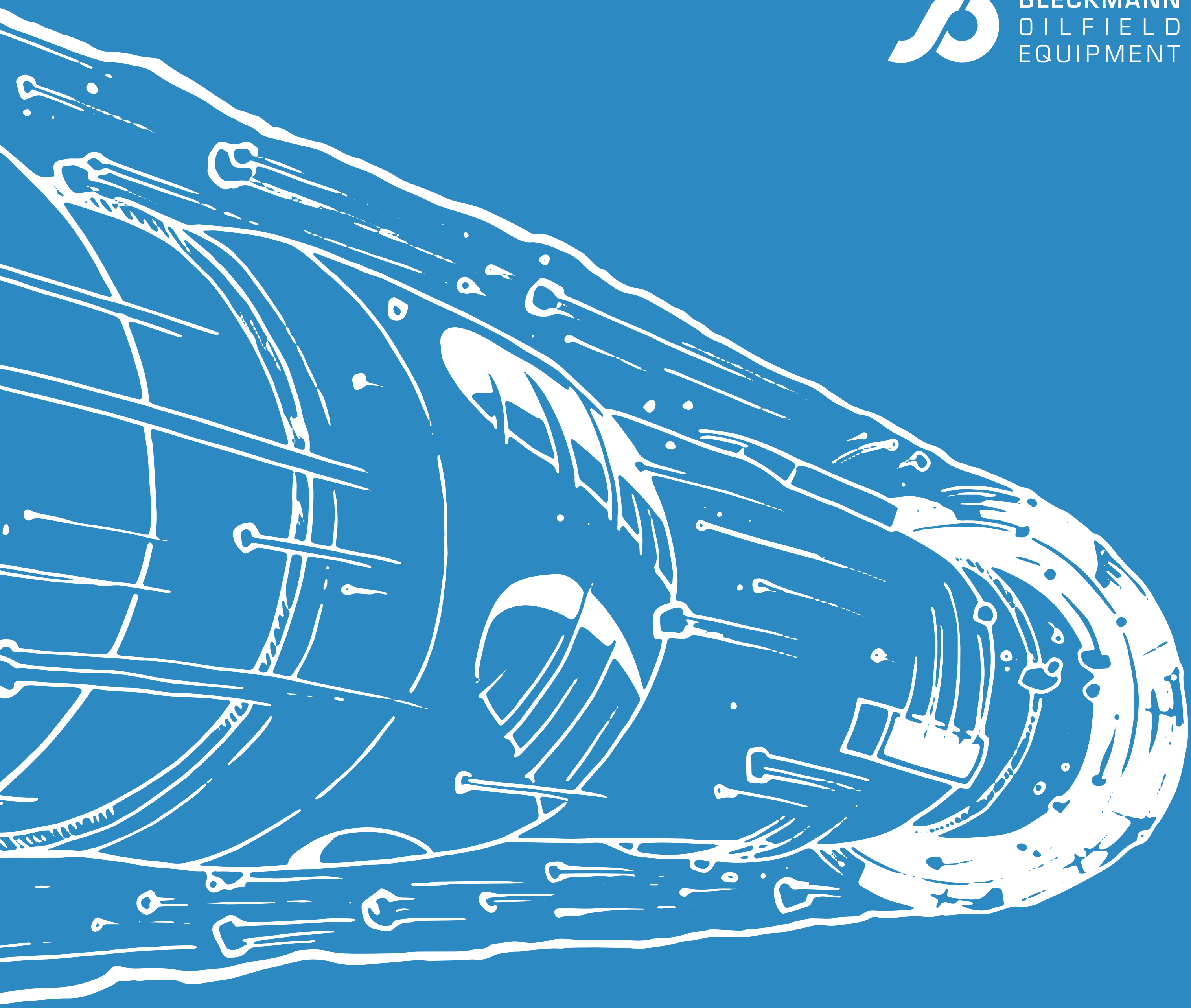
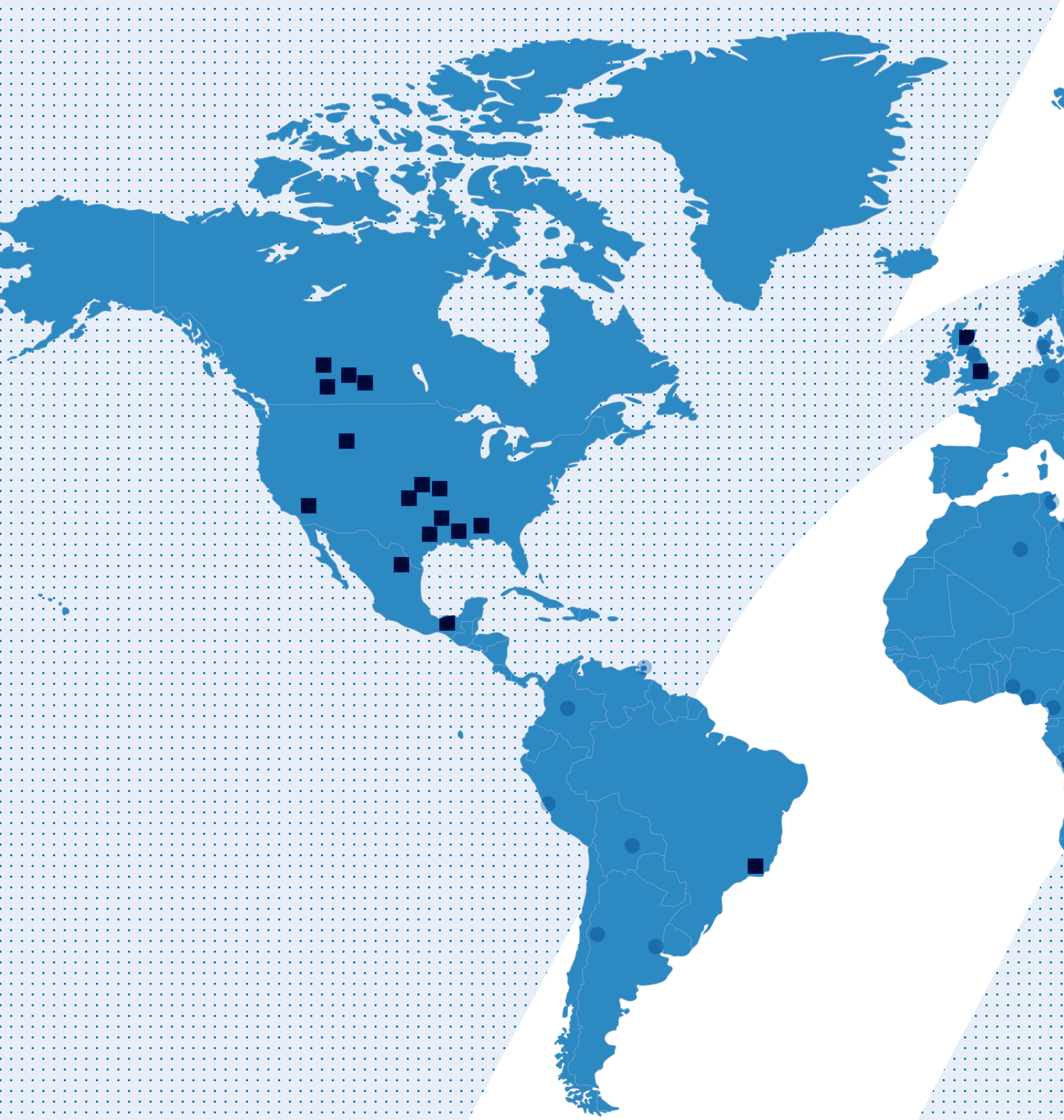
SCHOELLER
BLECKMANN
OILFIELD
EQUIPMENT

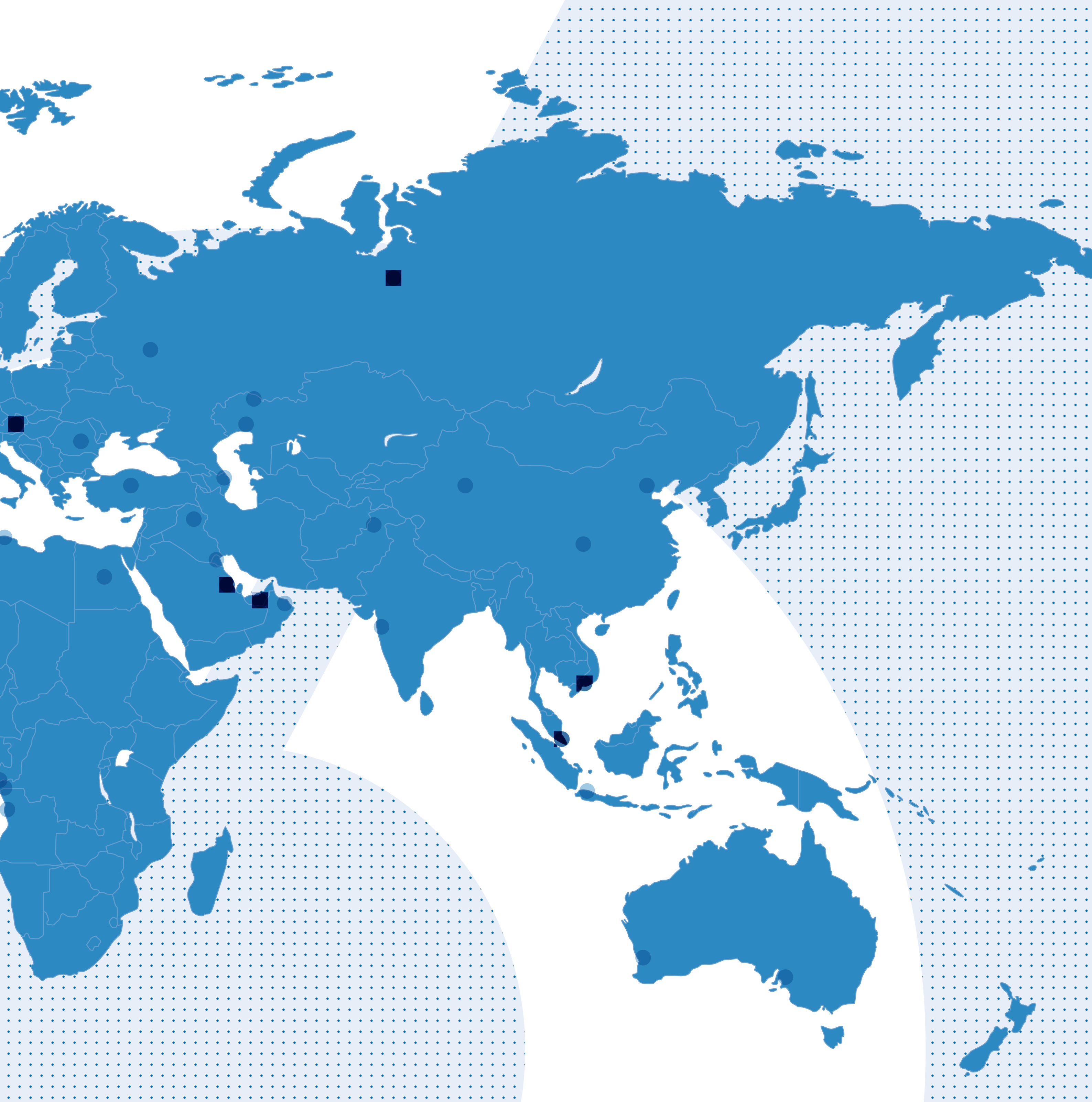


Annual Report 2018

# ENERGY IS OUR BUSINESS



- **SCHOELLER-BLECKMANN OILFIELD EQUIPMENT AG**
  Ternitz, Austria
- **BICO DRILLING TOOLS FZE**
  Dubai, UAE
- **BICO DRILLING TOOLS INC.**
  Houston, USA
- **BICO FASTER DRILLING TOOLS INC.**
  Nisku, Canada
- **DOWNHOLE TECHNOLOGY LLC**
  Houston, USA
- **DSI FZE**
  Dubai, UAE
- **DSI PBL DE MEXICO, S.A. DE C.V.**
  Villahermosa, Mexico
- **KNUST-GODWIN LLC**
  Houston, USA
- **KNUST-SBD PTE. LTD.**
  Singapore
- **RESOURCE WELL COMPLETION TECHNOLOGIES CORP.**
  Houston, USA



- **RESOURCE WELL COMPLETION TECHNOLOGIES INC.**
  Calgary, Kanada
- **SCHOELLER-BLECKMANN DARRON (ABERDEEN) LIMITED**
  Aberdeen, GB
- **SCHOELLER-BLECKMANN DARRON LIMITED**
  Noyabrsk, Russland
- **SCHOELLER BLECKMANN DO BRASIL, LTDA.**
  Macae, Brasilien
- **SCHOELLER-BLECKMANN DE MEXICO, S.A. DE C.V.**
  Monterrey, Mexiko
- **SCHOELLER-BLECKMANN ENERGY SERVICES L.L.C.**
  Broussard, USA
- **SCHOELLER-BLECKMANN OILFIELD EQUIPMENT MIDDLE EAST FZE**
  Dubai, VAE
- **SCHOELLER-BLECKMANN OILFIELD EQUIPMENT VIETNAM CO. LTD.**
  Binh Duong, Vietnam
- **SCHOELLER-BLECKMANN OILFIELD TECHNOLOGY GMBH**
  Ternitz, Österreich
- **SCHOELLER-BLECKMANN SALES CO. L.L.C.**
  Houston, USA
- **SCHOELLER BLECKMANN SAUDI LLC**
  Al-Khobar, Saudi-Arabien
- **TECHMAN ENGINEERING LTD.**
  Chesterfield, GB

*"All in all, a sound 2018 financial year lies behind us – supported by the expansion measures implemented over the past two years, we took advantage of the rise in spending in the oil and gas industry and responded precisely to the increase in demand"*

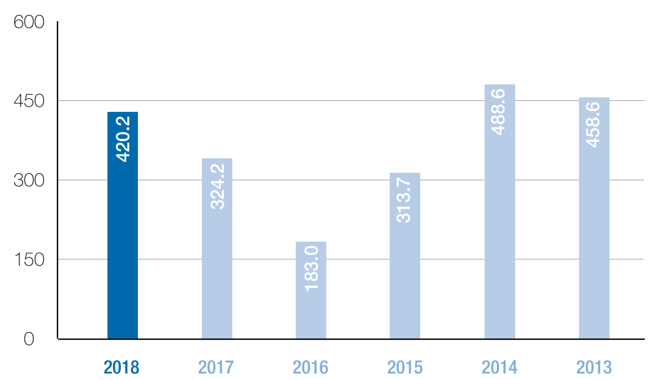
# CONTENT

## FINANCIAL HIGHLIGHTS

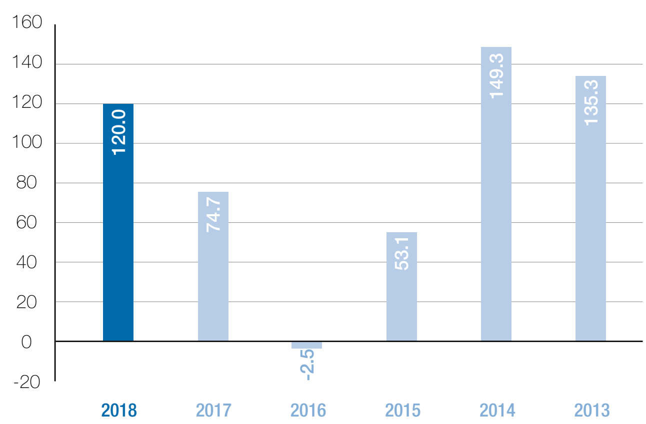
| in MEUR | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| Sales | 420.2 | 324.2 | 183.0 | 313.7 | 488.6 | 458.6 |
| Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) | 120.0 | 74.7 | -2.5 | 53.1 | 149.3 | 135.3 |
| EBITDA margin (%) | 28.6 | 23.0 | -1.4 | 16.9 | 30.6 | 29.5 |
| Profit from operations (EBIT) | 70.7 | 25.6 | -58.3 | -22.1 | 67.5 | 90.2 |
| EBIT margin (%) | 16.8 | 7.9 | -31.9 | -7.0 | 13.8 | 19.7 |
| Profit before tax | 54.9 | -69.8 | -45.1 | -20.0 | 80.0 | 83.9 |
| Profit before tax (before option revaluation) | 55.9 | 17.9 | -62.3 | -25.6 | 74.9 | 79.2 |
| Profit after tax | 41.4 | -54.4 | -28.0 | -19.0 | 54.0 | 61.3 |
| Earnings per share[1] (before option revaluation) (in EUR) | 2.51 | 0.93 | -2.93 | -1.54 | 3.06 | 3.51 |
| Earnings per share[1] (in EUR) | 2.59 | -3.41 | -1.75 | -1.19 | 3.38 | 3.81 |
| Total assets | 901.4 | 750.2 | 802.1 | 740.5 | 800.4 | 703.5 |
| Equity | 368.2 | 322.0 | 425.7 | 450.4 | 455.7 | 382.2 |
| Liquid funds | 241.5 | 166.0 | 193.5 | 196.3 | 130.2 | 158.4 |
| Dividend per share (in EUR) | 1.00[2] | 0.50 | - | 0.50 | 1.50 | 1.50 |
| Shares issued[3] | 16,000,000 | 16,000,000 | 16,000,000 | 16,000,000 | 16,000,000 | 16,000,000 |
| thereof own shares | 50,597 | 46,597 | 52,597 | 18,000 | 24,000 | 87,761 |

[1] Based on average shares outstanding
[2] Dividend proposed
[3] Shares issued as of 31 December at par value EUR 1.00 per share

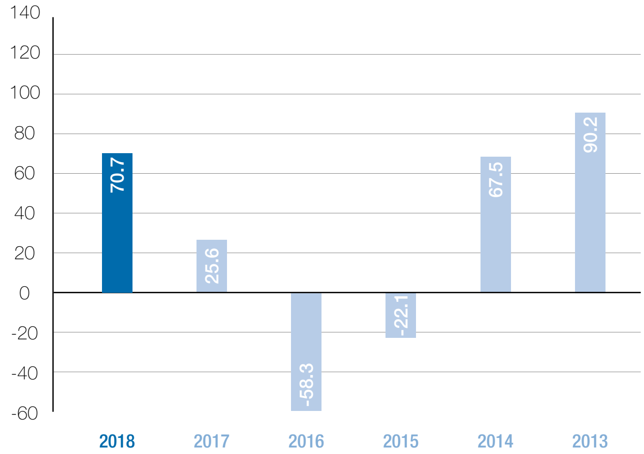
## SALES
in MEUR



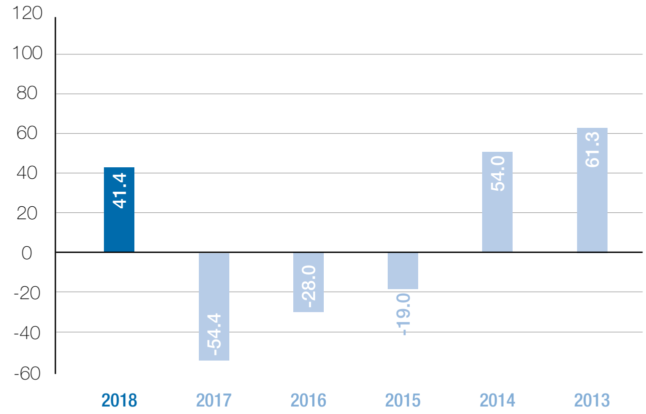

## EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)
in MEUR



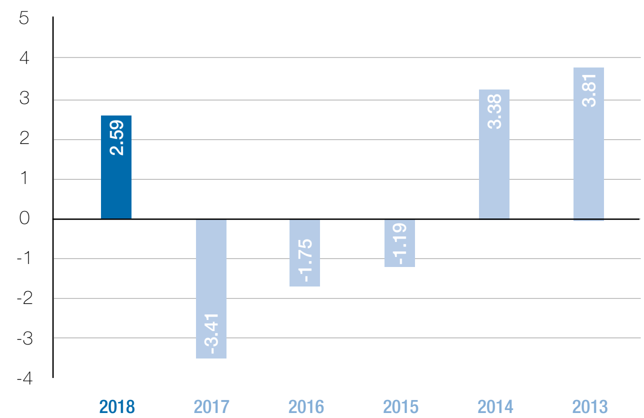
## PROFIT FROM OPERATIONS (EBIT)
in MEUR



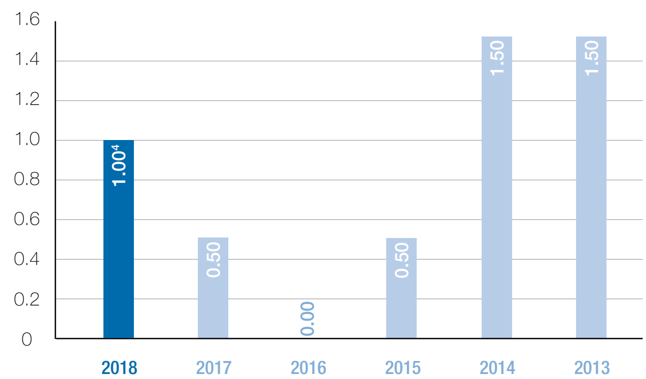

## PROFIT AFTER TAX
in MEUR




## EARNINGS PER SHARE
in EUR



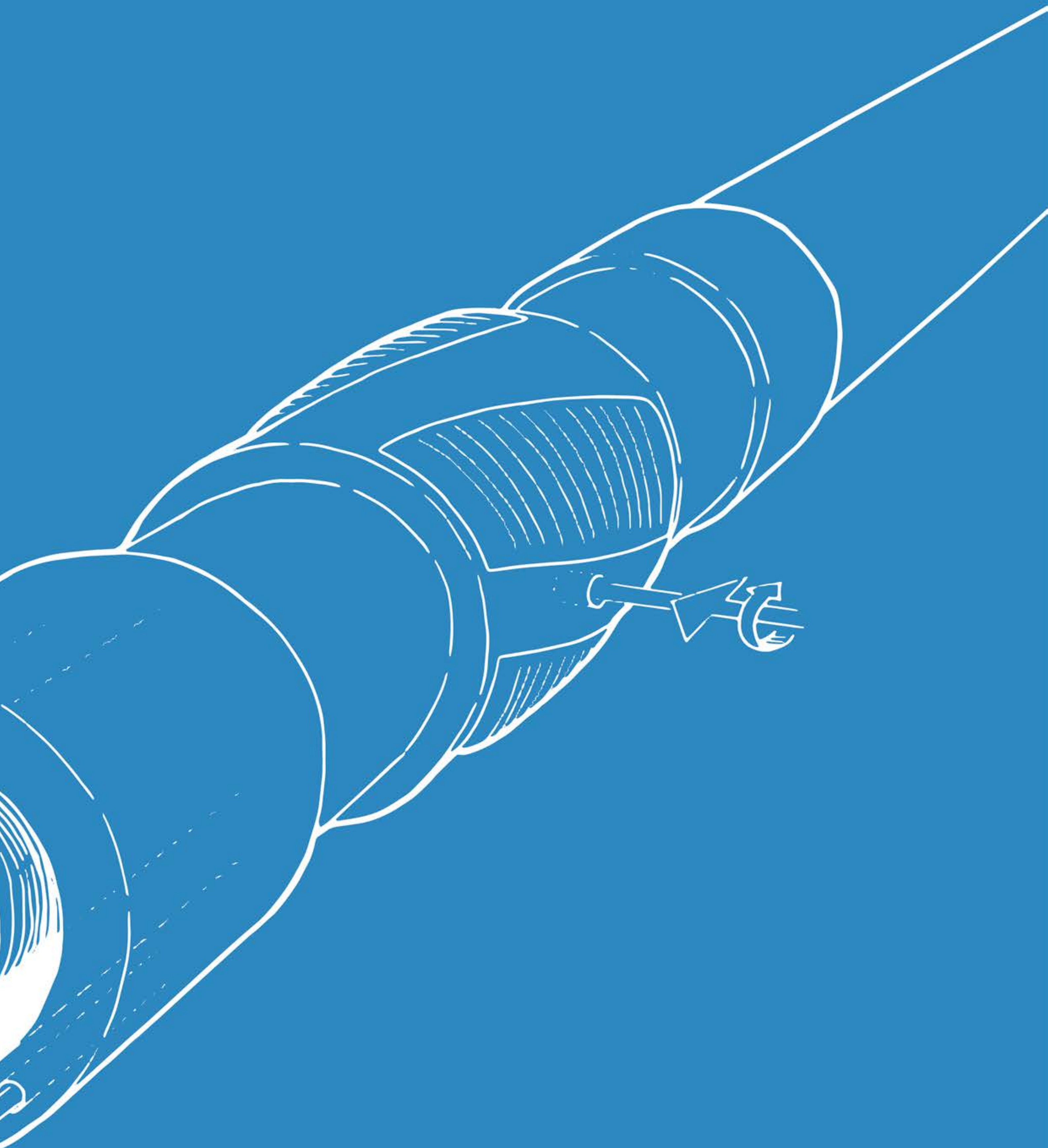

## DIVIDEND PER SHARE
in EUR




[4] Dividend proposed

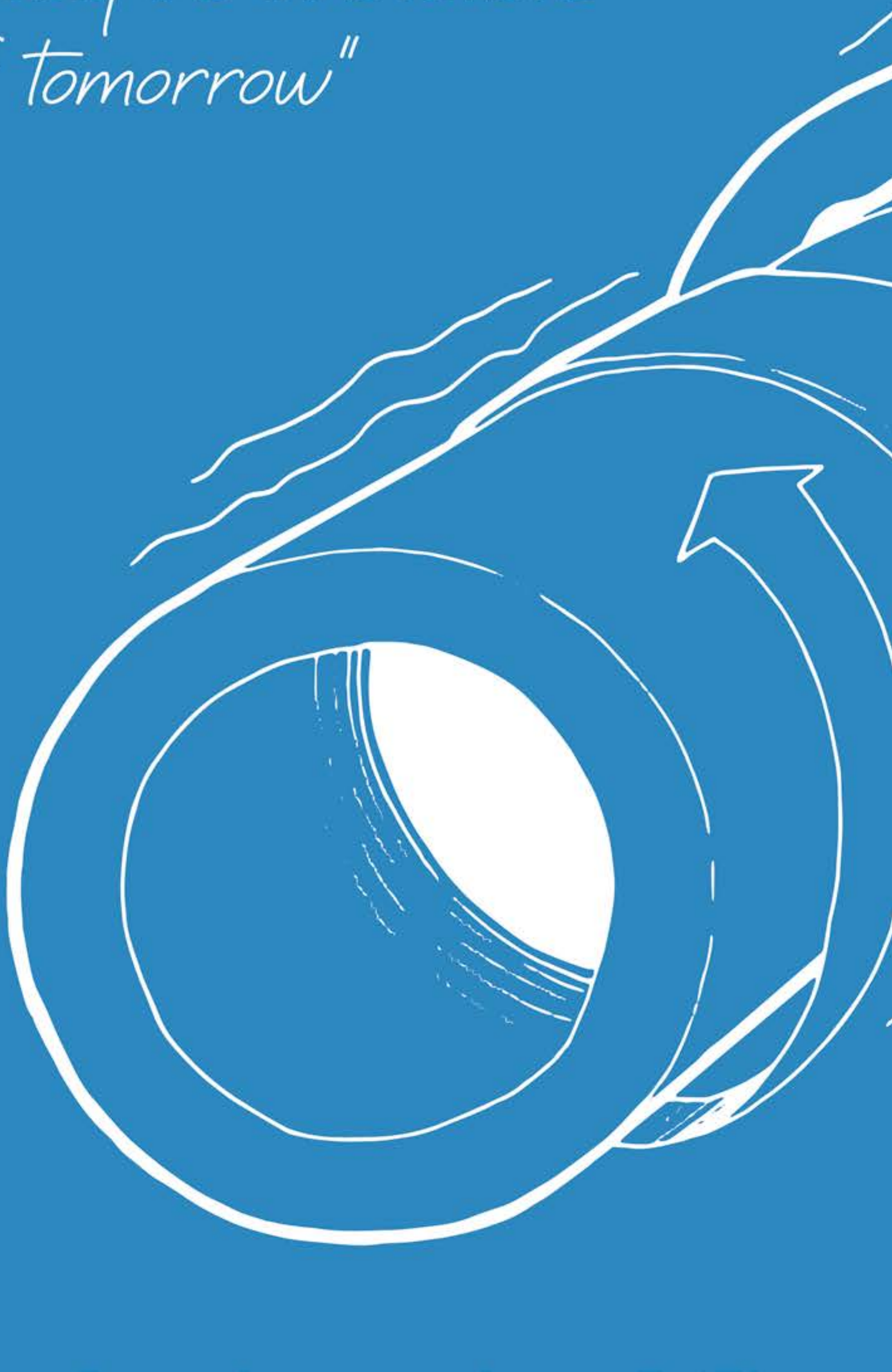
# LONG-TERM

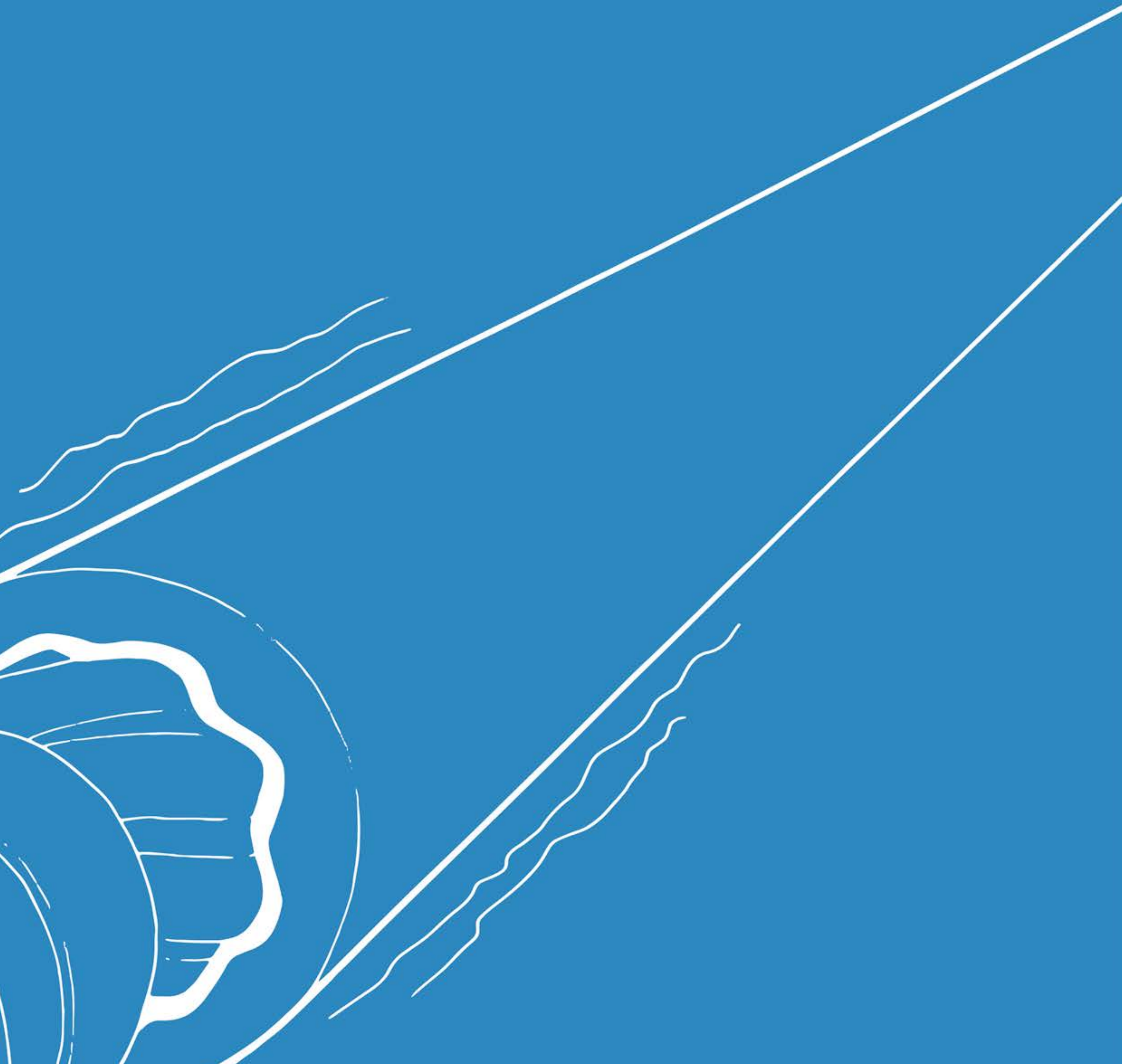
*"We live sustainability based on the 'quality first'-principle"*



# INNOVATIVE

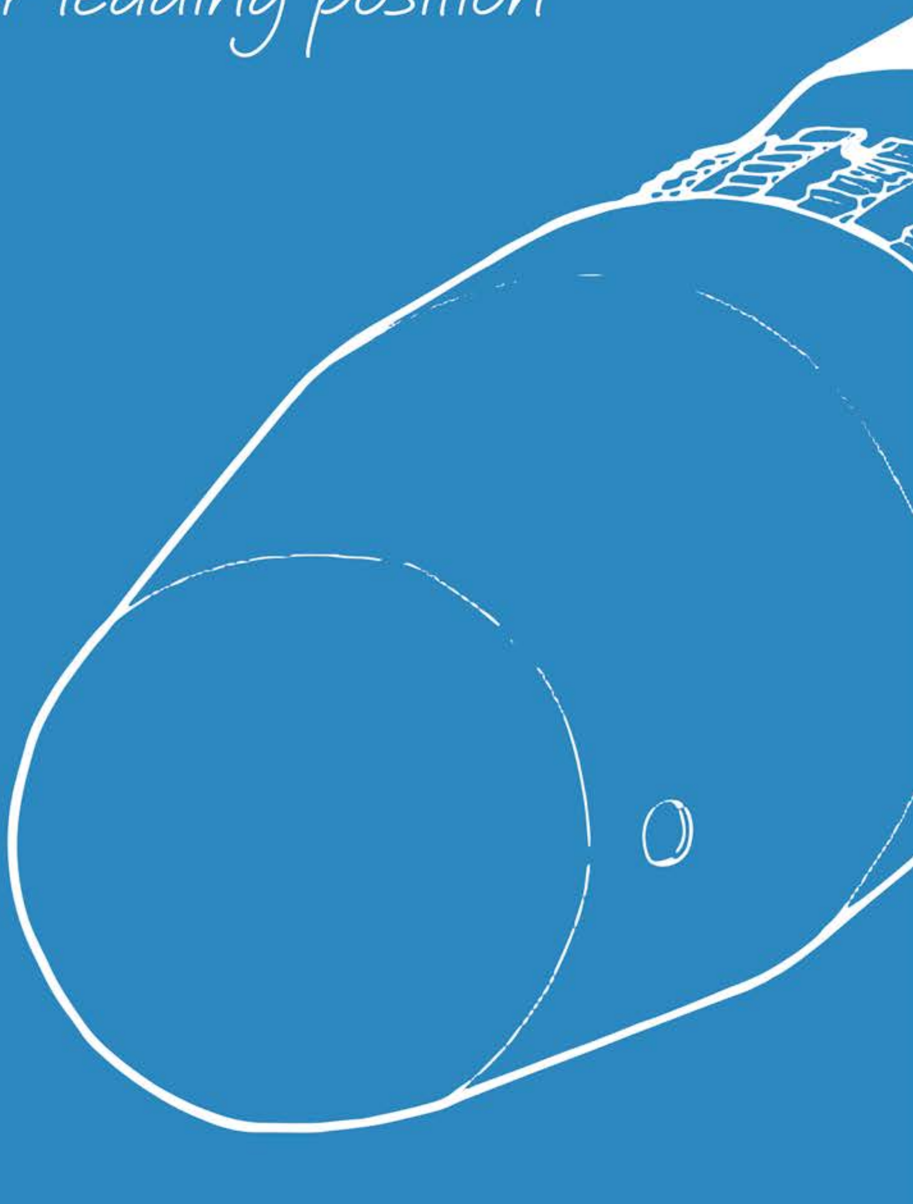
*"Our team pursues already today the innovations of tomorrow"*

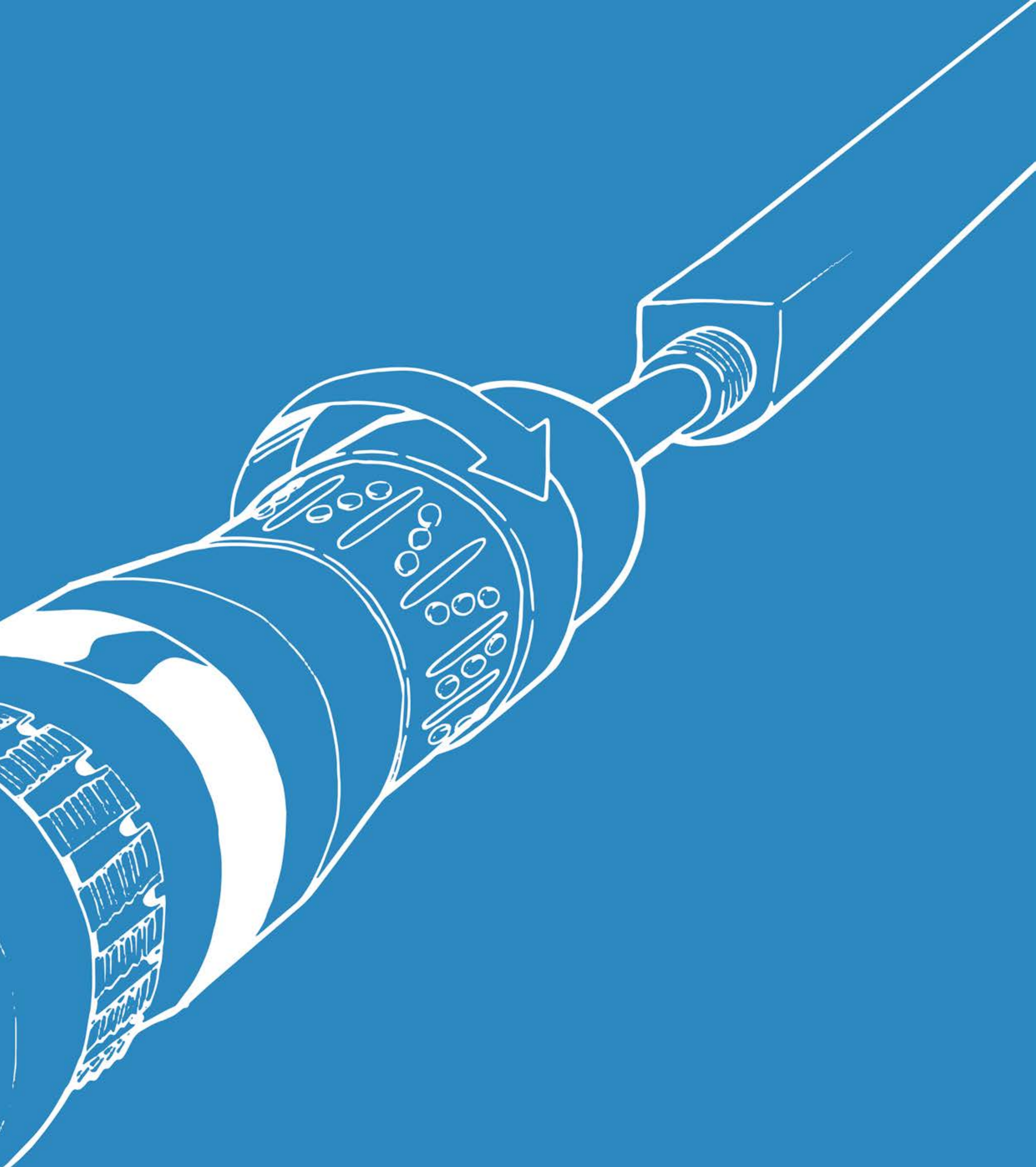




# ENERGY-RICH

"We use the dynamics of the market and are dedicated to expand our leading position"





# PREFACE OF THE EXECUTIVE BOARD

## DEAR SHAREHOLDERS AND BUSINESS PARTNERS,

All in all, a sound 2018 financial year lies behind us. In addition to the strong North American business, recovery on the international markets has set in gradually. As a result, the oil and gas industry was asking for state-of-the-art technologies and efficiency-enhancing solutions. The requirement to develop fossil resources even in a more challenging oil price environment means that the trend towards efficiency-enhancing measures is continuing unabated. Supported by the expansion measures implemented over the past two years, we took advantage of the rise in spending in the oil and gas industry and responded precisely to the increase in demand.

