



**SCHOELLER-BLECKMANN** OILFIELD EQUIPMENT AG



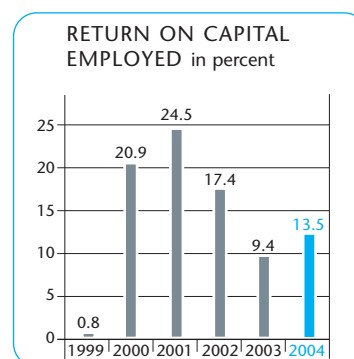
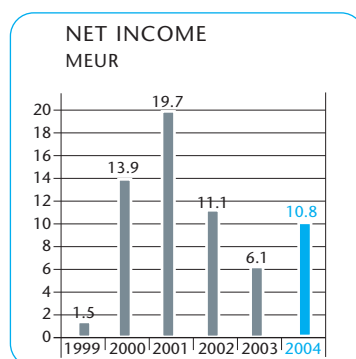
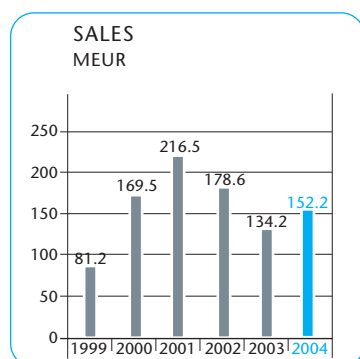
## FINANCIAL HIGHLIGHTS

in MEUR (except share data)						
	2004	2003	2002	2001	2000	1999
Net sales	152.2	134.2	178.6	216.5	169.5	81.2
Income from operations	17.6	13.1	26.1	36.6	26.4	0.9
Income on ordinary activities	15.5	9.4	19.8	33.2	23.9	2.1
Net income	10.8	6.1	11.1	19.7	13.9	1.5
Earnings per share <sup>1</sup>	0.8	0.5	0.9	1.5	1.1	0.1 <sup>3</sup>
Total assets	173.3	176.8	192.2	225.5	199.0	149.3
Share capital	13.0	13.0	13.0	13.0	13.0	13.0
Shareholders' equity	77.9	77.0	91.1	100.7	79.4	63.8
Return on Capital Employed (in %)	13.5	9.4	17.4	24.5	20.9	0.8
Dividend per share	0.40 <sup>2</sup>	0.30	0.50	0.50	0.25	0.10 <sup>3</sup>
Number of shares outstanding at year end	13,000,000	13,000,000	13,000,000	13,000,000	13,000,000	13,000,000 <sup>3</sup>

<sup>1</sup> based on average shares outstanding

<sup>2</sup> proposed

<sup>3</sup> adjusted to reflect share split effected October 1, 1999



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# austria ternitz

Schoeller-Bleckmann Oilfield  
Technology GmbH & Co. KG  
100%

## COMPANY PROFILE

Schoeller-Bleckmann Oilfield Equipment AG (SBO) is the global leader in high-precision components for the oilfield service industry. SBO products are used mainly in directional drilling, a technology which allows the drill bit to be steered and oil deposits to be targeted that are not directly below the drilling rig. As the world leader in innovation and quality, SBO products and services set the standard for the industry.

SBO is the only worldwide supplier whose activities cover both the development of high-strength, non-magnetic steels for the oilfield service industry and the processing and manufacturing of drillstring components made of these specialty steels. Many decades of experience and the high technological expertise of our staff allow the company to solve even complex tasks in the processing of materials with supreme precision. This is why SBO has become one of the leading partners of the major global oil drilling companies.

Apart from the core business of manufacturing high-precision components, the SBO group also produces downhole motors and drilling tools and offers customers comprehensive after-sales repair and maintenance services. SBO's subsidiaries and service outlets are located worldwide in most centres of the oilfield industry.

SBO's success is based on consistent customer orientation combined with leadership in technology and quality. For SBO, customer benefit is both the starting point and the objective of SBO's endeavors. The company's economic strength is ensured by focusing on its core business, high productivity, flexible use of manufacturing capacities and a foresighted investment policy.

# SCHOELLER-BLECKMANN

## OILFIELD EQUIPMENT AG

Ternitz/Austria

Group Sales: MEUR 152.2

Headcount: 837

NORTH AMERICA	EUROPE	OTHER
Total Sales: MEUR 126.1 Headcount: 435	Total Sales : MEUR 65.6 Headcount : 351	Total Sales : MEUR 10.4 Headcount : 51
<b>Knust-SBO Ltd.</b> Houston, Tx/USA 100%	<b>Schoeller-Bleckmann Oilfield Technology GmbH &amp; Co. KG</b> Ternitz, Austria 100%	<b>Schoeller-Bleckmann Oilfield Equipment Middle East FZE</b> Dubai, U.A.E. 100%
<b>Godwin-SBO L. P.</b> Houston, Tx/USA 100%	<b>Darron Tool &amp; Engineering Ltd.</b> Rotherham, UK 100%	<b>Schoeller-Bleckmann de Venezuela C.A.</b> Anaco, Venezuela 100%
<b>BICO Drilling Tools Inc.</b> Houston, Tx/USA 100%	<b>Schoeller-Bleckmann Darron Ltd.</b> Aberdeen, UK 100%	<b>SB Darron Pte. Ltd.</b> Singapore 100%
<b>BICO Faster Drilling Tools Inc.</b> Nisku, Kanada 100%		
<b>Schoeller-Bleckmann Energy Services L.L.C.</b> Lafayette, La/USA 85.5%		
<b>Schoeller-Bleckmann Sales Co.</b> Houston, Tx/USA 100%		
<b>Bafco Inc.</b> Warminster, Pa/USA 100%		
<b>Schoeller-Bleckmann de Mexico, S.A. de C.V.</b> Monterrey, Mexico 100%		

Non-operative holding companies are not shown.  
Headcount: per Dec. 31, 2004  
Sales Figures: Year Ending Dec. 31, 2004

# MANAGEMENT INFORMATION

## Management Board

Gerald Grohmann  
President and CEO

Franz Gritsch  
Executive Vice-president and CFO

## Supervisory Board

Norbert Zimmermann  
Chairman

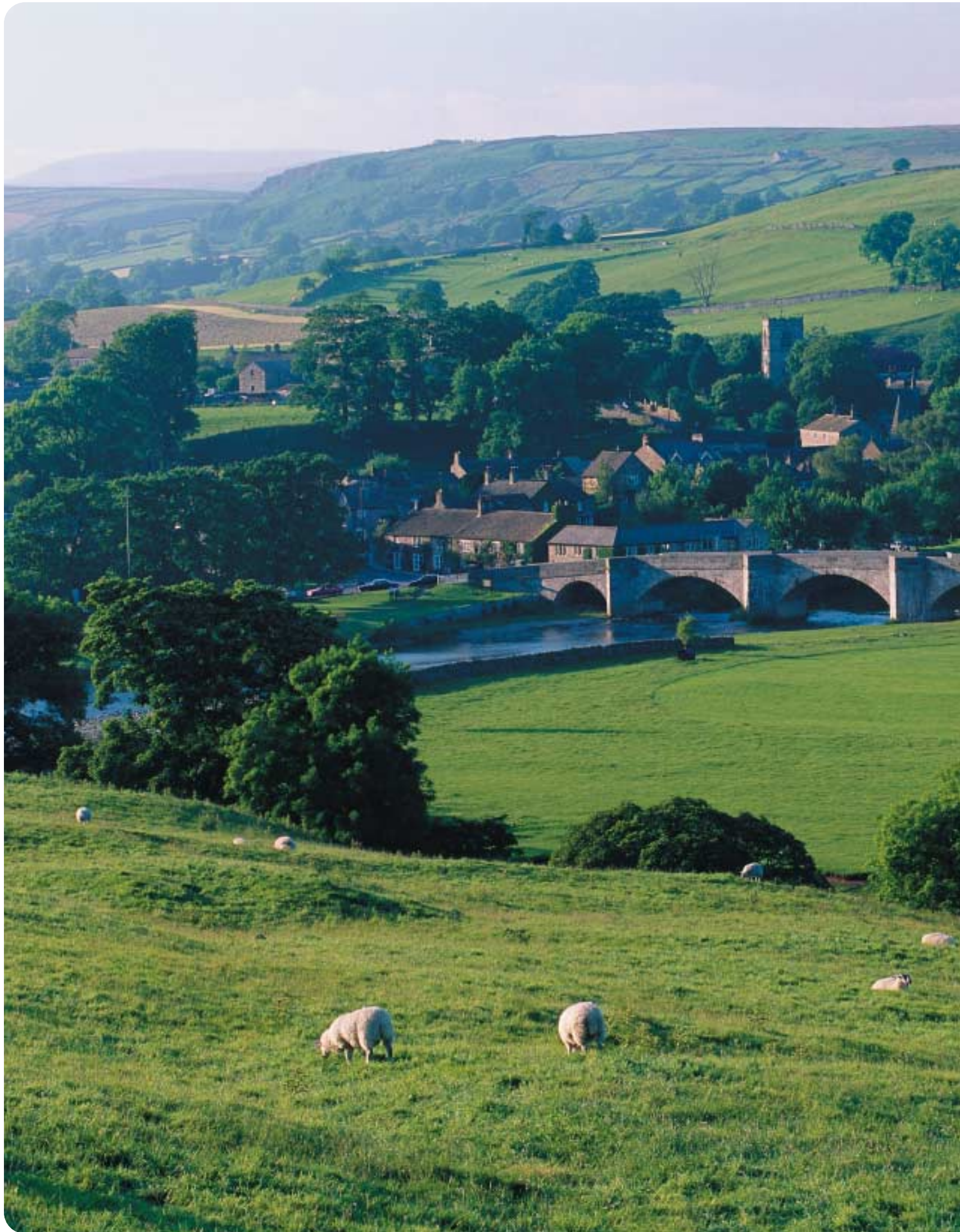
Peter Pichler  
Deputy Chairman

Gerd Klaus Gregor

Helmut Langanger

Karl Schleinzer









england

rotherham

Darron Tool & Engineering Ltd.

