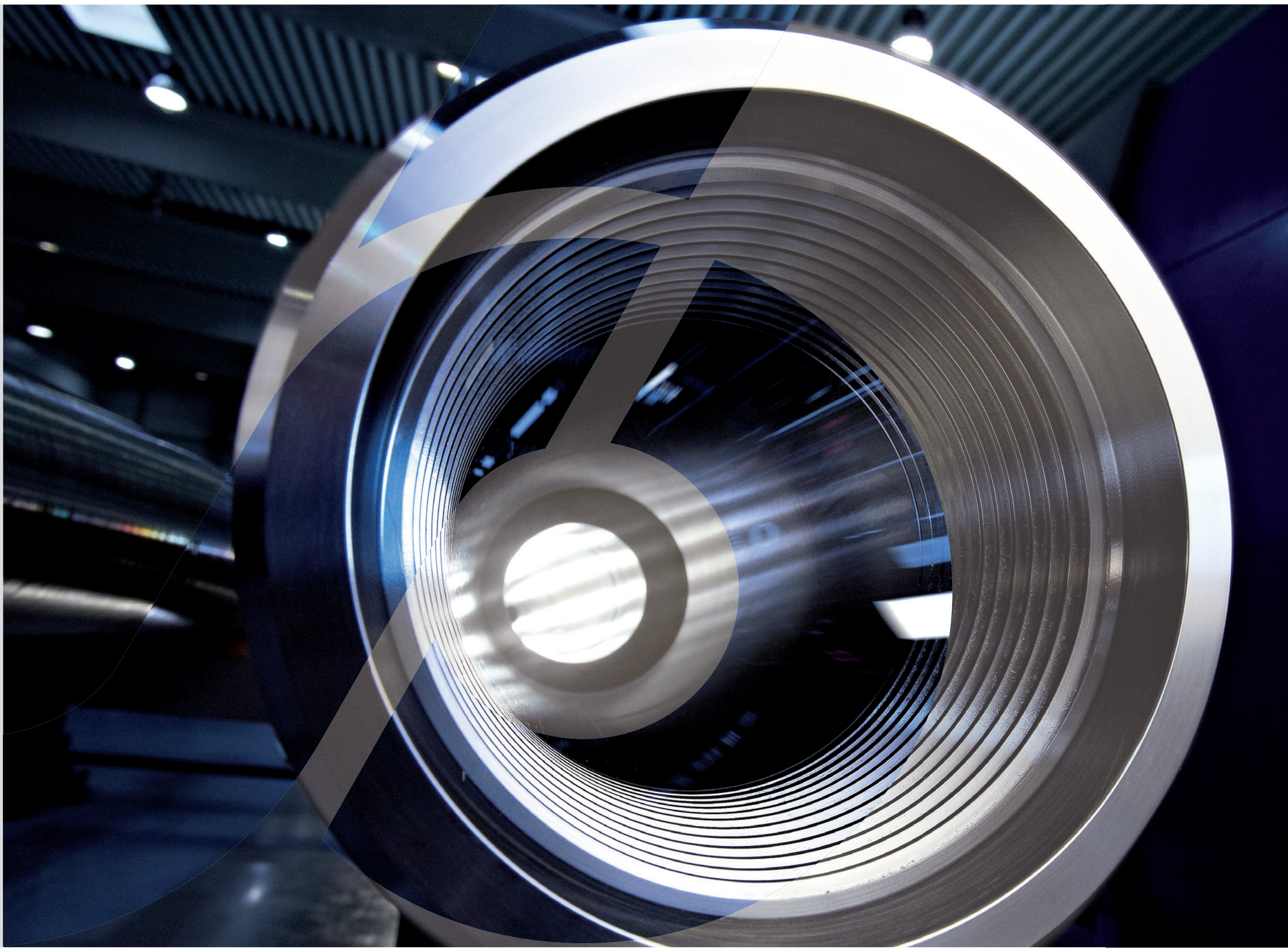
SCHOELLER BLECKMANN OILFIELD EQUIPMENT

Letter to our Shareholders
1-9/2013

FOCUS ON SUCCESS

Q3 2013



HIGHLIGHTS

- Further rise in bookings
- Profitability remains at high level
- SBO share reaches new all-time high

