remaining workforce was employed across the other sites.

SBO's employees are highly appreciated partners for the oilfield service industry. For years, they have stood out by their flexibility, motivation, high loyalty, quality and service awareness. Our operating performance in 2010 was due also to their strong commitment. Absolute service-orientation and full dedication – such as working overtime – made it possible for SBO to fulfil our customers' high demands with the usual degree of reliability when the cycle picked up again.

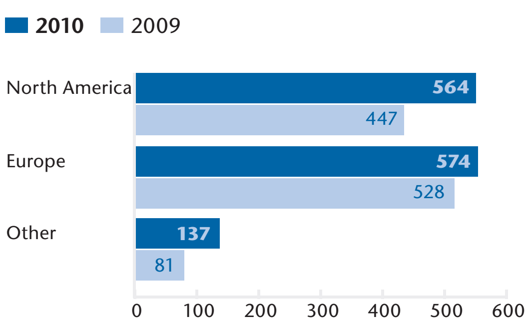
In fiscal 2010, a large number of training courses were organised across the company. At production level, for instance, new recruits were trained intensively in initial instruction schemes, and quality control training was provided. The aim of such training activities was to allow employees to improve their skills, specialise in their field of expertise and to maintain or raise the high level of quality.

Schoeller-Bleckmann Oilfield Equipment AG provided training for 28 apprentices in Austria in 2010. Apprenticeship training is where SBO invests money in the future development of the company, as the oilfield service industry has a particularly strong need for highly qualified personnel. At SBO's apprentice training centre, young people undergo, for instance, training to become skilled metalworkers (toolmakers), and a large part of them stay with the company after they have taken their final examination.

TOTAL HEADCOUNT



HEADCOUNT BY REGION



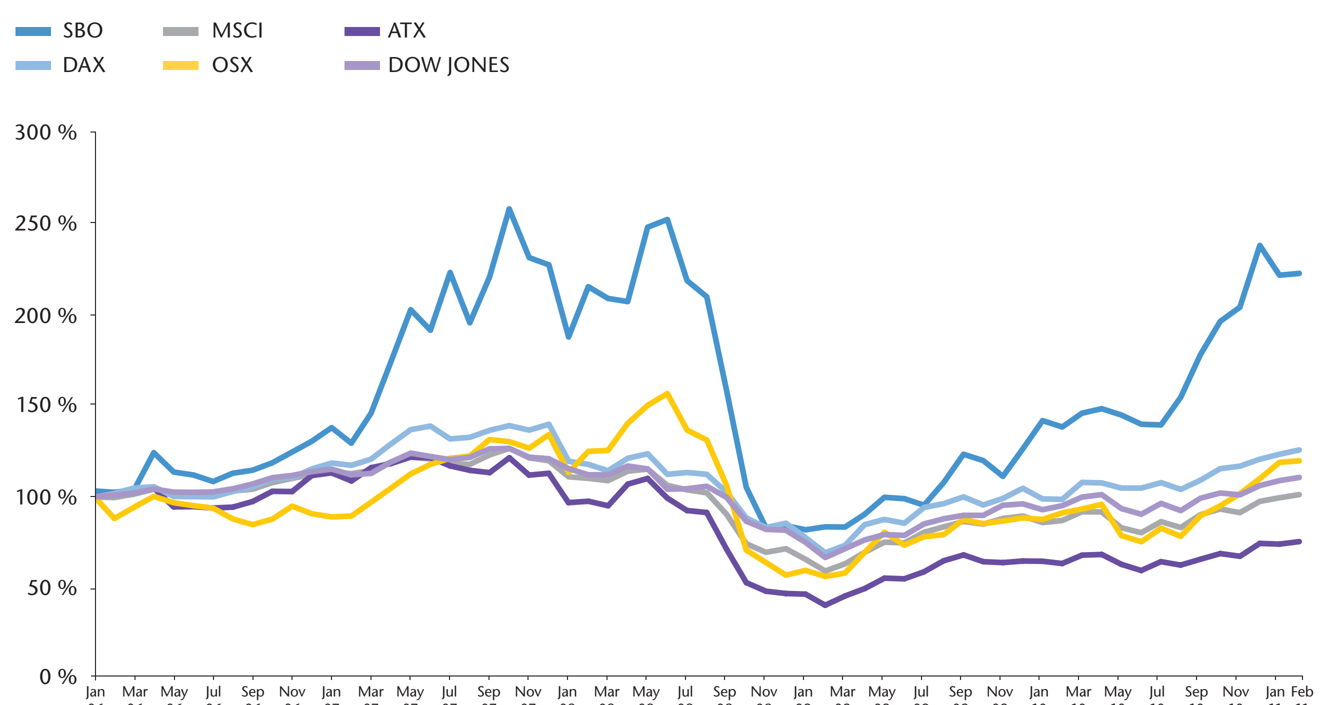
ON COURSE.

The SBO-Share

In 2010, Austria's ATX market continued its upwards performance following the slump at the end of 2008 and climbed by 16.4 %, or 408.91 points, to 2904.47 points over the period from December 2009 to December 2010. This brought Austria's leading share index in line with the German DAX, which gained 16.1 % last year.

Almost doubling over the year, SBO's share was the top performer within the blue-chip index ATX. It started into the 2010 trading year at a rate of EUR 34.48 per share. Already in January it outperfomed the ATX and started to soar in August. Through 2010 it climbed 87.1 % to EUR 64.50 per share at year-end. The annual low was EUR 33.25 per share on 4 January 2010. On 21 December 2010, the SBO share reached its annual high at EUR 65.70.

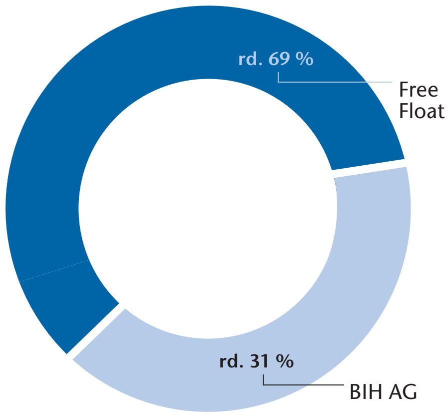
SHARE PERFORMANCE



„SBO's share was the 2010 top performer on the ATX"

Living up to the principle of transparent management and corporate communication, a large number of information events were held for private and institutional investors in 2010. 44 road shows were organised by SBO to strengthen the company's international presence. Apart from new destinations such as Abu Dhabi and San Francisco, the Executive Board and Investor Relations team presented the company to an audience of national and international investors in Boston, Chicago, Denver, Dublin, Edinburgh, Frankfurt, Helsinki, Kitzbühel, Copenhagen, London, Munich, New York, Oslo, Paris, Stegersbach, Vienna, Zurich and Zürs. As the focus in 2010 was on broadening the North American investor base, one quarter of all road shows was held in the United States. By now, an estimated 25 % of SBO's share capital is owned by Anglo-American institutional investors.

SHAREHOLDER STRUCTURE 31 DECEMBER 2010



FINANCIAL CALENDAR 2011

28 April 2011	Annual Shareholders' Meeting
12 May 2011	Ex-day, dividend distribution day

Publications:

18 May 2011	1st Quarter 2011
18 August 2011	2nd Quarter 2011
16 November 2011	3rd Quarter 2011

Analysts of Bank of America Merrill Lynch, Berenberg Bank, Cheuvreux, Erste Bank, Goldman Sachs, Raiffeisen Centrobank, UniCredit, Deutsche Bank, Dresdner Kleinwort/Commerzbank, Hauck & Aufhäuser and HSBC regularly cover Schoeller-Bleckmann Oilfield Equipment AG. In fiscal 2010, Fox-Davies Capital started their periodic analysis of SBO.

Likewise, business journalists were kept up-to-date in 2010 in a host of one-on-one meetings concerning the field of business, products and services offered by SBO as well as current developments in the oilfield service industry.

The latest information about the company and all publications of SBO are available on the company website www.sbo.at.

SHARE KEY DATA

	2010	2009
Share capital (in EUR)	15,960,116	15,880,116
Number of shares	15,960,116	15,880,116
Average number of shares traded per day[1]	76,991	109,619
Closing share price at year end (in EUR)	64.50	33.59
High/Low (in EUR)	65.70/33.25	35.72/18.78
Market capitalization at year end (in EUR)	1,029,427,482	533,413,096
Earnings per share (in EUR)	1.71	0.96
Price/earnings ratio at year end	37.72	34.99
Dividend per share (in EUR)	1.00[2]	0.50

[1] double counting
[2] proposed

Corporate Governance Report

Schoeller-Bleckmann Oilfield Equipment AG (SBO) has committed itself to comply with the Austrian Corporate Governance Code since 2005 and has consistently implemented its rules. The Austrian Corporate Governance Code is a set of rules meeting international standards for responsible management and governance of companies. By observing the Austrian Corporate Governance Code, SBO makes a contribution to strengthen trust in Austrian companies and the Austrian capital market.

The Austrian Corporate Governance Code is accessible at the website of the Austrian Working Group for Corporate Governance on www.corporate-governance.at.

In 2009, several rules of the Austrian Corporate Governance Code were amended. SBO complies with the Code as amended on 1 January 2010. This new version of the Code now contains 83 rules subdivided into three categories:

First: L-Rules (Legal Requirements). They describe mandatory legal requirements that must be complied with by law.

Second: C-Rules (Comply or Explain) – this category contains customary international provisions; non-compliance must be explained.

The third category, the R-Rules (Recommendation) is of recommendatory nature. Non-compliance does not have to be disclosed nor explained.

SBO complies with all mandatory legal provisions (L-Rules). In parts of the year 2010, Ing. Gerald Grohmann was chairman of the Executive Board of SBO and member of the Supervisory Board of ABAG Aktiengesellschaft. Dr. Peter Pichler was member of the Executive Board of ABAG Aktiengesellschaft and deputy chairman of the Supervisory Board of SBO. This contradicted Section 86 para 2 figure 3 of the Austrian Stock Corporation Act and Rule 44. However, in February 2011 Ing. Grohmann retired as member of the Supervisory Board of ABAG Aktiengesellschaft, thus SBO currently complies with all L-Rules.

Explain

SBO largely complies with the C-Rules. Deviations are explained as follows:

Rule 18

On 1 July 2010 SBO set up a separate unit for internal auditing in line with Rule 18. At least once a year, the unit for internal auditing informs the Audit Committee about the auditing plan and any material findings.

Rule 31

As the Executive Board of SBO consists of two members, Section 241 paragraph 4 of the Austrian Commercial Code applies, pursuant to which disclosure of the compensation of members of the Executive Board and of expenditures for severance payments and retirement pensions for members of the Executive Board is not required. This exemption is applicable to Rule 31. However, the company voluntarily publishes the total compensation of the members of the Executive Board and the managing directors of its subsidiaries. (For details see Notes to the Consolidated Financial Statements)

Rule 41

In line with the Austrian Corporate Governance Code, the function of the Nomination Committee is exercised by the Remuneration Committee.

Rule 54

At present, no member of the Supervisory Board is explicitly designated as representative of minority shareholders. SBO has no majority shareholder and, therefore, the interests of minority shareholders can be regarded identical to the interests of institutional shareholders and the core shareholder. The Executive Board believes that the minority shareholders consider themselves well represented in the Supervisory Board: The current Supervisory Board was elected by 99.9 % of the shareholders present and entitled to vote. For this reason, the Executive Board sees no need for action in this matter.

THE EXECUTIVE BOARD

The rules of procedure for the Executive Board govern the composition and working method of the Executive Board, cooperation of the Executive Board and the Supervisory Board, procedures and the approach to conflict of interests, information and reporting duties of the Executive Board and decisions requiring approval of the Supervisory Board applying to significant transactions of the major subsidiaries. Generally, the Executive Board holds at least weekly meetings for mutual information and decision-making.

In 2010, the Executive Board was composed of two members:

	Year of birth	Date of first appointment	End of current term of office
Ing. Gerald Grohmann Chairman	1953	3 Oct. 2001	31 Dec. 2015
Mag. Franz Gritsch	1953	1 Dec. 1997	31 Dec. 2015

Membership in external non-group supervisory boards:

	Company	Function
Ing. Gerald Grohmann	ABAG Aktiengesellschaft, Berndorf	Member

Distribution of responsibilities

Distribution of responsibilities and cooperation of the members of the Executive Board are governed by the rules of procedure of the Executive Board. The Executive Board has not set up any committees. The areas of responsibility held by the members of the Executive Board have been laid down by the Supervisory Board as follows, notwithstanding the collective responsibility of the Executive Board:

Ing. Gerald Grohmann	Marketing and technology, public relations
Mag. Franz Gritsch	Finance and accounting, human resources and legal matters

Outline of the Executive Board remuneration system

The remuneration system for the Executive Board takes into account both the situation in the market and a performance-related component. Concerning the composition of the remuneration of the members of the Executive Board we refer to Section 241 paragraph 4 of the Austrian Commercial Code. Remuneration consists of fixed and variable components. Variable components are always paid in the following year, as achievement of objectives can be determined only at the end of the year. Variable components are performance-related and depend on the degree to which the objects defined for the business year have been achieved.

The average variable portion in the total compensation of the Executive Board was 48% in the last years.

At the end of 2010, Executive Board agreements for the managing directors of SBO were renewed up until 31 December 2015 and, in this context, the variable remuneration component of the Executive Board was limited to 65 % of the total remuneration.

Variable components are subject to individual provisions. They are composed of the following elements: Development of corporate growth, profit, cash-flow, equity and fixed capital. Fulfilment of these performance criteria can be determined based on the financial statements or depends on the occurrence or non-occurrence of the respective event.

As to managing directors of the subsidiaries, specific performance criteria are often added to the above criteria which are relevant only to those operating units or individual projects. Fulfilment of performance criteria can be determined based on the financial statements or depends on the occurrence or non-occurrence of the respective event.

Neither the managing directors of SBO nor those of its subsidiaries are subject to stock option programmes, in particular in the meaning of Rule 28.

The rules for severance payments follow the legal requirements. No future burdens related to pension fund contributions or any other entitlements of the members of the Executive Board arise to the company after termination of their employment contracts.

A stock-option plan does not exist.

All members of the Executive Board are covered by a D & O (Directors & Officers) insurance taken out by, and at the expense of, SBO.

THE SUPERVISORY BOARD

In 2010, the Supervisory Board consisted of five members:

	Year of birth	Date of first appointment	End of current term of office
Mag. Norbert Zimmermann Chairman	1947	10 Apr. 1995	2012
Dr. Peter Pichler Deputy chairman	1958	10 Apr. 1995	2012
Mag. DI Helmut Langanger	1950	29 Apr. 2003	2012
Karl Samstag	1944	24 Oct. 2005	2012
Dr. Karl Schleinzer	1946	24 May 1995	2012

Other seats in supervisory boards or comparable functions in Austrian or foreign listed companies, if applicable, have been disclosed:

	Company	Function
Mag. Norbert Zimmermann Chairman	OMV AG Oberbank AG Bene AG Siemens AG Wiener Allianz AG	Supervisory board member Supervisory board member Supervisory board member Supervisory board member Supervisory board member
Dr. Peter Pichler Deputy chairman	-----	
Mag. DI Helmut Langanger	Enquest plc. MND a.s.	Supervisory board member Supervisory board member
Karl Samstag	Allgem. Baugesellschaft A. Porr AG Flughafen Wien AG Oberbank AG BKS Bank AG Bank für Tirol und Vorarlberg AG	Supervisory board member Supervisory board member Supervisory board member Supervisory board member Supervisory board member
Dr. Karl Schleinzer	-----	

Working method of the Supervisory Board

In exercising its functions, in particular monitoring and strategic support of the Executive Board, the Supervisory Board discusses the situation and targets of the company and takes decisions.

The rules of procedure for the Supervisory Board govern in detail the composition, working method and tasks of the Supervisory Board, procedures and the approach to conflicts of interests and all committees (Audit Committee, Nomination and Remuneration Committee) and their responsibilities.

The Supervisory Board held four meetings in the period under review. Moreover, the Supervisory Board held meetings with the Executive Board on management matters.

All members of the Supervisory Board personally attended more than half of the meetings of the Supervisory Board in the period under review.

Committees

The Supervisory Board appoints the members of the Audit Committee and the Nomination and Remuneration Committee from among its members.

No separate strategy committee has been set up; such matters are dealt with by the Supervisory Board collectively.

The committees are elected for the terms of office of their members. Each committee elects a chairman and deputy-chairman from among its members.

Audit Committee

The Audit Committee is responsible for auditing and preparing the approval of the annual financial statements, the proposal on the disbursement of profits, and the management report. The Audit Committee also audits the consolidated financial statements and submits a proposal for selecting the auditor and reports on this to the Supervisory Board.

