SCHOELLER
BLECKMANN
OILFIELD
EQUIPMENT

Letter to our Shareholders 1-9/2011

HIGHLIGHTS

- Sustained positive market development despite turmoil in international financial markets
- Encouraging business development continued throughout third quarter of 2011
- Robust oil price supports capital spending in exploration and production projects

MANAGEMENT REPORT

Market environment

The economic environment in the third quarter of 2011 was characterised by the fierce public debate on the debt crisis in Europe and the United States and by uncertainty in international financial markets, triggering a slowdown in global economic development.

Fears that the economic upswing might come to a stop prompted the International Monetary Fund (IMF) to revise its growth outlook published in June 2011. Following its estimate of 5.1 % in 2010, the IMF now expects average global growth in both 2011 and 2012 to arrive at 4.0 %.[1]

The market for the oilfield service industry was as strong in the third quarter of 2011 as in the first half of 2011, although the International Energy Agency (IEA) slightly cut its forecast of global oil demand for the years 2011 and 2012. This was due to lower-than-expected readings in the US, China and Japan in the third quarter of 2011 and adjustment to expected global growth. According to estimates of the IEA worldwide demand for oil in the third quarter of 2011 was 89.6 million barrels per day (following 88.9 million barrels per day in the first quarter of 2011, and 87.9 million barrels per day in the second quarter of 2011). As at November 2011, IEA projects average global demand for oil in 2011 to come to 89.2 million barrels per day, representing an increase in consumption of 0.9 million barrels per day, or 1.0 %, from 2010.[2]

As a result, global demand for oil and gas - despite a slight slowdown - remains as expected and supports new exploration activities. The rig count[3], the number of globally active drilling rigs, went up from 3227 units at year-end 2010 to 3662 units by September 2011, up 13.5 %.

„Continuously rising global demand for oil and gas drives new exploration projects“

In the US, the ongoing boom in shale drilling resulted in extracting not only gas but, increasingly, also crude oil from shale rock formations. Also, drilling activities in the Gulf of Mexico have gone up again recently.

In the wake of political unrest in North Africa and the Middle East, the oil price (both of WTI and Brent crude) had been going up considerably between the beginning of the year and early in May 2011, while, over recent months, the price per barrel started to decline again. However, the current price level justifies even complex oil field projects. The price per barrel of US WTI crude climbed to USD 94.81 on 1 July 2011, dropping to USD 78.93, or 16.7 %, on 30 September 2011. In the same period, the price per barrel of Brent crude fell by 4 %, to USD 105.42, as at 30 September 2011 (following USD 109.82 as at 1 July 2011).[4]

Business development

Schoeller-Bleckmann Oilfield Equipment AG (SBO) seamlessly continued its strong business performance throughout the previous quarters in the third quarter of 2011. The healthy demand for products in the segment of high-precision components (MWD/LWD components) and downhole tools went on unabated, delivering very robust nine-month bookings of MEUR 338.5 (following MEUR 260.2 in the first nine months of 2010). Consequently, the order backlog recorded on 30 September 2011 of MEUR 167.4 significantly exceeded the volume achieved in the same period of the previous year, MEUR 123.6. Sales revenues generated in the first nine months of 2011 climbed from last year's MEUR 215.2 to MEUR 293.9, or by 36.6 %. Earnings before interest and taxes (EBIT) in the first nine months came to MEUR 62.4 (following MEUR 30.3), increasing by 105.7 % and representing an EBIT margin of 21.2 % (following 14.1 % in the first nine months of 2010). The nine-month profit before tax figures also improved significantly to MEUR 54.2 (following MEUR 25.9), bringing the PBT margin to an excellent 18.4 % (following 12.1 %). As a result, the nine-month earnings per share also climbed to EUR 2.31 (following EUR 1.09).

„Strong booking situation in the first nine months of 2011 gives SBO sound order backlog to enter the fourth quarter of 2011“

The improved earnings situation was mainly due to production increases. SBO's sales market is still characterised by high price sensitivity, but, as in the two preceding quarters, the company essentially could pass on changed commodity prices to the market in the third quarter of 2011.

In the wake of growing business volumes in the first nine months of 2011, the company's working capital had to be increased. Nevertheless, net debt of MEUR 68.1 in the second quarter of 2011, due to the strong earnings situation, was reduced to MEUR 55.3 in the third quarter of 2011. With a gearing ratio of 19.4 % SBO continues to be well prepared for all eventualities.

Apart from highly demanded products in the company's core business area of high-precision components it was the field of drilling motors within the downhole tools division that posted most satisfying results over the past months. Equally positive was the business development recorded by Drilling Systems International (DSI), a subsidiary acquired last year, whose integration into the SBO group is running according to plan. The Service & Supply shops delivered stable business performance.

Strong capacity utilisation at all sites and development of Far East production facilities (Knust-SBO Far East and Schoeller-Bleckmann Oilfield Equipment Vietnam) required further personnel upsizing to 1418 employees (following 1368 as at 30 June 2011 and 1194 as at 30 September 2010).

