SCHOELLER BLECKMANN OILFIELD EQUIPMENT

LETTER TO OUR SHAREHOLDERS 1-6 2018

HIGHLIGHTS

- Healthy economic development fosters optimism in the oilfield service industry
- Sales and earnings again on the rise
- Positive outlook for international business, North America remains strong

MANAGEMENT REPORT

MARKET ENVIRONMENT

The oilfield service industry continued to grow in the first half of 2018. High oil price levels and growing awareness of the need to secure the supply of crude oil over the long term created a positive market environment. North America, in particular, proved to be robust and exceeded the 1,000-rig-mark (US rig count) for the first time since the beginning of the crisis. Only temporary effects, such as (expected) bottlenecks in tools, personnel and transport capacities in highly productive regions had a dampening effect on development.

"Positive market response to OPEC's decision to step up production"

Internationally, growth that had set in at the beginning of the year continued and was boosted by rising oil prices. The long crisis of recent years was reflected above all in higher pent-up demand. All in all, however, international growth of the oil and gas industry started from a very low level.

Global crude oil production in the second quarter of 2018 was (on average) 98.8 million barrels per day (mb/d), remaining largely in balance with demand of 98.7 mb/d. Against the background of the global economic upswing, demand rose by 0.9 mb/d from 97.8 mb/d in full 2017, despite high oil prices, and increased by 0.7 mb/d also year-on-year (Q2 2017: 98.0 mb/d).

OPEC‘s total crude oil production (crude oil excluding Natural Gas Liquids / NGLs) fell to 32.1 mb/d in the second quarter of 2018, following 32.6 mb/d in the full year 2017 and in the second quarter of 2017. Average compliance of OPEC states with the production ceiling of 32.5 mb/d (crude oil excluding Natural Gas Liquids / NGLs), agreed among 12 members, rose to 121 % in June 2018, which means that total OPEC output was less than agreed. This was due, in particular, to production losses in Venezuela. In their decision of 22 June 2018, the OPEC states had set themselves the goal to drive up production to the agreed level and, as a result, to fully exhaust the production ceiling.

The production volume of non-OPEC countries rose to 59.8 mb/d in the second quarter of 2018, arriving above the level both for full 2017 (57.9 mb/d) and for the second quarter of 2017 (57.5 mb/d). The increase was particularly strong in the United States, where production reached a total level of 15.0 mb/d.

At the same time, OECD crude oil inventories remained virtually unchanged in the second quarter of 2018, standing at 1,095 million barrels (mb) at the end of June (following 1,090 mb in March 2018), almost 12 % below the March 2017 high of 1,245 mb.[1]

The number of globally active drilling rigs (rig count) increased by 63 rigs, or 3.0 %, to an average of 2,152 rigs since the beginning of the year (December 2017: 2,089 rigs). Compared to the previous year (June 2017: 2,041 rigs), the rig count went up by 111 rigs, or 5.4 %. The US rig count, in particular, continued to develop strongly, with an increase of 13.5 % to 1,056 rigs (December 2017: 930 rigs) and broke through the 1,000 mark for the first time since the beginning of the crisis. The number of drilled but uncompleted wells (DUCs) also reached a new all-time high of 8,033 units.[2] In Canada, the spring break-up led to a seasonal decline in the rig count, which began to turn around only at the end of the first half of the year. Growth in the international rig count remained flat. By December 2017, it had increased by only five rigs to 959 rigs (December 2017: 954 rigs). However, there were regional differences. Africa (+ 17 rigs) and the Middle East (+ 14 rigs), in particular, recorded growth. Offshore, too, there were first singular signs of revival.[3]

The two oil prices WTI and Brent showed a clear upward trend in the first half of 2018. WTI started 2018 at USD 60.42 per barrel and closed at USD 74.15 (+ 22.7 %) at the end of June. The price of one barrel of Brent European crude oil rose from USD 66.87 to USD 79.44 (+ 18.8 %) at the end of the second quarter. From the perspective of the oilfield service industry, both crudes have developed to a price level that favors the release of new projects.[4]

[1] International Energy Agency (IEA), Drilling Market Report, August 2018.
[2] U.S. Energy Information Administration (EIA), Oil Productivity Report, August 2018.
[3] Baker Hughes Rig Count.
[4] Bloomberg: CO1 Brent Crude (ICE) and CL1 WTI Crude (Nymex).