Members: Mag. Norbert Zimmermann (Chairman)
Dr. Peter Pichler
Karl Samstag

In the year under review, the Audit Committee held three meetings, in which, in particular, issues concerning the financial statements, the internal control system and risk management were discussed.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee deals with matters relating to the remuneration of the members of the Executive Board and the terms and conditions of employment contracts concluded with members of the Executive Board. Furthermore, it submits to the Supervisory Board proposals to fill vacant positions in the Executive Board and deals with issues of succession planning.

Members: Mag. Norbert Zimmermann (Chairman)
Dr. Peter Pichler
Dr. Karl Schleinzer

In the year under review, the Nomination and Remuneration Committee held two meetings.

Independence

Supervisory Board complies with the guidelines set forth in the Corporate Governance Code, Annex 1, on the independence of Supervisory Board members. According to the guidelines, the following members of the Supervisory Board qualify as independent:

Mag. DI Helmut Langanger
Karl Samstag
Dr. Karl Schleinzer

The scope of services provided for the company as its legal counsel by Supervisory Board member Dr. Schleinzer in 2010 is not deemed significant pursuant to Annex 1 of the Corporate Governance Code (for details see Notes to the Consolidated Financial Statements).

Members Mag. Norbert Zimmermann and Dr. Peter Pichler represent the interests of Berndorf Industrie Holding AG, which holds a share of approximately 31 % in the company.

In the past year, no agreements requiring approval were in effect with members of the Supervisory Board or companies in which a member of the Supervisory Board held a considerable economic interest.

Remuneration of the Supervisory Board

The remuneration scheme for the members of the Supervisory Board was approved at the Annual General Meeting 2010. Remuneration is subdivided into a fixed and a variable portion which is determined as a percentage share of the group income before tax.

For fiscal year 2009 the following remuneration was paid:

	Fixed remuneration in EUR	Variable remuneration in EUR	Total in EUR
Mag. Norbert Zimmermann	6,000	3,823	9,823
Dr. Peter Pichler	5,000	3,823	8,823
Mag. DI Helmut Langanger	5,000	3,823	8,823
Karl Samstag	5,000	3,823	8,823
Dr. Karl Schleinzer	5,000	3,823	8,823

No loans or advances were paid to the members of the Supervisory Board.

All members of the Supervisory Board are covered by a D & O (Directors & Officers) insurance taken out by, and at the expense of, SBO.

Measures taken to promote women to the Executive Board, the Supervisory Board and to top management positions

It is of highest importance for SBO to strictly treat sexes equally at recruitment and treatment in all fields of the employment status; this without appointing women's quota or taking measures explicitly called "measures to promote women".

HEADING IN THE RIGHT DIRECTION.

Management Report

MARKET ENVIRONMENT

Following the most challenging fiscal year 2009, overall conditions in the global oilfield service industry were marked by continuous recovery in 2010. This was the result of increasing oil consumption due to a more stable worldwide economic development, high demand for energy in the emerging markets and rising oil prices. All these factors triggered more spending for production and exploration projects, which, in turn, was reflected in substantially improved order volumes for the oilfield service industry. Nevertheless, the rebound did not yet create the market momentum observed in the previous peak of the cycle between 2006 to 2008.

Having declined by 0.6 % in 2009, the global GDP is estimated to have gone up by 5.0 % in 2010 according to the International Monetary Fund (IMF). The GDP of the People's Republic of China is expected to have climbed as much as 10.3 % in 2010 (following 9.2 % in 2009).[2]

China's enormous economic growth went hand in hand with the energy demand of the world's most populous country and, as a result, had the largest share in the rising demand for oil in 2010. According to OPEC China's average demand for oil rose by 8.44 %, from 8.25 million barrels per day in 2009 to 8.95 million barrels per day in 2010. Other reasons for the surprisingly strong demand for oil in 2010 included mainly several governmental economic stimulus programmes. OPEC says that the average global oil consumption in 2010 went to 86.34 million barrels per day, up 2.13 % from 84.54 million barrels per day in 2009.[3] Estimates published by the International Energy Agency (IEA) are slightly more optimistic, as the IEA assumes that average global demand for oil arrived at 87.7 million barrels per day in 2010 (up 3.2 % from the level recorded in 2009).[4]

As a consequence of the economic rebound and growing demand for oil the oil price also went up again. Since the end of February 2009 the oil price (US brand WTI) was rising continuously. On 4 January 2010, the price per barrel had come to USD 81.52 – which is 76.6 % higher than the price per barrel seen early in 2009. In the course of 2010, the oil price went up by another 12.1 % to arrive at USD 91.38 per barrel at year-end. The annual low of USD 64.78 per barrel was recorded on 25 May 2010, while the annual high of USD 91.48 per barrel was reached on 28 December 2010. Regardless of its rise by 97.9 % in the

[2] IWF: World Economic Outlook Update, January 2011
[3] OPEC: Monthly Oil Market Report , February 2011
[4] IEA: Oil Market Report, January 2011

period from 2 January 2009 to 31 December 2010, the oil price is significantly below the 2008 record level of USD 145 per barrel.

With demand starting to improve, the global rig count[5], the leading parameter of worldwide drilling rig activity, also went up again. In December 2010 it stood at 3,227 units, an increase of 28.6 % compared to the 2,509 drilling rigs operating in December 2009. In this context mention must be made of the Macondo oil spill in the Gulf of Mexico. It was mainly the US market for the oilfield service industry that had to face the consequences of the incident in 2010. The moratorium on granting new offshore drilling licences led to a decline in the number of offshore drilling activities, but this was set off by stronger onshore drilling. When the Deepwater Horizon platform caught fire on 20 April 2010 and sank two days later, the number of offshore rigs in the US was 52, while that of onshore drilling rigs stood at 1431 units at the end of April. By the end of December 2010, the offshore rig count had fallen to 24, representing a decline of 53.8 %. The number of onshore rigs rose by 16.7 % to 1,670 units. The total number of US rigs climbed to 1694 units in 2010, increasing by 38.9 %.

„Economic recovery, stronger demand for energy and rising oil prices improved the order situation in the oilfield service industry"

BUSINESS DEVELOPMENT

Considerably higher bookings and sales revenues accompanied by the associated substantial profit improvement were the decisive factors in the 2010 business development at Schoeller-Bleckmann Oilfield Equipment AG. Whereas first-quarter sales still suffered from the challenging year 2009, sales and profit figures were constantly moving upwards from the second quarter of 2010 onwards.

Compared with 2009, total bookings received by SBO improved from MEUR 111.1 to MEUR 358.6, up 222.7 %. The order backlog as at year-end 2010 stood at 130.8, up 71.9% year-on-year. Over the year, increasing numbers of bookings in our US business due to higher numbers of oil and gas wells were followed by steady improvement in all other regions of the world that are of relevance to SBO.

All product segments of Schoeller-Bleckmann Oilfield Equipment AG benefitted from the market recovery in 2010. Due to its strong position as the global market leader, SBO was able

[5] Baker Hughes Rig Count

„Continuous sales and profit improvement starting in Q2 2010“

to make full use of growing demand in 2010 from the beginning by adjusting production capacities as required. Consequently, capacity utilisation at production sites in the US and Austria was gradually run up in the company's largest segment - high-precision drillstring components.

Drilling motor subsidiary BICO also took full advantage of the upswing in the wake of growing oil and gas drilling activities in North America and the steeply rising number of onshore drilling rigs in the United States. BICO's drilling motor fleet was expanded to cover surging demand for high-performance drilling motors which are largely rented to customers.

Construction of the new production site in Vietnam went according to plan in 2010. Commissioned during the year, the company is now running through the planned start-up phase. Similarly, the distribution centre in Brazil generated satisfying sales revenues for the group.

Only UK-based production companies Darron/Rotherham and Techman/Chesterfield were still lagging behind the overall development of bookings. While the decline in the oilfield service industry in the United Kingdom set in later in 2009, it continued through 2010, shifting the cycle accordingly. At both companies, cost optimisation measures were launched during 2010. By contrast, the Service & Supply Shop Schoeller-Bleckmann Darron/Aberdeen recorded highly positive figures as drilling activities in the North Sea started to pick up again.

All in all, the Macondo oil spill had no negative impact on the group. Suspension of offshore drilling by the US government discontinued drilling activities in the Gulf of Mexico for a while, but this was set off by increasing onshore activities in the United States and the shift of offshore activities to other regions. At the same time, SBO's Service &Supply Shop in Lafayette received orders for the Macondo relief well and thus made its contribution to bringing the Macondo oil spill to an end.

Acquisition of DSI

In mid-September 2010 negotiations on the acquisition of Drilling Systems International Ltd. (DSI) were completed successfully, and closing of the transaction took place on 1 October 2010. DSI has been fully consolidated as of the beginning of the fourth quarter of 2010.

Headquartered in Dubai, DSI is a leading global provider of specialised equipment for downhole circulation technology for oil and gas wells. The company's flagship is the PBL tool that is part of the drill string. The main purpose of the PBL tools is to avoid mud loss during the drilling process. Such loss may occur when drilling muds escape into rock formations. The tool helps to protect costly drillstring steering systems (MWD and LWD equipment) from damage and promptly solve expensive lost-circulation problems. The tool is also applied in wellbore and blowout preventer (BOP) cleanup operations.

The benefit the PBL tool provides to customers lies in considerable time and cost savings, as the system is highly reliable and easy to operate. DSI's technology makes the company the uncontested market leader in this niche. The business model is similar to that of SBO subsidiary BICO, which also rents its drilling motors to customers. Therefore, DSI is an ideal addition to the product portfolio of BICO. DSI's customers include international oil companies and oilfield service providers, and therefore significant synergies are expected to arise for both companies.

Establishment of Knust Far East

The fourth quarter of 2010 saw the start of preliminary work on establishing a new production site of US-subsidiary Knust-SBO in Singapore. Knust intends to better cover the growing market in the Far East for its products (chassis/internals) on the spot. Production is scheduled to start up in stages in the second half of 2011.

Research and development

Schoeller-Bleckmann Oilfield Equipment AG has integrated its research and development activities in its operations for many years, providing market and customer-oriented R&D activities. Fiscal 2010 was again characterised by the manufacture of several prototypes in close cooperation with SBO's customers.

Following the firm establishment of our high-performance drilling motor (SpiroStar) in oil and gas wells, SBO subsidiary BICO successfully introduced that drilling motor also in the thru-tubing market. Longer service life, higher torque and higher output are the outstanding features of the SpiroStar motor. SpiroStar thru-tubing motors are running at all major shale plays in the United States, making BICO the market leader in this niche in the US within a short period of time.

Environment

The manufacture of SBO's products generates no appreciable emissions into the air or water or greenhouse gases. Therefore, no official licensing requirements in the field of environmental protection beyond the customary scope are in place. SBO's corporate environmental management concentrates on both state-of-the-art waste disposal and efficient and careful use of energy and power.

Risk report

Concerning the risks of the business model of Schoeller-Bleckmann Oilfield Equipment AG we refer to the presentation in Chapter 33 of the Consolidated Financial Statements.

OUTLOOK

The tenor of forecasts on global economic development in fiscal 2011 is basically positive. Should the global economy, as expected by the IMF, grow by 4.4 %[6] in 2011, demand for oil and gas will continue to rise. At the same time, however, the geopolitical development particularly in the Arab region must be closely monitored, as it may have unforeseeable effects on the global economy and the oilfield service industry.
According to IEA forecasts of January 2011, average global demand for oil in 2011 will be 89.1 million barrels per day, representing an increase of 1.6 % compared with 2010.[7]

„Rapid recovery of industry cycle following 2009 slump suggests long-term upwards tendency of the oilfield service industry"

Rebounding demand for oil and gas is the driving force behind increased exploration and production spending. Analysts predict that 2011 will see global capital expenditure in the sector to go up by 11 % from 2010 to USD 490 billion. Budgets allocated to North America are expected to increase by 8 % to around USD 94 billion. International spending is expected to climb by as much as 12 % to roughly USD 364 billion in 2011.[8]

For 2011, Schoeller-Bleckmann Oilfield Equipment AG anticipates business performance to remain positive, given a stable global economic development. However, at the beginning of 2011 there are still overcapacities in the market, and some of SBO's customers have not yet fully drawn down their inventories.

[6] IMF: World Economic Outlook Update, January 2011
[7] IEA: Oil Market Report, January 2011
[8] Barclays Capital, Global Oil Services & Drilling, 20 December 2010

In 2011, SBO subsidiary DSI will be consolidated for the full fiscal year for the first time.

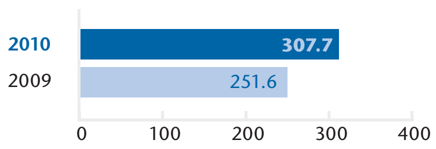
As the global market leader in high-precision components for the oilfield service industry Schoeller-Bleckmann Oilfield Equipment AG is perfectly prepared to make full use of a new cyclical upswing. The rapid recovery of the industry cycle in fiscal 2010 after the decline seen in 2009 confirms the long-term tendency within the industry. Declining production rates of existing oil fields and the increasingly challenging and complex search for new oil reservoirs will remain stable drivers of growth in demand for products of Schoeller-Bleckmann Oilfield Equipment AG.

ANALYSIS AND RESULTS

The consolidated financial statements of the company have been prepared in accordance with the International Financial Reporting Standards (IFRS), formerly International Accounting Standards (IAS). In the past business year, the scope of consolidated companies was expanded by the acquisition of Drilling Systems International Ltd. (DSI), CY, and establishment of Knust-SBO Far East Pte. Singapore. Both companies were consolidated for the first time as of 1 October 2010. No changes were made in the business of the SBO group.

SALES

in MEUR



Sales

The rapid recovery of the industry cycle following the market slump in 2009 is reflected in the development of sales. Compared with the previous year, sales increased by 22.3 %, from MEUR 251.6 to MEUR 307.7.

Apart from market development, the slight strengthening of the US dollar versus the Euro also contributed to this recovery. The average exchange rate in 2010 was 1 Euro = USD 1.3268, compared to 1 Euro = 1 USD 1.3933 in 2009, which had a positive influence of around MEUR 13 on sales.

Exchange rate

As in the years before, the US dollar continues to be the most important currency by far for the SBO group. In 2010, about 84 % (following 83 % in 2009) of total sales and revenues were generated in US dollars, while around 50 % of expenses were also incurred in US dollars.

The average rates for the years ended 31 December 2009 and 31 December 2010 were used by the company in the preparation of the consolidated profit and loss statements, whereas the closing rates for the years 2009 and 2010 were used in the preparation of the consolidated balance sheet.

EXCHANGE RATE

in EUR/USD

	High	Low	Average	Closing
Year 2010	1.4563	1.1942	1.3268	1.3391
Year 2009	1.5120	1.2555	1.3933	1.4440

Sales by regions

The table below to the right shows sales by regions of origin.

Except for the production sites in the United Kingdom, all other sites achieved partly substantial sales increases.

North America, accounting for 73 % (2009: 76 %) of sales, continues to be the most important market for the company, as all major oilfield service companies are located in the USA. However, the products of the SBO group are used all over the world.

SALES BY REGIONS

in MEUR

	2010	2009
North America	254.0	207.2
Europe	139.0	119.1
Other	17.3	6.1
- Intercompany Sales	-102.6	-80.8
Total Sales	307.7	251.6

Sales by products

In the business segment of high-precision components, comprising essentially MWD/LWD collars, MWD/LWD internals and high-precision parts, sales increased by 11 %, from MEUR 159.5 in 2009 to MEUR 177.3 in 2010.

Sales in the segment of downhole tools, oilfield supplies and service, consisting of product groups drilling motors, circulation tools, non-magnetic drill collars and material as well as service and repair activities, increased by 42%, from MEUR 91.7 to MEUR 130.2.

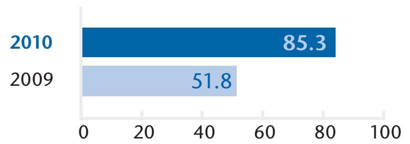
SALES BY PRODUCTS

in MEUR

	2010	2009
High-Precision Components	177.3	159.5
Downhole tools, oilfield supplies and service	130.2	91.7
Other	0.2	0.4
Total Sales	307.7	251.6

This development is mainly due to the strong growth of the drilling motor business in North America.

GROSS PROFIT
in MEUR

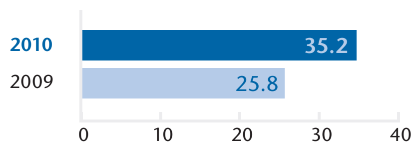


Gross profit

In 2010, gross profit amounted to MEUR 85.3, after MEUR 51.8 in the year before. The gross margin was up again to 27.7 %, after only 20.6 % in 2009. This development was primarily a result of capacity utilisation continuously improving throughout 2010 at the production sites in the USA and Austria.

