SCHOELLER BLECKMANN OILFIELD EQUIPMENT

# FOCUS ON SUCCESS

2012

Annual Report 2012

# CONTENTS

# FINANCIAL HIGHLIGHTS

in MEUR

| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| Sales | 512.1 | 408.6 | 307.7 | 251.6 | 388.7 | 317.4 |
| Profit from operations | 120.3 | 90.2 | 49.4 | 28.2 | 88.0 | 76.1 |
| Earnings before Interest. Taxes. Depreciation and Amortization | 159.9 | 125.0 | 85.1 | 61.5 | 114.2 | 92.9 |
| Profit after tax | 76.2 | 53.4 | 27.3 | 15.3 | 58.8 | 50.0 |
| Earnings per share[1] (in EUR) | 4.76 | 3.33 | 1.71 | 0.96 | 3.69 | 3.13 |
| Total assets | 698.4 | 620.0 | 561.6 | 425.5 | 443.3 | 357.9 |
| Share capital | 16.0 | 16.0 | 16.0 | 15.9 | 15.9 | 16.0 |
| Shareholders' equity | 363.1 | 314.8 | 267.1 | 229.8 | 226.2 | 194.1 |
| Return on capital employed (in %)[2] | 31.8 | 26.8 | 16.7 | 9.8 | 32.2 | 35.1 |
| Dividend per share (in EUR) | 1.50[3] | 1.20 | 1.0 | 0.50 | 0.75 | 1.10 |
| Number of shares outstanding at year end | 15,960,116 | 15,960,116 | 15,960,116 | 15,880,116 | 15,880,116 | 16,000,000 |

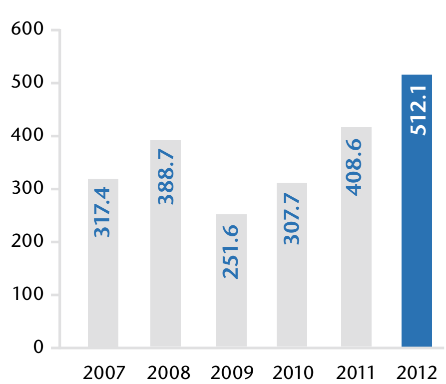
[1] based on average shares outstanding

[2] Return on capital employed = Income from operations after non-recurring items. divided by average capital employed.
Capital employed = Total shareholders´ equity + Bonds + Bank loans and overdrafts + Long-term loans + Finance lease obligations – Cash and cash equivalents

[3] proposed

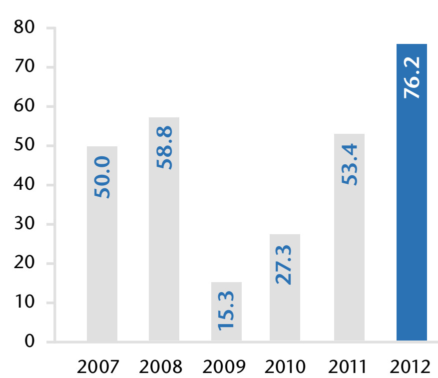
## SALES

in MEUR



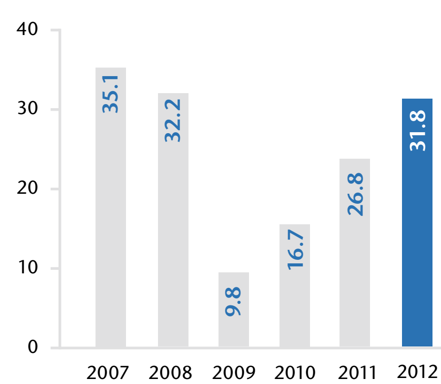

## PROFIT AFTER TAX

in MEUR

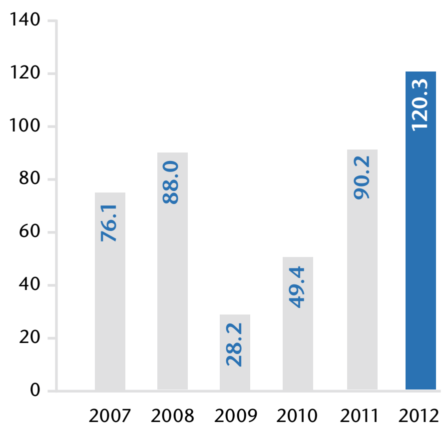



## RETURN ON CAPITAL EMPLOYED

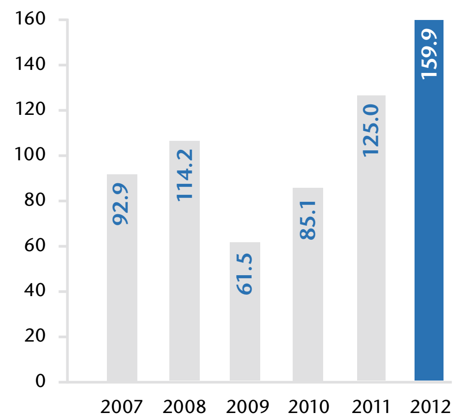
in Percent



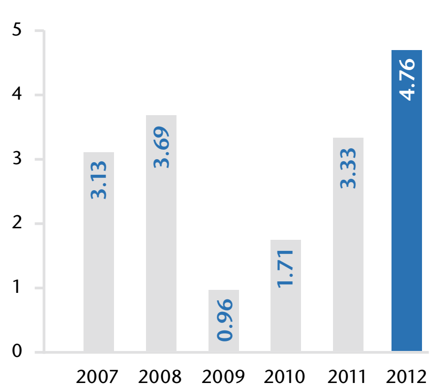
## PROFIT FROM OPERATIONS
in MEUR



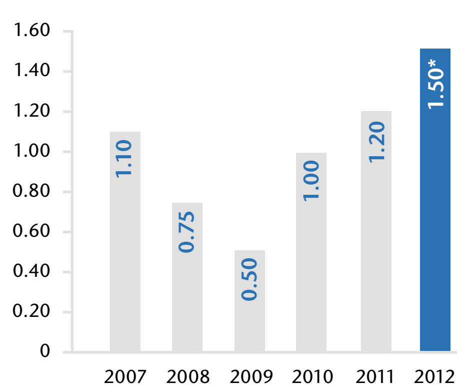

## EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION
in MEUR




## EARNINGS PER SHARE
in EUR




## DIVIDEND PER SHARE
in EUR




*proposed

# ANNUAL REPORT

SCHOELLER BLECKMANN OILFIELD EQUIPMENT

2012

# COMPANY PROFILE

Schoeller-Bleckmann Oilfield Equipment AG (SBO) is the global market leader in high-precision components for the oilfield service industry. The company specialises in producing non-magnetic drillstring components for directional drilling which are used for applications such as shale, deepwater and ultra deepwater drilling.

Directional drilling is a technology applied to approach oil and gas fields that have not yet been discovered or are difficult to access. The method is deployed for deviating wells to precisely target hydrocarbon reservoirs and for continuous control, monitoring and adjustment of the drilling process to subsurface conditions. Directional drilling makes drilling more efficient, leads to higher recovery factors from oil and gas fields and ensures increased well productivity.

This is why directional drilling is the key technology for profitable extraction of future reservoirs. Directional drilling needs high-tech precision tools. SBO delivers the key components and contributes to covering the constantly rising global energy demand – and with it the demand for oil and gas – in the decades ahead.

One of SBO's core business segments is MWD/LWD high-precision components. These tools are installed at the bottom of the drillstring and are used to steer the drill bit based on permanent surveys made during drilling, such as inclination and azimuth (MWD) or petrophysical parameters (LWD).

SBO's core business also comprises production and distribution of drilling motors and drilling tools as well as special tools for downhole circulation applications used in oil and gas wells. Additionally, Schoeller-Bleckmann offers customers an extensive range of after-sales services. The focus is on developing new high-tech repair technologies and application procedures to optimise product functionality and service life.

As a leader in terms of quality and technology Schoeller-Bleckmann Oilfield Equipment AG has set the industry benchmark over many years. The company offers customised products and solves highly complex tasks. As a result, SBO counts the major oilfield service companies among its customers and has established itself as market leader.

SBO follows its customers to support them as a partner when they move to new regions of the globe. The presence at all major hubs of the oilfield service industry demonstrates that added value to customers is both the starting point and target of all business activities. The combination of leadership in technology, quality and innovation and the market-oriented growth strategy, high productivity, flexibility and long-term strategic investment policy forms the foundation on which the proven track record of Schoeller-Bleckmann Oilfield Equipment AG is built.

THINK GLOBAL, ACT LOCAL.

# SCHOELLER-BLECKMANN OILFIELD EQUIPMENT AG

GROUP SALES: **MEUR 512.1** | HEADCOUNT: **1,591**

## NORTH AMERICA

Total Sales: MEUR 343.7 | Headcount: 651

- **Knust-SBO L.L.C.**
  Houston, TX/USA
- **Godwin-SBO L.L.C.**
  Houston, TX/USA
- **BICO Drilling Tools Inc.**
  Houston, TX/USA
- **BICO Faster Drilling Tools Inc.**
  Nisku, Canada
- **Schoeller-Bleckmann Energy Services L.L.C.**
  Broussard, LA/USA
- **Schoeller-Bleckmann Sales Co. L.L.C.**
  Houston, TX/USA
- **Schoeller-Bleckmann de Mexico, S.A. de C.V.**
  Monterrey, Mexico

## EUROPE

Total Sales: MEUR 262.7 | Headcount: 745

- **Schoeller-Bleckmann Oilfield Technology GmbH**
  Ternitz, Austria
- **Darron Tool & Engineering Ltd.**
  Rotherham, UK
- **Schoeller-Bleckmann Darron (Aberdeen) Ltd.**
  Aberdeen, UK
- **Techman Engineering Ltd.**
  Chesterfield, UK

## OTHER

Total Sales: MEUR 56.3 | Headcount: 195

- **Schoeller-Bleckmann Oilfield Equipment Middle East FZE**
  Dubai, U.A.E.
- **DSI FZE**
  Dubai, U.A.E.
- **SB Darron Pte. Ltd.**
  Singapore
- **Knust-SBO Far East Pte. Ltd.**
  Singapore
- **Schoeller-Bleckmann Oilfield Equipment Vietnam L.L.C.**
  Binh Duong, Vietnam
- **Schoeller-Bleckmann Darron Ltd.**
  Noyabrsk, Russia
- **Schoeller Bleckmann do Brasil, Ltda.**
  Macae, Brazil

Non-operative holding companies are not shown. Headcount per 31 December 2012.
Total Sales: Year Ending 31 December 2012, not consolidated.

# HIGHLIGHTS 2012

Q1

- All-time high in sales and profit figures
- Very strong order backlog at end of Q1
- Sustained positive industry cycle

Q2

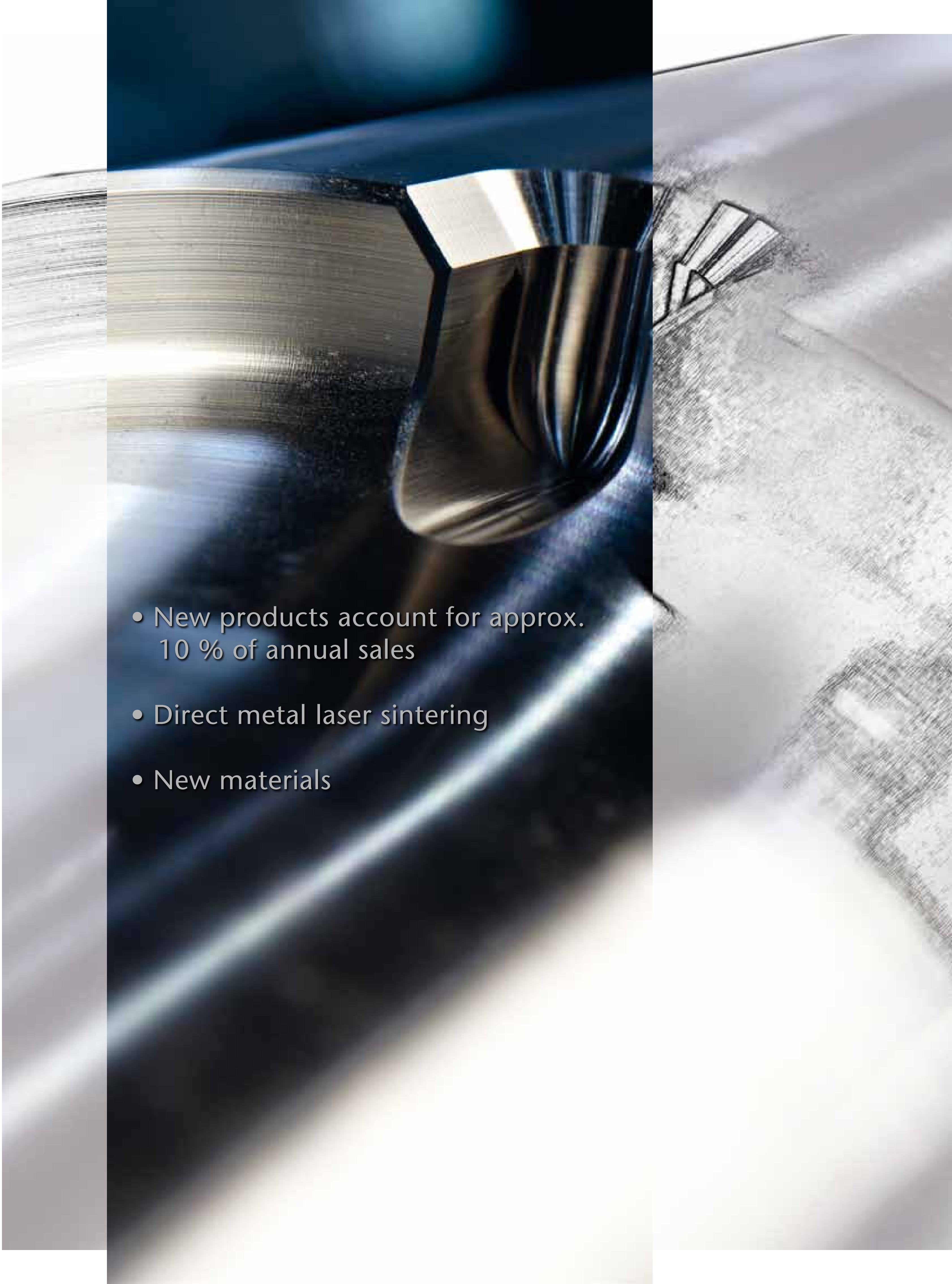
- Half-year record sales and profit figures
- Record bookings in the second quarter
- Industry cycle continued upwards tendency despite global economic slowdown

Q3

- Nine-month record sales and profit figures
- Bookings in first nine months clearly above last year's level
- Global demand for oil remains stable despite weakening economic growth

Q4

- Rig count in North America declines slightly, but remains stable internationally
- Realism follows overly optimistic expectations in the oilfield service industry
- Overordering in the first half of 2012 leads to restraint in HY2 2012

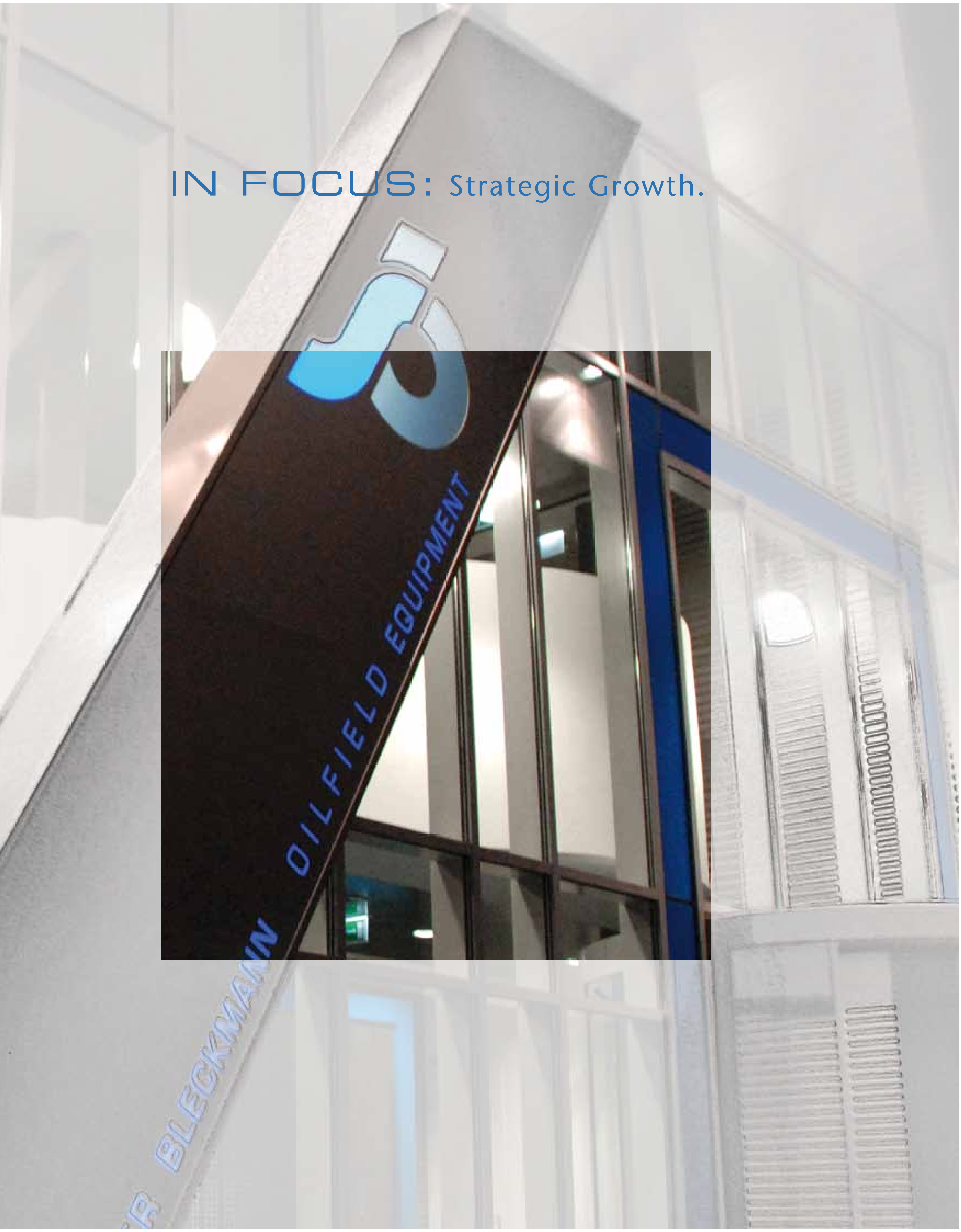


- New products account for approx. 10 % of annual sales
- Direct metal laser sintering
- New materials

# IN FOCUS: Technological Leadership.

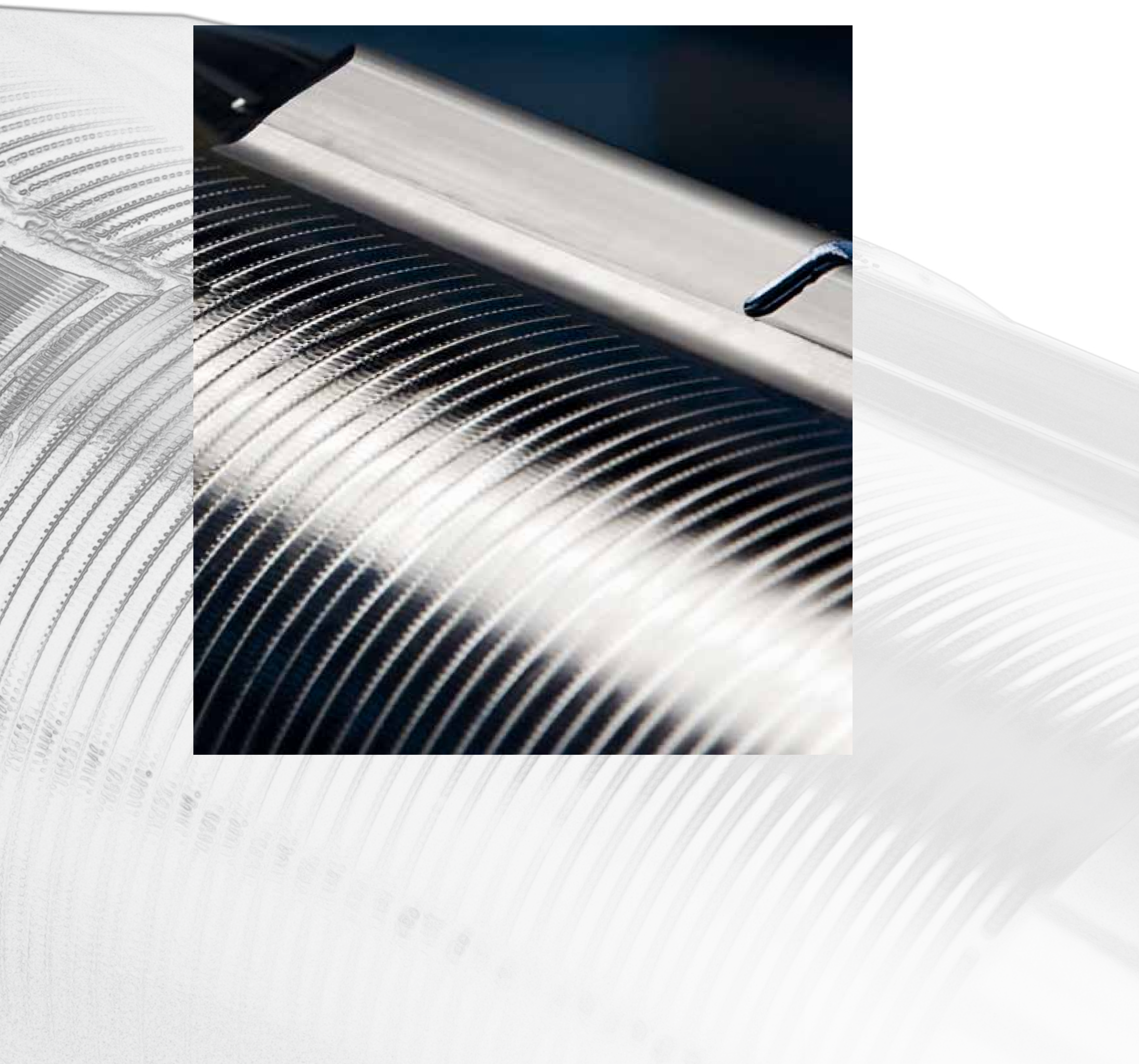
- Investments in property, plant and equipment of approx. EUR 260 mn. since 2006
- Innovative drilling motor development
- Two bolt-on acquisitions since 2010

# IN FOCUS: Strategic Growth.



- Gunhole drilling with high precision for MWD/LWD collars
- Laser welding for oilfield service drill string components
- Machining of complex prototypes

# IN FOCUS: Precision.



- Operating subsidiaries in 10 countries
- Products used worldwide
- Global player with local management

# IN FOCUS: Global Customer Service.

# GUEST COMMENT

## Future of Oil and Gas – New Paradigms

### The World Energy Trilemma

To provide energy systems that are simultaneously affordable, stable and environmentally sensitive is the universal aspiration. Decision makers in government and business need to look at the necessary trade-offs between multiple goals to overcome, what is often called the "energy trilemma": the trade-off between affordable energy access, energy security and environmental sustainability of providing energy. Even with significant improvements in energy efficiency, most experts expect the global energy demand to double by 2050. This is the result of global population growth, global economic growth, continued urbanization, as well as the resulting increased demand on mobility and other energy dependent services. During the same period we will need to reduce global greenhouse gas emissions by half if we want to keep the global temperature increase at safe levels. And, there are still 1.3 billion people without access to energy at all. UN Secretary General Ban Ki-moon has called energy "the golden thread that runs through development" in the UN declared year of sustainable energy for all, bringing energy back to the centre of the development discussion.