BUSINESS DEVELOPMENT

Schoeller-Bleckmann Oilfield Equipment AG (SBO) continued its positive development throughout the first half of 2018. The robust North American market and recovery tendencies in the international market had a positive effect on bookings which went up steeply compared to the first half of 2017. The healthy market environment and continuing clear trend towards efficiency increases drove up demand for high-efficiency tools and equipment from SBO.

"Bookings reflect robust North America and slight upturn in international market"

SBO's sales in the first half of 2018 amounted to MEUR 200.0, up 47.4 % from the previous year (1-6/2017: MEUR 135.7). Bookings in the first half of 2018 amounted to MEUR 244.1, an increase of 62.8 % compared to the first half of 2017 (1-6/2017: MEUR 150.0). The book-to-bill ratio, which measures the amount of orders coming in compared to sales and serves as an indicator of medium-term development, was thus greater than 1. The order backlog went up to MEUR 79.6 at the end of the first half of 2018, more than doubling versus the level at the end of the previous year (31 December 2017: MEUR 37.6).

Earnings before interest, tax, depreciation, and amortisation (EBITDA) more than doubled year-on-year to MEUR 55.8 (1-6/2017: MEUR 22.0). The EBITDA margin in the first half of the year was 27.9 % (1-6/2017: 16.2 %), arriving above the long-term average of 24.1 %. The operating result (EBIT) turned positive compared to the first half of 2017 and amounted to MEUR 32.1 (1-6/2017: MEUR minus 3.6). The EBIT margin was 16.0 % (1-6/2017: minus 2.6 %).

The financial result for the first half of 2018 came to MEUR minus 13.3 (1-6/2017: MEUR minus 4.4). Profit before tax turned positive, rising sharply to MEUR 18.8 (1-6/2017: MEUR minus 8.0). Profit after tax rose to MEUR 13.2 (1-6/2017: MEUR minus 6.2), taking account of the positive effects of the tax reform initiated in the United States. Earnings per share were EUR 0.83 (1-6/2017: EUR minus 0.39).

The balance sheet structure of SBO remains sound: Equity rose to MEUR 334.4 in the first half of 2018 (31 December 2017: MEUR 322.0). An increase in total assets from new loans raised in an amount of MEUR 137.3 resulted in a slight decrease of the equity ratio, coming to 36.6 % at the end of the first half of 2018 (31 December 2017: 42.9 %). Net debt amounted to MEUR 71.4 (31 December 2017: MEUR 50.7). At the end of the first half of the year, liquid funds stood at MEUR 278.9 (31 December 2017: MEUR 166.0). Cashflow from operating activities amounted to MEUR 9.3 (1-6/2017: MEUR 6.3), free cashflow to MEUR minus 8.7 (1-6/2017: MEUR minus 3.2). This resulted from an increase in capital expenditure due to the high demand and the acquisition of the remaining 33 % of shares in Canadian subsidiary Resource Well Completion Technologies Inc. („Resource") worth MEUR 2.6. The company is now a wholly-owned business of the SBO group. Capital expenditure on property, plant and equipment and intangible assets (CAPEX) rose to MEUR 16.4 (1-6/2017: MEUR 11.8). Purchase commitments for expenditure in property, plant and equipment amounted to MEUR 3.7 as of 30 June 2018 (31 December 2017: MEUR 1.2).

DEVELOPMENT OF THE SEGMENTS

SBO's business operations are subdivided into two reportable segments, „Advanced Manufacturing & Services" (AMS) and „Oilfield Equipment" (OE):

- The „Advanced Manufacturing & Services" (AMS) segment comprises high-precision machining and repair of drill collars and complex MWD (Measurement While Drilling) / LWD (Logging While Drilling) components made of non-magnetic corrosion-resistant stainless steel, which form the housing for sensitive measuring instruments used for the precise measurement of inclination and azimuth of the drillstring as well as petrophysical parameters.

- The „Oilfield Equipment" (OE) segment comprises a wide range of highly specialised solutions for the oil and gas industry: High-performance drilling motors and tools for directional drillstring drive in addition to downhole circulation tools as well as products for efficient and resource-conscious completion of unconventional wells in the two dominating technologies „sliding sleeve" and „plug-n-perf".

