SCHOELLER BLECKMANN OILFIELD EQUIPMENT

LETTER TO OUR SHAREHOLDERS 1-6 / 2014

HIGHLIGHTS

- **Stable market environment for the oilfield service industry**
- **Sound results with continued high profitability**
- **Bookings up**

MANAGEMENT REPORT

Market environment

The global economy continued to recover in the first half of 2014, albeit at a slower rate than originally anticipated by the International Monetary Fund (IMF). The stronger-than-expected downturn seen in the first quarter, mainly in the United States, combined with geopolitical conflicts (Middle East, Ukraine) had an adverse effect on global economic growth.[1]

Despite restrained global economic growth, average worldwide oil consumption, according to the International Energy Agency (IEA), increased to 91.7 million barrels per day (mb/d), up 0.3 mb/d, or 0.3%, from the first quarter of 2014. Year-on-year, global oil demand rose by 0.7 mb/d, or 0.8% (Q2 2013: 91.1 mb/d).[2]

The supply situation in the oil market was sound: Increasing production in non-OPEC countries compensated for the temporarily weaker supplies from OPEC in the wake of the current crisis in Iraq. OPEC's effective spare capacity[3], according to the IEA, stood at 3.25 mb/d in June 2014, moderately exceeding last year's reading (June 2013: 3.13 mb/d).[4]

Prices[5] of the major crudes WTI and Brent developed at a stable level and largely in parallel throughout the second quarter of 2014, remaining relatively unimpressed by the crises in the Middle East (Iraq, Gaza Strip) and the Ukraine: The price of one barrel of WTI crude climbed by 4.4%, from USD 101.57 per barrel (31 March 2014), to USD 106.07 per barrel (30 June 2014) in the second quarter of 2014. The price of one barrel of Brent crude also went up, by 4.8%, from USD 105.95 (31 March 2014) to USD 111.03 (30 June 2014). A short-lived price hike representing the current annual high of both crudes (WTI: USD 107.95 on 20 June 2014; Brent: USD 115.19 on 19 June 2014) occurred because of an escalation in the Iraq conflict, but was followed by a rapid decline.

Compared to the end of the second quarter of 2013, the price of US crude WTI increased by 10.1% until the end of the second quarter of 2014 (28 June 2013: USD 96.36), whereas the price of European crude Brent rose by 8.3% (28 June 2013: USD 102.49).

Regardless of the geopolitical crises the prices of both WTI and Brent were falling slightly from mid-June to mid-July, making the present crisis different from previous ones where oil prices started to soar as a consequence of a crisis. According to market analysts, the current price development is due to sufficient supplies available in the oil market, delivered mainly from the continued strong shale oil production in the United States.

For ensuring sufficient global supply with oil and gas, the number of active drilling rigs (rig count)[6] was increased by 5% year-on-year, from 3277 rigs in June 2013 to 3445 rigs in June 2014, mainly in the US, Canada and the Middle East.

The international rig count (global rig count without the US and Canada) of 1344 rigs arrived at the same level as last year (+0.8% from 1333 rigs in June 2013). The rising number of rigs in the Middle East (+9% or 36 rigs) and in Europe (+7% or 9 rigs) made up for the declining numbers of rigs in Latin America (-6% or 25 rigs) and Africa (-8% or 10 rigs).

In Canada, drilling activity in the first half of the year temporarily fell by 35%, from 372 rigs in December 2013 to 240 rigs in June 2014 due to the seasonal spring break-up, while, year-on-year, the number of Canadian drilling rigs grew by 31% (183 rigs in June 2013), mainly because the spring break-up in 2013 had lasted for an unusual long time.

The rig count in the United States also continued to go up. Compared to last year, the number of rigs grew by 6%, or 100 rigs, from 1761 units in 2013 to 1861 units in 2014 (each in June), with the share of oil wells in the total number of US wells rising again. At the end of June 2013, 80% of all rigs were drilling for oil, and 20% for gas, whereas at the end of June 2014 as much as 83% were oil and 17% were gas wells. In April 2014, the oil production volumes in the US had reached the highest level since November 1987.[7]

The share of directional and horizontal drilling rigs in the total count of US rigs, at the end of June 2014, amounted to 80%, while the remaining 20% were vertical drilling rigs. As a result, the share of directional and horizontal drilling rigs continued to go up from last year's level (2013: 75% for directional and horizontal, 25% for vertical drilling).[8]