Additionally, the cost-cutting programme implemented in 2009 also contributed to gross profit growth. However, price concessions that had to be granted during the market slump in 2009 could be taken back only to a small extent.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES
in MEUR



Selling, general and administrative expenses

Selling, general and administrative expenses went from MEUR 25.8 in 2009 to MEUR 35.2 in 2010, representing 11.5 % of sales. This increase is primarily due to the expansion of the organisation (setup of business operations in Vietnam and Singapore, acquisition and integration of DSI) and higher consulting fees in the wake of growing acquisition efforts.

Selling, general and administrative expenses consist mainly of salary and salary-related expenses, professional fees, travel and entertainment, communication and insurance costs.

Other operating income and expenses

Other operating expenses amounted to MEUR 8.5 (2009: MEUR 8.7) in 2010. This item contains primarily exchange losses and R&D costs in the fields of downhole tools, oilfield supplies and service.

Other operating income was MEUR 11.0 (2009: MEUR 10.8) in 2010. The major item covered here are exchange gains. Further operating income consists of rental income, service charges and income from sales of scrap and gains from the sale of fixed assets.

Result from non-recurring items

This item shows expenses amounting to MEUR 3.3 from goodwill impairment in 2010. This refers to the partial goodwill impairment of Techman Engineering Ltd., which was acquired in 2008.

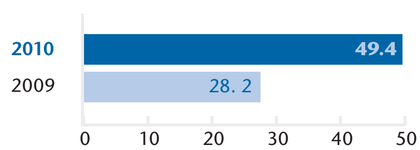
Profit from operations

Profit from operations after non-recurring items was MEUR 49.4 (16.0 % of sales), compared with MEUR 28.3 (11.2 % of sales) in the year before.

This favourable development is mainly due to the increase in gross profit, as presented above.

PROFIT FROM OPERATIONS

in MEUR

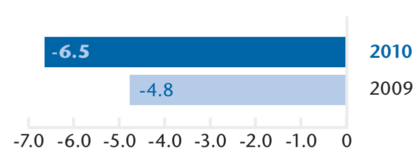


Financial result

In 2010, the financial result stood at MEUR -6.5, after MEUR -4.8 in 2009. Net interest expenses were MEUR -4.6 (2009: MEUR -4.5). Other financial expenses of MEUR 1.9 (2009: MEUR 0,2) were minority interests in subsidiaries held by the respective management.

FINANCIAL RESULT

in MEUR



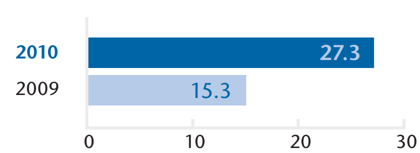
Profit after tax / dividend

The profit after tax for 2010 was MEUR 27.3, following MEUR 15.3 in the year before.

Earnings per share stood at EUR 1.71, following EUR 0.96 in 2009.

PROFIT AFTER TAX / DIVIDEND

in MEUR



The Executive Board proposes to the Annual General Meeting to pay to the shareholders a dividend of EUR 1.00 per share (basic dividend and bonus), resulting in a total distribution of MEUR 16.0 to our shareholders.

Assets and financial position

Shareholders' equity as of 31 December 2010 was MEUR 267.1, following MEUR 229.8 as of 31 December 2009. The equity ratio arrived at 47.6 %, compared with 54.0 % in the year before.

Net debt as of 31 December 2010 was MEUR 48.9, almost unchanged compared to MEUR 46.5 as of 31 December 2009.

The gearing ratio (net debt in % of shareholders' equity) was 18.4 % as of 31 December 2010, following 20.2 % in the year before, resulting from strong cash-flow development. Cash-flow from profit was MEUR 64.9 in 2010, following MEUR 49.9 in 2009. The main elements contributing to this figure were profit after tax amounting to MEUR 27.3 (2009: MEUR 15.3), as well as depreciation and amortisation – including goodwill impairment – amounting to MEUR 35.7 (2009: MEUR 33.2). Cash-flow from operating activities slightly improved from MEUR 67.6 in 2009 to MEUR 89.3. Despite expansion of the organisation, the net working capital was reduced by MEUR 14.1 in 2010, from MEUR 106.3 as of 31 December 2009 to MEUR 92.1 as of 31 December 2010.

Apart from these inflows, dividend payments of MEUR 8.0 and net cash-flow from investing activities (acquisitions net of revenue) of MEUR 85.4, following MEUR 28.8 in 2009, were reported. The main share was accounted for by the acquisition of the DSI company, while expenditures for property, plant and equipment amounted to MEUR 25.0 (2009: MEUR 32.6).

Concerning expenditures for property, plant and equipment, MEUR 5.4 were spent in Europe (primarily for machinery for the Ternitz production site), MEUR 17.1 in North America (primarily for the drilling motor fleet and branch locations of subsidiary BICO as well as machinery for production company Knust) and MEUR 2.5 in other regions (primarily for machinery for the production site in Vietnam).

Purchase commitments for property, plant and equipment as of 31 December 2010 amounted to MEUR 11.8.

REPORT ON THE MAIN FEATURES OF THE INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS

The Executive Board has overall responsibility for the risk management of the SBO group, whereas direct responsibility lies with the managing directors of the operating entities.
Consequently, the system of internal continuous reporting to corporate headquarters plays a particularly important role in identifying risks at an early stage and implementing counter-measures. Operating subsidiaries provide the necessary information by timely monthly reporting to the Executive Board.
The group has defined uniform standards for all global subsidiaries regarding implementation and documentation of the complete internal control system and, in particular, the financial reporting process. The underlying objective is to avoid risks leading to incomplete or erroneous financial reporting.
In addition, liquidity planning of the subsidiaries is continuously monitored and aligned with the requirements defined by the holding company.
Furthermore, internal reports prepared by subsidiaries are checked for plausibility at corporate headquarters and compared with budgets in order to take appropriate action whenever deviations occur. For this purpose, subsidiaries are required to prepare annual budgets and mid-term planning to be approved by the Executive Board.
Group controlling monitors subsidiaries' compliance with accounting regulations.
Moreover, the annual financial statements of all operating subsidiaries and holding companies are audited by international auditors. At the Executive Board's regular meetings with local managing directors the current business development and foreseeable risks and opportunities are discussed. In addition to the International Financial Reporting Standards, preparation of the consolidated financial statements is subject to internal guidelines to ensure uniform presentation by reporting companies (accounting and valuation issues).
A certified consolidation programme equipped with the necessary auditing and consolidation routines is used for automated preparation of the consolidated financial statements.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Please refer to Note 39, Financial Information.

ADDITIONAL INFORMATION ACC. TO SECTION 243A, AUSTRIAN COMMERCIAL CODE

Please refer to Note 20, Financial Information.

THE SECURITY OF FINANCIAL STRENGTH.

Financial Information

Consolidated Balance Sheet

ASSETS in TEUR		31.12.2010	31.12.2009
Current assets			
Cash and cash equivalents		136,989	96,640
Trade accounts receivable	Note 5	57,876	41,033
Other accounts receivable and prepaid expenses	Note 6	5,655	4,934
Inventories	Note 7	100,517	88,899
TOTAL CURRENT ASSETS		**301,037**	**231,506**
Non-current assets			
Property, plant & equipment	Note 8	138,757	136,697
Goodwill	Note 9	57,089	38,979
Other intangible assets	Note 9	52,761	7,873
Long-term receivables	Note 10	5,620	4,128
Deferred tax assets	Note 11	6,303	6,358
TOTAL NON-CURRENT ASSETS		**260,530**	**194,035**
TOTAL ASSETS		**561,567**	**425,541**

Consolidated Balance Sheet

LIABILITIES AND SHAREHOLDERS' EQUITY in TEUR		31.12.2010	31.12.2009
Current liabilities			
Bank loans and overdrafts	Note 12	36,227	34,590
Current portion of long-term loans	Note 17	17,839	19,829
Finance lease obligations		418	394
Accounts payable trade		39,760	8,709
Government grants	Note 13	401	810
Income taxes payable		6,981	1,056
Other payables	Note 14	19,266	10,884
Other provisions	Note 15	5,903	7,952
TOTAL CURRENT LIABILITIES		**126,795**	**84,224**
Non-current liabilities			
Bonds	Note 16	39,864	39,824
Long-term loans	Note 17	90,887	47,485
Finance lease obligations		611	1,026
Government grants	Note 13	1,115	1,564
Employee benefit obligations	Note 18	3,690	3,204
Other payables	Note 19	19,289	7,875
Deferred tax liabilities	Note 11	12,189	10,531
TOTAL NON-CURRENT LIABILITIES		**167,645**	**111,509**
Shareholders´ equity			
Share capital	Note 20	15,960	15,880
Contributed capital		65,203	61,808
Legal reserve - non-distributable	Note 21	785	785
Other reserves	Note 22	36	39
Currency translation reserve		-20,852	-34,230
Retained earnings		204,897	185,526
Equity attributable to the owners of the parent company		266,029	229,808
Non-controlling interests	Note 23	1,098	0
TOTAL SHAREHOLDERS´ EQUITY		**267,127**	**229,808**
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY		**561,567**	**425,541**

Consolidated Profit and Loss Statement

in TEUR		2010	2009
Sales	Note 24	**307,724**	**251,605**
Cost of goods sold	Note 25	-222,420	-199,855
Gross profit		**85,304**	**51,750**
Selling expenses	Note 25	-12,798	-9,807
General and administrative expenses	Note 25	-22,415	-15,951
Other operating expenses	Note 26	-8,455	-8,677
Other operating income	Note 26	10,990	10,806
Profit from operations before non-recurring items		**52,626**	**28,121**
Result from non-recurring restructuring measures	Note 27	0	117
Impairment on goodwill	Note 27	-3,256	0
Profit from operations after non-recurring items		**49,370**	**28,238**
Interest income		754	646
Interest expenses		-5,379	-5,185
Other financial income		20	0
Other financial expenses	Note 19	-1,907	-242
Financial result		**-6,512**	**-4,781**
Profit before tax		**42,858**	**23,457**
Income taxes	Note 28	-15,528	-8,166
Profit after tax		**27,330**	**15,291**
Thereof attributable to non-controlling interests		-3	0
Thereof attributable to the owners of the parent company		27,333	15,291
		27,330	**15,291**
Average number of shares outstanding		15,941,705	15,880,116
Earnings per share in EUR (basic = diluted)		**1.71**	**0.96**

Consolidated Statement of comprehensive Income

	2010	2009
Profit after tax	**27,330**	**15,291**
Foreign exchange adjustment - subsidiaries	12,793	2
Foreign exchange adjustment - other items[1]	2,513	-37
Income tax effect	-628	9
Hedging of a net investment	-1,607	316
Income tax effect	401	-79
Other comprehensive income, net of tax	**13,472**	**211**
Total comprehensive income, net of tax	**40,802**	**15,502**
Thereof attributable to non-controlling interests	91	0
Thereof attributable to the owners of the parent company	40,711	15,502
	40,802	**15,502**

(1) Mainly the result from translation differences from net investments in foreign entities such as long-term receivables.

Consolidated Cash-Flow Statement

in TEUR		2010	2009
Profit after tax		27,330	15,291
Depreciation and amortization		32,452	33,240
Impairment on goodwill		3,256	0
Change in employee benefit obligations		486	-324
Gain (loss) from sale of property, plant and equipment		346	-213
Gain (loss) from sale of long-term investments		-20	0
Income from release of subsidies		-309	-884
Other non-cash expenses and revenues		87	-1,299
Change in deferred taxes		1,243	4,112
Cash-flow from profit		**64,871**	**49,923**
Change in accounts receivable trade		-6,682	15,927
Change in other accounts receivable and prepaid expenses		-570	5,474
Change in inventories		-4,133	40,079
Change in accounts payable trade		25,829	-30,406
Change in other payables and provisions		9,979	-13,422
Cash-flow from operating activities	Note 36	**89,294**	**67,575**
Expenditures for property, plant & equipment		-25,014	-32,582
Expenditures for intangible assets		-94	-39
Expenditures for the acquisition of subsidiaries less cash acquired	Note 37	-64,349	0
Proceeds from sale of property, plant & equipment		4,101	3,837
Cash-flow from investing activities	Note 36	**-85,356**	**-28,784**
Disposal of own shares	Note 20	1,085	0
Dividend payment		-7,965	-11,910
Government grants received		138	1,651
Repayment finance lease		-443	-436
Sale of investments to non-controlling interests	Note 31	1,007	0
Change in bank loans and overdrafts		869	6,691
Proceeds from long-term loans		51,473	23,275
Repayments of long-term loans		-12,006	-9,899
Repayments of other long-term payables		-1	-639
Cash-flow from financing activities	Note 36	**34,157**	**8,733**
Change in cash and cash equivalents		**38,095**	**47,524**
Cash and cash equivalents at the beginning of the year		96,640	49,348
Effects of exchange rate changes on cash and cash equivalents		2,254	-232
Cash and cash equivalents at the end of the year	Note 36	**136,989**	**96,640**
Supplementary information on operating cash-flow			
Interest received		819	605
Interest paid		-5,170	-5,316
Income tax paid		-4,984	-7,967

Consolidated Statement of Changes in Shareholders' Equity

Year 2010 in TEUR	Share capital	Contributed capital	Legal reserve	Other reserves	Currency translation reserve	Retained earnings	Total Parent company	Non-controlling interests	Total
Note	20		21	22					
1 January 2010	**15,880**	**61,808**	**785**	**39**	**-34,230**	**185,526**	**229,808**	**0**	**229,808**
Profit after tax						27,333	**27,333**	-3	**27,330**
Other comprehensive income, net of tax					13,378		**13,378**	94	**13,472**
Total comprehensive income, net of tax	0	0	0	0	13,378	27,333	**40,711**	91	**40,802**
Dividends[1]						-7,965	**-7,965**		**-7,965**
Earn-out due to business combinations (Note 37)		889					**889**		**889**
Disposal of own shares (Note 20)	80	2,784					**2,864**		**2,864**
Income tax effect		-278					**-278**		**-278**
Increase in non-controlling interests (Note 31)							**0**	1,007	**1,007**
Change in reserves				-3		3	**0**		**0**
31 December 2010	**15,960**	**65,203**	**785**	**36**	**-20,852**	**204,897**	**266,029**	**1,098**	**267,127**

[1] The dividend payment in the year 2010 of TEUR 7,965 was distributed to a share capital eligible for dividends of TEUR 15,930. Accordingly, the dividend per share amounted to EUR 0.50.

Year 2009 in TEUR	Share capital	Contributed capital	Legal reserve	Other reserves	Currency translation reserve	Retained earnings	Total Parent company	Non-controlling interests	Total
Note	20		21	22					
1 January 2009	**15,880**	**61,808**	**785**	**44**	**-34,441**	**182,140**	**226,216**	**0**	**226,216**
Profit after tax						15,291	**15,291**		**15,291**
Other comprehensive income, net of tax					211		**211**		**211**
Total comprehensive income, net of tax	0	0	0	0	211	15,291	**15,502**	0	**15,502**
Dividends[1]						-11,910	**-11,910**		**-11,910**
Change in reserves				-5		5	**0**		**0**
31 December 2009	**15,880**	**61,808**	**785**	**39**	**-34,230**	**185,526**	**229,808**	**0**	**229,808**

[1] The dividend payment in the year 2009 of TEUR 11,910 was distributed to a share capital eligible for dividends of TEUR 15,880. Accordingly, the dividend per share amounted to EUR 0.75

Notes

NOTE 1 | Information about the Company

SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft (the Company), located in 2630 Ternitz at Hauptstrasse 2, was incorporated on 26 May 1994 in Ternitz, Austria and is registered at the Commercial Court in Wiener Neustadt, Austria (FN 102999w).

The Company is engaged in the industrial manufacturing of components and parts for the oil and gas industry, mostly in directional drilling segments, and provides services in these areas.

Since 27 March 2003 the shares of the Company have been listed on the Wiener Börse (Vienna Stock Exchange).

NOTE 2 | Accounting Standards

The Company's consolidated financial statements as of 31 December 2010 were prepared in accordance with International Financial Reporting Standards (IFRSs) as well as with the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) as adopted by the EU.

As per Supervisory Board resolution, the consolidated financial statements for SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft and its subsidiaries for the business year 2010 (as of 31 December 2010) will be released on 8 March 2011.

The financial statements are denominated in Euros. Unless otherwise provided, all figures have been rounded to thousands of Euros (TEUR). As a result of automated computation, the rounded amounts and percentage figures may display rounding differences.