The traditionally late-cycle AMS segment developed positively in the first half of 2018, as international recovery was setting in slowly. The segment generated sales worth MEUR 75.7 (1-6/2017: MEUR 45.4) in the first half of 2018, whereas the operating result (EBIT) came to MEUR 4.8 (1-6/2017: MEUR minus 10.4).

In the „Oilfield Equipment" segment, SBO benefited from the robust market environment in North America, bringing segment sales to MEUR 124.4 (1-6/2017: MEUR 90.3) and the operating result (EBIT) to MEUR 28.4 (1-6/2017: MEUR 11.8).

RISK REPORT

The business risks of SBO did not change substantially in the first half of 2018 over the risks described in the 2017 annual financial statements. The entire oilfield service industry continues to be confronted with curtailed capital expenditure due to the crisis in the sector. Regardless of the corrective measures described in the previous quarterly reports and already initiated, this has a significant influence on the assets and financial position of SBO. Additionally, we refer to all risks described in the Annual Report 2017. We recommend to read this report on the first half of 2018 in conjunction with the risk report contained in the Annual Report 2017.

SBO SHARE

The share of SBO started the year at a price of EUR 85.00 on 2 January 2018 and closed at EUR 103.30 on 29 June 2018. This represents a share price rise of 21.5 % in the first half of the year, in line with the prices of crude oils WTI (+ 22.7 %) and Brent (+ 18.8 %).[5] On 22 May 2018, the share reached another record high of EUR 111.60, outperforming both the OSX (+ 3.6 %) and the Austrian leading index ATX (+ 5.0 %).

[5] Bloomberg: CO1 Brent Crude (ICE) und CL1 WTI Crude (Nymex).

OUTLOOK

The current economic environment promotes global economic growth and favors industrial and production spending. The commodity markets and the oilfield service industry can benefit from this development. The protective trade endeavors of the US-American government, which could lead to a severe trade conflict with the People's Republic of China, are – of course – very closely watched by the members of the market.

"Spending for exploration and production in international market recently doubled from +4 % to +8 %, growth expected to pick up in 2019"

For 2018 and 2019, the International Monetary Fund (IMF) continues to forecast global economic growth of 3.9 % each, following 3.7 % in 2017. In the industrialised countries, economic output is expected to grow by 2.4 % in 2018 and 2.2 % in 2019, following 2.4 % in 2017. For the emerging and developing countries, the IMF expects growth to come to 4.9 % in 2018 and 5.1 % in 2019, following 4.7 % in 2017.[6]

The International Energy Agency (IEA) expects to see a further rise in global oil demand by 1.4 mb/d to 99.2 mb/d in 2018. While average oil demand in OECD countries is expected to increase only slightly from 47.3 mb/d in 2017 to 47.7 mb/d in 2018, a substantial increase of 1.0 mb/d to 51.5 mb/d is forecast for non-OECD countries in 2018. The IEA expects crude oil production in non-OPEC countries to go up by 2.0 mb/d to 59.9 mb/d.[7] Crude oil production in the OPEC countries was recently below the agreed production ceiling due to production cutbacks, which should be compensated by an increase in output in the Gulf States and Russia (as a non-OPEC partner). Taking current production figures into account, a stable supply of crude oil also from the OPEC countries will be necessary in order to meet growing global demand in the long term. It cannot be ruled out that the OPEC countries will take further steps to step up their production.

The oilfield service industry is optimistic about the future. The supportive oil price, rising demand for crude oil and gas supported by global economic growth and the progressing ageing of existing fields are slowly leading to the resumption of projects outside the North American

[6] IMF World Economic Outlook (WEO), July 2018.
[7] International Energy Agency (IEA), Oil Market Report, August 2018.

mainland. Individual regions, such as Africa and the Far East, alongside the Middle East, are showing first signs in this direction. In order to accelerate this trend, however, stronger commitments on the part of oil and gas companies in the form of spending approvals will be needed. Rising forecasts by acknowledged banks and research houses for global expenditure for exploration and production (E&P expenditure) can fundamentally be taken as positive indicators of further development in the oilfield service industry. For example, growth forecasts for 2018 were raised from 7 % to 10 % worldwide and revised to 8 % internationally (following 4 % in December 2017).[8] Overall, the industry expects the international market to pick up further in 2019. However, it is obvious that North American activities will mark the year 2018 and those following, even if their growth has slowed down due to temporary restrictions stemming from tools and personnel as well as transport capacities.