### Shifting Energy Demand Patterns

Emerging economies such as China, India and the Middle East are now in the midst of a highly energy-intensive stage of their economic development as they invest massively in infrastructure and are projected to represent over half the expected energy demand growth through 2030. The aspirations of their growing middle classes will determine the pace of growth for global energy demand. A number of African countries are close behind. Indeed, countries that do not belong to the Organisation for Economic Co-operation and Development (OECD) will represent over 90 % of future demand growth.

The world is also faced with a trend towards increased electrification of the economy over the next two decades, as electricity demand grows even faster than demand for other forms of energy. Electricity consumption will be on course to grow at 2.5 % per annum through 2030, almost twice as fast as overall final energy consumption. The need for electricity in emerging economies drives a 70 % increase in worldwide demand, with renewables accounting for half of the new global capacity.

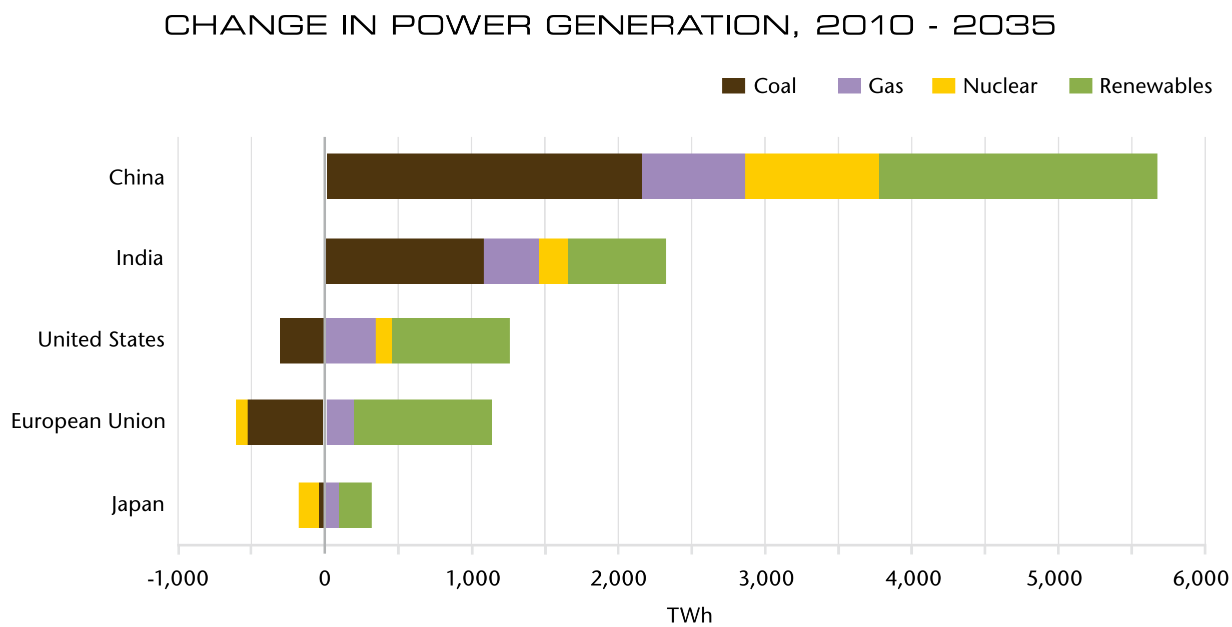



Chart 1: Change in Power Generation, 2010 - 2035, from IEA, World Energy Outlook 2012

Although electric power will have a greater share and is more efficient than most other types of energy use, satisfying the full scale and breadth of energy demand growth through 2030 will require significant growth of all types of primary energy carriers. Reaching this higher output will require an unprecedented expansion of the world's total energy infrastructure.

## The global Oil & Gas Market

As far as the medium term is concerned, the importance of oil and gas in the energy mix remains unchanged. The world needs to invest half a global GDP over the next two decades in order to expand, transform and adapt the existing energy infrastructure. Oil investments will represent the biggest area, accounting for over one-third of the total. On an annualised basis, this will represent a doubling of the investment levels seen over the last decade.

Global balances of demand and investment shift towards Asia, away from Europe and North America. This is mainly a consequence of increasing demand for oil products from the developing economies of China and India and other Non-OECD Asian countries. Non-OECD demand for oil is expected to grow at a rate of 1.9 % CAGR (compound average growth rate) over the period to 2035. At the same time, demand for oil in OECD countries is expected to decrease at a rate of 0.6 % (CAGR). The demand for liquid fuels in developing countries is expected to surpass that of the developed world by the year 2025, if not earlier.

OPEC countries will continue to expand their position in the market and Iraq is expected to account for 45 % of the growth in global oil production to 2035. According to IEA estimates, it will become the second-largest global oil exporter by the 2030s, overtaking Russia.

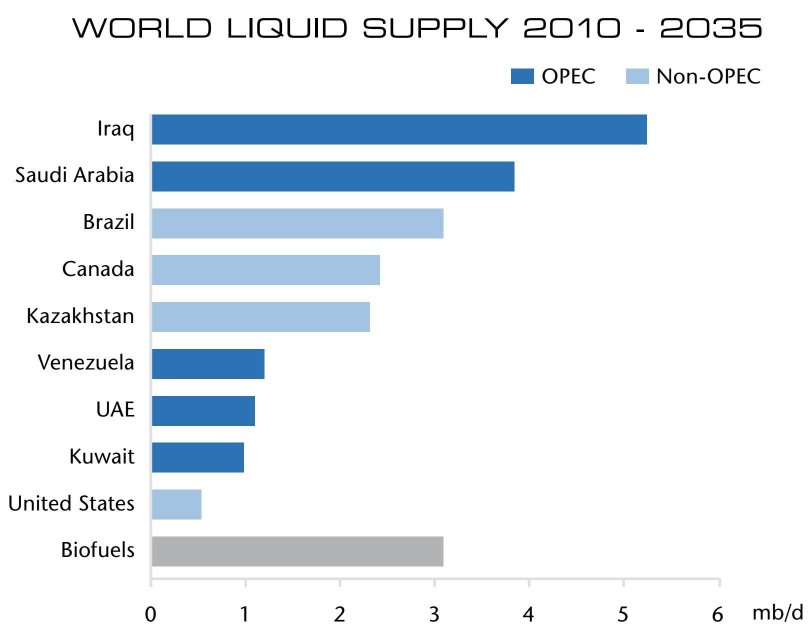



Chart 2: Major changes in world liquid supply, 2010 to 2035, IEA New Policies Scenarios, WEO 2011

The increase in the use of oil is a direct result of soaring numbers of car ownership and increasing motorisation rates across developing countries. In the “Global Transport & Mobility Scenarios 2050”, the World Energy Council (WEC) predicts the number of cars to more than double until 2050. Also the total fuel demand in all transport modes is expected to increase between 30 % and 80 % until 2050. This growth will be driven mainly by trucks, buses, trains, ships and airplanes. The transport sector fuel mix will still depend heavily on gasoline, diesel, fuel oil and jet fuel, whereas a mix of alternative fuels will penetrate the individual transport sector. The use of biofuels will increase almost four-fold and other fuels including electricity, hydrogen and natural gas will increase six to seven fold.

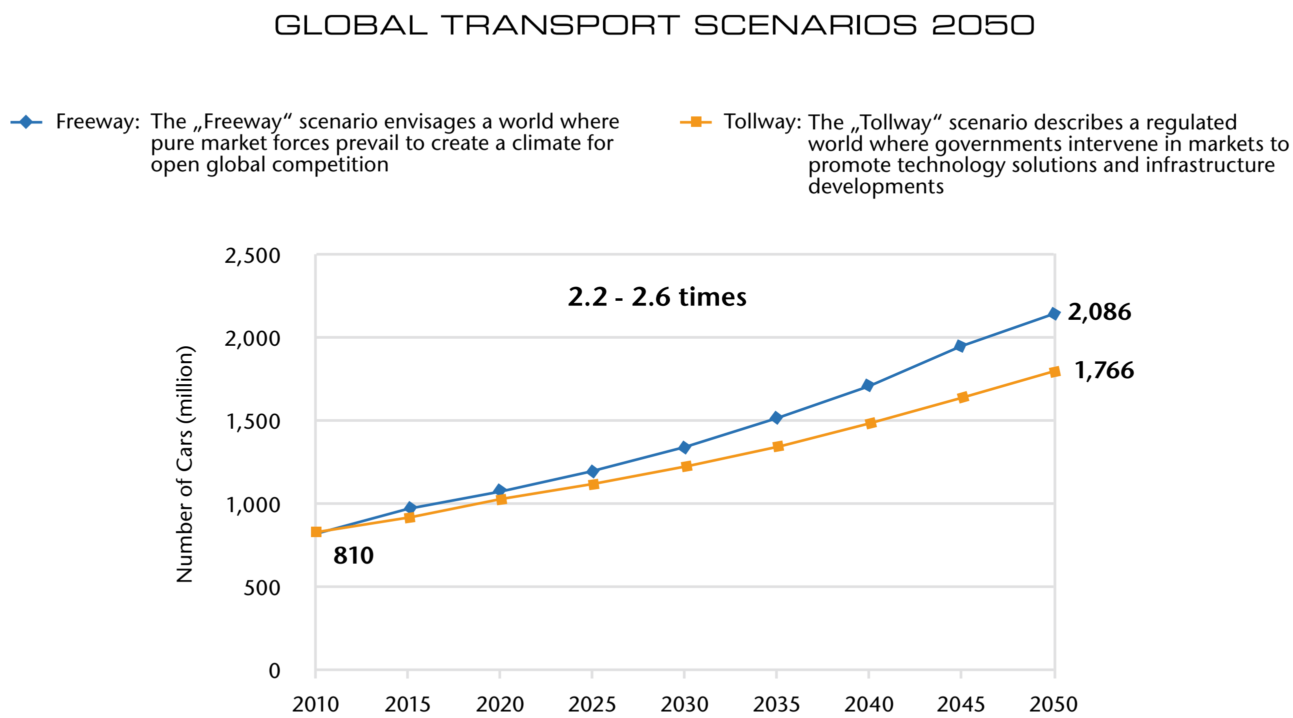



Chart 3: World Energy Council, Global Transport Scenarios 2050

It is therefore no surprise, that leading oil & gas indicators show that the activity in the global oil & gas sector is back on track after the financial crisis. According to a recent report by IHS, global upstream spending reached a combined record of USD 1.23 trillion in 2012 and is expected to rise to USD 1.64 trillion in 2016. The oil and gas sector is investing in a number of new countries and regions and a significant number of large fields will be developed and put on stream in the Gulf of Mexico, Australia and Brazil in the coming years. For the next five years, the US Gulf Coast, Russia, China, Australia and Brazil are expected to be the most active sectors with regards to activity and spending.

On the negative side, cost inflation has returned to the upstream, and the macroeconomic environment remains highly uncertain due to the European debt crisis and the global recessionary environment.

## Shale gas as a game changer

At the moment many observers herald the "golden age of gas" for the upcoming years. This is due to an overabundance of supply, mainly from unconventional gas in the US and potentially also Eastern Europe and Asia, as well as a rising demand in most regions of the world. Growth in gas supply has been driven predominantly by unconventional sources - shale gas, tight sands and coal-bed methane (CBM) - where technological progress and higher prices have resulted in increased development activities in North America. Well productivity gains from new investment are highest in shale gas, whereas in tight gas and CBM, subsurface technology improvements tend to reduce costs rather than increase production volumes. The questions remain, how much gas in volume will be exported from the US and Canada and if they will impact global trade and gas prices in a significant way.

The fastest growing gas demand is expected to come from China and the Middle East, driven mainly by the need for additional power generation to satisfy a soaring demand for electricity.

As a consequence, gas trading across the globe will increase sharply, with the largest net importers being OECD Europe and China, followed by OECD Asia and India. Russia, Africa and the Middle East will constitute the bulk of the supply. By 2040 up to 15 % of global gas demand will be met by LNG, with the Asia Pacific being by far the largest recipient of LNG globally. Within Asia, Japan will continue to play a very important role as an importer of LNG, with China and Korea following suit. If we look at the impact shale gas is expected to have on American LNG imports, we can see that in a total reversal the US is even expected to start exporting volumes of LNG after 2015.

The highest uncertainty in global gas has to do with the potential growth of unconventional production beyond the favourable conditions of North America. We do not see other regions replicate the US success at the same speed for a number of reasons including geological, legal, logistical, financial and related to water issues. However, projects are developed around the world which will eventually change the global supply map.

## Shale oil

The "shale gale", which has transformed the gas picture in the US, has now begun to radically transform the oil landscape as well - both in the US and worldwide. As gas prices in the US plunged due to vast amounts of shale gas becoming available, energy companies began to focus their drilling efforts on "liquid rich shale plays". This has led to an abundance of natural gas liquids (NGL) production that has caused a surge in unconventional liquids being produced.

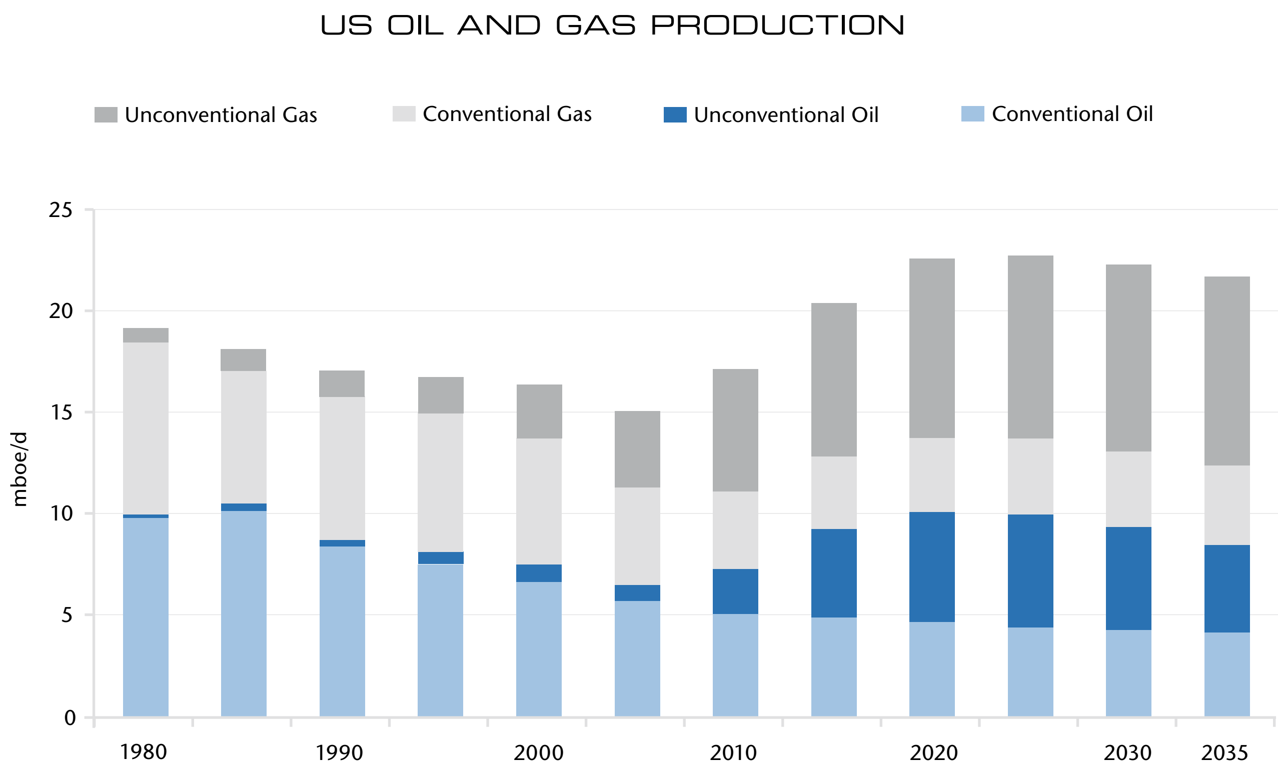



Chart 4: US oil and gas production, IEA, World Energy outlook 2012

Shale oil production has been accelerating in the US, growing from 111,000 barrels per day in 2004 to 553,000 barrels per day in 2011 (equivalent to a growth rate of around 26 % per year). As a result, US oil imports are forecast to fall to their lowest levels for over 25 years.

Estimates by the US Energy Information Administration (EIA) suggest that shale oil production in the US will rise more slowly in the future to around 1.2 million barrels per day by 2035 (equivalent to 12 % of projected US production at that date). However, these projections seem conservative relative to other market analysts who forecast US shale oil production of up to 3-4 million barrels per day by that date (see also chart 4).

EIA estimates on the scale of total shale oil resources in the US have been revised upwards from 4 billion barrels in 2007 to 33 billion barrels in 2010, providing a significant contribution to increased US energy independence.

## Revival of Deep Water Drilling

Next to unconventionals, deep water drilling is another area of increasing activity levels in the oil & gas sector. Offshore drilling contractors report seeing robust demand for ultra-deepwater rigs worldwide as oil prices and exploration success in basins outside the deepwater "Golden Triangle" - Gulf of Mexico, Brazil, West Africa - spur operator interest in ultra-deepwater drilling. From 2013 to 2015, Petrobras alone is expected to deploy 40 ultra-deepwater rigs to further explore Brazil's offshore pre-salt potential. That number will increase to 75 between 2015 and 2020. Expanding opportunities in Africa's pre-salt region, which now stretch as far north as Gabon and as far south as Namibia, are also supporting the increase in deepwater exploration. Deepwater rig demand is also growing due to increased exploration in the emerging ultra-deepwater areas in East Africa, the Black Sea, the Far East and Mexico.

## Effects on the Oilfield Service Industry

The oilfield service industry heavily depends on upstream spending levels, which have increased considerably over the last few years. Therefore the oilfield service industry has experienced a boom due to previous under-investments in existing fields, significant new discoveries in new regions, and the potential in unconventional sources. Within oilfield services, pressure pumping and directional drilling services experienced the highest growth rates over the last couple of years.

Onshore, the surge of unconventional gas and liquids production is the result of continued innovation in the industry as it perfects the art of extracting the most resources from each shale formation. Technological innovations such as longer laterals and multi-stage fracturing have reduced the full-cycle cost of shale gas wells by 40-50% compared to conventional wells, and more than doubled their average initial production rates to 60-80 million cubic feet per day. Increased capabilities of oilfield service companies will continue to lower operating costs and increase well productivity for the industry.

The biggest potential for the oilfield service industry exists offshore and in strong international markets. Over the long term, oilfield services will benefit from the end of easy oil, as more operators, outside of the state-controlled areas of the Middle East and North Africa, turn increasingly to the more costly and technically difficult resources.

To be successful in a business environment of increasing complexity and volatility, requires continued technical innovation and operational excellence as well as a portfolio of projects, spreading risk across geographies and technology areas. The most fundamental competitive differentiator will be human resources, however. With investment and demand patterns shifting and an aging workforce within the sector, the demographic composition of the service industry will have to change as well. Managing the transition successfully and nurturing human capital will be critical for continuing success.

**Univ.Prof. Dipl.Ing. Karl Rose**
Senior Director Policy & Scenarios,
World Energy Council (London)

Karl Rose serves as Senior Director for Policy and Scenarios of the World Energy Council (WEC), leading the assessment of international energy policy making and the development of global energy scenarios. These are flagship projects of the WEC aimed at increasing the visibility of the organisation and demonstrating strategic policy options for decision makers in the energy sector. Before that, Mr. Rose held various positions at Royal Dutch Shell in the oil and gas sector for many years, including the most recent position of Chief Strategist supporting the executive board and supervisory board of the group in all aspects of strategic direction and decision making. Moreover, Mr. Rose is a university professor for strategic management and applied business administration at the University of Graz, Austria.

The statements made in this comment are based on the views expressed by Univ.Prof. Dipl.Ing. Karl Rose and do not necessarily reflect the views of the management of Schoeller-Bleckmann Oilfield Equipment AG and/or one of its affiliated companies.

# PREFACE OF THE EXECUTIVE BOARD

**Dear shareholders and business partners,**

Our company Schoeller-Bleckmann Oilfield Equipment AG (SBO), for the third time in a row, generated double-digit sales and profit growth rates in fiscal 2012.

As sales improved by 25.3 % year-on-year, from MEUR 408.6 to MEUR 512.1, and earnings before interest and taxes (EBIT) grew by 33.3 %, from MEUR 90.2 to MEUR 120.3, fiscal 2012 represents another absolute record year for our company. As a result, SBO was able to double sales and more than quadruple its operating income since the 2009 crisis.

