SCHOELLER BLECKMANN OILFIELD EQUIPMENT

Letter to our Shareholders 1-3/2011

HIGHLIGHTS

- Stable industry cycle despite unrest in Arab world
- Highly satisfying sales and profit increase
- Medium- to long-term growth momentum intact

MANAGEMENT REPORT

Market environment

The global economic situation in the first quarter of 2011 was characterised in particular by the unrest in the MENA (Middle East and North Africa) region and the natural and nuclear disaster in Japan. The conflicts in the Arab world had repercussions primarily on the oil price and increased speculation on further rising oil prices.

Since mid-February 2011 continued fighting in Libya and unrest in the Middle East were driving oil prices upwards. While the price of US-brand WTI had stood at USD 91.59 per barrel at the beginning of the year, it was climbing 16 % to USD 106.19 per barrel by the end of March, and the price per barrel of Brent crude went up as high as USD 116.94 (up 22 % from the beginning of the year).[1] This was due to concerns that the political situation in other major oil producing countries would also lead to production losses.

Nevertheless, global oil supply was secured in the first quarter of 2011 by sufficient OPEC spare capacities. As a result, the political development described above has not yet had any sizable negative impact on economic activity, nor did the natural disaster in Japan produce a global economic downturn.

„Conflicts in North Africa drive oil price beyond USD 116 per barrel (Brent)"

According to estimates of the International Energy Agency (IEA) global demand for oil in the first three months of the year arrived at 88.8 million barrels per day. Compared to the same period of the previous year this represents an increase of 2.6 % or 2.3 million barrels per day, but a decline of 0.7 % or 0.6 million barrels per day vs. consumption in the fourth quarter of 2010. According to the IEA the slightly falling demand was due to the steeply rising oil price in the first months of 2011.[2]

The rig count - the number of globally active drilling rigs - went up 6.4 % from 3227 units in December 2010 to 3434 units in March 2011.[3]

Business development

The first quarter of 2011 saw stable business development for Schoeller-Bleckmann Oilfield Equipment AG (SBO), as the company recorded strong sales and profit growth over the first quarter of 2010, a period still marked by the market slump in 2009. Sales grew by 81.8 % to MEUR 97.3 (following MEUR 53.6 in the first quarter of 2010), reflecting the excellent bookings situation in the previous periods.

Sales and bookings followed the positive industry cycle of the international oilfield service industry that resulted in a healthy business development for SBO in all segments and regions of the world. Apart from the high-precision component segment, the drilling motor business of SBO's subsidiary BICO posted continued strong growth. DSI, a subsidiary acquired last year, is developing according to plan. Also, SBO's business in the UK, that was below expectations last year, has started to recover recently. The globally operating Service & Supply Shops recorded robust capacity utilisation in the first quarter of 2011.

Earnings before interest and tax (EBIT) in the first quarter arrived at MEUR 20.0 (following MEUR 4.9 in the first quarter of 2010), a highly satisfying result due to strong capacity utilisation. The operating margin stood at 20.5 %, an attractive level clearly above last year's figure. Profit before tax of MEUR 17.3 quadrupled over the result of MEUR 3.7 achieved in the first quarter of the previous year. The PBT margin improvement to 17.7 % (following 6.9 % in the first quarter of 2010) was mainly a result of the steeply rising capacity utilisation compared to the first quarter of 2010. However, the lower USD/EUR exchange rate year-on-year already made itself felt in the first quarter of 2011.

„Satisfying bookings situation - Basis of sound sales and profit development in the first quarter"

Profit after tax in the first quarter of 2011 went to MEUR 11.6 (following MEUR 2.5 in the first quarter of 2010), representing earnings per share of EUR 0.72 (following EUR 0.15).

Due to the sustained high level of bookings the number of employees was again slightly increased in the first quarter of 2011. As at 31 March 2011, the global headcount of SBO stood at 1317 employees (following 1275 as at 31 December 2010).

Capital expenditure

Capital expenditure of MEUR 6.6 (following MEUR 4.3 in the first quarter of 2010) was allocated primarily to maintenance investments. Therefore, additions to fixed assets remained at a low level in the first quarter. As construction of the new site of Knust Far East in Singapore is running according to plan, production is scheduled to start in the second half of 2011.

Purchase commitments for expenditure in property, plant and equipment as at 31 March 2011 were MEUR 11.4 (MEUR 6.1 as at 31 March 2010).