NOTE 3 | Scope of consolidation

The consolidated financial statements as of 31 December 2010 comprise the accounts of SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft as the group parent company and its subsidiaries as follows:

Company	Location	Interest held in %
Schoeller-Bleckmann Drilling and Production Equipment GmbH	Ternitz, Austria	100,00
Schoeller-Bleckmann Oilfield Technology GmbH	Ternitz, Austria	100,00
BICO-DSI Investment GmbH (formerly Schoeller-Bleckmann Oilfield Investment GmbH)	Ternitz, Austria	90,00
Schoeller-Bleckmann America Inc.	Wilmington, USA	100,00
Accudrill L. L. C	Houston, USA	100,00
Bafco Investment Co.	Warminster, USA	100,00
Godwin-SBO L. L. C.	Houston, USA	100,00
Knust-SBO L. L. C.	Houston, USA	100,00
Schoeller-Bleckmann Energy Services L. L. C. (*)	Lafayette, USA	100,00
Schoeller-Bleckmann Sales Co. L. L. C.	Houston, USA	100,00
BICO Drilling Tools Inc. (*)	Houston, USA	100,00
BICO Faster Drilling Tools Inc. (*)	Nisku, Canada	100,00
Schoeller-Bleckmann de Mexico S. A. de C. V.	Monterrey, Mexico	100,00
Schoeller-Bleckmann do Brasil, Ltda.	Macae, Brasil	100,00
SB Darron Pte. Ltd.	Singapore	100,00
Knust-SBO Far East Pte. Ltd.	Singapore	100,00
Schoeller-Bleckmann Oilfield Equipment Middle East FZE	Dubai, U. A. E.	100,00
Schoeller-Bleckmann Trading FZE	Dubai, U. A. E.	90,00
Schoeller-Bleckmann Oilfield Equipment (UK) Limited	Rotherham, UK	100,00
Darron Oil Tools Limited	Rotherham, UK	100,00
Darron Tool & Engineering Limited (*)	Rotherham, UK	100,00
Schoeller-Bleckmann Darron Limited (*)	Aberdeen, UK	100,00
Techman Engineering Limited	Chesterfield, UK	100,00
Techman Precision Engineering Limited	Chesterfield, UK	100,00
BRMCO (167) Limited	Chesterfield, UK	100,00
Drilling Systems International Limited	Cayman Islands, CY	90,00
Schoeller-Bleckmann Oilfield Equipment Vietnam L. L. C.	Binh Duong, VN	100,00

(*) With respect to the disclosure of the shares which are held by the management of these Companies, please see Note 19.

In 2010, the following **changes in the scope of consolidated** entities took place:

- Acquisition of 100 % of the shares of Drilling Systems International Limited as of 1 October 2010 (see Note 37);
- Sale of 10 % interest in BICO-DSI Investment GmbH (formerly Schoeller-Bleckmann Oilfield Investment GmbH; see Note 31) with its subsidiary Schoeller-Bleckmann Trading FZE, to which company the investment in Drilling Systems International Limited was sold;
- Foundation of Knust-SBO Far East Pte. Ltd. on 7 September 2010.

NOTE 4 | Significant accounting policies

The applied accounting policies remain generally unchanged compared to the previous year, except for the following changes.

Changes in accounting policies

In 2010 the Group has initially applied the following new and revised standards and interpretations. The adoption of these standards and interpretations only had an impact on group financial statements as of 31 December 2010 if it is marked with “yes” in the table below.

Regulation		Effective Date [1]	Impact on group financial statements
IFRS 1	First Time Adoption of IFRS (revised 2008)	01/07/2009	no
IFRS 1	Additional Exemptions for First-time Adopters	01/01/2010	no
IFRS 2	Group Cash-settled Share-based Payment Transactions	01/01/2010	no
IFRS 3	Business Combinations (revised 2008)	01/07/2009	yes
IFRS 5	Improvements to IFRS 2008	01/07/2009	no
Various	Improvements to IFRS 2009	Various, mainly 01/01/2010	no
IAS 27	Consolidated and Separate Financial Statements (amended 2008)	01/07/2009	yes
IAS 39	Financial Instruments: Recognition and Measurement – Eligible Hedged Items	01/07/2009	no
IFRIC 9 and IAS 39	Embedded Derivatives	30/06/2009	no
IFRIC 17	Distributions of Non-cash Assets to Owners	01/11/2009	no
IFRIC 18	Transfers of Assets from Customers	01/11/2009	no

[1] to be applied for annual periods beginning on or after this date

IFRS 3 Business Combinations (revised) and IAS 27 Consolidated and Separate Financial Statements (amended)

IFRS 3 (revised) introduces substantial changes in the accounting for business combinations occurring after the effective date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration as well as business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (amended) requires that changes in the ownership interest of a subsidiary without loss of control are accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss. Furthermore, there have been amendments to the provisions regarding loss allocation to owners of the parent company and to non-controlling interest as well as on the accounting of transactions which result in a loss of control.

The revision of IFRS 3 and the amendment of IAS 27 resulted in a change of accounting policy for acquisitions as well as loss of control of subsidiaries and transactions with non-controlling interests. IFRS 3 (revised) was applied on business combinations achieved in 2010 as stated in Note 37. Accordingly, transaction costs have been recognized in the profit and loss statement immediately. Contingent considerations have been recognized with their fair value at the acquisition date with subsequent changes in future reporting periods being accounted for in the profit and loss statement. Furthermore, the sale of 10 % of the shares in BICO-DSI Investment GmbH described in Note 31 has been accounted for in equity as transaction with owners in their capacity as owners.

The following new and revised standards and interpretations which have been adopted by the European Union, have not been applied early in 2010, but will be applied in the respective reporting periods for which their application becomes mandatory:

Regulation		Effective Date[1]	Impact on group financial statements
IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	01/07/2010	no
IAS 24	Related Party Disclosures (revised 2009)	01/01/2011	no
IAS 32	Financial Instruments – Presentation: Classification of Rights Issues	01/02/2010	no
IFRIC 14	Prepayments of a Minimum Funding Requirement	01/01/2011	no
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	01/07/2010	no

[1] to be applied for annual periods beginning on or after this date

It is expected that the initial application of these new or amended standards or interpretations will not have any impact on the financial position or performance of the Group.

› Balance sheet date

Balance sheet date of all companies included in the Company's accounts is 31 December.

› Consolidation principles

Upon capital consolidation, business combinations are accounted for using the acquisition method i. e. the consideration transferred is offset against the proportionate fair value of the acquired assets and liabilities of the acquired business.

The consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 in profit and loss. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Acquisition costs incurred are expensed (general and administrative expenses).

For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net asset.

Afterwards, their share of profit after tax and other comprehensive income is attributed to non-controlling interests. In case of losses, a negative balance could be recorded.

Subsidiaries are fully consolidated since their acquisition date, i. e. when the Company gets control over the acquired business. The consolidation ends when the Company loses control over the subsidiary. Changes in the ownership without loss of control are recorded as equity transactions.

All inter-company receivable and payable balances were reconciled at the balance sheet date and offset in the course of the elimination process.

Sales and other income resulting from activities between the group companies were reconciled in the relating consolidation period and offset against the corresponding expenses.

Inter-company profits arising from the delivery of goods between group companies were also eliminated.

› Going concern basis

The consolidated financial statements were prepared on a going concern basis.

› Uniform accounting principles

The financial statements of all consolidated entities were prepared in accordance with uniform group accounting policies.

Foreign currency translation

The consolidated financial statements are denominated in Euros, the functional and reporting currency of the Group. Each group member determines its own functional currency. The line items in the individual company financial statements are measured by using this functional currency.

Foreign currency transactions were translated at the exchange rate in effect at the transaction date. Monetary items denominated in foreign currencies were converted at the rate in effect at the balance sheet date. Currency differences were booked in profit or loss in the period they occurred.

For the group financial statements, the financial statements of foreign subsidiaries are translated into Euros, in accordance with the concept of functional currency:

- The assets and liabilities, both monetary and non-monetary, are translated at the balance sheet date.
- All income and expense items of the foreign subsidiaries are translated at an average exchange rate for the year.

The development of the currency rates was as follows:

	Balance sheet date		Average annual rate	
1 EUR =	**31.12.2010**	**31.12.2009**	**2010**	**2009**
USD	1.3391	1.4440	1.3268	1.3933
GBP	0.8647	0.8942	0.8582	0.8911
CAD	1.3307	1.5175	1.3665	1.5852
AED	4.9130	5.3000	4.8543	5.1194
MXN	16.5800	18.9223	16.7532	18.7841

Exchange differences resulting from translating the financial statements of the subsidiaries are classified as “currency translation reserve within equity” of the consolidated financial statements, the movement in the current year is recorded under “other comprehensive income”.

Split in current and non-current assets and liabilities

Assets and liabilities with a residual term to maturity of less than one year are reported as current, those with a residual term to maturity of more than one year as non-current. Residual time to maturity is determined on the basis of the balance sheet date.

Operating assets and liabilities, such as Trade Accounts Receivable and Trade Accounts Payable, are always considered as current, even if their maturity is beyond 12 months as of the balance sheet date.

› Financial instruments

A financial instrument is an agreement whereby a financial asset is created in one company, simultaneously with a financial liability or equity in the other company. Such transactions are recognized at the settlement date, according to IAS 39.

A financial asset is derecognized when:

- the rights to receive cash flows from the asset have expired,
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party, or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is removed when the underlying obligation is discharged, cancelled or when it expires.

The consolidated balance sheet shows the following financial instruments (categorized according to IAS 39):

Cash and cash equivalents

All cash, bank deposits and short-term financial investments available for sale are recorded under line item Cash and cash equivalents, because they can be converted into cash at any time. They are measured at current value at the balance sheet date and are not subject to significant changes in their value. Marketable financial instruments are non-derivative financial assets which are not held for trading purposes.

After initial recognition, marketable financial instruments are measured at their fair values while resulting profits and losses are booked into equity. The fair value is the market value of the respective assets at the balance sheet date. Upon disposal or impairment of marketable financial assets recognized in equity to that point, gains or losses are accounted for in the annual profit and loss statement.

Interest and dividends earned on financial investments are stated in the annual result.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or definable payments, which are not listed at an active market. They particularly include Trade receivables, Loans and Other Receivables. Interest at market rates is charged on those trade receivables which are granted for credit periods which exceed those normally granted in business.

Receivables and other assets are recognized at the settlement date at acquisition costs, thereafter they are measured at amortized costs using the effective interest method, less any allowance for impairment. Gains and losses are booked into the profit and loss statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

The Company grants credits to its customers in the normal course of business, but generally does not require any collateral or security to support the amounts due, with the exception of occasional customers and customers located in high risk countries from whom the Company obtains confirmed letters of credit. Management performs permanent credit evaluations of its customers and builds up allowances for doubtful accounts if required.

The Company regularly assesses its receivables and records individual allowances for doubtful debts if necessary. These allowances are sufficient to cover the expected risk of default whereas actual defaults result in writing off the respective receivable. The decision whether to account for default risk by means of allowances or to recognize impairment losses depends on the reliability of the risk evaluation.

Management evaluates the adequacy of the allowances for doubtful debts using structural analyses of due dates and balances in accounts receivable, the history of payment defaults, customer ratings and changes in terms of payment.

Liabilities

Financial liabilities particularly include Trade payables, Payables due to banks, Bonds, Payables under finance leasing and Derivative financial liabilities.

Liabilities are initially recognized at its fair value minus directly attributable transaction costs; later they are measured at amortized costs, using the effective interest method. Income and expenses resulting from the use of the effective interest method are booked into profit and loss.

Derivative financial instruments and hedging relationships

The Group uses financial instruments, such as currency futures and interest swaps to cover its interest and currency risks. These derivative financial instruments are recognized at fair value at the contract dates and are measured at the respective fair values in the following periods. Derivative financial instruments are recognized as assets if their fair values are positive and as liabilities if fair values are negative.

The fair values of derivative financial investments traded on active markets are determined by the market prices quoted at the balance sheet date; for those financial investments that are not traded on active markets, the fair values are determined by means of other acknowledged valuation methods (recent, comparable transactions between knowledgeable, independent partners willing to trade, comparison with the fair value of other, essentially identical financial instruments, as well as other valuation methods).

The Company uses the following instruments:

Hedging of net a investment

A hedging relationship for securing a net investment in a foreign operation, including the hedging of monetary items that are entered in the balance sheet as part of the net investment, is accounted for as follows: the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized under "other comprehensive income", whereas the ineffective portion shall be recognized in profit and loss. Upon disposal of the foreign operation, the cumulative gain or loss previously recognized in "other comprehensive income" shall be recognized in profit or loss.

Fair value hedging

The accounting treatment applied to fair value hedges differs in that the change in the value of the derivative used as a hedging instrument and any gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss. When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the profit and loss statement.

Other derivatives

In order to cover the foreign currency risk relating to monetary assets and liabilities in the balance sheet, the Company applies hedging measures, which, although not in compliance with the strict requirements set out in IAS 39 for hedge accounting, contribute effectively to hedge the financial risk from the risk management perspective.

Income or expenses resulting from changes in the fair value of financial instruments which do not fulfil the accounting criteria regarding hedging relationships under IAS 39, are directly booked to the profit and loss statement.

Income and expenses resulting from foreign currency hedging transactions which were made to hedge the exchange risk related to intra-group trading in foreign currencies are not displayed separately but reported together with the foreign exchange income and expenses from the hedged items in the operating result.

› Inventories

Inventories consist of materials and purchased parts in various stages of assembly and are stated at the lower of cost or net realizable value at the balance sheet date. Costs are determined by the first-in, first-out, weighted average or specific identification methods. The costs of finished goods comprise raw material expenses, other direct costs and related production overheads, but exclude interest expense. The Company reviews inventories for slow moving or obsolete items on an ongoing basis and establishes appropriate adjustment provisions if necessary.

› Tangible and intangible fixed assets

The Company's non-current assets are recorded at cost less depreciation/amortization. Depreciation is principally computed by means of the straight-line method, over the expected useful life of the asset. The estimated useful lives are as follows:

	Useful life in years
Other Intangibles	4 - 10
Buildings and improvements	5 - 50
Plant and machinery	3 - 17
Fixtures, furniture and equipment	2 - 10

Repairs and refurbishments are charged to profit and loss at the time the expenditure has been incurred. Borrowing costs are also expensed as incurred, unless they are related to a qualifying asset with a commencement date (acquisition or production) after 1 January 2009.

Where tangible assets are financed by leasing agreements which give rights approximating to ownership (finance leases), they are treated as if they were purchased outright at the lower of the fair value or the fair value of the minimum lease payments. The corresponding leasing liabilities are shown in the balance sheet as finance lease obligations.

Interest expenditures on capitalized lease objects are based on interest rates between 5.0 % and 7.0 %. This rate is in turn determined using the Company's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

The determination whether an arrangement contains a lease is based on its economic substance and requires a judgement as to whether the fulfillment of the contractual arrangement depends on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset.

› Goodwill

Goodwill is recognized at acquisition cost not amortized but tested for impairment annually as of 31 December. For this purpose, the goodwill is assigned to cash generating units. The impairment test for cash generating units is performed by calculating the value in use on the basis of expected future cash flows.

› Current and deferred income taxes

The actual tax refund receivables and tax payables for the current and previous periods are measured in the amount of the expected refund by, or payment to the tax authority. The respective amounts are based on the current tax rates and laws at the balance sheet date.

Current and deferred taxes related to items in other comprehensive income or in equity are not recognized in profit and loss but in equity.

The Company uses the "balance sheet liability method" under which deferred taxes are determined, based on the temporary difference between the amounts attributed to assets or liabilities in the individual group companies for tax purposes (tax base) and the carrying amounts of those assets or liabilities in the balance sheet. Deferred tax income or expenses arise from any movement in deferred tax assets or liabilities. They are measured by the tax rates which become effective when the differences reverse (IAS 12). Deferred tax assets are recognized to the extent it is probable that there will be taxable income in future against which the deductible temporary differences may be offset. Deferred tax assets are to be formed for tax loss carry forwards, provided these tax loss carry forwards can be consumed with future tax profits. Deferred taxes are measured at the tax rates that are expected to apply to the year, when the asset is realized or the liability is settled.

Current and deferred taxes which relates to items recognized under "other comprehensive income" or equity are also posted in "other comprehensive income" or equity but not through profit and loss.

› Government grants

Subsidies are recognised only when there is reasonable assurance that the company will comply with any conditions attached to the grants and that the grants will in fact be received. Grants are recognised systematically as income over the period necessary to match them with the related costs, for which they are intended to compensate.

Grants relating to assets are recognized as a liability upon fulfilment of all requirements for the receipt of such grants. They are released over the useful life of the respective assets. The release is displayed in the consolidated Profit and Loss-statement (line item "other operating income").

› Provisions

In accordance with IAS 37, provisions are recognized when the company has current legal or constructive obligations which are based on past events and which will probably lead to a payment. The provisions are measured at the best estimate of the management at the balance sheet date. If a reliable estimate is not possible, no provision is made.