[1] *IMF World Economic Outlook (WEO) Update, July 2014*
[2] *International Energy Agency (IEA), Oil Market Report, August 2014*
[3] *"EIA defines spare capacity as the volume of production that can be brought on within 30 days and sustained for at least 90 days. […] OPEC spare capacity pro vides an indicator of the world oil market's ability to respond to potential crises that reduce oil supplies.", www.eia.gov*
[4] *IEA Oil Market Report, July 2014*
[5] *U.S. Energy Information Agency (EIA): Spot Prices for Crude Oil and Petroleum Products*
[6] *Baker Hughes Inc. Rig Count*
[7] *U.S. Energy Information Agency (EIA)*
[8] *U.S. Energy Information Agency (EIA): North America Rotary Rig Count*

„SBO increased bookings in the first half-year by 13.2%."

Business development

Schoeller-Bleckmann Oilfield Equipment AG (SBO) looks back on stable business development in the first half of 2014. With clearly rising numbers of bookings, earnings were generated at the same level seen in the first half of 2013, carrying on the satisfying development of the first quarter of 2014 throughout the second quarter as well.

Half-year sales revenues in 2014 came to MEUR 230.3, largely at the same level as in the year before (first half of 2013: MEUR 235.4). Earnings before interest, taxes, depreciation and amortisation (EBITDA) were MEUR 65.9, slightly below last year (2013: MEUR 68.5). Earnings before interest and taxes (EBIT) in 2014 of MEUR 45.7 (2013 after impairment: MEUR 42.9, +6.4%) exceeded the results achieved last year. Profit before tax of MEUR 41.4 (2013: MEUR 40.8, +1.6%) and profit after tax of MEUR 30.3 (2013: MEUR 28.1, +8%) also came in above the figures of last year. Half-year earnings per share of EUR 1.90 (2013: EUR 1.74) also slightly exceeded last year's reading.

Margins remained largely stable, compared to the same period of the previous year. The EBITDA margin stood at 28.6 % (2013: 29.1 %), the EBIT margin at 19.8 % (2013: 18.2 %), and the pre-tax margin at 18.0 % (2013: 17.3 %).

„Half-year earnings per share at EUR 1.90 slightly up year-on-year."

The USD/EUR exchange rate was weaker year-on-year, which negatively impacted business development: Had the exchange rate remained at the same level as in the first half of 2013, half-year sales revenues would have gone up by MEUR 8.0, and EBIT by MEUR 4.0.

In the first half of 2014 SBO posted an increase in bookings of 13.2% to MEUR 228.5 (2013: MEUR 201.8). Following a hesitant start in the first weeks of 2014, bookings were picking up towards the end of the first quarter. Bookings received in the second quarter came in at a somewhat higher level than in the previous quarter, and clearly up from last year's reading. The order backlog posted at the end of the first half of the year totalled MEUR 108.1 (30 June 2013: MEUR 112.5), with some orders placed already for 2015.

Change of segment reporting

In the second quarter of 2014 SBO changed the company's previous, historically grown internal reporting by regions and adjusted its segment reporting (see explanations under "Segment reporting"). SBO now divides business activities into two segments: High Precision Components (production of high-precision MWD/LWD components) and Oilfield Equipment (non-magnetic drill collars, drilling motors, circulation tools and other downhole tools including service and repair work), offering customers better transparency and market-oriented reporting.

„New segment reporting for better transparency."

Both segments posted improved bookings in the first half of 2014 compared to the same period of last year and developed favourably:

The Oilfield Equipment segment profited from rising global drilling activity and positive business performance for non-magnetic drill collars. Drilling motor subsidiary BICO posted satisfying half-year results, in particular in North America. Highly favourable results were generated in DSI's circulation tools business. In the first half of 2014 SBO invested in expanding the fleets of BICO and DSI. In addition, an increase in sales was reported in high-tech repair and maintenance activities for oilfield tools. In the first half of 2014, this segment generated sales worth MEUR 116.5 (pro forma revenues in the first half of 2013: MEUR 113.1) and operating income after impairment of MEUR 30.2 (pro forma revenues in the first half of 2013: MEUR 21.0).