Market environment

Global economic growth remained at a low level throughout the third quarter of 2013. While the US economy was stable, the eurozone recovered from recession only slowly. Growth in the emerging markets was similar to the previous quarters. For the months ahead, a slightly positive tendency is expected to show for Western industrialised countries. However, projected growth rates of some major emerging nations have recently been revised downwards to some degree.[1]

Average global oil consumption in the third quarter of 2013, according to the International Energy Agency (IEA), amounted to 91.8 million barrels per day, representing an increase of 1.5 %, or 1.4 million barrels per day year-on-year.[2]

Prices of WTI and Brent crude oil each grew by 4.5 % in the third quarter. The price of US crude WTI, from early July to the end of September 2013, climbed from USD 97.94 to USD 102.36 per barrel, whereas the price of European crude Brent went from USD 103.19 to USD 107.85 per barrel. Compared to last year's prices at the end of the third quarter, this marked a decline of 3.2 % for Brent, while WTI prices rose by 11.0 % in the same period.[3]

In light of the aggravating political risk in the Middle East, WTI reached both its 2013 annual high of USD 110.62 per barrel and a new 2-year-high at the beginning of September. Brent arrived at its highest trading price of USD 117.15 per barrel in seven months early in September 2013.[4]

The global rig count[5], the number of active drilling rigs worldwide, stood at 3431 units at the end of September 2013. Year-on-year, the number of operating rigs decreased by 1.1 % (rig count in September 2012: 3468 units). This decline was due to the slightly lower US rig count, which, from the end of September 2012 to the end of September 2013, had fallen by 5.3 % to 1760 drilling rigs, mainly as the number of gas wells was going down. Nevertheless, the US rig count was kept at a high level, whereas drilling activity in Europe, Africa, Asia and Canada went up significantly.

At the end of September 2013 78 % of all US wells were oil wells, the share of gas wells was 22 %. When compared to last year (76 % oil and 24 % gas wells at the end of September 2012) these figures reflect the current saturation of the US gas market and the steady growth of US oil production.

The share of directional and horizontal drilling rigs in the total number of drilling rigs in the US at the end of September had further climbed to as much as 76.1 % (end of September 2012: 72.2 %).

The Canadian rig count recovered – following the typical seasonal spring breakup – and arrived at 387 units at the end of September 2013, marking an increase of 9.0 % from the end of September 2012 (355 units at the end of the third quarter of 2012).
Above-average growth by 29.2 % was recorded for the number of rigs in the Gulf of Mexico which came to 62 units at the end of September 2013, following 48 active drilling rigs at the end of September 2012.
International drilling activities went up 2.4 % at the end of September compared to last year's level, from 1254 rigs to 1284 rigs.

Business development

The gradual improvement in the order situation of Schoeller-Bleckmann Oilfield Equipment AG (SBO) observed in the first two quarters continued throughout 2013. In the third quarter of 2013 bookings exceeded sales for the first time this fiscal year. SBO's profitability remained at a constantly high level.

Sales revenues in the first nine months of 2013 arrived at MEUR 348.5, which, as expected, was 9.9 % below the absolute record figure of MEUR 386.7 generated in the first nine months of 2012. This reflects the lower bookings volume recorded since the end of 2012, which, in turn, was a consequence of the high inventories held by SBO's customers. Earnings before interest, taxes, depreciation and amortisation (EBITDA) were MEUR 100.8 (following MEUR 119.2), representing a decline of 15.4 % from the same period of 2012. The EBITDA margin of 28.9 % (following 30.8 % in the first three quarters of 2012) remained at a constantly high level.