100%

scotland

aberdeen

Schoeller-Bleckmann Darron Ltd.

100%



## FOREWORD BY THE EXECUTIVE BOARD

### To our shareholders

The year 2004 brought a positive turnaround in the overall economic conditions for the oilfield service industry. Supported by a very friendly business environment in Asia and North America, demand for oil and gas grew strongly, starting in the first quarter of 2004 and continuing throughout the year. It was the marked economic upswing in the emerging markets of Asia in particular that led to a sustained turnaround in the oil market. Additionally, the increase in oil consumption clearly demonstrated that the existing production capacities alone would no longer be able to cover the demand in the medium run.

This development caused the oil price to rise throughout 2004 and reach a new record level of around USD 55 and also brought a considerable increase in drilling activities by international oil companies. This, in turn, triggered steep demand for oilfield equipment from the second quarter of 2004 on, which continued over the following quarters.

This development did not come unexpectedly for SBO, as strong cyclical fluctuations are typical in the oilfield service industry. We deliberately used the previous low-cycle years to prepare for an industry recovery. With our policy of selective investments we optimized and created flexible manufacturing facilities to respond to future growth. Our capacities for manufacturing high-precision components were recently expanded. We further developed our product range and implemented a large number of changes to secure our leading global position.

As a result, SBO was able to make optimal use of the cyclical upswing in 2004. By improving our most recent before-tax profit from MEUR 9.4 to MEUR 15.5 we showed that our company can successfully adapt to the prevailing conditions. Moreover, we eased the effects of the dollar-euro exchange rate, which was 10% lower than the previous year. Adjusted for currency fluctuations, the increase in before-tax profit would have been even greater, i.e. 111% to MEUR 19.9.



Gerald Grohmann



Franz Gritsch

Buoyant forecasts on the economic development, the sustained positive environment in the industry and the high order backlog for SBO prompt us to take an optimistic view on the business year 2005 that has just started. We intend to take advantage of the current positive environment in order to expand our market position via further investments, because growing demand for oil will bring exploration of new oil deposits in coming years. Since easy-to-tap oil reservoirs are already largely known and new reservoirs can often be accessed only by means of sophisticated technologies, we expect directional drilling to be increasingly in demand. As the leading supplier of directional drilling equipment, SBO will profit from this tendency to a very large extent.

2004 was a very good year for the shareholders of SBO. The SBO share price rose by around 75%, making it one of the top performers on the Vienna

Stock Exchange. Based on the profit generated in 2004, the Executive Board will suggest to the General Meeting that a base dividend of 30 cents plus a 10% bonus be distributed per share, for a total of 40 cents (following 30 cents the year before). Despite the steep price increase, this corresponds to an attractive dividend yield of 2.5%, based on the 2004 closing price of EUR 15.81.

Finally, we would like to thank all of our customers, partners and shareholders for the excellent cooperation and the confidence extended to our company in the past business year. Our thanks also go to all of our employees who, after all, generated the satisfying result achieved in 2004.

Gerald Grohmann  
Chief Executive Officer

Franz Gritsch  
Member of the Executive Board





canada  
nisku

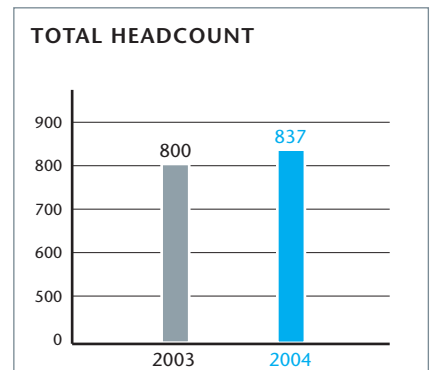
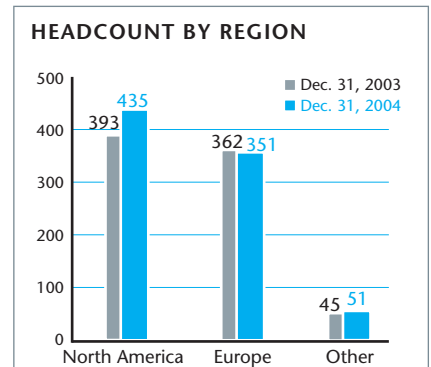
BICO Faster Drilling Tools Inc.  
100%

## HUMAN RESOURCES

As of December 31, 2004, the SBO group employed a workforce of 837 worldwide. This was an increase of 37 full-time employees over the 800 as of December 31, 2003. The increase was needed to meet the large number of orders booked and the resulting upswing in manufacturing capacities at all locations. Additionally, start-up at the new subsidiary in Mexico made itself felt.

At the end of the year, SBO employed 435 persons in North America (including Mexico), followed by 351 employees in Europe. The rest of our staff is employed by our subsidiaries in Venezuela, Singapore and Dubai.

In its commitment to on-going technology and customer orientation, SBO views basic and continued training of employees as a major pillar of the company's economic success. Appropriate steps were again taken in the past business year to prepare our staff at all locations for the increasingly complex requirements of our customers. As high-tech processing methods such as gunhole drilling or laser welding are being implemented to a growing extent, our employees were required to take special training courses.



Our new employees in Mexico undergo in-depth training to guarantee good production start-up.

In the past business year, employee-oriented projects aimed at improving production and quality and reducing lead times were implemented in the US, UK and Austria. As part of these projects, employee teams made numerous proposals for improvements, which were then implemented.

At this point, we would like to express our gratitude to all of our employees for their performance and commitment.

## THE SBO SHARE

On the first trading day of 2004 the SBO share closed at EUR 9.05. In October the share reached its high for the year at EUR 16.99 and, in the further course of the year, settled at around EUR 15.00, while the closing price for 2004 was EUR 15.81.

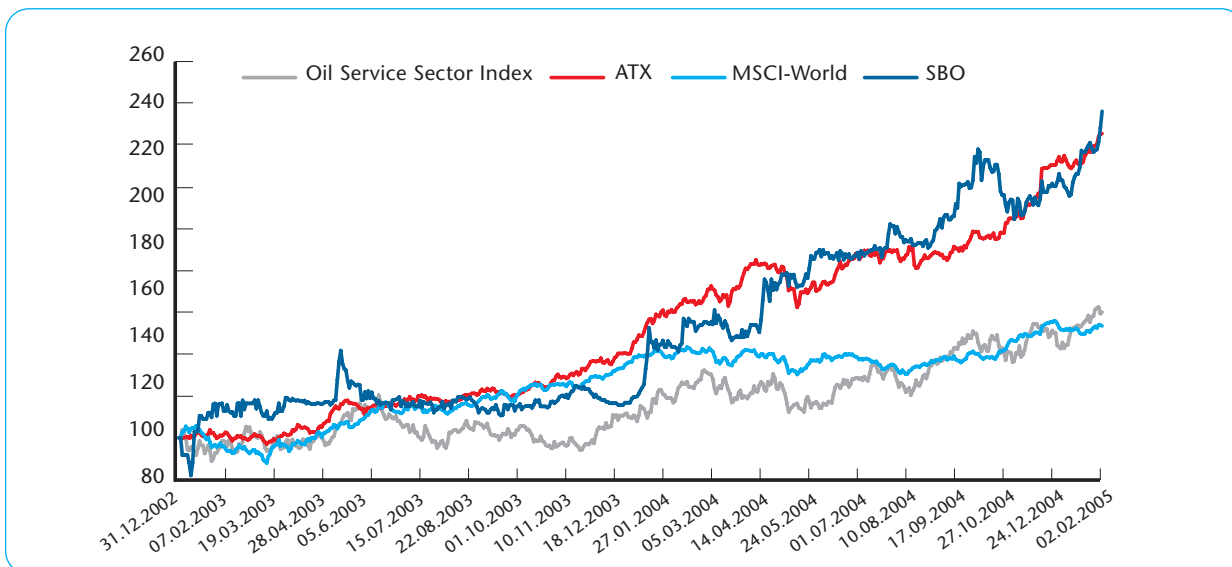
Oilfield service shares were in worldwide demand in 2004. The SBO share, additionally, benefited from the favorable environment at the Vienna Stock Exchange and, with a price increase of 75% against the previous year, counted among the top-performing shares traded on the Vienna Stock Exchange.

The liquidity of the SBO share was just as encouraging as the price development. Thus, the average daily volume traded was 24,211 shares, another improve-

ment over the previous year (11,638 shares traded on average). Compared with 2002, the liquidity of the SBO share even rose by some 300%, impressive proof that relisting the share from NASDAQ Europe to the Vienna Stock Exchange was the right decision.

The SBO Management Board will commit itself to complying with the Austrian Corporate Governance Code, if the General Meeting agrees. The purpose of this step is to further strengthen investor confidence in the company.

Moreover, numerous meetings with analysts were held. SBO is regularly analysed by all three major Austrian banks (BA-CA, Erste Bank, Raiffeisen Centrobank).





	<b>2004</b>	2003
Share capital (in EUR)	<b>13,000,000</b>	13,000,000
Number of shares	<b>13,000,000</b>	13,000,000
Average number of shares traded per day	<b>24,212</b>	11,638
Closing share price at year end (in EUR)	<b>15.81</b>	8.92
High/Low (in EUR)	<b>16.99/9.05</b>	10.58/8.51
Market capitalization at year end (in EUR)	<b>205,530,000</b>	115,960,000
Earnings per share (in EUR)	<b>0.83</b>	0.47
Price/earnings ratio at year end	<b>19.05</b>	18.98
Pay-out per share	<b>0.40*</b>	0.30

\* proposed

SBO's majority shareholder, Austrian Berndorf AG, sold more than 1 million SBO shares to Austrian and international investors in November 2004 under a block trade scheme. Following this transaction, Berndorf AG holds some 57% of SBO shares. Berndorf AG thus met a request repeatedly voiced by the capital market, namely to improve the liquidity of the SBO share by increasing the free-float volume.

Current information about the company and all SBO publications are available on our home page at <http://info.sbo.at>.