› Employee benefits

Defined contribution pension plans

In Austria the Company operates a contribution-based pension scheme for its workforce, with the related obligations having been transferred into the external APK (Allgemeine Pensionskasse) pension fund. Under this pension scheme, the Company pays the following contributions for its employees on an annual basis: for employees who do not themselves contribute to the pension scheme, the Company contributes 0.5 % of their annual salary (up to a maximum monthly salary of EUR 4,110 (2009: EUR 4,020)). For employees contributing 1 % of their annual salaries to the pension fund, the Company also contributes 1 %.

The Company has established the "SBOE U.S. Retirement Savings Plan" for its U.S.-based subsidiaries.

Eligible participants in this plan are the employees of Godwin-SBO L. L. C., Schoeller-Bleckmann Sales Co. L. L. C., Schoeller-Bleckmann Energy Services L. L. C. and BICO Drilling Tools Inc.

Employees are eligible for participation in the plan upon reaching 21 years of age and completion of one year of service, as defined. Employees may elect to defer a percentage of their qualifying wages, up to the maximum dollar amount set by law. Employer contributions are discretionary. The Company decided to contribute 33.3 % towards the first 6 % of employee contributions, calculated on a monthly basis.

Knust-SBO L. L. C. sponsors a 401(K) profit sharing and income deferral plan which covers substantially all employees. Under this plan, employees may contribute from 2 % to 20 % of their salaries. The partnership may then make matching contributions equal to a discretionary percentage of the participants' salary deductions. For the years ended on 31 December 2010 and 2009, the partnership elected to make no matching contributions.

Severance payment

Austrian law requires payment of a lump sum upon normal retirement or termination of an employment agreement, if the employee has been with the company for at least three years, and provided that the employment commenced before 1 January 2003 (defined benefit plan). Severance payment ranges from two to twelve months of salary based on the length of service. Payments are made on normal retirement or any other termination, with the exception of voluntary terminations. The provisions were calculated by applying the Projected Unit Credit Method using the mortality table AVÖ 2008-P (2009: AVÖ 2008-P) by Pagler & Pagler and an interest rate of 4.5 % (2009: 5.5 %), an annual increase in salaries of 4.5 % (2009: 4.5 %) and an appropriate fluctuation rate. The statutory pension age was taken into account as well.

For employment agreements commenced after 1 January 2003, the Company has to contribute 1.53 % of current remunerations to an external providence fund, according to the legal requirements (defined contribution plan).

Employees' jubilee payments for long service

According to the collective work agreement, employees in Austria are entitled to jubilee payments, depending on their length of service with their company (defined benefit plan). The amounts accrued for this were also calculated by applying the Projected Unit Credit Method.

For all provisions for employee benefits, the actuarial gains or losses are booked in the profit and loss statement as incurred.

› Own shares

Own shares are carried at acquisition costs and are subtracted from the equity. The purchase, sale, issuance and redemption of own shares is not recognized in profit or loss. Potential differences between the carrying value and the related settlements are booked in Contributed capital.

› Revenue recognition

Sales revenue is recognized when title passes, generally upon delivery to the customer or on performance of the related service.

Revenue on operating leases is recognized on a pro-rated basis over the period.

Income on interest is recognized on a pro-rated basis over the period, by taking the effective interest into account.

› Research and development

Pursuant to IAS 38, research costs are expensed as incurred. Development costs are only expensed, if the requirements of IAS 38 for a capitalization of development expenses are not fully met.

› Earnings per share

Earnings per share are calculated in line with IAS 33 by dividing the profit after tax attributable to the owners of the parent company by the average number of ordinary shares outstanding during the period.

› Estimates, discretionary decisions and assumptions

The **preparation of consolidated annual financial statements** in conformity with International Financial Reporting Standards (IFRS) requires estimates and assumptions as well as discretionary decisions to be made by the management that affect the amounts reported in the balance sheet, in the notes and in the profit and loss statement. Actual future results may differ from such estimates, however, as seen from today´s perspective, the Board does not expect any major negative implications on the financial results in the near future.

For the yearly **impairment test of goodwill**, an estimate of the value in use is necessary. The management has to make assumptions for the expected future cash flows of the cash-generating units and has to choose a suitable discount rate (see Note 9).

For the consideration of **deferred taxes**, it is necessary to make estimates of the future taxable income which will be available for the exploitation of tax loss carry forwards and other timing differences (see Note 11).

The **accruals for defined benefit plans** and other employee benefits are based on actuarial computations. For such calculations it is necessary to make assumptions for the discount rate, future salary increases, mortality rate and pension raises (see Note 18).

In order to measure **inventories**, the management expectations of price and market developments are required (see Note 7).

Provisions are carried at those values which correspond to the best estimate by the management at the balance sheet date (see Note 15).

It is necessary to make assumptions regarding the default probability of **receivables** (see Note 5).

In **Property, plant and equipment and Intangible assets** it is necessary to include estimates for the period during which these assets are expected to be used (see Notes 8 and 9).

NOTE 5 | Trade accounts receivable

An analysis of trade receivables as of 31 December shows the following situation:

in TEUR Carrying value Not past-due and not impaired Past-due, not impaired

in TEUR	Carrying value	Not past-due and not impaired	Past-due, not impaired				
			≤ 30 days	31-60 days	61-90 days	91-120 days	> 120 days
2010	57,876	37,081	11,236	5,382	1,874	386	1,815
2009	41,033	23,852	7,852	3,823	2,385	944	1,778

The book value of impaired balances amounted to TEUR 102 (2009: TEUR 399).

The allowance account reflects the following:

in TEUR	2010	2009
As of 1 January	1,348	970
Exchange differences	79	36
Usage	-69	-90
Reversal	-941	-18
Expensed additions	393	450
As of 31 December	**810**	**1,348**

The receivables listed are not secured.

NOTE 6 | Other accounts receivable and prepaid expenses

An analysis of other receivables as of 31 December shows the following situation:

	Carrying value		
in TEUR	Other accounts receivable and prepaid expenses	Thereof receivables	not past-due and not impaired
2010	5,655	4,671	4,671
2009	**4,934**	**3,968**	**3,968**

The receivables listed are not secured, no allowances were recorded.

NOTE 7 | Inventories

Inventories are detailed by major classification as follows:

in TEUR	31 December 2010	31 December 2009
Raw materials	6,618	5,499
Work in progress	43,539	36,277
Finished goods	50,322	47,042
Prepayments	38	81
Total	**100,517**	**88,899**

Allowance expenses booked for 2010 were TEUR 5,641 (2009: TEUR 6,941).

NOTE 8 | Property, plant & equipment

The following is a summary of the gross carrying amounts and the accumulated depreciation of the property, plant and equipment held:

2010 in TEUR	Land & buildings	Plant & machinery	Fixtures, furniture & equipment	Prepayments & assets under construction	Total
At cost					
1 January 2010	54,855	186,731	9,447	12,317	263,350
Exchange differences	2,301	7,549	346	84	10,280
Change in consolidated entities	0	10,142	39	0	10,181
Additions	1,837	17,788	747	4,642	25,014
Transfers	355	10,765	0	-11,120	0
Disposals	0	-7,598	-234	-722	-8,554
31 December 2010	59,348	225,377	10,345	5,201	300,271
Accumulated depreciation & impairments					
1 January 2010	10,519	109,592	5,846	696	126,653
Exchange differences	453	3,877	221	0	4,551
Change in consolidated entities	0	5,603	14	0	5,617
Additions	2,023	26,485	1,374	0	29,882
Transfers	0	0	0	0	0
Disposals	0	-4,284	-209	-696	-5,189
31 December 2010	12,995	141,273	7,246	0	161,514
Carrying value					
31 December 2010	46,353	84,104	3,099	5,201	138,757
31 December 2009	44,336	77,139	3,601	11,621	136,697

Year 2009 in TEUR	Land & buildings	Plant & machinery	Fixtures, furniture & equipment	Prepayments & assets under construction	Total
At cost					
1 January 2009	45,850	172,171	8,290	14,336	240,647
Exchange differences	-160	17	39	98	-6
Additions	5,480	13,159	1,182	12,761	32,582
Transfers	5,094	8,933	353	-14,380	0
Disposals	-1,409	-7,549	-417	-498	-9,873
31 December 2009	54,855	186,731	9,447	12,317	263,350
Accumulated depreciation & impairments					
1 January 2009	9,187	87,438	4,931	0	101,556
Exchange differences	59	-49	51	0	61
Additions	1,805	27,524	1,260	696	31,285
Transfers	407	-407	0	0	0
Disposals	-939	-4,914	-396	0	-6,249
31 December 2009	10,519	109,592	5,846	696	126,653
Carrying value					
31 December 2009	44,336	77,139	3,601	11,621	136,697
31 December 2008	36,663	84,733	3,359	14,336	139,091

The Company has manufacturing facilities in the following countries: USA, Austria, the UK, Mexico and Vietnam.

Service and maintenance as well as marketing outlets are maintained in the USA, Canada, the UK, Singapore, the UAE, Russia and Brasil.

In the business year 2010, no impairments of Plant & Machinery were made (2009: TEUR 2,823; because of lower utilisation. These expenses are included in the consolidated profit and loss-statement under line item “Cost of Sales” (depreciation)).

In 2010 and 2009 there were no write-ups.

As of 31 December 2010 commitments for capital expenditure amounted to TEUR 11,788 (2009: TEUR 4,901).

Finance Lease

Plant and machinery held under finance lease are as follows:

in TEUR	31 December 2010	31 December 2009
Acquisition cost	2,300	2,385
Accumulated depreciation	-833	-613
Carrying value	**1,467**	**1,772**

The following minimum lease payments arise from the utilization of such assets:

in TEUR	31 December 2010	31 December 2009
For the following year	453	474
Between one and five years	649	1,120
More than five years	0	12
Total minimum lease payments	1,102	1,606
Less discount	-73	-186
Present value	**1,029**	**1,420**

Operating lease

Commitments arising from lease and rental contracts (for items not shown in the balance sheet) amounted to:

in TEUR	31 December 2010	31 December 2009
For the following year	912	482
Between one and five years	2,286	910
After five years	145	204

Payments for operating leases which were expensed in the current year amounted to TEUR 715 (2009: TEUR 800).

NOTE 9 | Intangible assets

The list below summarizes the gross carrying amounts and the accumulated amortization of intangible assets:

Year 2010 in TEUR	Goodwill	Other intangibles	Total
At cost			
1 January 2010	58,728	11,174	69,902
Exchange differences	3,136	-31	3,105
Change in consolidated entities	20,414	44,499	64,913
Additions	0	3,063	3,063
Disposals	-1,521	-1	-1,522
31 December 2010	80,757	58,704	139,461
Accumulated amortization			
1 January 2010	19,749	3,301	23,050
Exchange differences	1,102	73	1,175
Change in consolidated entities	0	0	0
Additions	0	2,570	2,570
Impairments	3,256	0	3,256
Disposals	-439	-1	-440
31 December 2010	23,668	5,943	29,611
Carrying value			
31 December 2010	57,089	52,761	109,850
31 December 2009	38,979	7,873	46,852

Year 2009 in TEUR	Goodwill	Other intangibles	Total
At cost			
1 January 2009	59,332	13,328	72,660
Exchange differences	-604	735	131
Additions	0	39	39
Disposals	0	-2,928	-2,928
31 December 2009	58,728	11,174	69,902
Accumulated amortization			
1 January 2009	20,053	4,192	24,245
Exchange differences	-304	82	-222
Additions	0	1,955	1,955
Disposals	0	-2,928	-2,928
31 December 2009	19,749	3,301	23,050
Carrying value			
31 December 2009	38,979	7,873	46,852
31 December 2008	39,279	9,136	48,415

No write-ups were made in the years 2010 and 2009.

As of 31 December 2010, commitments for acquisitions of intangible assets amounted to TEUR 0 (31 December 2009: TEUR 0).

1. Goodwill

The impairment test for the cash generating units was computed by using their value in use, which is based on the estimated future cash flows and a 12.3 % to 14.2 % (2009: 11.1 %) capital cost rate before taxes (WACC = Weighted Average Costs of Capital). The WACC was determined based on the current figures for similar companies in the same industry segment and adjusted for specific inflation rates in different countries. A detailed planning period of 3 years is used, which is derived from the budgets of the management. For the terminal period, a fixed growth rate of 1 % was assumed.

The calculation of the cash flow is based on revenue expectations and planned capital expenditures. The value in use of the cash generating unit is largely determined by sales revenues. Sales plans are based on the demand forecasts of our main customers on the one hand and on the current backlog of orders on the other hand. Organic sales growth has been taken into account in the cash flow estimation.

The impairment test carried out as of 31 December 2010 demonstrated that only for Techman Engineering Limited an impairment in the amount of TEUR 3,256 has to be made, considering the current market environment.

For all other cash generating units no impairment was necessary, as demonstrated by a sensitivity analysis, assuming any realistic changes in cash flows or capital costs.

The goodwill set out in the balance sheet is mainly attributable to the following cash generating units:

in TEUR	31 December 2010	31 December 2009
Drilling Systems International Limited (see Note 37)	19,139	0
Knust-SBO L. L. C.	14,241	14,201
Godwin-SBO L. L. C.	12,744	11,858
Schoeller-Bleckmann Oilfield Technology GmbH	4,655	4,655
Schoeller-Bleckmann Oilfield Equipment (UK) Limited	3,675	3,675
Techman Engineering Limited	1,481	4,545
BICO Drilling Tools Inc. (see Note 37)	1,103	0

Changes in the carrying amounts were exclusively due to the conversion of foreign exchange amounts (apart from impairment of Techman Engineering Limited and additions in 2010: Drilling Systems International Limited and BICO Drilling Tools Inc.).

2. Other intangible assets

As part of the initial accounting of Drilling Systems International Limited, TEUR 20,020 for the acquired customer base, TEUR 18,167 for acquired technology and TEUR 4,292 for trademarks were capitalized in 2010. These assets will be amortized over a period of 10 years (see Note 37). Also, Non-Compete-Agreements with a duration of 10 years in the amount of TEUR 2,969 were capitalized.

Additions of TEUR 1,985 were booked for the acquisition of patents from EXOKO COMPOSITES COMPANY L. L. C.

Other intangible assets comprise right-of-use for IT software.

NOTE 10 | Long term receivables

This line item mainly refers to interest-bearing loans which have been granted to the management of subsidiaries of the Company for the acquisition of stock in their respective companies (also see Note 19). As the stock has to be returned in the event of non-compliance with the loan agreements, there is no credit risk for the Group worth mentioning.

in TEUR	31 December 2010	31 December 2009
Loans	5,418	4,001
Other receivables	202	127
Total	**5,620**	**4,128**

As there were no past-due receivables, no write-downs had to be made either as of 31 December 2010 or 31 December 2009. The other receivables are not secured.

NOTE 11 | Deferred taxes

The Company's deferred tax assets and deferred tax payables result from the following positions:

In TEUR	31 December 2010	31 December 2009
Fixed assets (different measurements and useful lives)	-13,506	-10,470
Inventory (different valuation)	4,705	3,724
Other items (different valuation)	1,581	1,146
Not deductible accruals	1,759	1,805
Exchange differences intercompany debt elimination	-2,002	-881
Tax loss carry forward	1,577	503
Total	**-5,886**	**-4,173**

The line items as reflected in the group balance sheet:

in TEUR	31 December 2010	31 December 2009
Deferred tax assets	6,303	6,358
Deferred tax payables	-12,189	-10,531
	-5,886	**-4,173**

Not recognized are deferred tax assets in the amount of TEUR 404 (2009: TEUR 439) related to tax losses carried forward, because the utilisation of these losses could not be expected in the foreseeable future.

NOTE 12 | Bank loans and overdrafts

As of 31 December 2010, the short-term loan arrangements were as follows:

Currency	Amount in TEUR	Interest rate in %
USD loans	8,961	1.06 % variable
CAD loans	7,563	2.30 % variable
GBP loans	3,469	1.70 % variable
Subtotal	19,993	
Export promotion loans (EUR)	16,234	1.33 – 1.75 % variable
Total	**36,227**	

As of 31 December 2009, the short-term loan arrangements were as follows:

Currency	Amount in TEUR	Interest rate in %
USD loans	8,310	0.67 % variable
CAD loans	6,626	1.90 % variable
GBP loans	3,420	1.15 – 2.25 % variable
Subtotal	18,356	
Export promotion loans (EUR)	16,234	1.17 – 1.60 % variable
Total	**34,590**	

The **export promotion loans** represent revolving short-term credit facilities; according to those arrangements the Company may use these funds permanently as long as it complies with the terms of agreement. In accordance with export promotion guidelines, the Company has agreed to assign receivables in the amount of TEUR 18,754 (2009: TEUR 18,754) to securitize these loans.