As in the preceding years SBO's position in the market allowed the company to fully benefit from the dynamic growth seen in the oilfield service industry in the past business year. According to initial assessments global spending for hydrocarbon exploration and production (E&P) in 2012, regardless of the weak economic development in Western industrialised countries, grew by around 8.8 % to more than USD 604 billion[1]. Taking into account the development over the past ten years, global E&P spending more than doubled. This growth level is impressive both in terms of quantity and quality. It is mainly the demand for high-tech equipment used for challenging applications – SBO's core business – that was rising sharply, due to the fact that newly discovered oil and gas fields typically are located in increasingly deeper and more complex rock formations. Accordingly, development and production of such fields has involved rising technological complexity. At the same time, the number of deepwater and ultra-deepwater wells has gone up. Also, the number of horizontal wells to develop unconventional reservoirs such as shale gas and shale oil has risen dynamically.

The great success of the oil and gas industry over recent years has demonstrated the impressive achievements of state-of-the art exploration and production technologies. Experts today speak of a "renaissance of oil" in the US and say that the US may become self-sufficient in oil at the end of the current decade. Moreover, everyone refers to the "century of natural gas". With its high-tech components for directional drilling, our company has made a small, but important contribution to that development. Many new offshore oil and gas reservoirs and shale gas and shale oil fields could hardly be developed without SBO's high-precision components. We offer our customers exactly the type of technological niche products and technologies they need to implement highly complex drilling projects at a faster rate, more efficiently and with greater security.

[1] Barclays Global 2013 E&P Spending Outlook, December 2012


DECISIVE.

*„Since 2009 SBO has doubled sales and more than quadrupled its operating income.“*

Constant progress in production technologies and materials provided the basis on which SBO continued to strengthen its long-standing global market leadership in a dynamic market throughout 2012. Continuous capacity expansion helped us to meet customer requirements for on-time delivery without compromising on quality and service performance.

In order to secure our position as a reliable and innovative partner for our customers we made several fundamental decisions in 2012. First of all, we decided to expand production capacities at the Ternitz site. At the moment, we are building a new machining centre for non-magnetic oilfield service drillstring components involving capital investments of approximately MEUR 54. Furthermore, SBO acquired an interest in D-TECH (UK), a start-up downhole tools provider in the first quarter of 2012. Together with our customers we developed and produced a considerable number of prototypes in the past financial year, an impressive sign of the confidence our customers place in our expertise.

In 2012 SBO's total capital expenditure for property, plant & equipment reached a significant level of MEUR 53.1, which is the basis on which we will continue to maintain and strengthen our global market leadership position.

From a long-term perspective, the market for high-tech equipment for the oilfield service industry offers attractive growth potential. As before, markets are driven by the hunger for energy in the emerging markets, where rising mobility, population growth and increasing prosperity are fuelling demand for oil, a situation that compensates for the stagnating or slightly falling consumption in highly developed industrialised countries. As production rates from existing oil fields are declining by 4 % to 8 % annually, even slightly growing global demand will necessitate new production capacities of around 4-5 million barrels per day per year.

*„Due to continuous capacity expansion and ongoing development of manufacturing technologies and materials SBO has maintained its leading position in the global market."*

This long-term stable demand tendency does not mean that our industry will not face temporary fluctuations. The phenomenon was observed in 2012 again: After a most dynamic start into the first half of 2012 involving record booking levels, the second half of 2012 initiated a period of slowdown. These strong fluctuations were due to a series of temporary effects seen in our customers' ordering behaviour. The oilfield service industry has always been, and will remain, a cyclical business, as changes at the global macro-economic level often make themselves felt on the demand side within a short period of time.

Short-lived fluctuations, however, are no reason for SBO to question its long-term growth strategy. Our sound balance sheet and equity rate of 52 % at the end of 2012, a well-stocked innovation pipeline and highly qualified and motivated workforce are the foundations of our operational excellence now and in future. In addition, we operate with utmost flexibility, as we repeatedly demonstrated in the past when we promptly responded to fluctuations in the business cycle.

In concluding, we would like to thank our employees for their commitment in the past business year 2012. They have made possible another new record year for SBO. Our thanks also go to our customers and shareholders for their confidence in our company.

**Gerald Grohmann**
Chief Executive Officer

**Franz Gritsch**
Member of the Executive Board

# HUMAN RESOURCES

Due to the positive business development the headcount was further increased at all sites in 2012. In particular, new personnel for production was hired.

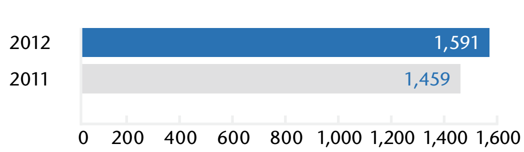
Since the beginning of 2012 the global headcount grew to 1591, or by 9.0 %, as at 31 December 2012, with Europe accounting for 745 and North American and Mexico for 651. The rise in employee numbers of 48, or by 11.7 %, in Austria alone represented the highest growth rate in the past business year. The remaining workforce is employed at the other global sites of the company.

One of the main reasons why SBO continued to be a highly appreciated partner of the oilfield service industry in 2012 is the sound technical expertise of our employees. Their wide range of skills, strong quality awareness, long-standing experience and commitment have contributed to further enhancing SBO's excellent service and quality level in the previous year.

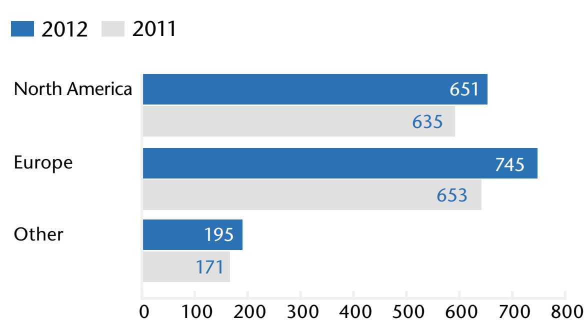
In 2012 SBO again offered a large number of training courses aimed at improving the employees' special skills and capabilities and further specialising in their field of expertise. In addition, training and advance qualification courses were held, such as on quality control. Intensive initial training phases also were part of the widely diversified recruitment process for new employees. Such basic and further training activities help to meet permanently rising customer requirements and constantly improve our production quality level.

In order to cover the growing demand for highly qualified skilled workers, SBO continuously invests in recruiting and training young employees. 30 apprentices were undergoing training at Schoeller-Bleckmann Oilfield Equipment AG in 2012. At the company's training centre young people are trained, for instance, to become skilled metalworkers. In most cases, trainees stay with the company after they have passed their final examination, a fact that demonstrates both the qualities of SBO as an employer and the positive work environment.

## TOTAL HEADCOUNT




## HEADCOUNT BY REGION



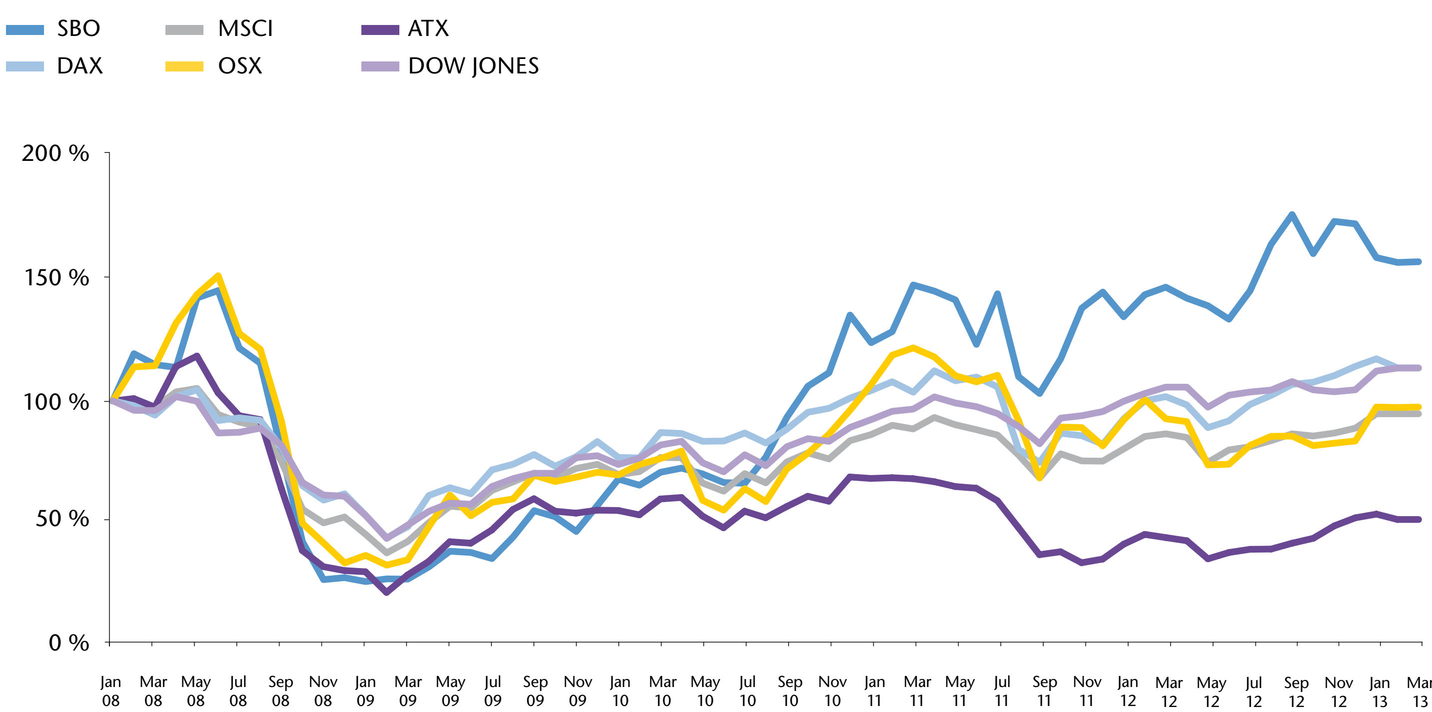

HIGH-PRECISION.

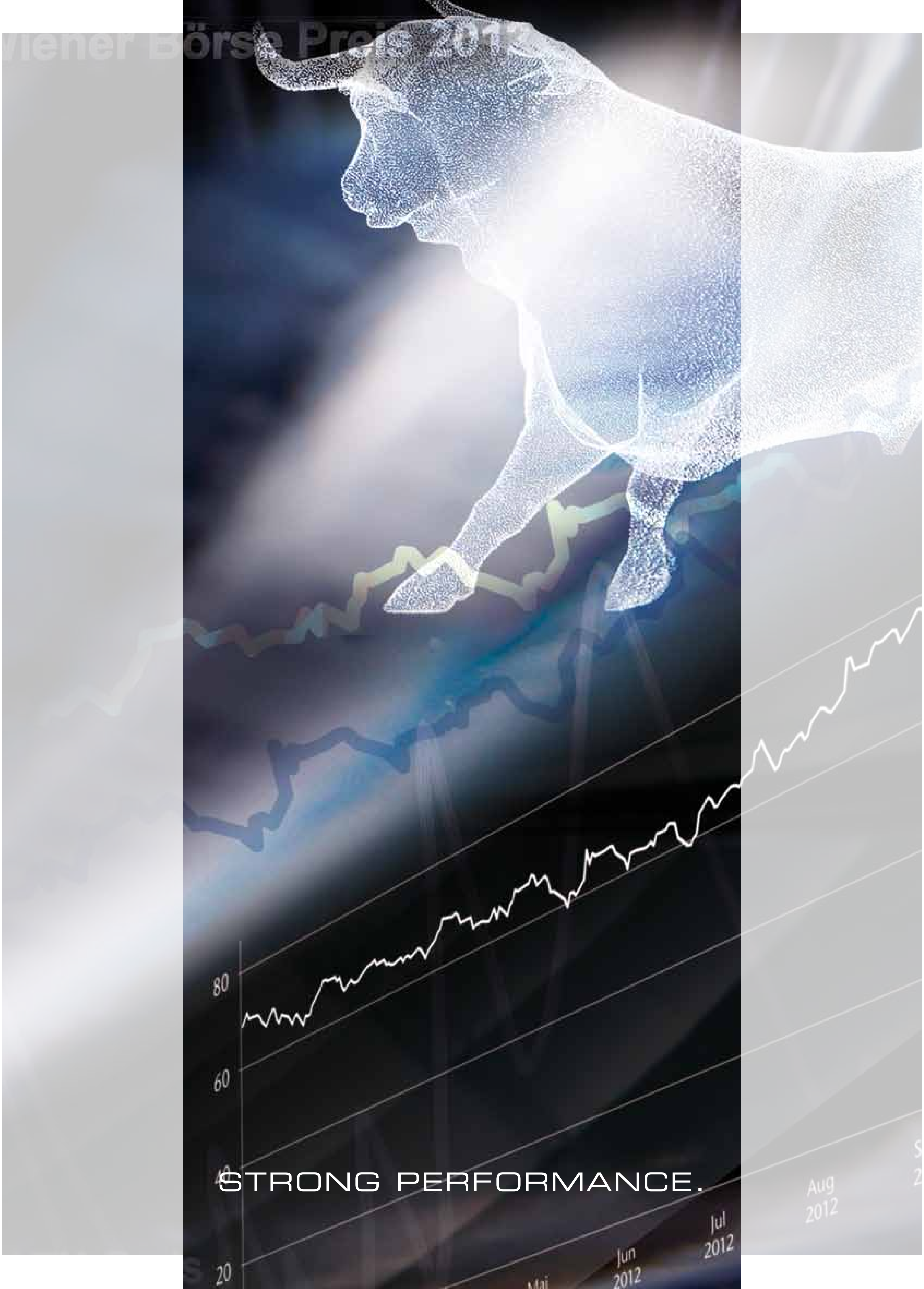
# THE SBO SHARE

The share of SBO started into the 2012 stock exchange year at a price of EUR 68.85 per share. Over the year, it climbed by 15.2 % to EUR 79.29 per share at the end of 2012. The annual low was EUR 59.05 per share on 26 June 2012. On 16 October 2012, the share reached its annual high of EUR 83.15, at the same time representing its new all-time high. Vienna's ATX blue-chip index had fallen to 1891.68 points by the end of 2011, but went back up by 26.9 % during 2012 and climbed to 2401.21 points.

In recognition of SBO's capital market performance, a high-profile jury presented the Vienna Stock Exchange Award 2012 to Schoeller-Bleckmann Oilfield Equipment AG for the second time in a row: SBO was ranked third in the ATX category. The ATX award is given to companies that stand out in the capital market with respect to investor relations, strategy and corporate governance in addition to market-related factors and quality of financial reports.

## SHARE PERFORMANCE



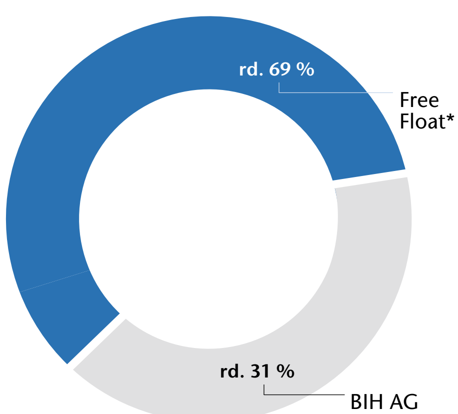

STRONG PERFORMANCE.
80
60
20
Jun
2012
Jul
2012
Aug
2012

To ensure transparent management and corporate communication, information events were held for private and institutional investors also in 2012. SBO was represented at 38 capital market road shows held both in Austria and abroad. The Executive Board and Investor Relations team presented the company to national and international investors, for instance in Amsterdam, Boston, Brussels, Chicago, Denver, Edinburgh, Frankfurt, Geneva, Helsinki, Copenhagen, Los Angeles, London, Milan, New York, Oslo, Paris, San Diego, San Francisco, Stegersbach, Stockholm, Warsaw, Vienna, Zurich and Zürs.

In 2012 the focus was on broadening the North American and North European investor base, and so slightly more than half of all road shows were held in the United States, United Kingdom and Scandinavian countries. Meanwhile, an estimated 46 % of SBO's free float share capital is owned by Anglo-American institutional investors.

Analysts of Baader Bank, Berenberg Bank, Deutsche Bank, Dresdner Kleinwort/Commerzbank, Erste Bank, Raiffeisen Centrobank, Goldman Sachs, Hauck & Aufhäuser, HSBC and Natixis regularly covered Schoeller-Bleckmann Oilfield Equipment AG. It should be pointed out that SBO is now covered by an oil and gas analyst of HSBC London, ensuring further specific sector-related coverage.

## SHAREHOLDER STRUCTURE 31 DECEMBER 2012




* thereof more than 4 %: EARNEST Partners LLC

## FINANCIAL CALENDAR 2013

| | |
|---|---|
| 25 April 2013 | Annual Shareholders' Meeting |
| 8 May 2013 | Ex-day, dividend distribution day |
| | PUBLICATIONS: |
| 23 May 2013 | 1st Quarter 2013 |
| 22 August 2013 | 2nd Quarter 2013 |
| 21 November 2013 | 3rd Quarter 2013 |

*„The SBO share reached its new all-time high of EUR 83.15 in 2012.“*

Particular attention was paid in 2012 to intensifying contacts with business journalists in Germany. Apart from a large number of one-on-one meetings, an international journalists' day was held in Ternitz last June, which was attended by journalists from Austria, Germany, and Switzerland. The event was used to provide insight into SBO's field of business, products and services beyond daily routines and present in-depth details on current developments in the oilfield service industry. Professor Herbert Hofstätter from the Mining University of Leoben/Austria gave the attending journalists background information about the latest technological developments in shale gas and oil drilling, presenting a new fracking method which is under development and stands out by its particular environmental compatibility.

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

## KEY SHARE FIGURES

| | 2012 | 2011 |
|---|---|---|
| Share capital (in EUR) | 15,960,116 | 15,960,116 |
| Number of shares | 15,960,116 | 15,960,116 |
| Average daily trading volume[1] | 38,262 | 60,008 |
| Closing rate at year-end (in EUR) | 79.29 | 68.22 |
| High/low (in EUR) | 83.15/59.05 | 70.56/46.12 |
| Market capitalisation at year-end (in EUR) | 1,268,640,000 | 1,088,799,000 |
| Earnings per share (in EUR) | 4.76 | 3.33 |
| Price-earnings ratio at year-end | 16.66 | 20.49 |
| Dividend per share (in EUR) | 1.50[2] | 1.20 |

[1] Double counting
[2] Proposed

# CORPORATE GOVERNANCE REPORT

Schoeller-Bleckmann Oilfield Equipment AG (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 Corporate Governance Code, SBO makes a contribution to strengthen trust in Austrian companies and the Austrian capital market.

The Austrian Corporate Governance Code is accessible at the website of the Austrian Working Group for Corporate Governance on www.corporate-governance.at

In January 2012, several rules of the Austrian Corporate Governance Code were amended. This version of the Code was amended in July 2012 to reflect the provisions of the 2. Stability Act (2. Stabilitätsgesetz). SBO complies with the Code as amended in July 2012. 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.

The third category, the R-Rules (Recommendation) is of recommendatory nature. Non-compliance does not have to be disclosed nor explained.

SBO complies with all mandatory legal provisions (L-Rules).

**Explain**

SBO largely complies with the C-Rules. Deviations are explained as follows:

**Rule 18a**

The Executive Board reports on the measures taken to fight corruption at SBO during the fiscal year 2012 at the Supervisory Board's meeting resolving on the financial statements for the fiscal year 2012. With the introduction of its Business Ethics Policy, Schoeller-Bleckmann Oilfield Equipment AG started already years ago to take appropriate measures to prevent or punish illegal activities such as corruption, bribery, illegal acceptance of gifts or other unfair commercial practices.

**Rule 41**

In line with the Austrian Corporate Governance Code, the function of the Nomination Committee is exercised by the Remuneration Committee.

# 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 conflict of interests, information and reporting duties of the Executive Board and decisions requiring approval of the Supervisory Board applying to significant transactions of the major subsidiaries. Generally, the Executive Board holds at least weekly meetings for mutual information and decision-making.

In 2012, the Executive Board was composed of two members:

| | Year of birth | Date of first appointment | End of current term of office |
|---|---|---|---|
| Gerald Grohmann<br>Chairman | 1953 | 3.10.2001 | 31.12.2015 |
| Franz Gritsch | 1953 | 1.12.1997 | 31.12.2015 |

In the fiscal year 2012, the members of the Executive Board did not hold any group-external Supervisory Board mandates.

## Distribution of responsibilities

Distribution 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 held by 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 |
| Franz Gritsch | Finance and accounting, human resources and legal matters |

## 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 objects defined for the business year have been achieved.

Pursuant to the employment agreements 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, cash-flow, equity and fixed capital. Fulfilment of these performance criteria can be determined based on the financial statements or depends on the occurrence or non-occurrence of the respective event.

No stock option programme or stock transfer programme is in place for the members of the Executive Board of SBO or the executive board members or managing directors of its subsidiaries, in particular no programme within the meaning of Rule 28 is in place.

The rules for severance payments follow the legal requirements. 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 (Directors & Officers) insurance taken out by, and at the expense of SBO.

For the fiscal year 2012 the following remuneration was paid:

| | **Fixed remuneration in TEUR** | **Variable remuneration in TEUR** | **Total in TEUR** |
|---|---|---|---|
| Gerald Grohmann | 444 | 608 | 1,052 |
| Franz Gritsch | 355 | 474 | 829 |

## The Supervisory Board

In 2012, the Supervisory Board consisted of five members:

| | Year of birth | Date of first appointment | End of current term of office |
|---|---|---|---|
| Mag. Norbert Zimmermann<br>Chairman | 1947 | 10.04.1995 | 2017* |
| Dr. Peter Pichler<br>Deputy chairman | 1958 | 10.04.1995 | 2017* |
| Mag. DI Helmut Langanger | 1950 | 29.04.2003 | 2017* |
| Karl Samstag | 1944 | 24.10.2005 | 2017* |
| Dr. Karl Schleinzer | 1946 | 24.05.1995 | 2017* |

*According to the articles of association in the version of 25 April 2012 each year one member of the Supervisory Board withdraws from the Supervisory Board with the end of the Annual General Meeting. The withdrawing member can immediately be reelected.

According to rule 54 in combination with the guidelines set forth by the Supervisory Board members on the independence of Supervisory Board members, Mag. DI Helmut Langanger and Karl Samstag are representing the minority shareholders in the Supervisory Board.