The strong growth in the first three quarters was followed by a softening in the fourth quarter due to the rapid slump in oil prices, once again demonstrating impressively how much flexibility is demanded of players in the oilfield service industry. SBO was able to prove its worth throughout the entire year and, contrary to the general market development, also scored well at the end of the year. Compared to the 2017 financial year, we grew our bookings by 41 % and sales by 30 %. Our profit from operations (EBIT) almost tripled to MEUR 70.7. Both segments of our Company, "Oilfield Equipment" (OE) and "Advanced Manufacturing & Services" (AMS) posted sound performance. The recovering international market in particular was able to catch up to some extent with the North American market, which had achieved high growth rates already in previous years. Accordingly, our mainly international

*"A sound 2018 financial year lies behind us"*

AMS segment recorded a profit from operations (EBIT) of MEUR 18.9, which was positive for the first time since the end of the crisis. Our North American business is primarily reflected in the OE segment, where we benefited from the continuing strong environment and generated a profit from operations (EBIT) of MEUR 55.2. Consolidated profit after tax amounted to MEUR 41.4.

In addition to organic growth, as a world market leader, we continued to focus on research and development in year 2018, bringing innovations to market maturity. Among other things, we applied for a patent for a new high-quality material, elaborated to perfection a technology for treating long drillstring components and developed an all-composite frac plug in the Well Completion application area. This type of composite frac plugs is generally regarded as the next step in the evolution of those plugs.

*"SBO was able to prove its worth throughout the year"*

In line with our efforts to efficiency and productivity enhancements, we have decided to close production sites in Mexico and England. In connection therewith, it was important for us to maintain production capacities by relocating them to our production sites in Vietnam, Austria and the United States. These measures will be completed in the course of 2019.

For the 2018 financial year, we propose a dividend of EUR 1.00 per share, compared to EUR 0.50 per share in the previous year, underlining our positive outlook for 2019.

Our thanks go to our employees, our customers, our partners and our shareholders for their trust and support in our endeavors and look forward to successful cooperation in the 2019 financial year.

The Executive Board, March 2019

**Gerald Grohmann**
Chief Executive Officer

**Klaus Mader**
Chief Financial Officer

"We are the world market leader in clearly defined niches and continue to grow systematically"

# THE COMPANY

## A LEADING SUPPLIER OF QUALITY PRODUCTS FOR THE OILFIELD SERVICE-INDUSTRY

SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft (SBO) is a leading global oilfield equipment supplier. The Company develops and manufactures products and solutions used for directional drilling and well completion. The Company is the world market leader in the manufacture of high-precision components made from non-magnetic, high-alloy stainless steels. SBO manufactures these components specifically according to the requirements of customers in the oilfield service industry. At the same time, SBO is a leading supplier of highly efficient drilling tools and equipment for the oil and gas industry. As a result, the Company is positioned in clearly defined niches in the oilfield service industry, pursuing its path of growth systematically.

In addition, SBO is highly focused on seeking opportunities for diversification in growing markets. These are niches that are redefining themselves within the oil and gas industry and markets opening up outside the industry by using the Company's core competencies, such as the aerospace sector, for which SBO has been certified since 2016. Sustainable, long-term growth is SBO's strategic goal.

Listed on the leading ATX segment of the Vienna Stock Exchange, the Company is represented at all major hubs of the global oilfield service industry. The head office is located in Ternitz, Austria. At the end of the 2018 financial year, SBO employed a workforce of 1,646 worldwide (2017: 1,432).

# BUSINESS ENVIRONMENT

Fossil fuels are the strongest pillar of today's energy supply. Crude oil and natural gas account for 54.0 % of global primary energy demand. This share is expected to remain virtually unchanged at 53.9 % until 2025 and to fall only slightly to

52.7 % until 2040. At the same time, demand for crude oil and natural gas will continue to increase in absolute figures. The share of renewable energies including hydropower and bioenergy in primary energy demand is expected to come to a mere 16.4 % in 2025 and only 20.3 % even in 2040, compared to 14.3 % today. Excluding bioenergy, this share is considerably lower at 4.3 % today, 6.1 % in 2025 and 9.9 % in 2040.

Gasoline and diesel continue to lead the important transport sector. Fossil fuels dominate almost the entire transport sector. This also applies to the e-mobility sector, which is partly misunderstood as "green", if one considers the resources used for electricity generation with a share of fossil fuels of 64.9 % (forecast for 2040: 49.3 %).

Another important factor in this respect is to significantly reduce $CO_2$ emissions and other climate-damaging emissions. In order to limit average global warming at 1.5 degrees Centigrade, the Paris Climate Convention COP 21 (2015) foresees a substantial reduction in greenhouse gas emissions, while, at the same time, increasing energy efficiency. Vast potential lies, for instance, in efficiency enhancing measures of combustion engines (ICEs), reducing friction and hybridization, and the increased use of alternative renewable energy sources. It is thereby undisputed that the energy mix for electricity generation has a significant impact on the carbon footprint of e-mobility, as only genuine renewable energy sources leave a neutral carbon footprint. The fact that coal still is heavily used as source for the production of electricity puts a tremendous negative weight on the total balance, because coal produces $CO_2$ emissions that are 50 % higher than those of oil and even 75 % higher than those of gas. Based on current assumptions, this means that an 11 % reduction in oil demand in the transport sector would reduce $CO_2$ emissions by only 3 % worldwide.[1] Consequently, it should be pointed out that shifting investment from coal-fired power plants to gas-fired power plants and, with it, to exploration and production of gas is an absolute prerequisite of an environmentally efficient introduction of e-mobility.[2]

[1] Cf. Future is Electric Scenario on New Policies Scenario, according to IEA World Energy Outlook 2018.
[2] International Energy Agency (IEA), World Energy Outlook 2018.

# OUR PRODUCTS AND SERVICES

We are operating in a dynamic environment with long-term perspectives. Global energy demand is rising and the oil and gas industry is faced with the challenge of ensuring security of supply through sophisticated processes. In addition, strong volatilities in oil and gas prices require efficient and thus cost-saving methods for extracting these resources.

By offering a wide range of products and services, we provide our customers in the oil and gas and oilfield service industries with key services and state-of-the-art equipment for directional drilling and well completion. High-performance drilling tools and precise measuring instruments are a prerequisite for reaching hardly accessible reservoirs and achieving the required production rates. In North America, directional drilling already accounts for more than 90 % of all new wells drilled.[3]

SBO's products and solutions are used for safe, efficient and sustainable drilling in both the oil and the gas sectors. As an innovation leader, we consistently work on delivering the technologies of tomorrow. Growing demand for ever more efficient solutions constitutes a great opportunity for our Company.

Our product and services portfolio covers six key fields:

## NON-MAGNETIC STEEL

For decades, we have been developing and processing high-quality specialty steels. As these steel grades stand out by corrosion resistance, high material strength and non-magnetic properties they do not impair the functionality of sensitive measuring devices when in operation and are therefore suited for use in directional drilling for oil and gas reservoirs. Continuous development is coupled with experience and innovation: In 2018, for example, we filed a patent application for a new non-magnetizable steel alloy, creating a cost-efficient material that can also be used under difficult conditions.

## HIGH-PRECISION COMPONENTS

For our customers in the oilfield service industry, we manufacture tailor-made components made of non-magnetic, corrosion-resistant stainless steel defined according to their specifications. Those components are used for "Measurement While Drilling" (MWD) and "Logging While Drilling" (LWD) applications. They form the high-tech housing for the sensitive instruments generating data on inclination and azimuth of the drillstring in addition to petrophysical parameters during directional drilling operations. Industry is using more and more sophisticated measuring instruments, which require

[3] Baker Hughes Rig Count.

increasing space within the limitations inside the drillstring. It is crucial though that no compromises are made on the operational performance of components. SBO has decades of experience in the manufacture of such components and continues to develop the technologies applied. Our specifically developed Hammer Peening technology, for instance, now allows to make outside diameter treatment of long drillstring components and represents a clear competitive advantage through improved corrosion protection, an essential factor for the lifetime of a component.

## HIGH-PERFORMANCE DRILLING MOTORS

Our market-leading high-performance drilling motors are used in many areas of the oil and gas industry: They are deployed in areas spanning from directional and horizontal drilling down to so-called "thru-tubing" applications. SBO drilling motors are characterized by high torques and intelligent protection systems. They achieve a considerably higher penetration rate than conventional drilling motors and make sure that ultra-long drilling projects are economically viable.

## CIRCULATION TOOLS

Our circulation tools are versatile, as they can be used both for sealing liquid-permeable zones of the borehole and for cleaning the borehole while drilling and are highly reliable. This means that demanding drilling operations can be continued with virtually no interruption and no time-critical round trip is required.

## WELL COMPLETION

In Well Completion, the exploration step preparing the well for oil or gas production, SBO offers high-efficiency products in the two dominating technologies, "sliding sleeve" and "plug-n-perf". In the "sliding sleeve" process, SBO's closable sleeve system allows for a very flexible reaction to the conditions of the respective well, as, for instance, unproductive zones can be closed and backflow of proppants into the production string is prevented. In the "plug-n-perf" application area, SBO's composite frac plugs score with their water- and time-saving properties. In addition, SBO has launched what is called all-composite frac plugs, the next generation of composite frac plugs.

## HIGH-TECH SERVICE AND REPAIR

Our product portfolio is rounded off by our high-tech repair and service offering to serve the needs of our customers in all major hubs of the oilfield service industry worldwide. In addition to numerous other services, precision measurements are carried out on the components, threads are renewed and protective coatings are applied using state-of-the-art methods. We operate as a "one-stop shop" offering local proximity to the customer.

With this range of products and services, SBO is strongly positioned in its niches and continuously works on further developments. We understand the complex needs of our customers and offer appropriate solutions worldwide. Research and development (R&D) is one of our strengths. We pursue our activities as part of our sustainable growth strategy, regardless of the economic cycle the market is undergoing at the moment. We are working hard to continue delivering innovation to our customers. With the high level of technical know-how and many years of experience of our employees, we can ensure innovative product developments and shape the market at the forefront. This gives SBO an outstanding position within the industry.

Modern technologies in the oil and gas market will remain key to meeting the growing global demand for energy. With our constantly evolving products and services, we aim to make an active contribution to developing resources that are difficult to access.

# OUR CORPORATE STRUCTURE

The SBO Group is steered by the holding company in Ternitz, Austria. Due to our lean organization and short communication channels, we can implement decisions quickly and effectively. Our globally operating company is divided into two segments, which also form the basis of reporting: "Advanced Manufacturing & Services" (AMS) and "Oilfield Equipment" (OE).

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

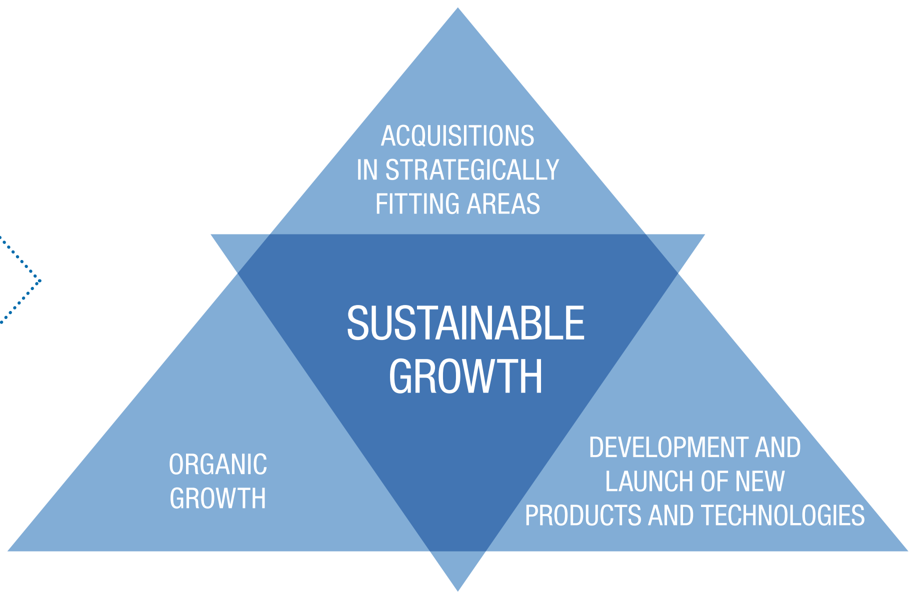
The "Oilfield Equipment" segment includes a wide range of highly specialized solutions for the oil and gas industry: High-performance drilling motors and tools for directional drillstring drive as well as downhole circulation tools; in addition, we offer products for efficient and resource-conscious completion of unconventional reservoirs in the two dominating technologies "sliding sleeve" and "plug-n-perf".

*"Lean structures for rapid decision making"*

# OUR STRATEGY

SBO is strategically focused on sustainable growth in technologically challenging niches. We are committed to our customers, suppliers and employees to develop the company further and aim to create value for our shareholders. We are fully dedicated to maintaining and expanding our position as a leader in technology, quality and innovation. We are extending our potential, on the one hand, by growing organically and driving innovation forward. On the other hand, we also use suitable opportunities for external growth through acquisitions. Our guiding principle is: “Quality First“.

“QUALITY FIRST



"Quality First" summarizes a number of strategic aspects and is the central guideline for all our activities. Our employees live up to this standard in their everyday activities. That is why we pay special attention to our team of highly qualified experts. From the moment we recruit them, we ensure that our employees receive further training throughout their careers and provide a motivating and safe working environment. We are constantly working to improve our skills and know-how. To this end, we make appropriate resources available both in terms of personnel and budget. R&D and training projects have high priority throughout all cycles. In this way, we create development opportunities and secure jobs for our employees. Our goal is to offer our highly qualified team an attractive working environment and to keep them in the Company for the long term.

Our focus on innovation is the basis of continuous, organic growth in our business segments and in our global network. In addition to new technologies, we are constantly evolving our existing products and manufacturing technologies. Through continuous improvement, we strive to further improve the efficiency and reliability of our products. Our innovative product solutions add value to our customers, allowing for more efficient and resource-conserving exploration, and grow their value generation.

At the same time, we are constantly exploring the market to expand our portfolio through appropriate acquisitions. We pursue selected acquisitions to strengthen our strategic position and open up new areas of business. Due to our forward-looking liquidity management, we are in a position to react promptly to opportunities and challenges as they arise.

Under the "Quality First" approach, we regularly review and improve our production workflow to ensure smooth and safe manufacturing processes. Our quality management standards are combined in our integrated management system. We invest with a focus on quality measurement and process monitoring, selectively also in digital solutions, in order to further optimize processes and minimize sources of error. Applying our efficient process design, we pursue the goal of making our production more efficient and environmentally friendly. Our aim is to offer our employees, customers and suppliers a fair business environment and act as reliable and secure partner.

Also, we invest in optimized logistics to produce and deliver as quickly and efficiently as possible for the benefit of our customers. We maintain long-term, sustainable relationships with our suppliers. We rely on partners who meet our quality requirements and guarantee that our demanding solutions can be implemented in the best possible way.

We aim to safeguard that our environment, our employees and the social community are treated with care. In our day-to-day operations, we ensure implementation of the principles of our business ethics by continuously reviewing and intensifying our efforts in all of the areas mentioned.

# OUR MISSION STATEMENT

Our day-to-day activities are guided by the fundamental principles summarized in our mission statement. This framework demonstrates what we stand for and offers our employees guidance for their everyday work.

"

WE ENCOURAGE AND REWARD INNOVATIVE BEHAVIOR FROM OUR EMPLOYEES.

"

WE STRIVE FOR A SUSTAINED RISE OF CORPORATE VALUE THAT ALLOWS US

- TO REMAIN A LONG-TERM, RELIABLE AND INNOVATIVE PARTNER FOR OUR CUSTOMERS,
- TO PURSUE NEW BUSINESS OPPORTUNITIES AND INVEST IN ADVANCED TECHNOLOGIES,
- TO OFFER AN ATTRACTIVE RETURN TO OUR SHAREHOLDERS.

"

THE UMBRELLA OF SBO PROVIDES A STRONG STRATEGIC AND FINANCIAL BASIS FOR OUR HIGHLY AUTONOMOUS SUBSIDIARIES. COMMON OBJECTIVES AND CLEAR COMMUNICATION CHANNELS ARE THE BASIS FOR OUR SUCCESS.

"

WE ARE DEDICATED TO OPERATE IN A SAFE AND ENVIRONMENTALLY RESPONSIBLE MANNER.

WE STRIVE TO BE AN ATTRACTIVE COMPANY FOR OUR EMPLOYEES AND OFFER THEM CHALLENGING OPPORTUNITIES IN A PERFORMANCE-ORIENTED ORGANIZATION.

WE PROMOTE AN ENVIRONMENT OF OPENNESS AND TRUST.

WE STRIVE TO BE A RELIABLE LONG-TERM PARTNER FOR OUR CUSTOMERS

- IN DAY-TO-DAY BUSINESS BY PROVIDING BOTH HIGH-QUALITY SERVICES AND FEASIBLE SOLUTIONS TO CREATE ADDED VALUE FOR OUR CUSTOMERS.
- AS A LONG-TERM STRATEGIC PARTNER BY FURTHER DEVELOPING ADVANCED TECHNOLOGIES, PRODUCTS AND SERVICES WHICH HELP OUR CUSTOMERS ACHIEVE THEIR OBJECTIVES.
- BY OUR COMMITMENT TO PROTECT THE PROPRIETARY KNOWLEDGE OF OUR CUSTOMERS.

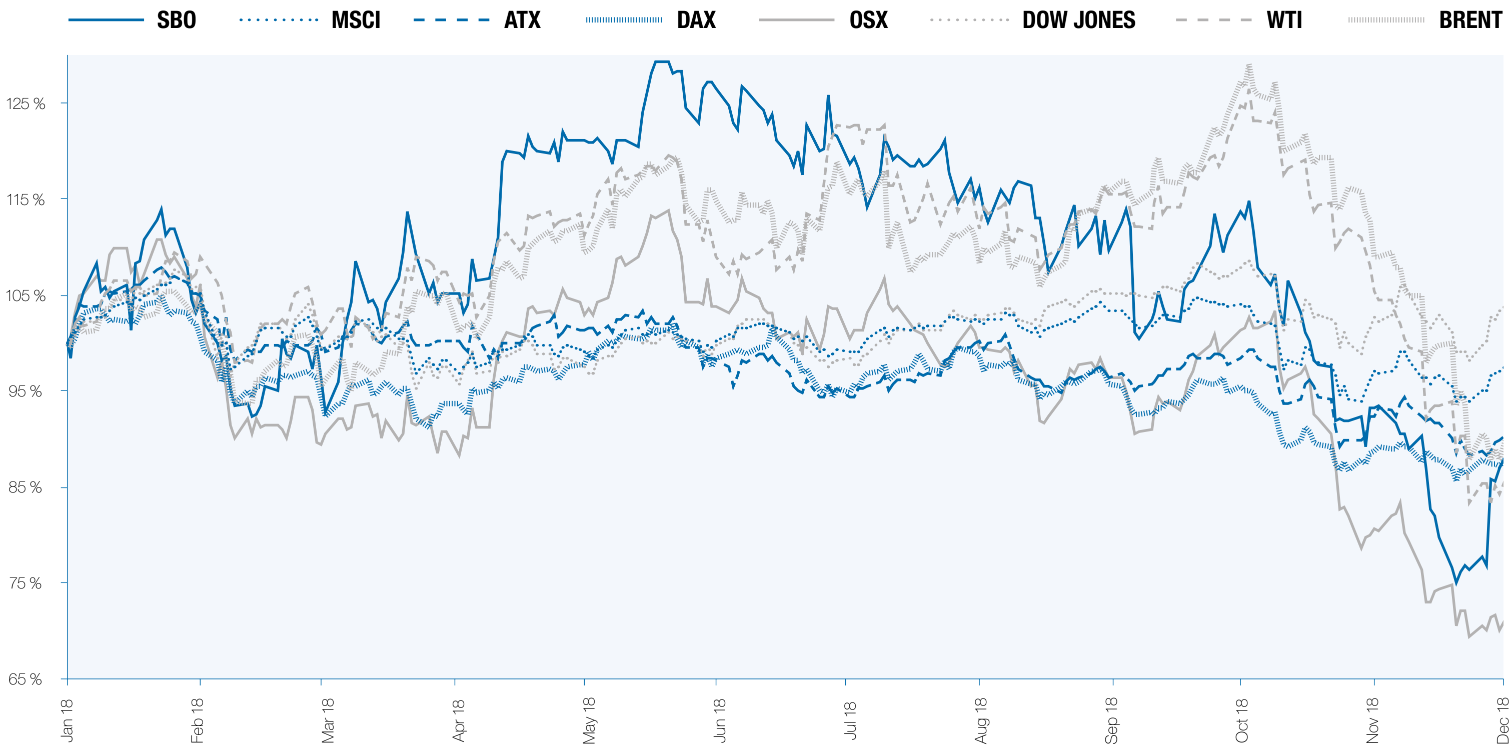
WE ARE COMMITTED TO CONTINUOUS IMPROVEMENT AND STRIVE TO BE THE BEST IN THE FIELDS OF OUR ACTIVITIES.

WE ARE DEDICATED TO INTEGRITY AND HONESTY AND ACT ACCORDINGLY.

# OUR SHARE

The SBO share is trading on the prime market of the Vienna Stock Exchange and is listed in the leading Austrian ATX index. On 2 January 2018, the share started into the trading year at a rate of EUR 85.00 per share. On 22 May 2018, the SBO share reached its all-time high of EUR 111.60. Following the market-related price slide since October 2018, the share closed at a rate of EUR 57.35 on 28 December 2018.

## SHARE PERFORMANCE



The Oil Service Sector Index (OSX) representing the stock performance of the world's largest oil service companies fell by 46.5 %, from USD 150.57 to USD 80.60, over the same period. At the end of December, the SBO share was 32.5 % below its price at the beginning of the year, meaning that it had gone down less than the OSX. The Vienna leading index ATX fell from 3,420.14 points at the beginning of the year to 2,745.78 points on 28 December 2018, contracting by 19.7 %.

SBO is committed to transparent, open and direct communication with the capital market. Private and institutional investors were given an opportunity to find out more about the company at numerous types of events held in 2018. In the year under review, SBO attended road shows and conferences staged on 43 days in Austria and abroad. The Executive Board and Investor Relations team presented the company to national and international investors, for instance in Berlin, Boston, Calgary, Chicago, Dallas, Denver, Frankfurt, Hamburg, Hong Kong, Houston, London, Los Angeles, Lugano, Luxembourg, Milan, Montreal, Munich, New York, Paris, San Francisco, Singapore, Stegersbach, Ternitz, Tokyo, Toronto, Vail, Vienna, Zurich and Zürs.

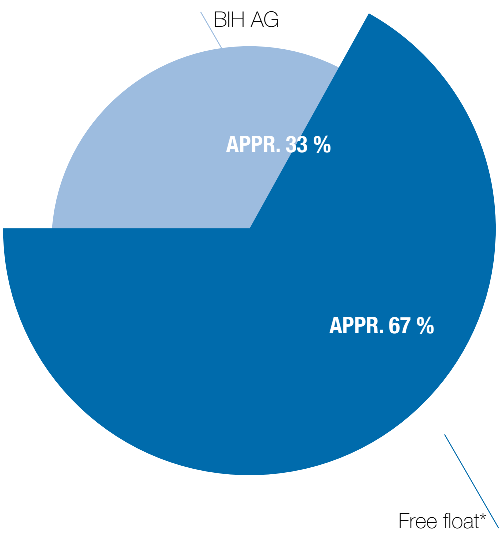
In 2018, the shareholder structure of SBO again was well balanced geographically. As at the end of 2018, it was (as far as known) as follows: SBO's core shareholder, Berndorf Industrieholding AG, held 33.4 % of the shares in SBO as at 31 December 2018, leaving a free float of 66.6 %, of which roughly 32 % were held by investors from the US, 24 % by investors from the United Kingdom, 13 % by investors from France, 7 % by investors from Switzerland, 6 % each by investors from Germany and Austria, 3 % each by investors from Italy, Norway and Canada, and 2 % by investors from Belgium. Further shareholders of SBO included investment funds, among them from Australia, Denmark, Finland, Ireland, the Netherlands, Romania, South Africa, Sweden and Taiwan.[4]

"SBO is committed to transparent communication with the capital market"

[4] Shareholder structure based on Big Dough data in January 2019.

Analysts of Baader Bank, Berenberg Bank, Credit Suisse, Deutsche Bank, Erste Bank, and Raiffeisen Centrobank as well as Hauck & Aufhäuser, Kepler Cheuvreux, Canaccord Genuity, Natixis (later: ODDO BHF), RaymondJames (later: MainFirst) und William O'Neil regularly reported about the performance of the company, which makes SBO's periodic coverage by 12 analysts rank among the leading ATX-listed companies. In addition, contacts with other banks and analyst firms were intensified and extended.

## SHAREHOLDER STRUCTURE




* Shareholders exceeding notification thresholds:
Threshold of 4 %: EARNEST Partners, LLC

## CORPORATE CALENDAR 2019

| | |
|---|---|
| 13.04.2019 | Record Date "Annual General Meeting" |
| 23.04.2019 | Annual General Meeting 10 a.m. CET |
| 21.05.2019 | Ex-Dividend Date |
| 22.05.2019 | Record Date |
| 23.05.2019 | Dividend Payment Date |

### PUBLICATIONS

| | |
|---|---|
| 19.03.2019 | Result of the Year 2018 |
| 23.05.2019 | Q1 2019 |
| 22.08.2019 | HY 2019 |
| 28.11.2019 | Q3 2019 |

As before, SBO pursued a direct, proactive approach to communicating with business and finance journalists in the year 2018. In addition to the annual and quarterly publications, CEO Gerald Grohmann seized numerous opportunities to explain SBO's strategy and business model to journalists and provide them with background information on current developments in the oil market and the oilfield service industry.

The latest information about the company and all publications of SBO are available on the company website at www.sbo.at.

## KEY SHARE FIGURES

| | 2018 | 2017 |
|---|---|---|
| Share capital (in EUR) | 16,000,000 | 16,000,000 |
| Shares issued | 16,000,000 | 16,000,000 |
| thereof own shares | 50,597 | 46,597 |
| High / low (in EUR) | 111.60 / 53.00 | 86.83 / 52.59 |
| Last close at year end (in EUR) | 57.35 | 85.00 |
| Market capitalisation at year-end (in EUR) | 917,600,000 | 1,360,000,000 |
| Price-To-Book (P/B) ratio at year-end | 2.49 | 4.22 |
| Price-Earnings (P/E) ratio at year-end | 22.14 | N.A. |
| Earnings per share[1] (in EUR) | 2.59 | -3.41 |
| Dividend per share (in EUR) | 1.00[2] | 0.50 |
| Average daily trading volume[3] (shares) | 28,861 | 29,707 |

[1] Based on average shares outstanding
[2] Dividend proposed
[3] Single counting, rounded

*"Recovery in North America and on the international markets"*

# MANAGEMENT REPORT

THE CONSOLIDATED MANAGEMENT REPORT WAS PREPARED BY SCHOELLER-BLECKMANN OILFIELD EQUIPMENT AKTIENGESELLSCHAFT FOR THE SCHOELLER-BLECKMANN OILFIELD EQUIPMENT – IFRS – CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO SECTION 245a UGB (AUSTRIAN COMMERCIAL CODE)

## HIGHLIGHTS

- SBO spurred by recovery in North America and on international markets
- Sales up from previous year by approximately 30 %, EBIT almost tripled
- Proposed dividend in the amount of EUR 1.00 per share

The upswing in North America that had begun in the second half of 2016 continued throughout 2018. In addition to strong business in North America, the international markets also started to recover. This allowed SBO's international business to catch up massively and end the financial year with a significant increase in earnings and a positive trend. As a result, the overall business performance of the Company improved considerably: Bookings, sales, and earnings went up significantly, and EBIT almost tripled.

SBO consistently pursued its sustainable growth strategy in 2018. The number of employees was sized up across the SBO Group and capacities were expanded in line with customer demand. For example, the location in Saudi Arabia was expanded to ensure local presence of SBO products. Decision was made to adapt the production area at the Vietnam site to increased demand. On the contrary, the closure of production sites in Mexico and England was initiated to take two further essential steps towards optimizing the Group. In addition, the Company invested significantly in ongoing research and development projects. The resulting products have already delivered sound results in the growing market. Overall, SBO consolidated its position as frontrunner of innovation and actively adapted to the changing market conditions.

# MARKET ENVIRONMENT

Global economic growth remained intact in 2018 and preserved the momentum seen in the previous year. According to current estimates by the International Monetary Fund (IMF), global economic growth in 2018 came to 3.7 %, and in 2017 to 3.8 %. At 4.6 %, economic growth in the emerging markets in 2018 was only slightly below the previous year's level. The economy grew significantly in India, the Asian and European emerging markets, as well as in countries in the sub-Saharan region. The average growth rate of the industrial nations was 2.3 % in 2018, after 2.4 % in 2017.[5] The main dampening factors were geopolitical events and announcements, such as the forthcoming withdrawal of the United Kingdom from the European Union (Brexit) and trade sanctioning measures imposed by the US government against China, Iran and Russia, nourishing fears of economic slowdown, which ultimately led to a price slide in the markets in the fourth quarter of 2018.

However, fundamental data remained intact. According to the International Energy Agency (IEA), average global oil demand rose by 1.2 million barrels per day (mb/d) or 1.2 % to 99.2 mb/d in 2018 (2017: 98.0 mb/d). Demand in non-OECD countries went up by 0.9 mb/d or 1.8 % to 51.4 mb/d (2017: 50.5 mb/d). In the OECD countries, demand grew by 0.4 mb/d or 0.8 % to 47.8 mb/d (2017: 47.4 mb/d). While production and demand for crude oil were almost in balance in the first quarter of 2018, production rose disproportionately in the quarters following: In the third quarter of 2018 it was 1.1 mb/d higher than demand, in the fourth quarter of 2018 it was even 1.6 mb/d higher. Over the full year, oversupply in the oil market came to 0.8 mb/d. Altogether, OPEC production in 2018 was 37.4 mb/d, and in the non-OPEC countries 62.6 mb/d, representing a total output of 100.0 mb/d. In the fourth quarter, the oil market came under noticeable pressure due to overproduction and geopolitical measures, as reflected in significantly falling oil prices from the end of October. In order to stabilize the oil price again, the OPEC states (including their partner states) agreed at their meeting on 6 December 2018 to reduce the production ceiling starting from 2019.[6]

In 2018, the market environment for the oilfield service industry as a whole was characterized both by the robust market situation in North America and the upturn in international markets. Global rig count rose by 7.4 % in the course of 2018 to 2,244 rigs in December (December 2017: 2,089 rigs). In the United States, the number of rigs went up by 15.9 % to 1,078 rigs (December 2017: 930 rigs), while internationally there was an increase of 7.4 % to 1,025 rigs (December 2017: 954 rigs), with strong growth being recorded

[5] IMF World Economic Outlook, January 2019.
[6] International Energy Agency (IEA), Oil Market Report, February 2019.

in almost all regions, particularly in the second half of the year, except for the seasonal fluctuation in Canada, relating both to onshore and offshore activities.[7] The number of drilled but uncompleted wells (DUCs) in the United States arrived at an all-time high of 8,591 units in December 2018. This rise was mainly due to the continued large number of drilling licences granted in the face of prevailing transport capacity bottlenecks in the most productive regions of the United States.[8]

*"In 2018 the fundamentals of the market environment remained intact"*

The prices of both types of crude oil rose significantly in 2018, reaching a new high of USD 86.29 (Brent) and USD 76.41 (WTI) on 3 October 2018. The crude oversupply due to temporary export openings of the United States towards Iran and the aforementioned economic slowdown finally led to a collapse of prices on the oil markets, which began to reverse only at the turn of the year. In the course of the year, the price per barrel of US crude WTI dropped from USD 60.37 on 2 January 2018 to USD 45.41 on 31 December 2018, and per barrel of European crude Brent from USD 66.57 to USD 53.80.[9]

Global spending for exploration and production (E&P spending) rose significantly in year 2018 by 9 % after the sharp cutbacks seen in the crisis years. In North America, E&P spending increased by 20 %. Internationally, E&P spending went up by 5 %, for the first time after three years of crisis.[10] The oilfield service industry generally assumes that the spending cuts of recent years will have to be made up successively in order to prevent production losses from existing and aging oil and gas fields.

[7] Baker Hughes Rig Count.
[8] U.S. Energy Information Administration (EIA), Oil Productivity Report, February 2019.
[9] Bloomberg, CO1 Brent Crude (ICE) and CL1 WTI Crude (Nymex).
[10] Evercore ISI, The 2019 Evercore ISI Global E&P Spending Outlook: A Slow Recovery, December 2018.

# BUSINESS DEVELOPMENT

Overall, 2018 was marked by broad-based growth. In addition to strong business in North America, signs of recovery on the international oil and gas market were confirmed. Bookings and sales increased significantly. At a book-to-bill ratio of over 1, an EBITDA margin well above the long-term Group average of 24.3 % was achieved. The decline in the markets seen in the fourth quarter of 2018 had only a relatively minor impact on SBO's result, once again confirming the sustainable growth strategy vigorously pursued by SBO.

Year-on-year, sales increased by 29.6 % to MEUR 420.2 (2017: MEUR 324.2). Bookings went up to MEUR 481.9, compared to MEUR 342.0 in 2017. As at the end of 2018, the order backlog amounted to MEUR 97.7 (31 December 2017: MEUR 37.6).

The significant increase in sales is reflected in SBO's result. Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to MEUR 120.0 (compared to MEUR 74.7 in 2017). Profit from operations (EBIT) almost tripled in 2018 to MEUR 70.7, compared to MEUR 25.6 in 2017. Those included restructuring losses and impairment on property, plant and equipment in the amount of MEUR 3.9. EBITDA margin was 28.6 % (2017: 23.0 %), and EBIT margin 16.8 % (2017: 7.9 %).

The financial result for the year 2018 arrived at MEUR minus 14.8 (2017: MEUR minus 95.4). Profit after tax of MEUR 41.4 turned positive for the first time since the crisis (2017: MEUR minus 54.4). In the 2017 result, a loss from the revaluation of option commitments amounting to MEUR 87.6, was included. Earnings per share amounted to EUR 2.59 (2017: EUR minus 3.41).

The balance sheet structure of the Company is sound: Shareholders' equity amounted to MEUR 368.2 (2017: MEUR 322.0). The equity ratio of SBO at the end of 2018 was 40.9 % (2017: 42.9 %), net debt was MEUR 62.5 (2017: MEUR 50.7). Liquid funds were MEUR 241.5 (2017: MEUR 166.0). The cashflow from operating activities came to MEUR 33.4 (2017: MEUR 44.6), and the gearing ratio was 17.0 % (2017: 15.7 %). Capital expenditure for property, plant, equipment and intangible assets (CAPEX), considering expenditures for expanding production capacities, climbed to MEUR 35.9 (2017: MEUR 32.1). On 31 December 2018 purchase commitments for property, plant and equipment totalled MEUR 2.1 (2017: MEUR 1.2).

The Executive Board will propose a dividend of EUR 1.00 per share for the financial year 2018 to the Annual General Meeting on 23 April 2019.