The **USD borrowings** due to banks in the amount of TEUR 8,961 (2009: TEUR 8,310) are collateralized by specific current assets of the Company ("floating charge").

NOTE 13 | Government grants

The subsidies include a grant by the Federal Investment and Technology Fund, as well as other investment subsidies received for the acquisition of fixed assets, and investments in research and development. For some investment grants specific covenants have to be met (e. g. number of workers employed). An amount of TEUR 698 was reclassified to other payables in 2010, because the number of employed workers was not reached as contracted.

NOTE 14 | Other payables

Other payables were as follows:

in TEUR	31 December 2010	31 December 2009
Vacation not yet used	1,407	1,165
Other personnel expenses	6,171	4,017
Invoices not yet received	3,167	995
Legal and other counseling fees	529	610
Taxes	1,491	1,550
Social expenses	1,014	653
Other payables	5,487	1,894
Total payables	**19,266**	**10,884**

NOTE 15 | Other provisions

The following development was recorded:

Year 2010 in TEUR	31 Dec. 2009	Change in Scope of Cons.	Exchange Differences	Usage	Reversal	Additions	31 Dec. 2010
Warranty/product liability	3,099	0	0	-281	-249	1,229	3,798
Restructuring	575	0	0	0	0	0	575
Other	4,278	0	47	-2,305	-720	230	1,530
Total	**7,952**	**0**	**47**	**-2,586**	**-969**	**1,459**	**5,903**

Year 2009 in TEUR	31 Dec. 2008	Change in Scope of Cons.	Exchange Differences	Usage	Reversal	Additions	31 Dec. 2009
Warranty/product liability	3,326	0	0	-758	0	531	3,099
Restructuring	1,095	0	0	-403	-117	0	575
Other	3,180	0	25	-2,675	-530	4,278	4,278
Total	**7,601**	**0**	**25**	**-3,836**	**-647**	**4,809**	**7,952**

Important items in the line „other provisions“ refer to pending proceedings and governmental instructions. It is expected that the costs accounted for in short-term provisions will be incurred in the following business year. Regarding the provision for restructuring, see Note 27.

NOTE 16 | Bonds

In June 2008, two bonds with a total face value of MEUR 20.0 each were issued, in the form of 800 equally ranking bearer debentures with a par value of EUR 50,000 each.

The debentures were 100 % securitized by two changeable collective certificates which were deposited with Oesterreichische Kontrollbank Aktiengesellschaft in Vienna on the day of issuance. Individual debentures or coupons have not been issued.

The annual interest rates on the debentures until maturity are 5.75 % (on bond 2008-2013) and 5.875 % (on bond 2008-2015), related to their par values. The interest is payable in arrears, on 18 June of each year. The redemption will be in the amount of the par value, i. e., MEUR 20.0 each, on 18 June 2013 and 18 June 2015.

The bonds are traded in the third market at the Vienna Stock Exchange under ISIN Nos. AT0000A09U32 and AT0000A09U24.

NOTE 17 | Long-term loans including current portion (amortization in following year)

As of 31 December 2010, long-term borrowings consist of the following:

Currency	Amount in TEUR	Interest rate in %	Term	Repayment
EUR	3,440	0.00 % fixed	2008 – 2024	quarterly from 2011
EUR	32,000	3.05 % fixed	2010 – 2018	semi-annually from 2012
EUR	8,000	3.10 % fixed	2010 – 2018	2018
EUR	5,000	5.25 % fixed	2009 – 2016	2016
EUR	4,583	4.73 % fixed	2009 – 2016	semi-annually from 2010
EUR	6,500	1.75 % fixed	2009 – 2015	semi-annually from 2011
EUR	6,000	2.55 % fixed	2010 – 2015	annually from 2013
EUR	3,851	0.00 % fixed	2008 – 2015	quarterly from 2011
EUR	2,119	3.99 % fixed	2006 – 2015	semi-annually
EUR	5,056	2.25 % fixed	2008 – 2014	semi-annually from 2010
EUR	55	2.50 % fixed	2008 – 2014	2014
EUR	44	2.00 % fixed	2010 – 2014	2014
EUR	7,200	4.79 % fixed	2008 – 2013	semi-annually from 2010
EUR	4,375	3.22 % fixed	2009 – 2013	semi-annually from 2010
EUR	4,000	2.05 % variable	2010 – 2013	annually from 2012
EUR	8,000	2.20 % variable	2010 – 2012	semi-annually from 2011
EUR	2,813	1.50 % fixed	2006 – 2012	semi-annually
EUR	2,000	2.00 % variable	2010 – 2012	2012
EUR	556	3.54 % fixed	2006 – 2011	semi-annually
USD	834	6.35 % fixed	2003 – 2016	monthly
GBP	2,300	1.83 % variable	2007 – 2022	monthly
	108,726			

The following borrowings were collateralized:

EUR-loans:
TEUR 15,160 – Machinery pledged with a carrying-value of TEUR 19,425.
USD-loans:
TEUR 834 – Mortgage on land and building with a carrying-value of TEUR 1,510.
GBP-loans:
TEUR 2,301 – Lien on property (land and building) and on other assets (“floating charge”). The banking convenants applied to this loan have not been adhered to at the balance sheet date and the loan therefore becomes repayable on demand.

As of 31 December 2009, long-term borrowings consist of the following:

Currency	Amount in TEUR	Interest rate in %	Term	Repayment
EUR	3,440	0.00 % fixed	2008 – 2024	quarterly from 2011
EUR	5,000	4.73 % fixed	2009 – 2016	semi-annually from 2010
EUR	5,000	5.25 % fixed	2009 – 2016	2016
EUR	2,589	3.99 % fixed	2006 – 2015	semi-annually
EUR	6,500	2.25 % fixed	2009 – 2015	semi-annually from 2011
EUR	2,500	0.00 % fixed	2008 – 2015	quarterly from 2011
EUR	7,500	2.25 % fixed	2008 – 2014	semi-annually from 2010
EUR	55	2.50 % fixed	2008 – 2014	2014
EUR	7,200	4.79 % fixed	2008 – 2013	semi-annually from 2010
EUR	5,000	3.22 % fixed	2009 – 2013	semi-annually from 2010
EUR	4,688	1.50 % fixed	2006 – 2012	semi-annually
EUR	1,667	3.54 % fixed	2006 – 2011	semi-annually
EUR	2,000	1.95 % variable	2003 – 2010	2010
EUR	2,400	1.79 % variable	2008 – 2010	semi-annually
USD	877	6.35 % fixed	2003 – 2016	monthly
USD	2,077	0.78 % variable	2007 – 2011	quarterly
USD	6,393	4.12 % fixed	2003 – 2010	2010
GBP	2,428	1.75 % variable	2007 – 2022	monthly
	67,314			

The following borrowings were collateralized:

EUR-loans:
TEUR 18,128 – Machinery pledged with a carrying-value of TEUR 24,743.
USD-loans:
TEUR 877 – Mortgage on land and building with a carrying-value of TEUR 1,265;
TEUR 2,077 – Pledge on particular assets (“floating charge”).
GBP-loans:
TEUR 2,428 – Lien on property (land and building) with a carrying value of TEUR 3,592 and on other assets (“floating charge“).

Adjustments of the variable interest rates are made quarterly.

With respect to the fair value of the loans see Note 32, regarding interest rate risk and hedging see Note 33.

NOTE 18 | Employee benefit obligations

As of the balance sheet date, the employee benefit obligations consisted of the following:

in TEUR	31 December 2010	31 December 2009
Severance payments	2,839	2,488
Jubilee payments for long service	851	716
Total	**3,690**	**3,204**

The actuarial assumptions for the provisions of severance payments were as follows:

	2010	2009
Interest rate	4.50 %	5.50 %
Salary increases	4.50 %	4.50 %
Fluctuation rate (mark-down)	0.0 – 15.0 %	0.0 – 15.0 %

Actuarial gains or losses are expensed in the profit and loss statement as incurred.

No contributions were made to a separately maintained fund for these obligations.

Provisions for severance payments

The status of the accrual for severance payments has developed as follows:

in TEUR	2010	2009	2008	2007	2006
Defined benefit obligation as of 1 January	2,488	2,796	2,700	2,699	2,443
Current service cost	145	172	175	169	151
Interest cost	136	156	133	107	109
Current severance payments	-237	-230	-194	-513	-146
Actuarial gain/loss during the year	307	-406	-18	238	142
Defined benefit obligation as of 31 December	**2,839**	**2,488**	**2,796**	**2,700**	**2,699**

Actuarial gains/losses are mainly the result from changes to the interest rate (TEUR +313; 2009: TEUR 0) and experience-based adjustments (TEUR -6; 2009: TEUR -406).

Current service costs, interest costs and actuarial gains/losses are exclusively booked under Income from operations (personnel expenses).

Pension plans (defined contributions)

Payments made under the defined contribution plans (pensions and other providence funds) were expensed and amounted to TEUR 2,135 in 2010 (2009: TEUR 366).

NOTE 19 | Other payables

Other payables include Earn-Outs from Business Combinations in the amount of TEUR 4,820 (2009: TEUR 0). The accretion of discount is booked under interest expense.

Also the shares in companies, which are held by the respective management are included (TEUR 10,810; 2009: TEUR 7,497).

The management of the following (fully consolidated) subsidiaries had the following interest in their respective companies:

Company	31 December 2010	31 December 2009
Schoeller-Bleckmann Energy Services L. L. C.	14.20 %	14.20 %
Schoeller-Bleckmann Darron Limited	7.35 %	6.35 %
Darron Tool & Engineering Limited	6.58 %	6.58 %
BICO Drilling Tools Inc.	15.00 %	15.00 %
BICO Faster Drilling Tools Inc.	15.00 %	0.00 %

Accordingly, the management holds pro-rated shares in these companies.

The management is obliged by contract to sell the shares under specific circumstances, and the Company is obliged to buy these shares. The selling price is based on the value of the respective equity portion at the date of the transaction.

Pursuant to IAS 32.23, such contracts constitute a financial liability, valued at the fair value of the redemption price. For the current valuation, the respective portion of the equity at the balance sheet date is used since no exact measurement of the future value is available, including the portion of the income from the current year, which is displayed in the consolidated Profit and Loss-statement under “other financial expenses”.

The effective interest expense recorded in 2010 amounted to TEUR 1,895 (2009: TEUR 242).

NOTE 20 I Share capital

The share capital of the Company on 31 December 2010 as well as on 31 December 2009 was EUR 16 million; divided into 16 million common shares with a par value of EUR 1.00 each.

The Ordinary Shareholders' Meeting on 28 April 2010 authorized the Management Board for a period of 30 months to buy back own shares of the Company up to a maximum of 10 % of the share capital, the redemption price has to be EUR 1.00 at least and EUR 100.00 at the most.

In 2010, 50,000 own shares were rendered for the acquisition of patents in respect of the development of drilling motors. Also, 30,000 own shares were sold to Mr. Gerald Grohmann, member of the Executive Board, at fair value (market price on transaction day).

As of 31 December 2010, the Company holds 39,884 of its own shares, equaling a 0.25 % share in its capital stock. There are 15,960,116 shares in circulation.

In connection with the business combination with EXOKO COMPOSITES COMPANY L. L. C., a conditional earn-out in the form of 50,000 shares of the Company would become due, if future sales levels are achieved as agreed. This disposal would result in a diluted number of shares in circulation.

As of 31 December 2010, approximately 31 % of the share capital is held by Berndorf Industrieholding AG, Berndorf.

NOTE 21 I Legal reserve – non-distributable

Austrian law requires the establishment of a legal reserve in the amount of one tenth of the nominal value of the Company's share capital. As long as the legal reserve and other restricted capital reserves have not reached such an amount, the Company is required to allocate five percent of its annual net profit (net of amounts allocated to make up losses carried forward from prior years, after changes in untaxed reserves have been taken into consideration) to such reserves. For the formation of such reserves, only the annual financial statements of the parent company are relevant, which are prepared in accordance with Austrian Accounting Principles. No further allocation is required because of the contributions already made.

NOTE 22 I Other reserves

The other reserves as shown in the balance sheet result from accelerated depreciation on specific, non-current assets for which a tax break is available. These reserves are untaxed profit allocations.

NOTE 23 I Non-controlling interests

The amount in the balance sheet represents the portion of the equity which is held by non-controlling interests by the following companies:

	2010	2009
BICO-DSI Investment GmbH	10 %	0 %
Schoeller-Bleckmann Trading FZE	10 %	0 %
Drilling Systems International Limited	10 %	0 %

NOTE 24 I Additional breakdown of revenues

Net sales consist of:

in TEUR	2010	2009
Sale of goods	253,253	225,927
Operating lease revenue	54,471	25,678
Total net sales	**307,724**	**251,605**

The Company leases drilling machinery under operating leases with terms of less than a year. The respective leasing fees are charged to customers according to the duration of use.

NOTE 25 I Additional breakdown of expenses

As the Company classifies its expenses by function, the following additional information is given as required by IAS 1 (accounted for by using the "total cost accounting method"):

in TEUR	2010	2009
Material expenses	139,406	96,189
Personnel expenses	70,459	57,103
Depreciation tangible assets	29,882	31,285
Amortization other intangibles	2,570	1,955

NOTE 26 | Other operating income and expenses

The main contents in the position **other operating expenses** are:

in TEUR	2010	2009
Exchange losses	5,677	6,007
Research and development expenses	2,228	2,288

So far, development costs were not capitalized due to the uncertainties of the future economic benefits attributable to them.

The main content in the position **other operating income** are exchange gains in the amount of TEUR 8,729 (2009: TEUR 8,691).

NOTE 27 | Results from non-recurring items

In 2010 an impairment of goodwill in the amount of TEUR 3,256 was recorded (see Note 9).

In 2009 the dissolution of the company Schoeller-Bleckmann de Venezuela C.A. was completed. An amount of TEUR 403 was used from the provisions posted in previous years and an amount of TEUR 117 was released.

NOTE 28 | Taxes on income

A **reconciliation of income taxes** applying the Austrian statutory tax rate to income taxes stated for the Group is as follows:

in TEUR	2010	2009
Income tax expense at a calculated tax rate of 25 %	-10,715	-5,864
Foreign tax rate differentials	-2,789	-2,247
Permanent differences	-297	362
Tax losses not capitalized	0	-148
Withholding and other foreign taxes	-852	-137
Prior year adjustments	-510	77
Other differences	-365	-209
Consolidated income tax expense	-15,528	-8,166
Consolidated tax rate	**36.2 %**	**34.8 %**

The **components of income taxes** were as follows:

in TEUR	2010	2009
Current taxes	-13,534	-4,055
Deferred taxes	-1,994	-4,111
Total	**-15,528**	**-8,166**

Deferred taxes mainly result from the formation and reversal of temporary differences.

The following income taxes were booked in "other comprehensive income":

in TEUR	2010	2009
Current taxes		
Exchange rate differences	-222	-97
Deferred taxes		
Hedging of a net investment	401	-79
Exchange rate differences	-406	106
	-5	**27**

The following income taxes were booked directly in equity:

in TEUR	2010	2009
Current taxes		
Disposal of own shares	-278	0

From the utilisation of tax loss carry forwards the effective taxes in 2010 were reduced by TEUR 25 (2009: TEUR 64).

The payment of dividends to the shareholders will not result in any implications on income taxes for the business year 2010 and the comparative period of 2009.

NOTE 29 I Segment reporting

The Company operates worldwide mainly in one industry segment, the designing and manufacturing of drilling equipment for the oil and gas industry.

For management purposes, the Group is organized into regions. Accordingly, the segment reporting is made by regions, the allocation of the business units is based on the location of the business units.

No operating segments have been aggregated to form the reportable operating segments. Management monitors revenues and operating results of the business units separately for the purpose of making decisions about resource allocation.

As the figures stated represent a summary of the single balance sheets and income statements of the consolidated companies, holding adjustments and consolidation entries (elimination of intercompany profits and other group transactions) have to be taken into account, in order to arrive at the reported group numbers.

Inter-segment sales are carried out in accordance with the “at arm’s length“ principle.