### **Financial Calender**

ORDINARY GENERAL MEETING: March 8, 2005

#### **Publications:**

May 20, 2005	1 <sup>st</sup> quarter of 2005
August 19, 2005	2 <sup>nd</sup> quarter of 2005
November 18, 2005	3 <sup>rd</sup> quarter of 2005



texas

houston

Knust-SBO Ltd. 100%

Godwin-SBO L.P. 100%

BICO Drilling Tools Inc. 100%

Schoeller-Bleckmann Sales Co. 100%



**louisiana**

lafayette

Schoeller-Bleckmann Energy Services L.L.C. 85.5%

**pennsylvania**

warminster

Bafco Inc. 100%



# MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONAL RESULTS

## Market environment and business development

In 2004, the market environment for the oilfield service industry was characterized by a strong demand for oil and gas. According to preliminary assessments, oil consumption rose from 79.7 million barrels per day in 2003 to 82.4 million barrels per day in 2004. The main reasons for this were the strong economic growth in the emerging Asian markets, in particular China and India, as well as the promising business developments in North America. It is tentatively assumed that China's oil demand in 2004 rose by around 800,000 barrels per day, which corresponds to about one-third of the world increase in consumption; India's oil imports rose by 11%.

Although the strong demand was met by stepped-up oil production, OPEC's excess production fell to a relatively low figure of up to approximately one million barrels per day. This is why the market came to the conclusion that the growth in consumption could not be covered by the existing production capacities in the medium run.

These factors as well as the weak dollar and geopolitical uncertainties caused the oil price to surge by around 34% in 2004 and considerably stepped up drilling activities by the international oil companies. The rig count, the most important indicator of drilling

activities, rose from 2,334 at the end of 2003 to 2,555 at the end of 2004. Likewise, the previously stagnating market for directional drilling recovered noticeably. Fears that an excessive oil price could have a considerable damping effect on economic development were seen to be unfounded.

Against the backdrop of this positive market environment, the first months of 2004 already showed an improvement in SBO's bookings as compared to the previous year. This promising trend was strengthened in the second quarter and continued over the subsequent quarters. For the full year 2004, bookings of MEUR 161 (following MEUR 124 in 2003) were recorded, which was a noteworthy increase of 30%. This upswing in business was observed in all segments and regions alike. The increased bookings were met according to plan, namely by calling for overtime, additional shifts and extra personnel as foreseen by SBO under its flexible capacity concept.

The fall of the US dollar against the euro by 10% over the full year had a negative effect on the company's profitability. In total, the dollar even lost approximately 30% against the euro over the past two years, which posed an enormous challenge for our manufacturing sites at Ternitz and Darron UK. In 2004 some 80% of sales were invoiced in dollars, while 60% of costs were incurred in dollars.

The soaring steel prices were largely compensated by price adjustments. As a result of the high value-added component of SBO products, the steel price increases had only a very minor effect on sales prices (low single-digit percentage).

Following the positive experience made with a manufacturing cooperation entered in Mexico in 2003, Schoeller-Bleckmann de Mexico, a fully owned subsidiary of SBO, was founded in Monterrey. In addition to the already existing cooperation with a local partner as mentioned above, the new company started production in the fourth quarter of 2004. In view of the promising order backlog, these new manufacturing capacities came at the right time. The Mexican site currently supplies the US subsidiaries of SBO, Knust SBO Ltd and Godwin-SBO L.P. in Houston, Texas.

Towards mid-2004 a new branch office was established in the Rocky Mountains, where increasing gas drilling activities offer promising perspectives for the region. The focus of business is both on repair and maintenance of oil tools and on downhole motors.

The restructuring efforts initiated last year in our affiliate in Darron/UK proved successful; Darron produced a clearly positive result in 2004.

## Outlook

The high level of bookings worth MEUR 39 at the end of 2004 (following MEUR 34 the year before) reflects the growing demand for SBO products and forms the basis for a satisfactory result in the first quarter of 2005.

The international oil companies sharply downsized their drilling activities in the past years because of the bleak global economic situation. The economic upswing now observed has unleashed a desire to make up for lost time when exploring new oil reservoirs. As large exploration projects are invariably implemented over an extended period of time, it is safe to assume that the currently excellent demand for oilfield service equipment will continue throughout 2005.

SBO is faced with uncertainties caused by the further development of the dollar-euro exchange rate. Short-term currency hedging efforts can only partly offset these fluctuations.

Altogether, however, the positive effects for SBO's business developments in 2005 seem to clearly prevail.



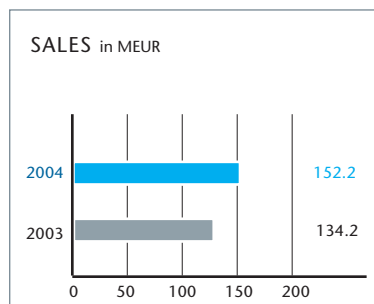
venezuela

anaco

Schoeller-Bleckmann de Venezuela C.A.  
100%







SALES BY REGION in MEUR

	2004	2003
North America	126.1	108.3
Europe	65.6	62.3
Other	10.4	8.1
- Intercompany Sales	-49.9	-44.5
<b>Total Sales</b>	<b>152.2</b>	<b>134.2</b>

SALES BY PRODUCT in MEUR

	2004	2003
High-Precision Components	95.1	88.4
Oilfield Supplies and Service	51.2	40.2
Other	5.9	5.6
<b>Total Sales</b>	<b>152.2</b>	<b>134.2</b>

## Results of Operations

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), formerly International Accounting Standards (IAS). During the year 2004 there are no material changes in the business or in the scope of consolidation of the Group.

Schoeller-Bleckmann de Mexico S.A. de C.V., a 100% subsidiary, was established and started operations in 2004.

### Sales

In the year under review sales increased by 13.4% from MEUR 134.2 to MEUR 152.2. While the market development contributed favourably, the devaluation of the US dollar against the euro has a negative impact. Adjusted for these devaluation effects and based on the average US dollar exchange rate of 2003, sales for 2004 would have amounted to MEUR 164, a rise of 22.2% compared to the previous year.

### Exchange rate

In 2004 the Group generated about 80% of its total sales and revenues in US dollars and incurred approximately 60% of the cost in US dollars.

The average rates for the years ended December 31, 2003 and December 31, 2004 were used by the Company in the preparation of its Consolidated Profit and Loss Statements, whereas the closing rates for the years 2003 and 2004 were used in the preparation of its Consolidated Balance Sheets.

Period ended <sup>*)</sup>	High	Low	Average	Closing
2004	1.3662	1.1802	1.2433	1.3662
2003	1.2610	1.0377	1.1309	1.2610

\*) EUR/USD

### Sales by region

As in the past, North America was the most important region for the Group. The share of the North American companies of sales invoiced went up from 74.9% in 2003 to 76.3% in 2004.

The European companies invoiced 17.3% after 19.3% in 2003, those in other regions (Asia, South America) 6.4% (2003: 5.7%).

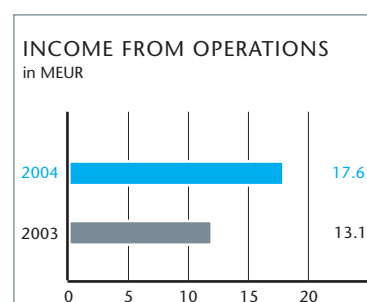
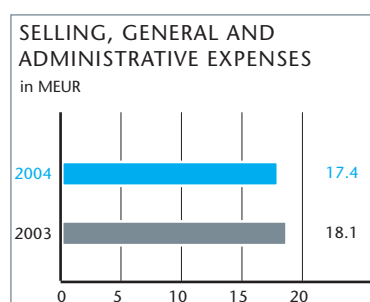
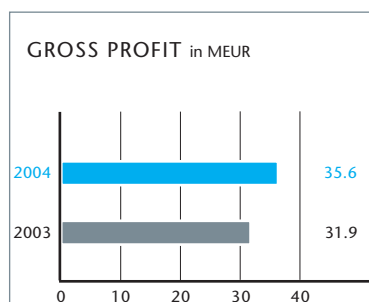
### Sales by product

In 2004, all business segments were able to increase their sales. The business segment **High-Precision Components** comprises MWD/LWD collars and MWD/LWD internals and parts, the business segment **Oilfield Supplies and Service** comprises nonmag drill collars, drilling motors and various other tools for the oilfield as well as repair and service activities. This segment achieved a growth of 27.5% in 2004 compared to 2003, reflecting the significant rise in drilling activities in 2004. The segment **Other** includes all activities outside the oilfield industry as well as occasional trading activities.

### Gross Profit

Gross Profit amounted to MEUR 35.6 after MEUR 31.9 in the year before. Expressed as a percentage of net sales, the gross margin was at the same level as in the previous year.

Despite the favourable market development, this stagnation was mainly the result of the devaluation of the US dollar against the euro. Furthermore, higher material prices could not be passed through to the customers in full because of existing long-term agreements.



This development is answered with an ongoing strict cost management and a flexible adoption of production capacities.

### Selling, General and Administrative Expenses

Although sales went up considerably, both selling expenses and general and administrative expenses could be reduced in absolute numbers compared to the previous year. They amounted to MEUR 17.4 after MEUR 18.1 in 2003. Expressed as a percentage of sales, they could be lowered from 13.5% in 2003 to 11.5% in the year 2004.

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

### Income from Operations

Income from operations amounted to MEUR 17.6 after MEUR 13.1 in the previous year, i.e. 11.5% of sales. This improvement was mainly achievable by a higher utilization of the manufacturing facilities, despite the continual negative influence of the movement of the exchange rates.

Adjusted for the devaluation effects, based on the average US dollar exchange rate of 2003 the operative margin would have amounted to 13.4%.

### Other revenues and expenses

These items primarily include:

#### Non recurring write-offs and provisions:

Expenses for non-recurring write-offs and provisions amounted to MEUR 1.0 (2003: MEUR 4.6). For one thing they relate to start-up costs in connection with the establishment of a manufacturing facility in Mexico, for another to provisions for further restructuring measures.