## DEVELOPMENT OF THE SEGMENTS

SBO's business is subdivided into the two reportable segments "Advanced Manufacturing & Services" (AMS) und "Oilfield Equipment" (OE):

- The "Advanced Manufacturing & Services" (AMS) segment comprizes high-precision machining and repair of drill collars and complex "Measurement While Drilling" (MWD) and "Logging While Drilling" (LWD) 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 drillstrings as well as petrophysical parameters.

- The "Oilfield Equipment" segment includes 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 wells in the two dominating technologies "sliding sleeve" and "plug-n-perf".

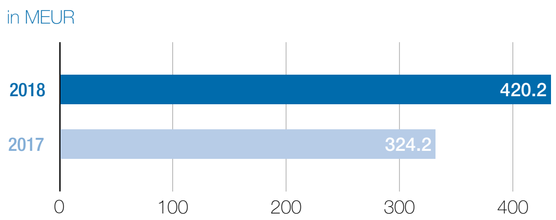
The "Advanced Manufacturing & Services" (AMS) segment developed positively in 2018, due to improving international market conditions. Year-on-year, sales increased in 2018 to MEUR 171.5 (2017: MEUR 103.2), whereas profit from operations (EBIT) before non-recurring items rose to MEUR 22.7 (2017: MEUR minus 14.5).

In the "Oilfield Equipment" (OE) segment, the dynamic development of the previous year was continued. Sales amounted to MEUR 248.7 (2017: MEUR 221.0), and profit from operations (EBIT) before non-recurring items to MEUR 55.2 (2017: MEUR 46.2).

# ANALYSIS AND RESULTS

The consolidated financial statements of the Company have been prepared in accordance with the Financial Reporting Standards (IFRS).

## Sales




Sales increased by 29.6 %, from MEUR 324.2 in 2017 to MEUR 420.2 in 2018 due to strong business in North America and the beginning recovery of international markets.

As in the previous years, the US dollar remained the most important currency by far for the SBO Group. In 2018, 84 % (compared to 86 % in 2017) of sales were generated in US dollars, and approximately 57 % (compared to 62 % in 2017) of expenses were also incurred in US dollars. As the average exchange rate for 2018 of EUR 1 = USD 1.1815 was lower than for 2017, where it had been EUR 1 = USD 1.1293, this had a negative impact. The US dollar rose against the euro in the course of the year. The closing price on 31 December 2018 was EUR 1 = USD 1.1450, up by around 5 % from EUR 1 = USD 1.1993 on 31 December 2017.

## Exchange rate development

| in EUR/USD | HIGH | LOW | AVERAGE | CLOSING |
|---|---|---|---|---|
| **2018** | 1.2493 | 1.1261 | 1.1815 | 1.1450 |
| **2017** | 1.2060 | 1.0385 | 1.1293 | 1.1993 |

In the preparation of the annual financial statements 2017 and 2018, the average rates of these years have been used for the consolidated profit and loss statements, and the closing rates as of 31 December for the consolidated balance sheets.

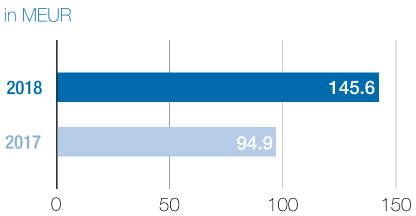
## Sales by business segments

| in MEUR | 2018 | 2017 |
|---|---|---|
| Advanced Manufacturing & Services | 171.5 | 103.2 |
| Oilfield Equipment | 248.7 | 221.0 |
| **Total sales** | **420.2** | **324.2** |

The development of the "Advanced Manufacturing & Services" segment is heavily dependent on customers' capital spending (CAPEX). Following dramatically curtailed CAPEX in 2015 and 2016, expenditure went up again for the first time in 2017. This trend continued in 2018, mainly as a result of the recovery in the international markets. Therefore, sales could be increased significantly in the course of 2018. Sales rose by 66.1 %, from MEUR 103.2 in 2017 to MEUR 171.5 in 2018.

In the "Oilfield Equipment" segment, the dynamic development of the previous year continued in 2018. The robust market environment in North America and the associated increase in drilling and completion activities led to a 12.5 % increase in sales to MEUR 248.7 in 2018, from MEUR 221.0 in 2017.

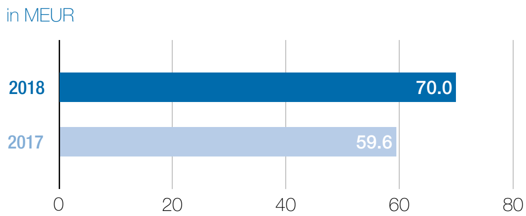
## Gross profit




Following MEUR 94.9 in 2017, gross profit in 2018 rose substantially to MEUR 145.6, and with it the gross margin, which went up to from 29.3 % in 2017 to 34.6 % in 2018. The higher gross margin is a result mainly of the growth in sales due to larger volumes in the "Advanced Manufacturing & Services" segment.

The major elements of production costs are expenses for materials and energy, costs of personnel and depreciation of fixed assets.

## Selling, general and administrative expenses

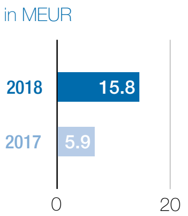



Selling, general and administrative expenses rose from MEUR 59.6 in 2017 to MEUR 70.0 in 2018. Selling, general and administrative expenses developed disproportionally below the rise in sales, falling from 18.4 % of sales revenues for the year 2017 to 16.7 % for the year 2018.

Selling, general and administrative expenses consist mainly of salary and salary-related expenses, professional fees for operational activities, travel and entertainment costs, communication and insurance expenses.

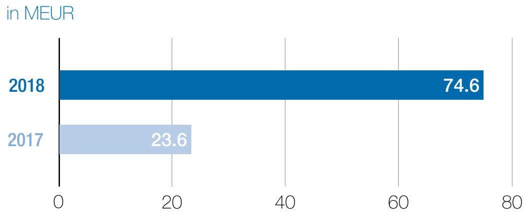
## Other operating expenses and income


Other operating expenses amounted to MEUR 16.8 in 2018 (2017: MEUR 17.6). This item includes research and development costs amounting to MEUR 7.7 (2017: MEUR 7.8), as well as exchange losses of MEUR 8.2 (2017: MEUR 9.8).



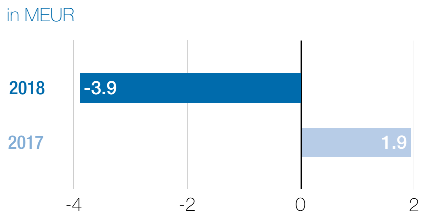

Other operating income in 2018 totalled MEUR 15.8 (2017: MEUR 5.9) and, apart from exchange gains, consisted of rental income, service charges and income from the sale of fixed assets. The rise in other operating income is due mainly to higher exchange gains in 2018 of MEUR 11.0 (MEUR 5.0 in 2017), and gains from the sale of a plot of land in the United States worth MEUR 1.9.

## Profit from operations before non-recurring items




Due to the increase in sales and an improved gross margin, profit from operations before non-recurring items of MEUR 23.6 in 2017 more than tripled to MEUR 74.6, generating 17.7 % of sales, following 7.3 % in the previous year.

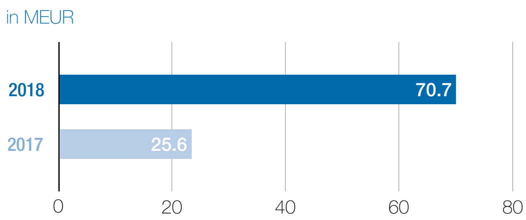
## Non-recurring items




In the 2018 financial year, expenses for non-recurring items totalled MEUR 3.9, with MEUR 2.4 related to impairment on property, plant and equipment, and MEUR 1.5 for restructuring losses related to the production sites in Mexico and England.

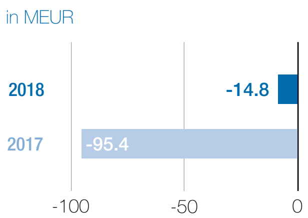
Restructuring gains in the 2017 financial year of MEUR 1.9 came from the sale of a plot of land in the United States, which was no longer needed after production sites had been merged.

## Profit from operations




Profit from operations after non-recurring items rose from MEUR 25.6 in 2017 to MEUR 70.7 in 2018, generating a margin of 16.8 % (following 7.9 % in the previous year).

## Financial result



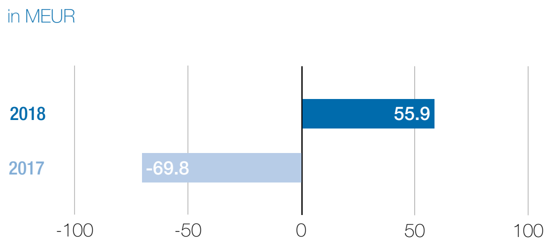

The financial result in 2018 was MEUR minus 14.8, following MEUR minus 95.4 in 2017.

The revaluation of option commitments has led to a gain of MEUR 1.0 for the 2018 financial year. Last year's result contained losses from the revaluation of option commitments amounting to MEUR 87.6 essentially resulting from higher profit expectations for subsidiary Downhole Technology in those days.

In the past financial year, net interest result was MEUR minus 8.5 (2017: MEUR minus 6.3). The higher expense resulted from accrued interest on option liabilities of MEUR 5.8 in 2018, compared to MEUR 3.0 in 2017. The net interest result also includes the proportionate result of the shares held by the respective managements and participation rights in individual subsidiaries, which came to MEUR minus 1.0 in 2018 (2017: MEUR minus 0.7).

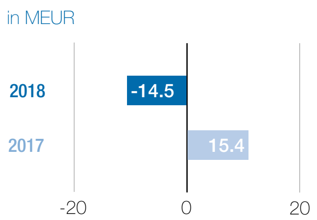
Other financial expenses amounting to MEUR 7.4 (2017: MEUR 1.4) include dividend payments to minority shareholders for shares in companies for which put/call option agreements are in place.

## Profit/loss before tax



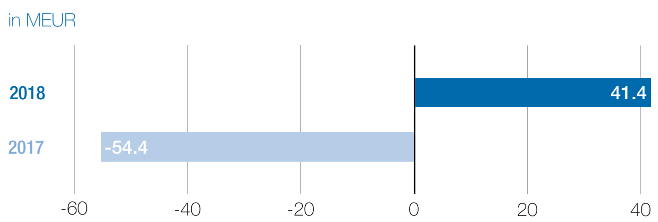

Profit/loss before tax for the year 2018 was MEUR 55.9, following MEUR minus 69.8 in 2017. Without considering option revaluations, profit before tax was MEUR 54.9, while the comparable result in the previous year was MEUR 17.9.

## Income taxes




Income taxes in 2018 amounted to MEUR minus 14.5 (2017: MEUR 15.4), consisting of current tax expenses of MEUR 12.0, resulting from positive earnings contributions and deferred tax expenses of MEUR 2.5.

## Profit/loss after tax / dividend




Income after tax for 2018 was MEUR 41.4, following MEUR minus 54.4 in the year before.

Earnings per share arrived at EUR 2.59 in 2018, following EUR minus 3.41 in 2017.

The Executive Board proposes to the Annual General Meeting a dividend of EUR 1.00 per share for 2018, totalling a distribution to shareholders of MEUR 16.0.

## Assets and financial position

Group equity as at 31 December 2018 was MEUR 368.2, following MEUR 322.0 as at 31 December 2017. This increase is due to profit after tax and the increased USD exchange rate, which led to a positive development of the foreign currency translation reserve. The equity ratio decreased slightly to 40.9 % compared to 42.9 % in the previous year, due to new financing of MEUR 157.3 (against repayments due of MEUR 69.5) and the related balance sheet extension.

Net debt as of 31 December 2018 was MEUR 62.5, up MEUR 11.8 from the net debt as at 31 December 2017 (MEUR 50.7). The gearing ratio (net debt in percent of shareholders‘ equity) as at 31 December 2018 was 17.0 %, following 15.7 % in the year before.

Cashflow from profit came to MEUR 96.4 in 2018, following MEUR minus 23.1 in 2017. The key components of this figure were profit after tax of MEUR 41.4 (2017: MEUR minus 54.4) and depreciation, amortization, and impairment of MEUR 49.3 (2017: MEUR 49.1).

Net working capital (excluding option liabilities) increased from MEUR 144.4 as of 31 December 2017 to MEUR 222.8 as of 31 December 2018. This increase is due to expenditures for material purchases and higher inventories of semi-finished products as a result of the significant increase in order intake in the “Advanced Manufacturing & Services“ segment as well as the sales increase in both segments.

Therefore, cashflow from operating activities came to MEUR 33.4, following MEUR 44.6 in 2017.

Net cash outflows from investment activities totalled MEUR 33.7 (2017: MEUR 28.0) of which MEUR 35.9 (2017: MEUR 32.1) were spent for additions to fixed assets and intangible assets. Thereof, MEUR 26.5 were used for the

"Oilfield Equipment" segment, mainly for increasing the rental fleet of drilling motors and downhole circulation tools and the capacity expansion at subsidiary Downhole Technology; MEUR 9.4 for the "Advanced Manufacturing & Services" segment.

## Report on the main features of the internal control system and risk management system in relation to the financial reporting process

The Executive Board has overall responsibility for the risk management of the SBO Group, whereas direct responsibility lies with the managing directors of the operational entities.

Consequently, the system of internal continuous reporting to corporate headquarters plays a particularly important role in identifying risks at an early stage and implementing countermeasures. Operational entities provide the necessary information by timely monthly reporting to the Executive Board.

The Group has defined uniform standards for the global subsidiaries regarding implementation and documentation of the complete internal control system and, in particular, the financial reporting process. The underlying objective is to avoid risks leading to incomplete or erroneous financial reporting.

Furthermore, internal reports prepared by subsidiaries are checked for plausibility at corporate headquarters and compared with budgets in order to take appropriate action whenever deviations occur. For this purpose, subsidiaries are required to prepare annual budgets and mid-term planning to be approved by the Executive Board.

In addition, liquidity planning of the subsidiaries is continuously monitored and aligned with the requirements defined by the holding company.

Group controlling monitors subsidiaries' compliance with accounting regulations. Moreover, the annual financial statements of all operational subsidiaries and holding companies are audited by international auditors.

At the Executive Board's regular meetings with local managing directors, current business development and foreseeable risks and opportunities are discussed.

In addition to the International Financial Reporting Standards, internal Group guidelines are in place for the preparation of the consolidated financial statements to ensure uniform presentation by the companies reporting (accounting and disclosure issues). A certified consolidation program equipped with the necessary auditing and consolidation routines is used for automated preparation of the consolidated financial statements.

## Events after the balance sheet date

Reference is made to Note 40 in the consolidated financial statements.

## Information according to Section 243a Austrian Commercial Code

Reference is made to Note 21 in the consolidated financial statements.

# OUTLOOK

The International Monetary Fund (IMF) forecasts further global economic growth of a recently weaker 3.5 % for 2019, while the growth rate for 2020 is expected to go up only slightly by 3.6 % (after 3.7 % in 2018 and 3.8 % in 2017). The economies of the industrial nations are expected to grow by 2.0 % in 2019 (following 2.3 % in 2018 and 2.4 % 2017). The IMF expects economic growth in emerging and developing countries to rise to 4.5 % in 2019, following 4.6 % in 2018 and 4.7 % in 2017.[11]

According to the International Energy Agency (IEA), oil demand should go up further in 2019, namely by 1.4 mb/d to 100.6 mb/d. In the OECD countries, average demand for oil of 48.2 mb/d should increase by 0.4 mb/d from the level of 2018. For the non-OECD countries, average demand is expected to rise by 1.1 mb/d to a total of 52.5 mb/d. Production of non-OPEC countries should grow by 1.8 mb/d to 64.4 mb/d. The OPEC states (including their partner states) have agreed on a reduced production ceiling by 1.2 mb/d, starting with the year 2019. In addition, Canadian province Alberta has announced a 0.3 mb/d cut in production.[12]

*"The oilfield service industry is preparing for a further rise in activity"*

[11] IMF World Economic Outlook, January 2019.
[12] International Energy Agency (IEA), Oil Market Report, February 2019.

In the past years, the oil and gas industry has invested disproportionately in oil and gas projects that have a short structural life cycle and a high depletion rate. Internationally, exploration activities have largely been converted to maintenance activities, so that a large number of the fields producing today are ageing fields. The stock of discovered resources was falling sharply in recent years and saw slight revival only in 2018.[13]

In view of the expected rise in demand for crude oil and gas, along with an increasingly apparent depletion rate, the oilfield service industry is preparing for another ramp-up in activity. The production losses of existing fields resulting from the depletion rate are calculated to come to 22 mb/d by the year 2025.[14] In addition, existing bottlenecks in transport capacities, equipment and personnel in some regions of the United States should be eliminated in the course of 2019. Overall, renowned banks and analysts project global expenditure for exploration and production (E&P spending) to grow by 8 % globally in 2019, and by 10 % in North America and 7 % internationally.[15]

SBO takes a positive look into the future: While the North American business should at least show stability based on the activity figures at the beginning of the year, international business is expected to continue its growth trend. The fundamental requirement is, of course, that the year 2019 will not be overshadowed by negative geopolitical incidents and additional trade restricting measures launched by the US government, among others.

SBO is positioned strongly and is continuously working on optimizing and implementing its sustainable growth strategy. This also includes the initiated closure of production sites in Mexico and England. The production capacities of these sites will be maintained and relocated to Vietnam, Austria and the United States. By implementing these measures, SBO takes another step towards efficiency and productivity enhancements within the Group. As a technology and market leader, SBO is well positioned to meet future challenges. The company's strategic orientation and its ongoing research and development activities warrant SBO's position as frontrunner in the future.

[13] Rystad Energy, 2018 conventional discovered resources on track towards a 30 % increase, July 2018.
[14] International Energy Agency (IEA), World Energy Outlook 2018.
[15] Evercore ISI, The 2019 Evercore ISI Global E&P Spending Outlook: A Slow Recovery, December 2018.

# NON-FINANCIAL STATEMENT: SUSTAINABLE MANAGEMENT

## MATERIALITY ANALYSIS

Our Annual Report has been prepared in accordance with the provisions of the Austrian Sustainability and Diversity Improvement Act (NaDiVeG). In the Report, we describe our concepts and results regarding environmental, social and employee-related matters, respect of human rights and combating corruption and bribery.

Material aspects are those that reflect the company's significant economic, environmental and social impacts, or substantively influence the assessments and decisions of stakeholders. What is material is heavily influenced by our strategy, but also defined by our stakeholders. This is why we, as a first step of our materiality analysis, have identified the relevant stakeholders.

### OUR STAKEHOLDERS

SBO defines as stakeholders those individuals and organizations that interact with us, influence our business development and are exposed to the effects of our activity. Our analysis and identification of stakeholders is based on characteristic features and particularities of SBO's business operations comprising, among others, the value chain of the oilfield service industry and our special position as leading provider in our niches, our international production sites and branch offices, and employees working there. When implementing current topics, we strive to act also in the best interest of future generations. This approach warrants, on the one hand, that we actually practise the principles of corporate social responsibility (CSR) and, on the other hand, that we can respond to industry cycles with utmost attention.

Dealing with all stakeholders prudently is a decisive factor for the success of SBO and thus of strategic significance. It is a great concern for us to understand our stakeholders and their motivations and to develop these relations sustainably. As an internationally operating production company and employer, SBO plays a role in economic, ecological and social matters. The preferences of our stakeholders may diverge in these areas. Breaking down our stakeholder structure based on their needs and motivations has led to the following result:


Stakeholders sharing similar interests were broken down into two groups: Firstly, those stakeholders that are part of the value chain, including suppliers, employees and customers. They are particularly interested in operational performance criteria, such as safe work processes, high-quality products and value-adding business relations.

The second group is highly interested in our successful business performance and our activities from an ecological and social perspective: The owners and the capital market, the local community and the media.

Close contacts with all stakeholder groups and a relationship based on partnership are very important to us. Our aim is not only to pursue the company's interests with vigour, but also to shape the multi-faceted range of interests in an effective and sustainable way.

SBO's relationship work with our stakeholders helps us to identify risks in good time and, if necessary, to counter them proactively so as to safeguard our reputation and our business success.

## KEY TOPICS OF SUSTAINABILITY

At SBO, the main topics of sustainability were identified in accordance with the business model, and the following additional measures were implemented within the framework of the Sustainability and Diversity Improvement Act, including interviews of managing directors and employees, analysis of meetings with customers, evaluation of internal quality and supplier management guidelines, assessment of training and continuing education programs and talks with capital market participants.

We actively manage the following topics for a comprehensive and relevant sustainability approach at a strategic level:

## GROWTH

- Growth and profitability

## ENVIRONMENT

- Quality assurance / research & development (R&D)
- Energy consumption and $CO_2$ emissions
- Water consumption
- Waste management
- Renewable energies

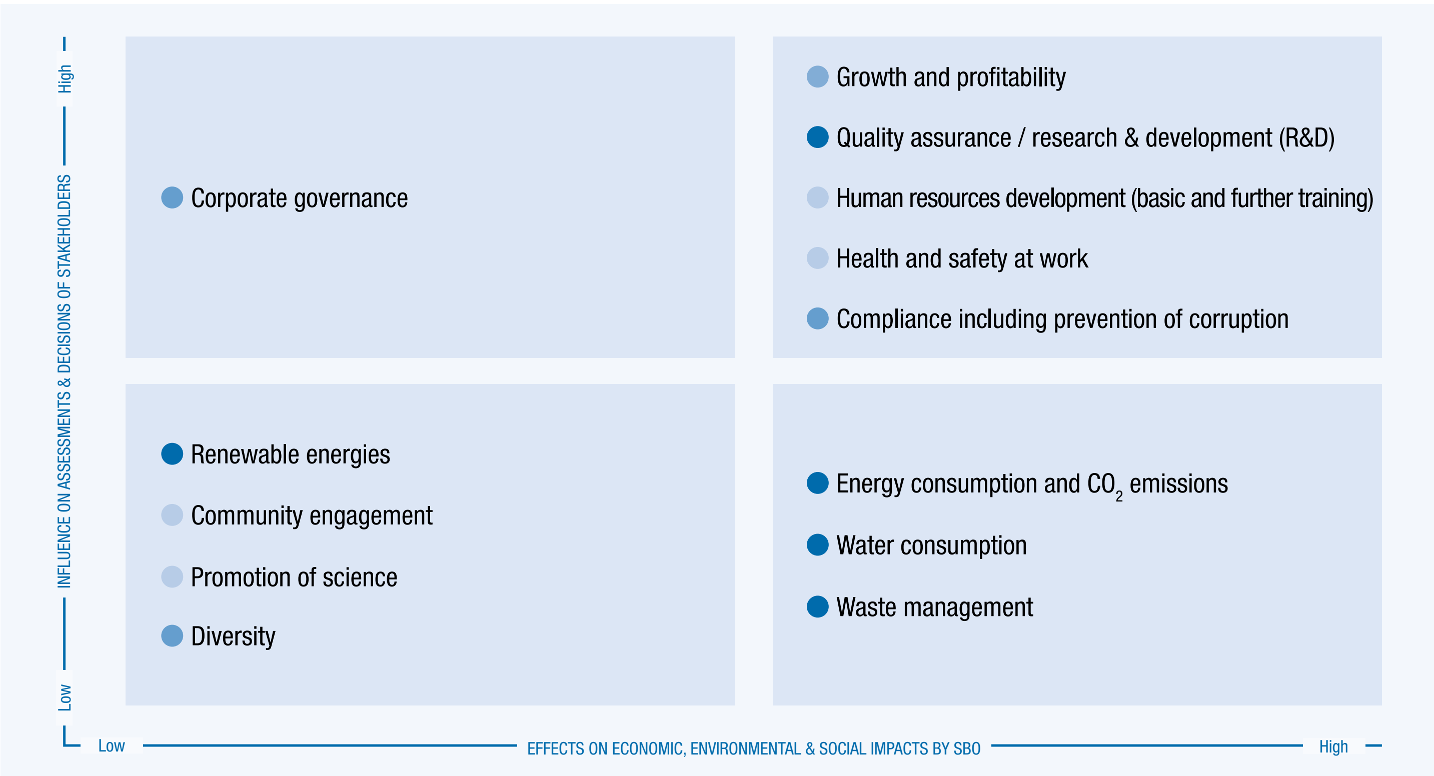
## SOCIAL MATTERS AND EMPLOYEES

- Health and safety at work
- Human resources development (basic and further training)
- Community engagement
- Promotion of science

## RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND BRIBERY

- Compliance including prevention of corruption
- Corporate governance
- Diversity

The above topics have been weighted based on two criteria: Firstly, their influence on our stakeholders and their decisions with regard to SBO. Secondly, the effects of economic, ecological and social aspects on SBO. The result was a two-dimensional matrix serving as a basis of our sustainability strategy.



This results in nine key fields of action for SBO:

1. Growth and profitability
2. Quality assurance / research & development (R&D)
3. Human resources development (basic and further training)
4. Health and safety at work
5. Compliance including prevention of corruption
6. Corporate governance
7. Energy consumption and $CO_2$ emissions
8. Water consumption
9. Waste management

We provide more details about these key fields of action and our activities in the following chapters, broken down into the topics "sustainable growth", "environmental concept", "social and employee concept" and "concept for the respect of human rights and combating corruption and bribery". In the process, we take different perspectives on those topics with varying priorities, while taking account of our business strategy. Based on the communication policy of SBO, we give no forecasts on key performance indicators and specific targets.

## MANAGEMENT APPROACH

The sustainable growth of the SBO Group is managed centrally. By contrast, our management approach with regard to "environment", "social and employees" and "respect for human rights, anti-corruption and bribery" is largely decentralized. This reflects the dynamic nature of our company and the market environment, which demands a rapid and clear-cut response from operational management. At the same time, it must take into account the far-sightedness required and defined by Group management.

In 2018, our Executive Board issued a new Code of Conduct, which is available to all SBO employees and business partners via the compliance organisation and on the Internet. In this Code, the Executive Board of SBO acknowledges its responsibility for employees, customers and other stakeholders and, as a company listed on the Vienna Stock Exchange, also for shareholders and the investment community. SBO's Code of Conduct requires continuous improvement and expansion of competencies and know-how in appropriate areas. These processes are regularly reviewed by the Executive Board and the Group Internal Audit department assigned to it. Our operational management is obliged to regularly review and identify efficiency and growth potentials and to immediately eliminate any risks that may arise. Deliberately, no strict KPI requirements have been applied in this respect.

Supreme quality is key to exploiting opportunities in an international environment. This is why the sustainability strategy of SBO is based on the "Quality First" principle. The main focus of our Executive Board is on establishing uniform standards throughout the Group, starting with consistent measurement parameters and units, which are installed in all companies so as to identify potentials for improvement more easily. One focus is on the use of resources and their optimal disposal. To avoid waste, for instance, such materials are sold as secondary products wherever possible.

Regarding employees, we create pro-actively programs to retain our team in the long term. Of course, we always keep in mind what is possible economically and what is necessary from a long-term perspective.

## RESULTS AND RISKS

In the risk report, which is part of the consolidated financial statements, risks for the company are presented comprehensively. At this point, we deal with risks in connection with sustainable corporate management. For 2018, we have carried out audits focusing on specific areas and no risks relevant to the report have been detected. Nonetheless, we aim to structurally improve the energy balance through site-specific measures, such as introduction of new heating systems or more energy-efficient consumers. One example in this respect is the switch from district heating to a heat pump system at the Ternitz site in year 2018.

All risks have arisen from our own business activities and not from our business relationships, products or services.

Risks that are regularly identified and documented for strategic improvement:

- Market environment: The oil and gas industry is traditionally subject to cyclical phases, with upswings followed by sometimes longer downturns. This has a direct effect on corporate growth and on SBO's environmental, social and employee-related concerns. Management is committed to mitigating these risks and minimizing their impact through specific strategic measures which are explained in more detail below.

- Demand-oriented human resources planning in a cyclical business environment: Our cyclical industry environment requires a high degree of flexibility allowing us to react immediately to heavily fluctuating market movements. During upswings, our challenge is to rapidly expand our capacities and increase our headcount. In downturns, however, with declining numbers of incoming orders and low capacity utilization at our production facilities, we are forced to reduce personnel costs as well. At SBO, various measures, such as short-time labor and work hours accounts, were introduced to delay and reduce the number of otherwise required dismissals in the past years. The risk of tight labor supply in the oil and gas or oilfield service industry is considered low at SBO.

- Safety at work: Misconduct in work processes entails risks for the safety of employees at their workplaces. Introduction and implementation of site-specific HSE programs is mandatory within the SBO Group, including workplace-specific job instructions and signage, as well as goal-oriented training measures to ensure that accident risks remain low at SBO.

- Quality assurance: Product defects such as material breakage could bring about adverse effects for our customers and for the environment. Such incidents, for example, could damage or contaminate the soil. Quality management in our supply chain and production is a key factor for the environment, and for our and our customers' business success.

- Fulfilment of stringent compliance and anti-corruption provisions, specifically in countries vulnerable to corruption: Strict internal rules and regulations define binding, ethical conduct across the SBO Group. Non-compliance with those rules by employees might cause considerable economic damage and harm the company's reputation. We support our globally operating employees by providing training courses to ensure that they can act ethically in their everyday lives and fully comply with our policies.

- Trade secrets and data protection: Our business model as a leading technology company conducting innovative research and development activities demands protection of our trade secrets. This protection includes confidential treatment of research and development data, our know-how, data such as confidential business figures, customer data, data of our employees, or planning and budgets. SBO maintains a data protection regime that is based on the regulations established by the European Union (EU General Data Protection Regulation / EU GDPR).

In summary, the introduction of energy performance indicators has raised the awareness of the issue of sustainability throughout the Group.

# SUSTAINABLE GROWTH

SBO is designed for sustainable growth and has a clear strategy in place to achieve this goal. We consistently pursue the three core elements of organic growth, research and development, and strategic acquisitions in our cyclical environment. This ensures that we will continue to evolve our business in the long term. Our industry is exposed to strong cycles. We must therefore manage our activities responsibly and with great foresight. In this way, we maintain our sound market position and actively seize all opportunities that the market environment offers us for further growth.

## ORGANIC GROWTH

We are continuously developing our business areas and our regional network and are driving forward the market penetration of our products worldwide. In 11 countries, we operate branch offices to serve our customers locally with a focus on further strengthening their capacities: In 2018, we decided to expand our site in Vietnam, where we record particularly high demand for our products. In North America, a subsidiary of SBO started operations as planned at a new site with significantly higher production capacities, allowing us to actively participate in the upswing. Furthermore, due to the market revival, the number of employees at our sites worldwide went up.

To meet the rising demand, we have expanded our machine fleet. Our innovation in 3D metal printing technology, Direct Metal Laser Sintering (DMLS), is meeting with growing interest. We have taken the opportunity to expand our DMLS capacities accordingly.

## RESEARCH AND DEVELOPMENT

We aim to be a frontrunner of innovation. New inventions and state-of-the-art technologies ensure that SBO and our customers are always one step ahead. We conduct consistent and continuous research and development (R&D) activities. Our goal is to offer our customers and the market cutting-edge solutions so we can rapidly open up new areas and grow.

As a technology leader, we invest heavily in R&D so as to continuously extend our lead in line with customer needs. According to our “Quality First“ guiding principle, our innovative team not only develops new solutions, but also more efficient and environmentally safer products. Our emphasis is on precision drilling, with our products reducing the need for frequent round trips, resulting in overall cost reduction for the customer.

As global market leader, we are pursuing our innovations vigorously. In 2018, we successfully invested in the following developments:

- In one of our core competencies, the development and processing of non-magnetic steel, we were able to close a gap in non-magnetic steel alloys that we believed existed. In keeping with our track record, we have filed a patent application for the material P690 together with our strategic main supplier. The new material has properties that are in demand especially in aggressive environmental conditions such as those prevailing in Saudi Arabian oil fields.

- Rising efficiency enhancements and requirements on modern drilling projects grow the stress exerted on the drilling equipment used. One of our main focuses is on improving corrosion protection of drillstring components.

Our specially developed Hammer Peening technology gives us a market-leading edge in the outer diameter treatment of long drillstring components, also known as "OD treatment". This is another innovative building block in our machine capabilities that is of crucial importance for enhancing the lifetime of a drillstring component.

- Using Direct Metal Laser Sintering (DMLS) technology, developed further for the purposes of the industry, SBO can produce customized, highly complex metal parts in a short time by applying high-precision 3D metal printing. This additive manufacturing technology is rolled out in several sites of our Group and adapted to local requirements. In 2018, we opened a new "DMLS Center" in Austria to establish this technology also outside the United States, keeping SBO in first place when it comes to pioneering the manufacture of customized, highly complex structures.

- In modern wells with pressures of up to 7,500 psi and laterals of up to 25,000 feet, operators demand powerful motors to increase the efficiency of their drilling activities. The use of motors under high pressure involves the technical risk that the drillstring could stall or the drive line be damaged. Our Downhole Governor, an innovation from SBO, uses pressure control to let the drillstring continue its forward drive even when a high differential pressure is reached.

- In Well Completion, we have brought to market maturity innovative products in both leading technologies, "sliding sleeve" and "plug-n-perf":

- The Smart Dart combines all the advantages of existing "sliding sleeve" well completion systems, while at the same time eliminating the disadvantages of "plug-n-perf" completions, such as higher initial cost and limitations on the number of zones. The Smart Dart can selectively open individual sleeves or entire sleeve clusters and lands precisely in the zone where the perforation job is to be done.

- Our All-Composite Frac Plugs, which are regarded as the next generation of frac plugs, help conduct "plug-n-perf" completions even faster and more gently. No drill out of metal parts used in conventional frac plugs is required.

## ACQUISITIONS

Targeted acquisitions are the third pillar of our growth strategy. Wherever promising opportunities arise, we acquire innovative companies in our niches. From the past, numerous successful subsidiaries are united under the roof of SBO. We are constantly screening the market for companies that could be highly effective additions to our competencies in a business field. In general, we see ourselves as niche provider in the high-tech sector. Acquisitions must fit to our needs: We are looking for profitable companies offering meaningful new technologies and solutions to our business.

## ENVIRONMENTAL CONCEPT

In our environmental strategy, we identify and analyze potential weaknesses very precisely on the basis of the findings of recent years. In order to eliminate these weaknesses step by step, we are consistently working on improvements. The objective is to reduce waste, energy and water consumption. SBO attaches great importance to sell waste as secondary products and to reintroduce them to further use.

Our environmental measures are adapted to site-specific conditions. At our Ternitz site, for example, we decoupled district heating and switched to energy-efficient heat pumps, with a recovery function for heat from production.

In the previous year, we defined and evaluated key indicators for the expansion and improvement of environmental management. These included data in the areas of energy consumption and $CO_2$ emissions, water consumption and waste management. These data serve SBO as another steering instrument for sustainability management and help us to document progress.

### EFFICIENT QUALITY PRODUCTS

SBO develops and produces top quality products characterized by high reliability and utmost efficiency, enabling our customers to serve and secure the increasing demand for oil and gas in a variety of ways while conserving resources.

High quality standards in production and for our products are the fundamental basis of our strategy. Our customers expect durable products that can withstand the harsh conditions of their activities. As a quality and technology leader, we are therefore constantly working on their reliability and performance as well as on our production processes. Our “Quality First“ guiding principle is the highest premise for us worldwide and an elementary component of our corporate culture.

Each of our products is specified on the basis of clear features and characteristics and is then checked continuously. Each production step is recorded in a quality ticket and confirmed by the employees in charge. This safeguards the highest quality, which is a decisive competitive advantage and ultimately warrants customers‘ security and trust in our Company.

SBO is the world‘s technological market leader for directional drilling products. State-of-the-art “Measurement While Drilling“ (MWD) and “Logging While Drilling“ (LWD) technology is applied to develop reservoirs located at depths of 15 km with utmost precision. This technology increases the recovery factor from only one mother well via a number of horizontal wells. MWD and LWD components are manufactured in a high-precision process in which material-adapted and precise machining, accuracy and quality assurance are crucial factors. Even the smallest deviations or hairline cracks can cause considerable damage, even material breakage, and thus total failure of the drillstring. Flawless quality products are an essential part of time-, cost- and resource-saving production processes.

Our drilling motors are extremely reliable and powerful. Their low failure frequency minimizes the risk of a drillstring getting stuck and equipment being lost in hole. In combination with other SBO high-performance components, they are designed to generate high penetration rates, particularly in harsh environments or environments impaired by circulation losses. The main benefits for operators are higher drilling speeds, a more time-efficient drilling process and faster drilling out of insulation equipment in well completion application areas. After drilling has been completed, the drillstring components are removed from the wellbore and are processed for reuse or disposed of properly once their life cycle has reached its end.

Our underground circulation tools are used to clean or seal boreholes during drilling, as required, reducing the risk of drilling fluid pressure fluctuations. Experience has shown that in rare cases overpressure and thus the uncontrolled leakage of drilling fluid at the entry of the well (referred to as blow-out) can cause severe accidents. Our reliable, easy-to-use tools offer our customers time, safety and cost advantages.

In addition, we are a leading manufacturer of composite frac plugs that require significantly less water than conventional products on the market. In "plug-n-perf" well completion operations, where occasionally more than 100 frac plugs are used in a single well, such frac plugs can cut water consumption by 30 % to 50 % in comparison to conventional plugs. Since drilling regions are often supplied with water by road transport, reduced traffic is another advantage. The resource-conserving use of water relieves both transport routes and the environment.

In addition, we have further developed and marketed our closable sleeve system. The possibility of opening and again closing sleeves individually gives the operator the considerable benefit of preventing the proppants used from flowing back into the wellbore before they have "healed" on the rock. Another advantage is the fact that zones that produce unwanted reservoir water can be sealed off and zones can be re-stimulated, should this be required at a later point due to the natural decline of the production rate (depletion).