In the first half of 2014, sales volumes in the High Precision Components segment were influenced by customers' reduced capital expenditure (spending for long-term capital goods). As before, our customers are trying to improve product lifetime and repair used tools. While driving SBO's repair and service business, this had a dampening effect on revenues from new orders. Segment sales revenues generated in the second quarter were MEUR 113.8 (pro forma revenues 2013: MEUR 122.3). Lower sales volumes led to decreasing segment operating income in the first half of 2014 amounting to MEUR 17.8 (pro forma revenues 2013: MEUR 22.4).

The headcount at the end of the first half of 2014 was 1640 (1625 as at 31 March 2014, 1574 as at 31 December 2013 and 1540 as at 30 June 2013). More personnel had to be hired mainly because of the growth seen in the Oilfield Equipment segment.

Capital expenditure

Capital expenditure in fixed assets in the first half of 2014 amounted to MEUR 20.8 (2013: MEUR 27.6 in the first half of the year), spent primarily for further expanding the drilling motor fleets in the US and Canada and the circulation tools fleet of DSI. Total purchase commitments for expenditure in property, plant and equipment as at 30 June 2014 were MEUR 7.2 (MEUR 14.4 as at 30 June 2013).

Risk report

SBO is currently assessing in how far the company could be affected directly or indirectly by the economic sanctions imposed by the EU against Russia in the wake of the crisis in the Ukraine. As many details of the nature of such sanctions are still unclear, their actual effects will be hard to identify any earlier than by the end of 2014. SBO points out that, at the moment, direct business with Russia is in the single-digit percentage range of the group's total sales volume. Other than that, the business risks of SBO did not change substantially in the first six months of 2014 over the risks mentioned in the 2013 annual financial statements. We therefore refer to the risks described in the Annual Report 2013, in particular the risk associated with the USD/EUR currency exchange rate, and recommend to read this report on the first half of 2014 in conjunction with the Annual Report 2013.

„SBO share drives quarterly high of EUR 96.57 to all-time high.“

The SBO share

The share of Schoeller-Bleckmann Oilfield Equipment AG completed the second quarter of 2014 at a price of EUR 94.24 on 30 June 2014. Compared to the closing price of EUR 78.29 on 28 June 2013, this represented an increase of 20.4% year-on-year. The quarterly high of EUR 96.57 (2 May 2014) was a new all-time high for the SBO share.

Outlook

According to the most recent report of the International Monetary Fund (IMF), global economic growth is set to arrive at 3.4% for full 2014. Weak economic development in the first quarter and decelerating growth seen in some emerging markets has prompted the IMF to revise downwards its original growth forecast of 3.7%. For 2015 the IMF continues to expect a growth rate of 4.0%. However, the conflicts in the Middle East and Ukraine are major factors of uncertainty that could place a heavy strain on global economic growth.

Regarding emerging markets, the IMF projects growth to come to 4.6% in 2014 and 5.2% in 2015. China's economy – the driver of worldwide growth and oil demand for many years – is expected to grow by 7.4% in 2014 and 7.1% in 2015. IMF's experts cut their growth forecasts most sharply for Russia: The repercussions of the Ukraine crisis reduced their growth estimates to 0.2% (2014) and 1.0% (2015), while projections for the Unites States are sound (1.7% in 2014 and 3.0% in 2015). Overall economic recovery in the eurozone should continue, but remain weak, with growth forecasts standing at 1.1% for 2014 and 1.5% for 2015.[9]

According to current estimates of the International Energy Agency (IEA), global oil consumption for full 2014 will be 92.7 mb/d, which represents an increase of 1.05 mb/d from 2013. Based on weaker macroeconomic data, this was a slight downwards revision of the IEA's growth expectations of 1.23 mb/d from July . All current scenarios expect global oil demand to rise continuously. In 2015 demand should grow by another 1.3 mb/d, or 1.4%, to an aggregate 94.0 mb/d.[10]

All these factors constitute the basis of a continued stable environment for the oilfield service industry. Being a leader in technology, SBO has a sound strategic position to benefit from growing global oil and gas production. The Oilfield Equipment segment should profit from the high level of global drilling activity presently seen in all regions also in the second half of 2014. With its ongoing expansion of the drilling motor fleet and high market acceptance of the DSI circulation tool, SBO is in a position to make use of this tendency. Business development in the segment of High Precision Components will largely depend on the further capital spending policy of globally operating oilfield service companies.