#### Other non-operative income:

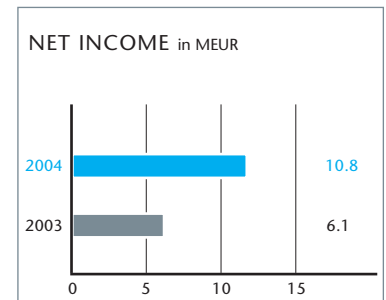
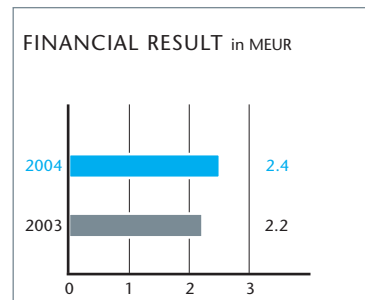
The other non-operative income was MEUR 1.8 (2003: MEUR 3.7), mainly consisting of gains from sales of fixed assets, subsidies, grants and rental income.

#### Other non-operative expenses:

Other non-operative expenses amounted to MEUR 0.4 (2003: 0.6). They relate to the non-trading activities of the Company.

### Financial result

Net interest expenditure arrived at MEUR 2.4 after MEUR 2.2 in the year before. This reflects the increase in average net debts during the year and the slightly higher level of borrowing costs as well.



### Net income/dividend

Net income for the year 2004 amounted to MEUR 10.8, i.e. EUR 0.83 per share, compared with MEUR 6.1 for 2003 (i.e. EUR 0.47 per share).

The Management Board proposes to the Shareholders that a dividend of EUR 0.30 per share plus a bonus of EUR 0.10 per share, in total EUR 0.40 per share, i.e. MEUR 5.2, be paid.

### Capital Resources and Liquidity

Cash flow from the profit amounted to MEUR 26.6 (2003: MEUR 23.5), which again is at a satisfactory level. The main elements contributing to this figure were income after taxation, depreciation and amortisation as well as changes in deferred taxes.

Cash flow from operating activities went up to MEUR 28.5 (2003: MEUR 22.2), which reflects the positive development of the working capital of MEUR 1.9.

Cash flow for investing activities amounted to MEUR 6.9, after MEUR 30.5 in the year 2003.

This was the result of expenditures for property, plant and equipment of MEUR 9.9 (2003: MEUR 13.7) and proceeds from the sale of fixed assets of MEUR 3.1 (2003: MEUR 1.4).

Expenditures for property, plant and equipment amounted to MEUR 4.3 (2003: MEUR 6.7) for the business segment **high-precision components**. The

main spendings were made for laser-welding machines for the companies Schoeller-Bleckmann Oilfield Technology GmbH & Co KG and Knust-SBO Ltd., gun-drilling machines for Godwin-SBO L.P. and machinery for establishment of the manufacturing facility at Schoeller-Bleckmann de Mexico S.A. de C.V.

Expenditures for the business segment **oilfield supplies & services** amounted to MEUR 5.7 (2003: MEUR 7.0), primarily additions of drilling motors to the rental fleet and investments in the repair and service outlets.

Net debt amounted to MEUR 42.8 at December 31, 2004 after MEUR 61.8 at December 31, 2003. This is the result of the satisfactory cash flow from operating activities and reserved capital expenditures in 2004.

The gearing ratio, defined as net debt divided by shareholders equity, amounted to 54.9% at December 31, 2004 compared to 80.2% at December 31, 2003.

### Events after the balance sheet date

Negotiations for sale of the subsidiary Bafco Inc., which is not engaged in the core business of the oil service industry, have been successfully conducted. A closing of this transaction is expected shortly.

Due to the small size of Bafco Inc. there will not be a significant influence to the consolidated financial statement.





u.a.e.

dubai

Schoeller-Bleckmann Oilfield Equipment  
Middle East FZE 100%



## **FINANCIAL INFORMATION**

## CONSOLIDATED BALANCE SHEET

		Dec. 31, 2004	Dec. 31, 2003
		TEUR	TEUR
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		17,042	9,966
Trade accounts receivable	Note 5	19,987	18,410
Other accounts receivable and prepaid expenses		7,069	7,952
Inventories	Note 6	36,226	34,799
<b>Total current assets</b>		<b>80,324</b>	<b>71,127</b>
<b>Non-current assets</b>			
Property, plant & equipment	Note 7	52,329	57,893
Goodwill	Note 8	35,884	42,026
Other intangible assets	Note 8	636	865
Long-term investments	Note 9	1,328	1,272
Long-term receivables		134	98
<b>Total non-current assets</b>		<b>90,311</b>	<b>102,154</b>
<b>Deferred tax assets</b>	Note 10	<b>2,699</b>	<b>3,557</b>
<b>TOTAL ASSETS</b>		<b>173,334</b>	<b>176,838</b>



**CONSOLIDATED BALANCE SHEET**

		Dec. 31, 2004	Dec. 31, 2003
		TEUR	TEUR
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
<b>Current liabilities</b>			
Bank loans and overdrafts	Note 11	25,166	30,244
Current portion of loans not due within one year		5,820	5,946
Finance lease obligations		205	186
Accounts payable trade		14,482	9,403
Income taxes payable		461	519
Other payables and accrued expenses	Note 12	11,798	10,311
<b>Total current liabilities</b>		<b>57,932</b>	<b>56,609</b>
<b>Subsidies received</b>	Note 13	<b>743</b>	<b>461</b>
<b>Non-current liabilities</b>			
Loans not due within one year	Note 14	29,416	35,916
Long-term finance lease obligations		530	734
Retirement benefit obligations	Note 15	2,571	2,517
<b>Total non-current liabilities</b>		<b>32,517</b>	<b>39,167</b>
<b>Deferred tax payables</b>	Note 10	<b>3,791</b>	<b>2,999</b>
<b>Negative goodwill</b>	Note 16	<b>171</b>	<b>264</b>
<b>Minority interests in consolidated subsidiaries</b>	Note 17	<b>316</b>	<b>315</b>
<b>Shareholders equity</b>			
Common stock	Note 18	13,000	13,000
Contributed capital		16,996	16,996
Legal reserve – non-distributable	Note 19	785	785
Untaxed reserves – non-distributable	Note 20	60	180
Translation component		-20,892	-14,869
Retained earnings		67,915	60,931
<b>Total shareholders equity</b>		<b>77,864</b>	<b>77,023</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>		<b>173,334</b>	<b>176,838</b>

## CONSOLIDATED PROFIT AND LOSS STATEMENT

		2004 TEUR	2003 TEUR
<b>Sales</b>		152,162	134,157
Cost of goods sold		-116,513	-102,222
<b>Gross profit</b>		35,649	31,935
Selling expenses		-9,216	-9,459
General and administrative expenses		-8,162	-8,609
Research and development expenses		-709	-774
<b>Income from operations</b>		17,562	13,093
Non-recurring write-offs and provisions related to restructuring	Note 21	-958	-4,648
Other non-operating income		1,780	3,720
Other non-operating expenses		-371	-639
Net foreign exchange gain/loss		-119	76
		332	-1,491
Interest income		192	254
Interest expenses		-2,565	-2,457
Financial result		-2,373	-2,203
<b>Income on ordinary activities before taxation</b>		15,521	9,399
Income taxes	Note 22	-4,732	-3,316
<b>Income after taxation</b>		10,789	6,083
Minority interests		-25	13
<b>NET INCOME</b>		10,764	6,096
Number of shares outstanding		13,000,000	13,000,000
<b>Earnings per share (in EUR)</b>	Note 23	0.83	0.47
Retained earnings as of January 1		60,931	61,090
Net income		10,764	6,096
Dividends		-3,900	-6,500
Change in reserves		120	245
<b>RETAINED EARNINGS AS OF DECEMBER 31</b>		67,915	60,931

**CASH FLOW STATEMENT**

	2004 TEUR	2003 TEUR
Income after taxation	10,789	6,083
Depreciation and amortisation	14,459	15,875
Change in retirement benefit obligations	54	99
Gain from sale of property, plant and equipment	-309	-550
Gain (loss) from sale of investments	0	5
Release of negative goodwill	-93	-94
Income from release of subsidiaries	-144	-170
Non-cash exchange gains/losses	89	951
Change in deferred taxes	1,715	1,321
<b>Cash flow from the profit</b>	<b>26,560</b>	<b>23,520</b>
Change in accounts receivable trade	-2,742	5,559
Change in other accounts receivable and prepaid expenses	802	-4,454
Change in inventories	-3,376	-5,178
Change in accounts payable trade	5,468	1,513
Change in other payables and accrued expenses	1,769	1,194
<b>Cash flow from operating activities</b>	<b>28,481</b>	<b>22,154</b>
Expenditures for property, plant & equipment	-9,922	-13,705
Expenditures for intangible assets	-42	-13
Expenditures for investments	0	-18,044
Proceeds from sale of fixed assets	3,070	1,401
Change in consolidation range	0	-125
<b>Cash flow from investing activities</b>	<b>-6,894</b>	<b>-30,486</b>
Payment of dividends	-3,900	-6,500
Distributions to minority shareholders	0	-1,514
Subsidies received	441	433
Change in finance lease	-194	-278
Change in bank loans and overdrafts	-4,679	3,524
Borrowings of long-term loans	0	16,824
Repayment of long-term loans	-5,947	-11,500
<b>Cash flow from financing activities</b>	<b>-14,279</b>	<b>989</b>
Translation adjustment	927	2,433
<b>Change in cash and cash equivalents</b>	<b>8,235</b>	<b>-4,910</b>
Cash and cash equivalents at the beginning of the year	9,966	16,625
Effects of exchange rate changes on cash and cash equivalents	-1,159	-1,749
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>17,042</b>	<b>9,966</b>
<b>Supplementary information on operating cash flow:</b>		
Interest received	188	226
Interest paid	-2,387	-2,401
Income tax paid	-3,107	-5,755



## STATEMENT OF SHAREHOLDERS EQUITY

	Common stock	Contributed capital	Legal reserve	Untaxed reserve	Translation component	Retained earnings	Total
in TEUR							
January 1, 2004	13,000	16,996	785	180	-14,869	60,931	77,023
Change in reserves				-120		120	0
Other changes					-3,724 <sup>1)</sup>		-3,724
Dividends						-3,900	-3,900
Capital consolidation					-1,198		-1,198
Profit and loss translation					-1,101		-1,101
Net income						10,764	10,764
<b>December 31, 2004</b>	<b>13,000</b>	<b>16,996</b>	<b>785</b>	<b>60</b>	<b>-20,892</b>	<b>67,915</b>	<b>77,864</b>
January 1, 2003	13,000	16,996	785	425	-1,154	61,090	91,142
Change in reserves				-245		245	0
Other changes					-9,732 <sup>1)</sup>		-9,732
Dividends						-6,500	-6,500
Capital consolidation					-2,890		-2,890
Profit and loss translation					-1,093		-1,093
Net income						6,096	6,096
<b>December 31, 2003</b>	<b>13,000</b>	<b>16,996</b>	<b>785</b>	<b>180</b>	<b>-14,869</b>	<b>60,931</b>	<b>77,023</b>

<sup>1)</sup> Mainly result from translation differences from net investments in foreign entities such as long-term receivables

## 1

## Note 1

**INFORMATION ABOUT THE COMPANY**

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

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

The Company's shares were listed on NASDAQ Europe in Brussels from June 20, 1997 to June 30, 2003. Since March 27, 2003 the shares have been listed on the Wiener Börse (Vienna Stock Exchange).