## QUALITY MANAGEMENT

Within the framework of our quality management, we are involved in the entire product life cycle. This starts with our service and repair shops, located in all major centres of the oilfield service industry, where all complaints are processed immediately on site. Complaints are documented and analyzed and the findings obtained implemented in our processes. We attach greatest importance to delivering on the requirements of our "Quality First" culture in all areas of the company and in all production steps. Our machines comply with the latest standards and are regularly measured against them.

Essential quality standards have been established at our production sites. Regular quality checks guarantee correct implementation. Many of our worldwide sites work according to the leading industry standards API Spec Q1, 7-1 and / or

ISO 9001 and are audited at regular intervals. At our Ternitz site, we have also been certified to EN ISO 14001 (environmental management).

We have partially automated or digitized work steps in the areas of quality management and product and process control in production. As an example, we use modern software solutions for specific areas in order to automate processes that require intensive planning and are prone to errors. This saves time, reduces costs and leads to a significant increase in overall efficiency. Personnel resources can also be allocated more efficiently.

Our suppliers must meet the defined quality standards of SBO if they want to cooperate with us. We evaluate our suppliers at regular intervals with regard to the materials supplied and their certifications. In the case of critical suppliers, we carry out an on-site supplier assessment, a first article inspection or an origin analysis of the product in question. If a supplier does not meet our high requirements, we may terminate the business relationship.

## ENERGY CONSUMPTION AND $CO_2$ EMISSIONS

The production of our products requires a high energy input. This energy, mainly electricity, is largely sourced from public power grids. We strive to reduce energy consumption through continuous efficiency improvement, to use resources with maximum efficiency and to optimize our production processes in terms of energy consumption.

At our largest production site in Ternitz, we operate a PV plant with a total output of 720 kWp (kilowatt peak), so part of our electricity requirements in production can be covered by environmentally friendly, renewable energy and contribute to the reduction of carbon emissions.

Total energy consumption in production in 2018 came to 14,532.8 gigajoules (GJ), up 20.3 % from total energy consumption in the previous year (2017: 12,078.9 GJ). The calculated emission of carbon dioxides was 14,869.2 tonnes (2017: 11,917.7 tonnes). This rise was caused by growing business volumes as reflected in the increase in sales of 29.6 %.

### ENERGY CONSUMPTION AND $CO_2$ EMISSIONS OF THE SBO GROUP

| | UNIT | 2018 | 2017 |
|---|---|---|---|
| Energy consumption | GJ | 14,532.8 | 12.078,9 |
| $CO_2$ emissions* | Tonnes | 14,869.2 | 11.917,7 |

* $CO_2$ emissions based on the calculation of the Umweltbundesamt (Federal Environmental Office) as at October 2017 (for more information see: http://www5.umweltbundesamt.at/emas/co2mon/co2mon.html)

## WATER CONSUMPTION

Water is an essential coolant in the processing of stainless steel and cleaning agent for the drilling tools used in hole. Economical, efficient and careful use of this resource is of great importance to SBO at all our locations. At some production sites, for instance, machines are cooled with circulating water instead of process water.

In 2018, water consumption worldwide amounted to 69,074.6 cbm (2017: 58,303.0 cbm). Increasing water consumption is attributable to higher business volumes, as reflected in the aforementioned sales increase. Some sites use water from the ground and from public water mains at the same time, with focus on ground water, however, with shift in total relation with increasing business volumes. Furthermore, move into ground water also refers to new sites opened for certain Group companies.

### WATER WITHDRAWAL OF THE SBO GROUP

| | UNIT | 2018 | 2017 |
|---|---|---|---|
| Water withdrawal* | cbm | 69,074.6 | 58,303.0 |
| thereof ground water | cbm | 38,559.7 | 24,871.5 |
| thereof from public water mains | cbm | 30,514.9 | 33,431.5 |

* Water withdrawal at all operating sites excluding circulation water, if reliably measurable

## WASTE MANAGEMENT

When developing and selecting materials, including, in particular stainless steels, SBO pays attention to the reduction of pollutant-containing raw materials. As a result, production rejects are largely free from pollutants and their disposal is environmentally safe.

We always order materials close to the limit specifications such as shape and size and therefore require less material, avoiding unnecessary production waste and reducing the ecological footprint as transport volumes are kept low.

At SBO, the materials used in manufacturing are processed as efficiently as possible, creating a sound input-output ratio. In order to keep production output low, a large proportion of the steel chips are sold as valuable raw material for steel production and thus remain in the value chain, instead of being disposed as waste. Waste that does not serve any further use is disposed of at all locations in accordance with the latest environmental standards. Depending on the location, lubricants such as production oils are collected while production is running, filtered and returned to the production cycle as part of the oil separation process. Continuously increasing the recycling rate is part of SBO's environmental management.

In 2018, the Group generated waste totalling 4,091.5 tonnes (2017: 3,377.6 tonnes), including hazardous waste amounting to 712.2 tonnes, representing a share of only 17.4 %. Hazardous waste includes metal waste from production – classified as hazardous under the Basel Convention – and contaminated cleaning water from the cleaning of drilling tools used in hole. This rise was due to growing business volumes and resulted from increased demand for products by SBO.

## WASTE MANAGEMENT OF THE SBO GROUP

| | UNIT | 2018 | 2017*** |
|---|---|---|---|
| Total waste* | | 4,091.5 | 3,377.6 |
| thereof non-hazardous waste | Tonnes | 3,379.3 | 2,992.8 |
| thereof hazardous waste** | Tonnes | 712.2 | 384.9 |
| Internationally shipped waste classified as hazardous (acc. to Basel Convention) | Tonnes | 0.0 | 0.0 |

* Total waste including production waste and packaging material, if reliably measurable, without steel chips sold as raw material for steelmaking
** Hazardous waste including waste water contaminated by hazardous waste. Definition of hazardous waste according to Basel Convention
*** Corrected based on the definition of waste of the 2018 financial year

# SOCIAL AND EMPLOYEE CONCEPT

Our employees secure the sustainable success of our Company by providing their knowledge and expertise. We rely on our experienced and well-trained employees, whom we support throughout their career at SBO.

Our industry is characterized by cycles of upturns and downturns. In our human resources planning, we take care to cushion these ups and downs in the best possible way. While we actively take measures during downturns to keep their know-how within the company, we are gradually expanding our team during the current upswing. An attractive working environment and appealing bonus models bring new specialists on board and tie our experts to the company for a long time. At our location in Ternitz, we have implemented a specific apprenticeship training program to ensure that young people become the skilled workers of tomorrow. With this focus on our team of experts we deliver quality in production on a continuous basis.

## HUMAN RESOURCES DEVELOPMENT

### Highly qualified team

In the recruiting process, we make sure to find the best suited person for the position and offer performance-related pays. In 2018, we took on a total of 512 new employees. As a result of natural fluctuation, the effective increase in the number of employees as of the reporting date 31 December was 214 (from 1,432 in 2017 to 1,646 in 2018).

Gender and cultural background play no role when it comes to filling positions at our Company. Of the newly hired employees, 79 were women and 433 men, corresponding to a 15,4 % share of women. Generally, technical professions traditionally attract more men than women, a fact that is even more pronounced in our industry. According to a study, the average proportion of women in the entire US oil and gas industry is 17.1 %.[16] At SBO, the proportion of women at the end of the 2018 financial year was 11.7 %, with 21.6 % white-collar and 6.9 % blue-collar workers (including apprentices). Both areas saw an improvement compared to the year before.

Our highly qualified employees identify strongly with the company and our solutions. They are an essential element of ensuring the quality of our products and services. Our human resources planning therefore deliberately pursues a long-term approach to tie specialists to our company.

[16] IHS for API, Minority and Female Employment in the Oil & Natural Gas and Petrochemical Industries 2015-2035, Minority and Female Employment in the Oil & Gas and Petrochemical Industries: 2015, March 2016.

## TOTAL NUMBER OF EMPLOYEES BY TYPE OF EMPLOYMENT, GENDER AND REGION* 2018

| EMPLOYEES | AUSTRIA | NORTH AMERICA (INCLUDING MEXICO) | UNITED KINGDOM | REST OF WORLD | TOTAL |
|---|---|---|---|---|---|
| **Total** | **369** | **861** | **153** | **263** | **1,646** |
| STATUS | | | | | |
| **White-collar** | 67 | 341 | 48 | 82 | 538 |
| **Blue-collar** | 281 | 516 | 99 | 181 | 1,077 |
| **Apprentices** | 21 | 4 | 6 | 0 | 31 |
| GENDER | | | | | |
| **Men** | 332 | 765 | 132 | 224 | 1,453 |
| **Women** | 37 | 96 | 21 | 39 | 193 |

* Total number each as at 31 December; countries defined according to company affiliation

## TOTAL NUMBER OF EMPLOYEES BY TYPE OF EMPLOYMENT, GENDER AND REGION* 2017

| EMPLOYEES | AUSTRIA | NORTH AMERICA (INCLUDING MEXICO) | UNITED KINGDOM | REST OF WORLD | TOTAL |
|---|---|---|---|---|---|
| **Total** | **309** | **764** | **137** | **222** | **1,432** |
| STATUS | | | | | |
| **White-collar** | 63 | 328 | 44 | 73 | 508 |
| **Blue-collar** | 228 | 429 | 84 | 149 | 890 |
| **Apprentices** | 18 | 7 | 9 | 0 | 34 |
| GENDER | | | | | |
| **Men** | 277 | 684 | 123 | 190 | 1,274 |
| **Women** | 32 | 80 | 14 | 32 | 158 |

* Total number each as at 31 December; countries defined according to company affiliation

## Education and further training

We offer our team a wide range of opportunities for education and further training, starting with a specialty program for apprentices who are trained at our company site in Ternitz for the tasks they have to fulfil at SBO. This is how we secure availability of highly competent skilled workers for the future. SBO has repeatedly received awards for this commitment to training.

In addition to the specific training of apprentices, we also offer further training to our technical experts. In addition, compulsory training courses are held on a regular basis. Both young and experienced employees can actively contribute their ideas to the further development of our offering, and we give them appropriate opportunities to do so.

In 2018, the additions in headcount and growth in business activites led to an increase in the total hours for education and further training. The training focus was on operational topics. At 42 %, the main emphasis was on technical training and qualification. In addition, we provided in-depth training in areas such as health and safety (40 %), compliance (11 %) and applied IT (7 %), at internal and external events. Overall, an average of 10.7 hours of internal and external training (with the exception of onboarding activities) were completed per employee.

### EDUCATION AND FURTHER TRAINING BY EMPLOYEE CATEGORY AND TRAINING FOCUS*

**2018**

| TOTAL HOURS | HEALTH & SAFETY | INFORMATION TECHNOLOGY | COMPLIANCE | TRAINING AND QUALIFICATION | MANAGEMENT | ADMINISTRATION | PRODUCTION |
|---|---|---|---|---|---|---|---|
| 17,673 | 40 % | 7 % | 11 % | 42 % | 8 % | 26 % | 66 % |

**2017**

| TOTAL HOURS | HEALTH & SAFETY | INFORMATION TECHNOLOGY | COMPLIANCE | TRAINING AND QUALIFICATION | MANAGEMENT | ADMINISTRATION | PRODUCTION |
|---|---|---|---|---|---|---|---|
| 12,437 | 32 % | 17 % | 13 % | 38 % | 13 % | 25 % | 62 % |

* Education and further training including internal and external training programs except for onboarding activities

## HEALTH AND SAFETY AT WORK

Our committed team is the basis for the high quality standards and, ultimately, the success of SBO. We strive to ensure a healthy work-life balance even in times of high capacity utilization. We are committed to the standards of the Occupational Health and Safety Assessment Series (OHSAS). We have introduced a number of measures to keep our employees healthy and efficient, including site-specific health training and first aid courses for emergency medical care. At some locations we offer access to fitness centres, and at some sites gyms are available.

Safety at the workplace is a top priority at SBO. We have established strict internal safety guidelines and their compliance is regularly monitored. They consist of clearly regulated work processes and responsibilities, movement profiles and stringent instructions regarding the use of equipment and machinery. Employees are continuously updated on the applicable safety guidelines and local legal provisions with regard to occupational safety.

The aim is to avoid accidents and eliminate sources of accidents as far as possible. Depending on local conditions, we have appropriate checklists and emergency plans in place. Where necessary and possible, we regularly optimize our processes to ensure even greater safety. We encourage our employees to play an active role and take action against potentially unsafe working practices.

Thanks to the consistent implementation of these measures, the number of work-related accidents throughout the Group is low. The lost time injury rate (LTIR) in 2018 was 11.0 accidents per one million working hours (2017: 8.0 accidents per one million working hours). The severity of accidents (SA) was 17.9 lost workdays per incident (2017: 5.6 lost workdays per incident). In 2018 there was one work-related fatality resulting from a traffic accident outside company premises.

We make every effort to keep the number of incidents low. All incidents are documented and reviewed for improvement potentials.

### SAFETY AT WORK

| | UNIT | 2018 | 2017 |
|---|---|---|---|
| Accidents with lost workdays* | Number of accidents with lost workdays | 33 | 20 |
| Work-related fatalities | Number | 1 | 0 |
| Lost time injury rate (LTIR) | Number of accidents with lost workdays per 1 million working hours | 11.0 | 8.0 |
| Fatal accident rate (FAR) | Number of fatalities per 1 million working hours | 0.3 | 0.0 |
| Severity of accident (SA)** | Number of lost workdays (calendar days without accident date) related to the number of accidents with lost workdays | 17.9 | 5.6 |

* Incidents included starting from lost time of 8 working hours
** Fatalities are calculated with a lost time of 30 days

## INTERNAL RELATIONS

We appreciate our motivated team and build on mutual respect, trust and professionalism as our core values. The sound basis of communication between our employees and management is decisive for long-term cooperation. We actively strive to achieve this and ensure that data are handled carefully. We maintain a strict data protection model based on European legislation.

As a globally operating company with numerous subsidiaries, we offer the additional option of reporting any local problems directly and anonymously to Group Management. An online platform for this purpose has been active since 2017.

We have installed employee representations at all locations where our employees wish to be represented. We respect the fundamental right to freedom of association in our worldwide branch offices and, where established, maintain good relations with the works council and the trade unions. In some countries, in which SBO has operating sites, there are no or only partially defined fundamental labor rights. This might give the impression that only a small percentage of our employees are protected by such regulations. However, SBO applies principles under labor constitution law also at those sites and practices a homogeneous Group-wide standard.

The values regarding the freedom of association and employee rights have largely remained unchanged, due to the increase in the number of employees worldwide. The headcount in Europe went up by 76 persons, in North America (including Mexico) by 97 persons, and in the rest of the world by 41 persons.

In Europe and North America (including Mexico), unlike some other regions, freedom of association is governed by constitutional law. However, the majority of employees who are permanently represented are concentrated in Austria, where the headcount grew to a lesser degree than in North America. This explains the percentage reduction from 25.1 % to 24.5 % of the total workforce.

### FREEDOM OF ASSOCIATION AND EMPLOYEE RIGHTS*

| | 2018 | 2017 |
|---|---|---|
| Share of employees entitled to freedom of association and collective bargaining | 95.7 % | 95.5 % |
| Share of employees represented by local trade unions or works councils | 24.5 % | 25.1 % |

* Share of employees each as at 31 December

## WORKING TIME MODELS

Our company offers flexible working time models across the globe, depending on individual functions. It goes without saying that we comply with local restrictions and regulations governing working hours. In key areas, our employees may choose between full-time and part-time arrangements. In some functions, employees are offered the option to work from their home office at least to some extent.

In production, our local teams work in shift operation. This is the area where we make special efforts to find solutions and models allowing us to respond flexibly and promptly to the market situation and, at the same time, take into account the needs of our employees, which helps us respond actively to the cyclicity of our industry. In Austria, for instance, we developed a model many years ago to allow our employees to collect hours in good times and reduce them when the market situation is weak. This arrangement makes it possible for us to keep our qualified core team on board even in economically challenging times and to keep the company on its course for growth.

In 2018, 1.5 % of our employees were working part-time. This volume decreased in comparison to the 2017 financial year (2017: 3.2 %). In 2017, we made use of the government-subsidized short-time work model in Austria, which was ended in January 2018 and replaced by renewed hiring of employees.

### TOTAL NUMBER OF EMPLOYEES BY TYPE OF EMPLOYMENT AND REGION* 2018

| EMPLOYEES | AUSTRIA | NORTH AMERICA (INCLUDING MEXICO) | UNITED KINGDOM | REST OF WORLD | TOTAL |
|---|---|---|---|---|---|
| **Total** | **369** | **861** | **153** | **263** | **1,646** |
| TYPE OF CONTRACT | | | | | |
| **Full-time** | 356 | 857 | 145 | 263 | 1,621 |
| **Part-time** | 13 | 4 | 8 | 0 | 25 |

* Total number each as at 31 December; countries defined according to company affiliation

## TOTAL NUMBER OF EMPLOYEES BY TYPE OF EMPLOYMENT AND REGION* 2017

| EMPLOYEES | AUSTRIA | NORTH AMERICA (INCLUDING MEXICO) | UNITED KINGDOM | REST OF WORLD | TOTAL |
|---|---|---|---|---|---|
| **Total** | **309** | **764** | **137** | **222** | **1,432** |
| TYPE OF CONTRACT | | | | | |
| **Full-time**** | 277 | 757 | 131 | 221 | 1,386 |
| **Part-time** | 32 | 7 | 6 | 1 | 46 |

* Total number each as at 31 December; countries defined according to company affiliation
** Full-time includes employees on short-time work in Austria

## REMUNERATION

We invest in our employees not only financially. We encourage and challenge them on an ongoing basis, focusing on a corporate culture that ensures a productive, innovative working environment. Nevertheless, performance-related remuneration is an important component in attracting and retaining the best specialists for our Company. We attach great importance to sound remuneration, even outside the scope of any collective bargaining agreements, and offer bonuses to our employees to let them participate in our business development. It goes without saying that we consistently comply with regional minimum compensation requirements at all our locations worldwide.

Depending on each company's success, our employees receive a performance-related variable bonus in addition to their regular pays. At managerial level, the managing directors of our subsidiaries are entitled to acquire shares in their respective companies, benefiting directly from their successful performance and acting as entrepreneurs with great personal commitment. The purpose of such measures is to strengthen our management's identification with the company, raise motivation and create attractive conditions for our global team.

The share of employees protected by provisions governing minimum wages or salaries has gone up slightly year-on-year from 85.4 % to 89.5 %.

## MINIMUM WAGES AND SALARIES*

| | 2018 | 2017 |
|---|---|---|
| Share of employees protected by minimum wages or salaries governed by law or collective agreements | 89.5 % | 85.4 % |

* Share of employees as at 31 December

# CONCEPT FOR THE RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND BRIBERY

## HUMAN RIGHTS

SBO conducts its business operations with the highest respect for the catalogue of internationally recognized human rights, such as the International Charter of Human Rights. We stand by the principles of equal opportunity and equal treatment in working life. This applies regardless of skin colour, gender, origin, nationality, ethnic or political affiliation, religion, age, sexual orientation, language or physical or psychological disabilities.

Managers and employees are obliged to take appropriate measures to detect, prevent and mitigate potential and actual violations of human rights. Our Code of Conduct confirms that we are committed to ethical, exemplary and honest conduct and that we consistently enforce such conduct worldwide, regardless of local conditions. There were no cases of human rights violations within the SBO Group during the reporting period.

## CORRUPTION AND BRIBERY

SBO prohibits without exception any form of fraudulent conduct, and imposes harsh sanctions on such behaviour. Group Management is committed to combating corruption and bribery and to complying with the relevant laws and regulations. Any behavior that contradicts the principles of business ethics and careful entrepreneurial action is sanctioned. These requirements are defined in very strict Group-wide guidelines and are subject to zero tolerance for both employees and business partners.

Compliance with these strict requirements in day-to-day business is continuously monitored. During the reporting period, no significant risks relating to corruption and bribery were identified at SBO. We take these requirements very seriously and proactively raise our employees‘ and business partners‘ awareness of the seriousness of those issues. Employee training and professional contacts support our employees in complying with these requirements while carrying out their tasks.

Internally, we maintain fair and open communication and a conscious culture of error to make sure that any undesirable developments or problems can be identified at an early stage. We encourage our employees to speak openly about any misconduct, incidents and situations that may not comply with the Code of Conduct and also provide anonymous communication channels such as an online platform established for this purpose. By using that, our employees can contribute to fair and correct conduct without sanctions and without fear of personal damage.

Customers, suppliers, employees and the capital market expect lawful and ethical conduct. This is essential for our reputation and a crucial factor of successful business development. SBO‘s compliance management ensures that the understanding of correct corporate governance is implemented uniformly throughout the Group and that potential misconduct is identified and avoided at an early stage.

In the 2018 financial year, as in the previous financial year, no significant fines for violation of legal regulations were imposed.

"SBO has been committed to the Austrian Corporate Governance Code since 2005"

# CORPORATE GOVERNANCE REPORT

2018

SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft (SBO) has committed itself to comply with the Austrian Corporate Governance Code since 2005 and has consistently implemented its rules. The Austrian Corporate Governance Code  is a set of rules meeting international standards for responsible management and governance of companies. By observing the Austrian Governance Code, SBO makes a contrbution to strengthen trust in austrian companies and the austrian capital market.

The Austrian Corporate Governance Code, as amended in January 2018 and as applicable to this report, is accessible on the website of the Austrian Working Group for Corporate Governance www.corporate-governance.at.

SBO complies with the Austrian Corporate Governance Code. The rules of the Code are subdivided into three categories:

First: L-Rules (Legal Requirements): They describe mandatory legal requirements that must be complied with by law.

Second: C-Rules (Comply or Explain): This category contains customary international provisions; non-compliance must be explained.

Third: R-Rules (Recommendation): These rules are recommendations only; non-compliance requires neither disclosure nor explanation.

SBO complies fully with mandatory legal requirements (L-Rules).

Regarding the 2018 financial year, SBO had to prepare both a consolidated and a non-consolidated Corporate Governance Report. Pursuant to Article 267b in conjunction with Article 251 (3) UGB (Austrian Commercial Code), these reports may be combined in one report. Therefore, this report contains the data required pursuant to Article 243c UGB as regards both the parent company (SBO) and the subsidiaries of SBO included in consolidation. The diversity concept according to Article 243c (2) (2a) UGB is described in the subchapter "Diversity concept".

## Explain

SBO largely complies with the C-Rules. Deviations are explained as follows (according to the guidelines under Annex 2b to the Austrian Corporate Governance Code):

### C-Rule 27

The Rule stipulates, inter alia, that management board contracts shall contain provisions to the effect that companies may reclaim variable remuneration components if it becomes clear that the management board member concerned has received them on the basis of wrongful data. Such provisions do not apply to the employment contracts of SBO's management board members, as it is in the interest of good governance to pay variable remuneration components only on the basis of data referring to the past and only after the underlying relevant data have been identified and reviewed thoroughly. Forward-looking statements are not considered in any way.

### C-Rule 28

The remuneration of 6,000 SBO shares agreed with Gerald Grohmann, CEO, is subject to disposal and encumbrance restrictions effective for a period of two years (instead of at least three years), because the Supervisory Board is of the opinion that this retention period of two years is appropriate and expedient for the purpose of good corporate governance.

### C-Rule 39

The Rule provides, inter alia, that a committee of the Supervisory Board shall be authorized to take decisions in urgent cases. As the Supervisory Board of SBO has only a limited number of members and took decisions promptly in urgent cases in the past, SBO has not set up such a committee. As it is always the entire Supervisory Board that deals with such matters, this ensures that the expertise of all members of the Supervisory Board is taken into account in its decisions in urgent cases as well.

### C-Rule 41

In line with the Austrian Corporate Governance Code, the function of the Nomination Committee is exercized by the joint Nomination and Remuneration Committee, instead of a Nomination Committee established separately from the Remuneration Committee. As the Executive Board consists of only two members and the Nomination and Remuneration Committee is responsible for all other issues related to the Executive Board, this appears to be appropriate for efficiency purposes.

## THE EXECUTIVE BOARD

The rules of procedure for the Executive Board govern the composition and working method of the Executive Board, cooperation of the Executive Board and the Supervisory Board, procedures and the approach to conflicts of interest, information and reporting duties of the Executive Board and decisions requiring approval of the Supervisory Board applying also to key business transactions of major subsidiaries. In general, the Executive Board holds at least weekly meetings for mutual information and decision-making.

In the 2018 financial year the Executive Board was composed of the following members:

| | YEAR OF BIRTH | DATE OF FIRST APPOINTMENT | END OF CURRENT TERM OF OFFICE |
|---|---|---|---|
| Gerald Grohmann<br>Chief Executive Officer | 1953 | 3 October 2001 | 31 December 2021 |
| Klaus Mader<br>Chief Financial Officer | 1970 | 1 October 2015 | 30 September 2023 |

In the 2018 financial year, the members of the Executive Board did not hold any Group-external supervisory board mandates or comparable functions in Austria or abroad.

### Allocation of responsibilities

Allocation of responsibilities and cooperation of the members of the Executive Board are governed by the rules of procedure of the Executive Board.

The Executive Board has not set up any committees. The areas of responsibility allocated to the members of the Executive Board have been laid down by the Supervisory Board as follows, notwithstanding the collective responsibility of the Executive Board:

| | |
|---|---|
| Gerald Grohmann | Strategy, marketing, technology and public relations |
| Klaus Mader | Finance and accounting, human resources and legal matters |

As representatives of the SBO parent company, the members of the Executive Board perform a supervisory function at the subsidiaries included in consolidation (see consolidated financial statements), similar to that of a supervisory board in Austrian stock corporations, but no executive or management function.

## Total compensation for the members of the Executive Board and outline of the Executive Board remuneration system

The remuneration system for the Executive Board takes into account both the situation in the market and a performance-related component. Remuneration consists of fixed and variable components. Variable components are always paid in the following year, as achievement of objectives can be determined only at the end of the year. Variable components are performance-related and depend on the degree to which the objectives defined for the financial year have been achieved.

Pursuant to the employment contracts of the Executive Board members, the variable remuneration component is limited to 65 % of the total remuneration.

Variable components are subject to individual provisions. They are composed of the following elements: Development of long-term corporate growth, profit, cashflow, equity and fixed capital. Fulfilment of these performance criteria shall be determined based on the annual financial statements or depends on the results achieved. In addition, non-financial criteria for determining the variable components are in place. They are defined subject to specific medium- and long-term corporate goals, such as in the area of research and development or corporate development.

No stock option program is in place for the members of the Executive Board of SBO or the managing directors of its subsidiaries; in particular no stock option program or program for the preferential transfer of stocks within the meaning of C-Rule 28 is in place. Starting with the 2014 financial year, an agreement on share-based remuneration was concluded with Gerald Grohmann, CEO, which provides for a limited transfer of 6,000 SBO shares each year. Said shares are subject to disposal and encumbrance restrictions for Mr. Grohmann, valid for a period of two years from the respective transfer date, but at the latest until termination of the employment agreement.

The rules for severance payments follow the legal requirements. Upon leaving the company, the Chief Executive Officer will additionally receive a voluntary severance benefit of 30,000 shares. No future burdens related to pension fund contributions or any other entitlements of the members of the Executive Board arise to the Company after termination of their employment contracts.

All members of the Executive Board are covered by a D & O insurance (Directors & Officers insurance) taken out by, and at the expense of, SBO.

In the 2018 financial year, the following remuneration was paid to the members of the Executive Board:

| | FIXED REMUNERATION IN TEUR | VARIABLE REMUNERATION IN TEUR | TOTAL IN TEUR |
|---|---|---|---|
| Gerald Grohmann | 641 | 180 | 821 |
| Klaus Mader | 467 | 100 | 567 |

The above table does not include the aforementioned share-based remuneration for Gerald Grohmann.

### Fundamentals of the remuneration policy within the SBO Group

Remuneration of the managing directors of the subsidiaries of SBO included in consolidation takes into account both the situation in the market and a performance-related component. Remuneration consists of fixed and variable components. Variable components are performance-related and depend on the degree to which the objectives defined for the financial year have been achieved.

Variable components are subject to individual provisions. They are composed of the following elements: Development of long-term corporate growth, profit, cashflow, equity and fixed capital. Fulfilment of these performance-related criteria shall be determined based on the annual financial statements or depends on the results achieved. In addition, non-financial criteria for determining the variable components are in place. They are defined subject to specific medium- and long-term corporate goals, such as in the area of research and development or corporate development.

Furthermore, the managing directors of the subsidiaries of the SBO Group included in consolidation may acquire shares and participation rights in the respective subsidiary up to a certain limit.

## THE SUPERVISORY BOARD

In the 2018 financial year, the Supervisory Board was composed of six members:

| | YEAR OF BIRTH | DATE OF FIRST APPOINTMENT | END OF CURRENT TERM OF OFFICE |
|---|---|---|---|
| Norbert Zimmermann<br>Chairman | 1947 | 10 April 1995 | 2022 |
| Brigitte Ederer<br>Deputy Chairman* | 1956 | 23 April 2014 | 2019 |
| Helmut Langanger | 1950 | 29 April 2003 | 2019 |
| Karl Schleinzer | 1946 | 24 May 1995 | 2020 |
| Wolfram Littich | 1959 | 27 April 2016 | 2021 |
| Sonja Zimmermann | 1972 | 24 April 2018 | 2023 |

* Supervisory Board member Peter Pichler resigned as a member of the Company's Supervisory Board at the end of the 2018 Annual General Meeting. Supervisory Board member Brigitte Ederer was elected Deputy Chairman of the Supervisory Board at the constituent meeting of the Supervisory Board on 24 April 2018.

According to the Articles of Association of SBO, each year at least one member of the Supervisory Board withdraws from the Supervisory Board at the end of the Annual General Meeting, safeguarding effective control by the shareholders. The withdrawing member can be re-elected immediately.

Other seats in supervisory boards or comparable functions in Austrian or foreign listed companies are disclosed as follows:

| | COMPANY | FUNCTION |
|---|---|---|
| Norbert Zimmermann | - | - |
| Brigitte Ederer | - | - |
| Helmut Langanger | ENQUEST plc | Member of the Board of Directors as Non-Executive Director |
| Karl Schleinzer | - | - |
| Wolfram Littich | - | - |
| Sonja Zimmermann | Bank für Tirol und Vorarlberg Aktiengesellschaft | Member of the Board of Directors as Non-Executive Director |

No member of the Supervisory Board exercises a management or supervisory function in the subsidiaries of the SBO Group included in consolidation.

All members of the Supervisory Board personally attended more than half of the meetings of the Supervisory Board in the period under review.

## Working method of the Supervisory Board

In exercising its functions, in particular monitoring and strategic support of the Executive Board, the Supervisory Board discusses the situation and targets of the Company and adopts resolutions.

The rules of procedure for the Supervisory Board govern in detail the composition, working method and tasks of the Supervisory Board, the approach to conflicts of interest, and all committees (Audit Committee, Nomination and Remuneration Committee) and their responsibilities.

The Supervisory Board held five meetings in the period under review. Moreover, the Executive Board submitted several oral and written reports to the Supervisory Board to inform about the development of business and the situation of the Company and the Group companies. The main focus of discussions was on the strategic orientation and development of the Group and on major business transactions and measures taken.

## Committees

The Supervisory Board appoints the members of the Audit Committee and the Nomination and Remuneration Committee from among its members.

No separate Strategy Committee has been set up to take decisions in urgent cases. Pertinent matters are dealt with by the Supervisory Board collectively.

The committees are elected for the terms of office of their members. Each committee elects a chairman and deputy chairman from among its members, insofar as the Chairman of the Supervisory Board is not a member himself.

## Audit Committee

The Audit Committee is responsible, in particular, for auditing and preparing the approval of the annual and consolidated financial statements by the entire Supervisory Board and for submitting a proposal for appointing the auditor. This includes auditing the non-financial statement pursuant to Section 267a UGB (Austrian Commercial Code) and the corporate governance report and dealing with the proposal on the distribution of profits.

Members: **Norbert Zimmermann (Chairman)**
**Wolfram Littich**
**Sonja Zimmermann (from 24 April 2018)***

* Until 24 April 2018: Peter Pichler, resigned member of the Supervisory Board

The Audit Committee held two meetings in the year under review, at which topics relating in particular to the (consolidated) annual financial statements, the internal control system and risk management were discussed.

The effectiveness of the risk management system was assessed by an independent audit firm. The auditor's report on the assessment of the effectiveness of risk management was discussed by the Audit Committee.

## Nomination and Remuneration Committee

The Nomination and Remuneration Committee deals with matters relating to the remuneration of the members of the Executive Board and the terms and conditions of employment contracts concluded with members of the Executive Board. Furthermore, it submits to the Supervisory Board proposals to fill vacant positions in the Executive Board and deals with issues of succession planning.

Members: **Norbert Zimmermann (Chairman)**
**Karl Schleinzer**
**Sonja Zimmermann (from 24 April 2018)***

* Until 24 April 2018: Peter Pichler, resigned member of the Supervisory Board

In the year under review, the Nomination and Remuneration Committee held one meeting.

## Independence

Regarding independence criteria in accordance with C-Rule 53, the Supervisory Board follows the guidelines contained in Annex 1 of the Austrian Corporate Governance Code. According to the guidelines, a member of the Supervisory Board shall be deemed as independent if the member does not remain on the Supervisory Board for more than 15 years. Supervisory Board members who are shareholders of the Company or who represent the interests of such a shareholder are excluded. The following Supervisory Board members are deemed independent:

**Norbert Zimmermann**
**Brigitte Ederer**
**Wolfram Littich**
**Sonja Zimmermann**

Therefore, the Supervisory Board is an independent body. The scope of services provided for the Company by Supervisory Board member Dr. Schleinzer as legal counsel during the 2018 financial year is not deemed significant pursuant to Annex 1 of the Austrian Corporate Governance Code (for details see Notes to the consolidated financial statements).

Brigitte Ederer and Wolfram Littich represent the interests of minority shareholders in the Supervisory Board within the meaning of C-Rule 54 in conjunction with the criteria of independence defined by the Supervisory Board.

In the past year, no agreements requiring approval were in effect with members of the Supervisory Board or companies in which a member of the Supervisory Board held a considerable economic interest.

## Remuneration of the Supervisory Board members

At the 2018 Annual General Meeting, a remuneration policy was approved with a fixed annual remuneration of TEUR 20 (Chairman TEUR 30), an attendance fee of TEUR 1 per member and attended meeting, and a variable remuneration of 0.25 ‰ of the profit after tax according to the consolidated financial statements.

For the 2017 financial year, the following remuneration was resolved and paid:

| IN TEUR | FIXED REMUNERATION | VARIABLE REMUNERATION | TOTAL |
|---|---|---|---|
| Norbert Zimmermann<br>Chairman | 35 | 0 | 35 |
| Peter Pichler<br>Deputy Chairman<br>(until 24 April 2018) | 25 | 0 | 25 |
| Brigitte Ederer<br>Deputy Chairman<br>(from 24 April 2018) | 24 | 0 | 24 |
| Helmut Langanger | 25 | 0 | 25 |
| Karl Schleinzer | 25 | 0 | 25 |
| Wolfram Littich | 25 | 0 | 25 |

No loans or advances were paid to the members of the Supervisory Board. All members of the Supervisory Board are covered by a D & O insurance (Directors & Officers insurance) taken out by, and at the expense of, SBO.

### Measures to promote women

In the 2018 financial year, the share of men and women on the Executive Board and Supervisory Board was as follows:

**EXECUTIVE BOARD AND SUPERVISORY BOARD***

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | GENDER | | | | GENDER | | | |
| | WOMEN | | MEN | | WOMEN | | MEN | |
| | absolute | % | absolute | % | absolute | % | absolute | % |
| Supervisory Board | 2 | 33 % | 4 | 67 % | 1 | 17 % | 5 | 83 % |
| Executive Board | 0 | 0 % | 2 | 100 % | 0 | 0 % | 2 | 100 % |

* Total number each as at 31 December

Since 2018, the Act on the Equal Status of Women and Men in the Supervisory Board (GFMA-G) has stipulated a mandatory gender quota of at least 30 % for new Supervisory Board members, rounded to full numbers of persons. With the appointment of Sonja Zimmermann as a member of Supervisory Board of the Company, this quota was achieved in accordance with the law, since two of the seats on the Supervisory Board are now occupied by women. At the same time, another step was taken towards implementing the goals described in the diversity concept.

# DIVERSITY CONCEPT

The cyclical industry environment of the oilfield service industry is a constant challenge to the management and supervisory bodies of SBO and of the subsidiaries included in consolidation. Massive periodic fluctuations of demand for the products of the Company require vast managerial expertise and understanding of the forces prevailing in this sector. Additionally, the international positioning of the Company calls for a cautious approach to the cultural situation in the various markets.

Preserving and extending core skills and expertise are the two major criteria when filling management and supervisory board positions. All individuals in the Supervisory Board are renowned experts in their respective fields, sharing their expertise in the meetings of the Supervisory Board. It spans from pertinent experience in industry, cross-sectoral supervisory and/or managerial experience to qualifications in specific subject matters, such as legal advice. Additionally, shareholders request a minimum of interpersonal homogeneity and loyalty ensuring a systematic pursuit of SBO's sustainable growth strategy. This request reaches far beyond prescribing explicit gender quotas. Nevertheless, SBO shares the view that when different generations, genders and cultures meet this is a source of further corporate development. For many years, it has been daily practice at SBO to make judgments on equal terms and beyond hierarchical structures. This is why new appointments for positions are guided both by professional qualifications and human diversity.

In the 2018 financial year, the diversity concept was applied to the entire SBO Group as follows: When hiring new employees, attention was paid to maintain a diversified and high-performing team. The share of newly hired persons aged 30 and below stood at 37 %, while the share of persons between 30 and 50 years of age was 54 %.