Earnings before interest and taxes (EBIT) before impairment were MEUR 73.3 in the first nine months of 2013, down by 18.5 % from MEUR 89.9 year-on-year. This represented an EBIT margin of 21.0 %, following 23.3 % in 2012.

[1] *IMF World Economic Outlook (WEO), October 2013*
[2] *IEA Oil Market Report, November 2013*
[3] *U.S. Energy Information Administration*
[4] *IEA Oil Market Report, October 2013*
[5] *Baker Hughes Inc. Rig Count*

EBIT after impairment stood at MEUR 65.8 in the first nine months of 2013 (-26.9 % year-on-year, 18.9 % EBIT margin after impairment). As a result, profit before tax dropped to MEUR 60.8 (following MEUR 83.0), and the pre-tax margin arrived at 17.5 % (following 21.5 %). Profit after tax decreased to MEUR 42.0, following MEUR 57.0. This brought nine-month earnings per share to EUR 2.60 (following EUR 3.54 in the first three quarters of 2012).

Bookings received in the first nine months of 2013 totalled MEUR 330.8, down from last year's record figure of MEUR 386.7, but at a sound level similar to the strong financial year 2011. In the third quarter, bookings worth MEUR 129.0 were recorded, which was significantly above the figures posted in the two preceding quarters.

„Bookings exceeded sales revenues for the first time this financial year."

The order backlog as at the end of September 2013 amounted to MEUR 127.8, with a considerable share reaching into the first half of 2014. Compared to the previous quarter the order backlog went up by 13.6 %.

SBO's net debt of MEUR 19.5 at the end of September 2013 (following MEUR 34.3 at the turn of 2012/2013 and MEUR 56.0 at the end of September 2012) remained largely unchanged from the end of June 2013. Owing to the very strong cash-flow in the second quarter of 2013 the cash-flow from operating activities in the first nine months of 2013 came to MEUR 87.9 (following MEUR 67.7 in the first nine months of 2012).

The gearing ratio of SBO stood at 5.2 % at the end of the third quarter of 2013 (following 9.5 % at year-end 2012), again remaining at a very low level.

The restraint in placing new orders as shown by SBO's customers in the first half of the year had a dampening effect on sales development mainly in the high-precision components product group.

In the downhole tools product group the strong development of the first half of the year went on throughout the third quarter, pushing sales and profitability figures in the first nine months above those recorded in the same period of last year. Business in the SBO PBL tool and drilling motors sector again developed positively. The Service & Supply Shops of SBO also look back on a sound nine-month performance.

In regional terms, demand picked up in Europe, while, except for the drilling motor business, development in the North American companies was slightly dampened in the first nine months.

„Sound development for downhole tools continued."

The headcount at the SBO group at the end of September was 1565 (following 1540 at the end of June 2013 and 1591 at year-end 2012). Throughout the third quarter of 2013, the workforce was increased at the Ternitz/Austria site where apprentices were hired, at drilling motor subsidiary BICO and in Asia.

Material expenses declined slightly over the first nine months of 2013 compared to the previous year, all other costs remained largely stable.

Capital expenditure

Construction works to build the new machining centre for non-magnetic oilfield service drillstring components at the Ternitz site are proceeding on schedule. With a volume of MEUR 54.0 it is currently the largest capex project of the group and will be completed in the course of the year 2014. Another focus was on expanding the drilling motor fleet at our subsidiary BICO and the multi-circulation tool fleet of DSI. Capital expenditure in the first nine months amounted to MEUR 46.4 (following MEUR 62.6 in the first nine months of 2012). Purchase commitments for expenditure in property, plant and equipment as at 30 September 2013 totalled MEUR 12.7 (MEUR 11.3 as at 30 September 2012).

