Letter to our Shareholders 1-3/2010

HIGHLIGHTS

- Oilfield service industry rebounding slowly
- Steep increase in bookings in Q1/2010
- Prerequisites of mid to long-term upward cycle remain intact

SCHOELLER BLECKMANN OILFIELD EQUIPMENT

MANAGEMENT REPORT

Market environment

Since year-end 2009 the global economy has started to rebound, joined by the oilfield service industry with a slight delay early in 2010. Following the difficult year 2009 with the sharpest decline in crude demand since the 1980's, global oil demand, as estimated by the International Energy Agency (IEA), rose to 86.3 million barrels per day in the first quarter of 2010. This marked an increase of 1.8 million barrels per day or 2.2 % from last year's 84.5 million barrels per day.[1] For full 2010, IEA expects global oil demand to come to 86.4 million barrels per day, up 1.6 million barrels per day or 1.9 % from 2009.[2]

This guarded economic optimism that set in early in 2010 had a stimulating effect also on the oil price. At the beginning of the year, the price of US brand WTI stood at USD 81.52 per barrel, climbing to USD 83.45 per barrel on 31 March 2010, increasing by 68.1 % compared to 31 March 2009 (USD 49.64 per barrel).[3] In the wake of improved demand, the rig count (number of globally active drilling rigs) started to grow again: While 2509 drilling units were operating worldwide at the beginning of 2009, the rig count climbed to 2879 units in March 2010.[4]

Onset of global economic recovery makes oil demand rise again

Business development

The market recovery setting in within the oilfield service industry was reflected by a sharp increase in bookings at Schoeller-Bleckmann Oilfield Equipment AG in the first quarter of 2010, totalling a volume of MEUR 83.9. However, this figure also contains orders to be delivered throughout full 2010. It also marks a significant rise both vs. the first quarter of 2009 – when no bookings were posted as orders were cancelled – and the fourth quarter of 2009 (MEUR 36.6). The order backlog as of the first quarter amounted to MEUR 104.9, following MEUR 76 as at 31 December 2009.

As a result of the low order backlog at the end of 2009, operational development in the first quarter of 2010 remained subdued and largely in line with the previous three quarters. Sales generated in the first quarter of MEUR 53.6 were below the levels of the same period of 2009 (MEUR 80.8), when high order backlogs from boom year 2008 could be worked off. As a number of orders – at customers' request – were delivered and billed immediately before year-end in the fourth quarter of 2009, sales generated in the first quarter of 2010 lagged behind the volume posted in the last quarter of the previous year (MEUR 62.9).

At MEUR 4.9, earnings before income and tax (EBIT) came in already slightly above the fourth quarter of 2009 (MEUR 4.6), but down from the same period of last year (MEUR 15.6). Profit before tax in the first quarter of 2010 stood at MEUR 3.7, also below the still excellent result year-on-year of MEUR 13.9 – whereas the EBT margin improved from 6.4 % to 6.9 % compared with the fourth quarter of 2009. Profit after tax went to MEUR 2.5 in the first quarter (following MEUR 9.7 in the first quarter of 2009 and MEUR 1.7 in the fourth quarter of 2009), equalling earnings per share of EUR 0.15. Compared with the first quarter of 2009 (EUR 0.61 per share) this figure marks a decline, but also an increase from the fourth quarter of 2009 (EUR 0.11 per share).

Operational development still characterized by low order backlog at year-end 2009

Regionally speaking, it was the development in the USA that was particularly positive, while demand in the Middle and Far East as well as in the UK and Canada was still lagging behind. However, the prime reason why bookings started to climb rapidly was order scheduling throughout full 2010 and gradual economic recovery. Nevertheless, overcapacities in the market have yet forestalled any price adjustments.

As the bookings situation improved, the headcount had to be upsized moderately to 1098 employees as at 31 March 2010 (following 1224 at the end of the first quarter of 2009 and 1056 at the end of 2009). Recruitments were made mainly at the locations in the USA. Due to the improved order situation, SBO will no longer make use of the option to schedule short-time work at the Ternitz site in the first half of 2010.