From today's perspective, the effects of the current geopolitical development on SBO cannot yet be assessed. Regardless of political escalations or newly emerging market opportunities SBO, as in the past, is in a position to respond flexibly and promptly to changes in the market. What remains a structural source of growth for SBO is the continued tendency characterising higher oil and gas consumption that, as a result, requires consistently growing use of high-end technological equipment.

[9] *IMF World Economic Outlook (WEO) Update, July 2014*
[10] *IEA Oil Market Report, August 2014*

CONSOLIDATED PROFIT AND LOSS STATEMENT

	6 months period ended		3 months period ended	
in TEUR	30.06.2014	30.06.2013	30.06.2014	30.06.2013
Sales	**230,281**	**235,406**	**117,835**	**119,605**
Cost of goods sold	-157,606	-162,951	-81,130	-81,057
Gross profit	**72,675**	**72,455**	**36,705**	**38,548**
Selling expenses	-11,067	-9,842	-5,566	-5,163
General and administrative expenses	-16,118	-12,716	-8,120	-6,397
Other operating expenses	-5,014	-6,030	-2,043	-1,514
Other operating income	5,188	6,549	2,813	1,755
Profit from operations before non-recurring items	**45,664**	**50,416**	**23,789**	**27,229**
Impairment on other intangible assets	0	-7,517	0	-7,517
Profit from operations after non-recurring items	**45,664**	**42,899**	**23,789**	**19,712**
Interest income	295	375	177	221
Interest expenses	-5,429	-7,140	-3,054	-4,335
Other financial income	919	4,645	498	4,645
Financial result	**-4,215**	**-2,120**	**-2,379**	**531**
Profit before tax	**41,449**	**40,779**	**21,410**	**20,243**
Income taxes	-11,110	-12,682	-5,529	-6,357
Profit after tax	**30,339**	**28,097**	**15,881**	**13,886**
Thereof attributable to non-controlling interests	0	333	0	134
Thereof attributable to the owners of the parent company	30,339	27,764	15,881	13,752
	30,339	**28,097**	**15,881**	**13,886**
Average number of shares outstanding	15,943,558	15,960,116	15,974,533	15,960,116
Earnings per share in EUR (basic = diluted)	**1.90**	**1.74**	**0.99**	**0.86**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	6 months period ended		3 months period ended	
in TEUR	30.06.2014	30.06.2013	30.06.2014	30.06.2013
Profit after tax	**30,339**	**28,097**	**15,881**	**13,886**
Other comprehensive income to be reclassified to profit or loss in subsequent periods				
Foreign exchange adjustment - subsidiaries	4,656	-776	4,479	-7,086
Foreign exchange adjustment - other items	154	347	139	-324
Income tax effect	-38	-87	-34	81
Other comprehensive income, net of tax	**4,772**	**-516**	**4,584**	**-7,329**
Total comprehensive income, net of tax	**35,111**	**27,581**	**20,465**	**6,557**
Thereof attributable to non-controlling interests	0	372	0	38
Thereof attributable to the owners of the parent company	35,111	27,209	20,465	6,519
	35,111	**27,581**	**20,465**	**6,557**

CONSOLIDATED BALANCE SHEET

ASSETS in TEUR	30.06.2014	31.12.2013
Current assets		
Cash and cash equivalents	142,775	158,366
Trade accounts receivable	89,766	78,636
Other accounts receivable and prepaid expenses	5,331	7,103
Inventories	139,338	133,057
TOTAL CURRENT ASSETS	**377,210**	**377,162**
Non-current assets		
Property, plant & equipment	192,271	188,430
Goodwill	64,022	63,517
Other intangible assets	43,336	45,625
Long-term receivables and assets	17,861	17,046
Deferred tax assets	11,420	11,681
TOTAL NON-CURRENT ASSETS	**328,910**	**326,299**
TOTAL ASSETS	**706,120**	**703,461**