Risk report

Business risks of Schoeller-Bleckmann Oilfield Equipment AG did not change substantially in the first nine months of 2013 over the risks mentioned in the annual financial statements 2012. We therefore refer to the risks described in the Annual Report 2012, in particular the USD/EUR currency exchange rate, and recommend to read this report on the first nine months of 2013 in conjunction with the Annual Report 2012.

The SBO share

The share of Schoeller-Bleckmann Oilfield Equipment AG completed the third quarter of 2013 (30 September 2013) at EUR 87.44, representing an increase of 8.3 % within the first nine months of 2013 (2 January 2013: EUR 80.75). Compared to the end of September 2012 the share price rose by 8.2 %.

On 29 July 2013 the SBO share arrived at its new all-time high of EUR 90.00.

„At EUR 90.00 the SBO share reached its new all-time high in the third quarter."

Outlook

The International Monetary Fund (IMF) expects global economic development to remain at a largely stable level during the months ahead. At the moment, growth forecasts for the global economy in 2013 stand at 2.9 %. This is another downward revision from initial projections, mainly caused by weaker economic growth in the major emerging markets. The basis of moderate consolidation of growth is currently provided by Western industrialised nations. For the year 2014, the IMF presently expects global economic growth to arrive at 3.6 %. In 2014 the GDP in the eurozone should go up again for the first time since 2011 (+ 1 %).[6]

In its most recent forecast[7] the International Energy Agency (IEA) expects average global demand for oil for full 2013 to arrive at 91.0 mb/d, representing an increase of 1.2 %, or 1 mb/d, from last year. Estimates were revised upwards because of the moderately positive projections on economic development in the eurozone and higher demand for oil in July and August. For 2014 the IEA predicts crude oil consumption to come to 92.1 mb/d, up by another 1.2%.

While, on the one hand, worldwide demand for oil is growing, supplies are tightening, on the other hand. Up to now, usually at least a moderate surplus of supply has been available. In the third quarter of 2013 demand and supply of oil, according to the IEA, were exactly in balance.

This market situation supports current oil prices and should, mainly at the international level, lead to higher spending for exploration and production and intense drilling activity. In North America oil drilling activity is expected to remain at a high level.

In view of the above the business environment for the remaining weeks of fiscal 2013 should remain stable. However, uncertainties could arise from the recently again clearly higher volatility of the EUR/USD exchange rate.

The uncontested position of SBO in high-precision components will be further solidified by the capital investment programme at the Ternitz site to be complemented by 2014. Another key factor is the sustained dynamic market demand for downhole tools of the SBO group. Leading-edge technological expertise and market acceptance are the foundation of SBO's future growth which is supported by the company's low debt and high cash-flow.

[6] *IMF World Economic Outlook (WEO), October 2013*
[7] *IEA Oil Market Report, November 2013*