SBO has prepared thoroughly for the market recovery. The attractive market environment and the opportunity to achieve selective price normalisations reflect the positive assessment of the oilfield service industry also in the business development of the company. SBO continues to expect business in North America to remain strong and is well prepared for the gradually improving international market environment. With its innovative products and global footprint, SBO can react flexibly to new opportunities and developments arising in the markets. As the Vietnam production site is experiencing a strong increase in demand, SBO is considering further capacity expansion. With its management strategy consistently focused on sustainable growth and ongoing research and development (R&D) activities, SBO is well positioned to participate fully in the upswing as technology and market leader.

[8] Evercore ISI Research, The 2018 Evercore ISI Global E&P Mid-Year Spending Outlook, July 2018.

FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEET

ASSETS

in TEUR	30.06.2018	31.12.2017
Current assets		
Cash and cash equivalents	278,937	165,982
Trade receivables	113,854	89,801
Other receivables and other assets	7,541	5,706
Assets held for sale	611	594
Inventories	124,163	97,086
Total current assets	**525,106**	**359,169**
Non-current assets		
Property, plant and equipment	145,471	145,172
Goodwill	159,154	156,293
Other intangible assets	44,130	49,532
Long-term receivables and assets	10,986	10,938
Deferred tax assets	28,686	29,137
Total non-current assets	**388,427**	**391,072**
TOTAL ASSETS	**913,533**	**750,241**

CONSOLIDATED BALANCE SHEET

LIABILITIES AND EQUITY

in TEUR	30.06.2018	31.12.2017
Current liabilities		
Liabilities to banks	31,767	31,880
Current portion of long-term loans	71,524	69,478
Finance lease liabilities	36	35
Trade payables	22,926	16,611
Government grants	57	57
Income tax payable	5,289	2,056
Other liabilities	169,320	30,113
Other provisions	4,721	5,151
Total current liabilities	**305,640**	**155,381**
Non-current liabilities		
Long-term loans	247,076	115,338
Finance lease liabilities	26	44
Provisions for employee benefits	5,382	5,262
Other liabilities	18,945	149,891
Deferred tax liabilities	2,058	2,314
Total non-current liabilities	**273,487**	**272,849**
Equity		
Share capital	15,959	15,953
Capital reserve	67,742	67,248
Legal reserve	785	785
Other reserves	19	19
Currency translation reserve	17,860	11,193
Retained earnings	232,041	226,813
Total equity	**334,406**	**322,011**
TOTAL LIABILITIES AND EQUITY	**913,533**	**750,241**

CONSOLIDATED PROFIT AND LOSS STATEMENT

in TEUR	6 MONTHS PERIOD ENDED 30.06.2018	6 MONTHS PERIOD ENDED 30.06.2017	3 MONTHS PERIOD ENDED 30.06.2018	3 MONTHS PERIOD ENDED 30.06.2017
Sales	**200,035**	**135,679**	**105,851**	**75,546**
Cost of goods sold	-132,769	-104,643	-70,375	-55,571
Gross profit	**67,266**	**31,036**	**35,476**	**19,975**
Selling expenses	-11,528	-11,650	-5,851	-5,137
General and administrative expenses	-22,658	-16,885	-13,043	-8,441
Other operating expenses	-7,825	-8,336	-2,004	-5,075
Other operating income	6,816	2,241	3,935	845
Profit from operations	**32,071**	**-3,594**	**18,513**	**2,167**
Interest income	1,029	1,060	478	370
Interest expenses	-4,906	-3,735	-2,266	-1,673
Other financial income	12	0	12	0
Other financial expenses	-7,197	-1,431	-110	-1,431
Gains / losses from remeasurement of option liabilities	-2,246	-295	-3,389	-1,146
Financial result	**-13,308**	**-4,401**	**-5,275**	**-3,880**
Profit / loss before tax	**18,763**	**-7,995**	**13,238**	**-1,713**
Income taxes	-5,555	1,812	-3,766	430
Profit / loss after tax	**13,208**	**-6,183**	**9,472**	**-1,283**
Average number of shares outstanding	15,956,519	15,950,453	15,959,403	15,953,403
EARNINGS PER SHARE IN EUR (BASIC = DILUTED)	**0.83**	**-0.39**	**0.59**	**-0.08**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	6 MONTHS PERIOD ENDED		3 MONTHS PERIOD ENDED	
in TEUR	30.06.2018	30.06.2017	30.06.2018	30.06.2017
Profit / loss after tax	**13,208**	**-6,183**	**9,472**	**-1,283**
Other comprehensive income to be reclassified to profit or loss in subsequent periods				
Foreign exchange adjustment - subsidiaries	6,108	-31,125	15,565	-26,044
Foreign exchange adjustment - other items	745	-3,432	1,855	-2,892
Income tax effect	-186	858	-463	723
Other comprehensive income, net of tax	**6,667**	**-33,699**	**16,957**	**-28,213**
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**19,875**	**-39,882**	**26,429**	**-29,496**