Other seats in supervisory boards or comparable functions in Austrian or foreign listed companies, if applicable, have been disclosed:

| | Company | Function |
|---|---|---|
| Mag. Norbert Zimmermann<br>Chairman | OMV AG<br>Oberbank AG | Supervisory board member<br>Supervisory board member |
| Dr. Peter Pichler<br>Deputy chairman | ----- | |
| Mag. DI Helmut Langanger | Enquest plc.<br>KULCZYK OIL VENTURES Inc. | Supervisory board member<br>Supervisory board member |
| Karl Samstag | Allgem. Baugesellschaft A. Porr AG<br>Oberbank AG<br>BKS Bank AG<br>Bank für Tirol und Vorarlberg AG | Supervisory board member<br>Supervisory board member<br>Supervisory board member<br>Supervisory board member |
| Dr. Karl Schleinzer | ----- | |

## 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 takes decisions.

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

The Supervisory Board held six meetings in the period under review. Moreover, the Supervisory Board held meetings with the Executive Board on management matters.

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

## 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; such 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.

## Audit Committee

The Audit Committee is responsible for auditing and preparing the approval of the annual financial statements, the proposal on the disbursement of profits, and the management report. The Audit Committee also audits the consolidated financial statements and submits a proposal for selecting the independent auditor and reports on this to the Supervisory Board.

Members: Mag. Norbert Zimmermann (Chairman)
Dr. Peter Pichler
Karl Samstag

In the year under review, the Audit Committee held two meetings, in which, in particular, issues concerning the financial statements, the internal control system and risk management were discussed.

An independent auditor made an assessment of the effectiveness of the company's risk management. The auditor's report on such assessment 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: Mag. Norbert Zimmermann (Chairman)
Dr. Peter Pichler
Dr. Karl Schleinzer

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

## Independence

Supervisory Board complies with the guidelines set forth in the Corporate Governance Code, Annex 1, on the independence of Supervisory Board members. According to the guidelines, the following members of the Supervisory Board qualify as independent:

Mag. DI Helmut Langanger
Karl Samstag
Dr. Karl Schleinzer

The scope of services provided for the company as its legal counsel by Supervisory Board member Dr. Schleinzer in 2012 is not deemed significant pursuant to Annex 1 of the Corporate Governance Code (for details see Notes to the Consolidated Financial Statements).

Members Mag. Norbert Zimmermann and Dr. Peter Pichler represent the interests of Berndorf Industrie Holding AG, which holds a share of approximately 31 % in the company.

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

The remuneration scheme for the members of the Supervisory Board was approved at the Annual General Meeting 2012. Remuneration is subdivided into a fixed and a variable portion which is determined as a percentage share of the group income after tax.

For fiscal year 2011 the following remuneration was paid:

| | Fixed remuneration in EUR | Variable remuneration in EUR | Total in EUR |
|---|---|---|---|
| Mag. Norbert Zimmermann | 6,000 | 13,358 | 19,358 |
| Dr. Peter Pichler | 5,000 | 13,358 | 18,358 |
| Mag. DI Helmut Langanger | 5,000 | 13,358 | 18,358 |
| Karl Samstag | 5,000 | 13,358 | 18,358 |
| Dr. Karl Schleinzer | 5,000 | 13,358 | 18,358 |

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 (Directors & Officers) insurance taken out by, and at the expense of, SBO.

### Measures taken to promote women to the Executive Board, the Supervisory Board and to top management positions

It is of highest importance for SBO to strictly treat sexes equally at recruitment and treatment in all fields of the employment status; this without appointing "women's quota" or taking measures explicitly called "measures to promote women".

# SUSTAINABILITY REPORT

As a future-oriented technology provider, Schoeller-Bleckmann Oilfield Equipment AG has actively pursued the principles of sustainable business operations for many years. Adopting a responsible attitude to the environment, in dealing with our employees, customers and suppliers and assuming responsibility towards society as a major industrial enterprise has become daily practice at SBO.

In serving the oilfield service industry SBO also defines itself as a company contributing to global energy supply.

## Economic aspects

### Competitiveness in the framework of sustainability

The world's hunger for energy is growing constantly. According to the International Energy Agency, global demand for energy will rise by one third from 2010 to 2035. At the same time, the world population is expected to grow by 1.7 billion, representing an annual increase of 3.5 %. 90 % of this growth will take place in the Non-OECD countries, which is why the development of future demand for energy will be driven by those countries.

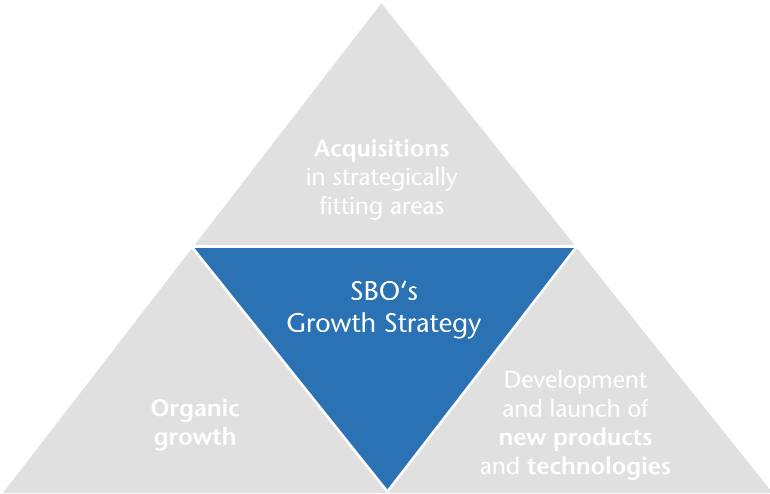
Oil and gas will remain key energy sources, as these fossil fuels will continue to account for more than 50 % of the energy supply in the next decades.

Whereas, however, demand for energy – and so for oil and gas – is growing all over the world, development of future reservoirs, which means providing oil and gas, has become more and more challenging. Most of the easily accessible fields located just several hundred metres below the surface have already been found and produced. As result, covering future demand for oil will require to tap also those resources that are more difficult - and more expensive - to explore and produce. Developing such oil and gas fields involves increasingly complex technologies. Directional drilling, for example, is applied to develop reservoirs located at distances three to four times longer than 30 years ago. This technology is also used to reduce the environmental impact in drilling regions, as directional drilling often means drilling only one well instead of a large number of vertical wells to produce the same quantities of oil. As a result, the environmentally relevant footprint per each barrel of oil produced can be lowered considerably.

Constantly growing technological complexity in oil and gas drilling has been, and will be, the engine of growth for Schoeller-Bleckmann Oilfield Equipment AG in the coming years. As the global market leader in high-precision components and high-performance drilling motors for the oilfield service industry and as an innovative partner offering a range of specialty products SBO is well equipped to fully benefit from such market opportunities. At the same time, SBO makes a contribution to  securing global energy supply; and security of energy supply is the basis of economic prosperity and, as a consequence, of peace and welfare.

## Growth strategy

SBO pursues a strategy of medium to long-term growth which rests on three pillars. It allows SBO to respond to changes promptly.




Apart from organic growth SBO focuses on developing and launching new products and technologies and on acquisitions in strategically fitting business sectors. Growth is implemented, for instance, through capacity expansions at existing sites, building new sites and acquiring attractive niche players. Concerning the launch of new products and technologies, for example the new drilling motor model "Spiro Star Supreme" featuring improved performance characteristics has convinced the market for challenging shale drilling projects.

## Use of profits

The company uses its profits for implementing the corporate strategy: As an example, SBO invests in expanding capacities, in research and development as well as acquisitions in strategically fitting sectors.

In the past years, SBO established four new sites, all of which in the emerging markets (Vietnam, Singapore, Brazil, Mexico). Those sites constitute an addition to our existing production facilities. In the process, no jobs have been relocated.

Furthermore, profits are spent for the distribution of the annual dividend, which is composed of a basic dividend and a bonus dividend based on the annual profit. SBO seeks to distribute the basic dividend also in economically weaker cycle phases.

# Environmental commitment and performance

## Operational aspects of environmental protection

Across the group, SBO's products are manufactured as required by environmentally responsible and cost-conscious operations securing efficient use of funds.

Consequently, corporate environmental management concentrates on optimised and efficient energy and power consumption as well as waste minimisation and state-of-the-art waste disposal. In production, neither hazardous air and water pollution nor greenhouse gas emissions are generated. The volume of waste water produced in manufacturing is low as water is handled with great care and efficiency.

In order to prevent specific and general risks – and to respond appropriately to emergencies – response plans have been prepared at the level of operating subsidiaries. The Austrian subsidiary SBOT, for instance, has several contingency plans for pollution control and fire fighting in place.

## Product-related aspects of environmental protection

■ Delivery of materials

SBO's products are made from stainless steel. Due to long-term cooperation with an exclusive steel supplier both parties have increased their efficiency performance in production and delivery. By way of example, large parts of raw material deliveries in Austria have been shifted from road to rail transport.

■ Production

Production takes place with utmost efficiency, which is a basic economic requirement to keep costs of raw materials as low as possible.

■ Deliveries to customers

Deliveries to SBO's globally operating customers are made by truck and ship, but in urgent cases also by air freight. SBO's products are used in the oilfield service industry.

■ Disposal and recycling

In the group, great importance is attached to the management of production waste which, as valuable raw material, is recycled for further use in steel production. Sustainable research and improvement programmes are in place to ensure reduction of waste volumes and higher recycling rates.

# Social commitment and performance

## Employee-related aspects

It is the production of high-tech components where the skills and capabilities of employees are instrumental for a company's success. Operating the highly complex machines of SBO calls for perfectly trained professionals.

Particularly great value is attached to safe work places. This is the reason why the number of accidents at work is very low at SBO.

Additionally, SBO pays much attention to performance-related remuneration and appropriate health promotion programmes for employees.

### Safety

SBO places special emphasis on safety at work. As a result, a large number of activities help to ensure safe working conditions, such as first-aid and safety-related training courses. All operating subsidiaries have established guidelines to cover these issues. The minimum standards to be fulfilled are based on OHSAS requirements.

Across the group, lost time injury rate (LTIR) over recent years was constantly low with less than 0.3 % of paid production hours.

### Health

Health and safety measures at SBO's operating subsidiaries are based on OHSAS requirements. Each company is free to take further measures. Sites of a certain size employ a company doctor. Regular initiatives, such as vaccinations to protect employees from the flu and tick bites provide additional health offers for employees.

### Basic and further training

On recruitment, all employees undergo in-depth initial training.

In order to constantly improve employees' skills and capabilities and allow them to specialise in their field of expertise, SBO offers further training courses and conducts a large number of education and training programmes across the company. Moreover, SBO selectively supports employees in embarking on post-graduate studies.

SBO offers interesting career opportunities in a performance-oriented environment.

At the Austrian site in Ternitz, SBO has lived up to its responsibility as one of the key employers in the region for many years, with a workforce of 460 as at 31 December 2012. Additionally, ten new apprentices are hired every year. As a result, 30 apprentices undergo training constantly and will subsequently be offered employment as skilled workers by SBO.

### Employee motivation

SBO's corporate culture is characterised by the strong identification of employees with the company and its products.

The excellent reputation products of Schoeller-Bleckmann enjoy all over the world is largely due to the commitment of its workforce who know no compromise in terms of quality even in times of above-average capacity utilisation. In addition to their regular pays, employees receive a bonus payment at the end of the year that depends on the profit generated by the company. Furthermore, the management of subsidiaries may acquire shares in the company and thus participate financially in its success. These measures help to increase employees' personal identification with the company and serve as an important contribution to keep employee fluctuation as low as possible.

SBO's management and works council pursue a highly professional approach in their relations.

It goes without saying that SBO complies with local requirements concerning minimum wages at all sites worldwide.

### Recruiting new employees

Apprentice training programmes – such as conducted at the Austrian site in Ternitz – and cooperation schemes with colleges in the US help SBO to select, train and hire the best candidates.

### Employees with disabilities

SBO assumes its responsibility towards society and counts people with disabilities among its employees.

## Responsibility towards customers, suppliers and society

### Customers

Schoeller-Bleckmann Oilfield Equipment AG solves highly complex tasks for customers and, as a leader in terms of quality and technology, has set the industry benchmark for many years. As a result, SBO counts the major oilfield service companies among its customers and has established itself as market leader.

SBO is present at all leading worldwide hubs of the oilfield service industry and accompanies customers when they head for new regions. Providing added value to customers is both the starting point and goal of the business activities of Schoeller-Bleckmann Oilfield Equipment AG.

### Suppliers

SBO maintains a close and long-standing business relationship with its exclusive steel supplier for non-magnetic steels. See also section “Product-related aspects of environmental protection”.

### Corporate social responsibility

With its wage, salary and tax payments SBO contributes to the economic strength of the region. SBO also supports and promotes regional social projects.

With its business operations, SBO also makes a contribution to the security of global oil and gas supplies.

### Ethics code of SBO

Trust is the fundamental basis of good relationships – this applies to SBO’s relations with employees, customers, suppliers and the capital market.

In order to create the foundation of this approach, SBO is committed to integrity and honesty and acts accordingly. SBO promotes an environment of openness and trust.

Compliance with its “Business Ethics Policy” is indispensable for Schoeller-Bleckmann Oilfield Equipment AG, as the company aims to preserve its corporate values. On recruitment, employees pledge to adhere to these values.

It goes without saying that unfair business practices, such as illegal price fixing, bribery, collusion with competitors or other unfair trade practices are strictly prohibited across the group. Non-compliance with these principles is punished without exception.

### Human rights

SBO is committed to the protection of human rights, equal treatment of men and women and strictly rejects any kind of discrimination on grounds of ethnic or religious background, sex, age or sexual orientation.

### Prohibition of child labour

SBO complies with the prohibition of child labour.

## Corporate governance

| | |
|---|---|
| **Executive Board:** | Ing. Gerald Grohmann (Chief Executive Officer)<br>Mag. Franz Gritsch (Chief Financial Officer) |
| **Supervisory Board:** | Mag. Norbert Zimmermann (Chairman; first appointed in 1995)<br>Dr. Peter Pichler (Deputy Chairman; first appointed in 1995)<br>Mag. DI Helmut Langanger (first appointed in 2003)<br>Karl Samstag (first appointed in 2005)<br>Dr. Karl Schleinzer (first appointed in 1995) |

The term of office of the members to the Supervisory Board lasts until 2017. Every year, one member to the Supervisory Board resigns from office at the end of the Annual General Meeting. The resigning member is eligible for immediate re-election.

The Supervisory Board of SBO maintains a nomination and remuneration committee as well as an audit committee.

More details on SBO's compliance with the Austrian Corporate Governance Code are available in the current Corporate Governance Report of the company, which can be downloaded from the company's website at www.sbo.at.

All shares of Schoeller-Bleckmann Oilfield Equipment AG are no-par value bearer shares. No preferred shareholder rights or different legal arrangements for shares are provided for in the Articles of Association of SBO.

# MANAGEMENT REPORT

## Market Environment

In 2012, the world's economy was characterised by a gradual slowdown. Following a short upswing early in the year, global economic development was again marked by setbacks from the second quarter on. The Eurozone was faced with the debt problem in Greece, Spain, Italy, and Portugal. In the second half of the year, financing terms and conditions for these countries aggravated further, and the slowdown spread from Southern Europe to the North. While the US economy, by contrast, was developing positively, it lost some of its momentum over the year. The weak economic situation in Western industrialised countries also had repercussions on the exporting sector of the emerging markets, but all in all, those countries still posted high growth rates.

According to current estimates of the International Monetary Fund (IMF) average global economic growth (GDP) in 2012 stood at 3.2 % (following 3.9 % in 2011). Economic growth largely took place in the emerging markets and developing countries, above all in China and India, posting a rate of 5.1 % (following 6.3 % in 2011). Industrialised economies grew by only 1.3 % in 2012 (following 1.6 % in 2011).[1]

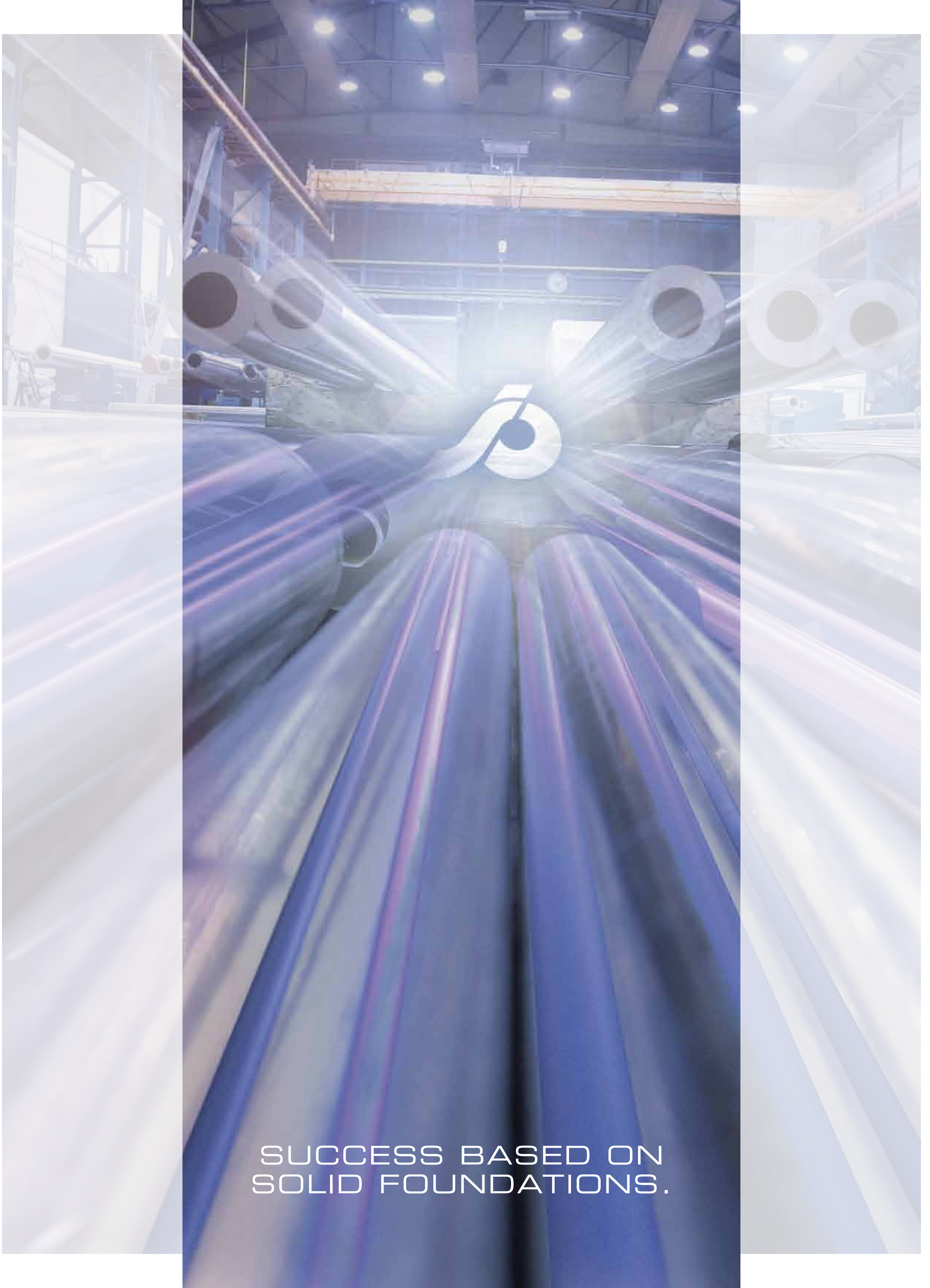
Owing to continued growth in demand for oil and gas the oilfield service industry was largely unaffected by the global economic slowdown.

According to the International Energy Agency (IEA), average global demand for oil in 2012 had amounted to 89.8 million barrels per day, increasing by 1 million barrels per day, or 1.1 %, from average global demand for oil of 88.8 million barrels per day in 2011. The moderate rise in oil demand was primarily attributable to a slight decline in oil demand of the OECD countries, which decreased by 0.9 % to 46.0 million barrels per day in 2012 (following 46.4 million barrels per day in the year before). This was largely due to diminishing demand for oil in Europe resulting both from record product prices and weaker economic development. However, relatively strong growth in demand seen in Asia compensated for the situation in Europe. Average demand for oil in the non-OECD countries in 2012 was 43.8 million barrels per day, up 1.4 million barrels per day year-on-year.[2]

The rig count[3], the parameter of globally active drilling rigs, remained largely unaffected by the economic slowdown throughout 2012. The average global rig count 2012 was 3518 units, representing an increase of 1.5 % from the average number of globally operating rigs of 3465 units. Additionally, global exploration and production spending in 2012 grew by approximately 8.8 % to around USD 604 billion.[4] However, the rig count in North America went down slightly at the end of the year.

From early January to the end of December 2012, US drilling activity fell by 12.2 % to 1763 drilling rigs, mainly because of a decline in gas wells of 46.9 % since the start of the year. The decline stabilised in the fourth quarter and was largely set off mainly by the sharply growing number of oil wells. In 2012 the share of oil wells climbed to 75.3 %, whereas the share of gas wells went down to 24.4 %. At the end of 2011 the ratio had still been 59.4 % for oil wells and 40.3 % for gas wells.

[1] IMF: World Economic Outlook Update, January 2013
[2] IEA: Oil Market Report, February 2013
[3] Baker Hughes Rig Count
[4] Barclays Global 2013 E&P Spending Outlook, December 2012


SUCCESS BASED ON
SOLID FOUNDATIONS.

*„In 2012, the oilfield service industry remained largely unaffected by the global economic downturn.“*

Compared to the US rig count as at the end of 2010, the number of active drilling wells grew by 4.3 %, indicating that the US market is developing continuously. Compared to 2010 (3227 units) the global rig count increased by 5.1 % in 2012.

In North America, the share of directional and horizontal drilling rigs in the total rig count climbed further to arrive at 72.9 % as at the end of 2012. At the end of the previous year 2011 it had stood at 68.9 % (29 December 2011).

The number of rigs operating in the Gulf of Mexico increased by 17.1 % to 48 units at year-end 2012, following 41 operating drilling rigs at the end of 2011.