## NEW HIRES BY GENDER AND AGE*

2018

| | AGE | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | < 30 | | 30 – 50 | | > 50 | | Total | |
| | absolute | % | absolute | % | absolute | % | absolute | % |
| Men | 158 | 36 % | 232 | 54 % | 43 | 10 % | **433** | **85 %** |
| Women | 29 | 37 % | 46 | 58 % | 4 | 5 % | **79** | **15 %** |
| **Total** | **187** | **37 %** | **278** | **54 %** | **47** | **9 %** | **512** | |

* New hires including permanent hires with the exception of hires on probation and for limited period of time (e.g., interns), and personnel taken on from other SBO companies

## NEW HIRES BY GENDER AND AGE*

2017**

| | AGE | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | < 30 | | 30 – 50 | | > 50 | | Total | |
| | absolute | % | absolute | % | absolute | % | absolute | % |
| Men | 157 | 40 % | 200 | 51 % | 39 | 10 % | **396** | **88 %** |
| Women | 26 | 46 % | 28 | 50 % | 2 | 4 % | **56** | **12 %** |
| **Total** | **183** | **40 %** | **228** | **50 %** | **41** | **9 %** | **452** | |

* New hires including permanent hires with the exception of hires on probation and for limited period of time (e.g., interns), and personnel taken on from other SBO companies
** Corrected based on the definition of hires of the 2018 financial year

This distribution could not be achieved for the gender quota (women / men), as the share of women workers is traditionally rather low in technical professions. Moreover, it seems that the oilfield service industry in general is less attractive to women.

The Group-wide share of women in new hires in 2018 was only 15 %, and the share in the overall workforce at the end of the year came to 12 %.

## TOTAL NUMBER OF EMPLOYEES BY GENDER AND AGE*

2018

| | AGE | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | < 30 | | 30 – 50 | | > 50 | | Gesamt | |
| | absolute | % | absolute | % | absolute | % | absolute | % |
| Men | 354 | 24 % | 820 | 56 % | 279 | 19 % | **1,453** | **88 %** |
| Women | 49 | 25 % | 113 | 59 % | 31 | 16 % | **193** | **12 %** |
| **Total** | **403** | **24 %** | **933** | **57 %** | **310** | **19 %** | **1,646** | |

* Total number each as at 31 December

## TOTAL NUMBER OF EMPLOYEES BY GENDER AND AGE*

2017

| | AGE | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | < 30 | | 30 – 50 | | > 50 | | Gesamt | |
| | absolute | % | absolute | % | absolute | % | absolute | % |
| Men | 308 | 24 % | 689 | 54 % | 277 | 22 % | **1,274** | **89 %** |
| Women | 38 | 24 % | 90 | 57 % | 30 | 19 % | **158** | **11 %** |
| **Total** | **346** | **24 %** | **779** | **54 %** | **307** | **22 %** | **1,432** | |

* Total number each as at 31 December

The low attractiveness of the industry to women is clearly reflected in terms of the respective activity. Women accounted for 22 % of white-collar workers and only 7 % of blue-collar workers (including apprentices). Overall, the share of women workers improved slightly. Compared to the previous year, it rose from 11 % in 2017 to 12 % in 2018. The increase was slightly higher for women in white-collar positions.

## TOTAL NUMBER OF EMPLOYEES BY GENDER AND TYPE OF EMPLOYMENT* 2018

| | TYPE OF EMPLOYMENT | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | WHITE-COLLAR | | BLUE-COLLAR | | APPRENTICE | | Total | |
| | absolute | % | absolute | % | absolute | % | absolute | % |
| Men | 422 | 78% | 1,002 | 93% | 29 | 94% | **1,453** | **88%** |
| Women | 116 | 22% | 75 | 7% | 2 | 6% | **193** | **12%** |
| **Total** | **538** | | **1,077** | | **31** | | **1,646** | |

* Total number each as at 31 December

## TOTAL NUMBER OF EMPLOYEES BY GENDER AND TYPE OF EMPLOYMENT* 2017

| | TYPE OF EMPLOYMENT | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | WHITE-COLLAR | | BLUE-COLLAR | | APPRENTICE | | Total | |
| | absolute | % | absolute | % | absolute | % | absolute | % |
| Men | 412 | 81% | 832 | 93% | 30 | 88% | **1,274** | **89%** |
| Women | 96 | 19% | 58 | 7% | 4 | 12% | **158** | **11%** |
| **Total** | **508** | | **890** | | **34** | | **1,432** | |

* Total number each as at 31 December

Regarding the appointment of international executives, professional and corporate culture aspects pay a key role. All managing directors at SBO's subsidiaries look back on many years of experience in the industry. As far as possible from the circumstances, second tier management and controlling positions are held predominantly by nationals of the countries where the sites are located.

## Events after the balance sheet date

None

*"We manage our activities with a focus on responsibility and foresight"*

# CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED BALANCE SHEET

## ASSETS

| in TEUR | Note | 31.12.2018 | 31.12.2017 |
|---|---|---|---|
| Current assets | | | |
| Cash and cash equivalents | | 241,532 | 165,982 |
| Trade receivables | 5 | 125,127 | 89,801 |
| Income tax receivable | | 1,915 | 1,663 |
| Other receivables and other assets | 6 | 6,385 | 4,043 |
| Assets held for sale | 12 | 538 | 594 |
| Inventories | 7 | 145,859 | 97,086 |
| **Total current assets** | | **521,356** | **359,169** |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 144,703 | 145,172 |
| Goodwill | 9 | 161,153 | 156,293 |
| Other intangible assets | 9 | 38,042 | 49,532 |
| Long-term receivables and assets | 10 | 9,754 | 10,938 |
| Deferred tax assets | 11 | 26,344 | 29,137 |
| **Total non-current assets** | | **379,996** | **391,072** |
| **TOTAL ASSETS** | | **901,352** | **750,241** |

# CONSOLIDATED BALANCE SHEET

## LIABILITIES AND EQUITY

| in TEUR | Note | 31.12.2018 | 31.12.2017 |
|---|---|---|---|
| Current liabilities | | | |
| Liabilities to banks | 13 | 31,412 | 31,880 |
| Current portion of long-term loans | 17 | 18,310 | 69,478 |
| Finance lease liabilities | 8 | 33 | 35 |
| Trade payables | | 21,165 | 16,611 |
| Government grants | 14 | 334 | 57 |
| Income tax payable | | 4,667 | 2,056 |
| Other liabilities | 15, 20 | 170,937 | 30,113 |
| Other provisions | 16 | 4,754 | 5,151 |
| **Total current liabilities** | | **251,612** | **155,381** |
| Non-current liabilities | | | |
| Long-term loans | 17 | 254,278 | 115,338 |
| Finance lease liabilities | 8 | 14 | 44 |
| Government grants | 14 | 623 | 0 |
| Provisions for employee benefits | 18 | 5,755 | 5,262 |
| Other liabilities | 19, 20 | 18,824 | 149,891 |
| Deferred tax liabilities | 11 | 2,042 | 2,314 |
| **Total non-current liabilities** | | **281,536** | **272,849** |
| Equity | | | |
| Share capital | 21 | 15,949 | 15,953 |
| Capital reserve | | 68,303 | 67,248 |
| Legal reserve | 22 | 785 | 785 |
| Other reserves | | 19 | 19 |
| Currency translation reserve | | 23,077 | 11,193 |
| Retained earnings | | 260,071 | 226,813 |
| **Total equity** | | **368,204** | **322,011** |
| **TOTAL LIABILITIES AND EQUITY** | | **901,352** | **750,241** |

# CONSOLIDATED PROFIT AND LOSS STATEMENT

| in TEUR | Note | 2018 | 2017 |
|---|---|---|---|
| **Sales** | 23 | **420,210** | **324,221** |
| Cost of goods sold | 24 | -274,608 | -229,327 |
| **Gross profit** | | **145,602** | **94,894** |
| Selling expenses | 24 | -23,864 | -21,713 |
| General and administrative expenses | 24 | -46,123 | -37,902 |
| Other operating expenses | 25 | -16,818 | -17,603 |
| Other operating income | 25 | 15,760 | 5,945 |
| **Profit from operations before impairments and restructuring measures** | | **74,557** | **23,621** |
| Restructuring gains | 26 | 0 | 1,938 |
| Restructuring losses | 26 | -1,469 | 0 |
| Impairment on property, plant and equipment | 12 | -2,381 | 0 |
| **Profit from operations after impairments and restructuring measures** | | **70,707** | **25,559** |
| Interest income | 27 | 2,900 | 1,798 |
| Interest expenses | 27 | -11,401 | -8,096 |
| Other financial income | | 41 | 0 |
| Other financial expenses | 28 | -7,375 | -1,408 |
| Gains/losses from remeasurement of option liabilities | 20 | 1,019 | -87,648 |
| **Financial result** | | **-14,816** | **-95,354** |
| **Profit/loss before tax** | | **55,891** | **-69,795** |
| Income taxes | 29 | -14,500 | 15,435 |
| **Profit/loss after tax** | | **41,391** | **-54,360** |
| Average number of shares outstanding | | 15,957,836 | 15,951,940 |
| **EARNINGS PER SHARE IN EUR (BASIC = DILUTED)** | | **2.59** | **-3.41** |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| in TEUR | Note | 2018 | 2017 |
|---|---|---|---|
| **Profit/loss after tax** | | **41,391** | **-54,360** |
| **Other comprehensive income to be reclassified to profit or loss in subsequent periods** | | | |
| Foreign exchange adjustment - subsidiaries | | 11,067 | -45,850 |
| Foreign exchange adjustment - other items [1] | | 1,582 | -5,421 |
| Income tax effect | 29 | -765 | 1,355 |
| | | **11,884** | **-49,916** |
| **Other comprehensive income not to be reclassified to profit or loss in subsequent periods** | | | |
| Remeasurement gains (losses) on defined benefit plans | 18 | -204 | 149 |
| Income tax effect | 29 | 51 | -37 |
| | | **-153** | **112** |
| **Other comprehensive income, net of tax** | | **11,731** | **-49,804** |
| **TOTAL COMPREHENSIVE INCOME, NET OF TAX** | | **53,122** | **-104,164** |

[1] Mainly the result from translation differences from net investments in foreign entities such as long-term receivables

# CONSOLIDATED CASHFLOW STATEMENT

| in TEUR | Note | 2018 | 2017 |
|---|---|---|---|
| Profit/loss after tax | | 41,391 | -54,360 |
| Depreciation, amortization and impairments | | 49,268 | 49,121 |
| Adjustment for dividends paid relating to put/call-options | | 7,375 | 0 |
| Change in provisions for employee benefits | | 493 | -34 |
| Gain (loss) from sale of property, plant and equipment | | -1,118 | -135 |
| Income from release of government grants | | -1,394 | -96 |
| Other non-cash expenses and revenues | | -2,081 | 6,901 |
| Change in deferred taxes | | 2,480 | -24,465 |
| **Cashflow from profit** | | **96,414** | **-23,068** |
| Change in trade receivables | | -31,173 | -48,164 |
| Change in other receivables and other assets | | -2,568 | 12,248 |
| Change in inventories | | -45,009 | -3,077 |
| Change in trade payables | | 4,047 | 6,221 |
| Change in option liabilities | | -1,019 | 87,648 |
| Change in other liabilities and provisions | | 12,685 | 12,821 |
| **Cashflow from operating activities** | 38 | **33,377** | **44,629** |
| Expenditures for property, plant and equipment | | -35,580 | -31,962 |
| Expenditures for other intangible assets | | -333 | -107 |
| Change in payables for capital expenditure | | -72 | 1 |
| Expenditures for the acquisition of non-controlling interests | | -2,752 | 0 |
| Proceeds from sale of property, plant and equipment | | 5,031 | 4,056 |
| **Cashflow from investing activities** | 38 | **-33,706** | **-28,012** |
| **Free Cashflow** | | **-329** | **16,617** |
| Acquisition of treasury shares | 21 | -586 | 0 |
| Dividend payment | | -7,980 | 0 |
| Repayments of finance leases | | -41 | -37 |
| Dividends paid relating to put/call-options | | -7,375 | 0 |
| Change in liabilities to banks | | -380 | -298 |
| Proceeds from long-term loans | 17 | 157,250 | 0 |
| Repayments of long-term loans | 17 | -69,478 | -27,233 |
| Repayments of other long-term liabilties | | -1,219 | -1,811 |
| **Cashflow from financing activities** | 38 | **70,191** | **-29,379** |
| **Change in cash and cash equivalents** | | **69,862** | **-12,762** |
| Cash and cash equivalents at the beginning of the year | | 165,982 | 193,453 |
| Effects of exchange rate changes on cash and cash equivalents | | 5,688 | -14,709 |
| **Cash and cash equivalents at the end of the year** | 38 | **241,532** | **165,982** |
| Supplementary information on cashflow from operating activities | | | |
| Interest received | | 2,029 | 1,203 |
| Interest paid | | -3,531 | -4,265 |
| Income tax paid | | -11,421 | 4 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## 2018

| in TEUR | SHARE CAPITAL | CAPITAL RESERVE | LEGAL RESERVE | OTHER RESERVES | CURRENCY TRANSLATION RESERVE | RETAINED EARNINGS | TOTAL |
|---|---|---|---|---|---|---|---|
| Note | 21 | | 22 | | | | |
| **1 January 2018** | **15,953** | **67,248** | **785** | **19** | **11,193** | **226,813** | **322,011** |
| Profit/loss after tax | | | | | | 41,391 | 41,391 |
| Other comprehensive income, net of tax | | | | | 11,884 | -153 | 11,731 |
| **Total comprehensive income, net of tax** | **0** | **0** | **0** | **0** | **11,884** | **41,238** | **53,122** |
| Dividends[1] | | | | | | -7,980 | -7,980 |
| Acquisition of treasury shares | -10 | -576 | | | | | -586 |
| Share-based payment | 6 | 1,631 | | | | | 1,637 |
| **31 December 2018** | **15,949** | **68,303** | **785** | **19** | **23,077** | **260,071** | **368,204** |

[1] The dividend payment in the year 2018 of TEUR 7,980 was distributed to a share capital eligible for dividends of TEUR 15,959. Accordingly, the dividend per share amounted to EUR 0.50.

## 2017

| in TEUR | SHARE CAPITAL | CAPITAL RESERVE | LEGAL RESERVE | OTHER RESERVES | CURRENCY TRANSLATION RESERVE | RETAINED EARNINGS | TOTAL |
|---|---|---|---|---|---|---|---|
| Note | 21 | | 22 | | | | |
| **1 January 2017** | **15,947** | **66,812** | **785** | **19** | **61,109** | **281,061** | **425,733** |
| Profit/loss after tax | | | | | | -54,360 | -54,360 |
| Other comprehensive income, net of tax | | | | | -49,916 | 112 | -49,804 |
| **Total comprehensive income, net of tax** | **0** | **0** | **0** | **0** | **-49,916** | **-54,248** | **-104,164** |
| Share-based payment | 6 | 436 | | | | | 442 |
| **31 December 2017** | **15,953** | **67,248** | **785** | **19** | **11,193** | **226,813** | **322,011** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1

### GENERAL INFORMATION ON THE COMPANY

SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft (the Company, SBO) with its registered office at Hauptstraße 2, 2630 Ternitz, was founded on 26 May 1994 in Ternitz, Austria and is registered in the Commercial Register at the Wiener Neustadt Commercial Court under no. 102999w.

The purpose of the Company is the industrial production of components and parts for the oil and gas industry, primarily for drilling and completion applications and the provision of services in these areas.

The Company's shares have been listed on the Vienna Stock Exchange since 27 March 2003.

## NOTE 2

### ACCOUNTING PRINCIPLES

The consolidated financial statements as at 31 December 2018 were prepared in accordance with the principles of the International Financial Reporting Standards (IFRSs) as well as the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU. The additional requirements of Section 245a (1) of the Austrian Commercial Code (Unternehmensgesetzbuch, 'UGB') were also adhered to.

These consolidated financial statements of SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft and its subsidiaries for the 2018 financial year (reporting date: 31 December 2018) were released for publication by the Executive Board on 4 March 2019.

The consolidated financial statements are prepared in EUROS. Unless otherwise indicated, all values are rounded to thousands of euros (TEUR). The use of automated calculation aids may result in rounding differences in the totals of rounded amounts and percentage figures.

# NOTE 3

## SCOPE OF CONSOLIDATION

In addition to SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft as the ultimate parent, 37 (previous year: 36) subsidiaries are included in the consolidated financial statements as at 31 December 2018.

| COMPANY | Location | INTEREST HELD DIRECTLY OR INDIRECTLY IN % 31.12.2018 | INTEREST HELD DIRECTLY OR INDIRECTLY IN % 31.12.2017 |
|---|---|---|---|
| SCHOELLER-BLECKMANN Oilfield Technology GmbH | Ternitz, AT | 100.00 | 100.00 |
| Schoeller-Bleckmann America Inc. | Wilmington, US | 100.00 | 100.00 |
| Knust-Godwin LLC | Houston, US | 100.00 | 100.00 |
| Schoeller-Bleckmann Energy Services L.L.C. (*) | Lafayette, US | 97.00 | 97.00 |
| Schoeller-Bleckmann Sales Co. L.L.C. | Houston, US | 100.00 | 100.00 |
| Downhole Technology LLC (**) | Houston, US | 67.73 | 67.73 |
| BICO Drilling Tools Inc. (*) | Houston, US | 90.65 | 90.65 |
| BICO DRILLING TOOLS FZE (*) | Dubai, UAE | 90.65 | 0.00 |
| BICO Faster Drilling Tools Inc. (*) | Nisku, CA | 80.68 | 80.68 |
| Schoeller-Bleckmann Canada Ltd. | Calgary, CA | 100.00 | 100.00 |
| Resource Completion Systems Holdings Inc. (**) | Calgary, CA | 100.00 | 67.00 |
| Resource Well Completion Technologies Inc. (**) | Calgary, CA | 100.00 | 67.00 |
| Resource Completion Systems Inc. (**) | Calgary, CA | 100.00 | 67.00 |
| Resource Well Completion Technologies Corp. (**) | Dallas, US | 100.00 | 67.00 |
| Schoeller-Bleckmann Oilfield Equipment (UK) Limited | Rotherham, UK | 100.00 | 100.00 |
| Darron Tool and Engineering Limited | Rotherham, UK | 100.00 | 100.00 |
| Darron Oil Tools Limited | Rotherham, UK | 100.00 | 100.00 |
| Schoeller-Bleckmann Darron Limited (*) | Aberdeen, UK | 95.00 | 95.00 |
| Schoeller-Bleckmann Darron (Aberdeen) Limited (*) | Aberdeen, UK | 94.00 | 94.00 |
| Techman Engineering Limited (*) | Chesterfield, UK | 90.65 | 90.65 |
| Schoeller-Bleckmann (UK) Limited | Chesterfield, UK | 100.00 | 100.00 |
| OOO 'Schoeller-Bleckmann' | Noyabrsk, RU | 99.00 | 99.00 |
| DSI FZE | Dubai, UAE | 100.00 | 100.00 |
| Schoeller Bleckmann Saudi LLC | Al-Khobar, KSA | 100.00 | 100.00 |
| DSI PBL de Mexico S. A. de C. V. | Villahermosa, MX | 100.00 | 100.00 |
| ADRIANA HOLDING COMPANY LIMITED (*) | Dubai, UAE | 99.00 | 99.00 |
| Schoeller Bleckmann do Brasil, Ltda. | Macaé, BR | 100.00 | 100.00 |
| Schoeller-Bleckmann de Mexico S. A. de C. V. | Monterrey, MX | 100.00 | 100.00 |
| Knust-SBD Pte. Ltd. | Singapore, SG | 100.00 | 100.00 |
| Schoeller-Bleckmann Oilfield Equipment Middle East FZE | Dubai, UAE | 100.00 | 100.00 |
| Schoeller-Bleckmann Oilfield Equipment Vietnam Co., Ltd. | Binh Duong, VN | 100.00 | 100.00 |

(*) Refer to Note 19 for details on shares held by the management of these companies.
(**) Refer to Note 20 for details on shares relating to existing option agreements.

The interest in each company corresponds to the voting rights. Therefore, control of the subsidiary is derived directly from the interest held.

The following changes occurred in the scope of consolidation during 2018:

- Establishment of BICO DRILLING TOOLS FZE, based in Dubai, in June 2018.
- DSI Saudi LLC changed its name into Schoeller Bleckmann Saudi LLC in 2018.

The Company has exercised the protective clause in accordance with Section 265 (3) UGB.

# NOTE 4

## SIGNIFICANT ACCOUNTING PRINCIPLES

The accounting policies applied in the previous year generally remain unchanged, with the exception of the following:

### 1. Changes in accounting principles

The Group applied the following new or amended standards and interpretations for the first time in the 2018 financial year. However, these standards and interpretations impacted the consolidated financial statements as at 31 December 2018 only if indicated by the word 'yes' in the table below:

| STANDARDS / INTERPRETATIONS | | EFFECTIVE DATE[1] | MATERIAL IMPACT ON SBO GROUP'S FINANCIAL STATEMENTS |
|---|---|---|---|
| IAS 40 Amendments | Transfers of Investment Property | 1.1.2018[1] | no |
| IFRS 2 Amendments | Classification and Measurement of Share-based Payment Transactions | 1.1.2018[1] | no |
| IFRS 4 | Insurance Contracts | 1.1.2018[1] | not applicable |
| IFRS 9 | Financial Instruments | 1.1.2018[1] | see below |
| IFRS 15 | Revenue from Contracts with Customers | 1.1.2018[1] | see below |
| various | Annual improvements to IFRS Standards 2014-2016 Cycle | 1.1.2018[1] | no |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration | 1.1.2018[1] | no |

[1] To be applied in the EU in reporting periods starting on or after the indicated date.

## IFRS 9 Financial Instruments

IFRS 9 introduces a uniform approach for the classification and measurement of financial assets. The standard uses cashflow characteristics and the business model under which they are managed as a basis. In addition, IFRS 9 provides for a new impairment model based on expected credit losses. IFRS 9 also includes new rules regarding the application of hedge accounting. IFRS 9 is applicable for financial years beginning on or after 1 January 2018. SBO has applied the new standard prospectively starting 1 January 2018.

- Classification

  IFRS 9 contains a new approach with respect to the classification of financial instruments, which is based on the business model or cashflow characteristics and includes the following three categories of financial assets: at amortized cost, at fair value in other comprehensive income (FVOCI), and at fair value through profit or loss (FVTPL).

  Based on cashflow terms as well as on the business model for financial assets, SBO continues to recognize trade receivables, other receivables and assets and non-current receivables and assets, which include loans to the management of individual SBO companies, at amortized cost. The objective of these assets is to collect contractual cashflows; these cashflows are composed solely of payments of principal and interest on the principal amount outstanding.

  The classification for financial liabilities remains unchanged under IFRS 9. With the exception of derivatives from foreign currency hedges, which are classified as held for trading, and liabilities from options on non-controlling interests, no liabilities are recognised at fair value through profit or loss (FVTPL). The fair value option was also not exercised. The new classification does not have any effects on the accounting treatment of financial instruments at SBO.

A reconciliation of the categories was as follows:

| | CATEGORY IAS 39 | CATEGORY IFRS 9 | CARRYING AMOUNT IAS 39 31.12.2017 IN TEUR | VALUATION ADJUSTMENT IN TEUR | CARRYING AMOUNT IFRS 9 01.01.2018 IN TEUR |
|---|---|---|---|---|---|
| Assets | | | | | |
| Cash and cash equivalents | Loans and receivables | AC | 165,982 | 0 | 165,982 |
| Trade receivables | Loans and receivables | AC | 89,801 | 0 | 89,801 |
| Other receivables and other assets | Derivatives | FVTPL | 173 | 0 | 173 |
| Long-term receivables and assets | Loans and receivables | AC | 9,540 | 0 | 9,540 |
| Liabilities | | | | | |
| Liabilities to banks | Other financial liabilities | AC | 31,880 | 0 | 31,880 |
| Long-term loans | Other financial liabilities | AC | 184,816 | 0 | 184,816 |
| Trade payables | Other financial liabilities | AC | 16,611 | 0 | 16,611 |
| Finance lease liabilities | Other financial liabilities | AC | 79 | 0 | 79 |
| Other liabilities | Other financial liabilities | AC | 25,960 | 0 | 25,960 |
| Other liabilities | Derivatives | FVTPL | 137,311 | 0 | 137,311 |

- Impairment of financial assets

IFRS 9 switches from the incurred loss model under IAS 39 to a forward-looking expected credit loss (ECL) model and is applicable for financial assets which have been reclassified to at amortized cost or at the fair value in other comprehensive income (FVOCI). Impairment must be determined either using the 12-month model, which considers the expected losses for the next 12 months, or the general approach (three-stage approach), which factors in the expected losses during the entire lifetime of the financial asset.

In accordance with the simplified approach the Company must recognise impairments at each balance sheet date at an amount equal to the lifetime expected credit losses. For current receivables, the expected losses for the next 12 months correspond to the expected losses over the remaining life. For that reason, a transfer from Stage 1 to Stage 2 is not relevant. SBO's trade receivables are almost without exception short term and consequently do not include any significant interest component. The simplified approach must therefore be applied. Previously at SBO, loss allowances for trade receivables also had to be established when there were indications of possible default risks, and in any case, when past due periods were exceeded. Accordingly, at the end of each reporting period, trade receivables were adjusted through loss allowances at an expected loss in accordance with the most probable outcome. Loss allowances to be established are intended to reflect default events and current economic circumstances (forecasts of future economic circumstances are secondary in connection with the short-term nature of receivables). The application of the simplified model in accordance with the new IFRS 9 as of the reporting date resulted in an immaterial variance of total expenses and the loss allowance from the historical values. The ECL valuation of cash and cash equivalents as of balance sheet date revealed a very low risk implied and thus resulted in no changes compared to the previous year.

Long-term loans to management must be measured using the three-stage approach pursuant to IFRS 9. Therefore, a loss allowance must be established upon initial recognition based on default events that are expected in the next twelve months. If the credit risk increases significantly, SBO must recognise a loss allowance based on the lifetime ECL. Management shares, and hence corresponding loans as well, are granted only to selected employees of SBO companies with a high credit standing. In addition, the loans are secured by the shares in the companies in question held by the managers. The credit risk for these loans has also not changed significantly since initial recognition. Payments for principal and interest have been made as scheduled. An expected loss from these loans as at 1 January 2018 was considered to be insignificant, for which reason there were no changes in this regard from the initial application of IFRS 9 for the Company.

- Hedge Accounting

IFRS 9 also contains new requirements on hedge accounting. In particular, the new model aims at offering a better connection between an entity's risk management strategy, the reasons for the hedging, and the impacts of the hedge on the consolidated financial statements. SBO holds foreign currency derivatives to hedge against currency risks. However, these hedges were already not recognised using hedge accounting according to IAS 39; accordingly, remeasurement gains and losses therefore are recognized through profit or loss. As also under IFRS 9 hedge accounting is not applied, therefore there are no transition effects in this regard.

## IFRS 15 Revenue from Contracts with Customers

Based on the new standard, revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised when the entity satisfies the performance obligation. IFRS 15 also requires the disclosure of quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cashflows arising from contracts with customers. SBO has applied the modified retrospective approach and has applied IFRS 15 to contracts that were not yet settled as at 1 January 2018.

A significant change of IFRS 15 is the segregation and recognition of individual performance obligations for multiple-element arrangements. Currently, multiple-element arrangements do not exist at SBO. Accordingly, no material impacts on the consolidated financial statements occurred from contracts with customers when the sale of goods is the sole performance obligation, except for sales with a right of return. Revenue is recognised on the date on which the power of disposal over the asset transfers to the customer, that is to say, when the customer obtains control over the goods. This is generally the case upon delivery. Based on contractual terms only in one exceptional case involving the production of customer-specific products in the "Advanced Manufacturing & Services" segment, earlier revenue recognition, i.e. before delivery, is required because there is a legal right to payment for the performance already provided. Due to the short processing times of these orders, this only had an insignificant effect on the amount of SBO's retained earnings as at 1 January 2018.

With respect to the rendering of repair or maintenance services, revenue is recognised when the repaired or serviced goods are delivered to the customer, which is also when control passes to the customer. Performance obligations resulting from providing on site customer support for the usage of SBO tools are satisfied during the time of staff being on site. As a consequence, revenue is recognized over time. For contracts with customers in which the performance obligation is the rental of drilling tools, revenue recognition depends on use, i.e. over the period during which the customer benefits from the use of the drilling tools. Here, too, no material changes occurred for the consolidated financial statements.

Referring to variable consideration in the form of volume discounts granted in individual cases, the future discount to be granted was estimated on each revenue recognition date unchanged to prior periods.

The adoption of IFRS 15 led to a change in the presentation from net to gross carrying amounts regarding sales with a right of return granted to specific customers and products. This resulted in a reduction of sales by TEUR 428 in 2018 compared to 2017. However, gross profit was not affected. As in previous years assets relating to sales with a right of return and refund liabilities are recorded within other current assets and other current liabilities, respectively. Due to their minor amount, contract liabilities are also included within other current liabilities. Therefore, the first-time application of IFRS 15 did not result in any reclassification effects in the balance sheet (for other assets see Note 6, for other liabilities see Note 15).

The following new or revised standards and interpretations which have been published but not adopted by the EU, or which are not yet mandatory, were not applied early in the 2018 financial year. They will be applied in the future reporting period for which application is mandatory.

| STANDARDS / INTERPRETATIONS | | EFFECTIVE DATE[1] | MATERIAL IMPACT ON SBO GROUP'S FINANCIAL STATEMENTS |
|---|---|---|---|
| IAS 1<br>IAS 8<br>Amendments | Definition of Material | 1.1.2020[2] | no |
| IAS 19<br>Amendments | Employee Benefits: Plan Amendment, Curtailment or Settlement | 1.1.2019[2] | no |
| IAS 28<br>Amendments | Long-term Interests in Associates and Joint Ventures | 1.1.2019[1] | no |
| IFRS 3<br>Amendments | Business Combinations | 1.1.2020[2] | no |
| IFRS 9<br>Amendments | Financial Instruments: Prepayment Features with Negative Compensation | 1.1.2019[1] | no |
| IFRS 16 | Leases | 1.1.2019[1] | no |
| various | Annual improvements to IFRS Standards 2015–2017 Cycle | 1.1.2019[2] | no |
| IFRIC 23 | Uncertainty over Income Tax Treatments | 1.1.2019[1] | no |
| Conceptual<br>Framework<br>Amendments | References to the Conceptual Framework in IFRS Standards | 1.1.2020[2] | no |

[1] To be applied in the EU in financial years beginning on or after the indicated date.
[2] This standard is not yet mandatory in the EU and was not applied early. The date indicated is the effective date as determined by the IASB.

### IFRS 16 Leases

The new standard specifies how an IFRS reporter will recognise, measure, present, and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the agreement concerns a low-value asset (optional in each case). Lessors will continue to classify leases as operating or finance, with the IFRS 16 approach to lessor accounting being substantially unchanged from its predecessor IAS 17 (Leases).

The evaluation of the impact on the consolidated financial statements has shown that the application of the new standard will not result in material impacts on SBO's consolidated financial statements, because the production and distribution locations are largely owned by SBO. The recognition of assets and liabilities for the existing operating leases for office, production and storage buildings as well as for vehicles will lead to an increase in long-term assets and total assets by approximately MEUR 8.0. The recognition of rental expenses will be replaced by the amortization of right-of-use assets and by interest expenses, which will result in an improvement of the EBITDA and EBIT performance figures. The amortization of right-of-use assets recognized under IFRS 16 is estimated at approximately MEUR 2.7 for 2019. Interest expenses will amount to approximately MEUR 0.3 while rental expenses will be reduced by approximately MEUR 2.8 in 2019. In turn, cashflow from operating activities will improve as leasing payments will be split into payments of principal and interest in the future with payments of principal being included in the cashflow from financing activities. The obligations from operating leases are disclosed in Note 8.

Likewise, no significant impact is expected in those instances in which SBO is the lessor (see Note 23). In general, rental income depends on usage and therefore is variable income.

SBO did not adopt this standard early. For the initial adoption of IFRS 16 as at 1 January 2019, SBO intends to use the modified retrospective approach by recognising the cumulative effect from the transition as an adjustment to the opening equity balance of the reporting period, without restating comparative information. The lease liabilities will be recognised using the present value of the remaining lease payments and the right-of-use assets at an amount equal to the recognised lease liabilities. SBO plans to apply the recognition exemptions for leases with a term of 12 months or less, and for leases concerning low-value assets. In addition, SBO will select the option for not including any direct initial costs when measuring the right-of-use asset. These options are not expected to have material effects on the future amortization of right-of-use assets.

## 2. Reporting date

The reporting date of all companies included in the consolidated financial statements is 31 December.

## 3. Accounting of non-controlling interests in the consolidated financial statements

Non-controlling interests in the Group are recognised at the proportionate share of the remeasured identifiable net assets at the acquisition date. Subsequently, an appropriate share of net profit/loss after tax and other comprehensive income is allocated to non-controlling interests. Thus, a loss at the respective subsidiary could lead to a negative balance. Changes in the equity interest in a subsidiary without loss of control are recognised as equity transactions.

Refer to Note 20 for details on existing option agreements.

## 4. Foreign currency translation

The consolidated financial statements are prepared in euros, the functional and reporting currency of the parent company. Each company within the Group sets its own functional currency. The items included in the financial statements of each company are measured using this functional currency.

Foreign currency transactions are translated at the exchange rate in effect at the transaction date. Monetary items denominated in foreign currencies are translated at the exchange rate as at the reporting date. Currency differences are recognised in profit or loss in the period in which they occur.

When preparing the consolidated financial statements, the financial statements of foreign subsidiaries which are prepared using their functional currency are translated into euros using the modified closing rate method:

- Assets and liabilities, both monetary and non-monetary, are translated at the closing rate.
- All income and expense items of foreign subsidiaries are translated using an average annual rate.

Currencies developed as follows:

| | RATE ON REPORTING DATE | | AVERAGE ANNUAL RATE | |
|---|---|---|---|---|
| 1 EUR = | **31.12.2018** | **31.12.2017** | **2018** | **2017** |
| USD | 1.1450 | 1.1993 | 1.1815 | 1.1293 |
| GBP | 0.8945 | 0.8872 | 0.8848 | 0.8761 |
| CAD | 1.5605 | 1.5039 | 1.5302 | 1.4644 |
| MXN | 22.4921 | 23.6612 | 22.7160 | 21.3278 |
| BRL | 4.4440 | 3.9729 | 4.3087 | 3.6041 |
| VND | 26,737.6 | 27,130.4 | 27,330.7 | 25,845.5 |

Currency translation differences from the inclusion of financial statements of subsidiaries in the consolidated financial statements are recorded in the consolidated financial statements within equity under the item currency translation reserve; the change in the current year is presented under other comprehensive income in the consolidated statement of comprehensive income.

## 5. Classification of current and non-current assets and liabilities

Assets and liabilities with a residual term of up to one year are classified as current, those with a residual term of more than one year as non-current. Residual terms are determined as at the reporting date.

Operating assets and liabilities, such as trade receivables and trade payables, are always classified as current even if their maturity is more than 12 months after the reporting date as this corresponds to the usual business cycle.

## 6. Financial instruments

Transactions of financial instruments are recognised at the settlement date.

The consolidated balance sheet includes the following financial instruments (classified in accordance with IFRS 9 and IAS 39, respectively). For a reconciliation of the categories refer to section 1.

Categories according to IFRS 9 (since 1 January 2018)

- AT AMORTIZED COST

### Financial assets

All cash balances, demand deposits, and short-term extremely-liquid financial investments that can be converted to known amounts of cash and cash equivalents on demand, and which are subject to only insignificant fluctuations in value included under the item cash and cash equivalents, are classified as cash funds. Current investments are non-derivative financial assets not held for trading that are available-for-sale assets with a term of less than three months.

Non-derivative financial assets with fixed or determinable payments that are not listed on an active market mainly comprise of trade receivables and as well as other loans issued and receivables (these loans were granted to the managers of subsidiaries for shares or participation rights, reported within long-term receivables and assets).

Receivables are recognised at the settlement date at cost and subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Gains and losses are recognised to consolidated profit or loss due to amortization under the effective interest method, upon impairment or when a loan or receivable is derecognised.

The Company grants payment terms to its customers at customary business terms, but generally does not require any additional collateral or payment guarantees to secure the amounts due. Occasional customers and customers located in high risk countries from whom the Company obtains confirmed letters of credit are excluded from this policy. Trade receivables that are granted beyond the normal payment terms bear interest at arm's length rates.

SBO regularly evaluates receivables and establishes allowances for doubtful accounts if necessary. These allowances are sufficient to cover the expected default risk; actual defaults result in derecognition of the receivable in question. The decision of whether to account for the default risk by means of allowances or to derecognize the receivable depends on the reliability of the assessment of the risk situation.

Management evaluates the adequacy of the allowances for doubtful accounts using the maturity structure of receivables balances, historical defaults on receivables experienced over the last 5 years (receivables for which legal measures were taken but which could not be collected within 3 years are also considered as default), customer creditworthiness, and changes in payment behaviour.

### Financial Liabilities

Financial liabilities comprise in particular trade payables, liabilities to banks, finance lease liabilities and derivative financial liabilities, with the latter being measured at fair value through profit or loss (FVTPL).

Liabilities are initially recognised at their fair value less transaction costs related to the borrowing and are subsequently measured at amortized cost using the effective interest method. Gains and losses resulting from the use of the effective interest method are recognised in consolidated profit or loss.

In addition, financial liabilities include purchase prices for shares in subsidiaries held by management. The managers are contractually obligated to sell these shares back to the Company when specified events occur and the Company is obligated to repurchase the shares. The repurchase price is based on the amount of the pro-rata equity on the sale date. Pursuant to IAS 32.23, such contracts give rise to a financial liability for the present value of the redemption amount. As the value cannot be determined exactly in advance, the liability is measured using the pro-rata equity at the reporting date, which includes the portion of the income from the current financial year that in turn is recognised in the consolidated profit and loss statement under interest income or expense. This current income share is considered representative of the effective interest result.