CONSOLIDATED PROFIT AND LOSS STATEMENT

in TEUR	9 months period ended 30.09.2013	9 months period ended 30.09.2012	3 months period ended 30.09.2013	3 months period ended 30.09.2012
Sales	**348,472**	**386,721**	**113,066**	**130,999**
Costs of goods sold	-240,127	-258,753	-77,176	-86,759
Gross profit	**108,345**	**127,968**	**35,890**	**44,240**
Selling expenses	-14,703	-13,701	-4,861	-4,799
General and administrative expenses	-19,096	-21,289	-6,380	-7,020
Other operating expenses	-9,762	-13,880	-3,732	-6,464
Other operating income	8,487	10,829	1,938	5,530
Profit from operations before non-recurring items	**73,271**	**89,927**	**22,855**	**31,487**
Impairment on intangible assets	-7,517	0	0	0
Profit from operations after non-recurring items	**65,754**	**89,927**	**22,855**	**31,487**
Interest income	606	546	231	106
Interest expenses	-7,177	-4,235	-1,671	-1,332
Other financial income	4,645	0	0	0
Other financial expenses	-2,993	-3,231	-1,359	-1,068
Financial result	**-4,919**	**-6,920**	**-2,799**	**-2,294**
Profit before tax	**60,835**	**83,007**	**20,056**	**29,193**
Income taxes	-18,851	-25,972	-6,169	-9,308
Profit after tax	**41,984**	**57,035**	**13,887**	**19,885**
Thereof attributable to non-controlling interests	521	471	188	238
Thereof attributable to the owners of the parent company	41,463	56,564	13,699	19,647
	41,984	**57,035**	**13,887**	**19,885**
Average number of shares outstanding	15,959,773	15,960,116	15,959,097	15,960,116
Earnings per share in EUR (basic = diluted)	**2.60**	**3.54**	**0.86**	**1.23**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	9 months period ended 30.09.2013	9 months period ended 30.09.2012	3 months period ended 30.09.2013	3 months period ended 30.09.2012
Profit after tax	41,984	57,035	13,887	19,885
Other comprehensive income to be reclassified to profit or loss in subsequent periods				
Foreign exchange adjustment – subsidiaries	-8,056	2,460	-7,280	-6,508
Foreign exchange adjustment – other items	-389	948	-736	184
Income tax effect	97	-229	184	-38
Other comprehensive income, net of tax	-8,348	**3,179**	-7,832	**-6,362**
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**33,636**	**60,214**	**6,055**	**13,523**
Thereof attributable to non-controlling interests	409	470	37	99
Thereof attributable to the owners of the parent company	33,227	59,744	6,018	13,424
	33,636	**60,214**	**6,055**	**13,523**

CONSOLIDATED BALANCE SHEET

ASSETS in TEUR	30.09.2013	31.12.2012
Current assets		
Cash and cash equivalents	152,454	138,260
Trade accounts receivable	74,687	71,854
Other accounts receivable and prepaid expenses	8,032	8,146
Inventories	127,181	157,973
TOTAL CURRENT ASSETS	**362,354**	**376,233**
Non-current assets		
Property, plant & equipment	184,346	165,462
Goodwill	64,449	65,560
Other intangible assets	48,185	61,091
Long-term receivables	19,047	17,736
Deferred tax assets	11,203	12,356
TOTAL NON-CURRENT ASSETS	**327,230**	**322,205**
TOTAL ASSETS	**689,584**	**698,438**

LIABILITIES AND SHAREHOLDERS´ EQUITY in TEUR	30.09.2013	31.12.2012
Current liabilities		
Bank loans and overdrafts	32,296	31,455
Current portion of bonds	0	19,988
Current portion of long-term loans	13,345	15,606
Finance lease obligations	121	189
Accounts payable trade	31,049	37,819
Government grants	343	358
Income taxes payable	10,941	17,316
Other payables	31,570	30,405
Other provisions	5,300	6,773
TOTAL CURRENT LIABILITIES	**124,965**	**159,909**
Non-current liabilities		
Bonds	19,977	19,963
Long-term loans	106,239	85,307
Finance lease obligations	0	83
Government grants	731	744
Employee benefit obligations	6,154	5,884
Other payables	39,077	40,469
Deferred tax liabilities	20,249	22,949
TOTAL NON-CURRENT LIABILITIES	**192,427**	**175,399**
Shareholders´ equity		
Share capital	15,957	15,960
Contributed capital	64,948	65,203
Legal reserve - non-distributable	785	785
Other reserves	27	29
Currency translation reserve	-24,192	-15,956
Retained earnings	312,776	295,382
Equity attributable to the owners of the parent company	370,301	361,403
Non-controlling interests	1,891	1,727
TOTAL SHAREHOLDERS´ EQUITY	**372,192**	**363,130**
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY	**689,584**	**698,438**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