Year-on-year, international drilling activities as at the end of December rose from 1180 to 1253 rigs representing a robust increase of 6.2 % from the previous year.

The price of European crude Brent, in the period from the beginning of the year to mid-March, climbed from USD 111.12 to USD 128.14 per barrel (13 March 2012). Until the end of June, it had fallen to its annual low of USD 88.69 per barrel (25 June 2012). On 31 December 2012, the price of one barrel of Brent crude stood at USD 110.8, a level that ensures economic feasibility for all complex and oil gas drilling projects.

The price of US crude WTI, from the beginning of January to the end of February, rose to its annual high of USD 109.39 per barrel (24 February 2012), before it fell to its annual low of USD 77.72 per barrel (28 June 2012) at mid-year. By the end of the year it went up again to a level oscillating between USD 85 and USD 95 per barrel to close at USD 91.83 per barrel at year-end (31 December 2012). Over the year, the price of one barrel of WTI crude was decreasing by 10.8 %. Prices of WTI and Brent continued to differ by around USD 20 also in 2012.

## Business development

For Schoeller-Bleckmann Oilfield Equipment AG, the 2012 financial year was again marked by a very positive development of business. Due to the high volume of bookings, sales and profit figures reached a new, absolute record level. All product groups of SBO benefited from the generally sound industry cycle in 2012. Particularly encouraging figures were reported in the product group of high-precision components.

Bookings totalled MEUR 471.4 (following MEUR 460.5 in the year before), again arriving at a very high level. Above-average bookings were posted mainly in the first and second quarters, followed by a period of slowdown in the second half of the year. This was due to the fact, on the one hand, that customers had placed too many orders because of an overly optimistic assessment of the industry’s cycle and, on the other hand, diminishing visibility of further global economic development. For all of the above reasons bookings at SBO in the second half were approximately 30 % below the record level seen in the first six months.

*„As overall booking volumes remained very strong, capacity utilisation rates were high at all sites. Peaks in orders were accommodated by hiring new personnel, working additional shifts and overtime."*



As overall booking volumes remained strong capacity utilisation rates were high at all sites, with the production company located in Ternitz/Austria delivering a particularly striking operating performance. The new production subsidiaries in Singapore (SBO-Knust Far East) and in Vietnam developed according to plan. They contributed to covering continuously growing local demand for SBO products in Asia.

Peaks in orders were accommodated both by hiring additional personnel mainly in Austria and the US and working additional shifts and overtime. Moreover, growth in 2012 was secured through permanent additions to production machinery.

The order backlog at the end of the year was MEUR 149.8 (following MEUR 176.4 at the end of 2011). It should be noted that this figure is almost entirely attributable to orders in the segment of high-precision components.

Demand was brisk in the product group of oilfield supplies and services, downhole tools, as SBO components were increasingly used in liquid-rich plays as a result of the switch from gas to oil wells in the United States. Business performance of drilling motor subsidiary BICO and downhole tool provider DSI also developed very positively. BICO motors are in great demand as they are used both in shale gas and shale oil drilling because of their higher torques and longer life time compared to conventional motors. In this product group, sales of non-magnetic steel to third parties also produced strong results in 2012. Capacity utilisation at our globally operating Service & Supply Shops was excellent as well.

## Capital expenditure

According to the company's long-term growth perspectives SBO stepped up its capital expenditure programme in 2012.

In the first quarter of 2012 the fundamental decision was taken to further expand the production site in Ternitz/Austria to ensure that SBO will meet growing demand for high-precision components in the medium and long run. The expected investment volume required for building a new machining centre for non-magnetic oilfield service drillstring components totals approximately MEUR 54. This large-scale project will be financed mainly from the company's cash-flow.

As a result, SBO will provide the required capacities for further growth in the core business of high-precision components. Additionally, the project will allow to unbundle historically grown operating facilities at the Ternitz site. Optimised material flow and more efficient logistics will further improve production output at the Ternitz site.

The project is scheduled for implementation in several steps over a period of roughly two years. In fiscal 2012 planning and foundation works were started without delay. The building shell is scheduled for completion already in mid-2013. One year later, in mid-2014, all expansion work in Ternitz should be completed.

Moreover, expansion of other production sites was continued by acquiring new equipment in 2012, in particular at US-sites Godwin-SBO and Knust-SBO and at the sites based in Singapore and Vietnam. The drilling motor fleet of BICO was extended, and the number of downhole circulation tools at DSI was gradually increased to meet growing demand. These tools are supplied to customers under leasing contracts.

Additionally, Schoeller-Bleckmann Oilfield Equipment AG acquired UK-based start-up D-TECH. D-TECH is an engineering company still in the process of being set up and has not yet generated any sales revenues. By integrating the company into the Schoeller-Bleckmann Oilfield Equipment group, SBO expects to gain long-term expertise for optimising the product range in the product group of Oilfield Supplies & Services.

Total capital additions to tangible fixed assets in fiscal 2012 amounted to MEUR 53.1 (following MEUR 36.8 in the year before), again clearly up from last year's MEUR by 44.2 %, and financed largely from the company's cash-flow. Total purchase commitments for expenditure in property, plant and equipment as at the end of 2012 were MEUR 12.9 (following MEUR 9.8 at the end of 2011).

## Research and development

At Schoeller-Bleckmann Oilfield Equipment AG, research and development activities have been integrated in its operations for many years, a system that ensures market and customer-oriented R&D activities.

Fiscal 2012 was again characterised by intense production and development activities to build prototypes.

At the Godwin / Houston site, a separate shop for producing prototypes was set up, allowing SBO to build prototypes in cooperation with customers under ideal conditions separated from serial production.

At Godwin, the first-ever digital laser copying machine to be used in the oilfield service industry went on stream. On the machine, tools of up to 10 x 15 inches can be manufactured automatically straight from the design drawing. This system offers SBO's customers new and efficient solutions for small-series production of complex products.

Development work for a new Exoko-drilling motor technology continued in 2012.

## Risk report

Concerning the risks of the business model of Schoeller-Bleckmann Oilfield Equipment AG we refer to the presentation in Note 32 of the Consolidated Financial Statements.

*„The fundamental data for the oilfield service industry have remained intact. Also in 2013 spending for exploration and production is expected to rise in order to cover growing demand for oil and gas in the long term and to compensate declining production rates of existing oil fields."*



## Outlook

According to projections of the International Monetary Fund (IMF), average global economic growth in 2013 will come to 3.5 % (following 3.2 % in 2012 and 3.9 % in 2011). As for the emerging markets and developing countries, the IMF expects growth in 2013 to arrive at 5.5 %, following 5.1 % in 2012. China and India will remain the key drivers for the global economy, based on expected growth rates of 8.2 % or 5.9 % in 2013. By contrast, industrialised nations will grow by only 1.4 % (following 1.3 % in 2012 and 1.6 % in 2011).[1]

As their economic performance will remain at only moderate levels, Western industrialised nations will have little impact on the growth of global energy consumption.

While average demand for oil in OECD countries will decrease by 0.9 %, from 46.0 million barrels per day in 2012 to 45.6 million barrels per day in 2013, average global oil demand in Non-OECD countries will climb by 2.8 %, from 43.8 million barrels per day to 45.1 million barrels per day in the same period. Average global demand in 2013, according to IEA, will arrive at 90.7 million barrels per day, representing an increase of 0.8 million barrels per day from 89.8 million barrels per day in 2012.[2]

At the beginning of 2013 the situation of the global economy and the oil and gas industry was characterised by caution based on guarded optimism.

What SBO currently observes is that some customers try to optimise their capital expenditures and inventories as they tend to invest more in repairing tools than purchasing new equipment. This behaviour was also reflected in the bookings SBO received at the beginning of 2013. As the fundamental data of the oilfield service industry has remained intact, we nevertheless see a positive industry environment. Moreover, past experience has shown that such actions taken by customers always were of a transitory nature.

Apart from the expected increase in demand as described above, current market analyses[3] assume that exploration and production spending will grow by just under 6.6 %, from USD 604 billion in 2012 to USD 644 billion in 2013. Moreover, oil prices above USD 100 per barrel (Brent) also contribute to a favourable spending climate. All these factors should have a positive effect on drilling activity in the oilfield service industry. Increased spending can be expected, as the production rate from existing oil fields declines by 4 % to 8% every year. Additionally, OPEC's still low spare capacity of around 3 million barrels further aggravates the situation. Even if oil consumption goes up by only one percent in 2013, considerable investments will be needed to compensate for the production shortfall of 4 – 5 million barrels per year. The boom of unconventional oil and gas production in the United States will make up for only part of the missing quantities. More E&P activities in deeper and more remote regions will be needed to secure the world's oil supply.

1 IMF: World Economic Outlook Update, January 2013
2 IEA: Oil Market Report, February 2012
3 Barclays Global 2013 E&P Spending Outlook, December 2012

Due to the low US gas price of recent years overcapacities have built up in some areas of the oilfield service industry, which could be compensated for only in part by increased shale oil drilling. In the first weeks of 2013, gas prices recovered from their 10-year lows, and demand for LNG started to grow again also in Asia.

A large number of planned new offshore E&P projects is already in the pipeline, leading many experts to expect an offshore boom in the years ahead. New projects for developing conventional and unconventional gas and oil fields and spending for improved oil recovery from existing fields will further drive demand for high-precision equipment.

SBO is well prepared to meet the challenges of each market environment. Despite its ongoing spending for growth the company is based on a sound balance sheet, low debt and attractive cash-flow. This capital investment programme will be a key component for SBO to secure, for the years ahead, market leadership in the business units of the oil service industry in which SBO operates. Therefore, it is the foundation of the long-term growth policy pursued by SBO.

# Analysis and results

The consolidated financial statements of the company have been prepared in accordance with the International Financial Reporting Standards (IFRS), formerly International Accounting Standards (IAS). No changes were made in the business of the SBO group in the year under review.

## Sales

In 2012 the company fully benefited from the dynamic growth in the oilfield service industry and increased sales by 25.3 %, from MEUR 408.6 to MEUR 512.1.

Moreover, in fiscal 2012 the development of the US dollar also had favourable effects. The average exchange rate in 2012 was 1 Euro = USD 1.2856, compared to 1 Euro = USD 1.3917 in 2011, which had a positive influence of around MEUR 33 on sales.

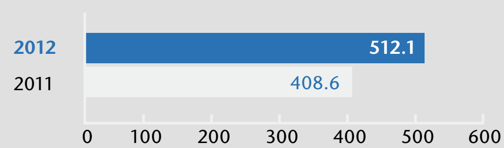
## Exchange rate

As in the years before, the US dollar continues to be the most important currency by far for the SBO group. In 2012, just under 80 % (following 82 % in 2011) of total sales and revenues were generated in US dollars, while, as before, around 50 % of expenses were also incurred in US dollars.

The average rates for the years ended 31 December 2011 and 31 December 2012 were used by the company in the preparation of the consolidated profit and loss statements, whereas the closing rates for the years 2011 and 2012 were used in the preparation of the consolidated balance sheet.

### SALES

**in MEUR**




### EXCHANGE RATE

**in EUR/USD**

| | High | Low | Average | Closing |
|---|---|---|---|---|
| **Year 2012** | 1.3454 | 1.2089 | 1.2856 | 1.3194 |
| Year 2011 | 1.4882 | 1.2889 | 1.3917 | 1.2939 |

## Sales by regions

The table on the left side shows sales by regions of origin.

North America, accounting for 60 % (2011: 70 %) of sales, continues to be the largest market for the company, since all major customers of SBO, i.e. integrated service companies, are located in the United States. However, as those companies increasingly use their international branch offices for procurement, in particular in Europe and the Far East, those sales markets are becoming more and more important for SBO. Apart from that, the products of the SBO group are used all over the world.

### SALES BY REGIONS

in MEUR

| | **2012** | 2011 |
|---|---|---|
| North America | 343.7 | 320.4 |
| Europe | 262.7 | 197.7 |
| Other | 56.3 | 42.1 |
| - Intercompany Sales | -150.6 | -151.6 |
| **Total Sales** | 512.1 | 408.6 |

## Sales by products

In the product group of high-precision components, sales increased by 29 %, from MEUR 219.0 in 2011 to MEUR 283.4 in 2012. This product group essentially comprises MWD/LWD collars, MWD/LWD internals and high-precision parts.

Sales in the product group of downhole tools, oilfield supplies and services, consisting of product groups drilling motors, circulation tools, non-magnetic drill collars and material as well as service and repair activities, increased by 21 %, from MEUR 189.6 to MEUR 228.7.

### SALES BY PRODUCTS

in MEUR

| | **2012** | 2011 |
|---|---|---|
| High-Precision Components | 283.4 | 219.0 |
| Downhole tools, oilfield supplies and service | 228.7 | 189.6 |
| **Total Sales** | 512.1 | 408.6 |

## Gross profit

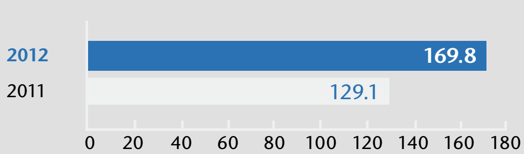
In 2012, gross profit amounted to MEUR 169.8, from MEUR 129.1 in the year before. The gross margin was 33.2 %, following 31.6 % in 2011.

This relatively high margin is the result of full production capacity utilisation in almost all sectors and the associated economies of scale. The price level has largely remained unchanged compared to the previous year.

The main elements of production costs are material and energy expenses, personnel and depreciation on fixed assets.

### GROSS PROFIT

in MEUR



## Selling and administrative expenses

Selling and administrative expenses went from MEUR 38.4 in 2011 to MEUR 47.1 in 2012, increasing at a lower rate than sales. They arrived at 9.2 % of sales, compared to 9.4 % in 2011.

Selling and administrative expenses consist mainly of salary and salary-related expenses, professional fees for operational activities, travel and entertainment costs, communication and insurance expenses as well as expenses for due diligence procedures and mergers.

## Other operating income and expenses

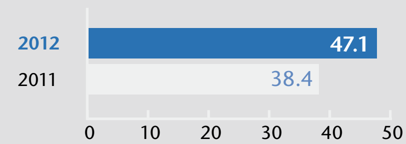
Other operating expenses amounted to MEUR 17.7 (2011: MEUR 12.3) in 2012. This item contains primarily exchange losses that were offset by almost the same level of exchange gains in other operating income and R & D costs incurred for the segment of downhole tools, oilfield supplies and services.

Other operating income in 2012 was MEUR 15.3 (2011: MEUR 11.8). The major item covered here are exchange gains. Further operating income consists of rental income, service charges and income from the sale of fixed assets.

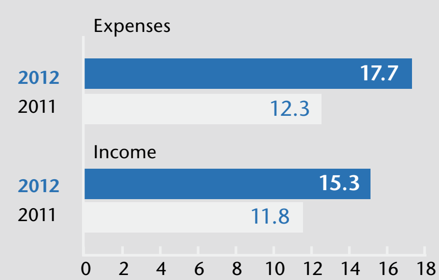
## Profit from operations

Profit from operations was MEUR 120.3 (23.5 % of sales), compared to MEUR 90.2 (22.1 % of sales) in the year before. This favourable development is mainly due to the increase in gross profit as presented above.

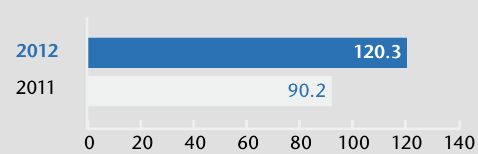
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES
in MEUR



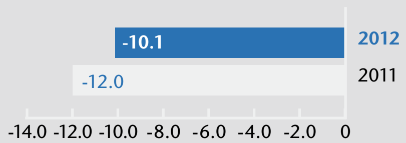

OTHER OPERATING INCOME AND EXPENSES
in MEUR



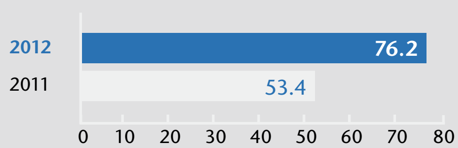

PROFIT FROM OPERATIONS
in MEUR



FINANCIAL RESULT
in MEUR




PROFIT AFTER TAX / DIVIDEND
in MEUR




## Financial result

In 2012, the financial result stood at MEUR -10.1, after MEUR -12.0 in 2011. Net interest expenses were MEUR – 7.1 (2011: MEUR -5.9). Also included here are other financial expenses of MEUR 6.0 (2011: MEUR 6.1). They represent the minority interests in subsidiaries held by the respective management of MEUR 3.5 (2011: MEUR 4.2) and an increase of the contingent purchase price for DSI recognised as expense amounting to MEUR 2.5. The purchase price was increased because business developed better than expected at the time of acquisition. Moreover, this item contains other financial income of MEUR 3.0 (2011: MEUR 0.0).

## Profit after tax / dividend

Profit after tax for 2012 was MEUR 76.2, following MEUR 53.4 in the year before.

Earnings per share arrived at EUR 4.76, following EUR 3.33 in 2011.

The Executive Board proposes to the Annual General Meeting to pay to the shareholders a dividend of EUR 1.50 per share (basic dividend and bonus) for 2012, resulting in a total distribution of MEUR 24.0 to the shareholders.

## Assets and financial position

Shareholders' equity as of 31 December 2012 was MEUR 363.1, following MEUR 314.8 as of 31 December 2011. The equity ratio arrived at 52.0 %, compared to 50.8 % in the year before. Net debt as of 31 December 2012 was MEUR 34.3, which is MEUR 8.8 less than as of 31 December 2011. The gearing ratio (net debt in percent of shareholders' equity) was 9.5 % as of 31 December 2012, following 13.7 % in the year before.

Cash-flow from profit arrived at MEUR 118.4 in 2012, following MEUR 91.7 in 2011. The main elements contributing to this figure were income after tax amounting to MEUR 76.2 (2011: MEUR 53.4) and depreciation and amortisation amounting to MEUR 39.6 (2011: MEUR 34.8).

In the wake of business expansion the net working capital of MEUR 135.8 as of 31 December 2011 increased to MEUR 145.7 as of 31 December 2012. This rise is mainly due to the substantial increase of inventories (primarily unfinished products). Nevertheless, cash-flow from operating activities improved considerably over the previous year, from MEUR 59.8 to MEUR 102.8.

Net cash outflow from investing activities totalled MEUR 69.5 (2011: MEUR 37.8). Additions to fixed assets were MEUR 53.1 (2011: MEUR 36.8), of which MEUR 2.2 were spent for land purchases in Austria and the United States, MEUR 35.9 for machines and equipment mainly in Austria, the United Stated and the UK, and MEUR 15.0 for further expanding the downhole tool rental fleet.

Purchase commitments for property, plant and equipment as of 31 December 2012 were MEUR 12.9 (2011: MEUR 9,8).

## 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 operating 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 counter-measures. Operating subsidiaries provide the necessary information by timely monthly reporting to the Executive Board.

The group has defined uniform standards for all 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 operating subsidiaries and holding companies are audited by international auditors.

At the Executive Board's regular meetings with local managing directors the 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 reporting companies (accounting and valuation issues). A certified consolidation programme equipped with the necessary auditing and consolidation routines is used for automated preparation of the consolidated financial statements.

## Events after the balance sheet date

Please refer to Note 38, Financial Information.

## Additional information acc. to Section 243a Austrian Commercial Code:

Please refer to Note 20, Financial Information.

# FINANCIAL INFORMATION


FUNDAMENTALLY STRONG.

