Letter to our Shareholders
1-3/2012

SCHOELLER
BLECKMANN
OILFIELD
EQUIPMENT

THE DEMAND SUPPLY STORY

HIGHLIGHTS

- All-time high in sales and profit figures
- Very strong order backlog at end of Q1
- Sustained positive industry cycle

MANAGEMENT REPORT

Market environment

The global economy started to slowly pick up again in the first months of 2012 following major setbacks in the second half of 2011. This stabilisation was driven by the development in the United States and, to a great extent, by the emerging countries. Global trade has gained strength, and the risk of another global economic slowdown has decreased.[1]

Average global demand for oil was stable and, according to the International Energy Agency (IEA), arrived at 89.5 million barrels per day in the first quarter of 2012, up 0.3 % or 0.3 million barrels per day from 89.2 million barrels per day in the first quarter of 2011.[2]

The price of US crude WTI was USD 102.96 per barrel at the beginning of 2012, and USD 103.03 per barrel at the end of March 2012. On 2 February 2012, the price per barrel of WTI fell to USD 96.36 and climbed to its quarterly high of USD 109.39 per barrel on 24 February 2012. The price of European crude Brent remained above that of US WTI also in the first quarter of 2012. Having stood at USD 111.12 per barrel at the beginning of the year it was climbing to USD 123.41 per barrel, or 11 %, by the end of March. On 30 March 2012 the price of one barrel of Brent was 20 % above the price of one barrel of WTI. Year-on-year (as at the end of March) the price of one barrel of WTI crude fell by 3 %, while the price of one barrel of Brent crude went up 6 %.[3]

„All segments profited equally from sound order and sales development"

Due to seasonal factors (spring break-up in Canada), the worldwide rig count[4], the parameter of globally operating drilling rigs, went down from 3751 rigs in January 2012 to 3663 rigs in March 2012, whereas on a year-on-year basis the number of active rigs in March 2012 went up by 7 % (rig count of March 2011: 3434 rigs).

In North America, the share of directional and horizontal drilling rigs in the overall number of rigs went up to 71 % at the end of March 2012. In the year before it had come to 70 % (25 March 2011), while ten years ago to only 37 % (28 March 2002).

The number of rigs operating in the Gulf of Mexico had risen by 64 % to 46 rigs at the end of March 2012, from 28 active rigs at the end of March 2011.

Furthermore, the shift from gas to oil drilling continued in the US. While at the end of the first quarter of 2011 49 % of the rigs produced oil (51 % gas), the share of drilling for oil at the end of the first quarter of 2012 already made up 67 % (gas 33 %).

Business development

The 2012 financial year took an excellent start for Schoeller-Bleckmann Oilfield Equipment AG (SBO). In the first quarter of 2012 the company followed up on the successful business development in the preceding quarters. The growing momentum in the oilfield service industry, in particular in directional drilling, was reflected in all-time high quarterly sales and profit figures.

Compared to the first quarter of 2011, sales improved by 23.9 %, from MEUR 97.3 to MEUR 120.6. First quarter earnings before interest and taxes (EBIT) followed the strong sales development and climbed to MEUR 28.1 (following MEUR 20.0 in the first quarter of 2011). Profit before tax grew by 49.3 %, from MEUR 17.3 to MEUR 25.8, profit after tax from MEUR 11.6 to MEUR 17.8, or 54.1 %. The quarterly earnings per share stood at EUR 1.11 (following EUR 0.72 in the first quarter of 2011).

„Provided that global economic development remains stable continuation of the sound industry cycle can be expected"

Bookings received in the first quarter worth MEUR 129.2 also clearly exceeded last year's first quarter MEUR 94.6 (up 36.6 %). This brought about an order backlog of MEUR 192.9 as at 31 March 2012 (up 9.3 % from MEUR 176.4 as at 31 December 2011), reflecting the general confidence the oilfield service industry has in the development of the next quarters.

The sound order and sales development was reflected across all segments of SBO. It led to very high capacity utilisation at all sites, producing the very encouraging quarterly result due to economies of scale. Both the segment of high-precision drillstring components as well as the Service & Supply Shops of SBO posted strong growth rates in all world regions. Due to continued strong shale drilling activity in North America high-performance drilling motors also were in very brisk demand in the first quarter of 2012. These high-tech drilling motors of SBO stand out by longer service life and higher torques and are applied both in shale gas and shale oil drilling operations.