CONSOLIDATED CASHFLOW STATEMENT

in TEUR	6 MONTHS PERIOD ENDED	30.06.2018	30.06.2017
OPERATING ACTIVITIES			
Profit / loss after tax		13,208	-6,183
Adjustment for dividends paid relating to put/call-options		7,197	0
Depreciation, amortisation and impairments		23,717	25,633
Other non-cash expenses and revenues		-2,515	201
Cashflow from profit		**41,607**	**19,651**
Change in working capital		-32,341	-13,307
Cashflow from operating activities		**9,266**	**6,344**
INVESTING ACTIVITIES			
Expenditures for property, plant and equipment and intangible assets		-16,395	-11,816
Expenditures for the acquisition of non-controlling interests		-2,561	0
Other activities		1,018	2,232
Cashflow from investing activities		**-17,938**	**-9,584**
FREE CASHFLOW		**-8,672**	**-3,240**
FINANCING ACTIVITIES			
Dividend payment		-7,980	0
Dividends paid relating to put/call-options		-7,197	0
Change in bank loans and overdrafts and finance leases		133,156	-4,646
Cashflow from financing activities		**117,979**	**-4,646**
Change in cash and cash equivalents		**109,307**	**-7,886**
Cash and cash equivalents at the beginning of the period		165,982	193,453
Effects of exchange rate changes on cash and cash equivalents		3,648	-7,967
Cash and cash equivalents at the end of the period		**278,937**	**177,600**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

2018

in TEUR	SHARE CAPITAL	CAPITAL RESERVE	LEGAL RESERVE	OTHER RESERVES	CURRENCY TRANSLATION RESERVE	RETAINED EARNINGS	TOTAL
1 January 2018	15,953	67,248	785	19	11,193	226,813	**322,011**
Profit / loss after tax						13,208	**13,208**
Other comprehensive income, net of tax					6,667		**6,667**
Total comprehensive income, net of tax	0	0	0	0	6,667	13,208	**19,875**
Dividend payment						-7,980	**-7,980**
Share-based payment	6	494					**500**
30 June 2018	15,959	67,742	785	19	17,860	232,041	**334,406**

2017

in TEUR	SHARE CAPITAL	CAPITAL RESERVE	LEGAL RESERVE	OTHER RESERVES	CURRENCY TRANSLATION RESERVE	RETAINED EARNINGS	TOTAL
1 January 2017	15,947	66,812	785	19	61,109	281,061	**425,733**
Profit / loss after tax						-6,183	**-6,183**
Other comprehensive income, net of tax					-33,699		**-33,699**
Total comprehensive income, net of tax	0	0	0	0	-33,699	-6,183	**-39,882**
Share-based payment	6	215					**221**
30 June 2017	15,953	67,027	785	19	27,410	274,878	**386,072**

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1

BASIS OF PREPARATION

The interim report as at 30 June 2018 has been prepared in accordance with the principles of the International Financial Reporting Standards (IFRS), rules for interim financial reporting (IAS 34), to be applied in the European Union.

This report on the first half of 2018 of the SBO group has neither been audited nor reviewed by independent accountants.