Additional financial liabilities result from participation rights in subsidiaries granted to management. These participation rights may only be transferred to third parties with the Company's approval and the Company has a call option upon the occurrence of specified events, in which event the redemption amount is based on the subsidiary's net assets as at the exercise date. The current share of income is considered to be representative of the effective interest result which changes the liability accordingly.

- AT FAIR VALUE THROUGH PROFIT OR LOSS

### Derivative financial instruments and hedging relationships

The Group uses derivative financial instruments such as currency futures to hedge currency risks. These derivative financial instruments are recognised at fair value at the contract date and are subsequently measured at fair value. Derivative financial instruments are recognised as assets if their fair values are positive and as liabilities if fair values are negative.

The Company uses hedging measures to hedge foreign currency risks from recognised monetary assets and liabilities. While these measures do not satisfy the requirements for hedge accounting, they effectively contribute to the hedging of financial risk in accordance with risk management principles.

Gains and losses from hedges which serve to hedge the exchange risks from intra-Group deliveries in foreign currencies and which do not satisfy the criteria for hedge accounting in accordance with IFRS 9 (IAS 39 in 2017) are not presented separately in profit or loss but rather together with currency gains and losses from deliveries in profit from operations (EBIT). The Company reserves the right to opt also in future to apply the criteria of IAS 39 for hedge accounting.

There are also option liabilities relating to cancellable non-controlling interests (see Note 20).

In connection with a business combination in 2010, a foreign currency hedge of the purchase price was concluded between the signing and the closing, which was recognised as a fair value hedge of a fixed off-balance sheet obligation as the underlying. The loss attributable to the secured hedged was recognised as a basis adjustment to the acquired assets and is now recognised in profit or loss in accordance with the recognition of these assets in profit or loss (in line with depreciation over the estimated useful lives).

A summary for the financial instruments in place in 2017 and 2018 is shown in Note 34.

### Categories according to IAS 39 (until 31 December 2017)

- LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. These comprise in particular trade receivables and other loans issued and receivables (these loans were granted to the managers of subsidiaries for shares or participation rights). Receivables are recognised at the settlement date at cost and subsequently measured at amortized cost using the effective interest method, less any allowance for impairment.

- DERIVATIVES

The Group uses derivative financial instruments such as currency futures to hedge currency risks. These derivative financial instruments, as well as option liabilities from cancellable non-controlling interests, are recognised at fair value at the contract date and are subsequently measured at fair value through profit or loss.

- OTHER FINANCIAL LIABILITIES

Financial liabilities comprise in particular trade payables, liabilities to banks, finance lease liabilities, management interests and participation rights. Liabilities are initially recognised at their fair value less transaction costs related to the borrowing and are subsequently measured at amortized cost using the effective interest method. Gains and losses resulting from the use of the effective interest method are recognised in consolidated profit or loss.

## 7. Inventories

Inventories consist of materials and purchased parts in various stages of completion and are recognised at cost or the lower net realisable value at the reporting date. Inventory usage is determined using the first-in, first-out, weighted average price or specific price methods. Costs of finished goods include the costs for raw materials, other directly allocable expenses as well as pro-rata overheads. Borrowing costs are not capitalised. Inventory risks arising from slow moving goods or reduced realisability are accounted for through appropriate valuation allowances.

## 8. Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are measured at cost less depreciation and amortization. Depreciation/amortization is generally recognised using the straight-line method over the expected useful life of the asset. The estimated useful lives are as follows:

| | USEFUL LIFE IN YEARS |
|---|---|
| Intangible assets: | |
| Software | 4 |
| Technology | 5–10 |
| Customer base | 5–10 |
| Non-compete agreements | 5–10 |
| Trademarks | 10 |
| Property, plant and equipment: | |
| Buildings and improvements | 5–50 |
| Technical plant and machinery | 3–17 |
| Other equipment, operating and office equipment | 2–10 |

On each reporting date the Company assesses whether there are indications that property, plant and equipment or intangible assets may be impaired. If such indications exist, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. Impairment losses on continuing operations are recognised in profit or loss under impairment of property, plant and equipment.

An assessment is made at each reporting date whether there are indications that previously recognised impairment losses no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited to the extent that the asset's carrying amount may not exceed either its recoverable amount or the carrying amount that would have resulted, net of depreciation, had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss.

Borrowing costs are also expensed as incurred unless they are related to a qualifying asset.

Leased property, plant and equipment assets which give rise to rights approximating ownership due to the arrangement of the underlying lease agreements (finance leases) are treated as asset purchases and recognised at fair value or the lower present value of the minimum lease payments. The lease liabilities resulting from the future lease payments are presented in the balance sheet as finance lease liabilities.

Interest expenses on capitalised leased assets are based on an interest rate of 5.3 %. This rate is determined depending on the minimum interest rate for new loans at the inception of each lease or in correspondence with the lessor's implicit rate of return.

The determination whether an arrangement is or contains a lease is based on the economic substance of the agreement and requires judgement as to whether the satisfaction of the contractual arrangement depends on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset.

## 9. Goodwill

Goodwill is recognised at cost and subsequently tested for impairment annually as at 31 December. For this purpose, goodwill is assigned to cash generating units and compared to the business units' value in use based on the expected cashflows. Once recognised, an impairment of goodwill is not reversed in subsequent periods.

## 10. Current and deferred income taxes

Current tax refund claims and tax liabilities for current and previous periods are measured in the amount to be recovered from or paid to the tax authorities. The amount is calculated based on the tax rates and tax laws applicable at the reporting date.

The Company uses the balance sheet liability method prescribed by IAS 12 to recognise deferred taxes. Deferred tax assets and liabilities are measured based on the tax rates that are expected to apply to the period in which the asset will be realised or the liability settled. If there are losses in the current or previous periods, deferred tax assets are recognised for unused tax loss carryforwards only to the extent that there are substantial indications based on existing mid-term plans that sufficient taxable profits will be available against which the unused tax losses can be utilized. For tax loss carryforwards which do not expire, realisability is based on the next five years.

Current and deferred taxes which relate to items recognised under other comprehensive income or directly within equity are not recognised in profit or loss, but rather in other comprehensive income or directly in equity.

## 11. Government grants

Government grants are recognised only when there is reasonable assurance that the entity will comply with any conditions attached to the grants and that the grants will be received. Grants relating to costs are recognised as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

Grants relating to assets are recognised as a deferred income item as soon as all conditions necessary for the receipt of the grant have been satisfied. The deferred income is reversed over the useful life of the respective assets and presented in other operating income in the consolidated profit and loss statement.

## 12. Provisions

In accordance with IAS 37, provisions are recognised when the Company has current legal or constructive obligations as a result of past events and for which payment is probable. Provisions are recognised at the amount determined based on management's best estimate at the reporting date. Provisions are not established if a reasonable estimate is not possible.

## 13. Provisions for employee benefits

### DEFINED BENEFIT PLANS

Defined benefit plans concern solely obligations for severance benefits of Austrian companies. Upon termination of employment or normal retirement, employers must make a lump sum payment to the employee if they were employed for three years or more and employment commenced before 1 January 2003. Severance payments range from six to twelve months of salary at the time of separation depending on the length of service. Payments must be made upon normal retirement or termination by the employer, but not upon voluntary departure by the employee. The amount of the provision is calculated on each reporting date using actuarial measurements based on the projected unit credit method with a creditable service period from the beginning of the employment to the time of planned retirement for each employee, and corresponds to the present value of the employee's vested benefit claims at the end of the reporting period. The retirement age used refers to current legal provisions. Expected future salary increases and employee turnover discounts are considered based on medium-term historical experience.

All remeasurements relating to defined benefit plans (actuarial gains and losses) are recognised under other comprehensive income, in accordance with IAS 19. Refer to Note 18 for further details on provisions for severance payments.

### DEFINED CONTRIBUTION PLANS

In accordance with legal requirements for employments subject to Austrian law which commenced after 1 January 2003, the Company must pay 1.53 % of current compensation to an employee benefit fund. Defined contribution pension schemes exist at several Group companies based either on specific legal obligations under national law or based on shop agreements or individual contractual pension agreements. The Group's obligation is limited at paying the contributions to each pension fund when due. There is no legal or constructive obligation to make future payments. All contributions to defined contribution plans are recognised as an expense at the time when employees have provided the services that obligate the Company to make the contribution.

### OTHER LONG-TERM PERSONNEL OBLIGATIONS

In accordance with Austrian collective work agreements, employees are entitled to jubilee payments depending on their length of service (defined benefit plan). The amounts to be accrued for these provisions are also calculated using the projected unit credit method. The parameters used for the provision for severance pay are also applied when calculating the provision for jubilee payments. Remeasurements (actuarial gains or losses) are recognised in profit or loss.

## 14. Revenue recognition

Performance obligations from the sale of manufactured items and goods is recognised as control is transferred (2017: when the risks and rewards are transferred), normally upon delivery to the recipient, and therefore are recognized at a point of time. Performance obligations from service and repair work are recognised when the service has been rendered, which is the delivery of the goods to the customer. Performance obligations resulting from providing on site customer support for the usage of SBO tools are satisfied during the time of staff being on site. As a consequence, revenue is recognized over time. Refer to Note 4 for further details on the impacts of the new IFRS 15 standard on revenue recognition, which has been applied since 01.01.2018.

Individual entities within the SBO Group operate as lessors of oil tools. Rental revenues are recognised based on actual usage by the customer (performance obligations which are satisfied over time). In general, no minimum lease obligations or minimum revenues are stipulated in the agreements. In this context SBO does not hold finance lease agreements.

Interest income is recognised on a pro-rata basis, using the effective interest method.

## 15. Research and development

Pursuant to IAS 38, research costs are recognised in profit or loss when incurred. Development costs are expensed when incurred, if the requirements for capitalisation of development costs in accordance with IAS 38 are not fully met. Development costs are recognised in profit or loss in SBO's consolidated financial statements in the period in which they are incurred, because the corresponding recognition criteria were not satisfied.

## 16. Share-based payment

In 2014 an agreement on share-based payments was entered into with the Chief Executive Officer. The granting requires valid employment. An agreement on the granting of a voluntary severance benefit in the form of SBO shares at the end of employment was also concluded. In the course of extending the Management Board mandate in 2018 this agreement was also extended. As the compensation is and will be settled using SBO shares, the current expense from these agreements is recognised in personnel expense and within equity (refer to Note 32).

## 17. Estimates, judgements, and assumptions

When preparing the consolidated annual financial statements under International Financial Reporting Standards, estimates, assumptions, and judgements must be made to a certain extent which impact the amounts presented in the balance sheet, the notes to the financial statements and the profit and loss statement. The amounts actually arising in the future may deviate from the estimates; however, from its current perspective the Management believes that there will not be any material negative impacts on the consolidated financial statements in the near future. The significant estimates and judgements underlying the consolidated annual financial statements are explained below.

Assumptions and discretionary decisions must be made when recognising and measuring intangible assets recognised in the course of business combinations (see Note 9).

Estimates are necessary about the period over which property, plant and equipment and intangible assets can be expected to be used (see Notes 8 and 9). In addition, if indications of impairment of property, plant and equipment or intangible assets are identified, estimates are required when determining the recoverable amount.

An estimate of the value in use is made for the annual impairment test of goodwill in which management must estimate the expected future cashflows of the cash generating units and choose an appropriate discount rate (see Note 9).

Deferred tax assets are recognised for unused tax losses to the extent it is probable that taxable income will be available, so that the loss carryforwards can actually be used. When accounting for deferred tax assets, a significant exercise of judgment by management is required regarding the timing and extent to which future taxable income will be available in order to actually use the temporary differences or loss carryforwards (see Note 11).

Management estimates of pricing and market development are necessary in order to determine carrying amounts when measuring inventories (see Note 7). As based on the underlying customer contracts there is no need to apply the percentage-of-completion method, estimates regarding services already rendered as well as future costs to be expected for short-term orders are only required to determine potential provisions for onerous contracts.

In addition to evaluations based on historic cash receipts receivables require assumptions regarding the probability of default (see Note 5). Besides overdue balances and market risks, also past customer experiences are taken into account. Regarding sales revenues estimations are required for expected returns relating to sales with a right of return (see Note 15) as well as for volume discounts to be granted.

For the recognition of provisions, management must evaluate the probability of occurrence at the reporting date. Provisions are recognised at the value that corresponds to management's best estimate at the reporting date (see Note 16).

Expenses for defined benefit plans are determined based on actuarial calculations. The actuarial measurement is based on assumptions regarding the discount rates, future wage and salary increases, mortality rates, and employee turnover rates (see Note 18).

Option liabilities relating to cancellable non-controlling interests are measured at fair value at the acquisition date and are subsequently remeasured at fair value on each reporting date. The fair values are determined based on the discounted cashflows, which are derived from the most recent earnings forecast of the companies involved. Judgements are necessary when determining future cashflows, the timing of exercising the option, and the choice of an appropriate discount rates (see Note 20).

Liabilities for management's interest in subsidiaries and participation rights are measured using estimates of the service period of the respective individuals in the company and future profitability of the subsidiaries. The Company assumes that the respective share of the subsidiary's annual income essentially corresponds to the effective interest expense (see Note 19).

# NOTE 5

## TRADE RECEIVABLES

An analysis of trade receivables as at 31 December is presented below:

| in TEUR | CARRYING AMOUNT | NOT PAST-DUE AND NOT IMPAIRED | PAST-DUE, NOT IMPAIRED | | | | |
|---|---|---|---|---|---|---|---|
| | | | ≤ 30 DAYS | 31-60 DAYS | 61-90 DAYS | 91-120 DAYS | > 120 DAYS |
| **2018** | 125,127 | 61,049 | 32,241 | 16,044 | 7,074 | 4,529 | 4,082 |
| **2017** | 89,801 | 49,375 | 22,540 | 8,195 | 4,231 | 2,222 | 2,525 |

Trade receivables with a term of more than 12 months amounted to TEUR 0 (previous year: TEUR 446). Trade receivables typically have payment terms of up to 90 days.

The carrying amount of impaired receivables amounted to TEUR 108 (previous year: TEUR 713). Allowances for doubtful accounts are recognised in line with IFRS 9 on basis of historical experience and in consideration of days outstanding (see Note 4). As of 31 December 2018 allowances measured for lifetime expected credit losses according to the simplified approach amounted to TEUR 765 (1 January 2018: TEUR 675). The remainder refers to individual allowances.

The allowance account is presented below:

| in TEUR | **2018** | **2017** |
|---|---|---|
| As at 1 January | 5,394 | 6,379 |
| Currency translation adjustments | 262 | -723 |
| Utilisation | -509 | -442 |
| Reversal | -1,165 | -1,831 |
| Additions | 2,863 | 2,011 |
| **As at 31 December** | **6,845** | **5,394** |

No collateral was received for the receivables listed.

# NOTE 6

## OTHER RECEIVABLES AND OTHER ASSETS

This line item mainly consists of receivables from tax authorities and prepaid expenses. In addition, this line item includes assets from sales with a right of return according to IFRS 15 amounting to TEUR 494 (the reference value as of 31 December 2017 was TEUR 412). IFRS 15 was not adopted early in 2017.

No collateral was received for the receivables and no valuation allowances have been recognised.

# NOTE 7

## INVENTORIES

The breakdown of inventories by classification is presented below:

| in TEUR | **31.12.2018** | **31.12.2017** |
|---|---|---|
| Raw materials and supplies | 15,487 | 9,806 |
| Work in progress | 71,575 | 44,096 |
| Finished goods | 58,797 | 42,984 |
| Prepayments | 0 | 200 |
| **Total** | **145,859** | **97,086** |

Valuation allowances expensed in 2018 were TEUR 1,361 (previous year: TEUR 2,502).

# NOTE 8

## PROPERTY, PLANT AND EQUIPMENT

A summary of the gross carrying amounts and the accumulated depreciation and impairments of property, plant and equipment is presented below:

### 2018

| in TEUR | LAND AND BUILDINGS | TECHNICAL PLANT AND MACHINERY | OTHER EQUIPMENT, OPERATING AND OFFICE EQUIPMENT | PREPAYMENTS AND ASSETS UNDER CONSTRUCTION | TOTAL |
|---|---|---|---|---|---|
| Cost | | | | | |
| 1 January 2018 | 93,910 | 360,215 | 13,462 | 607 | 468,194 |
| Currency translation adjustments | 2,259 | 9,046 | 230 | 97 | 11,632 |
| Additions | 4,349 | 24,703 | 1,151 | 5,377 | 35,580 |
| Reclassifications | 200 | 6,927 | 143 | -2,996 | 4,274 |
| Classification as 'held for sale' | -71 | 0 | 0 | 0 | -71 |
| Disposals | -86 | -15,320 | -605 | 48 | -15,963 |
| 31 December 2018 | 100,561 | 385,571 | 14,381 | 3,133 | 503,646 |
| Accumulated depreciation and impairment | | | | | |
| 1 January 2018 | 28,328 | 283,729 | 10,965 | 0 | 323,022 |
| Currency translation adjustments | 612 | 6,923 | 188 | 0 | 7,723 |
| Additions from depreciation | 3,034 | 29,490 | 1,232 | 0 | 33,756 |
| Impairment | 947 | 1,341 | 93 | 0 | 2,381 |
| Reclassifications | 0 | 4,136 | 0 | 0 | 4,136 |
| Disposals | -18 | -11,464 | -593 | 0 | -12,075 |
| 31 December 2018 | 32,903 | 314,155 | 11,885 | 0 | 358,943 |
| Carrying amount | | | | | |
| 31 December 2018 | 67,658 | 71,416 | 2,496 | 3,133 | 144,703 |
| 31 December 2017 | 65,582 | 76,486 | 2,497 | 607 | 145,172 |

## 2017

| | LAND AND BUILDINGS | TECHNICAL PLANT AND MACHINERY | OTHER EQUIPMENT, OPERATING AND OFFICE EQUIPMENT | PREPAYMENTS AND ASSETS UNDER CONSTRUCTION | TOTAL |
|---|---|---|---|---|---|
| Cost | | | | | |
| 1 January 2017 | 93,274 | 378,468 | 13,576 | 286 | 485,604 |
| Currency translation adjustments | -6,629 | -29,384 | -898 | -52 | -36,963 |
| Additions | 7,243 | 19,243 | 1,466 | 4,010 | 31,962 |
| Reclassifications | 233 | 3,375 | -2 | -3,606 | 0 |
| Disposals | -211 | -11,487 | -680 | -31 | -12,409 |
| 31 December 2017 | 93,910 | 360,215 | 13,462 | 607 | 468,194 |
| Accumulated depreciation and impairment | | | | | |
| 1 January 2017 | 26,840 | 282,292 | 11,128 | 0 | 320,260 |
| Currency translation adjustments | -1,850 | -21,300 | -719 | 0 | -23,869 |
| Additions from depreciation | 3,467 | 30,557 | 1,193 | 0 | 35,217 |
| Reclassifications | 0 | 1 | -1 | 0 | 0 |
| Disposals | -129 | -7,821 | -636 | 0 | -8,586 |
| 31 December 2017 | 28,328 | 283,729 | 10,965 | 0 | 323,022 |
| Carrying amount | | | | | |
| 31 December 2017 | 65,582 | 76,486 | 2,497 | 607 | 145,172 |
| 31 December 2016 | 66,434 | 96,176 | 2,448 | 286 | 165,344 |

The Company has production facilities in the following countries: Austria, the USA, the UK, Mexico, Vietnam, and Singapore.

Service and maintenance support sites as well as sales outlets are maintained in the USA, Canada, the UK, Singapore, the United Arab Emirates, Saudi Arabia, Russia, Mexico, and Brazil.

The reclassification in 2018 includes machines at a carrying amount of TEUR 157. These were classified as assets held for sale in previous years. Due to the lack of future sales prospects but based on expected future incidental possibility of usage, the remaining carrying amount was reclassified into property plant and equipment.

As at 31 December 2018, purchase commitments for investments in property, plant and equipment amounted to TEUR 2,123 (previous year: TEUR 1,222).

## FINANCE LEASES

The carrying amounts of capitalised leased assets reported under technical plant and machinery amounted to TEUR 76 as at 31 December 2018 (previous year: TEUR 90), the present value of commitments for future minimum lease payments amounted to TEUR 47 (previous year: TEUR 79).

## OPERATING LEASES

The commitments arising from lease and rental agreements from the use of off-balance sheet property, plant and equipment are as follows:

| in TEUR | **31.12.2018** | **31.12.2017** |
|---|---|---|
| For the following year | 3,366 | 3,189 |
| Between one and five years | 4,990 | 5,432 |
| More than five years | 2,461 | 2,858 |

Payments due to operating leases that were recognised as a current expense totalled TEUR 4,275 in 2018 (previous year: TEUR 3,918).

# NOTE 9

## INTANGIBLE ASSETS

The gross carrying amounts and the accumulated amortization of intangible assets is summarised below:

### 2018

| in TEUR | GOODWILL | TECHNOLOGY | NON-COMPETE AGREEMENTS | CUSTOMER BASE | OTHER INTANGIBLE ASSETS | TOTAL |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| 1 January 2018 | 230,833 | 66,971 | 15,450 | 34,742 | 12,873 | **360,869** |
| Currency translation adjustments | 4,731 | 1,702 | 148 | 698 | 333 | **7,612** |
| Additions | 0 | 0 | 0 | 0 | 333 | **333** |
| Reclassifications | 0 | 0 | 0 | 0 | 14 | **14** |
| Disposals | 0 | 0 | -3,662 | 0 | -25 | **-3,687** |
| 31 December 2018 | 235,564 | 68,673 | 11,936 | 35,440 | 13,528 | **365,141** |
| Accumulated amortization and impairments | | | | | | |
| 1 January 2018 | 74,540 | 36,563 | 9,526 | 26,248 | 8,167 | **155,044** |
| Currency translation adjustments | -129 | 784 | 25 | 556 | 197 | **1,433** |
| Additions from amortization | 0 | 6,303 | 1,883 | 3,813 | 1,132 | **13,131** |
| Disposals | 0 | 0 | -3,662 | 0 | 0 | **-3,662** |
| 31 December 2018 | 74,411 | 43,650 | 7,772 | 30,617 | 9,496 | **165,946** |
| Carrying amount | | | | | | |
| 31 December 2018 | 161,153 | 25,023 | 4,164 | 4,823 | 4,032 | **199,195** |
| 31 December 2017 | 156,293 | 30,408 | 5,924 | 8,494 | 4,706 | **205,825** |

## 2017

| in TEUR | GOODWILL | TECHNOLOGY | NON-COMPETE AGREEMENTS | CUSTOMER BASE | OTHER INTANGIBLE ASSETS | TOTAL |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| 1 January 2017 | 264,474 | 73,843 | 16,537 | 38,283 | 14,172 | **407,309** |
| Currency translation adjustments | -24,665 | -6,872 | -1,087 | -3,541 | -1,182 | **-37,347** |
| Additions | 0 | 0 | 0 | 0 | 107 | **107** |
| Disposals | -8,976 | 0 | 0 | 0 | -224 | **-9,200** |
| 31 December 2017 | 230,833 | 66,971 | 15,450 | 34,742 | 12,873 | **360,869** |
| Accumulated amortization and impairments | | | | | | |
| 1 January 2017 | 89,758 | 32,872 | 7,857 | 24,489 | 7,713 | **162,689** |
| Currency translation adjustments | -6,242 | -2,859 | -386 | -2,384 | -576 | **-12,447** |
| Additions from amortization | 0 | 6,550 | 2,055 | 4,143 | 1,156 | **13,904** |
| Disposals | -8,976 | 0 | 0 | 0 | -126 | **-9,102** |
| 31 December 2017 | 74,540 | 36,563 | 9,526 | 26,248 | 8,167 | **155,044** |
| Carrying amount | | | | | | |
| 31 December 2017 | 156,293 | 30,408 | 5,924 | 8,494 | 4,706 | **205,825** |
| 31 December 2016 | 174,716 | 40,971 | 8,680 | 13,794 | 6,459 | **244,620** |

As at 31 December 2018, purchase commitments for acquisitions of intangible assets amounted to TEUR 0 (previous year: TEUR 0).

## 1. Goodwill

Goodwill is attributable to the following cash generating units and segments:

| in TEUR | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Segment Advanced Manufacturing & Services | | |
| Knust-Godwin LLC | 19,474 | 18,593 |
| SCHOELLER-BLECKMANN Oilfield Technology GmbH | 4,655 | 4,655 |
| Schoeller-Bleckmann Darron (Aberdeen) Limited | 798 | 798 |
| Segment Oilfield Equipment | | |
| Downhole Technology LLC | 86,353 | 82,444 |
| Resource Well Completion Technologies Inc. | 23,707 | 24,599 |
| DSI FZE | 21,833 | 20,866 |
| BICO Drilling Tools Inc. | 4,213 | 4,214 |
| BICO Faster Drilling Tools Inc. | 120 | 124 |
| **Total** | **161,153** | **156,293** |

All cash generating units are measured based on the value in use by discounting expected future cashflows using the weighted average cost of capital (WACC). The WACC was determined based on the current market data for comparable companies in the same industry segment and adjusted for expected specific inflation rates for each country. A detailed planning period of five years (previous year: five years) and the cashflows are based on budgeting by management. For deriving cashflows in the terminal value, a fixed growth rate of 1 % (previous year: 1 %) was assumed for all cash generating units.

The following discount rates were applied as at 31 December 2018 and 31 December 2017:

## WACC (BEFORE TAX)

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Segment Advanced Manufacturing & Services | | |
| Knust-Godwin LLC | 12.7 % | 10.7 % |
| SCHOELLER-BLECKMANN Oilfield Technology GmbH | 13.0 % | 12.5 % |
| Schoeller-Bleckmann Darron (Aberdeen) Limited | 13.4 % | 12.1 % |
| Segment Oilfield Equipment | | |
| Downhole Technology LLC | 13.1 % | 11.0 % |
| Resource Well Completion Technologies Inc. | 12.9 % | 11.5 % |
| DSI FZE | 11.6 % | 10.1 % |
| BICO Drilling Tools Inc. | 12.6 % | 10.7 % |

Cashflows were determined based on revenue forecasts and planned capital expenditures. The value in use of a cash generating unit is impacted the most by sales revenues. Forecasts of sales and cashflows take into account the cyclicality of the industry derived from historical experience on the one hand, and long-term developments of the sales market on the other. Sales forecasts for all cash generating units are based on the expected business development in the oilfield service industry. This is derived from expected drilling activities, the geographic sales markets, and company-specific developments. In addition, margin forecasts are derived from the expected product mix and cost developments based on expected developments of materials prices and planned capital expenditures. The estimated personnel development (based on planned headcount, required qualifications of employees needed and expected personnel cost based on the current economic situation) are also taken into account.

None of the impairment tests performed led to an impairment requirement. The change in the carrying amount of goodwill of all cash-generating units in 2018 resulted from foreign currency translation.

Sensitivity analyses were carried out for all cash generating units. As the value in use reacts to changes in the assumptions regarding cashflows and the discount factors in particular, the analyses took into account an isolated increase in the discount factor by one percentage point as well as a reduction of cashflows by 10 %, as deemed possible by management.

This analysis resulted in an impairment loss for the cash generating unit Resource Well Completion Technologies Inc. The recoverable amount of the cash generating unit exceeds its carrying amount by TEUR 898. Subsequently all parameters were modified in such a way that the estimated recoverable amount as of 31 December 2018 is equal to the carrying amount. A reduction of cashflows by -3.0 % or an increase in the discount rate by 0.2 percentage points would lead to an impairment loss.

## 2. Other intangible assets

Other intangible assets mainly comprise technology, customer base, trademarks, and rights from non-compete agreements relating to circulation tools from a business combination in 2010 (carrying amount as at 31 December 2018: TEUR 8,029; previous year: TEUR 13,397). These assets are amortized over a useful life of 10 years.

In addition, as part of the initial recognition of Resource Well Completion Technologies Inc. in 2014, acquired technologies (carrying amount as at 31 December 2018: TEUR 1,766; previous year: TEUR 2,479) and the acquired customer base (carrying amount as at 31 December 2018: TEUR 1,050; previous year: TEUR 2,397) were capitalised. The technology can be used over a period of seven years from the acquisition date, the customer base will be amortized over a useful life of five years. Furthermore, rights from non-compete agreements were capitalised for a term of at least five years (carrying amount as at 31 December 2018: TEUR 539; previous year: TEUR 1,231).

As part of the initial recognition of Downhole Technology LLC in 2016, acquired technologies (carrying amount as at 31 December 2018: TEUR 16,258; previous year: TEUR 17,663) and trademarks (carrying amount as at 31 December 2018: TEUR 1,355; previous year: TEUR 1,472) were capitalised with a useful life of ten years. In addition, rights from non-compete agreements (carrying amount as at 31 December 2018: TEUR 3,105; previous year: TEUR 3,877) were recognised which will be amortized over a period of six years.

Additional other intangible assets relate to technologies and non-compete agreements acquired in the course of a business combination in 2012.

Other intangible assets also include usage rights for IT software.

# NOTE 10

## LONG-TERM RECEIVABLES AND ASSETS

This item consists primarily of interest-bearing loans, which have been granted to the management of companies included in the scope of consolidation for the acquisition of shares or profit participation rights in these companies (also see Note 19). The Company has only a limited credit risk as the shares must be returned to the Company if the loan conditions are not satisfied. In general, partial repayments are scheduled, but the full settlement of the loan has to be made when returning the shares and participation rights, and therefore at the end of the employment at the latest.

| in TEUR | **31.12.2018** | **31.12.2017** |
|---|---|---|
| Loans | 8,458 | 9,540 |
| Other receivables and assets | 1,296 | 1,398 |
| **Total** | **9,754** | **10,938** |

As of 31 December 2018 and 2017 no impairments were required. There were no past due receivables.

No collateral was received for the other receivables and assets listed.

# NOTE 11

## DEFERRED TAXES

The deferred tax assets and liabilities result from the following items:

| in TEUR | 31.12.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| Property, plant and equipment | 1,359 | -5,751 | 1,036 | -4,150 |
| Other intangible assets (differences in useful lives) | 1,153 | -167 | 711 | -188 |
| Goodwill and other intangible assets (measurement differences) | 0 | -7,438 | 0 | -7,360 |
| Inventories (measurement differences) | 6,096 | 0 | 5,818 | 0 |
| Valuation of shares in subsidiaries | 688 | 0 | 1,050 | 0 |
| Option liabilities | 21,333 | 0 | 19,091 | 0 |
| Other items (measurement differences) | 1,862 | -405 | 1,139 | -365 |
| Provisions | 2,538 | 0 | 2,400 | 0 |
| Foreign currency effects from elimination of intercompany balances | -64 | 0 | 1,041 | 0 |
| Tax loss carryforwards | 3,098 | 0 | 6,600 | 0 |
| **Subtotal** | **38,063** | **-13,761** | **38,886** | **-12,063** |
| Offset within legal tax units and jurisdictions | -11,719 | 11,719 | -9,749 | 9,749 |
| **Total** | **26,344** | **-2,042** | **29,137** | **-2,314** |

Deferred taxes of TEUR 7,263 (previous year: TEUR 5,108) relating to loss carryforwards for which their future use is uncertain based on the current mid-term planning were not recognised or adjusted. These will expire as follows:

| in TEUR | 2019 | 2020 | 2021 | 2022 | 2023 | after 2023 | never | TOTAL |
|---|---|---|---|---|---|---|---|---|
| | 205 | 33 | 346 | 53 | 520 | 2,643 | 3,463 | **7,263** |

Deferred tax assets include tax claims in the amount of TEUR 688 (previous year: TEUR 1,050) from impairments of financial investments in the amount of TEUR 2,750 (previous year: TEUR 4,200) that are deductible over seven years under Austrian tax law.

Concerning option liabilities see Note 20.

There are outside basis differences (i.e. between the tax base of equity interests and the pro-rata equity) at subsidiaries included in the consolidated financial statements, in particular from retained earnings and losses not covered by equity. As at 31 December 2018, timing differences amounted to TEUR 78,824 (previous year: TEUR 80,226), because distributions or disposals of equity investments of individual companies would generally be taxable. However, as the Group does not plan on dividends from or disposals of these companies in the foreseeable future, in accordance with IAS 12.39, no deferred taxes were recognised. Likewise, no withholding taxes were recognised as at 31 December 2018 due to the lack of planned distributions (previous year: TEUR 0).

# NOTE 12

## ASSETS HELD FOR SALE

In 2017 real estate which was no longer needed due to the consolidation of production sites in the USA in the "Advanced Manufacturing & Services" segment was sold. This real estate had already been reported in assets held for sale as at 31 December 2016. The resulting profit of TEUR 1,938 is included in restructuring gains in the income statement (see Note 26 in this regard).

The remaining portion of this property (TEUR 465) is intended to be sold as well following clarification of environmental issues. In this regard there was no need for any impairment.

Two machines held for sale reported within this line item as of 31 December 2017 were reclassified in 2018 to property plant and equipment at their carrying amounts due to the lack of future sales prospects but based on expected future incidental possibility of usage (carrying amount as at 31 December 2018: TEUR 157).

## NOTE 13

### LIABILITIES TO BANKS

As at 31 December 2018, the current liabilities to banks were as follows:

| CURRENCY | AMOUNT IN TEUR | INTEREST RATE IN % |
|---|---|---|
| GBP loans | 6,707 | 1.82 % variable |
| CAD loans | 704 | 5.45 % variable |
| **Subtotal** | **7,411** | |
| Export promotion loans (EUR) | 24,000 | 0.18–0.45 % variable |
| **Total** | **31,411** | |

As at 31 December 2017, the current liabilities to banks were as follows:

| CURRENCY | AMOUNT IN TEUR | INTEREST RATE IN % |
|---|---|---|
| GBP loans | 6,763 | 1.43 % variable |
| CAD loans | 1,117 | 4.70 % variable |
| **Subtotal** | **7,880** | |
| Export promotion loans (EUR) | 24,000 | 0.18–0.45 % variable |
| **Total** | **31,880** | |

The export promotion loans represent revolving credit facilities that can be used by the Company permanently as long as it complies with certain lending agreements. In accordance with export promotion guidelines, receivables in the amount of TEUR 28,800 (previous year: TEUR 28,800) have been stipulated as security for these loans.

The CAD liabilities to banks in the amount of TEUR 704 (previous year: TEUR 1,117) have been secured by a “floating charge” on the entire assets of the borrowing company.

## NOTE 14

### GOVERNMENT GRANTS

As at 31 December 2018, subsidies received amounted to TEUR 958 (previous year: TEUR 57). The grants include a subsidy by a government investment and technology fund, as well as other investment subsidies received for the acquisition of property, plant and equipment and research and development expenses. Individual investment subsidies are tied to the adherence of investments in promoted areas (e.g. number of employees). In the financial year 2015, the Company received grants amounting to TEUR 2,638 which are contingent upon compliance with certain regulations in the years 2018-2020. Due to the uncertainty of future compliance with these conditions and the expected obligation for repayment the amounts received were reported under other current liabilities as at 31 December 2017. Regarding an amount of TEUR 2,295 the actual and expected compliance, respectively, could be substantiated in the meantime. Therefore these funds were reclassified into government grants in 2018, and were partially released through profit or loss in accordance with the depreciation of the underlying assets in 2018. As of 31 December 2018 and also in the previous year the Company complied with all requirements for the government grants recorded in this line item.

## NOTE 15

### OTHER LIABILITIES

Other current liabilities break down as follows:

| in TEUR | **31.12.2018** | **31.12.2017** |
|---|---|---|
| Unused vacation | 2,441 | 2,413 |
| Other personnel expenses | 7,474 | 7,245 |
| Legal and professional fees | 1,462 | 985 |
| Tax liabilities | 4,453 | 2,691 |
| Social security and other employee benefits | 2,483 | 2,074 |
| Refund liabilities according to IFRS 15 | 1,829 | 1,325 |
| Option liabilities | 145,059 | 5,773 |
| Miscellaneous other liabilities | 5,736 | 7,607 |
| **Total** | **170,937** | **30,113** |

Refer to Note 20 for details on option liabilities from cancellable non-controlling interests.

The line item miscellaneous other liabilities includes contract liabilities (advance payments received and accrued revenue) amounting to TEUR 214. As at 31 December 2017 these liabilities amounted to TEUR 671, of which TEUR 619 were recognized as revenue in 2018.

In the previous year refund liabilities of TEUR 1,325 were included in miscellaneous other liabilities. To allow for a better comparability this amount was reclassified into the line item refund liabilities according to IFRS 15 in 2018. IFRS 15 was not adopted early in 2017.

# NOTE 16

## OTHER PROVISIONS

The other provisions developed as follows:

### 2018

| in TEUR | 31.12.2017 | UTILISATION | REVERSAL | ADDITIONS | 31.12.2018 |
|---|---|---|---|---|---|
| Warranties and guarantees | 1,729 | -2 | -312 | 24 | 1,439 |
| Restructuring | 0 | 0 | 0 | 950 | 950 |
| Other | 3,422 | -880 | -267 | 90 | 2,365 |
| **Total** | **5,151** | **-882** | **-579** | **1,064** | **4,754** |

The reduction in the provision for warranty risks in 2018 is attributable to reduced sales in the relevant business field.

In the fourth quarter of 2017, a competitor filed a law suit regarding the breach of patent rights by an SBO Group company. The Company's management considers this claim to be without merit and continues to dispute the allegations. Based on the current situation, the amount of any financial risk – extending beyond legal consulting costs – cannot yet be reliably assessed and are also considered to be improbable. The provisions for related legal fees amounted to TEUR 3,000 in the consolidated financial statements as at 31 December 2017. From this provision an amount of TEUR 800 was used during the financial year 2018. There are no material changes in the general assessment of the claim compared to 2017.

For restructuring provisions see Note 26.

It is expected that the costs related to the current provisions will be incurred in the next financial year.