Capital expenditure

Additions to fixed assets in the first quarter were MEUR 4.3 (following MEUR 10.8 in the first quarter of 2009) and remained at a low level as planned. For an equivalent of 50,000 own shares, SBO acquired a number of patents for drilling motors serving as a basis of future development of SBO's drilling motor technology in the years to come.

Purchase commitments for expenditure in property, plant and equipment as at 31 March 2010 were MEUR 6.1 (MEUR 13.9 as at 31 March 2009).

Risk report

Business risks of Schoeller-Bleckmann Oilfield Equipment AG did not change substantially in the first three months of 2010 over the risks mentioned in the 2009 annual financial statements. We therefore refer to the risks described in the Annual Report 2009, in particular the USD/EUR currency exchange rate and recommend to read this report on the first quarter of 2010 in conjunction with the Annual Report 2009.

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[1] *IEA: Oil Market Report, March 2010*
[2] *IEA: Oil Market Report, April 2010*
[3] *EIA: Spot Prices for Crude Oil and Petroleum Products*
[4] *Baker Hughes Rig Count*

The SBO share

The share of Schoeller-Bleckmann Oilfield Equipment AG closed the first quarter (31 March 2010) at EUR 39.01. With respect to the closing price of EUR 33.59 at the end of 2009 on 30 December 2009 this was an increase of 16.1 %. Compared to the leading share index of the Vienna Stock Exchange – the ATX climbed by 5.5 % in the same period – the SBO share therefore showed an above-average performance in the first quarter of 2010. The quarterly high arrived at EUR 39.96 (2 February 2010).

Annual General Meeting

The Annual General Meeting of Schoeller-Bleckmann Oilfield Equipment AG held on 28 April 2010 adopted all items on the agenda by an overwhelming majority and/or unanimously. Shareholders approved of the proposal submitted by the Executive Board to distribute a dividend of EUR 0.50 per share for fiscal 2009 (2008: EUR 0.75 per share) on 12 May 2010. Furthermore, the share buy-back programme of SBO was renewed and the Articles of Association were adjusted to meet the requirements of the Austrian Stock Corporation Act 2009, as amended.

Outlook

If economic recovery is sustained and the oilfield service industry continues to slowly move upwards, it is safe to assume that global drilling activities will continue to grow. As soon as the currently still high customer inventories have been reduced, demand for high-precision components for the oilfield service industry should also gain further momentum in the months ahead. In any case, the cyclical downturn of the previous year seems to have been overcome.

Supported by an oil price of around 80 dollars per barrel and growing oil demand, SBO as the global market leader in high-precision components will benefit from the economic upswing that has slowly set in and expects to see improving capacity utilisation in the coming weeks. Moreover, SBO has coped excellently with the challenging year 2009 and lost neither its operational performance nor financial strength.

Year-on-year, aggregate sales and profit will lag behind the figures of fiscal 2009 for some time, as the first quarter of 2009 still benefitted from the record level of bookings of 2008. The fundamental prerequisites of a mid to long-term upward cycle remain intact. Declining production rates necessitate developing new oil reservoirs and more capital spending for existing oil fields. Besides, the growing complexity of oil and gas exploration and production will stimulate demand for high-tech products in the oilfield service industry. Due to its high market share in the segment, SBO will profit strongly from this development.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

The interim report as at 31 March 2010 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 2009 have been applied basically unchanged, with the exception of the standards which came into force in 2010. 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 2009. In the first three months of 2010 no changes occurred in the scope of consolidation.

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 2010 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

CONSOLIDATED PROFIT AND LOSS STATEMENT

in TEUR	3 months ended 31.03.2010	3 months ended 31.03.2009
Sales	**53,559**	**80,799**
Costs of goods sold	-43,154	-58,677
Gross profit	**10,405**	**22,122**
Selling expenses	-2,466	-2,847
General and administrative expenses	-4,095	-4,685
Other operating expenses	-1,818	-2,808
Other operating income	2,830	3,826
Operating profit	**4,856**	**15,608**
Interest income	125	66
Interest expenses	-1,196	-1,441
Other financial income	0	0
Other financial expenses	-94	-310
Financial result	**-1,165**	**-1,685**
Income before taxation	**3,691**	**13,923**
Income taxes	-1,240	-4,183
Income after taxation	**2,451**	**9,740**
Average number of shares outstanding	15,906,783	15,880,116
Earnings per share in EUR (basic = diluted)	**0,15**	**0,61**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	3 months ended 31.03.2010	3 months ended 31.03.2009
Income after taxation	2,451	9,740
Currency translation	12,575	10,300
Income tax effect	-645	-564
Hedging of a net investment	-410	-194
Income tax effec	103	49
Other comprehensive income, net of tax	**11,623**	**9,591**
TOTAL COMPREHENSIVE INCOME	**14,074**	**19,331**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