NOTE 2

ACCOUNTING POLICIES

In the reporting period 2018 the newly adopted standards IFRS 9 and IFRS 15 were applied by SBO for the first time. The first-time application of IFRS 15 based on the modified retrospective approach and resulted for the sale of goods in no notable and for service and repair as well as the rental of drilling tools in no adjustments as of 1 January 2018.

IFRS 9 provides for a new approach regarding the categorization and valuation of financial instruments, impairment of financial assets and regulations on hedge accounting. The new categorization and valuation requirements of IFRS 9 do currently have no significant effects on the accounting and valuation of financial instruments of SBO. SBO does not use hedge accounting for existing foreign currency derivatives.

Apart from the standards which came into force in 2018 the accounting and valuation methods of 31 December 2017 have been applied basically unchanged. In this context, we refer to the consolidated financial statements for the year ended 31 December 2017.

NOTE 3

SCOPE OF CONSOLIDATION

In the reporting period the company BICO Drilling Tools FZE with the corporate seat in Dubai was established.

Apart from that no further changes occurred in the scope of consolidation during the reporting period.

NOTE 4

SEASONALITY

Business development of SBO is not subject to significant seasonal influences.

NOTE 5

DIVIDEND PAID

	TOTAL AMOUNT TEUR	NUMBER OF SHARES (ORDINARY SHARES)	PER SHARE EUR
For the business year 2017 paid in 2018	7,980	15,959,303	0.50
For the business year 2016 paid in 2017	0	15,953,303	0.00

NOTE 6

SEGMENT INFORMATION

Based on product groups and services offered and existing customer groups, respectively, SBO's business operations are subdivided into two reportable segments „Advanced Manufacturing & Services“ (AMS) and „Oilfield Equipment“ (OE).

The „Advanced Manufacturing & Services“ (AMS) segment comprises high-precision machining and repair of drill collars and complex MWD (Measurement While Drilling) / LWD (Logging While Drilling) components made of non-magnetic corrosion-resistant stainless steel, which form the housing for sensitive measuring instruments used for the precise measurement of inclination and azimuth of the drillstring as well as petrophysical parameters.

The „Oilfield Equipment“ (OE) segment comprises a wide range of highly specialized solutions for the oil and gas industry: High-performance drilling motors and tools for directional drillstring drive in addition to downhole circulation tools as well as products for efficient and resource-conscious completion of unconventional reservoirs in the two dominating technologies „sliding sleeve“ and „plug-n-perf“.

Internal management of the group as well as the allocation of resources is based on the financial performance of these segments.

Results in the total column correspond to those in the profit and loss statement.

1-6/2018

in TEUR	ADVANCED MANUFACTURING & SERVICES	OILFIELD EQUIPMENT	SBO-HOLDING & CONSOLIDATION	GROUP
External sales	75,678	124,357	0	200,035
Intercompany sales	38,984	6,091	-45,075	0
Total sales	114,662	130,448	-45,075	200,035
Profit from operations	4,841	28,447	-1,217	32,071
Profit / loss before tax	5,319	15,738	-2,294	18,763

1-6/2017

in TEUR	ADVANCED MANUFACTURING & SERVICES	OILFIELD EQUIPMENT	SBO-HOLDING & CONSOLIDATION	GROUP
External sales	45,377	90,302	0	135,679
Intercompany sales	17,943	7,443	-25,386	0
Total sales	63,320	97,745	-25,386	135,679
Profit from operations	-10,366	11,833	-5,061	-3,594
Profit / loss before tax	-10,072	8,573	-6,496	-7,995

Sales break down as follows:

in TEUR	ADVANCED MANUFACTURING & SERVICES		OILFIELD EQUIPMENT	
	1-6/2018	1-6/2017	1-6/2018	1-6/2017
Product sales	64,526	36,791	72,650	43,697
Services and repairs	8,390	4,973	7,472	5,504
Operating lease revenue	2,762	3,613	44,235	41,101
Total	**75,678**	**45,377**	**124,357**	**90,302**

NOTE 7

TANGIBLE AND INTANGIBLE FIXED ASSETS

Information on capital expenditures for tangible and intangible fixed assets as well as purchase commitments for expenditure in property, plant and equipment is included in the management report.

NOTE 8

TREASURY SHARES

During the reporting period the company transferred 6,000 SBO shares based on the share based payment program introduced in 2014 and prolonged in 2018.