## 2

## Note 2

**ACCOUNTING STANDARDS**

The Company's consolidated financial statements for the business year 2004 were prepared in accordance with International Financial Reporting Standards (IFRS), formerly International Accounting Standards (IAS), as adopted by the International Accounting Standards Board (IASB), as well as the interpretations of the Standards Interpretation Committee (SIC).

## 3

## Note 3

**SCOPE OF CONSOLIDATION**

The consolidated financial statements as of December 31, 2004 comprise the accounts of SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft and its subsidiaries as follows:

Company	Location	Interest held in %
Schoeller-Bleckmann Drilling and Production Equipment GmbH	Ternitz, Austria	100
Schoeller-Bleckmann Drilling and Production Equipment GmbH	Ternitz, Austria	100
Schoeller-Bleckmann Oilfield Technology GmbH & Co KG	Ternitz, Austria	100
Schoeller-Bleckmann Oilfield Technology GmbH	Ternitz, Austria	100
Schoeller-Bleckmann Oilfield Investment GmbH	Ternitz, Austria	100
Schoeller Bleckmann America Inc.	Wilmington, USA	100
B.K.G.P. Inc.	Wilmington, USA	100
B.K.L.P. Inc.	Wilmington, USA	100
Accudrill L. P.	Houston, USA	100
Bafco Inc.	Warminster, USA	100
Bafco Investment Co.	Warminster, USA	100
BICO Drilling Tools Inc.	Houston, USA	100
BICO Faster Drilling Tools Inc.	Nisku, Canada	100
EWM Technology Inc.	Houston, USA	100
Godwin-SBO L.P.	Houston, USA	100
Knust-SBO Ltd.	Houston, USA	100
Schoeller-Bleckmann Energy Services L.L.C.	Lafayette, USA	85,5
Schoeller-Bleckmann Sales Co. L.P.	Houston, USA	100
Schoeller-Bleckmann de Mexico SA de CV	Monterrey, Mexico	100
Schoeller-Bleckmann de Venezuela C.A.	Anaco, Venezuela	100
SB Darron Pte. Ltd.	Singapore	100
Schoeller-Bleckmann Darron Limited	Aberdeen, UK	100
Schoeller-Bleckmann Oilfield Equipment Middle East FZE	Dubai, U.A.E.	100
Darron Holdings Limited	Rotherham, UK	100
Darron Oil Tools Limited	Rotherham, UK	100
Darron Tool & Engineering Limited	Rotherham, UK	100

#### **Change in consolidated entities:**

In the year 2004 the following companies were founded and, therefore, for the first time incorporated into the consolidated financial statements as of December 31, 2004.

Schoeller-Bleckmann Oilfield Investment GmbH, Ternitz, Austria  
Schoeller-Bleckmann de Mexico S.A de C.V., Monterrey, Mexico  
Darron Oil Tools Limited, Rotherham, UK

While Schoeller-Bleckmann de Mexico S.A. de C.V. is engaged in the manufacturing of precision components, Schoeller-Bleckmann Oilfield Investment GmbH and Darron Oil Tools Limited are not active and are dormant companies.

On the other hand, Darron Oil Tools Ltd. Pte., Singapore, was dissolved in 2004, after transferring all assets and liabilities to SB Darron Pte. Ltd., Singapore.

Likewise, EWM Technology Inc. was deconsolidated on December 31, 2004, since its liquidation was initiated by shareholder resolution.

## 4

#### Note 4

### **SIGNIFICANT ACCOUNTING POLICIES**

The preparation of annual financial statements in conformity with generally recognized International Financial Reporting Standards (IFRS) requires estimates and assumptions 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 results may differ from such estimates.

The recognition, measurement and disclosure as well as the combination of individual items in the balance sheet, the profit and loss statement, the cash flow statement and the non-owner movements in equity as well as the scope of the notes provided are guided by the principle of materiality.

#### **▲ Balance sheet date**

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

#### **▲ Consolidation principles**

Upon capital consolidation the investments in the subsidiaries were offset against the equity of the respective entity in applying the purchase method of consolidation accounting in line with International Financial Reporting Standards.

All material intercompany 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.

#### **▲ Going concern basis**

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

#### **▲ Reclassifications**

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation.

#### **▲ Uniform accounting principles**

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



#### ▲ Revenue recognition

Revenue is recognized on sales when title passes, generally upon delivery to the customer or on performance of the related service. Revenue from the lease of drilling motors under sales-type lease is recognized at the commencement of the lease to the extent of the present value of the minimum lease payments. Revenue on operating leases is recognized as invoiced, usually on a monthly basis.

#### ▲ Foreign currency translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. At the balance sheet date foreign currency monetary items are reported using the closing rate. Any exchange differences arising are recognized as income or expense in the period in which they arise. Foreign exchange differences recognized in the profit and loss statement were TEUR -119 and TEUR +76 for the years ended December 31, 2004 and 2003, respectively.

In translating the financial statements of the subsidiaries for incorporation in the consolidated financial statements, the Company used the following procedures:

- The assets and liabilities, both monetary and non-monetary, are translated at the closing rate (2004: 1 EUR = 1.3662 USD; 2003: 1 EUR = 1.2610 USD).
- All income and expense items of the foreign subsidiaries are translated at an average exchange rate for the period (2004: 1 EUR = 1.2433 USD; 2003: 1 EUR = 1.1309 USD).

Exchange differences resulting from translating the financial statements of the subsidiaries are classified as translation component in the equity section of the consolidated financial statements.

#### ▲ Split in current and long-term

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 long-term. Residual time to maturity is determined on the basis of the balance sheet date.

#### ▲ Liquid funds

All cash holdings and financial investments with a residual term to maturity of not exceeding 90 days at the time of acquisition that are included in the item Cash and cash equivalents are classified as liquid funds. These items are carried at current values as of the balance sheet date (mark-to-market).

#### ▲ Accounts receivable

Receivables and other assets are stated at the lower of cost of acquisition or the values at the balance sheet date.

The Company grants loans 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 any casual 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.

#### ▲ 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. Costs are determined by the first-in, first-out, weighted average or specific identification methods. The costs of finished goods comprise raw materials, other direct costs and related production overheads, but exclude interest expense. The Company reviews inventories for slow-moving items or obsolete items on an ongoing basis and establishes reserves, if necessary.

### ▲ Tangible and intangible fixed assets

The Company's fixed assets are recorded at historical cost less depreciation/amortization. Depreciation is provided for in amounts which are sufficient to relate the cost of depreciable assets to operations over their estimated service lives computed by the straight-line method. The estimated service lives are as follows:

	Years of service
Goodwill	5 – 20
Other Intangibles	4 – 10
Buildings and improvements	15 – 50
Plant and machinery	3 – 17
Fixtures, furniture and equipment	2 – 10
Automobiles	3 – 5
Fleet assets (drilling tools under operating leases)	3 – 5

Repairs and refurbishments are charged to the profit and loss statement at the time the expenditure has been incurred.

Interest expenses are also expensed as incurred.

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 and the present value of the minimum lease payments. The corresponding leasing liabilities are shown in the balance sheet as finance lease obligations.

### ▲ Deferred taxes

The Company uses the liability method under which deferred taxes are determined based on the difference between the financial statements and tax bases of assets and liabilities as measured by the enacted tax rates which will become effective when these differences reverse (IAS 12). Deferred tax expense is the result of changes in deferred tax assets and liabilities. 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.

### ▲ Liabilities and provisions

Liabilities are stated at the redemption price.

In accordance with IAS 37, provisions are stated in the amount that is necessary as of the balance sheet date, according to reasonable commercial standards, to cover future payment obligations, identifiable risks and contingent liabilities of the group. The amount stated is the amount most likely resulting from a careful consideration of the facts involved.

### ▲ Retirement benefits

#### Austrian pension obligations

In Austria the Company operates a defined-contribution 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 on an annual basis the following contributions for its employees: for employees who do not themselves contribute to the pension scheme, the Company contributes 0.5% of the annual salary (in 2004 up to a maximum monthly salary of TEUR 3,450 (2003: TEUR 3,360) per employee), for employees contributing 1% of their annual salary to the pension fund, the Company also contributes 1%.

**Other retirement plans**

During 1994 the Company established the Bafco Inc. 401(K) Retirement Savings Plan covering substantially all eligible employees of Bafco Inc. Effective June 1, 1998 the name of the plan was changed to SBOE U.S. Retirement Savings Plan. Effective July 1, 1998 the employees of Schoeller-Bleckmann Sales Co. L.P., BICO Drilling Tools Inc. and Schoeller-Bleckmann Energy Services L.L.C. were eligible to become participants in the plan. Effective August 1, 1998 the employees of Godwin-SBO L.P. were authorized to become participants in the plan.