LIABILITIES AND SHAREHOLDERS´ EQUITY in TEUR	30.06.2014	31.12.2013
Current liabilities		
Bank loans and overdrafts	40,272	32,132
Current portion of bonds	19,986	0
Current portion of long-term loans	11,769	12,622
Finance lease obligations	0	81
Trade accounts payable	24,548	35,347
Government grants	292	294
Income taxes payable	12,770	10,872
Other payables	27,425	27,522
Other provisions	9,546	9,310
TOTAL CURRENT LIABILITIES	**146,608**	**128,180**
Non-current liabilities		
Bonds	0	19,980
Long-term loans	103,033	110,166
Government grants	455	462
Employee benefit obligations	6,167	5,987
Other payables	38,554	37,617
Deferred tax liabilities	19,009	18,882
TOTAL NON-CURRENT LIABILITIES	**167,218**	**193,094**
Shareholders´ equity		
Share capital	15,976	15,912
Contributed capital	66,987	61,567
Legal reserve - non-distributable	785	785
Other reserves	24	26
Currency translation reserve	-25,431	-30,203
Retained earnings	333,953	332,257
Equity attributable to the owners of the parent company	392,294	380,344
Non-controlling interests	0	1,843
TOTAL SHAREHOLDERS´ EQUITY	**392,294**	**382,187**
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY	**706,120**	**703,461**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

1-6/2014 in TEUR	Share capital	Contributed capital	Legal reserve	Other reserves	Currency translation reserve	Retained earnings	Total parent company	Non-controlling interests	Total
1 January 2014	15,912	61,567	785	26	-30,203	332,257	380,344	1,843	382,187
Profit after tax						30,339	30,339		30,339
Other comprehensive income, net of tax					4,772		4,772		4,772
Total comprehensive income, net of tax	0	0	0	0	4,772	30,339	35,111	0	35,111
Dividends						-23,964	-23,964	-997	-24,961
Disposal of own shares	6	515					521		521
Decrease in non-controlling interests and related disposal of own shares	58	4,905				-4,681	282	-846	-564
Change in reserves				-2		2	0		0
30 June 2014	15,976	66,987	785	24	-25,431	333,953	392,294	0	392,294

1-6/2013 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						27,764	27,764	333	28,097
Other comprehensive income, net of tax					-555		-555	39	-516
Total comprehensive income, net of tax	0	0	0	0	-555	27,764	27,209	372	27,581
Dividends						-23,940	-23,940	-245	-24,185
Change in reserves				-2		2	0		0
30 June 2013	15,960	65,203	785	27	-16,511	299,208	364,672	1,854	366,526

CONSOLIDATED CASH-FLOW STATEMENT

in TEUR 6 months period ended	30.06.2014	30.06.2013
Cash and cash equivalents at the beginning of the period	158,366	138,260
Cash flow from profit	51,909	55,347
Cash flow from operating activities	28,353	67,615
Cash flow from investing activities	-18,588	-26,463
Cash flow from financing activities	-26,231	-23,616
Effects of exchange rate changes	875	15
Cash and cash equivalents at the end of the period	142,775	155,811

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Basis of preparation

The interim report as at 30 June 2014 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 second quarter of 2014 of the SBO group has neither been audited nor reviewed by independent accountants.

Accounting Policies

The accounting and valuation methods of 31 December 2013 have been applied basically unchanged, with the exception of the standards which came into force in 2014. 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 2013.

IFRS 12 was applied for the first time which requires disclosures relating to interests in subsidiaries, joint arrangements and associates. The disclosures are considerably more extensive than the current requirements of IAS 27, 28 and 31 and will accordingly lead to additional notes disclosures.

Scope of consolidation

In order to condense the group structure, a resolution to merge the two non-operating entities Schoeller-Bleckmann Drilling and Production Equipment GmbH, Ternitz, and BICO-DSI Investment GmbH, Ternitz, with SCHOELLER-BLECKMANN Oilfield Equipment Aktiengesellschaft, Ternitz, was adopted on 21 February 2014 as already presented in the report for the first quarter 2014. In this regard the minority shareholder of BICO-DSI Investment GmbH withdrew in the first quarter 2014 and was compensated with 57,761 SBO shares. Non-controlling interests fully ceased to exist; the factual transfer of the shares occurred in April 2014. No further effects on the consolidated financial statements occurred in this context.

In addition, no further changes occurred in the scope of consolidation in the first six months of 2014.

Saisonality

Business development of SBO is not subject to seasonal influences.