NOTE 9

RELATED PARTY TRANSACTIONS

With respect to business transactions with related parties there were no substantial changes compared to 31 December 2017. 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 for the year ended 31 December 2017.

NOTE 10

FINANCIAL INSTRUMENTS

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have significant effects on the recorded fair value are observable, either directly or indirectly;
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at balance sheet date, the Group held the following classes of financial instruments measured at fair value:

in TEUR	BALANCE SHEET ITEM	30.06.2018	LEVEL 2	LEVEL 3
Assets				
Derivatives	Other receivables and other assets	17	17	0
Liabilities				
Derivatives	Other liabilities	-144,248	-631	-143,617

in TEUR	BALANCE SHEET ITEM	31.12.2017	LEVEL 2	LEVEL 3
Assets				
Derivatives	Other receivables and other assets	173	173	0
Liabilities				
Derivatives	Other liabilities	-137,311	0	-137,311

During the reporting period 2018 there were no transfers between the levels of fair value measurements. In general, if required, transfers are carried out at the end of each reporting period.

Derivatives shown under level 3 almost exclusively consist of option commitments relating to cancelable non-controlling interests to purchase the offered shares from the minority shareholders. The development of liabilities for option commitments in the reporting period 2018 was as follows:

in TEUR	BUSINESS COMBINATION DOWNHOLE TECHNOLOGY	OTHER BUSINESS COMBINATIONS
1 January 2018	-131,515	-5,773
Addition of accrued interest	-2,483	-256
Gains from revaluation	0	8
Losses from revaluation	-2,254	0
Disposal due to settlement	0	2,561
Currency adjustment	-3,962	69
30 June 2018	**-140,214**	**-3,391**

Option commitments 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 corporate planning. The liabilities are discounted using a risk-adequate discount rate for the duration of each liability.

The exercise price of the option commitments relating to cancelable non-controlling interests is based on the achieved financial results of the acquired entities. Gains and losses from revaluation refer to unrealized gains and losses and are reported in the income statement within “income/expense from revaluation of option commitments”. As the put/call option relating to Downhole Technology can be exercised starting from 1 April 2019 the corresponding liability was reclassified at 30 June 2018 from non-current to current other liabilities.

During the reporting period SBO group exercised the option on the acquisition of the remaining 33 % of shares in Resource Well Completion Technologies Inc. Due to the existing option commitment already in the past 100 % of the shares were recognized from a group perspective. The purchase price amounting to CAD 4.0 mill (EUR 2.6 mill) was fully provided for in the option liabilities as of 31 December 2017. Therefore, apart from the payment of the purchase price, this transaction does not have any further effects on the group financial statements of SBO in 2018.

The sensitivity analysis for significant, non-observable input factors relating to option liabilities is as follows:

in TEUR	ASSUMPTION	CHANGE IN ASSUMPTION	IF ASSUMPTION INCREASES, LIABILITY CHANGES BY	IF ASSUMPTION DECREASES, LIABILITY CHANGES BY
	Net results	+/-10 %	+14,361	-14,361
	Interest rate 15.0 % resp. 3.8 %	+/-2.5 resp. +/-1 resp. percentage points	-1,031	+538

The foreign currency forward contracts are measured based on observable spot exchange rates.

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:

		30.06.2018		31.12.2017	
in TEUR	LEVEL	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Liabilities					
Borrowings from banks, finance lease obligations and other loans	2	-350,428	-358,003	-216,775	-219,624

For assessing the fair value of long-term loans and leasing obligations with a fixed interest rate, the expected cashflows have been discounted using market interest rates. Regarding lendings, bank and other long-term loans with variable interest, the interest rates charged are current market rates, resulting in the fact that the carrying amounts 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 amounts equal the fair values at the balance sheet date.

NOTE 11

CASHFLOW

During the reporting period the Company took up bonded loans and bearer bonds totalling at EUR 137.3 Mill with terms from 4 to 10 years and with predominantly fixed interest rates from 1.09 % to 2.45 %.

NOTE 12

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 condensed 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 half-year group management report gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the interim financial statements, and of the principal risks and uncertainties for the remaining six months of the financial year and of the major related party transactions to be disclosed.

Ternitz, 22 August 2018

Gerald Grohmann **Klaus Mader**

Executive Board

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