Risk report

Business risks of Schoeller-Bleckmann Oilfield Equipment AG did not change substantially in the first three months of 2011 over the risks mentioned in the Annual Report 2010. We therefore refer to the risks described in the Annual Report 2010, in particular the USD/EUR currency exchange rate and recommend to read this report on the first quarter of 2011 in conjunction with the Annual Report 2010.

[1] *EIA: Spot Prices for Crude Oil and Petroleum Products*
[2] *IEA: Oil Market Report, April 2011*
[3] *Baker Hughes Rig Count*

The SBO share

The share of Schoeller-Bleckmann Oilfield Equipment AG completed the first quarter (31 March 2011) at EUR 69.37. Compared to the closing price of EUR 64.50 at the end of 2010 on 30 December 2010 this represented an increase of 8 %. The quarterly high arrived at EUR 70.56 (30 March 2011).

Annual General Meeting

The Annual General Meeting of Schoeller-Bleckmann Oilfield Equipment AG held on 28 April 2011 adopted the dividend proposal by the Executive Board to double the distribution to EUR 1.00 per share for fiscal 2010 (2009: EUR 0.50). The Executive Board and Supervisory Board were granted discharge. For fiscal 2011, SST Schwarz & Schmid Wirtschaftsprüfungsges.m.b.H. Wirtschaftsprüfungs- und Steuerberatungsgesellschaft was appointed as auditor of the annual financial statements of the company, and Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. as auditor of the consolidated financial statements. Furthermore, the Annual General Meeting approved the remuneration of the Supervisory Board members pursuant to Section 13 (4) of the Articles of Association.

Outlook

The global oilfield service industry was characterised by a stable development in the first weeks of the second quarter. Overall signs continue to point to mid- to long-term growth, marked by rising offshore activities and increasing use of special technologies to increase recovery rates of oil reservoirs whose geologies make them more difficult to tap. Such projects will be the driving force behind stronger demand for directional drilling components, a tendency SBO should benefit from. However, it cannot be ruled out that political unrest in North Africa and the Middle East will slow down growth temporarily and that the growth momentum described above may become noticeable in the market only with a certain delay.

According to most recent estimates by the IEA average global oil demand in 2011 is set to arrive at 89.4 million barrels per day, up 1.6 % year-on-year.[4] Demand for oil and gas in the emerging markets continues to rise further. Additional demand for oil and gas could be generated by the current debate on nuclear energy.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

The interim report as at 31 March 2011 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 2010 have been applied basically unchanged, with the exception of the standards which came into force in 2011. 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 2010. In the first three months of 2011 no changes occurred in the scope of consolidation.

Business development of SBO is not subject to seasonal influences.

No important events have occurred after the balance sheet date.

This report on the first quarter of 2011 of the SBO group has neither been audited nor reviewed by independent accountants.

STATEMENT OF ALL LEGAL REPRESENTATIVES

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

Gerald Grohmann
Chairman of the
Executive Board, CEO

Franz Gritsch
Member of the
Executive Board, CFO

[4] *IEA: Oil Market Report, April 2011*

CONSOLIDATED PROFIT AND LOSS STATEMENT

in TEUR	3 months ended 31.03.2011	3 months ended 31.03.2010
Sales	**97,348**	**53,559**
Costs of goods sold	-66,640	-43,154
Gross profit	**30,708**	**10,405**
Selling expenses	-3,897	-2,466
General and administrative expenses	-5,568	-4,095
Other operating expenses	-5,384	-1,818
Other operating income	4,101	2,830
Profit from operations	**19,960**	**4,856**
Interest income	167	125
Interest expenses	-1,609	-1,196
Other financial expenses	-1,251	-94
Financial result	**-2,693**	**-1,165**
Profit before tax	**17,267**	**3,691**
Income taxes	-5,698	-1,240
Profit after tax	**11,569**	**2,451**
Thereof attributable to non-controlling interests	108	0
Thereof attributable to the owners of the parent company	11,461	2,451
	11,569	**2,451**
Average number of shares outstanding	15,960,116	15,906,783
Earnings per share in EUR (basic = diluted)	**0.72**	**0.15**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	3 months ended 31.03.2011	3 months ended 31.03.2010
Profit after tax	11,569	2,451
Currency translation	-15,491	12,575
Income tax effect	598	-645
Hedging of a net investment	0	-410
Income tax effect	0	103
Other comprehensive income, net of tax	**-14,893**	**11,623**
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**-3,324**	**14,074**
Thereof attributable to non-controlling interests	-214	0
Thereof attributable to the owners of the parent company	-3,110	14,074
	-3,324	**14,074**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

in TEUR	3 months ended 31.03.2011	3 months ended 31.03.2010
As at 1 January	**267,127**	**229,808**
Profit after tax	11,569	2,451
Other comprehensive income, net of tax	-14,893	11,623
Total comprehensive income, net of tax	-3,324	14,074
Disposal of own shares	0	1,779
Income tax effect	0	-171
AS AT 31 MARCH	**263,803**	**245,490**