As a result of positive business development, additional personnel was hired at some sites notably in production, bringing the headcount to 1506 at the end of the first quarter of 2012 (1317 as at 31 March 2011, 1459 as at 31 December 2011).

Fundamental decision to expand Ternitz site

In order to meet the growing demand for high-precision components in the medium to long term, it was decided to further

[1] *IMF World Economic Outlook, April 2012 and WIFO 8 March 2012*
[2] *IEA Oil Market Report, May 2012*
[3] *EIA Spot Prices for Crude Oil and Petroleum Products*
[4] *Baker Hughes Rig Count*

expand the Austrian site in Ternitz. Approximately MEUR 54 will be spent to build a new machining centre for non-magnetic oilfield service drillstring components. This large-scale project will be financed mainly from the company's cash-flow and will be implemented in four steps over a period of around two years.

SBO aims to prepare the ground for future growth in the company's core business of high-precision drillstring components. The new manufacturing plant will also allow to unbundle historically grown operating facilities at the Ternitz site which no longer meet the higher requirements in terms of material flow and logistics.

Regardless of this fundamental decision the programme to expand other production plants will be continued, in particular at US sites Godwin-SBO and Knust-SBO and locations in Singapore and Vietnam.

Capital expenditure

In the first quarter of 2012, capital investments of MEUR 30.0 were attributed, on the one hand, to extending the rental fleet of drilling motors and circulation tools, and, on the other hand, to acquiring machinery and production equipment mainly for SBO's US companies.

Furthermore, a majority stake in UK-based start-up D-TECH (UK) was acquired in the first quarter of 2012. The purchase price allocation of this acquisition has not been completed yet. D-TECH (UK) is an engineering company in the process of being set up and has not yet generated any sales revenues. By integrating the company into the Schoeller-Bleckmann Oilfield Equipment group SBO expects to gain know-how to optimise the product range in the segment of Oilfield Supplies & Services.

Total purchase commitments for expenditure in property, plant and equipment as at 31 March 2012 were MEUR 8.9 (MEUR 11.4 as at 31 March 2011).

Risk report

Business risks of Schoeller-Bleckmann Oilfield Equipment AG did not change substantially in the first three months of 2012 over the risks mentioned in the 2011 annual financial statements. We therefore refer to the risks described in the Annual Report 2011, in particular the USD/EUR currency exchange rate, and recommend to read this report on the first quarter of 2012 in conjunction with the Annual Report 2011.

The SBO share

The share of Schoeller-Bleckmann Oilfield Equipment AG ended the first quarter (30 March 2012) at a price of EUR 69.03, bringing the price to almost the same level as the 2011 closing price of 2011 on 29 December 2011 of EUR 68.22. The quarterly high was EUR 71.25 (4 January 2012).

Annual General Meeting 2012

The Annual General Meeting held on 25 April 2012 adopted a resolution to increase the dividend from last year's EUR 1.- to EUR 1.20 for the 2011 financial year.

Additionally, the Executive Board was authorised, within a maximum period of 30 months from the date of the resolution, to acquire own shares of the company and to withdraw or re-sell acquired own shares and determine the terms of sale without any further resolution by the Annual General Meeting. Within the share buy-back programme subsequently adopted by the Executive Board, a total of up to 1,600,000 no-par value shares (10 % of the share capital) can be bought back at a price per non-par value share of at least EUR 1.- and EUR 300.- at most from 3 May 2012 to 22 October 2014.

The Executive Board and the Supervisory Board were granted discharge for the 2011 financial year by the Annual General Meeting. At the elections to the Supervisory Board the mandates of Mag. Norbert Zimmermann, Dr. Peter Pichler, Dr. Karl Schleinzer, Mag. DI Helmut Langanger and Karl Samstag were renewed for another period. Also, several amendments to the Articles of Association were adopted. The current Articles of Association of SBO are available on the company website www.sbo.at on section Investor Relations (Corporate Governance – Articles of Association).