As shown in the following schedule, the Company’s operations are concentrated in North America and Europe:

Year 2010 in TEUR	Europe	North America	Other regions	SBO-Holding & consolidation adjustments	SBO Group
Sales by origin					
External sales	54,474	237,909	15,341	0	307,724
Inter-company sales	84,582	16,079	1,934	-102,595	0
Total sales	139,056	253,988	17,275	-102,595	307,724
Operating income	24,085	32,264	-344	-6,635	49,370
Attributable assets	149,344	269,003	101,130	42,090	561,567
Attributable liabilities	89,888	117,356	42,626	44,570	294,440
Capital expenditure	5,448	17,069	2,536	55	25,108
Depreciation & amortization	14,442	13,886	1,956	5,424	35,708
Thereof impairments	3,256	0	0	0	3,256
Head count (average)	523	504	104	20	1,151

Year 2009 in TEUR	Europe	North America	Other regions	SBO-Holding & consolidation adjustments	SBO Group
Sales by origin					
External sales	47,224	198,958	5,423	0	251,605
Inter-company sales	71,867	8,264	684	-80,815	0
Total sales	119,091	207,222	6,107	-80,815	251,605
Operating income	6,692	16,789	-1,858	6,615	28,238
Attributable assets	142,109	221,656	17,341	44,435	425,541
Attributable liabilities	87,044	90,664	4,450	13,575	195,733
Capital expenditure	9,853	16,910	5,268	590	32,621
Depreciation & amortization	18,758	11,395	479	2,608	33,240
Thereof impairments	2,823	0	0	0	2,823
Head count (average)	564	514	72	19	1,169

Sales by product line

in TEUR	2010	2009
High-precision components	177,258	159,501
Oilfield supplies and services	130,242	91,663
Other Sales	224	441
Total Sales	**307,724**	**251,605**

The following categories are used, based on the intended purpose of the goods and services.

1. High-precision components

For applications in the MWD/LWD technology sector, collars and internals made of highly alloyed steel and other non-magnetic metals are required. These collars and internals are used to mount antennas, sensors, batteries, generators and other kind of electronic parts, for making measurements and analyses during the drill operation. All those components need the utmost high dimensional accuracy in intricate machining.

2. Oilfield supplies and services

This group comprises the following products:

- **Non-Magnetic Drill Collars (NMDC)**, steel bars which are used to prevent magnetic interference during MWD operations.
- **Drilling motors**, which drive the bit for directional drilling operations.

- **Circulation Tools** steer the flow direction of drilling muds in the drill string.
- Various **other tools** for the oilfield such as stabilizers, reamers, hole openers, drilling jars and shock tools.

In addition to the manufacture of the above mentioned products, **service and repair work** is carried out. These activities focus on drillstring components which need to be inspected, checked for magnetic inclusions, rethreaded, buttwelded, resurfaced with hard metal, reground, shot peened, etc. as quickly as possible and with the highest standard in workmanship.

3. Other Sales

The Company is, to a limited extent, active in other areas as well.

For information on customers we refer to note 33.

Geographic information:

Sales to external customers were as follows:

in TEUR	2010	2009
Austria	2,651	620
Great Britain	15,527	18,380
U. S. A.	208,858	182,676
Other countries	80,688	49,929
Total Sales	**307,724**	**251,605**

The classification is based on the location of the customer.

NOTE 30 | Remuneration for the management

The remuneration including bonuses for 2009 paid in 2010 for the Executive Board and the General Managers of the subsidiaries (totaling 18 individuals as compared to 15 in the previous year) amounted to TEUR 6,564 (2009: TEUR 3,903). These amounts include the movement in provisions for severance and jubilee payments amounting to TEUR 28 (expense) in 2010 and TEUR 3 (income) in 2009, expenses for defined contribution plans TEUR 1,803 (2009: TEUR 45).

With respect to the remuneration for the Executive Board of the Austrian parent company, § 266 (7) UGB (Austrian Commercial Code) is applied, pursuant to which no further disclosure is required.

The remuneration for the Supervisory Board amounted to TEUR 45 in the business year, which is a combination of a flat rate and a variable rate depending on the Group´s results (2009: TEUR 100).

No loans were granted to the members of the Executive Board or to the Supervisory Board, respectively. The contracts with the members of the Executive Board are valid for one term and will expire on 31 December 2015.

NOTE 31 I Transactions with related parties

The following transactions with related but non-consolidated companies were carried out in 2010:

Schleinzer & Partner, attorneys-at-law:

This law firm is the legal consultant to the Company. One of the law firm´s partners, Dr. Karl Schleinzer, is a member of the Supervisory Board. Total charges for 2010 amounted to TEUR 36 (2009: TEUR 36), thereof outstanding as of 31 December 2010 is TEUR 11 (31 December 2009: TEUR 0).

Mr. Gerald Grohmann, member of the Executive Board:

Mr. Grohmann purchased 30,000 shares from the Company at fair value (TEUR 1,085 = market price on transaction day).

On 30 August 2010, Mr. Grohmann acquired a 10 % interest of the company BICO-DSI Investment GmbH (formerly Schoeller-Bleckmann Oilfield Investment GmbH). The consideration of TEUR 10 was the fair value of this company at that date. Mr. Grohmann also contributed proportionally TEUR 997 for a capital increase in this company.

NOTE 32 I Financial instruments

IFRS distinguish between **derivative** and **non-derivative** financial instruments.

Non-derivative Financial Instruments

Non-derivative financial instruments held by the Company are shown in the balance sheet.

Derivative Financial Instruments

1. Foreign currency receivables

The Austrian company hedges its net receivables and order backlog denominated in US dollars and CAN dollars on an ongoing basis by entering into forward exchange contracts. All transactions have short-term durations (3 – 8 months).

Forward exchange transactions as of 31 December 2010	Hedged receivables in TEUR	Receivables at effective date rates in TEUR	Fair value in TEUR
USD	32,160	32,571	-411
CAD	1,797	1,874	-77

Forward exchange transactions as of 31 December 2009	Hedged receivables in TEUR	Receivables at effective date rates in TEUR	Fair value in TEUR
USD	12,545	12,841	-296
CAD	3,211	3,306	-95

The forward exchange transactions are measured at fair value and recognized in the profit and loss statement, since the requirements under IAS 39 for hedge accounting are not fully met.

2. Interest swap

The Company entered into an interest swap until 2015 relating to a long-term GBP-loan. For this purpose, a variable interest rate was swapped with a fixed interest rate of 5.48 %. The fair value at 31 December 2010 amounted to TEUR - 418, booked into profit and loss (31 December 2009: TEUR - 369, booked into profit and loss).

3. Swap Transaction

The Company has entered into a foreign currency swap for the hedging of a long-term loan with a maturity in 2010, taken out to finance a net investment into a foreign business. For this purpose, an amount of TEUR 8,000 was swapped with an amount of TUSD 9,176, at a fixed interest rate of 4.12 %.

The market value of this swap as of 31 December 2009 was TEUR 1,607.

This contract expired on 30 September 2010.

Overview financial instruments

The following table shows the financial instruments, classified in accordance with IAS 39 and IFRS 7:

FINANCIAL INSTRUMENTS

31.12.2010 in TEUR		Category acc. to IAS 39					Classification acc. to IFRS 7: Valuation method								
							Fair value		Amortized costs						
		Loans and receivables	Assets available for sale	Other financial liabilities	Derivative Instruments	Hedging Instruments	Securities	Derivatives	Cash and cash equivalents	Accounts receivable trade	Lendings	Bonds	Loans, Bank & Lease obligations	Accounts payable trade	Other items
Current assets															
Cash and cash equivalents															
of which banks & cash	136,989	136,989							136,989						
of which short term investments	0														
Trade accounts receivable	57,876	57,876								57,876					
Other accounts receivable and prepaid expenses	5,655				202			202							
Inventories	100,517														
Total current assets	**301,037**														
Non-current assets															
Property, plant & equipment	138,757														
Goodwill	57,089														
Other intangible assets	52,761														
Long-term receivables	5,620	5,418									5,418				
Deferred tax assets	6,303														
Total non-current assets	**260,530**														
TOTAL ASSETS	**561,567**	**200,283**	**0**	**0**	**202**	**0**	**0**	**202**	**136,989**	**57,876**	**5,418**	**0**	**0**	**0**	**0**
Current liabilities															
Bank loans and overdrafts	36,227			36,227									36,227		
Current portion of long-term loans															
of which primary liabilities	17,839			17,839									17,839		
of which hedging	0														
Finance lease obligations	418			418									418		
Accounts payable trade	39,760			39,760										39,760	
Government grants	401														
Income taxes payable	6,981														
Other payables	19,266			4,797	690			690						3,167	1,630
Other provisions	5,903														
Total current liabilities	**126,795**														
Non-current liabilities															
Bonds	39,864			39,864								39,864			
Long-term loans	90,887			90,887									90,887		
Finance lease obligations	611			611									611		
Government grants	1,115														
Retirement benefit obligations	3,690														
Other payables	19,289			14,051	5,238			5,238							14,051
Deferred tax payables	12,189														
Total non-current liabilities	**167,645**														
Shareholders´ equity															
Share capital	15,960														
Contributed capital	65,203														
Legal reserve - non-distributable	785														
Other reserves	36														
Translation component	-20,852														
Retained earnings	204,897														
Non-controlling interests	1,098														
Total shareholders´ equity	**267,127**														
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY	**561,567**	**0**	**0**	**244,454**	**5,928**	**0**	**0**	**5,928**	**0**	**0**	**0**	**39,864**	**145,982**	**42,927**	**15,681**

FINANCIAL INSTRUMENTS

31.12.2009 in TEUR		Category acc. to IAS 39					Classification acc. to IFRS 7: Valuation method								
							Fair value		Amortized costs						
		Loans and receivables	Assets available for sale	Other financial liabilities	Derivative Instruments	Hedging Instruments	Securities	Derivatives	Cash and cash equivalents	Accounts receivable trade	Lendings	Bonds	Loans, Bank & Lease obligations	Accounts payable trade	Other items
Current assets															
Cash and cash equivalents															
of which banks & cash	86,640	86,640							86,640						
of which short term investments	10,000		10,000				10,000								
Trade accounts receivable	41,033	41,033								41,033					
Other accounts receivable and prepaid expenses	4,934														
Inventories	88,899														
Total current assets	**231,506**														
Non-current assets															
Property, plant & equipment	136,697														
Goodwill	38,979														
Other intangible assets	7,873														
Long-term receivables	4,128	4,001									4,001				
Deferred tax assets	6,358														
Total non-current assets	**194,035**														
TOTAL ASSETS	**425,541**	**131,674**	**10,000**	**0**	**0**	**0**	**10,000**	**0**	**86,640**	**41,033**	**4,001**	**0**	**0**	**0**	**0**
Current liabilities															
Bank loans and overdrafts	34,590			34,590									34,590		
Current portion of long-term loans															
of which primary liabilities	13,436			13,436									13,436		
of which hedging	6,393					6,393		6,393							
Finance lease obligations	394			394									394		
Accounts payable trade	8,709			8,709										8,709	
Government grants	810														
Income taxes payable	1,056														
Other payables	10,884			1,494	391			391						995	499
Other provisions	7,952														
Total current liabilities	**84,224**														
Non-current liabilities															
Bonds	39,824			39,824								39,824			
Long-term loans	47,485			47,485									47,485		
Finance lease obligations	1,026			1,026									1,026		
Government grants	1,564														
Retirement benefit obligations	3,204														
Other payables	7,875			7,506	369			369							7,506
Deferred tax payables	10,531														
Total non-current liabilities	**111,509**														
Shareholders´ equity															
Share capital	15,880														
Contributed capital	61,808														
Legal reserve - non-distributable	785														
Other reserves	39														
Translation component	-34,230														
Retained earnings	185,526														
Non-controlling interests	0														
Total shareholders´ equity	**229,808**														
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY	**425,541**	**0**	**0**	**154,464**	**760**	**6,393**	**0**	**7,153**	**0**	**0**	**0**	**39,824**	**96,931**	**9,704**	**8,005**

Fair value of 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.

in TEUR	31 December 2010	Level 2
Assets		
Available for sale securities	202	202
Liabilities		
Other derivatives	-1,108	-1,108

in TEUR	31 December 2009	Level 2
Assets		
Available for sale securities	10,000	10,000
Liabilities		
Hedging instruments	-6,393	-6,393
Other derivatives	-760	-760

During the reporting period ending 31 December 2010, there were no transfers between level 1 and level 2 fair value measurements.

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

in TEUR	2010 Carrying value	2010 Fair value	2009 Carrying value	2009 Fair value
Assets				
Trade receivables	57,876	57,876	41,033	41,033
Lendings	5,418	5,418	4,001	4,001
Liabilities				
Bonds	-39,864	-42,950	-39,824	-43,845
Borrowings from banks, finance lease obligations and other loans	-145,982	-142,366	-96,931	-96,188
Trade payables	-42,927	-42,927	-9,704	-9,704
Other line items	-15,681	-15,681	-8,005	-8,005

Acknowledged valuation methods have been used to determine the fair values of the derivative financial instruments. 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.

Net result from financial instruments

The following table shows the net result by classification, according to IAS 39:

Year 2010 in TEUR	Allowance	Revaluation P/L	Revaluation OCI(*)	Deletion/Disposal P/L	Deletion/Disposal OCI(*)	Net result
Loans and receivables	+945	-	-	-	-	+945
Derivative instruments	-	-146	-	-	-	-146
Hedging transactions	-	-	-	-	-1,607	-1,607

Year 2009 in TEUR	Allowance	Revaluation P/L	Revaluation OCI(*)	Deletion/Disposal P/L	Deletion/Disposal OCI(*)	Net result
Loans and receivables	-761	-	-	-	-	-761
Derivative instruments	-	-2,129	-	-	-	-2,129
Hedging transactions	-	-	+316	-	-	+316

(*) OCI … other comprehensive income

NOTE 33 I Risk management

The operations of the Company are exposed to a great number of risks that are inextricably linked to its worldwide business activities. Efficient steering and control systems are being used to detect, analyze, and cope with these risks, with the help of which the management of each company monitors the operating risks and reports them to the group management board.

From a current point of view, no risks are discernible that may pose a threat to the survival of the Company.

› General economic risks

The business situation of Schoeller-Bleckmann Oilfield Equipment highly depends on cycles, in particular on the cyclical development of oil and gas drilling activities performed by the international oil companies. In order to minimize the risks of pertinent order fluctuations, the manufacturing companies of the Group have been designed to ensure maximum flexibility.

› Sales and procurement risks

The market for products and services of the Company is to a great extent determined by continuous development and the application of new technologies. Therefore, securing and maintaining the Company's customer stock depends on the ability to offer new products and services tailored to the customers' needs.

In the year 2010, the three biggest customers (which are the worldwide dominant service companies in the directional drilling market) accounted for 62.7 % of all sales worldwide (65.8 % in 2009). SBO addresses the risk of potential sales declines following the loss of a customer by means of continuous innovation, quality assurance measures and close customer relationship management.

On the procurement side, raw materials and in particular alloy surcharges for non-magnetic steel are subject to significant price fluctuations. These alloy surcharges are partly passed on to the customers as part of our agreements.

The Company procures non-magnetic steel, its most essential raw material, almost exclusively from one supplier and therefore faces the risk of delayed deliveries, capacity shortages or business interruptions. From today´s perspective, the Company foresees no difficulty in obtaining quality steel from this supplier in future. In the event this supplier falls short of deliveries, there is only limited potential of substitution in the short-term.

› Substitution risks

SBO is subject to the risk of substitution of its products and technologies, which may result in the emergence of new competitors. SBO counteracts that risk through continuous market observation, intensive customer relationship management and proprietary innovations.

› Financial risks

As a direct result of its business operations, the Company on the one hand holds various financial assets, such as trade receivables as well as cash and cash equivalents. On the other hand, it also uses financial instruments to ensure the continuity of its operations, such as bonds, payables due to banks and trade payables.
In addition, the Company also uses derivative financial instruments to hedge interest rate and foreign exchange risks arising from its financing and business operations. However, derivates are not used for trading or speculative purposes.

The financial instruments principally entail interest-related cash-flow risks, as well as liquidity, currency and credit risks.

Foreign currency risks

Foreign currency risks arise from fluctuations in the value of financial instruments or cash-flows caused by foreign exchange fluctuations.

Foreign currency risks arise in the Company where balance sheet items as well as income and expenses are generated or incurred in a currency other than the local one. Forward exchange contracts (mainly in US dollars) are concluded in order to secure receivables and liabilities in foreign currencies.

From a long-term perspective, SBO invoices around 80 % of its sales volume in US dollars. This is due to its customer structure. All dominating service companies on the directional drilling market are located in the US, handling their worldwide activities in US dollars. Also from a long-term perspective, approximately 50 % of the costs are incurred in US dollars, with important production facilities being located both in the US and Europe. In order to minimize the currency exposure involved, orders are hedged between the times of order acceptance and invoicing. However, for reasons of costs and expedience, SBO does not hedge its entire net dollar exposure. In any case, the profit generated by SBO is contingent on the dollar-euro exchange rates.

The Company also faces currency translation risks when sales revenues, operating results and balance sheets of foreign subsidiaries are converted into the group currency. The respective values depend on the exchange rate in force at the respective date. The US is not only the main market for the Group but also the base of important production facilities with significant investments. Therefore, changes in the US dollar rate have a strong impact on the group balance sheet, which SBO addresses by taking out US dollar loans.