# NOTE 17

## LONG-TERM LOANS INCLUDING CURRENT PORTION (AMORTISATION FOR THE FOLLOWING YEAR)

As at 31 December 2018, long-term loans in the amount of TEUR 272,588, thereof current portion TEUR 18,310, were comprised of the following:

| CURRENCY | AMOUNT IN TEUR | INTEREST RATE IN % | TERM | REPAYMENT |
|---|---|---|---|---|
| EUR | 10,000 | 1.832 % fix | 2018 – 2027 | annually from 2021 |
| EUR | 19,500 | 1.732 % fix | 2018 – 2027 | annually from 2021 |
| EUR | 6,000 | 1.350 % variable | 2018 – 2027 | annually from 2021 |
| EUR | 20,500 | 2.352 % fix | 2018 – 2027 | bullet loan |
| EUR | 3,000 | 2.445 % fix | 2018 – 2027 | bullet loan |
| EUR | 4,500 | 1.961 % fix | 2018 – 2025 | bullet loan |
| EUR | 10,000 | 1.707 % fix | 2018 – 2025 | annually from 2022 |
| EUR | 1,389 | 0.000 % fix | 2008 – 2024 | quarterly from 2011 |
| EUR | 30,000 | 1.782 % fix | 2018 – 2024 | bullet loan |
| EUR | 45,455 | 0.789 % fix | 2016 – 2023 | semi-annually from 2018 |
| EUR | 10,000 | 1.482 % fix | 2018 – 2023 | bullet loan |
| EUR | 18,750 | 1.582 % fix | 2018 – 2023 | bullet loan |
| EUR | 2,500 | 1.840 % fix | 2016 – 2023 | bullet loan |
| EUR | 10,000 | 2.060 % fix | 2016 – 2023 | bullet loan |
| EUR | 5,000 | 1.090 % fix | 2018 – 2022 | bullet loan |
| EUR | 780 | 0.000 % fix | 2015 – 2022 | quarterly from 2017 |
| EUR | 20,000 | 0.850 % fix | 2018 – 2021 | quarterly from 2019 |
| EUR | 2,000 | 1.620 % fix | 2016 – 2021 | bullet loan |
| EUR | 5,000 | 1.430 % fix | 2016 – 2021 | bullet loan |
| EUR | 7,500 | 1.440 % fix | 2016 – 2021 | bullet loan |
| EUR | 10,000 | 1.590 % fix | 2016 – 2021 | bullet loan |
| EUR | 30,000 | 3.110 % fix | 2013 – 2020 | bullet loan |
| EUR | 714 | 1.500 % fix | 2013 – 2020 | semi-annually from 2015 |
| | **272,588** | | | |

The following loans were backed by collateral:

- TEUR 2,883 (previous year: TEUR 4,816) – Lien on land, buildings, and machinery with a carrying amount of TEUR 11,118 (previous year: TEUR 12,524)

See Note 34 with regard to fair values; see Note 35 with respect to interest rate risk.

## NOTE 18

### PROVISIONS FOR EMPLOYEE BENEFITS

As at the reporting date, the provisions for employee benefits consisted of the following:

| in TEUR | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Severance payments | 3,970 | 3,639 |
| Jubilee payments | 1,785 | 1,623 |
| **Total** | **5,755** | **5,262** |

The actuarial assumptions used for calculating the provisions of severance and jubilee payments were as follows:

| | 2018 | 2017 |
|---|---|---|
| Discount rate | 1.80 % | 1.70 % |
| Salary increases | 3.50 % | 3.50 % |
| Employee turnover rate | 0.0–15.0 % | 0.0–15.0 % |

Provisions were calculated using the Pagler & Pagler's AVÖ 2018-P (previous year: AVÖ 2008-P) mortality tables. Remeasurements of provisions for severance payments (actuarial gains or losses) are recognized in other comprehensive income, in accordance with IAS 19.

No contributions were made to separately managed funds for the obligations presented.

## Provisions for severance payments

The provision for severance payments developed as follows:

| in TEUR | 2018 | 2017 |
|---|---|---|
| Present value of severance obligation as at 1 January | 3,639 | 3,761 |
| Current service cost | 157 | 147 |
| Interest cost | 62 | 51 |
| Total expenses for severance payments | 219 | 198 |
| Remeasurements | 204 | -150 |
| Current severance payments | -92 | -170 |
| **Present value of severance benefit obligation as at 31 December** | **3,970** | **3,639** |

The expenses shown in the table are presented in the consolidated profit and loss statement under personnel expenses of each functional area (see Note 24).

Remeasurements of provisions for severance payments recognised in other comprehensive income in accordance with IAS 19 are comprised of the following:

| in TEUR | 2018 | 2017 |
|---|---|---|
| Remeasurement of obligations | | |
| from changes to financial assumptions | 49 | -83 |
| from historical experience | 155 | -67 |
| **Total** | **204** | **-150** |

The average term of the severance obligations as at 31 December 2018 was 11.4 years (previous year: 11.4 years).

## Sensitivity analysis

The effects on the obligations resulting from changes in significant actuarial assumptions are presented in the following sensitivity analysis. One significant influencing factor was changed in each case, while the remaining inputs were held constant. In reality, however, it is rather unlikely that these factors do not correlate. The changed obligation was determined analogously to the actual obligation, using the projected unit credit method in accordance with IAS 19.

| SEVERANCE PAYMENTS | | PRESENT VALUE OF OBLIGATION (DBO) 31.12.2018 | |
|---|---|---|---|
| | CHANGE IN ASSUMPTION | CHANGE IN PROVISION GIVEN AN INCREASE IN ASSUMPTION | CHANGE IN PROVISION GIVEN A DECREASE IN ASSUMPTION |
| Discount rate | +/- 0.5 percentage points | -211 | 231 |
| Increase in salaries | +/- 0.5 percentage points | 217 | -201 |

## Provision for jubilee payments

The provision for jubilee payments developed as follows:

| in TEUR | 2018 | 2017 |
|---|---|---|
| Present value of jubilee payment obligation as at 1 January | 1,623 | 1,535 |
| Current service cost | 131 | 129 |
| Interest cost | 27 | 23 |
| Total expenses for jubilee payments | 158 | 152 |
| Remeasurements | 96 | -32 |
| Current jubilee payments | -92 | -32 |
| **Present value of jubilee payment obligation as at 31 December** | **1,785** | **1,623** |

## Defined contribution pension plans

Payments made in connection with defined contribution pension and employee benefit plans were expensed and amounted to TEUR 578 in the 2018 financial year (previous year: TEUR 465). Contributions of approximately TEUR 500 are expected for the following year.

## NOTE 19

### OTHER LIABILITIES

Other non-current liabilities break down as follows:

| in TEUR | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Option liabilities | 0 | 131,515 |
| Management interests | 12,481 | 11,767 |
| Participation rights | 4,979 | 5,397 |
| Non-compete agreements | 725 | 1,067 |
| Other liabilities | 639 | 145 |
| **Total** | **18,824** | **149,891** |

Refer to Note 20 for details on option liabilities. These were reclassified to other current liabilities in 2018.

The management of the following companies included in the scope of consolidation held shares in their respective companies:

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Company | | |
| BICO Drilling Tools Inc. | 9.35 % | 9.35 % |
| BICO DRILLING TOOLS FZE | 9.35 % | - |
| BICO Faster Drilling Tools Inc. | 11.00 % | 11.00 % |
| Schoeller-Bleckmann Energy Services L. L. C. | 3.00 % | 3.00 % |
| Schoeller-Bleckmann Darron Limited | 5.00 % | 5.00 % |
| Techman Engineering Limited | 9.35 % | 9.35 % |
| Schoeller-Bleckmann Darron (Aberdeen) Limited | 6.00 % | 6.00 % |
| ADRIANA HOLDING COMPANY LIMITED | 1.00 % | 1.00 % |

Management thus has a pro-rata interest in these companies.

The management of the following companies included in the scope of consolidation held participation rights in their respective companies:

| Company | 31.12.2018 | 31.12.2017 |
| --- | --- | --- |
| DSI FZE | 2.90 % | 5.50 % |
| SCHOELLER-BLECKMANN Oilfield Technology GmbH | 0.95 % | 0.80 % |
| Resource Well Completion Technologies Inc. | 5.00 % | 5.00 % |
| Downhole Technology LLC | 1.00 % | 1.00 % |

The effective interest expense recognised for management interests and participation rights was TEUR 1,221, the effective interest income recognised was TEUR 228 (previous year: expense TEUR 1,324, income TEUR 585) and is reported under interest expenses and interest income, respectively.

# NOTE 20

## OPTION LIABILITIES

In the course of business combinations, the Company has concluded option agreements with non-controlling shareholders on the later acquisition of such non-controlling interests. The purchase price of the option liabilities from cancellable non-controlling interests depends on the results achieved by the company in question.

These option liabilities are recognised in other liabilities referring to the discounted amount of the expected payment from these cancellable options based on the current corporate planning at the acquisition date because the Group has an unconditional payment obligation. From a Group's perspective, 100 % of the shares in these companies are thus recognised due to this option commitment. Consequently, 100 % of the results of the respective subsidiaries are attributed to the owners of the parent company.

Option liabilities are subsequently measured using the discounted expected payment amount as at the reporting date based on current corporate planning. They are discounted using a risk-adequate interest rate for the respective term of the commitment. The interest cost from current discounting is presented under interest expenses. Gains and losses due to changes of the discounted expected payment amount are recognised in gains/losses from remeasurement of option liabilities.

In the course of two business combinations the Company granted the non-controlling shareholders the right to offer their shares to the Company, and at the same time, the Company committed to purchase the offered shares. In addition, the Company acquired the right to purchase the shares of the non-controlling shareholders, who have committed themselves to transfer their shares to the Company in such case (put and call option). As the put and call options comprise all shares which are not yet held by the Group and the conditions for transfer in the put and call cases are identical, it is assumed that the Group has effectively acquired 100 % of the shares at the acquisition date.

The option regarding Downhole Technology LLC from the business combination in 2016 may be exercised at any time by both contracting parties as at 1 April 2019. The corresponding liability is recognised in other current liabilities (2017: other non-current liabilities). During 2017 increased earnings expectations for the company, which is assigned to the "Oilfield Equipment" segment, resulted in an increase in the expected strike price for the shares underlying the option, and hence in a valuation effect of TEUR 90,152 concerning this option liability. In 2018 a valuation loss of TEUR 1,693 was recognized. The corresponding expenses are presented in the income statement in gains/losses from remeasurement of option liabilities and will be tax-effective for a period of 15 years upon exercising the option.

In the reporting period the option agreement from 2014 regarding the acquisition of the remaining 33 % in shares of Resource Well Completion Technologies Inc. was exercised by SBO. The purchase price of CAD 4.0 Mill (EUR 2.6 Mill) was fully covered by the option liabilities of 31 December 2017. Despite the payment, which is reported within the cashflow of investing activities this transaction had no significant effect on the consolidated financial statements in 2018.

In the course of a business combination in 2012 the Company granted the non-controlling shareholders the right to offer their shares to the Company at any time, and this obligated the Company to purchase the offered shares (put option). Based on the assessment as at the acquisition date that there was no present ownership interest with regard to the share underlying the put option, a non-controlling interest was recognised and as a result reclassified in full as a financial liability. Remeasurement changes of the liability are recognised in profit or loss in gains/losses from remeasurement of option liabilities. In the 2018 financial year the option was exercised by the non-controlling shareholders. The Company acquired the offered shares for MEUR 0.8, which resulted in a valuation gain of TEUR 2,712.

The development of option liabilities in the financial year is shown below:

| in TEUR | BUSINESS COMBINATION DOWNHOLE TECHNOLOGY 2018 | 2017 | OTHER BUSINESS COMBINATIONS 2018 | 2017 |
|---|---|---|---|---|
| As at 1 January | 131,515 | 51,006 | 5,773 | 7,526 |
| Accrued interest | 5,389 | 1,905 | 374 | 1,056 |
| Remeasurement gains recognised | 0 | 0 | -2,712 | -2,568 |
| Remeasurement losses recognised | 1,693 | 90,152 | 0 | 63 |
| Disposal from settlement | 0 | 0 | -3,399 | 0 |
| Currency translation adjustments | 6,462 | -11,548 | -36 | -304 |
| **As at 31 December** | **145,059** | **131,515** | **0** | **5,773** |

Remeasurement gains and losses recognised in gains/losses from remeasurement of option liabilities are shown below:

| in TEUR | 2018 | 2017 |
|---|---|---|
| Remeasurement gains | 2,712 | 2,568 |
| Remeasurement losses | -1,693 | -90,216 |
| **Total** | **1,019** | **-87,648** |

The sensitivity analysis for significant non-observable input factors with respect to the remaining option liabilities as at 31 December 2018 is shown below:

| in TEUR | ASSUMPTION | CHANGE IN ASSUMPTION | TOTAL CHANGE IN LIABILITIES GIVEN INCREASE IN ASSUMPTIONS | TOTAL CHANGE IN LIABILITIES GIVEN DECREASE IN ASSUMPTIONS |
|---|---|---|---|---|
| | Result | +/- 10 % | +14,506 | -14,506 |
| | Discount rate 4.0 % | +/- 1.0 percentage points | -692 | +702 |

## NOTE 21

### SHARE CAPITAL

The Company's share capital as at 31 December 2018 as well as at 31 December 2017 was MEUR 16 and is divided into 16 million shares with a par value of EUR 1.00 each.

The Annual General Meeting on 24 April 2018 authorised the Executive Board to acquire treasury shares of the Company up to a maximum of 10 % of the share capital for a period of 30 months. In the 2018 financial year, the Company acquired 10,000 treasury shares at a purchase price of TEUR 586.4. No treasury shares were acquired in 2017 based on the authorization from the Annual General Meeting on 27 April 2016.

As at the 2018 reporting date, the Company held 50,597 treasury shares (previous year: 46,597 shares), which corresponds to 0.32 % (previous year: 0.29 %) of the share capital with a cost of TEUR 2,812 (previous year: TEUR 2,555). The number of shares outstanding is thus 15,949,403 shares (previous year: 15,953,403).

In a business combination in 2010, it was stipulated that 50,000 shares of stock would be tendered as contingent consideration if specified future sales targets were achieved. As the sales target was not met in 2018, there is no dilution effect on the number of shares outstanding as at 31 December 2018.

As at 31 December 2018, Berndorf Industrieholding AG, Vienna held approximately 33.4 % of the share capital (previous year: approximately 33.4 %).

## NOTE 22

### LEGAL RESERVE

Austrian law requires the establishment of a legal reserve in the amount of 10 % of the Company's nominal share capital. As long as the legal reserve and other restricted capital reserves do not reach this amount, the Company is required to allocate 5 % of its annual net profit, reduced by a loss carry forward. Only the annual financial statements of the parent company prepared in accordance with Austrian accounting principles are decisive for the establishment of this reserve. No further allocation is required because of the amount of the reserve already recognised is sufficient.

## NOTE 23

### SALES

Sales break down as follows:

| | ADVANCED MANUFACTURING & SERVICES | | OILFIELD EQUIPMENT | | TOTAL | |
|---|---|---|---|---|---|---|
| in TEUR | **2018** | **2017** | **2018** | **2017** | **2018** | **2017** |
| Product sales | 145,996 | 84,320 | 138,493 | 113,013 | 284,489 | 197,333 |
| Services and repairs | 19,707 | 11,800 | 16,430 | 13,225 | 36,137 | 25,025 |
| Rental revenue | 5,786 | 7,099 | 93,798 | 94,764 | 99,584 | 101,863 |
| **Total** | **171,489** | **103,219** | **248,721** | **221,002** | **420,210** | **324,221** |
| North America | 83,007 | 44,243 | 221,120 | 191,512 | 304,127 | 235,755 |
| Europe | 36,893 | 21,903 | 2,379 | 1,836 | 39,272 | 23,739 |
| Middle East | 3,282 | 5,421 | 15,222 | 15,794 | 18,504 | 21,215 |
| Other | 48,307 | 31,652 | 10,000 | 11,860 | 58,307 | 43,512 |
| **Total** | **171,489** | **103,219** | **248,721** | **221,002** | **420,210** | **324,221** |

The revenues are classified based on the customer's location. In 2018 sales revenues of TEUR 303,103 relate to performance obligations which were satisfied at a point of time and TEUR 117,107 to performance obligations which were satisfied over time.

The Company rents drilling machinery under rental contracts with terms of generally less than a year. As the rental fees are generally charged based on use, there is no claim to future minimum rental payments.

## NOTE 24

### ADDITIONAL BREAKDOWN OF EXPENSES

As the Company classifies its expenses by function, the following additional disclosures are required by IAS 1 (presentation using the nature of expense format):

| in TEUR | **2018** | **2017** |
|---|---|---|
| Cost of materials | 163,085 | 115,796 |
| Personnel expenses | 122,689 | 97,766 |
| Depreciation of property, plant and equipment including impairments | 36,137 | 35,217 |
| Amortization of other intangible assets including impairments | 13,131 | 13,904 |

# NOTE 25

## OTHER OPERATING INCOME AND EXPENSES

The main items within other operating expenses are:

| in TEUR | 2018 | 2017 |
|---|---|---|
| Exchange losses | 8,151 | 9,768 |
| Research and development expenses | 7,722 | 7,827 |

Development costs have not been capitalised to date due to the uncertainties of the future economic benefits attributable to them.

The main items within other operating income are:

| in TEUR | 2018 | 2017 |
|---|---|---|
| Exchange gains | 11,002 | 4,963 |
| Income from the disposal of fixed assets | 2,063 | 143 |

# NOTE 26

## RESTRUCTURING GAINS AND LOSSES

The restructuring losses of TEUR 1,469 in 2018 refer to the planned relocation of production capacities in the "Advanced Manufacturing & Services" segment in connection with the closure of the location Techman in England and SBMEX in Mexico. In this regard costs for personnel measures of TEUR 901 as well as for other related costs of TEUR 393 were accrued, of which TEUR 950 are included in restructuring provisions and TEUR 344 in other liabilities. In addition an amount of TEUR 175 was provided for impairment of current assets within the restructuring losses. Furthermore, in this respect TEUR 2,381 were recorded in the line item impairment on property, plant and equipment.

Restructuring gains of 2017 at TEUR 1,938 refer to the sales of real estate in the USA which had already been recorded in assets held for sale as at 31 December 2016.

# NOTE 27

## INTEREST INCOME AND EXPENSES

Interest income breaks down as follows:

| in TEUR | 2018 | 2017 |
|---|---|---|
| Bank deposits and other loans | 2,672 | 1,213 |
| Effective interest on management interests and participation rights | 228 | 585 |
| **Interest income** | **2,900** | **1,798** |

Interest expenses break down as follows:

| in TEUR | 2018 | 2017 |
|---|---|---|
| Loans | 4,417 | 3,808 |
| Compounding of option liabilities from cancellable non-controlling interests | 5,763 | 2,964 |
| Effective interest on management interests and participation rights | 1,221 | 1,324 |
| **Interest expenses** | **11,401** | **8,096** |

See Note 20 with regard to option liabilities.

# NOTE 28

## OTHER FINANCIAL EXPENSES

Other financial expenses in the 2018 financial year amounting to TEUR 7,375 essentially refer to dividend distributions with respect to shares in companies within the SBO Group for which there are put/call option agreements (see Note 20).

# NOTE 29

## INCOME TAXES

A reconciliation of income taxes applying the Austrian corporate tax rate to consolidated tax rate is presented below:

| in TEUR | 2018 | 2017 |
|---|---|---|
| Consolidated tax expense (-) / income (+) at a presumed tax rate of 25 % | -13,973 | 17,449 |
| Foreign tax rate differentials | 2,728 | 5,477 |
| Change in foreign tax rates | 0 | -10,869 |
| Withholding and foreign taxes | -1,816 | -1,274 |
| Non-deductible expenses | -2,198 | -778 |
| Non-taxable changes in option liabilities | 584 | 359 |
| Non-taxable income and tax allowances | 219 | 620 |
| Prior year adjustments | -344 | 175 |
| Unrecognised tax loss carryforwards | -1,828 | -1,760 |
| Writedown of previously recognised tax loss carryforwards | -372 | -51 |
| Utilisation of tax loss carryforwards not recognised in the previous year | 280 | 15 |
| Profit share of management interests and non-controlling interests | 2,672 | 4,890 |
| Other differences | -452 | 1,182 |
| **Consolidated tax expense / income** | **-14,500** | **15,435** |
| Profit/loss before tax | 55,891 | -69,795 |
| Profit share of management equity interests | 184 | 243 |
| | 56,075 | -69,552 |
| **Consolidated tax expense / income** | **-14,500** | **15,435** |
| Consolidated tax rate | 25.9 % | 22.2 % |

Income taxes break down as follows:

| in TEUR | 2018 | 2017 |
|---|---|---|
| Current taxes | -12,020 | -9,031 |
| Deferred taxes | -2,480 | 24,465 |
| **Total** | **-14,500** | **15,435** |

Deferred taxes in 2017 mainly result from the formation and reversal of temporary differences, thereof TEUR 18,508 from the remeasurement of the option liability Downhole Technology, and the recognition of tax effects from current losses.

In the course of the US tax reform enacted in December 2017 US federal corporate tax rates were reduced from 35 % to 21 % for business years starting 2018. The following required remeasurement of prior year balances of deferred taxes due to the reduction of the US federal corporate tax rate resulted in tax income in 2017 because balances for deferred tax liabilities as of 31 December 2016 exceeded deferred tax assets. According to the regulations of IAS 12 changes in timing differences during the year 2017 of companies being affected by the US tax jurisdiction were measured in a first step at the current rate of 35 % and were then remeasured at year end using the lower future tax rate of 21 %. The largest change in timing differences resulted from the aforementioned remeasurement of the option liability relating to Downhole Technology. In the table above, the corresponding deferred tax income measured at the current rate is included in the items tax income and foreign tax rate differentials, respectively. The remeasurement of deferred tax balances at year end 2017 relating to the reduction of the US federal corporate tax rate to 21 % is a material portion of the item "change in foreign tax rates" in 2017.

The following income taxes were recognized under other comprehensive income:

| in TEUR | 2018 | 2017 |
|---|---|---|
| Current taxes | | |
| Remeasurements IAS 19 | 51 | -37 |
| Deferred taxes | | |
| Foreign currency effects | -765 | 1,355 |
| **Total** | **-714** | **-1,318** |

Due to currency translation differences the net deferred tax asset presented in the balance sheet was increased by TEUR 355 in the 2018 financial year (previous year: reduced by TEUR 598).

The Company's dividend distribution to shareholders did not result in any income tax consequences for the Company for the 2018 financial year or the 2017 comparison period.

# NOTE 30

## SEGMENT REPORTING

The Company operates worldwide, mainly in a single industry segment, the design and manufacturing of drilling equipment for the oil and gas industry.

In accordance with IFRS 8, the following segment report follows the management approach, in which the entire Executive Board of Schoeller-Bleckmann Oilfield Equipment AG is the chief operating decision maker monitoring the performance of the business units and deciding on the allocation of resources to the business segments.

The “Advanced Manufacturing & Services” (AMS) segment comprises the extremely precise manufacturing and repair of drill collars and complex “Measurement While Drilling“ (MWD) and “Logging While Drilling“ (LWD) components from antimagnetic, corrosion resistant stainless steel. These form the housing for the sensitive measuring instruments that are used for the exact measurement of inclination and azimuth of the drillstring as well as petrophysical parameters.

The “Oilfield Equipment” (OE) segment encompasses a broad offering of highly-specialised solutions for the oil and gas industry: High-performance drilling motors and tools for the targeted driving of the drill string, special tools for downhole circulation technology (circulation tools), and products for the resource-efficient completion of unconventional reservoirs in the two dominant technologies, “sliding sleeve” and “plug-n-perf”.

Management of the Company and the allocation of resources are based on the financial performance of these segments. Management monitors sales revenues, profit from operations (EBIT), and profit/loss before tax of the business units separately for the purpose of making decisions on the allocation of resources.

The amounts presented are a summary of the separate balance sheets and income statements the individual companies included in the consolidated financial statements. Individual holding adjustments and consolidating entries (elimination of intercompany profit and loss and other intragroup transactions) must be accounted for to attain the consolidated results presented. Results in the total column correspond to those in the profit and loss statement.

Intra-Group sales are made at arm’s length conditions.

## 2018

| in TEUR | ADVANCED MANUFACTURING & SERVICES | OILFIELD EQUIPMENT | SBO-HOLDING & CONSOLIDATION | GROUP |
|---|---|---|---|---|
| External sales | 171,489 | 248,721 | 0 | 420,210 |
| Intercompany sales | 86,843 | 13,003 | -99,846 | 0 |
| Total sales | 258,332 | 261,724 | -99,846 | 420,210 |
| Profit from operations (EBIT) before impairments and restructuring measures | 22,723 | 55,198 | -3,364 | 74,557 |
| Profit/loss before tax | 19,772 | 42,246 | -6,127 | 55,891 |
| Capital expenditures | 9,431 | 26,458 | 24 | 35,913 |
| Depreciation and amortization | 17,951 | 30,266 | 1,051 | 49,268 |
| of which: impairments | 2,381 | 0 | 0 | 2,381 |
| Reversal of impairments | 0 | 0 | 0 | 0 |
| Head count (average) | 968 | 602 | 23 | 1,593 |

In the 2018 financial year profit/loss before tax in the segment "Oilfield Equipment" includes a gain from remeasurement of option liabilities in the amount of TEUR 1,019. In addition to impairment expenses of TEUR 2,381 reported above profit/loss before tax of the segment "Advanced Manufacturing & Services" includes restructuring losses of TEUR 1,469.

## 2017

| in TEUR | ADVANCED MANUFACTURING & SERVICES | OILFIELD EQUIPMENT | SBO-HOLDING & CONSOLIDATION | GROUP |
|---|---|---|---|---|
| External sales | 103,220 | 221,001 | 0 | 324,221 |
| Intercompany sales | 43,930 | 14,901 | -58,831 | 0 |
| Total sales | 147,150 | 235,902 | -58,831 | 324,221 |
| Profit from operations (EBIT) before impairments and restructuring measures | -14,469 | 46,155 | -8,065 | 23,621 |
| Profit/loss before tax | -11,722 | -46,330 | -11,743 | -69,795 |
| Capital expenditures | 3,799 | 28,202 | 68 | 32,069 |
| Depreciation and amortization | 17,902 | 30,167 | 1,052 | 49,121 |
| of which: impairments | 0 | 0 | 0 | 0 |
| Reversal of impairments | 0 | 0 | 0 | 0 |
| Head count (average) | 838 | 457 | 26 | 1,321 |

In the 2017 financial year profit/loss before tax in the segment "Oilfield Equipment" includes a loss from the remeasurement of option liabilities in the amount of TEUR 87,648. The segment "Advanced Manufacturing & Services" includes restructuring gains of TEUR 1,938 in 2017.

## Geographic information

Sales break down as follows:

| in TEUR | 2018 | 2017 |
| --- | --- | --- |
| Austria | 1,718 | 918 |
| United Kingdom | 15,484 | 9,841 |
| USA | 282,015 | 203,767 |
| Rest of World | 120,993 | 109,695 |
| **Total sales** | **420,210** | **324,221** |

The revenues are classified based on the customer's location. There are no other countries with sales exceeding 10 % of the SBO Group's total sales.

See Note 35 for information regarding the most important customers.

Non-current assets break down as follows:

| in TEUR | 2018 | 2017 |
| --- | --- | --- |
| Austria | 39,291 | 44,775 |
| United Kingdom | 23,648 | 26,616 |
| USA | 207,114 | 197,240 |
| Canada | 29,618 | 33,068 |
| Dubai | 33,878 | 37,771 |
| Rest of World | 10,350 | 11,527 |
| **Total non-current assets** | **343,899** | **350,997** |

Assets are classified based on each company's location.

# NOTE 31

## REMUNERATION OF THE EXECUTIVE AND SUPERVISORY BOARDS

The Executive Board's remuneration was comprised of the following:

**2018**

| in TEUR | FIXED | VARIABLE | TOTAL |
|---|---|---|---|
| Gerald Grohmann | 641 | 180 | 821 |
| Klaus Mader | 467 | 100 | 567 |
| **Total** | **1,108** | **280** | **1,388** |

**2017**

| in TEUR | FIXED | VARIABLE | TOTAL |
|---|---|---|---|
| Gerald Grohmann | 581 | 180 | 761 |
| Klaus Mader | 362 | 100 | 462 |
| **Total** | **943** | **280** | **1,223** |

Expenses for pensions and severance payments for active members of the Executive Board amounted to TEUR 346 (previous year: TEUR 109). Of that amount, TEUR 181 (previous year: TEUR 120) was attributable to defined contribution pension agreements. Expenses for share-based payments in financial years 2018 and 2017 are not included in the remuneration amounts presented above. Please see Note 32 for information on the voluntary severance and share-based payments.

Remuneration for the Supervisory Board amounted to TEUR 159 in the 2018 financial year (previous year: TEUR 39), which was a combination of a flat reimbursement for expenses and a variable component based on the Group's results.

No loans were granted to the members of the Executive or Supervisory Boards in the 2018 or 2017 financial years.

## NOTE 32

### SHARE-BASED PAYMENTS

Share-based payments in the 2018 financial year resulted in expenses of TEUR 1,637 (previous year: TEUR 442). In the 2014 financial year, the Chairman of the Executive Board, Mr Gerald Grohmann, was granted an annual transfer of 6,000 SBO shares, contingent upon valid employment. The first transfer was made in 2014. Mr Grohmann may not dispose of or encumber the shares for a period of two years following each transfer, however not exceeding the termination of the employment agreement. In 2018 the annual granting of 6,000 SBO shares was extended in accordance with the extension of the Management Board mandate until 2021. The market value of 6,000 shares at the transfer date in 2018 was TEUR 536 (previous year: TEUR 392). The market value of the 12,000 shares already transferred and still subject to disposal restrictions was TEUR 688 as at 31 December 2018 (previous year: 12,000 shares with a market value of TEUR 1,020).

Also in the 2014 financial year, the Company granted the Chairman of the Executive Board a voluntary severance payment of 30,000 SBO shares at the end of the employment contract. At the commitment date the value per share was determined to be EUR 70.00, based on the average price for the preceding 36 months.

## NOTE 33

### TRANSACTIONS WITH RELATED PARTIES

The following transactions with related parties not included in the SBO Group's scope of consolidation were settled at arm's-length conditions:

The law firm of Schleinzer & Partner is the Company's legal consultant. One of the law firm's partners, Dr Karl Schleinzer, is a member of the Supervisory Board. Professional fees for 2018 amounted to TEUR 36 (previous year: TEUR 36), of which TEUR 9 was outstanding as at 31 December 2018 (previous year: TEUR 9).

## NOTE 34

### FINANCIAL INSTRUMENTS

### Derivative financial instruments

#### 1. FORWARD EXCHANGE CONTRACTS

The Austrian company hedges its receivables balances denominated in US dollars and CAN dollars by entering into forward exchange contracts. All transactions are short-term exposures (3–8 months).

**FORWARD EXCHANGE CONTRACTS AS AT 31.12.2018**

| in TEUR | RECEIVABLES AT HEDGED RATE | RECEIVABLES AT REPORTING DATE RATE | FAIR VALUE |
|---|---|---|---|
| USD | 19,037 | 19,132 | -95 |
| CAD | 590 | 575 | 15 |

**FORWARD EXCHANGE CONTRACTS AS AT 31.12.2017**

| in TEUR | RECEIVABLES AT HEDGED RATE | RECEIVABLES AT REPORTING DATE RATE | FAIR VALUE |
|---|---|---|---|
| USD | 10,553 | 10,391 | 161 |
| CAD | 902 | 891 | 11 |

The forward exchange transactions are measured at fair value and recognised in profit or loss since the requirements for hedge accounting in accordance with IAS 39 are not fully met.

#### 2. OTHER DERIVATIVE FINANCIAL INSTRUMENTS

There are also option liabilities relating to cancellable non-controlling interests (see Note 20).

## Overview of existing financial instruments

The following table shows the financial instruments, broken down by categories in accordance with IFRS 9 (2017: IAS 39 and IFRS 7):

### FINANCIAL INSTRUMENTS — 31.12.2018

in TEUR

| | | | VALUATION METHOD ACC. TO IFRS 9 | | | |
|---|---|---|---|---|---|---|
| | CARRYING AMOUNT | NO FINANCIAL INSTRUMENT | FINANCIAL ASSET AT AMORTIZED COST | FINANCIAL LIABILITY AT AMORTIZED COST | AT FAIR VALUE THROUGH PROFIT & LOSS | CARRYING AMOUNT FINANCIAL INSTRUMENT |
| Current assets | | | | | | |
| Cash and cash equivalents | 241,532 | 0 | 241,532 | | | 241,532 |
| Trade receivables | 125,127 | 0 | 125,127 | | | 125,127 |
| Income tax receivable | 1,915 | 1,915 | | | | 0 |
| Other receivables and other assets | 6,385 | 6,324 | | | 61 | 61 |
| Assets held for sale | 538 | 538 | | | | 0 |
| Inventories | 145,859 | 145,859 | | | | 0 |
| **Total current assets** | **521,356** | **154,636** | **366,659** | **0** | **61** | **366,720** |
| Non-current assets | | | | | | |
| Property, plant and equipment | 144,703 | 144,703 | | | | 0 |
| Goodwill | 161,153 | 161,153 | | | | 0 |
| Other intangible assets | 38,042 | 38,042 | | | | 0 |
| Long-term receivables and assets | 9,754 | 1,296 | 8,458 | | | 8,458 |
| Deferred tax assets | 26,344 | 26,344 | | | | 0 |
| **Total non-current assets** | 379,996 | 371,538 | 8,458 | 0 | 0 | 8,458 |
| **TOTAL ASSETS** | **901,352** | **526,174** | **375,117** | **0** | **61** | **375,178** |
| Current liabilities | | | | | | |
| Liabilities to banks | 31,412 | 0 | | 31,412 | | 31,412 |
| Current portion of long-term loans | 18,310 | 0 | | 18,310 | | 18,310 |
| Finance lease liabilities | 33 | 0 | | 33 | | 33 |
| Trade payables | 21,165 | 0 | | 21,165 | | 21,165 |
| Government grants | 334 | 334 | | | | 0 |
| Income tax payable | 4,667 | 4,667 | | | | 0 |
| Other liabilities | 170,593 | 20,143 | | 5,251 | 145,199 | 150,450 |
| Other provisions | 5,098 | 5,098 | | | | 0 |
| **Total current liabilities** | 251,612 | 30,242 | 0 | 76,171 | 145,199 | 221,370 |
| Non-current liabilities | | | | | | |
| Long-term loans | 254,278 | 0 | | 254,278 | | 254,278 |
| Finance lease liabilities | 14 | 0 | | 14 | | 14 |
| Government grants | 623 | 623 | | 0 | | 0 |
| Provisions for employee benefits | 5,755 | 5,755 | | 0 | | 0 |
| Other liabilities | 18,824 | 0 | | 18,815 | 9 | 18,824 |
| Deferred tax liabilities | 2,042 | 2,042 | | 0 | | 0 |
| **Total non-current liabilities** | 281,536 | 8,420 | 0 | 273,107 | 9 | 273,116 |
| Equity | | | | | | |
| Share capital | 15,949 | 15,949 | | | | 0 |
| Capital reserve | 68,303 | 68,303 | | | | 0 |
| Legal reserve | 785 | 785 | | | | 0 |
| Other reserves | 19 | 19 | | | | 0 |
| Currency translation reserve | 23,077 | 23,077 | | | | 0 |
| Retained earnings | 260,071 | 260,071 | | | | 0 |
| **Total equity** | 368,204 | 368,204 | 0 | 0 | 0 | 0 |
| **TOTAL LIABILITIES AND EQUITY** | **901,352** | **406,866** | **0** | **349,278** | **145,208** | **494,486** |

## FINANCIAL INSTRUMENTS 31.12.2017

in TEUR

| | | | | | CLASSIFICATION ACC. TO IFRS 7: VALUATION METHOD | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | CATEGORY ACC. TO IAS 39 | | | FAIR VALUE | AMORTIZED COSTS | | | | | |
| | | Loans and receivables | Other financial liabilities | Derivatives | Derivatives | Cash and cash equivalents | Trade accounts receivable | Lendings | Financing liabilities | Trade accounts payable | Other |
| Current assets | | | | | | | | | | | |
| Cash and cash equivalents | 165,982 | 165,982 | | | | 165,982 | | | | | |
| Trade receivables | 89,801 | 89,801 | | | | | 89,801 | | | | |
| Income tax receivable | 1,663 | | | | | | | | | | |
| Other receivables and other assets | 4,043 | | | 173 | 173 | | | | | | |
| Assets held for sale | 594 | | | | | | | | | | |
| Inventories | 97,086 | | | | | | | | | | |
| **Total current assets** | **359,169** | | | | | | | | | | |
| Non-current assets | | | | | | | | | | | |
| Property, plant and equipment | 145,172 | | | | | | | | | | |
| Goodwill | 156,293 | | | | | | | | | | |
| Other intangible assets | 49,532 | | | | | | | | | | |
| Long-term receivables and assets | 10,938 | 9,540 | | | | | | 9,540 | | | |
| Deferred tax assets | 29,137 | | | | | | | | | | |
| **Total non-current assets** | 391,072 | | | | | | | | | | |
| **TOTAL ASSETS** | **750,241** | **265,323** | **0** | **173** | **173** | **165,982** | **89,801** | **9,540** | **0** | **0** | **0** |
| Current liabilities | | | | | | | | | | | |
| Liabilities to banks | 31,880 | | 31,880 | | | | | | 31,880 | | |
| Current portion of long-term loans | 69,478 | | 69,478 | | | | | | 69,478 | | |
| Finance lease liabilities | 35 | | 35 | | | | | | 35 | | |
| Trade payables | 16,611 | | 16,611 | | | | | | | 16,611 | |
| Government grants | 57 | | | | | | | | | | |
| Income tax payable | 2,056 | | | | | | | | | | |
| Other liabilities | 30,113 | | 7,592 | 5,788 | 5,788 | | | | | | 7,592 |
| Other provisions | 5,151 | | | | | | | | | | |
| **Total current liabilities** | 155,381 | | | | | | | | | | |
| Non-current liabilities | | | | | | | | | | | |
| Long-term loans | 115,338 | | 115,338 | | | | | | 115,338 | | |
| Finance lease liabilities | 44 | | 44 | | | | | | 44 | | |
| Government grants | 0 | | | | | | | | | | |
| Provisions for employee benefits | 5,262 | | | | | | | | | | |
| Other liabilities | 149,891 | | 18,368 | 131,523 | 131,523 | | | | 17,165 | | 1,203 |
| Deferred tax liabilities | 2,314 | | | | | | | | | | |
| **Total non-current liabilities** | 272,849 | | | | | | | | | | |
| Equity | | | | | | | | | | | |
| Share capital | 15,953 | | | | | | | | | | |
| Capital reserve | 67,248 | | | | | | | | | | |
| Legal reserve | 785 | | | | | | | | | | |
| Other reserves | 19 | | | | | | | | | | |
| Currency translation reserve | 11,193 | | | | | | | | | | |
| Retained earnings | 226,813 | | | | | | | | | | |
| **Total equity** | 322,011 | | | | | | | | | | |
| **TOTAL LIABILITIES AND EQUITY** | **750,241** | **0** | **259,346** | **137,311** | **137,311** | **0** | **0** | **0** | **233,940** | **16,611** | **8,795** |

## Fair value of financial instruments

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

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

The financial instruments recognised at fair value in the consolidated financial statements are allocated as shown below:

**2018**

| in TEUR | BALANCE SHEET ITEM | TOTAL | LEVEL 2 | LEVEL 3 |
|---|---|---|---|---|
| Assets | | | | |
| Derivatives (FVTPL) | Other receivables and other assets | 61 | 61 | 0 |
| Liabilities | | | | |
| Derivatives (FVTPL) | Other liabilities | -145,208 | -140 | -145,068 |

**2017**

| in TEUR | BALANCE SHEET ITEM | TOTAL | LEVEL 2 | LEVEL 3 |
|---|---|---|---|---|
| Assets | | | | |
| Derivatives (HFT) | Other receivables and other assets | 173 | 173 | 0 |
| Liabilities | | | | |
| Derivatives (HFT) | Other liabilities | -137,311 | 0 | -137,311 |

There were no reclassifications between the individual measurement levels during the 2018 and 2017 reporting periods. If required, items are generally reclassified at the end of the reporting period.