CONSOLIDATED BALANCE SHEET

ASSETS in TEUR	31.03.2011	31.12.2010
Current assets		
Cash and cash equivalents	131,800	136,989
Trade accounts receivable	61,975	57,876
Other accounts receivable and prepaid expenses	8,279	5,655
Inventories	104,577	100,517
TOTAL CURRENT ASSETS	**306,631**	**301,037**
Non-current assets		
Property, plant & equipment	133,016	138,757
Goodwill	54,447	57,089
Other intangible assets	48,932	52,761
Long-term receivables	9,250	5,620
Deferred tax assets	5,862	6,303
TOTAL NON-CURRENT ASSETS	**251,507**	**260,530**
TOTAL ASSETS	**558,138**	**561,567**

LIABILITIES AND SHAREHOLDERS´ EQUITY in TEUR	31.03.2011	31.12.2010
Current liabilities		
Bank loans and overdrafts	33,495	36,227
Current portion of long-term loans	19,966	17,839
Finance lease obligations	402	418
Accounts payable trade	39,444	39,760
Government grants	399	401
Income taxes payable	6,886	6,981
Other payables	20,022	19,266
Other provisions	6,178	5,903
TOTAL CURRENT LIABILITIES	**126,792**	**126,795**
Non-current liabilities		
Bonds	39,874	39,864
Long-term loans	87,281	90,887
Finance lease obligations	499	611
Government grants	1,101	1,115
Employee benefit obligations	3,780	3,690
Other payables	23,919	19,289
Deferred tax liabilities	11,089	12,189
TOTAL NON-CURRENT LIABILITIES	**167,543**	**167,645**
Shareholders´ equity		
Share capital	15,960	15,960
Contributed capital	65,203	65,203
Legal reserve - non-distributable	785	785
Other reserves	35	36
Currency translation reserve	-35,423	-20,852
Retained earnings	216,359	204,897
Equity attributable to the owners of the parent company	262,919	266,029
Non-controlling interests	884	1,098
TOTAL SHAREHOLDERS´ EQUITY	**263,803**	**267,127**
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY	**558,138**	**561,567**

CONSOLIDATED CASH-FLOW STATEMENT

in TEUR	3 months ended 31.03.2011	3 months ended 31.03.2010
Cash and cash equivalents at the beginning of the period	136,989	96,640
Cash earnings	23,494	7,374
Cash flow from operating activities	7,478	21,416
Cash flow from investing activities	-5,431	-4,121
Cash flow from financing activities	-3,638	51
Effects of exchange rate changes and revaluations	-3,598	2,348
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**131,800**	**116,334**

SEGMENT INFORMATION

in TEUR	Europe	North America	Other regions	SBO-Holding & Consolidation	Group
1-3/2011					
External sales	17,109	70,862	9,377		97,348
Intercompany sales	35,772	4,417	530	-40,719	0
Total sales	52,881	75,279	9,907	-40,719	97,348
Operating profit	9,368	11,115	1,411	-1,934	19,960
1-3/2010					
External sales	10,601	41,811	1,147		53,559
Intercompany sales	11,976	3,831	681	-16,488	0
Total sales	22,577	45,642	1,828	-16,488	53,559
Operating profit	592	2,033	-383	2,614	4,856

- 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 1,317 (end of 2010: 1,275), thereof 383 in Ternitz/Austria and 587 in North America (including Mexico).

This report includes information and forecasts that are based on the future development of the SBO Group and its member companies. These forecasts represent estimates, which were prepared based on the information available at this time. If the assumptions underlying these forecasts are not realized or risks – as described in the risk report – should in fact occur, actual results may differ from the results expected at this time.
This report is not connected with a recommendation to buy or sell shares in Schoeller-Bleckmann Oilfield Equipment AG.
The English translation of this report is for convenience. Only the German version is binding.

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: www.sbo.at