# CONSOLIDATED BALANCE SHEET

| ASSETS in TEUR | | 31.12.2012 | 31.12.2011 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | 138,260 | 120,842 |
| Trade accounts receivable | Note 5 | 71,854 | 72,973 |
| Income tax receivable | | 1,497 | 2,074 |
| Other accounts receivable and prepaid expenses | Note 6 | 6,649 | 6,842 |
| Inventories | Note 7 | 157,973 | 139,087 |
| **TOTAL CURRENT ASSETS** | | **376,233** | **341,818** |
| **Non-current assets** | | | |
| Property, plant & equipment | Note 8 | 165,462 | 147,507 |
| Goodwill | Note 9 | 65,560 | 58,734 |
| Other intangible assets | Note 9 | 61,091 | 48,457 |
| Long-term receivables | Note 10 | 17,736 | 13,808 |
| Deferred tax assets | Note 11 | 12,356 | 9,723 |
| **TOTAL NON-CURRENT ASSETS** | | **322,205** | **278,229** |
| **TOTAL ASSETS** | | **698,438** | **620,047** |

# CONSOLIDATED BALANCE SHEET

| LIABILITIES AND SHAREHOLDERS' EQUITY in TEUR | | 31.12.2012 | 31.12.2011 |
|---|---|---|---|
| **Current liabilities** | | | |
| Bank loans and overdrafts | Note 12 | 31,455 | 29,099 |
| Current portion of bonds | Note 16 | 19,988 | 0 |
| Current portion of long-term loans | Note 17 | 15,606 | 19,751 |
| Finance lease obligations | | 189 | 361 |
| Accounts payable trade [1] | | 37,819 | 46,944 |
| Government grants | Note 13 | 358 | 271 |
| Income taxes payable | | 17,316 | 9,966 |
| Other payables [1] [2] | Note 14 | 30,405 | 22,091 |
| Other provisions | Note 15 | 6,773 | 6,225 |
| **TOTAL CURRENT LIABILITIES** | | **159,909** | **134,708** |
| **Non-current liabilities** | | | |
| Bonds | Note 16 | 19,963 | 39,906 |
| Long-term loans | Note 17 | 85,307 | 74,532 |
| Finance lease obligations | | 83 | 274 |
| Government grants | Note 13 | 744 | 556 |
| Employee benefit obligations | Note 18 | 5,884 | 4,571 |
| Other payables [2] | Note 19 | 40,469 | 32,661 |
| Deferred tax liabilities | Note 11 | 22,949 | 18,067 |
| **TOTAL NON-CURRENT LIABILITIES** | | **175,399** | **170,567** |
| **Shareholders´ equity** | | | |
| Share capital | Note 20 | 15,960 | 15,960 |
| Contributed capital | | 65,203 | 65,203 |
| Legal reserve - non-distributable | Note 21 | 785 | 785 |
| Other reserves | Note 22 | 29 | 33 |
| Currency translation reserve | | -15,956 | -10,859 |
| Retained earnings | | 295,382 | 242,149 |
| Equity attributable to the owners of the parent company | | 361,403 | 313,271 |
| Non-controlling interests | Note 23 | 1,727 | 1,501 |
| **TOTAL SHAREHOLDERS´ EQUITY** | | **363,130** | **314,772** |
| **TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY** | | **698,438** | **620,047** |

[1] Reclassification see Note 14
[2] Reclassification according to maturity see Note 19

# CONSOLIDATED PROFIT AND LOSS STATEMENT

| in TEUR | | 2012 | 2011 |
|---|---|---|---|
| **Sales** | Note 24 | **512,146** | **408,649** |
| Cost of goods sold | Note 25 | -342,354 | -279,565 |
| **Gross profit** | | **169,792** | **129,084** |
| Selling expenses | Note 25 | -18,976 | -15,529 |
| General and administrative expenses | Note 25 | -28,161 | -22,894 |
| Other operating expenses | Note 26 | -17,732 | -12,309 |
| Other operating income | Note 26 | 15,343 | 11,847 |
| **Profit from operations** | | **120,266** | **90,199** |
| Interest income | | 956 | 980 |
| Interest expenses | | -8,028 | -6,863 |
| Other financial income | | 2,973 | 0 |
| Other financial expenses | Note 19 | -6,031 | -6,109 |
| **Financial result** | | **-10,130** | **-11,992** |
| **Profit before tax** | | **110,136** | **78,207** |
| Income taxes | Note 27 | -33,892 | -24,775 |
| **Profit after tax** | | **76,244** | **53,432** |
| Thereof attributable to non-controlling interests | | 329 | 223 |
| Thereof attributable to the owners of the parent company | | 75,915 | 53,209 |
| | | **76,244** | **53,432** |
| Average number of shares outstanding | | 15,960,116 | 15,960,116 |
| **Earnings per share in EUR (basic = diluted)** | | **4.76** | **3.33** |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | | |
|---|---|---|---|
| **Profit after tax** | | **76,244** | **53,432** |
| Foreign exchange adjustment - subsidiaries | | -5,016 | 9,702 |
| Foreign exchange adjustment - other items (1) | | -245 | 627 |
| Income tax effect | Note 27 | 61 | -156 |
| **Other comprehensive income, net of tax** | | **-5,200** | **10,173** |
| **Total comprehensive income, net of tax** | | **71,044** | **63,605** |
| Thereof attributable to non-controlling interests | | 226 | 403 |
| Thereof attributable to the owners of the parent company | | 70,818 | 63,202 |
| | | **71,044** | **63,605** |

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

# CONSOLIDATED CASH-FLOW STATEMENT

| in TEUR | | 2012 | 2011 |
|---|---|---|---|
| Profit after tax | | 76,244 | 53,432 |
| Depreciation and amortization and impairments | | 39,610 | 34,766 |
| Change in employee benefit obligations | | 1,313 | 881 |
| Gain (loss) from sale of property, plant and equipment | | -192 | -653 |
| Income from release of subsidies | | -1,492 | -279 |
| Other non-cash expenses and revenues | | 4,240 | 1,911 |
| Change in deferred taxes | | -1,277 | 1,621 |
| **Cash-flow from profit** | | **118,446** | **91,679** |
| Change in accounts receivable trade | | 514 | -12,615 |
| Change in other accounts receivable and prepaid expenses | | 1,886 | -2,925 |
| Change in inventories | | -20,805 | -33,895 |
| Change in accounts payable trade | | -9,418 | 7,597 |
| Change in other payables and provisions | | 12,141 | 9,990 |
| **Cash-flow from operating activities** | Note 35 | **102,764** | **59,831** |
| Expenditures for property, plant & equipment | | -53,064 | -36,804 |
| Expenditures for intangible assets | | -174 | -228 |
| Expenditures for the acquisition of subsidiaries less cash acquired | Note 36 | -20,172 | -4,337 |
| Proceeds from sale of property, plant & equipment | | 3,892 | 3,619 |
| **Cash-flow from investing activities** | Note 35 | **-69,518** | **-37,750** |
| Dividend payment | | -19,152 | -15,960 |
| Government grants received | | 839 | 0 |
| Repayment finance lease | | -380 | -414 |
| Change in bank loans and overdrafts | | 2,466 | -7,563 |
| Proceeds from long-term loans | Note 17 | 30,000 | 2,442 |
| Repayments of long-term loans | Note 17 | -23,421 | -16,974 |
| Repayments of other long-term payables | | -5,532 | -440 |
| **Cash-flow from financing activities** | Note 35 | **-15,180** | **-38,909** |
| **Change in cash and cash equivalents** | | **18,066** | **-16,828** |
| Cash and cash equivalents at the beginning of the year | | 120,842 | 136,989 |
| Effects of exchange rate changes on cash and cash equivalents | | -648 | 681 |
| **Cash and cash equivalents at the end of the year** | Note 35 | **138,260** | **120,842** |
| **Supplementary information on operating cash-flow** | | | |
| Interest received | | 761 | 834 |
| Interest paid | | -5,556 | -6,358 |
| Income tax paid | | -26,230 | -22,210 |

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

| Year 2012 in TEUR | Share capital | Contributed capital | Legal reserve | Other reserves | Currency translation reserve | Retained earnings | Total Parent company | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| Note | 20 | | 21 | 22 | | | | | |
| **1. January 2012** | **15,960** | **65,203** | **785** | **33** | **-10,859** | **242,149** | **313,271** | **1,501** | 314,772 |
| Profit after tax | | | | | | 75,915 | **75,915** | 329 | **76,244** |
| Other comprehensive income, net of tax | | | | | -5,097 | | **-5,097** | -103 | **-5,200** |
| Total comprehensive income, net of tax | 0 | 0 | 0 | 0 | -5,097 | 75,915 | **70,818** | 226 | **71,044** |
| Dividends (1) | | | | | | -19,152 | **-19,152** | | **-19,152** |
| Option commitment relating to cancelable non-controlling interests (2) | | | | | | -3,534 | **-3,534** | | **-3,534** |
| Change in reserves | | | | -4 | | 4 | **0** | | **0** |
| **31. December 2012** | **15,960** | **65,203** | **785** | **29** | **-15,956** | **295,382** | **361,403** | **1,727** | 363,130 |

(1) The dividend payment in the year 2012 of TEUR 19,152 was distributed to a share capital eligible for dividends of TEUR 15,960. Accordingly, the dividend per share amounted to EUR 1.20.
(2) See Note 36

| Year 2011 in TEUR | Share capital | Contributed capital | Legal reserve | Other reserves | Currency translation reserve | Retained earnings | Total Parent company | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| Note | 20 | | 21 | 22 | | | | | |
| **1. January 2011** | **15,960** | **65,203** | **785** | **36** | **-20,852** | **204,897** | **266,029** | **1,098** | 267,127 |
| Profit after tax | | | | | | 53,209 | **53,209** | 223 | **53,432** |
| Other comprehensive income, net of tax | | | | | 9,993 | | **9,993** | 180 | **10,173** |
| Total comprehensive income, net of tax | 0 | 0 | 0 | 0 | 9,993 | 53,209 | **63,202** | 403 | **63,605** |
| Dividends (3) | | | | | | -15,960 | **-15,960** | | **-15,960** |
| Change in reserves | | | | -3 | | 3 | **0** | | **0** |
| **31. December 2011** | **15,960** | **65,203** | **785** | **33** | **-10,859** | **242,149** | **313,271** | **1,501** | 314,772 |

(3) The dividend payment in the year 2011 of TEUR 15,960 was distributed to a share capital eligible for dividends of TEUR 15,960. Accordingly, the dividend per share amounted to EUR 1.00.

# NOTES

## NOTE 1

### Information about the Company

SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft (the Company), located in 2630 Ternitz at Hauptstrasse 2, was incorporated on 26 May 1994 in Ternitz, Austria and is registered at the Commercial Court in Wiener Neustadt, Austria (FN 102999w).

The Company is engaged in the industrial manufacturing of components and parts for the oil and gas industry, mostly in directional drilling segments, and provides services in these areas.

Since 27 March 2003 the shares of the Company have been listed on the Wiener Börse (Vienna Stock Exchange).

## NOTE 2

### Accounting Standards

The Company's consolidated financial statements as of 31 December 2012 were prepared in accordance with International Financial Reporting Standards (IFRSs) as well as with the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) as adopted by the EU.

The consolidated financial statements for SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft and its subsidiaries for the business year 2012 (as of 31 December 2012) were released by the Executive Board on 28 February 2013.

The financial statements are denominated in Euros. Unless otherwise provided, all figures have been rounded to thousands of Euros (TEUR). As a result of automated computation, the rounded amounts and percentage figures may display rounding differences.

## NOTE 3

### Scope of consolidation

The consolidated financial statements as of 31 December 2012 comprise the accounts of SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft as the group parent company and 30 subsidiaries (2011: 28 subsidiaries).

| Company | Location | Interest held in % |
|---|---|---|
| Schoeller-Bleckmann Oilfield Technology GmbH | Ternitz, AT | 100.00 |
| Schoeller-Bleckmann Drilling and Production Equipment GmbH | Ternitz, AT | 100.00 |
| BICO-DSI Investment GmbH | Ternitz, AT | 90.00 |
| DSI FZE | Dubai, AE | 90.00 |
| Drilling Systems International Limited | Cayman Islands, CY | 90.00 |
| Schoeller-Bleckmann America Inc. | Wilmington, US | 100.00 |
| Accudrill L. L. C. (*) | Houston, US | 96.60 |
| Godwin-SBO L. L. C. (*) | Houston, US | 96.60 |
| Knust-SBO L. L. C. (*) | Houston, US | 94.60 |
| Knust-SBO Far East Pte. Ltd. (*) | Singapore, SG | 94.60 |
| Schoeller-Bleckmann Energy Services L. L. C. (*) | Lafayette, US | 87.80 |
| Schoeller-Bleckmann Sales Co. L. L. C. | Houston, US | 100.00 |
| Schoeller-Bleckmann Oilfield Equipment (UK) Limited | Rotherham, GB | 100.00 |
| Darron Tool & Engineering Limited (*) | Rotherham, GB | 98.95 |
| Darron Oil Tools Limited | Rotherham, GB | 100.00 |
| Schoeller-Bleckmann Darron Limited (*) | Aberdeen, GB | 90.15 |
| Schoeller-Bleckmann Darron (Aberdeen) Limited (*) | Aberdeen, GB | 92.65 |
| Techman Engineering Limited | Chesterfield, GB | 100.00 |
| BICO Drilling Tools Inc. (*) | Houston, US | 85.00 |
| BICO Faster Drilling Tools Inc. (*) | Nisku, CA | 72.25 |
| Schoeller-Bleckmann de Mexico S. A. de C. V. (*) | Monterrey, MX | 97.00 |
| Schoeller-Bleckmann do Brasil, Ltda. | Macae, BR | 100.00 |
| SB Darron Pte. Ltd. | Singapore, SG | 100.00 |
| Schoeller-Bleckmann Oilfield Equipment Middle East FZE | Dubai, AE | 100.00 |
| Schoeller-Bleckmann Oilfield Equipment Vietnam L. L. C. | Binh Duong, VN | 100.00 |

(*) With respect to the disclosure of the shares which are held by the management of these Companies, please see Note 19.

For the non-disclosure of three subsidiaries (2011: three subsidiaries) we refer to the exemption clause in § 265, article 3 UGB (Austrian Commercial Code).

Furthermore, two companies were acquired in 2012, which are disclosed in Note 36.

## NOTE 4

### Significant accounting policies

The applied accounting policies remain generally unchanged compared to the previous year, except for the following changes.

#### Changes in accounting policies

In 2012 the Group has initially applied the following new and revised standards and interpretations. The adoption of these standards and interpretations only had an impact on group financial statements as of 31 December 2012 if it is marked with "yes" in the table below.

| Regulation | | Effective Date[1] | Impact on group financial statements |
|---|---|---|---|
| IFRS 1 | Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters | 01/07/2011 | no |
| IFRS 7 | Financial Instruments: Disclosures – Transfers of Financial Assets | 01/07/2011 | no |
| IAS 12 | Recovery of Underlying Assets | 01/01/2012 | no |

[1] to be applied for annual periods beginning on or after this date

The following new or revised standards and interpretations which have been adopted by the European Union, have not been applied early in 2012, but will be applied in the respective reporting periods for which application becomes mandatory:

| Regulation | | Effective Date[1] | Impact on group financial statements |
|---|---|---|---|
| IFRS 7 | Offsetting of Financial Assets and Financial Liabilities | 01/01/2013 | no |
| IFRS 10 | Consolidated Financial Statements | 01/01/2014 | no |
| IFRS 11 | Joint Arrangements | 01/01/2014 | no |
| IFRS 12 | Disclosures of Interests in Other Entities | 01/01/2014 | yes |
| IFRS 13 | Fair Value Measurement | 01/01/2013 | no |
| IAS 1 | Presentation of Items of Other Comprehensive Income | 01/07/2012 | yes |
| IAS 19 | Employee Benefits | 01/01/2013 | yes |
| IAS 27 | Separate Financial Statements | 01/01/2014 | no |
| IAS 28 | Investments in Associates and Joint Ventures | 01/01/2014 | no |
| IAS 32 | Offsetting Financial Assets and Financial Liabilities | 01/01/2014 | no |
| IFRIC 20 | Stripping costs in the production phase of a surface mine | 01/01/2013 | no |

[1] to be applied for annual periods beginning on or after this date

It is expected that the initial application of these new or amended standards and interpretations will not have any impact on the financial position or performance of the Group.

**IFRS 12 Disclosure of Interests in Other Entities**
IFRS 12 requires disclosures concerning interests in subsidiaries, joint arrangements and associates. The disclosures are considerably more extensive than the current requirements of IAS 27, 28 and 31.

**Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income**
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified (for example actuarial gains and losses on employee defined benefit plans). The amendments are limited to changes in presentation but do not impact the Group's financial position and financial performance.

**IAS 19 Revised – Employee Benefits**
The IASB issued significant revisions to IAS 19. The accounting options available under current IAS 19 have been eliminated and the defined benefit obligation of defined benefit plans has to be fully recognized in the balance sheet.

Actuarial gains and losses are now required to be recognized in other comprehensive income (OCI) and excluded permanently from profit and loss. Currently the group recognizes actuarial gains and losses in profit and loss which will lead to a reclassification from profit and loss into other comprehensive income. Furthermore there are a number of new disclosure requirements concerning defined benefit plans.

## Balance sheet date

Balance sheet date of all companies included in the Company's accounts is 31 December.

## Consolidation principles

Upon capital consolidation, business combinations are accounted for using the acquisition method i. e. the consideration transferred is offset against the proportionate fair value of the acquired assets and liabilities of the acquired business.

The consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IAS 39 in profit and loss under other financial expenses or income, respectively. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Acquisition costs incurred are expensed (general and administrative expenses).

For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net asset.

Afterwards, their share of profit after tax and other comprehensive income is attributed to non-controlling interests. In case of losses, a negative balance could be recorded.

According to a merger in 2012 the Company entitled non-controlling interests to sell their shares to the Company at any time. The Company has committed itself to purchase the offered shares. The purchase price depends on the profits generated by the acquired company. The anticipated discounted purchase amount of the put option is calculated based on current corporate planning figures and recognized in other liabilities as granting of the put option created an unconditional payment obligation of the group. The financial liability has initially been recognized by reclassification of the non-controlling interests measured at the proportionate share of revalued net assets at the acquisition date. The remaining difference to the anticipated discounted purchase amount at the acquisition date has been reclassified from equity attributable to the owners of the parent company without any effect on profit and loss. From a group perspective subsidiaries with such put option obligations are fully consolidated. Profits of the respective entity are fully allocated to the owners of the parent company. Dividend payments to non-controlling interests are recognized in other financial expenses. Subsidiaries are fully consolidated since their acquisition date, i. e. when the Company gets control over the acquired business. The consolidation ends when the Company loses control over the subsidiary. Changes in the ownership without loss of control are recorded as equity transactions.

All intercompany receivable and payable balances were reconciled at the balance sheet date and offset in the course of the elimination process.

Sales and other income resulting from activities between the group companies were reconciled in the relating consolidation period and offset against the corresponding expenses.

Intercompany profits arising from the delivery of goods between group companies were also eliminated.

### Going concern basis

The consolidated financial statements were prepared on a going concern basis.

### Uniform accounting principles

The financial statements of all consolidated entities were prepared in accordance with uniform group accounting policies.

### Foreign currency translation

The consolidated financial statements are denominated in Euros, the functional and reporting currency of the Group. Each group member determines its own functional currency. The line items in the individual company financial statements are measured by using this functional currency.

Foreign currency transactions were translated at the exchange rate in effect at the transaction date. Monetary items denominated in foreign currencies were converted at the rate in effect at the balance sheet date. Currency differences were booked in profit or loss in the period they occurred.

For the group financial statements, the financial statements of foreign subsidiaries are translated into Euros, in accordance with the concept of functional currency:

- The assets and liabilities, both monetary and non-monetary, are translated at the balance sheet date.
- All income and expense items of the foreign subsidiaries are translated at an average exchange rate for the year.

The development of the currency rates was as follows:

| 1 EUR = | Balance sheet date | | Average annual rates | |
|---|---|---|---|---|
| | 31.12.2012 | 31.12.2011 | 2012 | 2011 |
| USD | 1.3194 | 1.2939 | 1.2856 | 1.3917 |
| GBP | 0.8161 | 0.8353 | 0.8111 | 0.8678 |
| CAD | 1.3137 | 1.3215 | 1.2848 | 1.3756 |
| MXN | 17.1845 | 18.0512 | 16.9920 | 17.2791 |
| BRL | 2.7036 | 2.4159 | 2.5097 | 2.3259 |
| VND | 27,596.5 | 27,491.0 | 26,986.4 | 29,218.8 |

Exchange differences resulting from translating the financial statements of the subsidiaries are classified as "currency translation reserve within equity" of the consolidated financial statements, the movement in the current year is recorded under "other comprehensive income."

### Split in current and non-current assets and liabilities

Assets and liabilities with a residual term to maturity of less than one year are reported as current, those with a residual term to maturity of more than one year as non-current. Residual time to maturity is determined on the basis of the balance sheet date.

Operating assets and liabilities, such as Trade Accounts Receivable and Trade Accounts Payable, are always considered as current, even if their maturity is beyond 12 months as of the balance sheet date.

### Financial instruments

A financial instrument is an agreement whereby a financial asset is created in one company, simultaneously with a financial liability or equity in the other company. Such transactions are recognized at the settlement date, according to IAS 39.

A financial asset is derecognized when:
- the rights to receive cash flows from the asset have expired,
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party, or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is removed when the underlying obligation is discharged, canceled or when it expires.

The consolidated balance sheet shows the following financial instruments (categorized according to IAS 39):

### Cash and cash equivalents

All cash, bank deposits and short-term financial investments available for sale are recorded under line item Cash and cash equivalents, because they can be converted into cash at any time. They are measured at current value at the balance sheet date and are not subject to significant changes in their value. Marketable financial instruments are non-derivative financial assets which are not held for trading purposes.

After initial recognition, marketable financial instruments are measured at their fair values while resulting profits and losses are booked into equity. The fair value is the market value of the respective assets at the balance sheet date. Upon disposal or impairment of marketable financial assets recognized in equity to that point, gains or losses are accounted for in the annual profit and loss statement.

Interest and dividends earned on financial investments are stated in the annual result.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or definable payments, which are not listed at an active market. They particularly include Trade receivables, Loans and Other Receivables. Interest at market rates is charged on those trade receivables which are granted for credit periods which exceed those normally granted in business.

Receivables and other assets are recognized at the settlement date at acquisition costs, thereafter they are measured at amortized costs using the effective interest method, less any allowance for impairment. Gains and losses are booked into the profit and loss statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

The Company grants credits to its customers in the normal course of business, but generally does not require any collateral or security to support the amounts due, with the exception of occasional customers and customers located in high risk countries from whom the Company obtains confirmed letters of credit. Management performs permanent credit evaluations of its customers and builds up allowances for doubtful accounts if required.

The Company regularly assesses its receivables and records individual allowances for doubtful debts if necessary. These allowances are sufficient to cover the expected risk of default whereas actual defaults result in writing off the respective receivable. The decision whether to account for default risk by means of allowances or to recognize impairment losses depends on the reliability of the risk evaluation.

Management evaluates the adequacy of the allowances for doubtful debts using structural analyses of due dates and balances in accounts receivable, the history of payment defaults, customer ratings and changes in terms of payment.

### Liabilities

Financial liabilities particularly include Trade payables, Payables due to banks, Bonds, Payables under finance leasing and Derivative financial liabilities.

Liabilities are initially recognized at its fair value minus directly attributable transaction costs; later they are measured at amortized costs, using the effective interest method. Income and expenses resulting from the use of the effective interest method are booked into profit and loss.

The interest in subsidiaries, which is held by the respective management, is recorded also under financial liabilities. The management is obliged by contract to sell the shares under specific circumstances, and the Company is obliged to buy these shares. The selling price is based on the value of the respective equity portion at the date of the transaction.

Pursuant to IAS 32.23, such contracts constitute a financial liability, valued at the fair value of the redemption price. For the current valuation, the respective portion of the equity at the balance sheet date is used since no exact measurement of the future value is available, including the portion of the income from the current year, which is displayed in the consolidated Profit and Loss-statement under “other financial expenses”.

This portion of income in the current year is considered as representative for the effective interest expense.

Further the participation rights granted to the management of subsidiaries are recorded as financial liabilities. A transfer of such rights to third parties needs the approval of the Company. The Company has the option to purchase participation rights under specific circumstances, the purchase price is based on the respective equity portion at the date of the transaction.

### Derivative financial instruments and hedging relationships

The Group uses financial instruments, such as currency futures and interest swaps to cover its interest and currency risks. These derivative financial instruments are recognized at fair value at the contract dates and are measured at the respective fair values in the following periods. Derivative financial instruments are recognized as assets if their fair values are positive and as liabilities if fair values are negative.

The fair values of derivative financial investments traded on active markets are determined by the market prices quoted at the balance sheet date; for those financial investments that are not traded on active markets, the fair values are determined by means of other acknowledged valuation methods (recent, comparable transactions between knowledgeable, independent partners willing to trade, comparison with the fair value of other, essentially identical financial instruments, as well as other valuation methods).