Employees will be eligible to participate in the plan upon reaching 21 years of age and completing one year of service, as defined. Employees may elect to defer a percentage of their qualifying wages to the maximum Dollar set by law. Employer contributions are discretionary. The Company elected to contribute 33.3% of the first 6% of employee contributions calculated on a monthly basis.

Knust-SBO Ltd. 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 make matching contributions equal to a discretionary percentage, to be determined by the partnership, of the participants' salary deductions. For the years ended December 31, 2004 and 2003, the partnership has elected to make no matching contributions.

**Termination indemnities**

Austrian law requires payment of a lump sum upon normal retirement or termination of employment if the employee has been with the company for at least three years, and provided that the employment commenced before January 1, 2003. Indemnities range from a two- to twelve-month salary based on the length of service. Payments are made on normal retirement or any other termination with exception of voluntary termination. The amount accrued as of December 31, 2004 and as of December 31, 2003 was calculated by applying the Projected Unit Credit Method using the mortality table by Klaus Heubeck and an interest rate of 5.5%, assuming a pension age of 61 years for men and 56 years for women and allowing for an annual increase in salaries of 3% as well as an appropriate fluctuation rate.

For employment commenced after January 1, 2003, the Company has to contribute 1.53% of the current remuneration to an external providence fund, according to the legal requirements.

**Employees' long-service premium**

According to the collective work agreement, employees in Austria are entitled to premium payments depending on their length of service with the company. The amount accrued as of December 31, 2004 and December 31, 2003 was also calculated by applying the Projected Unit Credit Method.

**▲ Hedging transactions (derivative financial instruments)**

Hedging transactions are reported at fair value as of the balance sheet date.

**▲ Research and development**

Pursuant to IAS 38 research costs are expensed as incurred. Development costs are also expensed as incurred and are not capitalized due to the uncertainties of the future economic benefits attributable. The requirements of IAS 38 for capitalization of development expenses are not fully met.

**5**

Note 5

**TRADE ACCOUNTS RECEIVABLE**

Trade accounts receivable of TEUR 19,987 as of December 31, 2004 were stated net of valuation allowance amounting to TEUR 397 compared to a trade accounts receivable total of TEUR 18,410 net of valuation allowance of TEUR 537 as December 31, 2003.

## 6

Note 6

**INVENTORIES**

Inventories were summarized by major classification as follows:

in TEUR	December 31, 2004	December 31, 2003
Raw materials	6,245	5,694
Work in process	16,394	14,313
Finished goods	14,828	16,857
Subtotal	37,467	36,864
Provisions	-1,241	-2,065
Total	36,226	34,799

## 7

Note 7

**TANGIBLE ASSETS**

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

in TEUR	Land & buildings	Plant & machinery	Fixtures, furniture & equipment	Prepayments & assets under construction	Total
<b>Gross valuation</b>					
January 1, 2004	22,564	91,990	4,739	1,412	120,705
Exchange rate adjustments	-843	-3,811	-89	-8	-4,751
Additions	399	8,772	278	473	9,922
Transfers	618	633	-83	-1,168	0
Disposals	-1,738	-6,225	-606	0	-8,569
December 31, 2004	21,000	91,359	4,239	709	117,307
<b>Accumulated depreciation</b>					
January 1, 2004	6,560	52,668	3,357	227	62,812
Exchange rate adjustments	-250	-1,975	-73	-17	-2,315
Additions	821	8,939	530	0	10,290
Transfers	0	83	-83	0	0
Disposals	-233	-4,968	-608	0	-5,809
December 31, 2004	6,898	54,747	3,123	210	64,978
<b>Net book value</b>					
December 31, 2004	14,102	36,612	1,116	499	52,329
December 31, 2003	16,004	39,322	1,382	1,185	57,893

The Company has manufacturing capacities in the following countries: USA, Austria, UK and Mexico. Service and maintenance, as well as marketing outlets, are held in the USA, Canada, Venezuela, UK, Singapore and U.A.E.

Non-recurring write-offs of plant and machinery amounting to TEUR 97 were made in the course of the restructuring measures in the year 2004.

No appreciations were made.

As of December 31, 2004 commitments for capital expenditure amounted to TEUR 615 (2003: TEUR 797).

**Finance Lease**

The Company leases various property under finance lease. The assets and liabilities under finance lease are recorded at the lower of the present value of the minimum lease payments or at the fair



value of the asset. Depreciation of assets under finance lease was included in the depreciation expenses for 2004 and 2003.

Interest rates vary from 5.5% to 7.5% and are imputed based on the lower of the Company's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

Assets held under finance lease included under plant and machinery were as follows

in TEUR	December 31, 2004	December 31, 2003
Cost	1,275	1,241
Accumulated depreciation	-291	-168
Net book amount	984	1,073

From the utilization of such assets reported on the balance sheet commitments arise for minimum payments of:

in TEUR	December 31, 2004	December 31, 2003
For the following year	243	247
Between one and five years	543	785
After five years	0	0

### Operating lease

Obligations arising from lease and rental contracts for the use of fixed assets not shown in the balance sheet amounted to:

in TEUR	December 31, 2004	December 31, 2003
For the following year	283	166
Between one and five years	758	595
After five years	172	254

Payments for operating leases, which are expended in the current year, amounted to TEUR 274 in 2004.

## 8

### Note 8

### INTANGIBLE ASSETS

The following is a summary of the gross carrying amounts and the accumulated amortization for intangible assets:

in TEUR	Goodwill from legal mergers and acquisition	Other intangibles	Total
<b>Gross value</b>			
January 1, 2004	60,034	5,205	65,239
Exchange rate adjustments	-3,457	-245	-3,702
Additions	0	42	42
Disposals	-187	-93	-280
December 31, 2004	56,390	4,909	61,299
<b>Accumulated amortization</b>			
January 1, 2004	18,008	4,340	22,348
Exchange rate adjustments	-1,254	-204	-1,458
Additions	3,939	230	4,169
Disposals	-187	-93	-280
December 31, 2004	20,506	4,273	24,779
<b>Book value</b>			
December 31, 2004	35,884	636	36,520
December 31, 2003	42,026	865	42,891

### 1. Goodwill arising from legal mergers and acquisition

Goodwill from acquisitions is amortized over 5 or 15 years, and goodwill from mergers over 20 years.

### 2. Other intangible assets

Other intangible assets consist of licenses and EDP software as well as non-compete agreements.

Non-compete agreements were entered into with certain employees of Godwin Machine Works in 1998. They are amortized over the life of the respective agreements ranging from four to ten years.

## 9

### Note 9

#### LONG-TERM INVESTMENTS

Long-term investments consisted of the following items:

in TEUR	December 31, 2004	December 31, 2003
Investment fund certificates	1,283	1,225
Pension funds and other	45	47
Total	1,328	1,272

The long-term securities are to be held as legally required coverage for the termination indemnities and pension provisions (available-for-sale). In general, they are recorded at market value.

## 10

### Note 10

#### DEFERRED TAXES

For determination of the deferred tax assets and liabilities it was taken into consideration that the corporate tax rate in Austria will be lowered to 25% in 2005.

As of December 31, 2004 the Company had a net deferred tax liability of TEUR 1,092, as of December 2003 a net deferred tax asset of TEUR 558.

The components of the Company's deferred tax assets and deferred tax liabilities as of the balance sheet dates were as follows:

in TEUR	December 31, 2004	December 31, 2003
Investment valuation	0	202
Unrealized exchange gains/losses	-1,528	-841
Depreciation	-2,470	-2,214
Inventory	531	1,078
Allowances for doubtful accounts receivable	38	58
Other	26	11
Non-deductible accruals	1,138	1,218
Tax loss carry forward	2,008	1,899
Subtotal	-257	1,411
Valuation allowances	-835	-853
Total	-1,092	558

Based on favorable profit estimates for the future, no additional valuation allowance is judged to be necessary.

# 11

Note 11

## BANK LOANS AND OVERDRAFTS

At December 31, 2004 the short-term loan arrangements were as follows:

Currency	Amount in TEUR	Interest rate %
EUR	11,000	2.52 – 2.54
GBP	7,094	4.93 – 5.55
USD	5,856	2.70
CAD	1,216	5.25
<b>Total</b>	<b>25,166</b>	

As of December 31, 2003 bank loans and overdrafts amounted to TEUR 30,244.

Some of the loans are secured by particular assets of certain subsidiaries of the Company.

# 12

Note 12

## OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses were as follows:

in TEUR	December 31, 2004	December 31, 2003
Accruals	9,596	8,170
Taxes	918	1,061
Social expenses	718	634
Other payables	566	445
<b>Total</b>	<b>11,798</b>	<b>10,310</b>

Movement in accruals during fiscal year 2004:

in TEUR	Dec. 31, 2003	Exchange-Transl.	Usage	Reversal	Provision	Dec. 31, 2004
Vacation not yet used	838	-26	-153	0	282	941
Other personnel expenses	1,565	-58	-646	-68	1,449	2,242
Invoices not yet received	854	-33	-788	-13	830	850
Professional fees	331	-13	-265	-1	832	884
Warranty/product liability	1,464	0	-90	-230	350	1,494
Restructuring	3,000	0	-851	0	800	2,949
Other	118	-3	-100	0	221	236
<b>Total</b>	<b>8,170</b>	<b>-133</b>	<b>-2,893</b>	<b>-312</b>	<b>4,764</b>	<b>9,596</b>

# 13

Note 13

## SUBSIDIES RECEIVED

The subsidies result from a federal investment and technology fund grant as well as other investment subsidies received in connection with acquisitions of fixed assets and research and development investments and are released over the useful life of the respective assets (other non-operating income).