1-9/2013 in TEUR	Share capital	Contributed capital	Legal reserve	Other reserves	Currency translation reserve	Retained earnings	Total Parent company	Non-controlling interests	Total
1 January 2013	15,960	65,203	785	29	-15,956	295,382	361,403	1,727	363,130
Profit after tax						41,463	41,463	521	41,984
Other comprehensive income, net of tax					-8,236		-8,236	-112	-8,348
Total comprehensive income, net of tax	0	0	0	0	-8,236	41,463	33,227	409	33,636
Acquisition of own shares	-3	-255					-258		-258
Option commitment relating to cancelable non-controlling interests						-131	-131		-131
Dividends						-23,940	-23,940	-245	-24,185
Change in reserves				-2		2	0		0
30 September 2013	15,957	64,948	785	27	-24,192	312,776	370,301	1,891	372,192

1-9/2012 in TEUR	Share capital	Contributed capital	Legal reserve	Other reserves	Currency translation reserve	Retained earnings	Total Parent company	Non-controlling interests	Total
1 January 2012	15,960	65,203	785	33	-10,859	242,149	313,271	1,501	314,772
Profit after tax						56,564	56,564	471	57,035
Other comprehensive income, net of tax					3,180		3,180	-1	3,179
Total comprehensive income, net of tax	0	0	0	0	3,180	56,564	59,744	470	60,214
Dividends						-19,152	-19,152		-19,152
Change in reserves				-3		3	0		0
30 September 2012	15,960	65,203	785	30	-7,679	279,564	353,863	1,971	355,834

CONSOLIDATED CASH-FLOW STATEMENT

in TEUR	9 months period ended 30.09.2013	9 months period ended 30.09.2012
Cash and cash equivalents at the beginning of the period	138,260	120,842
Cash earnings	81,338	87,902
Cash flow from operating activities	87,944	67,730
Cash flow from investing activities	-44,762	-60,759
Cash flow from financing activities	-27,228	-36,301
Effects of exchange rate changes	-1,760	389
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**152,454**	**91,901**

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Basis of preparation

The interim report as at 30 September 2013 has been prepared in accordance with the principles of the International Financial Reporting Standards (IFRS), rules for interim financial reporting (IAS 34), to be applied in the European Union.

This report on the third quarter of 2013 of the SBO group has neither been audited nor reviewed by independent accountants.

Accounting Policies

The accounting and valuation methods of 31 December 2012 have been applied basically unchanged, with the exception of the standards which came into force in 2013. The new regulations do not have a significant implication on the consolidated financial statements. In this context, we refer to the consolidated financial statements for the year ended 31 December 2012.

IAS 19 Employee Benefits was applied for the first time, resulting mainly in new accounting requirements for post-employment benefits. From 2013 on, actuarial gains and losses will be recognised in Other Comprehensive Income instead of Operating Income. As re-calculation will take place only at the end of the year no changes occurred during the year.

IAS 1 has lead to changes in the Statement of Comprehensive Income. IFRS 13 requires additional information on financial instruments in the Notes to the Financial Statements.

Scope of consolidation

In the first nine months of 2013 no changes occurred in the scope of consolidation.

Seasonality

Business development of SBO is not subject to seasonal influences.

SEGMENT INFORMATION

in TEUR	Europe	North America	Other regions	SBO-Holding & Consolidation	Group
1-9/2013					
External sales	103,837	202,052	42,583	0	348,472
Intercompany sales	72,915	14,453	3,035	-90,403	0
Total sales	176,752	216,505	45,618	-90,403	348,472
Operating profit	31,354	26,813	6,101	1,486	65,754
1-9/2012					
External sales	107,250	238,829	40,642	0	386,721
Intercompany sales	98,911	18,024	2,275	-119,210	0
Total sales	206,161	256,853	42,917	-119,210	386,721
Operating profit	52,360	41,853	5,442	-9,728	89,927

DIVIDEND PAID

	Total amount TEUR	Number of shares (ordinary shares)	Per share EUR
For the business year 2012 paid in 2013	23,940	15,960,116	1.50
For the business year 2011 paid in 2012	19,152	15,960,116	1.20

Own shares

During the reporting period the company acquired 3.230 own shares at a purchase price of TEUR 258.

