Letter to our Shareholders 1-6/2010

HIGHLIGHTS

- Increasing recovery of market environment in the oilfield service industry
- Sharp rise in sales and substantial improvement in profit in Q2/2010
- Sound earnings situation further improves capital structure

SCHOELLER BLECKMANN OILFIELD EQUIPMENT

MANAGEMENT REPORT

Market environment

The stabilization of global economic development that had characterized the first quarter of 2010 continued throughout the second quarter of the year. Compared to the first half of 2009, overall economic conditions for the oilfield service industry turned towards growth again.

According to the International Energy Agency (IEA), worldwide demand for oil in the second quarter of 2010 rose to 86.6 million barrels per day. Against last year's 83.9 million barrels per day, this marked an increase of 2.7 million barrels per day or 3.2 %. For full 2010, IEA expects global demand for oil to arrive at 86.5 million barrels per day, up 1.8 million barrels per day or 2.1 % from 2009.[1]

The oil price could not keep pace with the development of oil consumption. Early in 2010, the price of US brand WTI stood at USD 81.52 per barrel, then went to USD 83.45 per barrel by 31 March 2010, and fell to USD 75.59 per barrel by 30 June 2010. The underlying reasons were both sufficient market supplies and a temporary strengthening of the US dollar. Prices climbed by 8.3 % from 30 June 2009 (USD 69.82 per barrel). As demand for oil and gas improved, the rig count, the number of globally active drilling rigs, also picked up again. While at year-end 2009 the number of globally operating rigs was 2,509, the rig count climbed to 2,982 units in February 2010, but by the end of April 2010 was down to 2,676 units again. The decline was due to the seasonal reduction of drilling projects in Canada, whereas drilling activities grew in all other regions of the world. In June 2010 the rig count stood at 2,859 units.[2]

Increasing drilling activities due to rise in global demand for oil

Business development

Schoeller-Bleckmann Oilfield Equipment AG (SBO) was able to take advantage of the increasingly rebounding market environment in the oilfield service industry in the first half of 2010. The distinct increase in bookings in the first quarter of 2010 was followed by a sharp growth in sales in the second quarter. In Q2/2010, sales improved by 38.2 % to MEUR 74.0, following MEUR 53.6 in the first quarter of 2010. Compared with the same quarter last year (MEUR 56.8) the increase was 30.4 %.

Bookings in the second quarter of 2010 came to MEUR 82.3, close to the high level posted in the first quarter of 2010 (MEUR 83.9). From the second quarter last year, the number of bookings doubled, while compared with the first half of 2009 they grew by a factor of 4.5. Likewise, the order backlog of MEUR 116.7 posted as at 30 June 2010 was clearly higher than as at 31 December 2009 (MEUR 76.1). The encouraging development of sales brought about a marked improvement of profits on a quarter-on-quarter basis. Earnings before interest and tax (EBIT) in the second quarter of 2010 came to MEUR 9.3, up 92.4 % from the first quarter of 2010 (MEUR 4.9) and 99.5 % from the same quarter last year (MEUR 4.7). The EBIT margin of the second quarter of 2010 was 12.6 % (following 9.1 % in the first quarter of 2010).

Bookings remain at high level

Profit before tax in the second quarter of 2010 improved over the first quarter of 2010 from MEUR 3.7 to MEUR 7.9. Profit after tax in the second quarter arrived at MEUR 5.3 (following MEUR 2.5 in the first quarter of 2010), more than doubling the quarterly earnings per share from EUR 0.15 to EUR 0.33. Due to the excellent first quarter of 2009, which still profited from the record bookings posted in 2008, sales (MEUR 127.6) and net profit (MEUR 7.8) for the first half of 2010 were still below the year-on-year level of 2009 (sales MEUR 137.6 and net profit MEUR 12.1). The solid profit development served also as a basis of further improving the company's capital structure. As a result, the net debt at the half-year reporting date for 2010 was further reduced to MEUR 22.0 (end of first quarter 2010: MEUR 28.1; year-end 2009: MEUR 46.5), improving SBO's gearing ratio of 8.3 % at mid-2010 to an attractive level. Growing sales and earnings volumes were observed in all segments and largely all regions worldwide. It was notably the production sites of SBO's core business in the USA and Austria that benefited from the improved order situation. Activities in Russia and the North Sea recently experienced above-average growth, while SBO's manufacturing companies in the UK could not yet profit from the upswing in business. Apart from the core business of high-precision components, SBO's drilling motor sector in the United States also posted more than satisfying results, driven also by shale gas activities pursued there. The new production site in Vietnam is still in its start-up phase. The distribution centre in Brazil launched last year received several orders from that growth region in the first half of 2010. The sinking of the „Deepwater Horizon" oil rig and the ensuing oil spill in the Gulf of Mexico had no negative repercussions on the business of SBO in the first half of 2010.