For the current fiscal year, SST Schwarz & Schmid Wirtschaftsprüfungsges.m.b.H. Wirtschaftsprüfungs- und Steuerberatungsgesellschaft was appointed auditor of the annual financial statements of the company, and Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. was appointed auditor of the consolidated financial statements.

Outlook

Despite the slight recovery that set in at the beginning of the year global economic growth in 2012 will arrive at 3.5 %, slightly lagging behind 2011 (3.9 %), according to the International

Monetary Fund (IMF). For the eurozone analysts expect to see a mild recession. The gross national product will go down 0.3 % in 2012 (following a growth of 1.4 % in 2011), while the GDP in the US will rise by 2.1 % (following 1.7 %) and 5.7 % (following 6.2 %) in the emerging countries. Forecasts for 2013 are positive and say that global economic growth will be 4.1 %.[5]

Due to the sustained high energy demand of the emerging markets the current economic situation in the OECD countries, in particular the weak development in Europe, so far has had no negative effect on the international oil and gas markets. The IEA projects global demand for oil in 2012 to amount to 90.0 million barrels per day, representing an increase of 0.9 % or 0.8 million barrels per day from last year.[6] At the end of the first quarter of 2012 the business activity within the oilfield service industry remained robust and no signs of change in these positive demand tendencies were observed.

Constantly rising demand for oil and gas and stable oil prices helped international oil companies to continue their spending for exploration and production projects as before. Worldwide capital spending for exploration and production are expected to grow from 2011 to 2012 to a new record high of USD 614 bn, reflecting growth of 10.5 %.[7] Moreover, on the supply-side current OPEC spare capacities of 2.4 million barrels per day are still at a low level.

Provided that the global economy develops at a stable pace, we expect the industry cycle in the oilfield service industry to remain strong. The ongoing shift from gas to oil drilling in North America, gradually rising drilling activity in the Gulf of Mexico and higher numbers of international deepwater projects should be reflected positively in demand for SBO products as we go forward. Nevertheless, potential uncertainties resulting from geopolitical events or the sustained volatility of the USD/EUR exchange rate must be taken into account.

SBO, for its part, has an excellent order backlog to enter the second quarter of 2012. With its position as the global market leader in high-precision components and high-performance drilling motors for the oilfield service industry in addition to a sustainable growth strategy - consisting of organic growth, technological innovation and selective acquisitions - SBO makes sure to fully benefit from the positive industry development today and in the future.

From a medium to long-term perspective, the rising demand for oil and gas and the need to deploy increasingly complex technologies remain a stable growth driver for demand for SBO products and services.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

The interim report as at 31 March 2012 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.

The accounting and valuation methods of 31 December 2011 have been applied basically unchanged, with the exception of the standards which came into force in 2012. 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 2011. In the first three months of 2012 no changes occurred in the scope of consolidation, except for the acquisition of D-TECH (UK).

Business development of SBO is not subject to seasonal influences.

No important events have occurred after the balance sheet date.

This report on the first quarter of 2012 of the SBO group has neither been audited nor reviewed by independent accountants.

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 three months of the financial year and their impact on the interim financial statements, and of the principal risks and uncertainties for the remaining nine months of the financial year and of the major related party transactions to be disclosed.

Gerald Grohmann
Chairman of the
Executive Board, CEO

Franz Gritsch
Member of the
Executive Board, CFO

[5] *IMF World Economic Outlook, April 2012*
[6] *IEA Oil Market Report, May 2012*
[7] *Barclays Equity Research, May 2012*