Related Party Transactions

With respect to business transactions with related parties there were no substantial changes compared to 31 December 2012. All transactions with related parties are carried out at generally acceptable market conditions. For further information on individual business relations please refer to the consolidated financial statements of SBO AG for the year ended 31 December 2012.

Impairment on intangible assets

In the second quarter of 2013 an impairment of TEUR 7,517 relating to technology in the segment Europe was booked. This impairment was the result of delays in the product development and is based on the value in use determined by discounting the expected future cash flows.

Financial Instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have significant effects on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 30 September 2013, the Group held the following classes of financial instruments measured at fair value:

in TEUR	30 September 2013	Level 2	Level 3
Assets			
Derivatives	371	371	0
Liabilities			
Derivatives	-15,674	-278	-15,396

During the reporting period 2013 there were no transfers between the individual levels of fair value measurements.

Derivatives shown under level 3 consist only of contingent liabilities for purchase price payments and the option commitment relating to cancelable non-controlling interests to purchase the offered shares from the minority shareholders. The development in the reporting period 2013 was as follows:

in TEUR

	1-9/2013
As of 1 January	-18,484
Addition from option commitment relating to cancelable non-controlling interests	-486
Addition of accrued interest	-2,433
Gains/losses from the revaluation	4,327
Disposals from settlements	1,395
Currency adjustment	285
As of 30 September	**-15,396**

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

The contingent purchase price payments from business combinations and the option commitment relating to cancelable non-controlling interests are measured at balance sheet date according to the underlying agreements based on the expected discounted payments using the most recent sales forecast. The contingent purchase price payments are determined as a certain percentage of achieved sales (to a certain extent when sales are exceeding a contractually agreed upon amount) are due within the next 2-6 years. The exercise price of the option commitment relating to cancelable non-controlling interests is based on the achieved financial results of the acquired entity.

The sensitivity analysis for significant, non-observable input factors is as follows:

in TEUR	Assumption	Change in assumption	If assumption increases, liability changes by	If assumption decreases, liability changes by
Option commitment relating to cancelable non-controlling interests	Net results	+/- 10%	633	-633
Contingent purchase price payments from business combinations	Sales	+/- 10%	2,163	-2,163

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

	30 September 2013	
in TEUR	Carrying value	Fair value
Liabilities		
Bonds	19,977	21,670
Borrowings from banks, finance lease obligations and other loans	151,880	152,870

For assessing the fair value of lendings, borrowings and leasing obligations, the expected cash-flows have been discounted using market interest rates. The fair value for bonds was derived from the stock exchange price. Regarding bank and other long-term loans with variable interest, the interest rates charged are current market rates, resulting in the fact that the carrying values equal the fair values to a large extent. Cash and cash equivalents, trade receivables and payables and all other items have mostly short residual lives. Therefore, the carrying values equal the fair values at the balance sheet date.

Events after the balance sheet date

No important events have occurred after the balance sheet date.

STATEMENT OF ALL LEGAL REPRESENTATIVES

We confirm to the best of our knowledge that the interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of important events that have occurred during the first nine months of the financial year and their impact on the interim financial statements, and of the principal risks and uncertainties for the remaining three months of the financial year and of the major related party transactions to be disclosed.

Ternitz, 20 November 2013

Gerald Grohmann
Chief Executive Officer

Franz Gritsch
Member of the Executive Board

500 | 100

Sales 2012 in MEUR*

Profit 2012 in MEUR*

*rounded down figures

www.sbo.at

- Schoeller-Bleckmann Oilfield Equipment AG is the global market leader in high-precision components for the oilfield service industry.
- The business focus is on non-magnetic drillstring components for high-tech directional drilling.
- Worldwide, the company employs a workforce of 1,565 (end of 2012: 1,591), thereof 443 in Ternitz/Austria and 609 in North America (including Mexico).

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

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

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

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