Dividend paid

in TEUR	Total amount TEUR	Number of shares (ordinary shares)	Per share EUR
For the business year 2013 paid in 2014	23,964	15,975,900	1.50
For the business year 2012 paid in 2013	23,940	15,960,116	1.50

Segment Infomation

In the past the internal management of SBO group was based on regional organizational structures with the reporting segments „North America“, „Europe“ and „other regions“. Divisional structures, however, continuously gained importance in internal reporting systems. Therefore, in the second quarter 2014 internal management and thus internal reporting structures were adapted. As a consequence with the report on the second quarter 2014 SBO group adapts its segment reporting disclosures. Manufacturing and service sites are combined to the segments „High Precision Components“ and „Oilfield Equipment“ in accordance with product groups and services offered and existing customer groups, respectively.

The segment „High Precision Components" includes complex machining of high-precision MWD/LWD components with utmost high dimensional accuracy which are ordered by the engineering divisions of our customers. The segment „Oilfield Equipment" covers non-magnetic drill collars, drilling motors, circulation tools and other downhole tools including service and repair work directly ordered by the operating oilfield organizations of our customers.

Internal management of the group as well as the allocation of resources is based on the financial performance of these segments. Prior year figures were adjusted accordingly.

The operating result in the total column corresponds to the profit from operations in the income statement. Therefore, the reconciliation to profit before tax can be taken from the income statement.

in TEUR	High Precision Components	Oilfield Equipment	SBO-Holding & Consolidation	Group
1-6/2014				
External sales	113,807	116,474	0	230,281
Intercompany sales	26,044	33,539	-59,583	0
Total sales	139,851	150,013	-59,583	230,281
Operating profit	17,806	30,206	-2,348	45,664
1-6/2013				
External sales	122,260	113,146	0	235,406
Intercompany sales	30,538	33,280	-63,818	0
Total sales	152,798	146,426	-63,818	235,406
Operating profit	22,407	20,973 *)	-481	42,899

*) after impairment on intangible assets of TEUR 7,517.

Own shares

During the reporting period the company disposed of 63,761 own shares which mainly refer to the mergers disclosed in section "Scope of Consolidation". The market value of the total 63,761 share at the date of transfer in the second quarter was TEUR 5,484.

Related Party Transactions

With respect to business transactions with related parties there were no substantial changes compared to 31 December 2013. 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 2013.

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		30.6.2014	Level 2	Level 3
Assets				
Derivatives	Other receivables and assets	23	23	0
Liabilities				
Derivatives	Other liabilities	-10,834	-139	-10,695

in TEUR		31.12.2013	Level 2	Level 3
Assets				
Derivatives	Other receivables and assets	394	394	0
Liabilities				
Derivatives	Other liabilities	-13,259	-139	-13,120

During the reporting period 2014 there were no transfers between level 1 and level 2 fair value measurements. In general, if required, transfers are carried out at the end of each reporting period.

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 2014 was as follows:

in TEUR	1-6/2014
As at 1 Jan 2014	-13,120
Addition of accrued interest	-1,044
Gains from revaluation	843
Disposals from settlements	2,138
Currency adjustment	488
As at 30 Jun 2014	**-10,695**

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 determined as a certain percentage of achieved sales (to a certain extent when sales are exceeding a contractually agreed upon amount) are to be paid on a yearly basis with a residual term of further 1-5 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 liabilities are discounted using a risk adequate discount rate for the duration of each liability.

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 %	403	-405
	Interest rate 38.3%	+/- 10 %	-1,184	2,378
Contingent purchase price payments from business combinations	Sales	+/- 10 %	1,325	-1,323
	Interest rate 38.3%,15.7%, 4%	+/- 10 %, +/- 1 %, +/- 1 %	-140	154

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 June 2014		31 Dec 2013	
in TEUR	Level	Carrying value	Fair value	Carrying value	Fair value
Liabilities					
Bonds	1	-19,986	-20,957	-19,980	-21,400
Borrowings from banks, finance lease obligations and other loans	2	-155,074	-156,844	-155,001	-155,130

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 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, 19 August 2014

Gerald Grohmann Chairman of the Executive Board, CEO	**Franz Gritsch** Member of the Executive Board, CEO

- 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 1,640 (end of 2013: 1,574), thereof 440 in Ternitz/Austria and 657 in North America (including Mexico).

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