CONSOLIDATED PROFIT AND LOSS STATEMENT

in TEUR	3 months ended 31.03.2012	3 months ended 31.03.2011
Sales	**120,567**	**97,348**
Cost of goods sold	-78,687	-66,640
Gross profit	**41,880**	**30,708**
Selling expenses	-4,385	-3,897
General and administrative expenses	-8,012	-5,568
Other operating expenses	-5,465	-5,384
Other operating income	4,110	4,101
Profit from operations	**28,128**	**19,960**
Interest income	261	167
Interest expenses	-1,481	-1,609
Other financial income	0	0
Other financial expenses	-1,127	-1,251
Financial result	**-2,347**	**-2,693**
Profit before tax	**25,781**	**17,267**
Income taxes	-7,957	-5,698
Profit after tax	**17,824**	**11,569**
Thereof attributable to non-controlling interests	98	108
Thereof attributable to the owners of the parent company	17,726	11,461
	17,824	**11,569**
Average number of shares outstanding	15,960,116	15,960,116
Earnings per share in EUR (basic = diluted)	**1.11**	**0.72**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	3 months ended 31.03.2012	3 months ended 31.03.2011
Profit after tax	17,824	**11,569**
Foreign exchange adjustment - subsidiaries	-6,982	-13,099
Foreign exchange adjustment - other items	-660	-2,392
Income tax effect	165	598
Other comprehensive income, net of tax	-7,477	**-14,893**
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**10,347**	**-3,324**
Thereof attributable to non-controlling interests	-50	-214
Thereof attributable to the owners of the parent company	10,397	-3,110
	10,347	**-3,324**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

in TEUR	3 months ended 31.03.2012	3 months ended 31.03.2011
As at 1 January	**314,772**	**267,127**
Profit after tax	17,824	11,569
Other comprehensive income, net of tax	-7,477	-14,893
Total comprehensive income, net of tax	10,347	-3,324
AS AT 31 MARCH	**325,119**	**263,803**

CONSOLIDATED BALANCE SHEET

ASSETS in TEUR	31.03.2012	31.12.2011
Current assets		
Cash and cash equivalents	98,734	120,842
Trade accounts receivable	78,826	72,973
Other accounts receivable and prepaid expenses	7,265	8,916
Inventories	148,843	139,087
TOTAL CURRENT ASSETS	**333,668**	**341,818**
Non-current assets		
Property, plant & equipment	147,401	147,507
Goodwill	65,475	58,734
Other intangible assets	68,095	48,457
Long-term receivables	13,871	13,808
Deferred tax assets	10,489	9,723
TOTAL NON-CURRENT ASSETS	**305,331**	**278,229**
TOTAL ASSETS	**638,999**	**620,047**

LIABILITIES AND SHAREHOLDERS´ EQUITY in TEUR	31.03.2012	31.12.2011
Current liabilities		
Bank loans and overdrafts	28,816	29,099
Current portion of long-term loans	16,620	19,751
Finance lease obligations	296	361
Accounts payable trade	48,185	43,430
Government grants	271	271
Income taxes payable	9,735	9,966
Other payables	25,766	25,213
Other provisions	6,431	6,225
TOTAL CURRENT LIABILITIES	**136,120**	**134,316**
Non-current liabilities		
Bonds	39,917	39,906
Long-term loans	71,495	74,532
Finance lease obligations	234	274
Government grants	544	556
Employee benefit obligations	4,661	4,571
Other payables	38,888	33,053
Deferred tax liabilities	22,021	18,067
TOTAL NON-CURRENT LIABILITIES	**177,760**	**170,959**
Shareholders´ equity		
Share capital	15,960	15,960
Contributed capital	65,203	65,203
Legal reserve - non-distributable	785	785
Other reserves	32	33
Currency translation reserve	-18,188	-10,859
Retained earnings	259,876	242,149
Equity attributable to the owners of the parent company	323,668	313,271
Non-controlling interests	1,451	1,501
TOTAL SHAREHOLDERS´ EQUITY	**325,119**	**314,772**
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY	**638,999**	**620,047**

CONSOLIDATED CASH-FLOW STATEMENT

in TEUR	3 months ended 31.03.2012	31.03.2011
Cash and cash equivalents at the beginning of the period	120,842	136,989
Cash earnings	28,032	23,494
Cash flow from operating activities	15,456	7,478
Cash flow from investing activities	-29,427	-5,431
Cash flow from financing activities	-6,783	-3,638
Effects of exchange rate changes	-1,354	-3,598
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**98,734**	**131,800**

SEGMENT INFORMATION

in TEUR	Europe	North America	Other regions	SBO-Holding & Consolidation	Group
1-3/2012					
External sales	32,786	75,334	12,447	0	120,567
Intercompany sales	35,001	6,844	682	-42,527	0
Total sales	67,787	82,178	13,129	-42,527	120,567
Operating profit	18,177	13,954	930	-4,933	28,128
1-3/2011					
External sales	17,109	70,862	9,377	0	97,348
Intercompany sales	35,772	4,417	530	-40,719	0
Total sales	52,881	75,279	9,907	-40,719	97,348
Operating profit	9,368	11,115	1,411	-1,934	19,960