in TEUR	3 months ended 31.03.2010	3 months ended 31.03.2009
As at 1 January	229,808	226,216
Income after taxation	2,451	9,740
Other comprehensive income, net of tax	11,623	9,591
Total comprehensive income	14,074	19,331
Disposal of own shares	1,779	0
Income tax effect	-171	0
AS AT 31 MARCH	**245,490**	**245,547**

CONSOLIDATED BALANCE SHEET

ASSETS in TEUR	31.03.2010	31.12.2009
Current assets		
Cash and cash equivalents	116,334	96,640
Trade accounts receivable	40,428	41,033
Other accounts receivable and prepaid expenses	6,578	4,934
Inventories	89,064	88,899
TOTAL CURRENT ASSETS	**252,404**	**231,506**
Non-current assets		
Property, plant & equipment	139,002	136,697
Goodwill	40,802	38,979
Other intangible assets	7,544	7,873
Long-term receivables	4,313	4,128
Deferred tax assets	4,836	6,358
TOTAL NON-CURRENT ASSETS	**196,497**	**194,035**
TOTAL ASSETS	**448,901**	**425,541**

LIABILITIES AND SHAREHOLDERS´ EQUITY in TEUR	31.03.2010	31.12.2009
Current liabilities		
Bank loans and overdrafts	35,873	34,590
Current portion of long-term loans	20,792	19,829
Finance lease obligations	395	394
Accounts payable trade	13,603	8,709
Government grants	807	810
Income taxes payable	1,469	1,056
Other payables	11,515	10,884
Other provisions	8,447	7,952
TOTAL CURRENT LIABILITIES	**92,901**	**84,224**
Non-current liabilities		
Bonds	39,834	39,824
Long-term loans	46,615	47,485
Finance lease obligations	922	1,026
Government grants	1,556	1,564
Retirement benefit obligations	3,368	3,204
Other payables	8,432	7,875
Deferred tax payables	9,783	10,531
TOTAL NON-CURRENT LIABILITIES	**110,510**	**111,509**
Shareholders´ equity		
Share capital	15,930	15,880
Contributed capital	63,366	61,808
Legal reserve - non-distributable	785	785
Other reserves	38	39
Translation component	-22,607	-34,230
Retained earnings	187,978	185,526
TOTAL SHAREHOLDERS´ EQUITY	**245,490**	**229,808**
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY	**448,901**	**425,541**

CONSOLIDATED CASH-FLOW STATEMENT

in TEUR	3 months ended 31.03.2010	3 months ended 31.03.2009
Cash and cash equivalents at the beginning of the period	96,640	49,348
Cash earnings	7,374	14,722
Cash flow from operating activities	21,416	10,392
Cash flow from investing activities	-4,121	-10,332
Cash flow from financing activities	51	16,144
Effects of exchange rate changes and revaluations	2,348	1,431
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**116,334**	**66,983**

SEGMENT INFORMATION

in TEUR	Europe	North America	Other regions	SBO-Holding & Consolidation	Group
1-3/2010					
External sales	10,601	41,811	1,147		53,559
Intercompany sales	11,976	3,831	681	-16,488	0
Total sales	22,577	45,642	1,828	-16,488	53,559
Operating profit	592	2,033	-383	2,614	4,856
1-3/2009					
External sales	15,636	63,436	1,727		80,799
Intercompany sales	33,750	3,015	132	-36,897	0
Total sales	49,386	66,451	1,859	-36,897	80,799
Operating profit	8,898	8,355	164	-1,809	15,608

- 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 1,098 (end of 2009: 1,056), thereof 317 in Ternitz/Austria and 478 in North America (including Mexico).

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