Capital expenditure

Prompted by brisk demand for its products, SBO decided to grow its capital spending in recent months as compared to last year. In the first nine months of 2011 additions to fixed assets amounted to MEUR 26.6 (following MEUR 17.1 in the first nine months of 2010). Purchase commitments for expenditure in property, plant and equipment as at 30 September 2011 were MEUR 10.6 (MEUR 10.4 as at 30 September 2010).

Capital spending was focused on the company's sites in the US and on building and expanding the production facilities in Asia, Knust-SBO Far East in Singapore and Schoeller-Bleckmann Oilfield

[1] *IMF: World Economic Outlook Update, September 2011*
[2] *IEA: Oil Market Report, October 2011, November 2011*
[3] *Baker Hughes Worldwide Rig Count*
[4] *EIA: Spot Prices for Crude Oil and Petroleum Products*

Equipment Vietnam. At the new production site of Knust-SBO Far East employees are currently undergoing training, and machines are being installed. As planned, the company will start operations at the end of 2011.

Furthermore, the drilling motor fleet at SBO's subsidiary BICO was further expanded, as buoyant drilling activity in North America and strong market acceptance of BICO's drilling motors had boosted demand.

Risk report

Business risks of Schoeller-Bleckmann Oilfield Equipment AG did not change substantially in the first nine months of 2011 over the risks mentioned in the 2010 annual financial statements. 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 third quarter of 2011 in conjunction with the Annual Report 2010.

The turbulences emerging in the international financial markets in the third quarter of 2011 could have major repercussions on the global economic environment and, as a result, on energy demand and prices and, subsequently, on the oilfield service industry and SBO's business development.

The SBO share

The share of Schoeller-Bleckmann Oilfield Equipment AG closed at EUR 51.76 at the end of the third quarter (30 September 2011). Compared with the closing price of EUR 47.92 on 30 September 2010 this represents an increase of 8 %. Vienna's blue-chip index, ATX, lost 23 % in the same period. The quarterly high of the SBO share arrived at EUR 69.33 on 26 July 2011.

Outlook

So far, no slowdown of industry activity in the oilfield service industry has been observed. Due to the volatile development of the financial markets, estimates for oil demand in 2012 were slightly trimmed, but, at +1.3 million barrels per day, remain above demand growth in 2011 (+0.9 million barrels per day).[5] Additionally, the economic cooldown in OECD countries is offset by the continued strong demand for oil and gas in the emerging markets.

At the same time, OPEC spare capacities of now roughly 3 million barrels per day are substantially down from 2009 and 2010 when they had stood at approximately 5-6 million barrels per day.[6] This fact, together with the lower additional oil supply for 2011 und 2012, has stabilised the oil price at a high level. The currently robust oil price (USD 115.61 per barrel of Brent crude on 8 November 2011), in turn, is driving the major oil companies' readiness to spend capital for exploration and production projects considered indispensable from a medium to long-term perspective.

Schoeller-Bleckmann Oilfield Equipment AG starts into the fourth quarter of 2011 with a sound order backlog. As uncertainty about global economic development persists, SBO remains prepared to face all scenarios in the months ahead, demonstrating - as before - its ability to respond with great flexibility to any short-term market changes, if required. At the moment, however, SBO does not see any weakening of demand.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

The interim report as at 30 September 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 nine 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 third 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 nine months of the financial year and their impact on the interim financial statements, and of the principal risks and uncertainties for the remaining three months of the financial year and of the major related party transactions to be disclosed.

Gerald Grohmann
Chairman of the
Executive Board, CEO

Franz Gritsch
Member of the
Executive Board, CFO

[5] *IEA: Oil Market Report, November 2011*
[6] *IEA: Oil Market Report, October 2009, October 2010, November 2011*

CONSOLIDATED PROFIT AND LOSS STATEMENT

	9 months ended		3 months ended	
in TEUR	30.09.2011	30.09.2010	30.09.2011	30.09.2010
Sales	**293,935**	**215,221**	**99,523**	**87,650**
Costs of goods sold	-201,684	-162,283	-68,716	-62,848
Gross profit	**92,251**	**52,938**	**30,807**	**24,802**
Selling expenses	-11,510	-7,418	-3,979	-2,094
General and administrative expenses	-16,049	-15,199	-5,127	-5,342
Other operating expenses	-9,441	-7,387	-1,035	-1,985
Other operating income	7,118	7,384	1,573	739
Profit from operations	**62,369**	**30,318**	**22,239**	**16,120**
Interest income	618	598	231	258
Interest expenses	-4,841	-3,927	-1,645	-1,326
Other financial income	0	0	0	1
Other financial expenses	-3,989	-1,048	-1,347	-654
Financial result	**-8,212**	**-4,377**	**-2,761**	**-1,722**
Profit before tax	**54,157**	**25,941**	**19,478**	**14,398**
Income taxes	-16,879	-8,497	-5,825	-4,714
Profit after tax	**37,278**	**17,444**	**13,653**	**9,684**
Thereof attributable to non-controlling interests	358	0	60	0
Thereof attributable to the owners of the parent company	36,920	17,444	13,593	9,684
	37,278	**17,444**	**13,593**	**9,684**
Average number of shares outstanding	15,960,116	15,935,501	15,690,116	15,960,116
Earnings per share in EUR (basic = diluted)	**2.31**	**1.09**	**0.85**	**0.61**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	9 months ended		3 months ended	
in TEUR	30.09.2011	30.09.2010	30.09.2011	30.09.2010
Profit after tax	37,278	17,444	13,653	9,684
Foreign exchange adjustment - subsidiaries	-2,102	9,404	14,871	-18,936
Foreign exchange adjustment - other items	-1,450	2,692	1,672	-3,026
Income tax effect	363	-673	-417	757
Hedging of a net investment	0	-1,607	0	-519
Income tax effect	0	402	0	130
Other comprehensive income, net of tax	**-3,189**	**10,218**	**16,126**	**-21,594**
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**34,089**	**27,662**	**29,779**	**-11,910**
Thereof attributable to non-controlling interests	330	0	448	0
Thereof attributable to the owners of the parent company	33,759	27,662	29,331	-11,910
	34,089	**27,662**	**29,779**	**-11,910**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