The table below shows the implications of a potential change in the US dollar exchange rate on the consolidated financial statements only in respect of the value of the derivative instruments in place at balance sheet date:

in TEUR	2010		2009	
Changes in EURO – US dollar rate	**+10 cents**	**-10 cents**	**+10 cents**	**-10 cents**
Change in profit before taxes	+2,438	-2,438	+891	-891

Interest rate risks

Interest rate risks result from fluctuations in interest rates on the market; these fluctuations may lead to changes in value of financial instruments and interest-related cash-flows.

The majority of the long-term borrowings (approximately 85 %) have fixed interest rates; therefore they are without any interest rate risk. However, the fair value of these credit facilities is subject to fluctuations. For fixed and variable interest rates and the associated risk of interest changes, we refer to Note 17. With the exception of bonds, loans and finance-lease obligations, no other liabilities are interest bearing and therefore not subject to any interest rate risk.

The interest rate risk is further reduced by short-term interest-bearing investments which the Company holds on a permanent basis. Depending on whether there is a credit or debit balance, the interest risk may result from increasing or decreasing interest rates.

The table below shows the reasonably foreseeable implications of a potential change in interest rates on earnings before taxes (there are no implications on group equity). These implications could affect the amount of interest payable to banks or interest earned on bank deposits, both only in the case of variable rates.

in TEUR	2010		2009	
Change in basic points	**+10**	**+20**	**+10**	**+20**
Change in profit before taxes	+84	+168	+31	+62

Credit risks

Credit risk arises from the non-compliance with contractual obligations by business partners and the resulting losses. The maximum default risk equals the book value of the respective receivables.

The credit risk with our customers can be considered as low as there have been long-standing, stable and smooth business relations with all major customers. Furthermore, we regularly check the credit rating of new and existing customers and monitor the amounts due. Adequate allowances for default risks are established.

With regard to loans granted to the management of subsidiaries, the default risk is eliminated as the loans are securitized by the acquired shares (see Note 10).

As for other financial assets (liquid funds, marketable securities), the maximum credit risk equals the respective book values, in the event the counterparty defaults. The pertinent credit risk may, however, be considered as low since we choose highly rated banks and well-renowned issuers of securities only.

Liquidity risks

Liquidity risk bears the uncertainty whether or not the Company has the liquid funds required to settle its obligations at all times and in a timely manner.

Due to the high self-financing capability and earning power of the Company, the liquidity risk is relatively low. The Company earns liquid funds through its operating business and uses external financing when needed. The worldwide spread of financing sources prevents any significant concentration of risk.

As the most important risk spreading measure, the group management constantly monitors the liquidity and financial planning of the Company´s operative units. Also the financing requirements are centrally managed and based on the consolidated financial reporting of the group members.

The table below shows all obligations for repayments and interest on financial obligations accounted for and agreed by contract as of 31 December. For the other obligations, the non-discounted cash-flows for the following business years are stated.

31 December 2010 in TEUR	Due at call	2011	2012	2013	2014 cont´d
Bonds	-	2,325	2,325	21,750	21,763
Payables due to banks	36,786	-	-	-	-
Long-term loans	-	20,325	21,686	18,331	58,073
Leasing obligations	-	453	383	187	80
Trade payables	-	39,760	-	-	-
Other payables	-	19,329	1,112	1,549	6,183
Derivative instruments	-	690	-	-	419

31 December 2009 in TEUR	Due at call	2010	2011	2012	2013 cont´d
Bonds	-	2,325	2,325	2,325	43,513
Payables due to banks	35,018	-	-	-	-
Long-term loans	-	15,185	13,205	11,255	27,454
Leasing obligations	-	474	280	280	573
Trade payables	-	8,683	26	-	-
Other payables	-	10,493	-	-	-
Derivative instruments	-	7,114	-	-	369

Other financial market risks

The risk variables are in particular the share prices and stock indexes. As all securities available for sale were disposed of in 2007, there is no significant risk arising from this item. The available for sale securities held by the Company comprise only interest bearing bonds with a fixed redemption price, therefore no significant risk is implied.

› Capital management

It is a paramount goal of the Group to ensure that we maintain a high credit rating and equity ratio in order to support our operations and to maximize the shareholder value.

It is particularly the gearing ratio (net indebtedness as a percentage of equity) that is used to monitor and manage capital. The indebtedness includes bonds, long-term loans, payables due to banks and leasing rates, less cash and cash equivalents and long-term financial investments. The gearing was 18.3 % as of 31 December 2010 and 20.2 % as of 31 December 2009.

in TEUR	31 December 2010	31 December 2009
Bank loans	36,227	34,590
Long-term loans	108,726	67,314
Finance lease obligations	1,029	1,420
Bonds	39,864	39,824
Less: Cash and cash equivalents	-136,989	-96,640
Net debt	**48,857**	**46,508**
Total equity	267,127	229,808
Gearing	**18.3 %**	**20.2 %**

The Company considers a gearing ratio of up to 60 % reasonable without having an impact on the refinancing conditions. In addition an average dividend ratio of 30 - 60 % payable to the shareholders is deemed to be appropriate.

NOTE 34 | Contingencies

No contingencies existed as of the balance sheet dates 31 December 2010 and 31 December 2009.

NOTE 35 | Other Commitments

The Company has operating lease commitments and commitments for capital expenditure (see Note 8). Apart from that no other commitments existed.

NOTE 36 | Cash flow Statement

The consolidated cash flow statement displays the change of cash and cash equivalents in the reporting year as a result of inflows and outflows of resources.

The liquid fund corresponds to cash and cash equivalents in the consolidated balance sheet and only includes cash on hand and bank balances as well as short-term investments/marketable securities.

In the cash flow statement, cash flows are classified into cash flow from operating activities, cash flow from investing activities and cash flow from financing activities.

The cash flows from foreign operations have been allowed for by applying average foreign exchange rates.

The cash flow from operating activities is determined using the indirect method, based on income after taxation and adjusting it for non-cash expenses and revenues. The result plus changes in net working capital (excluding liquid funds) as shown in the balance sheet is the cash flow from operating activities.

Inflows/outflows of resources from current operations include inflows and outflows from interest payments and income taxes.

Dividend payments are shown under cash flow from financing activities.

NOTE 37 | Business combinations

Year 2010:

As of 1 October 2010, 100 % of the shares of **Drilling Systems International Limited** (CY), which is managed out of Dubai (UAE), were acquired. This company delivers specialised downhole circulation tools which steer the flow direction of drilling muds in the drill string. The company's flagship product is the PBL tool which forms part of the drill string.

The main purpose of the PBL tool is to avoid mud losses during the drilling process. Such losses may occur when drilling mud escapes into the rock formations. The tool helps to protect costly drill string steering systems (MWD and LWD equipment) from damage and to solve expensive lost-circulation problems. The PBL tool is also used in deepwater operations to clean the wellhead profile prior to running casing and jetting/washing the subsea blowout preventers (BOPs).

The agreed upon purchase price has been hedged against the foreign exchange risk between signing of the purchase contract and closing through a fair value hedge on the firm commitment to acquire the business as hedged item and USD cash balances as hedging instrument. The initial carrying amounts of the assets and liabilities acquired in the business combination have been adjusted to include the cumulative change in the fair value of the firm commitment attributable to foreign exchange fluctuations amounting to TEUR 3,063 (basis adjustment). Recognition in profit and loss statement will take place according to subsequent measurement rules of the respective asset or liability.

In addition the previous owner has entered into a non-compete agreement over the next 10 years as part of the purchase contract for the business. Consequently, another intangible asset amounting to TEUR 2,969 as well as another payable have been recognized. The fair value of the non-compete agreement has been calculated as the present value of the agreed payments.

Furthermore, an asset deal was effected on 11 February 2010 with the company **EXOKO COMPOSITES COMPANY L. L. C.** (essential patents for the further development of drilling motors). As consideration it was agreed to transfer own shares of the Company. There were no cash payments effected.

Listed below are the fair values of the acquired identifiable assets and liabilities for both business combinations at the acquisition date (including basis adjustment from hedging of foreign exchange fluctuations):

in TEUR	Fair value
Intangible assets	44,539
Property, plant & equipment	4,564
Inventories	989
Trade accounts receivable	7,618
Other accounts receivable	168
Cash and cash equivalents	2,545
	60,423
Trade payables	389
Other payables	1,467
	1,856
Net assets	**58,567**
Goodwill resulting from the acquisitions	20,409
Total considerations	**78,976**

The gross amount of trade accounts receivable amounts to TEUR 7,618 and is equal to their fair value. None of the trade accounts receivable have been impaired and it is expected that the full contractual amounts can be collected.

Total considerations for both business combinations amounted to TEUR 78,976, whereof TEUR 68,673 were transferred in 2010 and TEUR 10,303 are outstanding as of 31 December 2010 (of which TEUR 9,414 are recorded under other liabilities and TEUR 889 under equity).

The cash outflow due to the business combinations were as follows:

Cash outflow	TEUR	66,894
Net cash acquired	TEUR	-2,545
	TEUR	**64,349**

However, the following contingent considerations have been agreed upon as part of the purchase contract and have been valued with their fair values at the acquisition date.

The consideration for the business combination includes the fair value of a contingent consideration of TEUR 4,448 at acquisition date which will be payable when sales are exceeding a contractually agreed upon amount in the next 5 years and which has been calculated by discounting expected future contingent payments based on the business plan.

Also, a liability of TEUR 417 for contingent purchase price payments, amounting to a certain percentage of sales achieved with the acquired technology over the next 10 years, has been recognized. The fair value has been calculated as the present value of expected payments based on the business plan.

The respective liabilities have been recognized in “other payables” in the balance sheet, interest expenses are included in the position “interest expenses” in profit and loss statement. The best estimate of the expected payment from the contingent consideration as of 31 December 2010 equals the fair value recognized at the acquisition date.

Furthermore, there will be a contingent transfer of 50,000 shares of the Company if certain sales targets are met. The respective fair value of TEUR 889 has been recognized in equity and has been calculated from the published market price of shares of the Company at the acquisition date weighted by the expected probability of achieving the required sales targets.

Additionally, transaction costs of TEUR 1,098 have been expensed and are included in general and administrative expenses.

Goodwill of TEUR 20,409 comprises the value of expected synergies arising from the acquisitions. Goodwill has been allocated to the segment “other regions” (TEUR 19,309) and to the segment „North America“ (TEUR 1,100; cash generating unit BICO Drilling Tools Inc.). None of the goodwill recognized is expected to be deductible for income tax purposes.

Due to the acquisitions, the group profit after tax was increased by TEUR 784 in 2010, the group sales by TEUR 3,568. If the businesses had been acquired at the beginning of the year, group sales would have increased by TEUR 20,319.

Year 2009:

In 2009 no business combinations were executed.

NOTE 38 | Personnel

The total average number of employees was as follows:

	2010	2009
Blue collar	856	888
White collar	295	281
	1,151	**1,169**

NOTE 39 | Events after the balance sheet date

After the balance-sheet date no events of particular significance have occurred that would have changed the presentation of the Group's financial position and financial performance.

NOTE 40 | Proposed dividend

The Executive Board proposes to the shareholders that a dividend of EUR 0.50 per share (2009: EUR 0.50) plus a bonus of EUR 0.50 per share (2009: EUR 0.00), in total EUR 1.00 (2009: EUR 0.50) per share should be paid. Thus, the total distribution will amount to MEUR 16.0 compared to MEUR 7.9 in the year before.

NOTE 41 | Expenses incurred for the group auditors

In the year 2010, the following expenses were incurred from Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.:

in TEUR	2010	2009
Audit of the consolidated annual financial statements	89	73
Other services	34	45

Management Information

Executive Board:

Ing. Gerald Grohmann (President and CEO)
Mag. Franz Gritsch (Executive Vice-president and CFO)

Committees of the Supervisory Board:

Mag. Norbert Zimmermann
Dr. Peter Pichler
Dr. Karl Schleinzer

Audit Committee:
Mag. Norbert Zimmermann
Dr. Peter Pichler
Karl Samstag

Supervisory Board:

Mag. Norbert Zimmermann (Chairman)
First nomination: 1995
End of current appointment: 2012

Dr. Peter Pichler (Deputy Chairman)
First nomination: 1995
End of current appointment: 2012

Mag. Dipl. Ing. Helmut Langanger
First nomination: 2003
End of current appointment: 2012

Karl Samstag
First nomination: 2005
End of current appointment: 2012

Dr. Karl Schleinzer
First nomination: 1995
End of current appointment: 2012

Ternitz, 25 February 2011

Gerald Grohmann Franz Gritsch
Members of the Executive Board

Report of the Supervisory Board of the SBO AG to the Annual General Meeting concerning the 2010 Business Year

During the 2010 business year, the Supervisory Board carried out the duties allocated to it by law and the articles of association and held 4 meetings to this end. The management provided the Board with regular written and verbal reports concerning business developments and the company's status, including the situation of the Group companies. An Audit Committee for handling questions of the Financial Statements and a Remuneration Committee for handling questions regarding the reimbursement of the Executive Board was installed.

The Annual Accounts for the 2010 business year and the Status Report of SBO AG were examined by SST Schwarz & Schmid Wirtschaftsprüfungsgesellschaft m.b.H., Vienna. The Consolidated Financial Statements and the Consolidated Status Report for the SBO Group as at 31 December 2010 were examined by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna. According to their unqualified audit certification, the accounts, the Annual Accounts for the 2010 business year and the 2010 Consolidated Financial Statements meet the statutory requirements, present a true and fair view of the assets, financial position and profitability of the company and the Group in accordance with generally accepted accounting principles. The Annual Accounts of SBO AG have been prepared in accordance with the Austrian Commercial Code and Austrian Generally Accepted Accounting Principles; the Consolidated Financial Statements of the SBO Group have been prepared in accordance with the International Financial Reporting Standards (IFRS).

At its meeting on 8 March 2011, the Supervisory Board approved the Annual Accounts for the 2010 business year, the Consolidated Financial Statements as at 31 December 2010, the proposal for the distribution of profits and the Status Report combined with the Consolidated Status Report presented by the Executive Board.

Ternitz, 8 March 2011

Norbert Zimmermann
Chairman of the Supervisory Board

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Auditor's Report (Translation)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of **SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft, Ternitz**, for the fiscal year from January 1, 2010 to December 31, 2010. These consolidated financial statements comprise the consolidated balance sheet as of December 31, 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year ended December 31, 2010, and the notes.

Management's Responsibility for the Consolidated Financial Statements and for the Accounting System

The Company's management is responsible for the group accounting system and for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Accounting Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of December 31, 2010 and of its financial performance and its cash flows for the fiscal year from January 1, 2010 to December 31, 2010 in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU.

COMMENTS ON THE CONSOLIDATED MANAGEMENT REPORT

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the consolidated management report is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the consolidated management report is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, February 25, 2011

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Karl Rab	Karl Fuchs
Certified Public Accountant	Certified Public Accountant

Glossary

Non-magnetic steel
Non-magnetic steel characterized by particularly high material strength and corrosion resistance. Special processes such as cold-forging or surface treatment are applied to ensure high resistance to stress corrosion.

Barrel
The barrel is a measure of capacity and corresponds to 42 US gallons or around 159 litres.

Recovery factor
Amount in % of crude oil produced from the total oil-in-place of a reservoir, depending on the individual reservoir parameters and the quality of the crude oil produced. Currently, the average global recovery factor is approx. 35 %.

Exploration and Production (E&P)
These terms refer to the search for and extraction of oil and gas.

IEA = International Energy Agency

Logging While Drilling (LWD)
The petrophysical parameters indicating the presence of a reservoir are measured by the LWD tools and the data collected are transferred to the surface on a continuous basis.

Measurement While Drilling (MWD)
During drilling, MWD tools measure the inclination and direction of the drill bit.

Oil sand
Oil sand is a mixture of clay, sand, water and hydrocarbons. Hydrocarbons of oil sands have a most diverse composition, ranging from bitumen to conventional crude oil. Oil sand reservoirs are either surface-mined or extracted from deeper layers.

Oil shale
An oil shale is a sedimentary rock containing bitumen or non-volatile oils.

Peak oil
The point in time when the maximum rate of global petroleum production is reached, after which the rate of production enters its terminal decline.

Directional drilling
This technology is used for precisely targeting oil reservoirs not located directly below the drilling rig and for continuous monitoring and adapting the drilling process.
The collars produced by Schoeller-Bleckmann are used as „high-tech housings“ to accommodate special logging instruments, sensors, antennas and generators. SBO also supplies high-precision parts (internals) which contain electronic components and other parts needed for measurements and analysis.

Rig = drilling rigs

Ultra Deep water drilling
Drilling in water depths of more than 1500 metres.

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