The growing number of orders were primarily completed by additional overtime, partly also by hiring new employees in the USA and Austria, which brought the headcount to 1,135 as at mid-2010 (following 1,098 at the end of the first quarter and 1,056 at the end of 2009).

[1] *IEA: Oil Market Report, July 2010*
[2] *Baker Hughes Rig Count*

Capital expenditure

In the first half of 2010, capital spending was attributable to the drilling motor fleet and maintenance requirements. As planned, additions to fixed assets were kept at a low level of MEUR 12.4 (following MEUR 20.4 in the first half of 2009). Installed capacities are currently sufficient for rapid order processing. Purchase commitments for expenditure in property, plant and equipment as at 30 June 2010 were MEUR 3.9 (MEUR 12.3 as at 30 June 2009).

Risk report

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

The SBO share

Despite the volatility of capital markets, the share of SBO formed well in the first half of 2010 and much better than Vienna's leading share index ATX. The share price stood at EUR 37.33 at the end of the first half of the year, up 8.3 % from the opening rate on 4 January 2010 (EUR 34.48). The half-year high arrived at EUR 44.84 on 9 April 2010.

Austrian strategy and controlling consultant Contrast Management-Consulting annually conducts a strategic performance test based on key performance indicators such as spread, return on equity, total shareholder return, and growth. In 2010, SBO was ranked first in the ten-year performance test and, regardless of the turbulent year 2009, was ranked third in the three-year period under review.

Outlook

If the positive economic tendencies continue throughout the remaining months of 2010, the market in the oilfield service industry should also see further recovery. Oil prices between USD 70 and 80 per barrel will consolidate the current business trend.

The incident in the Gulf of Mexico should have no long-term negative effect on SBO's business operations. Should drilling activities be curtailed in the Gulf of Mexico, compensatory exploration wells would need to be drilled in other regions or on-shore, in particular in North America. However, temporarily reduced capacity utilization of SBO's Gulf of Mexico (Lafayette) based Service & Supply Shop cannot be ruled out for the months ahead. Tighter safety provisions for offshore drilling activities now being discussed are fundamentally positive, as they would boost demand for high-precision components.

All in all, the general atmosphere in the oilfield service industry at mid-2010 is encouraging. The growing technological complexity of oil drilling projects combined with declining production rates from existing oil fields emphasize the long-term tendency towards increasingly using high-tech equipment in the oilfield service industry and hence primarily of directional drilling.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

The interim report as at 30 June 2010 has been prepared in accordance with the principles of the International Financial Reporting Standards (IFRS), rules for interim financial reporting (IAS 34), to be applied in the European Union.

The accounting and valuation methods of 31 December 2009 have been applied basically unchanged, with the exception of the standards which came into force in 2010. The new regulations do not have a significant implication on the consolidated financial statements. In this context, we refer to the consolidated financial statements for the year ended 31 December 2009. In the first six months of 2010 no changes occurred in the scope of consolidation.

Business development of SBO is not subject to seasonal influences.

No important events have occurred after the balance sheet date.

This report on the first half of 2010 of the SBO group has neither been audited nor reviewed by independent accountants.

STATEMENT OF ALL LEGAL REPRESENTATIVES

We confirm to the best of our knowledge that the interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of important events that have occurred during the first six months of the financial year and their impact on the interim financial statements, and of the principal risks and uncertainties for the remaining six months of the financial year and of the major related party transactions to be disclosed.

Gerald Grohmann
Chairman of the
Executive Board, CEO

Franz Gritsch
Member of the
Executive Board, CFO

CONSOLIDATED PROFIT AND LOSS STATEMENT

in TEUR	6 months ended 30.06.2010	6 months ended 30.06.2009	3 months ended 30.06.2010	3 months ended 30.06.2009
Sales	**127,571**	**137,570**	**74,012**	**56,771**
Costs of goods sold	-99,435	-103,743	-56,281	-45,066
Gross profit	**28,136**	**33,827**	**17,731**	**11,705**
Selling expenses	-5,324	-5,326	-2,858	-2,479
General and administrative expenses	-9,857	-8,978	-5,762	-4,293
Other operating expenses	-5,402	-4,758	-3,584	-1,950
Other operating income	6,645	5,526	3,815	1,700
Operating profit	**14,198**	**20,291**	**9,342**	**4,683**
Interest income	340	282	215	216
Interest expenses	-2,601	-2,829	-1,405	-1,388
Other financial income	0	0	0	0
Other financial expenses	-394	-430	-300	-120
Financial result	**-2,655**	**-2,977**	**-1,490**	**-1,292**
Income before taxation	**11,543**	**17,314**	**7,852**	**3,391**
Income taxes	-3,783	-5,174	-2,543	-991
Income after taxation	**7,760**	**12,140**	**5,309**	**2,400**
Average number of shares outstanding	15,918,514	15,880,116	15,930,116	15,880,116
Earnings per share in EUR (basic = diluted)	**0.49**	**0.76**	**0.33**	**0.15**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	6 months ended 30.06.2010	6 months ended 30.06.2009
Income after taxation	7,760	12,140
Currency translation	34,058	4,990
Income tax effect	-1,430	-219
Hedging of a net investment	-1,088	248
Income tax effec	272	-62
Other comprehensive income, net of tax	**31,812**	**4,957**
TOTAL COMPREHENSIVE INCOME	**39,572**	**17,097**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