	9 months ended	
in TEUR	30.09.2011	30.09.2010
As at 1 January	267,127	229,808
Profit after tax	37,278	17,444
Other comprehensive income, net of tax	-3,189	10,218
Total comprehensive income, net of tax	34,089	27,662
Dividend paid	-15,960	-7,965
Disposal of own shares	0	2,864
Income tax effect	0	-278
AS AT 30 SEPTEMBER	**285,256**	**252,091**

CONSOLIDATED BALANCE SHEET

ASSETS in TEUR	30.09.2011	31.12.2010
Current assets		
Cash and cash equivalents	117,191	136,989
Trade accounts receivable	68,577	57,876
Other accounts receivable and prepaid expenses	4,997	5,655
Inventories	120,347	100,517
TOTAL CURRENT ASSETS	**311,112**	**301,037**
Non-current assets		
Property, plant & equipment	142,614	138,757
Goodwill	56,702	57,089
Other intangible assets	48,241	52,761
Long-term receivables	9,583	5,620
Deferred tax assets	5,337	6,303
TOTAL NON-CURRENT ASSETS	**262,477**	**260,530**
TOTAL ASSETS	**573,589**	**561,567**

LIABILITIES AND SHAREHOLDERS´ EQUITY in TEUR	30.09.2011	31.12.2010
Current liabilities		
Bank loans and overdrafts	31,373	36,227
Current portion of long-term loans	22,296	17,839
Finance lease obligations	390	418
Accounts payable trade	33,817	39,760
Government grants	400	401
Income taxes payable	5,293	6,981
Other payables	27,058	19,266
Other provisions	6,318	5,903
TOTAL CURRENT LIABILITIES	**126,945**	**126,795**
Non-current liabilities		
Bonds	39,894	39,864
Long-term loans	78,259	90,887
Finance lease obligations	322	611
Government grants	1,082	1,115
Employee benefit obligations	3,960	3,690
Other payables	26,815	19,289
Deferred tax liabilities	11,056	12,189
TOTAL NON-CURRENT LIABILITIES	**161,388**	**167,645**
Shareholders´ equity		
Share capital	15,960	15,960
Contributed capital	65,203	65,203
Legal reserve - non-distributable	785	785
Other reserves	33	36
Currency translation reserve	-24,013	-20,852
Retained earnings	225,860	204,897
Equity attributable to the owners of the parent company	283,828	266,029
Non-controlling interests	1,428	1,098
TOTAL SHAREHOLDERS´ EQUITY	**285,256**	**267,127**
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY	**573,589**	**561,567**

CONSOLIDATED CASH-FLOW STATEMENT

in TEUR	9 months ended 30.09.2011	9 months ended 30.09.2010
Cash and cash equivalents at the beginning of the period	136,989	96,640
Cash earnings	65,660	41,417
Cash flow from operating activities	35,868	58,761
Cash flow from investing activities	-24,565	-14,593
Cash flow from financing activities	-29,348	-3,712
Effects of exchange rate changes and revaluations	-1,753	1,244
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**117,191**	**138,340**

DIVIDEND PAID

	Total amount TEUR	Number of shares (ordinary shares)	Per share EUR
For the business year 2010 paid in 2011	15,960	15,960,116	1.00
For the business year 2009 paid in 2010	7,965	15,930,116	0.50

SEGMENT INFORMATION

in TEUR	Europe	North America	Other regions	SBO-Holding & Consolidation	Group
1-9/2011					
External sales	49,462	212,750	31,723	0	293,935
Intercompany sales	95,986	16,465	1,014	-113,465	0
Total sales	145,448	229,215	32,737	-113,465	293,935
Operating profit	25,596	35,334	4,371	-2,932	62,369
1-9/2010					
External sales	39,702	169,679	5,840	0	215,221
Intercompany sales	50,342	11,433	1,137	-62,912	0
Total sales	90,044	181,112	6,977	-62,912	215,221
Operating profit	10,358	20,755	-1,198	403	30,318

- 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 1,418 (end of 2010: 1,275), thereof 407 in Ternitz/Austria and 623 in North America (including Mexico).

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

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