# 14

Note 14

## LOANS NOT DUE WITHIN ONE YEAR INCLUDING CURRENT PORTION

At December 31, 2004 long-term bank loans consisted of the following:

Currency	Amount in TEUR	Interest rate in %	Duration	Repayment
EUR	9,034	1.88 – 2.30	export promotion loans	
EUR	2,000	3.700	2003 – 2010	2010
EUR	7,692	4.750	2002 – 2009	half-yearly
EUR	1,138	2.950	2002 – 2008	half-yearly
EUR	3,000	3.650	2003 – 2007	yearly
EUR	1,453	4.700	2001 – 2006	quarterly
EUR	1,095	2.650	2001 – 2006	half-yearly
EUR	558	3.500	1998 – 2006	half-yearly
EUR	727	6.100	2000 – 2005	half-yearly
EUR	414	0.63 – 5.55	1997 – 2005	half-yearly
USD	1,385	6.350	2003 – 2016	monthly
USD	6,740	4.120	2003 – 2010	2010
<b>Total</b>	<b>35,236</b>			

The export promotion loans represent revolving short-term credit facilities classified as long-term debt, since the Company has the ability under certain credit agreements and the intent to maintain these obligations for longer than one year. These facilities do not restrict the Company's activities.

As of December 31, 2003 long-term bank loans amounted to TEUR 41,862.

Some of the loans are secured by particular assets of certain subsidiaries of the Company.

# 15

Note 15

## RETIREMENT BENEFIT OBLIGATIONS

in TEUR	December 31, 2004	December 31, 2003
Pension provision	15	14
Termination indemnities	2,008	1,956
Employees' long-service premium	548	547
<b>Total</b>	<b>2,571</b>	<b>2,517</b>

### Pension provision

The pension payments under the Austrian defined-contribution pension plan were expensed and amounted to TEUR 51 and TEUR 49 in 2004 and 2003, respectively.

The balance shown in the balance sheet represents an additional pension benefit obligation for employees having been with the Company for 15 years and having reached the age of 40 as of December 31, 1987. This provision is used for an additional contribution of 2% of the gross salaries for the employees concerned. This amount is annually recalculated by applying an interest rate of 6%.

### Termination indemnities

The status of the accrual for termination indemnities in the Austrian companies as of year-end was as follows:



in TEUR	<b>2004</b>	2003
Present value of the termination benefits as of January 1	<b>1,956</b>	1,836
Current service cost	<b>121</b>	126
Interest cost	<b>104</b>	97
Actual benefit payments	<b>-147</b>	-91
Actuarial gain/loss during the year	<b>-26</b>	-12
Present value of the termination benefits as of December 31	<b>2,008</b>	1,956

The actuarial assumptions for the years were as follows:

	<b>2004</b>	2003
Interest rate	<b>5.5%</b>	5.5%
Salary increases	<b>3.0%</b>	3.0%
Fluctuation rate	<b>0.0 – 16.0%</b>	0.0 – 16.0%

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

# 16

Note 16

## NEGATIVE GOODWILL

The following is a summary of the gross carrying amounts and the accumulated amortization of the negative goodwill as shown at the balance sheet dates:

in TEUR	Gross valuation	Accumulated amortization	Total
<b>January 1, 2004</b>	<b>1,142</b>	<b>-878</b>	<b>264</b>
<b>Amortization 2004</b>	<b>0</b>	<b>-93</b>	<b>-93</b>
<b>December 31, 2004</b>	<b>1,142</b>	<b>-971</b>	<b>171</b>
January 1, 2003	1,142	-784	358
Amortization 2003	0	-94	-94
December 31, 2003	1,142	-878	264

# 17

Note 17

## MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES

The minority interests in consolidated subsidiaries were composed as follows:

in TEUR	<b>December 31, 2004</b>	December 31, 2003
Schoeller-Bleckmann Energy Services L.L.C.	<b>316</b>	315

# 18

Note 18

## COMMON STOCK

The share capital of the Company on December 31, 2004 and December 31, 2003 was MEUR 13 (13 million shares at EUR 1.00).

As of December 31, 2004 the shareholders of the Company were as follows:

	Shares	%
Berndorf Group, Berndorf	7,430,463	57.16
Public investors	5,569,537	42.84
Total	13,000,000	100.00

# 19

Note 19

## LEGAL RESERVE - NON-DISTRIBUTABLE

Austrian law requires that a legal reserve in the amount of one-tenth of the nominal value of the Company's share capital be set up. Until the legal reserve and other restricted capital reserves reach such an amount, the Company is required to allocate five percent of its annual net profits (net of amounts allocated to make up losses carried forward from prior years) to such reserves.

# 20

Note 20

## UNTAXED RESERVES - NON-DISTRIBUTABLE

The untaxed reserves as shown in the balance sheet result from investment allowances and accelerated depreciations which were obtainable in the years ended before December 31, 2000. These are untaxed profit allocations due to tax incentives for specific fixed asset investments, which may ultimately be transferred to retained earnings if specific requirements are fulfilled (four-year retaining period for the fixed asset investments).

# 21

Note 21

## NON-RECURRING WRITE-OFFS AND PROVISIONS RELATED TO RESTRUCTURING

In the year 2003 expenses in the amount of TEUR 1,648 were incurred for closing BICO Drilling Tools GmbH, Germany, and restructuring the manufacture of oil tools at Darron Tool & Engineering Limited and Schoeller-Bleckmann Darron Limited.

Also, a provision in the amount of TEUR 3,000 was made for further restructuring measures at these and other companies.

In 2004 an amount of TEUR 851 was used from that provision, and an amount of TEUR 800 was provided for additional steps.

# 22

Note 22

## INCOME TAXES

The components of income tax were as follows:

in TEUR	December 31, 2004	December 31, 2003
<u>Current</u>		
Austria	-1,437	-1,796
USA	-1,468	234
Other	-112	-433
<u>Deferred</u>		
Austria	-1,325	-411
USA	-361	-931
Other	-29	21
<b>Total</b>	<b>-4,732</b>	<b>-3,316</b>

A reconciliation of income taxes using the Austrian statutory tax rate to actual income taxes provided for is as follows:

in TEUR	2004	2003
Income tax expense at a tax rate of 34%	-5,277	-3,196
Tax attributable to partners	10	0
Foreign differential	131	69
Goodwill amortization	-260	-260
Investment valuation	274	274
Tax loss not utilized	242	-797
Other differences	148	594
<b>Group income tax expense</b>	<b>-4,732</b>	<b>-3,316</b>
<b>Group tax rate</b>	<b>30.50%</b>	<b>35.30%</b>

## 23

Note 23

**EARNINGS PER SHARE**

Earnings per share are calculated in line with IAS 33 by dividing the net income for the period by the average number of ordinary shares outstanding during the period.

## 24

Note 24

**COST SPLIT**

As the Company classifies its expenses by function, the following additional information is given as required by IAS 1 (revised 1997):

in TEUR	2004	2003
Material expenses	69,999	56,038
Personnel expenses	43,112	43,377
Depreciation tangible assets	10,290	11,382
Amortization goodwill	3,939	4,239
Amortization other intangibles	230	254
Depreciation financial assets	0	0

## 25

Note 25

**SEGMENT INFORMATION**

The Company operates worldwide mainly in one industry segment, the design and manufacture of drilling equipment for the oil and gas industry. For this reason the primary segment information is displayed by geographical region.

As the figures represent a summary of the individual balance sheets and income statements of the consolidated companies, consolidation adjustments have to be allowed for in order to arrive at the consolidated figures shown.

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.

**Primary segment information by region**

2004	Europe	North America	Other regions	SBO Holding & consolid. adjustments	SBO Cons.
in TEUR					
<b>Sales by origin</b>					
External sales	26,252	116,221	9,689	0	152,162
Intercompany sales	39,365	9,850	687	-49,902	0
<b>Total sales</b>	<b>65,617</b>	<b>126,071</b>	<b>10,376</b>	<b>-49,902</b>	<b>152,162</b>
Operating income	6,632	10,184	884	-138	17,562
Assets	52,791	109,042	6,757	4,744	173,334
Liabilities	39,281	73,028	2,311	-19,637	94,983
Capital expenditure	1,985	7,446	532	1	9,964
Depreciation & amortization	3,850	9,575	506	528	14,459
of which non-recurring write-offs	0	97	0	0	97
Headcount (average)	340	413	48	12	813

2003	Europe	North America	Other regions	SBO Holding & consolid. adjustments	SBO Cons.
in TEUR					
Sales by origin					
External sales	25,938	100,543	7,676	0	134,157
Intercompany sales	36,371	7,710	443	-44,524	0
<b>Total sales</b>	<b>62,309</b>	<b>108,253</b>	<b>8,119</b>	<b>-44,524</b>	<b>134,157</b>
Operating income	5,005	5,154	472	2,462	13,093
Assets	49,288	112,501	7,001	8,048	176,838
Liabilities	36,480	78,579	2,954	-18,777	99,236
Capital expenditure	3,683	9,176	848	11	13,718
Depreciation & amortization	4,702	9,644	973	556	15,875
of which non-recurring write-offs	653	0	0	0	653
Headcount (average)	378	399	44	12	833

The secondary segment information by product is classified by the intended purpose of the goods and services.

The following categories are used:

#### 1. High-precision components

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

#### 2. Oilfield supplies and service

This group comprises the following products:

- Non-magnetic drill collars (NMDC), steel bars which are used to reduce magnetic interference with MWD operations.
- Drilling motors which drive the bit for directional drilling operations. They are also used for other applications such as river and road crossing for utility services, telephone cables and pipelines.
- Various other tools for the oilfield such as stabilizers, reamers, hole openers, drilling jars and shock tools.

In addition to 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, butt welded, resurfaced with hard metal, reground, shotpeened, 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 like the manufacture and sale of hydraulic control systems and high-precision machined parts to the non-oilfield industries.

#### Secondary segment information by product:

2004 in TEUR	High-precision components	Oilfield supplies & service	Other sales	SBO Holding & cons. adjustments	SBO Cons.
<b>External sales</b>	<b>95,122</b>	<b>51,208</b>	<b>5,832</b>	<b>0</b>	<b>152,162</b>
<b>Assets</b>	<b>104,451</b>	<b>61,970</b>	<b>2,169</b>	<b>4,744</b>	<b>173,334</b>
<b>Capital expenditure</b>	<b>4,272</b>	<b>5,691</b>	<b>0</b>	<b>1</b>	<b>9,964</b>



2003 in TEUR	High-precision components	Oilfield supplies & service	Other sales	SBO Holding & cons. adjustments	SBO Cons.
External sales	88,444	40,154	5,559	0	134,157
Assets	108,739	57,641	2,410	8,048	176,838
Capital expenditure	6,741	6,950	16	11	13,718

## 26

Note 26

### TOTAL REMUNERATION FOR MANAGEMENT

The total remuneration including bonuses for 2003 paid in 2004 for the Management Board and the Managing Directors/General Managers of its subsidiaries amounted to TEUR 2,122.