in TEUR	6 months ended 30.06.2010	6 months ended 30.06.2009
As at 1 January	229,808	226,216
Income after taxation	7,760	12,140
Other comprehensive income, net of tax	31,812	4,957
Total comprehensive income	39,572	17,097
Dividend paid	-7,965	-11,910
Disposal of own shares	2,864	0
Income tax effect	-278	0
AS AT 30 JUNE	**264,001**	**231,403**

CONSOLIDATED BALANCE SHEET

ASSETS in TEUR	30.06.2010	31.12.2009
Current assets		
Cash and cash equivalents	119,944	96,640
Trade accounts receivable	53,638	41,033
Other accounts receivable and prepaid expenses	5,530	4,934
Inventories	95,059	88,899
TOTAL CURRENT ASSETS	**274,171**	**231,506**
Non-current assets		
Property, plant & equipment	146,043	136,697
Goodwill	43,964	38,979
Other intangible assets	9,804	7,873
Long-term receivables	5,030	4,128
Deferred tax assets	4,021	6,358
TOTAL NON-CURRENT ASSETS	**208,862**	**194,035**
TOTAL ASSETS	**483,033**	**425,541**

LIABILITIES AND SHAREHOLDERS´ EQUITY in TEUR	30.06.2010	31.12.2009
Current liabilities		
Bank loans and overdrafts	37,521	34,590
Current portion of long-term loans	20,208	19,829
Finance lease obligations	455	394
Accounts payable trade	23,926	8,709
Government grants	921	810
Income taxes payable	1,579	1,056
Other payables	15,889	10,884
Other provisions	9,366	7,952
TOTAL CURRENT LIABILITIES	**109,865**	**84,224**
Non-current liabilities		
Bonds	39,845	39,824
Long-term loans	43,082	47,485
Finance lease obligations	862	1,026
Government grants	1,594	1,564
Retirement benefit obligations	3,450	3,204
Other payables	9,265	7,875
Deferred tax payables	11,069	10,531
TOTAL NON-CURRENT LIABILITIES	**109,167**	**111,509**
Shareholders´ equity		
Share capital	15,960	15,880
Contributed capital	64,314	61,808
Legal reserve - non-distributable	785	785
Other reserves	38	39
Translation component	-2,418	-34,230
Retained earnings	185,322	185,526
TOTAL SHAREHOLDERS´ EQUITY	**264,001**	**229,808**
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY	**483,033**	**425,541**

CONSOLIDATED CASH-FLOW STATEMENT

in TEUR	6 months ended 30.06.2010	6 months ended 30.06.2009
Cash and cash equivalents at the beginning of the period	96,640	49,348
Cash earnings	19,231	24,574
Cash flow from operating activities	38,993	15,238
Cash flow from investing activities	-9,911	-18,782
Cash flow from financing activities	-12,570	6,105
Effects of exchange rate changes and revaluations	6,792	782
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**119,944**	**52,691**

DIVIDEND PAID

	Total amount TEUR	Number of shares (ordinary shares)	Per share EUR
For the business year 2009 paid in 2010	7,965	15,930,116	0.50
For the business year 2008 paid in 2009	11,910	15,880,116	0.75

SEGMENT INFORMATION

in TEUR	Europe	North America	Other regions	SBO-Holding & Consolidation	Group
1-6/2010					
External sales	25,573	99,222	2,776		127,571
Intercompany sales	27,671	7,141	709	-35,521	0
Total sales	53,244	106,363	3,485	-35,521	127,571
Operating profit	4,327	8,592	-880	2,159	14,198
1-6/2009					
External sales	25,288	109,295	2,987		137,570
Intercompany sales	48,865	4,867	456	-54,188	0
Total sales	74,153	114,162	3,443	-54,188	137,570
Operating profit	9,999	12,745	76	-2,529	20,291

- Schoeller-Bleckmann Oilfield Equipment AG is the global market leader in high-precision components for the oilfield service industry.
- The business focus is on non-magnetic drillstring components for high-tech directional drilling.
- Worldwide, the company employs a workforce of 1,135 (end of 2009: 1,056), thereof 336 in Ternitz/Austria and 502 in North America (including Mexico).

For additional information please contact: Schoeller-Bleckmann Oilfield Equipment AG, A-2630 Ternitz/Austria, Hauptstraße 2
phone: +43 2630 315 250, fax: +43 2630 315 501, e-mail: g.bauer@sbo.co.at, Internet: http://info.sbo.at