The Company uses the following instruments:

### Fair Value Hedging

The accounting treatment applied to fair value hedges differs in that the change in the value of the derivative used as a hedging instrument and any gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss. When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the profit and loss statement.

### Other derivatives

In order to cover the foreign currency risk relating to monetary assets and liabilities in the balance sheet, the Company applies hedging measures, which, although not in compliance with the strict requirements set out in IAS 39 for hedge accounting, contribute effectively to hedge the financial risk from the risk management perspective.

Income or expenses resulting from changes in the fair value of financial instruments which do not fulfil the accounting criteria regarding hedging relationships under IAS 39, are directly booked to the profit and loss statement.

Income and expenses resulting from foreign currency hedging transactions which were made to hedge the exchange risk related to intra-group trading in foreign currencies are not displayed separately but reported together with the foreign exchange income and expenses from the hedged items in the operating result.

Also in place are liabilities for contingent purchase price payments from business combinations and an option commitment relating to cancelable non-controlling interests. The valuation at the balance sheet date is made according to the underlying agreements based on the discounted payments using the most recent sales forecast. The addition of accrued interest related to liabilities for contingent purchase price payments is recognized in interest expense. Gains or losses resulting from changes in the expected discount cash flows are recorded as other financial income or other financial expenses, respectively.

## Inventories

Inventories consist of materials and purchased parts in various stages of assembly and are stated at the lower of cost or net realizable value at the balance sheet date. Costs are determined by the first-in, first-out, weighted average or specific identification methods. The costs of finished goods comprise raw material expenses, other direct costs and related production overheads, but exclude interest expense. The Company reviews inventories for slow moving or obsolete items on an ongoing basis and establishes appropriate adjustment provisions if necessary.

### Tangible and intangible fixed assets

The Company's non-current assets are recorded at cost less depreciation/amortization. Depreciation is principally computed by means of the straight-line method, over the expected useful life of the asset. The estimated useful lives are as follows:

| | Useful life in years |
|---|---|
| Other Intangibles | 4 - 10 |
| Buildings and improvements | 5 - 50 |
| Plant and machinery | 3 - 17 |
| Fixtures, furniture and equipment | 2 - 10 |

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognized in the profit and loss account in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. A previously recognized 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 recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit and loss account.

Repairs and refurbishments are charged to profit and loss at the time the expenditure has been incurred. Borrowing costs are also expensed as incurred, unless they are related to a qualifying asset with a commencement date (acquisition or production) after 1 January 2009.

Where tangible assets are financed by leasing agreements which give rights approximating to ownership (finance leases), they are treated as if they were purchased outright at the lower of the fair value or the fair value of the minimum lease payments. The corresponding leasing liabilities are shown in the balance sheet as finance lease obligations.

Interest expenditures on capitalized lease objects are based on interest rates between 5.0 % and 7.0 %. This rate is in turn determined using the Company's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

The determination whether an arrangement contains a lease is based on its economic substance and requires a judgement as to whether the fulfilment 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.

### Goodwill

Goodwill is recognized at acquisition cost not amortized but tested for impairment annually as of 31 December. For this purpose, the goodwill is assigned to cash generating units. The impairment test for cash generating units is performed by calculating the value in use on the basis of expected future cash flows.

A wright down of goodwill cannot be reversed in future periods.

### Current and deferred income taxes

The actual tax refund receivables and tax payables for the current and previous periods are measured in the amount of the expected refund by, or payment to the tax authority. The respective amounts are based on the current tax rates and laws at the balance sheet date.

Current and deferred taxes related to items in other comprehensive income or in equity are not recognized in profit and loss but in equity.

The Company uses the “balance sheet liability method” under which deferred taxes are determined, based on the temporary difference between the amounts attributed to assets or liabilities in the individual group companies for tax purposes (tax base) and the carrying amounts of those assets or liabilities in the balance sheet. Deferred tax income or expenses arise from any movement in deferred tax assets or liabilities. They are measured by the tax rates which become effective when the differences reverse (IAS 12). Deferred tax assets are recognized to the extent it is probable that there will be taxable income in future against which the deductible temporary differences may be offset. Deferred tax assets are to be formed for tax loss carry forwards, provided these tax loss carry forwards can be consumed with future tax profits. Deferred taxes are measured at the tax rates that are expected to apply to the year, when the asset is realized or the liability is settled.

Current and deferred taxes which relates to items recognized under “other comprehensive income” or equity are also posted in “other comprehensive income” or equity but not through profit and loss.

### Government grants

Subsidies are recognized only when there is reasonable assurance that the Company will comply with any conditions attached to the grants and that the grants will in fact be received. Grants are recognized systematically as income over the period necessary to match them with the related costs, for which they are intended to compensate.

Grants relating to assets are recognized as a liability upon fulfilment of all requirements for the receipt of such grants. They are released over the useful life of the respective assets. The release is displayed in the consolidated Profit and Loss-statement (line item "other operating income").

## Provisions

In accordance with IAS 37, provisions are recognized when the Company has current legal or constructive obligations which are based on past events and which will probably lead to a payment. The provisions are measured at the best estimate of the management at the balance sheet date. If a reliable estimate is not possible, no provision is made.

## Employee benefits

**Defined contribution pension plans**

In Austria the Company operates a contribution-based pension scheme for its workforce, with the related obligations having been transferred into the external APK (Allgemeine Pensionskasse) pension fund. Under this pension scheme, the Company pays the following contributions for its employees on an annual basis: for employees who do not themselves contribute to the pension scheme, the Company contributes 0.5 % of their annual salary (up to a maximum monthly salary of EUR 4,230 (2011: EUR 4,200)). For employees contributing 1 % of their annual salaries to the pension fund, the Company also contributes 1 %.

The Company has established the "SBOE U.S. Retirement Savings Plan" for its U.S.-based subsidiaries.

Eligible participants in this plan are the employees of Schoeller-Bleckmann America Inc., Godwin-SBO L. L. C., Schoeller-Bleckmann Sales Co. L. L. C., Schoeller-Bleckmann Energy Services L. L. C. and BICO Drilling Tools Inc.

Employees are eligible for participation in the plan upon reaching 18 years of age and completion of six months of service, as defined. Employees may elect to defer a percentage of their qualifying wages, up to the maximum dollar amount set by law. Employer contributions are discretionary. The Company decided to contribute 33.3 % towards the first 6 % of employee contributions, calculated per payroll period.

Knust-SBO L. L. C. sponsors a 401(K) profit sharing and income deferral plan which covers substantially all employees. Employees may elect to defer a percentage of their qualifying wages, up to the maximum dollar amount set by law. The partnership may then make matching contributions equal to a discretionary percentage of the participants' salary deductions. For the years ended on 31 December 2012 and 2011, the partnership elected to make no matching contributions.

**Severance payment**

Austrian law requires payment of a lump sum upon normal retirement or termination of an employment agreement, if the employee has been with the Company for at least three years, and provided that the employment commenced before 1 January 2003 (defined benefit plan). Severance payment ranges from two to twelve months of salary based on the length of service. Payments are made on normal retirement or any other termination, with the exception of voluntary terminations. The provisions were calculated by applying the Projected Unit Credit Method using the mortality table AVÖ 2008-P (2011: AVÖ 2008-P) by Pagler & Pagler and an interest rate of 3.0 % (2011: 4.5 %), an annual increase in salaries of 4.5 % (2011: 4.5 %) and an appropriate fluctuation rate. The statutory pension age was taken into account as well.

For employment agreements commenced after 1 January 2003, the Company has to contribute 1.53 % of current remunerations to an external providence fund, according to the legal requirements (defined contribution plan).

**Employees' jubilee payments for long service**

According to the collective work agreement, employees in Austria are entitled to jubilee payments, depending on their length of service with their company (defined benefit plan). The amounts accrued for this were also calculated by applying the Projected Unit Credit Method. The actuarial assumptions used for the severance payments are also applied for the calculation of the jubilee payment provision.

For all provisions for employee benefits, the actuarial gains or losses are booked in the profit and loss statement as incurred.

### Own shares

Own shares are carried at acquisition costs and are subtracted from the equity. The purchase, sale, issuance and redemption of own shares are not recognized in profit or loss. Potential differences between the carrying value and the related settlements are booked in Contributed capital.

### Revenue recognition

Sales revenue is recognized when title passes, generally upon delivery to the customer or on performance of the related service.

Revenue on operating leases is recognized on a pro-rated basis over the period.

Income on interest is recognized on a pro-rated basis over the period, by taking the effective interest into account.

### Research and development

Pursuant to IAS 38, research costs are expensed as incurred. Development costs are only expensed, if the requirements of IAS 38 for a capitalization of development expenses are not fully met.

## Earnings per share

Earnings per share are calculated in line with IAS 33 by dividing the profit after tax attributable to the owners of the parent company by the average number of ordinary shares outstanding during the period.

## Estimates, discretionary decisions and assumptions

The **preparation of consolidated annual financial statements** in conformity with International Financial Reporting Standards (IFRS) requires estimates and assumptions as well as discretionary decisions to be made by the management that affect the amounts reported in the balance sheet, in the notes and in the profit and loss statement. Actual future results may differ from such estimates, however, as seen from today´s perspective, the Board does not expect any major negative implications on the financial results in the near future.

For the yearly **impairment test of goodwill**, an estimate of the value in use is necessary. The management has to make assumptions for the expected future cash flows of the cash-generating units and has to choose a suitable discount rate (see Note 9).

For the consideration of **deferred taxes**, it is necessary to make estimates of the future taxable income which will be available for the exploitation of tax loss carry forwards and other timing differences (see Note 11).

The **accruals for defined benefit plans** and other employee benefits are based on actuarial computations. For such calculations it is necessary to make assumptions for the discount rate, future salary increases, mortality rate and pension raises (see Note 18).

In order to measure **inventories**, the management expectations of price and market developments are required (see Note 7).

**Provisions** are carried at those values which correspond to the best estimate by the management at the balance sheet date (see Note 15).

It is necessary to make assumptions regarding the default probability of **receivables** (see Note 5).

In **Property, plant and equipment** and **Intangible assets** it is necessary to include estimates for the period during which these assets are expected to be used (see Notes 8 and 9).

**The option commitment relating to cancellable non-controlling interests** is recorded at the balance sheet date with its fair value, which is derived from the most recent profit planning (see Notes 14 and 36).

**Liabilities for contingent purchase price payments** due to business combinations are recorded at the balance sheet date with their fair value, which is derived from the most recent sales forecast (see Note 19).

The valuation of **liabilities for management interest in subsidiaries** and similar participation rights is based on assumptions about the service life for the respective managers with the company and the expected profitability of the subsidiaries as well. The Company considers the proportion of the yearly profit as representative for the effective interest expense in the period payable to the managers (see Note 19).

## NOTE 5

### Trade accounts receivable

An analysis of trade receivables as of 31 December shows the following situation:

| in TEUR | Carrying value | Not past-due and not impaired | Past-due, not impaired | | | | |
|---|---|---|---|---|---|---|---|
| | | | ≤ 30 days | 31-60 days | 61-90 days | 91-120 days | > 120 days |
| 2012 | 71,854 | 43,081 | 16,198 | 5,704 | 2,340 | 2,201 | 2,238 |
| 2011 | 72,973 | 45,857 | 14,974 | 6,046 | 2,656 | 2,585 | 830 |

The book value of impaired balances amounted to TEUR 92 (2011: TEUR 25).

The allowance account reflects the following:

| in TEUR | 2012 | 2011 |
|---|---|---|
| As of 1 January | 2,399 | 810 |
| Exchange differences | -48 | 136 |
| Usage | -208 | 0 |
| Reversal | -654 | -263 |
| Expensed additions | 960 | 1,716 |
| **As of 31 December** | **2,449** | **2,399** |

The receivables listed are not secured.

# NOTE 6

## Other accounts receivable and prepaid expenses

This position mainly consists of balances due from tax authorities and deferred charges as well.

The receivables are not secured, no allowances were recorded.

# NOTE 7

## Inventories

Inventories are detailed by major classification as follows:

| in TEUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Raw materials | 12,292 | 11,085 |
| Work in progress | 74,899 | 63,464 |
| Finished goods | 70,353 | 64,349 |
| Prepayments | 429 | 189 |
| **Total** | **157,973** | **139,087** |

Allowance expenses booked for 2012 were TEUR 4,361 (2011: TEUR 4,785).

# NOTE 8

## Property, plant & equipment

The following is a summary of the gross carrying amounts and the accumulated depreciation of the property, plant and equipment held:

| Year 2012 in TEUR | Land & buildings | Plant & machinery | Fixtures, furniture & equipment | Prepayments & assets under construction | Total |
|---|---|---|---|---|---|
| **At cost** | | | | | |
| 1 January 2012 | 64,107 | 247,973 | 11,557 | 7,845 | 331,482 |
| Exchange differences | -444 | -2,003 | -52 | 61 | -2,438 |
| Business combinations | 8 | 335 | 26 | 0 | 369 |
| Additions | 3,359 | 28,141 | 1,473 | 20,091 | 53,064 |
| Transfers | 2,086 | 15,606 | 3 | -17,711 | -16 |
| Disposals | -7 | -9,466 | -432 | 0 | -9,905 |
| 31 December 2012 | 69,109 | 280,586 | 12,575 | 10,286 | 372,556 |
| **Accumulated depreciation & impairments** | | | | | |
| 1 January 2012 | 15,086 | 160,441 | 8,448 | 0 | 183,975 |
| Exchange differences | -80 | -1,089 | -22 | 0 | -1,191 |
| Business combinations | 5 | 100 | 10 | 0 | 115 |
| Additions depreciation | 2,319 | 26,713 | 1,371 | 0 | 30,403 |
| Transfers | 0 | 2 | -5 | 0 | -3 |
| Disposals | -7 | -5,794 | -404 | 0 | -6,205 |
| 31 December 2012 | 17,323 | 180,373 | 9,398 | 0 | 207,094 |
| **Carrying value** | | | | | |
| 31 December 2012 | 51,786 | 100,213 | 3,177 | 10,286 | 165,462 |
| 31 December 2011 | 49,021 | 87,532 | 3,109 | 7,845 | 147,507 |

| Year 2011<br>in TEUR | Land & buildings | Plant & machinery | Fixtures, furniture & equipment | Prepayments & assets under construction | Total |
|---|---|---|---|---|---|
| **At cost** | | | | | |
| 1 January 2011 | 59,348 | 225,377 | 10,345 | 5,201 | 300,271 |
| Exchange differences | 1,542 | 4,803 | 208 | 313 | 6,866 |
| Additions | 2,274 | 23,679 | 1,316 | 9,535 | 36,804 |
| Transfers | 1,053 | 5,504 | 56 | -6,679 | -66 |
| Disposals | -110 | -11,390 | -368 | -525 | -12,393 |
| 31 December 2011 | 64,107 | 247,973 | 11,557 | 7,845 | 331,482 |
| **Accumulated depreciation & impairments** | | | | | |
| 1 January 2011 | 12,995 | 141,273 | 7,246 | 0 | 161,514 |
| Exchange differences | 338 | 2,796 | 159 | 0 | 3,293 |
| Additions depreciation | 1,808 | 25,637 | 1,400 | 0 | 28,845 |
| Disposals | -55 | -9,015 | -357 | 0 | -9,427 |
| Appreciations | 0 | -250 | 0 | 0 | -250 |
| 31 December 2011 | 15,086 | 160,441 | 8,448 | 0 | 183,975 |
| **Carrying value** | | | | | |
| 31 December 2011 | 49,021 | 87,532 | 3,109 | 7,845 | 147,507 |
| 31 December 2010 | 46,353 | 84,104 | 3,099 | 5,201 | 138,757 |

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

Service and maintenance as well as marketing outlets are maintained in the USA, Canada, the UK, Singapore, the UAE, Russia and Brazil.

No impairments were made, neither in 2012 nor in 2011.

In 2012 write-ups were made in the amount of TEUR 0 (2011: TEUR 250).

As of 31 December 2012 commitments for capital expenditure amounted to TEUR 12,881 (2011: TEUR 9,789).

### Finance Lease

Plant and machinery held under finance lease are as follows:

| in TEUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Acquisition cost | 1,228 | 2,381 |
| Accumulated depreciation | -811 | -1,162 |
| **Carrying value** | **417** | **1,219** |

The following minimum lease payments arise from the utilization of such assets:

| in TEUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| For the following year | 192 | 379 |
| Between one and five years | 85 | 274 |
| More than five years | 0 | 0 |
| Total minimum lease payments | 277 | 653 |
| Less discount | -5 | -18 |
| **Present value** | **272** | **635** |

### Operating lease

Commitments arising from lease and rental contracts (for items not shown in the balance sheet) amounted to:

| in TEUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| For the following year | 1,299 | 1,155 |
| Between one and five years | 2,582 | 3,242 |
| After five years | 160 | 121 |

Payments for operating leases which were expensed in the current year amounted to TEUR 1,299 (2011: TEUR 1,260).

# NOTE 9

## Intangible Assets

The list below summarizes the gross carrying amounts and the accumulated amortization of intangible assets:

| Year 2012<br>in TEUR | Goodwill | Other intangibles | Total |
|---|---|---|---|
| **At cost** | | | |
| 1 January 2012 | 83,021 | 60,793 | 143,814 |
| Exchange differences | -1,066 | -578 | -1,644 |
| Business combinations | 7,685 | 22,147 | 29,832 |
| Additions | 0 | 174 | 174 |
| Transfers | 0 | 16 | 16 |
| Disposals | 0 | -3 | -3 |
| 31 December 2012 | 89,640 | 82,549 | 172,189 |
| **Accumulated amortization & impairments** | | | |
| 1 January 2012 | 24,287 | 12,336 | 36,623 |
| Exchange differences | -207 | -85 | -292 |
| Additions amortization | 0 | 7,026 | 7,026 |
| Additions impairments | 0 | 2,181 | 2,181 |
| Transfers | 0 | 3 | 3 |
| Disposals | 0 | -3 | -3 |
| 31 December 2012 | 24,080 | 21,458 | 45,538 |
| **Carrying value** | | | |
| 31 December 2012 | 65,560 | 61,091 | 126,651 |
| 31 December 2011 | 58,734 | 48,457 | 107,191 |

| Year 2011<br>in TEUR | Goodwill | Other intangibles | Total |
|---|---|---|---|
| **At cost** | | | |
| 1 January 2011 | 80,757 | 58,704 | 139,461 |
| Exchange differences | 2,264 | 1,852 | 4,116 |
| Additions | 0 | 228 | 228 |
| Transfers | 0 | 66 | 66 |
| Disposals | 0 | -57 | -57 |
| 31 December 2011 | 83,021 | 60,793 | 143,814 |
| **Accumulated amortization & impairments** | | | |
| 1 January 2011 | 23,668 | 5,943 | 29,611 |
| Exchange differences | 619 | 529 | 1,148 |
| Additions amortization | 0 | 5,921 | 5,921 |
| Disposals | 0 | -57 | -57 |
| 31 December 2011 | 24,287 | 12,336 | 36,623 |
| **Carrying value** | | | |
| 31 December 2011 | 58,734 | 48,457 | 107,191 |
| 31 December 2010 | 57,089 | 52,761 | 109,850 |

As of 31 December 2012, commitments for acquisitions of intangible assets amounted to TEUR 0 (2011: TEUR 0).

### 1. Goodwill

The impairment test for the cash generating units was computed by using their value in use, which is based on the estimated future cash flows and a 11.2 % - 14.9 % (2011: 11.0 % - 14.7 %) capital cost rate before taxes (WACC = Weighted Average Costs of Capital). The WACC was determined based on the current figures for similar companies in the same industry segment and adjusted for specific inflation rates in different countries. A detailed planning period of 3 years is used, which is derived from the budgets of the management. For the terminal period, a fixed growth rate of 1 % was assumed.

The calculation of the cash flow is based on revenue expectations and planned capital expenditures. The value in use of the cash generating unit is largely determined by sales revenues. Sales plans are based on the demand forecasts of our main customers on the one hand and on the current backlog of orders on the other hand. Organic sales growth has been taken into account in the cash flow estimation.

The impairment tests carried out as of 31 December 2012 and 2011 demonstrated that no write-down of goodwill was necessary. For all cash generating units no impairment was necessary, as demonstrated by a sensitivity analysis, assuming any realistic changes in cash flows or capital costs, except for Techman Engineering Limited.

For the cash generating unit Techman Engineering Limited a slight increase of the discount rate or a decrease of the expected cash flows would lead to a write-down of the related goodwill.

The goodwill set out in the balance sheet is attributable to the following cash generating units:

| in TEUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Drilling Systems International Limited | 19.009 | 19.374 |
| Knust-SBO L. L. C. | 14.454 | 14.739 |
| Godwin-SBO L. L. C. | 12.925 | 13.169 |
| Schoeller-Bleckmann Oilfield Technology GmbH | 4.655 | 4.655 |
| Schoeller-Bleckmann Oilfield Equipment (UK) Limited | 3.675 | 3.675 |
| Techman Engineering Limited | 1.590 | 1.546 |
| BICO Drilling Tools Inc. | 1.425 | 1.435 |
| BICO Faster Drilling Tools Inc. | 142 | 141 |
| Goodwill not yet assigned to cash generating units | 7.685 | 0 |
| **Total** | **65.560** | **58.734** |

Changes in the carrying amounts 2012 were exclusively due to the conversion of foreign exchange amounts.

### 2. Other intangible assets

As part of the initial accounting of the business combinations, TEUR 18,320 for acquired technology was capitalized in 2012. The technology can be used for a maximum period of 7 years since acquisition date. Also, non-compete-agreements with a duration of 5 years in the amount of TEUR 3,827 were capitalized in 2012 (see Note 36).

In 2012 an impairment of TEUR 2,181 was booked under other operating expenses (research and development expenses) relating to technology in the segment Europe. This impairment was the result of the current technological development in the respective market.

The recoverable amount is the result of the fair value less costs to sell and is determined by discounting the expected future cash flows resulting from the technology over the remaining service life.

Other intangible assets comprise right-of-use for IT software.

In 2011 no significant additions or disposals were made.