The total remuneration for the Supervisory Board amounted to TEUR 17.

No loans were granted to the members of the Management Board or to the Supervisory Board.

In the year 2004 the existing contracts for the members of the Management Board were renewed with an expiration date of December 31, 2008.

## 27

Note 27

### TRANSACTIONS WITH RELATED PARTIES

The following services were provided in 2004 by related parties outside the scope of the consolidated companies of the SBO Group:

#### C und P Consulting

This company rendered various consulting services. Gerd Klaus Gregor, a member of the Supervisory Board, is managing director of this company. The consulting fees paid in 2004 amounted to TEUR 64 (of which outstanding as of December 31, 2004, TEUR 0).

#### Schleinzner & Partner, attorneys-at-law

This law firm is the legal consultant to the Company. A partner in this law firm, Dr. Karl Schleinzner, is a member of the Supervisory Board. The total charges for 2004 amounted to TEUR 36 (of which outstanding as of December 31, 2004, TEUR 11 including VAT).

## 28

Note 28

### LEASE BUSINESS ACTIVITIES

The Company's leasing operations consist of leasing drilling motors under sales-type and operating leases, expiring in various years through 2006.

#### Sales-type lease

Below is a summary of the components of net investment in sales-type leases:

in TEUR	December 31, 2004	December 31, 2003
Total minimum lease payments	415	203
Unearned income	-25	-10
Net investment	390	193

Interest on capitalized leases was calculated at an interest rate of 10%.

### Operating lease income

The Company is also the lessor of drilling tools under operating leases with initial lease terms of less than one year. Revenue from these short-term operating leases was TEUR 9,321 and TEUR 7,671 for the years ended December 31, 2004 and 2003, respectively.

## 29

Note 29

### FINANCIAL INSTRUMENTS

A distinction is made by IFRS between primary and derivative financial instruments.

#### Primary financial instruments

Primary financial instruments held by the Company are shown in the balance sheet. The amounts stated under assets represent the maximum credit risk and risk of loss.

For long-term investments, please see Note 9.

#### Derivative financial instruments

##### 1. Foreign currency receivables

The Austrian company hedges its US dollar accounts receivable balances on an ongoing basis by entering into forward exchange contracts.

Forward exchange transactions at December 31, 2004	Nominal value in TEUR	Market value in TEUR
USD	12,898	12,033

##### 2. SWAP transaction

The Company has entered into a foreign currency and interest swap with maturity in 2010, for which an amount of TEUR 8,000, associated with an interest rate of 3.55%, was exchanged for an amount of TUSD 9,176, associated with an interest rate of 4.12%.

The market value at December 31, 2004 was TEUR 6,741; the difference of TEUR 1,259 was booked directly into equity, without any impact on net income.

## 30

Note 30

### RISK MANAGEMENT

The operations of the SBO Group are exposed to a great number of risks that are inextricably linked to its worldwide business activities. Efficient steering and control systems are 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.

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 SBO Group is to a substantial degree dependent on the willingness and ability of the oil and gas industry to invest in drilling projects. The level of this expenditure is decisively influenced by the demand for and the price development of hydrocarbon products.

In turn, both factors are determined by several other influence parameters, in particular the global economic situation, interest rates, environmental protection provisions and fiscal policy, and other national regulations, as well as OPEC coordination measures.

These factors altogether have led to the high volatility of oil and gas prices in recent years, thus dictating the level of investments for drillings by the oil and gas industry.

#### ▲ Sales and procurement risks

The market for products and services of the SBO Group is to a great extent determined by the continuous development and application of new technologies.

Therefore, securing and maintaining the group's customer stock depends on the ability to offer new products and services tailored to customer needs.

Of all sales worldwide, 59% in 2003 and 63% in 2004 were generated with the three leading service companies in the market for directional drilling (Schlumberger, Halliburton, Baker Hughes).

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

Böhler Edelstahl GmbH, based in Kapfenberg, Austria, is the main supplier of alloyed steel for the entire SBO Group.

#### ▲ Foreign currency risk

Foreign risks arise in the SBO Group, 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.

In the years 2003 and 2004, approximately 80% of sales were generated in US dollars. In contrast, approximately 60% of expenses were incurred in US dollars and almost 30% were incurred in euros. Therefore, a change in the exchange rate between the US dollar and the euro has a decisive impact on the SBO Group's assets, financial condition and operational result.

In 2004, the average exchange rate of the US dollar against the euro fell by approximately 10%, resulting in a negative impact on the development of sales and results. These exchange rate fluctuations were only partially compensated by introducing currency hedging measures.

## 31

Note 31

### CONTINGENCIES

Guarantees were issued by various banks as of the balance sheet dates, amounting to TEUR 234 at December 31, 2004 (2003: TEUR 317).

## 32

Note 32

### CASH FLOW STATEMENT

The cash flow statement of the Company and its subsidiaries illustrates the change in cash and cash equivalents in the reporting year as a result of inflow and outflow of resources.

The liquid fund includes only cash on hand and bank balances.

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

The cash flows from foreign operations were 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 revenue. The result plus changes in net working capital (excluding liquid funds) as shown in the balance sheet is the cash flow from operating activities.

Inflow/outflow of resources from current operations includes inflow and outflow from interest payments and income taxes.

## 33

Note 33

### PERSONNEL

The total average number of employees was as follows:

	2004	2003
Blue collar	637	649
White collar	176	184
	<u>813</u>	<u>833</u>

## 34

Note 34

### EVENTS AFTER THE BALANCE SHEET DATE

Negotiations with the management of the US subsidiary Bafco Inc. were successfully held concerning the sale of this company, which is not engaged in the core business of the oilfield service industry. Conclusion of this transaction is expected still in February 2005.

Because of the small size of Bafco Inc. this will not have a significant impact on the consolidated accounts of the SBO Group.



## MANAGEMENT INFORMATION

### Management Board :

Ing. Gerald Grohmann (President and CEO)

Mag. Franz Gritsch (Executive Vice-president and CFO)

### Supervisory Board:

Mag. Norbert Zimmermann (Chairman)

Dr. Peter Pichler (Deputy Chairman)

Ing. Gerd Klaus Gregor

Mag. Dipl.-Ing. Helmut Langanger

Dr. Karl Schleinzer

### Statement by the Management Board regarding compliance of the consolidated financial statements with IFRS rules

The Management Board hereby declares that the consolidated financial statements present fairly, in all material respects, the consolidated financial position of SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft at December 31, 2004 and that IFRS (formerly IAS) rules were complied with in full.

Gerald Grohmann

Franz Gritsch

Members of the Management Board

Vienna, February 12, 2005

## **REPORT OF INDEPENDENT AUDITORS**

To the  
Management Board and Supervisory Board of  
Schoeller-Bleckmann Oilfield Equipment AG  
Hauptstrasse 2  
A-2630 Ternitz

We have audited the accompanying financial statements of SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft as of December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The audit of certain subsidiaries was performed by other auditors. Our opinion, insofar as it relates to the amounts included for these subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in accordance with International Standards on Auditing (ISA) established by the International Federation of Accountants Committee (IFAC). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft at December 31, 2004, and the results of its operations and its cash flows for the years then ended and have been properly prepared in conformity with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB).



**WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT M.B.H.**

Karl Rab

Gerhard Schwartz

(Certified Austrian Public Accountants)

Vienna, February 12, 2005

**REPORT OF THE SUPERVISORY BOARD OF THE SBO AG TO THE ANNUAL GENERAL MEETING CONCERNING THE 2004 BUSINESS YEAR**

During the 2004 business year, the Supervisory Board carried out the duties allocated to it by law and the Articles of Association and held several 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.

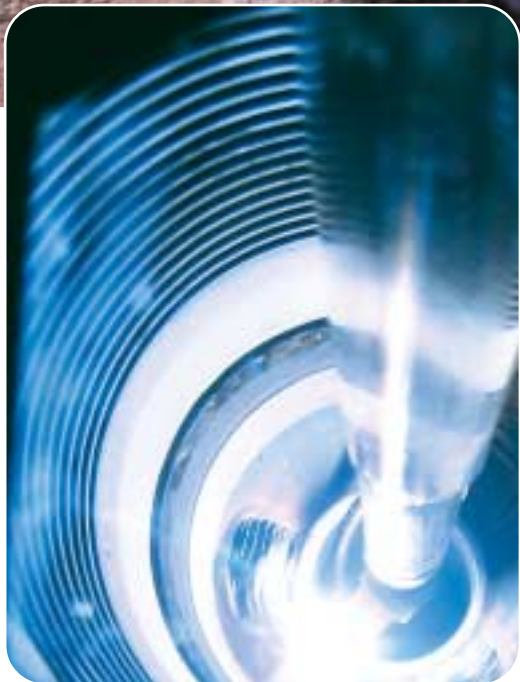
The Annual Accounts for the 2004 business year and the Status Report of SBO AG were examined by SST SCHWARZ & SCHMID Wirtschaftsprüfungsgesellschaft m.b.H., Vienna. The Consolidated Financial Statements and the Consolidated Status Report for the SBO Group as of December 31, 2004 were examined by ERNST & YOUNG Wirtschaftsprüfungsgesellschaft m.b.H., Vienna. According to their unqualified audit certification, the accounts, the Annual Accounts for the 2004 business year and the 2004 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 February 14, 2005, the Supervisory Board approved the Annual Accounts for the 2004 business year, the Consolidated Financial Statements as of December 31, 2004, the proposal for the distribution of profits and the Status Report combined with the Consolidated Status Report presented by the Managing Board.



Norbert Zimmermann  
Chairman of the Supervisory Board

Ternitz, February 14, 2005



mexiko  
monterrey

Schoeller-Bleckmann  
de Mexico S.A. de C.V.  
100%

## CORPORATE INFORMATION

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