The derivatives assigned to level 3 consist almost solely of liabilities for the option liabilities from cancellable non-controlling interests (see Note 20).

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

For fixed rate loans received and lease liabilities, the fair value was calculated by discounting the expected future cashflows using market interest rates. For variable rate bank loans and loans received and issued, discounting corresponds to current market rates, which is why the carrying amounts largely equal the fair values. Cash and cash equivalents, trade receivables and trade payables and all other items have mostly short residual terms. The carrying amounts therefore equal the fair values on the reporting date.

The carrying amount and the different fair value for financial instruments measured at cost are presented in the table below:

| | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| in TEUR | Level | CARRYING AMOUNT | FAIR VALUE | CARRYING AMOUNT | FAIR VALUE |
| Liabilities | | | | | |
| Loans, bank and lease liabilities | 2 | -304,046 | -309,663 | -216,775 | -219,624 |

## Net result from financial instruments

The following table shows the gains/losses (net result) by classification in accordance with IFRS 9 and IAS 39:

**2018**

| in TEUR | | REMEASUREMENT | | DERECOGNITION/DISPOSAL | | |
|---|---|---|---|---|---|---|
| | ADJUSTMENT | PROFIT AND LOSS | OTHER COMPREHENSIVE INCOME | PROFIT AND LOSS | OTHER COMPREHENSIVE INCOME | NET RESULT |
| at amortized costs (loans and receivables) | -2,668 | - | - | - | - | -2,668 |
| at fair value through profit or loss (derivatives) | - | -4,981 | - | - | - | -4,981 |

**2017**

| in TEUR | ADJUSTMENT | REMEASUREMENT | | DERECOGNITION/DISPOSAL | | NET RESULT |
|---|---|---|---|---|---|---|
| | | PROFIT AND LOSS | OTHER COMPREHENSIVE INCOME | PROFIT AND LOSS | OTHER COMPREHENSIVE INCOME | |
| Loans and receivables | -120 | - | - | - | - | -120 |
| Derivatives | - | -90,319 | - | - | - | -90,319 |

The total interest expense determined using the effective interest rate method for financial liabilities not valued at fair value through profit or loss was TEUR 5,638 (previous year: TEUR 5,132). Net results in the category at amortized costs include interest expenses of TEUR 0 (2017: TEUR 0 in category loans and receivables) and in the category at fair value through profit or loss TEUR 5,763 (2017: TEUR 2,964 in the category derivatives).

# NOTE 35

## RISK REPORT

The SBO Group's operations are exposed to a number of risks that are inextricably linked to its worldwide business activities. Efficient management and control systems are used to recognise, analyse, and manage these risks, with the help of which the management of the individual operations monitors the operating risks and reports them to Group management.

From a current perspective, no risks are discernible that jeopardise the Company's existence as a going concern.

### General economic risks

Schoeller-Bleckmann Oilfield Equipment's business development is, to a large extent, subjected to economic cycles, in particular to the cyclical development of drilling activities for oil and gas of the national and international oil companies. In order to minimize the related risks of fluctuations in orders received, the Group's manufacturing companies have been designed to ensure maximum flexibility.

## Sales and procurement risks

The market for the SBO Group's products and services is determined to a great extent by the continuous development and use of new technologies. Securing and maintaining the customer base therefore depends on the ability to offer new products and services tailored to the customer's needs.

In 2018, the three largest customers (which are globally-active service companies in the directional drilling market) accounted for a 28.4 % share of sales (previous year: 21.9 %). SBO counters the risk of suffering potential noticeable sales declines from the loss of a customer through continuous innovation, quality assurance measures and close customer ties.

On the procurement side, raw materials and in particular alloy surcharges for non-magnetic steel are subject to significant price fluctuations, which are partly passed on as alloy surcharges to customers as part of our agreements.

The Company procures high-alloy special steel, which is its most essential raw material, to a great extent from one supplier and is therefore exposed to the risk of delayed deliveries, capacity bottlenecks, or business interruptions. From today's perspective, the Company foresees absolutely no difficulty in continuing to obtain quality steel from this supplier. However, in the event a failure by this supplier, there are only limited options for replacement procurement in the short-term.

## Substitution risks

SBO is subject to the risk of substitution of its products and technologies, which may also result in the growth of new competitors. SBO counters this risk through ongoing market observation, active proximity to customers, and proprietary innovations.

## Financial risks

One the one hand, the Company has various financial assets, such as trade receivables, cash and cash equivalents, and short-term investments as a direct result of its business operations. On the other hand, it also uses financial instruments such as liabilities to banks and trade payables, which ensure the financing of the Company's operations.

In addition, the Company has derivative financial instruments to hedge interest rate and foreign exchange risks arising from its business operations and financing sources. Derivatives are not used for trading or speculative purposes.

The financial instruments principally entail interest-related cashflow risks, as well as liquidity, currency, and credit risks.

## FOREIGN CURRENCY RISKS

Foreign currency risks arise from fluctuations in the value of financial instruments or cashflows as a result of exchange rate fluctuations.

Foreign currency risks arise in the SBO Group where balance sheet items and income and expenses are generated or incurred in a currency other than the local currency. Forward exchange contracts (mainly in US dollars) are concluded to hedge receivables and liabilities in foreign currencies.

Over the long-term, SBO invoices an average of approximately 80 % of its sales in US dollars. This is due to its customer structure. All dominating service companies in the directional drilling market are headquartered in the US and settle their worldwide activities in US dollars. Also, from a long-term perspective, only about 50 % to 60 % of costs are incurred in US dollars as important production facilities are located not just in the US, but in Europe as well. For reasons of costs and expedience, SBO does not hedge its entire net dollar exposure. In any case, SBO earnings are dependent on the USD/EUR exchange rate.

Additional risks arise from translating the financial statements of the foreign companies into the Group currency. Sales, earnings, and carrying amounts of these companies depend on the applicable exchange rate. As a result of the significant investments in the US, the primary sales market and location of important production facilities, changes in the US dollar have a substantial impact on the consolidated financial statements.

The table below shows the impact of a potential change in the USD exchange rate on the consolidated financial statements, based on reasonable judgment, and only in respect of the changes in value of derivative instruments (forward exchange contracts) as there are no material trade receivables or trade payables that are not denominated in the Group's functional currency:

| in TEUR | **2018** | | **2017** | |
|---|---|---|---|---|
| Change in EUR/USD exchange rate | +10 cents | -10 cents | +10 cents | -10 cents |
| Change in profit/loss before tax | +1,647 | -1,647 | +891 | -891 |

## INTEREST RATE RISKS

Interest rate risks result from fluctuations in market interest rates which lead to changes in value of financial instruments and interest rate-related cashflows.

Almost all long-term loans existing as at the reporting date have fixed interest rates and are therefore not subject to interest rate risk. However, the fair value of these long-term loans is subject to fluctuations. The interest rates for individual loans are disclosed in Note 17. With the exception of loans and lease liabilities, no other liabilities are interest bearing and therefore are not subject to any interest rate risk.

The interest rate risk is further reduced by the portfolio of short-term interest-bearing investments which the Company continuously holds. Depending on whether the Company has a surplus of financial resources on the investment or borrowing side, interest rate risks could therefore result from an increase or decrease in interest rates.

The table below shows the impact of a possible potential change in interest rates, based on reasonable judgment, on the interest expense for variable-rate liabilities to banks and on interest income for variable-rate bank balances (there are no impacts on consolidated equity):

| in TEUR | **2018** | | **2017** | |
|---|---|---|---|---|
| Change in basis points | + 10 | + 20 | + 10 | + 20 |
| Change in profit/loss before tax | 156 | 312 | +148 | +296 |

## CREDIT RISKS

Credit risk arises from the non-performance of contractual obligations by business partners and the resulting asset losses. The maximum default risk equals the carrying amount of the receivables.

The credit risk related to our receivables from customers can be considered as low as there have been long-standing, stable business relations with all major customers. Furthermore, we regularly check the creditworthiness of new and existing customers and monitor outstanding balances. Loss allowances are recognised for credit risks.

With regard to loans to the management of subsidiaries, the credit risk is limited by the surety of the acquired shares (see Note 10).

For other financial assets (cash and cash equivalents), the maximum credit risk upon default of the counterparty is the carrying amount of the financial instrument. However, this credit risk may be considered as low since we only choose highly-rated banks.

## LIQUIDITY RISKS

Liquidity risk consists in the risk of being able to access the financial resources required to settle liabilities incurred at all times and in due time.

Due to the Company's strong self-financing capability, the liquidity risk is relatively low. The Company generates liquid funds through its operating business and uses external bank financing when needed. As the most important risk spreading measure, the Group Management constantly monitors the liquidity and financial planning of the Company's operative units.

Also, the financing requirements are centrally managed and based on the consolidated financial reporting of the Group members. Financing requirements are centrally managed based on the consolidated reporting.

The table below shows all contractually obligated payments as at 31 December for principal payments, repayments, and interest from recognised financial liabilities, including derivative financial instruments, with disclosure of the undiscounted cashflows for the following financial years.

### 31.12.2018

| in TEUR | DUE ON DEMAND | 2019 | 2020 | 2021 | 2022 or beyond |
|---|---|---|---|---|---|
| Liabilities to banks | 31,629 | - | - | - | - |
| Long-term loans | - | 22,853 | 51,988 | 46,489 | 172,775 |
| Lease liabilities | - | 35 | 14 | - | - |
| Management interests and participation rights | - | - | - | - | 17,460 |
| Trade payables | - | 21,165 | - | - | - |
| Derivatives | - | 147,964 | 7 | - | - |
| Other | - | 26,378 | 536 | - | - |

### 31.12.2017

| in TEUR | DUE ON DEMAND | 2018 | 2019 | 2020 | 2021 or beyond |
|---|---|---|---|---|---|
| Liabilities to banks | 32,087 | - | - | - | - |
| Long-term loans | - | 72,278 | 12,187 | 41,400 | 66,935 |
| Lease liabilities | - | 38 | 32 | 14 | - |
| Management interests and participation rights | - | - | - | - | 17,165 |
| Trade payables | - | 16,611 | - | - | - |
| Derivatives | 3,158 | 2,649 | 136,734 | - | - |
| Other | - | 24,799 | 587 | 510 | - |

Derivatives shown in the columns for 2019 mainly refer to option liabilities for cancellable non-controlling interests (see Note 20).

#### OTHER FINANCIAL MARKET RISKS

The risk variables are in particular the share prices and stock indices.

## Capital management

The Company's primary goal is to ensure that we maintain a high credit rating and equity ratio in order to support our operations and maximise shareholder value.

The gearing ratio (net debt as a percentage of equity) is used in particular to monitor and manage capital. Net debt comprises long-term loans and bank liabilities, less cash and cash equivalents.

The gearing ratio was 17.0 % as at 31 December 2018 (previous year: 15.7 %).

| in TEUR | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Liabilties to banks | 31,412 | 31,880 |
| Long-term loans | 272,588 | 184,816 |
| Less: cash and cash equivalents | -241,532 | -165,982 |
| **Net debt** | **62,468** | **50,714** |
| | | |
| Total equity | 368,204 | 322,011 |
| **Gearing** | **17.0 %** | **15.7 %** |

For the shareholders of the parent, the desired average long-term dividend rate is 30 % to 60 % (of the consolidated profit after tax).

# NOTE 36

## CONTINGENT LIABILITIES

The Company had no contingent liabilities as at 31 December 2018 or 31 December 2017.

# NOTE 37

## OTHER OBLIGATIONS

Other obligations exist solely from operating leases and purchase commitments for investments in property, plant and equipment (see Note 8).

# NOTE 38

## CASHFLOW STATEMENT

The Company's cashflow statement shows the change of cash and cash equivalents for the Company and the subsidiaries during the reporting year as a result of cash inflows and outflows. Cash funds correspond to the cash and cash equivalents in the consolidated balance sheet and are comprised solely of cash-in-hand and bank balances including short-term deposits.

Within the cashflow statement, cashflows are broken down into cashflows from operating activities, from investing activities and from financing activities.

The cashflows from foreign operations have been allowed for by applying average foreign exchange rates.

The cashflows from operating activities are determined using the indirect method by starting with adjusting net income after income taxes and adjusting it for non-cash income and expenses. This result and the recognised changes in working capital (excluding cash funds) equal the cashflow from operating activities.

Cash inflows and outflows from current operations include inflows and outflows from interest payments and income taxes.

Dividend payments are presented as part of financing activities.

Financial liabilities were as follows during the 2018 financial year:

| in TEUR | 01.01.2018 | CASH CHANGES | NON-CASH CHANGES | | 31.12.2018 |
|---|---|---|---|---|---|
| | | | Foreign currency effects | Other changes | |
| Long-term loans including current portion | 184,816 | 87,772 | 0 | 0 | 272,588 |
| Liabilities to banks | 31,880 | -380 | -88 | 0 | 31,412 |
| Finance leases | 79 | -41 | 3 | 6 | 47 |
| Other financial liabilities | 17,165 | -1,219 | 592 | 798 | 17,336 |
| **Total liabilities from financing activities** | **233,940** | **86,132** | **507** | **804** | **321,383** |

# NOTE 39

## EMPLOYEES

The number of employees on an annual average and as at the reporting date was:

| | ANNUAL AVERAGE | | REPORTING DATE | |
|---|---|---|---|---|
| | **2018** | **2017** | **31.12.2018** | **31.12.2017** |
| Blue collar | 1,056 | 850 | 1,108 | 924 |
| White collar | 537 | 471 | 538 | 508 |
| | **1,593** | **1,321** | **1,646** | **1,432** |

# NOTE 40

## EVENTS AFTER THE REPORTING DATE

After the reporting date the implementation of the restructuring plan for the manufacturing facility in Mexico in the segment “Advanced Manufacturing & Services” has started. There were no further events of particular significance after the reporting date that would have changed the presentation of the Group’s net assets, financial position, and results of operations in the consolidated financial statements as at 31 December 2018.

# NOTE 41

## PROPOSED DIVIDEND

The Executive Board recommends distributing a dividend of EUR 1.00 per share to the shareholders. This would be a dividend distribution of MEUR 16.0. In the previous year a dividend distribution of EUR 0.50 per share was made which resulted in a total distribution of MEUR 8.0.

# NOTE 42

## EXPENSES INCURRED FOR THE GROUP AUDITOR

The following expenses were incurred for the Group auditor, Ernst & Young Wirtschaftsprüfungsgesellschaft m. b. H.:

| in TEUR | **2018** | **2017** |
|---|---|---|
| Audit fees | 152 | 119 |
| Other services | 28 | 90 |

Audit fees for 2018 include both the audit of the consolidated financial statements as well as the audits of the financial statements of the entities in Austria. The fees in 2017 cover only the audit of the consolidated financial statements.

# MANAGEMENT DISCLOSURES

## EXECUTIVE BOARD:

**Ing. Gerald Grohmann (President and CEO)**
**Mag. Klaus Mader (Vice President and CFO)**

The current executive board contract with Mr Gerald Grohmann is effective for a term of office until 31 December 2021 and that of Mr Klaus Mader until 30 September 2023.

## COMMITTEES OF THE SUPERVISORY BOARD

### NOMINATION AND REMUNERATION COMMITTEE:

**Mag. Norbert Zimmermann**
**Dr. Karl Schleinzer**
**Mag. Sonja Zimmermann (since 24 April 2018)**
**Dr. Peter Pichler (until 24 April 2018)**

### AUDIT COMMITTEE:

**Mag. Norbert Zimmermann**
**Dr. Wolfram Littich**
**Mag. Sonja Zimmermann (since 24 April 2018)**
**Dr. Peter Pichler (until 24 April 2018)**

## SUPERVISORY BOARD:

**Mag. Norbert Zimmermann (Chairman)**
Initial appointment: 1995
End of the current term: 2022

**Mag. Brigitte Ederer (Deputy Chairman)**
Initial appointment: 2014
End of the current term: 2019

**Dr. Peter Pichler (Deputy Chairman)**
Initial appointment: 1995 (until 24 April 2018)

**Mag. Dipl. Ing. Helmut Langanger**
Initial appointment: 2003
End of the current term: 2019

**Dr. Wolfram Littich**
Initial appointment: 2016
End of the current term: 2021

**Dr. Karl Schleinzer**
Initial appointment: 1995
End of the current term: 2020

**Mag. Sonja Zimmermann**
Initial appointment: 2018 (since 24 April 2018)
End of the current term: 2023

Each year at least one member of the Supervisory Board leaves at the end of the Annual General Meeting, which ensures that the election of at least one member to the Supervisory Board can be resolved during the annual meeting. To the extent the departure sequence does not arise from the term of office, it is decided by lot. In the Supervisory Board meeting that takes place prior to the holding of an annual general meeting for discussing proposed resolutions and nominations in accordance with Section 108(1) Austrian Stock Corporation Act (Aktiengesetz, 'AktG'), the member of the Supervisory Board who will depart at the end of the subsequent annual general meeting must be determined by lot. The departing member can be reelected immediately.

Ternitz, 4 March 2019

**Gerald Grohmann** **Klaus Mader**

Executive Board

# AUDITOR’S REPORT *)

## REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

### AUDIT OPINION

We have audited the consolidated financial statements of SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft, Ternitz and of its subsidiaries (the Group) comprising the consolidated statement of financial position as of December 31, 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year then ended and the notes to the consolidated financial statements.

Based on our audit the accompanying consolidated financial statements were prepared in accordance with the legal regulations and present fairly, in all material respects, the assets and the financial position of the Group as of December 31, 2018 and its financial performance for the year then ended in accordance with the International Financial Reportings Standards (IFRS) as adopted by EU, and the additional requirements under Section 245a Austrian Company Code UGB.

### BASIS FOR OPINION

We conducted our audit in accordance with the regulation (EU) no. 537/2014 (in the following “EU regulation“) and in accordance with Austrian Standards on Auditing. Those standards require that we comply with International Standards on Auditing (ISA). Our responsibilities under those regulations and standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements“ section of our report. We are independent of the Group in accordance with the Austrian General Accepted Accounting Principles and professional requirements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the fiscal year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We considered the following matters as key audit matters for our audit:

**1. Valuation of goodwill**

**2. Accounting of options over non-controlling interest**

## 1. Valuation of goodwill

### DESCRIPTION

In its consolidated financial statements, SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft shows Goodwill of mEUR 161.2.

Under IFRS, as adopted by the EU, an entity is required to annually test the amount of goodwill for impairment.

Recoverability of goodwill depends on both external factors such as the development of oil prices, the development of input factors for discount rates, rig counts and drilling activities as well as internal evaluations such as the development of customer behavior and requires management discretionary decisions. The significant risk lies in the estimation of future cash flows and discount rates respectively deviations therefrom.

We refer to the disclosure in the notes to the consolidated financial statements in sections "Note 4, pts 9" and "Note 9".

### HOW OUR AUDIT ADDRESSED THE MATTER

To address this risk, we have performed, among others, the following audit procedures:

We have assessed the design of the entity's procedures for conducting impairment tests.

The composition of the cash-generating units (CGUs) as well as the allocation of the assets, liabilities and cashflows thereto has been audited.

Forecasted sales, results and investments were reconciled to approved budgets and material planning assumptions (sales, expenditures, investments, changes in Working Capital) have been assessed in order to verify the appropriateness of budget information. Cashflows used in the group's impairment tests have been assessed regarding the methodology as well as clerical accuracy. Assumptions related to discount factors as well as growth rates have been assessed as well.

For the CGU whose fair value exceeds the carrying amount of its assets just slightly, planning assumptions have been checked for plausibility using company-specific information as well as market information and market expectations within the industry sector.

We involved EY valuation specialists in our audit procedures related to the assessment of the appropriateness of valuation models, cash flow assumptions as well as input factors.

We also evaluated whether disclosures regarding impairment testing in the notes to the consolidated financial statements were made in line with IAS 36.

## 2. Accounting of options over non-controlling interest

### DESCRIPTION

With contractual agreement dated April 1, 2016, SBO Group acquired 67.73% of Downhole Technology LLC. In the course of this business combination, a put/call-option was entered into, which entitles SBO Group to purchase the remaining 32.27% on or after April 1, 2019. In addition, SBO Group exercised two further options to purchase non-controlling interest in two further entities in the financial year 2018.

In financial year 2018, for the put/call-option to acquire the remaining stakes in Downhole Technology LLC revaluation expenses of mEUR -1.7 were recorded through profit and loss. The liability for this option is included in the consolidated financial statements at mEUR 145.1 and is considered to be a key audit matter due to its size and short-term maturity pattern.

Out of the exercise of one of the two further options to purchase non-controlling interest in total a valuation gain of mEUR 2.7 was recorded through profit and loss.

We refer to the disclosure of the facts in the notes to the consolidated financial statements in section "Note 20".

### HOW OUR AUDIT ADDRESSED THE MATTER

Our audit procedures included, among others, the following:

We verified that contractual agreements for options over non-controlling interest are still valid.

Analogous to our procedures for assessing the valuation of goodwill, we have reconciled basic data which was relevant for the contractually agreed purchase price formula and was used in the calculation of the option liability at the balance sheet date with base information as well as approved financial plans.

For the portion oriented towards the past of the relevant purchase price formula we reconciled the values used with the corresponding base information.

The adequacy of the valuation models as well as the discount rates was verified. In the course of these audit procedures, EY valuation specialists were involved.

For options exercised in the current financial year we assessed the execution of the transaction and reproduced the calculation of the exercise price.

We have evaluated the appropriateness of the disclosures in the notes related to existence and changes in valuation of all options.

## RESPONSIBILITIES OF MANAGEMENT AND OF THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation of the consolidated financial statements in accordance with IFRS as adopted by the EU, and the additional requirements under Section 245a Austrian Company Code UGB for them to present a true and fair view of the assets, the financial position and the financial performance of the Group and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU regulation and in accordance with Austrian Standards on Auditing, which require the application of ISA, always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the EU regulation and in accordance with Austrian Standards on Auditing, which require the application of ISA, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

# REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

## COMMENTS ON THE MANAGEMENT REPORT FOR THE GROUP

Pursuant to Austrian Generally Accepted Accounting Principles, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the management report for the Group was prepared in accordance with the applicable legal regulations.

Regarding the consolidated non-financial statement contained in the group management report, it is our responsibility to examine whether it has been prepared, to read it and to evaluate whether it is, based on our knowledge obtained in the audit, materially inconsistent with the consolidated financial statements or otherwise appears to be materially misstated.

Management is responsible for the preparation of the management report for the Group in accordance with Austrian Generally Accepted Accounting Principles.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report for the Group.

### OPINION

In our opinion, the management report for the Group was prepared in accordance with the valid legal requirements, comprising the details in accordance with Section 243a Austrian Company Code UGB, and is consistent with the consolidated financial statements.

### STATEMENT

Based on the findings during the audit of the consolidated financial statements and due to the thus obtained understanding concerning the Group and its circumstances no material misstatements in the management report for the Group came to our attention.

## OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the management report for the Group and the auditor's report thereon. The annual report is estimated to be provided to us after the date of the auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, as soon as it is available, and, in doing so, to consider whether - based on our knowledge obtained in the audit - the other information is materially inconsistent with the consolidated financial statements or otherwise appears to be materially misstated.

## ADDITIONAL INFORMATION IN ACCORDANCE WITH ARTICLE 10 EU REGULATION

We were elected as auditor by the ordinary general meeting at April 24, 2018. We were appointed by the Supervisory Board on April 24, 2018. We are auditors without cease since 1996.

We confirm that the audit opinion in the Section "Report on the consolidated financial statements" is consistent with the additional report to the audit committee referred to in article 11 of the EU regulation.

We declare that no prohibited non-audit services (article 5 par. 1 of the EU regulation) were provided by us and that we remained independent of the audited company in conducting the audit.

## RESPONSIBLE AUSTRIAN CERTIFIED PUBLIC ACCOUNTANT

The engagement partner is Mag. Karl Fuchs, Certified Public Accountant.

Vienna, March 4, 2019

**Ernst & Young**
Wirtschaftsprüfungsgesellschaft m.b.H.

**Mag. Karl Fuchs mp**
Wirtschaftsprüfer / Certified Public Accountant

**Dipl.-Ing. (FH) Mag. Manfred Siebert mp**
Wirtschaftsprüfer / Certified Public Accountant

*) This report is a translation of the original report in German, which is solely valid. Publication or sharing with third parties of the consolidated fi-nancial statements together with our auditor's opinion is only allowed if the consolidated financial statements and the management report for the Group are identical with the German audited version. This audit opinion is only applicable to the German and complete consolidated financial statements with the management report for the Group. Section 281 paragraph 2 UGB (Austrian Company Code) applies to alternated versions.

# REPORT OF THE SUPERVISORY BOARD ON THE 2018 FINANCIAL YEAR

In the 2018 financial year, the Supervisory Board performed its duties assigned to it by law and the Company's articles of association. It held five meetings and received regular oral and written reports about the business development and situation of the Company and its Group companies from the Executive Board, including information about relevant business occurrences. The discussions between the Supervisory Board and Executive Board focused on the strategic orientation and development of the Group as well as on key business transactions and measures.

At the 2018 Annual General Meeting, a personnel change took place in the Supervisory Board. Peter Pichler resigned from the Supervisory Board. The Supervisory Board thanks him for his many years of services at the Supervisory Board. Sonja Zimmermann was elected to succeed Mr. Pichler as member of the Supervisory Board. Apart from this change, the Supervisory Board and the Executive Board remained unchanged during the 2018 financial year.

The Supervisory Board has two committees: The Audit Committee and the Nomination and Remuneration Committee.

In the 2018 financial year, the Nomination and Remuneration Committee convened once to prepare the above change in the Supervisory Board and to deal with matters regarding the extension of employment contracts and compensation of the members of the Executive Board.

The Audit Committee held two meetings in the 2018 financial year to discuss the financial reports of the Company (consolidated and annual financial statements) and performed the duties assigned to it according to section 92 (4a) Austrian Stock Corporation Act (AktG). Representatives of Deloitte Schwarz & Schmid Wirtschaftsprüfungs GmbH as auditor of the annual financial statements of the Company and of Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. as auditor of the consolidated financial statements of the Company attended the meeting of the Audit Committee which dealt with preparation of the adoption of the annual and consolidated financial statements 2017 and their audits and reported about the auditing process. Additionally, the Audit Committee held a meeting for in-depth discussion about the planning of the audit of the financial statements and consolidated financial statements 2018 with representatives of Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. The Supervisory Board was informed regularly about the results of the meetings of the Audit Committee.

The annual financial statements as of 31 December 2018 and the management report were audited by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. The audit revealed that the annual financial statements comply with legal requirements, give a true and fair view of the Company's assets and financial position as of 31 December 2018 and of the earnings situation of the Company for the financial year from 1 January 2018 to 31 December 2018, and that the management report has been prepared in accordance with applicable legal requirements, contains accurate information pursuant to section 243a Austrian Commercial Code (UGB) and is consistent with the annual financial statements and that the Corporate Governance-Report required according to section 243c Austrian Commercial Code (UGB) was prepared by analogy with the provisions of section 251 (3) Austrian Commercial Code (UGB).

The consolidated financial statements as of 31 December 2018, which have been prepared in accordance with the International Financial Reporting Standards (IFRS) to be applied in the EU, and the consolidated management report were audited by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. The audit revealed that the consolidated financial statements comply with legal requirements, give a true and fair view of the Group's assets and financial position as of 31 December 2018 and of the earnings situation and the cashflows of the Group for the 2018 financial year, and that the consolidated management report has been prepared in accordance with applicable legal requirements, contains accurate information pursuant to section 243a Austrian Commercial Code (UGB) and is consistent with the consolidated financial statements and that the consolidated non-financial statement pursuant to section 267a Austrian Commercial Code (UGB) and the consolidated Corporate Governance-Report required according to section 267b Austrian Commercial Code (UGB) was prepared by analogy with the provisions of section 251 (3) Austrian Commercial Code (UGB).

As the audits did not give rise to any objections, the auditors issued unqualified audit opinions both for the annual financial statements 2018 and the consolidated financial statements 2018.

At its meeting on 18 March 2019, and after discussion and review by the Audit Committee, the Supervisory Board reviewed the submitted annual financial statements as of 31 December 2018 and the management report as well as the consolidated financial statements as of 31 December 2018 and the consolidated management report including the non-financial statement pursuant to section 267a Austrian Commercial Code (UGB) and the Corporate Governance-Report. The final results of these reviews did not give rise to any objections. At its meeting on 18 March 2019, the Supervisory Board approved the annual financial statements as of 31 December 2018, which are therefore deemed adopted pursuant to section 96 (4) Austrian Stock Corporation Act (AktG). In addition, the Supervisory Board consented at that meeting to the proposal submitted by the Executive Board regarding appropriation of the net profit reported in the annual financial statements of the Company as of 31 December 2018.

The Supervisory Board extends its thanks and appreciation to the members of the Executive Board and all employees of the SBO Group for their strong commitment and performance in the 2018 financial year and thanks the shareholders and customers of the SBO Group for their trust.

Ternitz, 18 March 2019

The Supervisory Board

**Norbert Zimmermann**
Chairman

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# GLOSSARY

## CIRCULATION TOOL / PBL TOOL

Circulation tool – also called PBL tool – is a special tool used for pumping plugging material through lateral openings in the drillstring to the annulus to mitigate mud circulation losses in permeable rock formations (or crevices). Furthermore, it is also applied to hole cleaning operations. The use of such specialty tool creates considerable time and cost benefits for operators, as drilling can be continued with only a short interruption.

## COMPOSITE

Composite refers to composite materials, such as fibreglass.

## DECLINE RATE

Decline rate refers to the reduction in oil output from a well over time. Depending on reservoir and well, production rates from a well are declining with increasing intensity, unless specific additional investments are made to counteract the decline.

## DIRECTIONAL DRILLING

Directional drilling is applied to drive the drillstring forward both in vertical and horizontal direction in order to increase the recovery factor of a reservoir, while keeping the number of central bores at a stable low level. Often, vertical wellbores are used as starting point for drilling horizontal and deviated wells to reduce the environmental footprint of operations. Directional drilling is common in shale reservoirs because it allows drillers to perforate the most productive zones. Directional drilling is applied to more than 90 % of all exploration projects in North America.

## DIRECT METAL LASER SINTERING (DMLS)

Direct Metal Laser Sintering (DMLS) is an additive manufacturing technology, at which customized, highly complex metal parts can be manufactured in a short time process by applying high-precision 3D metal printing.

## DRILLED BUT UNCOMPLETED WELLS (DUCS)

Drilled but uncompleted well refers to a well after the end of the drilling process where initial completion has not been performed yet. For statistical reasons it is assumed that drilling is finished 20 days after it has been started. Initial completion is considered performed after the well has been stimulated for the first time.

## DRILLING A WELL

Drilling constitutes one part in an oil or gas exploration project. Drilling the exploration well is an essential part of the initial phase of exploration. Appraisal and production wells follow after successful completion of the exploration well. Once drilling operations have been concluded, the well is completed so as to be prepared for oil and gas production.

## DRILLING MOTOR

A drilling motor is used to drive the drillstring below the surface. Within the drilling motor, hydraulic energy is converted into rotational energy, enabling rotational movement of the drill bit. In state-of-the-art drilling projects, rotation is additionally supported by the top drive unit installed on the drilling rig. Today's rotary steerable tools ensure that loss of torque in directional drilling operations is reduced to a minimum.

## EXPLORATION AND PRODUCTION

Exploration refers to the development of a reservoir, and production to the extraction of oil and gas from a reservoir. Exploration and production are both part of the so-called upstream.

## FRAC PLUG

Frac plug refers to a special equipment used in course of "plug-n-perf", completion operations to isolate different zones for building up pressure to hydraulically perforate the rock. For each well, more than 100 frac plugs may be used in today's operations.

## HORIZONTAL DRILLING

Horizontal drilling refers to a well where the departure from the vertical exceeds 80 degrees. It should be noted that some wells are designed such that, after reaching true 90-degree horizontal, the wellbore actually starts drilling upwards again. Horizontal drilling is a sub-set of the more general term directional drilling.

## LOGGING WHILE DRILLING (LWD)

Logging While Drilling refers to the retrieval of geophysical parameters (and thus the discovery of reservoirs) in real-time while the drillstring is driven forward.

## MEASUREMENT WHILE DRILLING (MWD)

Measurement While Drilling refers to the measuring of inclination and azimuth of the drillstring while it is driven forward.

## OPEC COMPLIANCE

OPEC compliance compares, according to the definition of the International Energy Agency (IEA), the production amounts ("production limits") agreed between the OPEC countries on 30 November 2016 per country with the effective production quantities of respective member. Alongside the OPEC countries also some other countries such as Russia obliged themselves to production limits, which underlie a compliance check by the IEA accordingly.

## PAD DRILLING

Pad drilling refers to drilling several horizontal wells from only one movable rig. Pad means the site where the wellheads of several boreholes are located. Pad drilling saves high costs required for disassembling and reassembling a rig at another site and reduces the overall surface footprint. Operators can drill five to ten wells from one pad.

## PLUG-N-PERF

“Pug-n-perf”, besides “sliding sleeve”, refers to one of the two dominating completion technologies. At this type of completion, zones are isolated by a frac plug so as to build up pressure to hydraulically perforate the rock.

## RESERVOIR

Reservoir refers to a subsurface body of rock having sufficient porosity and permeability to store and transmit fluids. Sedimentary rocks are the most common reservoir rocks, as they have more porosity than igneous and metamorphic rocks and form under temperature conditions at which hydrocarbons can be preserved.

## RIG

Rig refers to the structure used for drilling.

## RIG COUNT

Rig count refers to the number of active rigs for the exploration of oil and gas reservoirs in the individual regions.

## SLIDING SLEEVE

“Sliding sleeve”, besides “plug-n-perf”, refers to one of the two dominating well completion technologies. In the Ball Drop Activated Sliding Sleeve method, a ball is pumped to the relevant sleeve from the surface in order to build up pressure for activation of the opening mechanism of the sleeve. The Coil Activated Sliding Sleeve method uses an intervention tool that is run in the well alongside the coiled tubing from the surface, snapping into place at the respective sleeve to build up pressure for activation of the opening mechanism of the sleeve.

Both open-only and closable-sleeve systems are available. The latter are used to close sleeves that have already been opened for production. Pressure inside the production string is kept stable and production is optimized for the operator. This technology can be used for a re-stimulation at a later point in time as well.

## SPENDING FOR EXPLORATION AND PRODUCTION

Spending for exploration and production (E&P spending) refers to the aggregate expenditure for oil and gas exploration. E&P spending forecasts serve as an indicator of the development of the oilfield service industry worldwide or for the respective region outlined.

## THRU TUBING

Thru tubing refers to drilling with drilling motors inside the production string, such as to drill out frac plugs. Other than in "downhole" (or "open hole") drilling, it does not imply drilling through formation, therefore it can be done in a much smoother process.

## VERTICAL DRILLING

Vertical drilling refers to wells with a departure from the vertical of up to 80 degrees. In today's cases, directional drilling is often also applied for drilling of vertical wells.

## WELL COMPLETION

Well completion refers to the process step in which the well is prepared for oil and gas production once drilling operations have been concluded. "Sliding sleeve" and "plug-n-perf" are the two dominating well completion technologies.

Further definitions of terms used in the oil and gas industry are outlined in the glossary at **www.sbo.at**.

*This annual report has been put together with the greatest possible diligence. Nevertheless, mistakes and printing errors cannot be excluded. This annual 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 have been prepared based on the information currently available. Should the assumptions underlying these forecasts not realize or risks – as those described in the risk report – occur, actual results may differ from the results currently expected.*

*This report does not stand in any connection with a recommendation to buy or sell shares in SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft.*

*In the interest of simplicity and readability, the masculine or feminine gender always includes the other gender.*

*This English translation of the report is for convenience. Only the German version shall be binding.*

*Published on 19 March 2019*

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