- 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 1,506 (end of 2011: 1,459), thereof 428 in Ternitz/Austria and 643 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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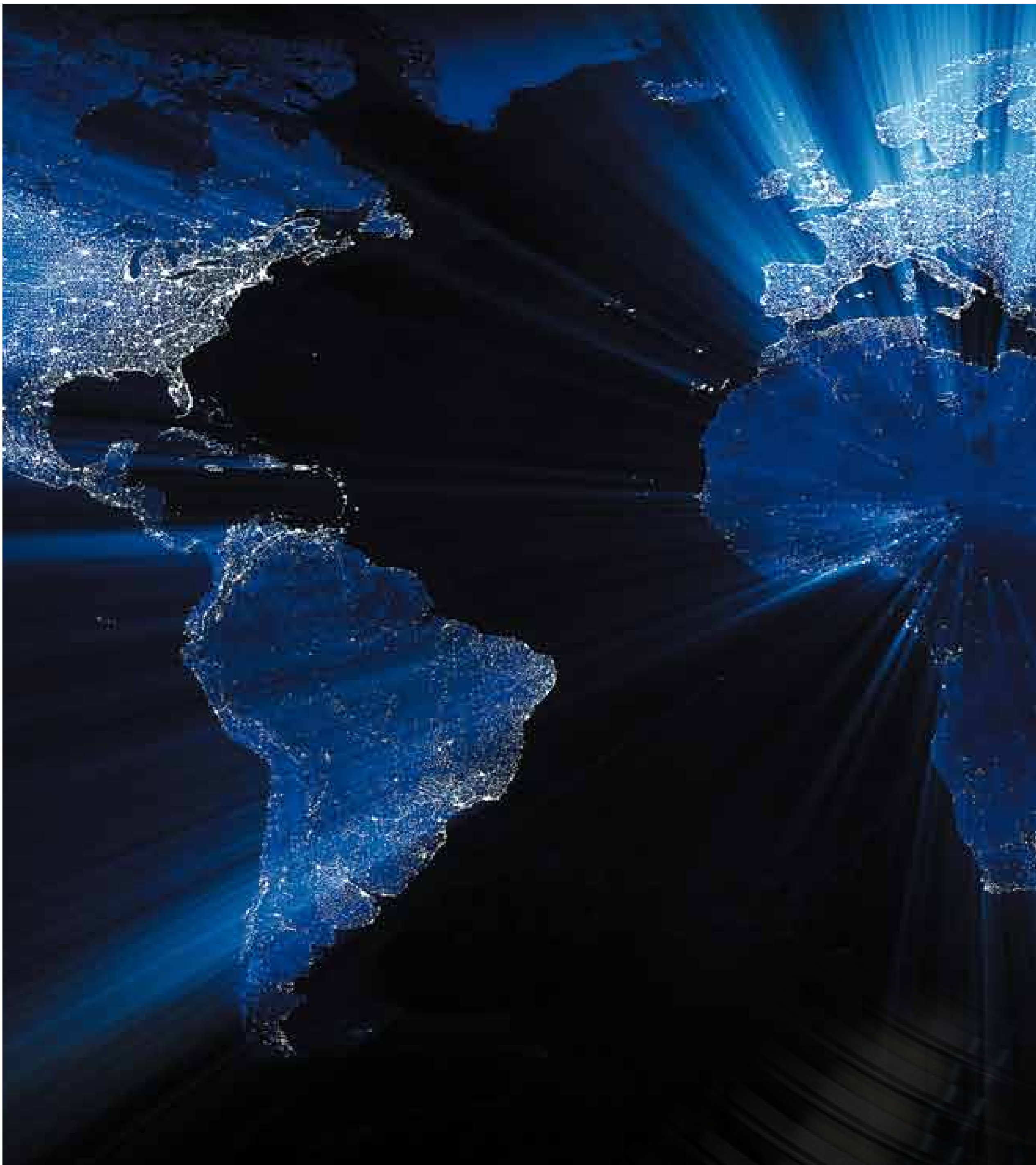

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