# NOTE 10

## Long-term receivables

This line item mainly refers to interest-bearing loans which have been granted to the management of subsidiaries of the Company for the acquisition of stock or participation rights in their respective companies (also see Note 19). As the stock has to be returned in the event of non-compliance with the loan agreements, there is no credit risk for the Group worth mentioning.

| in TEUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Loans | 17,530 | 13,604 |
| Other receivables | 206 | 204 |
| **Total** | **17,736** | **13,808** |

As there were no past-due receivables, no write-downs had to be made either as of 31 December 2012 or 31 December 2011. The other receivables are not secured.

# NOTE 11

## Deferred taxes

The Company's deferred tax assets and deferred tax payables result from the following positions:

| in TEUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Fixed assets (different valuation) | -16,507 | -13,446 |
| Fixed assets (different useful lives) | -6,686 | -5,601 |
| Inventory (different valuation) | 8,845 | 5,867 |
| Other items (different valuation) | 1,296 | 3,538 |
| Not deductible accruals | 2,195 | 1,880 |
| Exchange differences intercompany debt elimination | -1,221 | -2,523 |
| Tax loss carry forward | 1,485 | 1,941 |
| **Total** | **-10,593** | **-8,344** |

The line items as reflected in the group balance sheet:

| in TEUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Deferred tax assets | 12,356 | 9,723 |
| Deferred tax liabilities | -22,949 | -18,067 |
| **Total** | **-10,593** | **-8,344** |

Not recognized are deferred tax assets in the amount of TEUR 232 (2011: TEUR 267) related to tax losses carried forward, because the utilization of these losses could not be expected in the foreseeable future (TEUR 140 must be utilized until 2014, the balance has indefinite duration).

## NOTE 12

### Bank Loans and Overdrafts

As of 31 December 2012, the short-term loan arrangements were as follows:

| Currency | Amount in TEUR | Interest rate in % |
|---|---|---|
| USD loans | 9,095 | 1.10 % variable |
| GBP loans | 6,126 | 1.36 % variable |
| Subtotal | 15,221 | |
| Export promotion loans (EUR) | 16,234 | 0.78 % variable |
| **Total** | **31,455** | |

As of 31 December 2011, the short-term loan arrangements were as follows:

| Currency | Amount in TEUR | Interest rate in % |
|---|---|---|
| USD loans | 9,274 | 1.01 % variable |
| GBP loans | 3,591 | 2.52 % variable |
| Subtotal | 12,865 | |
| Export promotion loans (EUR) | 16,234 | 1.63 - 2.00 % variable |
| **Total** | **29,099** | |

The **export promotion loans** represent revolving short-term credit facilities; according to those arrangements the Company may use these funds permanently as long as it complies with the terms of agreement. In accordance with export promotion guidelines, the Company has agreed to assign receivables in the amount of TEUR 19,480 (2011: TEUR 18,754) to securitize these loans.

The **USD borrowings** due to banks in the amount of TEUR 9,095 (2011: TEUR 9,274) are collateralized by specific current assets of the borrowing company ("floating charge").

## NOTE 13

### Government grants

The subsidies include a grant by the Federal Investment and Technology Fund, as well as other investment subsidies received for the acquisition of fixed assets, and investments in research and development. For some investment grants specific covenants have to be met (e. g. number of workers employed), as was the case at the balance sheet dates 2012 and 2011.

## NOTE 14

### Other payables

Other short-term payables were as follows:

| in TEUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Vacation not yet used | 1,867 | 1,657 |
| Other personnel expenses | 12,025 | 9,741 |
| Legal and other counseling fees | 644 | 586 |
| Taxes | 2,350 | 2,162 |
| Social expenses | 1,435 | 1,527 |
| Option commitment relating to cancelable non-controlling interests | 6,054 | 0 |
| Earn-outs from business combinations | 1,291 | 392 |
| Sundry payables | 4,739 | 6,026 |
| **Total** | **30,405** | **22,091** |

The accruals for invoices not yet received in the amount of TEUR 3,766 (2011: TEUR 3,514) were reclassified from other payables to account payable trade. The balance sheet 2011 was adjusted accordingly.

In connection with a business combination in 2012, the Company offered to the non-controlling shareholders the right to sell their remaining interest to the Company at any time, whereas the Company is obliged to purchase the offered shares. The purchase price for these shares is based on the achieved financial results of the acquired entity.

As at 31 December 2012 an option commitment relating to cancelable non-controlling interests in the amount of TEUR 6,054 was recognized.

With respect to earn-outs relating to cancelable non-controlling interests please see Note 19.

## NOTE 15

### Other provisions

The following development was recorded:

| Year 2012<br>in TEUR | 31. Dec. 2011 | Usage | Reversal | Additions | 31. Dec. 2012 |
|---|---|---|---|---|---|
| Warranty/product liability | 4,172 | -441 | 0 | 585 | 4,316 |
| Restructuring | 575 | 0 | 0 | 0 | 575 |
| Other | 1,478 | -59 | -102 | 565 | 1,882 |
| **Total** | **6,225** | **-500** | **-102** | **1,150** | **6,773** |

| Year 2011<br>in TEUR | 31. Dec. 2010 | Usage | Reversal | Additions | 31. Dec. 2011 |
|---|---|---|---|---|---|
| Warranty/product liability | 3,798 | -560 | 0 | 934 | 4,172 |
| Restructuring | 575 | 0 | 0 | 0 | 575 |
| Other | 1,530 | 0 | -210 | 158 | 1,478 |
| **Total** | **5,903** | **-560** | **-210** | **1,092** | **6,225** |

Important items in the line „other provisions“ refer to pending proceedings and governmental instructions.

It is expected that the costs accounted for in short-term provisions will be incurred in the following business year.

## NOTE 16

### Bonds

In June 2008, two bonds with a total face value of MEUR 20.0 each were issued, in the form of 800 equally ranking bearer debentures with a par value of EUR 50,000 each.

The debentures were 100 % securitized by two changeable collective certificates which were deposited with Oesterreichische Kontrollbank Aktiengesellschaft in Vienna on the day of issuance. Individual debentures or coupons have not been issued.

The annual interest rates on the debentures until maturity are 5.75 % (on bond 2008-2013) and 5.875 % (on bond 2008-2015), related to their par values. The interest is payable in arrears, on 18 June of each year. The redemption will be in the amount of the par value, i. e., MEUR 20.0 each, on 18 June 2013 and 18 June 2015.

The bonds are traded in the third market at the Vienna Stock Exchange under ISIN Nos. AT0000A09U32 and AT0000A09U24.

# NOTE 17

## Long-term loans including current portion (amortization in following year)

As of 31 December 2012, long-term borrowings consist of the following:

| Currency | Amount in TEUR | Interest rate in % | Term | Repayment |
|---|---|---|---|---|
| EUR | 2,977 | 0.00 % fixed | 2008 – 2024 | quarterly from 2011 |
| EUR | 8,000 | 3.10 % fixed | 2010 – 2018 | 2018 |
| EUR | 30,000 | 3.05 % fixed | 2010 – 2018 | semi-annually from 2012 |
| EUR | 2,285 | 0.00 % fixed | 2011 – 2017 | quarterly from 2012 |
| EUR | 5,000 | 2.40 % fixed | 2012 – 2017 | 2017 |
| EUR | 10,000 | 2.31 % fixed | 2012 – 2017 | 2017 |
| EUR | 15,000 | 2.40 % fixed | 2012 – 2017 | 2017 |
| EUR | 2,917 | 4.73 % fixed | 2009 – 2016 | semi-annually from 2010 |
| EUR | 5,000 | 5.25 % fixed | 2009 – 2016 | 2016 |
| EUR | 1,177 | 3.99 % fixed | 2006 – 2015 | semi-annually |
| EUR | 2,503 | 0.00 % fixed | 2008 – 2015 | quarterly from 2011 |
| EUR | 3,257 | 2.25 % fixed | 2009 – 2015 | semi-annually from 2011 |
| EUR | 6,000 | 2.55 % fixed | 2010 –2015 | annually from 2013 |
| EUR | 66 | 2.50 % fixed | 2008 – 2014 | 2014 |
| EUR | 70 | 2.00 % fixed | 2010 – 2014 | 2014 |
| EUR | 2,166 | 2.25 % fixed | 2008 – 2014 | semi-annually from 2010 |
| EUR | 1,500 | 1.40 % variable | 2010 – 2013 | annually from 2012 |
| EUR | 2,400 | 4.79 % fixed | 2008 – 2013 | semi-annually from 2010 |
| USD | 595 | 6.35 % fixed | 2003 – 2016 | monthly |
| | 100,913 | | | |

The following borrowings were collateralized:

**EUR-loans:**
TEUR 9,931 – Machinery pledged with a carrying-value of TEUR 10,685.

**USD-loans:**
TEUR 595 – Mortgage on land and building with a carrying-value of TEUR 1,449.

As of 31 December 2011, long-term borrowings consist of the following:

| Currency | Amount in TEUR | Interest rate in % | Term | Repayment |
|---|---|---|---|---|
| EUR | 3,242 | 0.00 % fixed | 2008 – 2024 | quarterly |
| EUR | 32,000 | 3.05 % fixed | 2010 – 2018 | semi-annually from 2012 |
| EUR | 8,000 | 3.10 % fixed | 2010 – 2018 | 2018 |
| EUR | 2,404 | 0.00 % fixed | 2011 – 2017 | quarterly from 2012 |
| EUR | 5,000 | 5.25 % fixed | 2009 – 2016 | 2016 |
| EUR | 3,750 | 4.73 % fixed | 2009 – 2016 | semi-annually |
| EUR | 6,000 | 2.55 % fixed | 2010 – 2015 | annually from 2013 |
| EUR | 4,560 | 1.75 % fixed | 2009 – 2015 | semi-annually |
| EUR | 3,274 | 0.00 % fixed | 2008 – 2015 | quarterly |
| EUR | 1,648 | 3.99 % fixed | 2006 – 2015 | semi-annually |
| EUR | 3,610 | 2.25 % fixed | 2008 – 2014 | semi-annually |
| EUR | 70 | 2.00 % fixed | 2010 – 2014 | 2014 |
| EUR | 66 | 2.50 % fixed | 2008 – 2014 | 2014 |
| EUR | 4,800 | 4.79 % fixed | 2008 – 2013 | semi-annually |
| EUR | 4,000 | 2.65 % variable | 2010 – 2013 | annually from 2012 |
| EUR | 3,125 | 3.22 % fixed | 2009 – 2013 | semi-annually |
| EUR | 3,000 | 2.80 % variable | 2010 – 2012 | semi-annually |
| EUR | 2,000 | 2.75 % variable | 2010 – 2012 | 2012 |
| EUR | 938 | 1.50 % fixed | 2006 – 2012 | semi-annually |
| GBP | 2,057 | 2.00 % variable | 2007 – 2022 | monthly |
| USD | 739 | 6.35 % fixed | 2003 – 2016 | monthly |
| | 94,283 | | | |

The following borrowings were collateralized:

**EUR-loans:**
TEUR 13,469 – Machinery pledged with a carrying-value of TEUR 13,642.

**USD-loans:**
TEUR 739 – Mortgage on land and building with a carrying-value of TEUR 1,520.

**GBP-loans:**
TEUR 2,057 – Lien on property (land and building) and on other assets (“floating charge“).

Adjustments of the variable interest rates are made quarterly.
With respect to the fair value of the loans see Note 31, regarding interest rate risk and hedging see Note 32.

# NOTE 18

## Employee benefit obligations

As of the balance sheet date, the employee benefit obligations consisted of the following:

| in TEUR | 31 December 2012 | 31 December 2011 |
|---|---|---|
| Severance payments | 4,706 | 3,620 |
| Jubilee payments for long service | 1,178 | 951 |
| **Total** | **5,884** | **4,571** |

The actuarial assumptions for the provisions of severance payments were as follows:

| | 2012 | 2011 |
|---|---|---|
| Interest rate | 3.00 % | 4.50 % |
| Salary increases | 4.50 % | 4.50 % |
| Fluctuation rate (mark-down) | 0.0 – 15.0 % | 0.0 – 15.0 % |

Actuarial gains or losses are expensed in the profit and loss statement as incurred.

No contributions were made to a separately maintained fund for these obligations.

### Provisions for severance payments

The status of the accrual for severance payments has developed as follows:

| in TEUR | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Defined benefit obligation as of 1 January | 3,620 | 2,839 | 2,488 | 2,796 | 2,700 |
| Current service cost | 184 | 157 | 145 | 172 | 175 |
| Interest cost | 161 | 127 | 136 | 156 | 133 |
| Current severance payments | -165 | -12 | -237 | -230 | -194 |
| Actuarial gain/loss during the year | 906 | 509 | 307 | -406 | -18 |
| **Defined benefit obligation as of 31 December** | **4,706** | **3,620** | **2,839** | **2,488** | **2,796** |
| Of which: Experience based adjustments | 203 | 509 | -6 | -406 | -25 |

Current service costs, interest costs and actuarial gains/losses are exclusively booked under Income from operations (personnel expenses).

### Pension plans (defined contributions)

Payments made under the defined contribution plans (pensions and other providence funds) were expensed and amounted to TEUR 775 in 2012 (2011: TEUR 854).

## NOTE 19

### Other payables

Other payables include earn-outs from business combinations in the amount of TEUR 12,431, thereof short-term TEUR 1,291 (2011: TEUR 7,275, thereof TEUR 392 short-term). The short-term portion was reclassified for the disclosure in the 2011 balance sheet. The contingent purchase price payments determined as a certain percentage of achieved sales (to a certain extent when sales are exceeding a contractually agreed upon amount) are due within the next 3-7 years.

The liabilities for contingent purchase price payments were adjusted through profit and loss in 2012: increases are recorded as other financial expenses of TEUR -2,518 (2011: TEUR -1,909), decreases are recorded as other financial income of TEUR +252 (2011: TEUR 0). These adjustments were derived from the discounted payments based on the most recent sales forecast.

For the settlement of contingent purchase price payments in 2012 the payments exceeded by TEUR 88 the accrued amount in the previous balance sheet. Differences from settlements are recorded under other financial income or expenses, respectively the addition of accrued interest related to liabilities for contingent purchase price payments in the amount of TEUR 275 (2011: TEUR 213) is booked under interest expense.

Also the interest in subsidiaries, which are held by the respective management are included: TEUR 22,572 (2011: TEUR 18,655).

The management of the following (fully consolidated) subsidiaries had the following interest in their respective companies:

| Company | 31 December 2012 | 31 December 2011 |
|---|---|---|
| BICO Drilling Tools Inc. | 15.00 % | 15.00 % |
| BICO Faster Drilling Tools Inc. | 15.00 % | 15.00 % |
| Schoeller-Bleckmann Energy Services L. L. C. | 12.20 % | 12.20 % |
| Schoeller-Bleckmann Darron Limited | 9.85 % | 7.35 % |
| Schoeller-Bleckmann Darron (Aberdeen) Limited | 7.35 % | 0 % |
| Knust-SBO L. L. C. | 5.40 % | 5.40 % |
| Godwin-SBO L. L. C. | 3.40 % | 3.40 % |
| Schoeller-Bleckmann de Mexico S. A. de C. V. | 3.00 % | 0 % |
| Darron Tool & Engineering Limited | 1.05 % | 6.58 % |

Accordingly, the management holds pro-rated shares in these companies.

Liabilities in the amount of TEUR 3,810 are recorded for participation rights (2011: TEUR 3,810).

The effective interest expense recorded for management interest and participation rights in 2012 amounted to TEUR 3,508 (2011: TEUR 4,199), which is recorded under other financial expense.

Other significant payables are related to a non compete agreement and an interest-swap transaction.

## NOTE 20

### Share capital

The share capital of the Company on 31 December 2012 as well as on 31 December 2011 was EUR 16 million; divided into 16 million common shares with a par value of EUR 1.00 each.

The Ordinary Shareholders' Meeting on 25 April 2012 authorized the Management Board for a period of 30 months to buy back own shares of the Company up to a maximum of 10 % of the share capital, the redemption price has to be EUR 1.00 at least and EUR 300.00 at the most. In 2012 no usage of this authorization was made.

As of 31 December 2012, the Company holds (unchanged to 2011) 39,884 of its own shares at acquisition costs of TEUR 1,554, equaling a 0.25 % share in its capital stock. There are 15,960,116 shares in circulation.

In connection with the business combination with EXOKO COMPOSITES COMPANY LLC. in 2010, a conditional earn-out in the form of 50,000 shares of the Company would become due, if future sales levels are achieved as agreed. Since the sales target was not met in 2012, no dilution in the number of shares in circulation was effected at 31 December 2012.

As of 31 December 2012, approximately 31 % of the share capital is held by Berndorf Industrieholding AG, Berndorf.

# NOTE 21

## Legal reserve – non-distributable

Austrian law requires the establishment of a legal reserve in the amount of one tenth of the nominal value of the Company's share capital. As long as the legal reserve and other restricted capital reserves have not reached such an amount, the Company is required to allocate five percent of its annual net profit (net of amounts allocated to make up losses carried forward from prior years, after changes in untaxed reserves have been taken into consideration) to such reserves. For the formation of such reserves, only the annual financial statements of the parent company are relevant, which are prepared in accordance with Austrian Accounting Principles. No further allocation is required because of the contributions already made.

# NOTE 22

## Other reserves

The other reserves as shown in the balance sheet result from accelerated depreciation on specific, non-current assets for which a tax break is available. These reserves are untaxed profit allocations.

# NOTE 23

## Non-controlling interests

The amount in the balance sheet represents the portion of the equity which is held by non-controlling interests by the following companies:

| | 2012 | 2011 |
|---|---|---|
| BICO-DSI Investment GmbH | 10 % | 10 % |
| DSI FZE | 10 % | 10 % |

# NOTE 24

## Additional breakdown of revenues

Net sales consist of:

| in TEUR | 2012 | 2011 |
|---|---|---|
| Sale of goods | 416,120 | 325,878 |
| Operating lease revenue | 96,026 | 82,771 |
| **Total net sales** | **512,146** | **408,649** |

The Company leases drilling machinery under operating leases with terms of less than a year. The respective leasing fees are charged to customers according to the duration of use.

# NOTE 25

## Additional breakdown of expenses

As the Company classifies its expenses by function, the following additional information is given as required by IAS 1 (accounted for by using the "total cost accounting method"):

| in TEUR | 2012 | 2011 |
|---|---|---|
| Material expenses | 229,109 | 192,724 |
| Personnel expenses | 105,534 | 85,732 |
| Depreciation tangible assets | 30,403 | 28,845 |
| Amortization other intangibles | 7,026 | 5,921 |

# NOTE 26

## Other operating income and expenses

The main contents in the position **other operating expenses** are:

| in TEUR | 2012 | 2011 |
|---|---|---|
| Exchange losses | 11,491 | 9,797 |
| Research and development expenses | 5,909 | 2,445 |

So far, development costs were not capitalized due to the uncertainties of the future economic benefits attributable to them.

The main contents in the position **other operating income** are:

| in TEUR | 2012 | 2011 |
|---|---|---|
| Exchange gains | 12,218 | 9,696 |
| Other income | 3,125 | 2,151 |

# NOTE 27

## Income taxes

A **reconciliation of income taxes** applying the Austrian statutory tax rate to income taxes stated for the Group is as follows:

| in TEUR | 2012 | 2011 |
|---|---|---|
| Income tax expense at a calculated tax rate of 25 % | -27,534 | -19,552 |
| Foreign tax rate differentials | -3,657 | -3,406 |
| Not deductable expenses | -620 | -1,568 |
| Income exempt from tax and tax incentives | 1,509 | 643 |
| Withholding and other foreign taxes | -1,709 | -1,971 |
| Prior year adjustments | -110 | 698 |
| Other differences | -1,771 | 381 |
| **Consolidated income tax expense** | **-33,892** | **-24,775** |
| Profit before tax | 110,136 | 78,207 |
| Profit allocation to management participations | 3,508 | 4,199 |
| | **113,644** | **82,406** |
| Consolidated income tax expense | -33,892 | -24,775 |
| Consolidated tax rate | 29.8 % | 30.1% |

The **components of income taxes** were as follows:

| in TEUR | 2012 | 2011 |
|---|---|---|
| Current taxes | -35,169 | -23,154 |
| Deferred taxes | 1,277 | -1,621 |
| **Total** | **-33,892** | **-24,775** |

**Deferred taxes** mainly result from the formation and reversal of temporary differences, and the capitalization of current tax losses as well.

The following income taxes were booked in “other comprehensive income”:

| in TEUR | 2012 | 2011 |
|---|---|---|
| **Current taxes** | | |
| Exchange rate differences | -144 | -81 |
| **Deferred taxes** | | |
| Exchange rate differences | 205 | -76 |
| **Total** | **61** | **-157** |

From the utilization of tax loss carry forwards the effective taxes in 2012 were reduced by TEUR 235 (2011: TEUR 151).

The payment of dividends to the shareholders will not result in any implications on income taxes for the business year 2012 and the comparative period of 2011 for the Company.

## NOTE 28

### Segment reporting

The Company operates worldwide mainly in one industry segment, the designing and manufacturing of drilling equipment for the oil and gas industry.

For management purposes, the Group is organized into regions. Accordingly, the segment reporting is made by regions, the allocation of the business units is based on the location of the business units.

No operating segments have been aggregated to form the reportable operating segments. Management monitors revenues and operating results of the business units separately for the purpose of making decisions about resource allocation.

As the figures stated represent a summary of the single balance sheets and income statements of the consolidated companies, holding adjustments and consolidation entries (elimination of intercompany profits and other group transactions) have to be taken into account, in order to arrive at the reported group numbers.
Intersegment sales are carried out in accordance with the "at arm's length" principle.

As shown in the following schedule, the Company's operations are concentrated in North America and Europe:

| Year 2012 in TEUR | Europe | North America | Other regions | SBO-Holding & consolidation adjustments | SBO Group |
|---|---|---|---|---|---|
| **Sales by origin** | | | | | |
| External sales | 138,914 | 320,972 | 52,260 | 0 | 512,146 |
| Intercompany sales | 123,799 | 22,730 | 4,080 | -150,609 | 0 |
| Total sales | 262,713 | 343,702 | 56,340 | -150,609 | 512,146 |
| Operating income | 64,208 | 56,768 | 6,986 | -7,696 | 120,266 |
| Attributable assets | 193,268 | 315,018 | 102,126 | 88,026 | 698,438 |
| Attributable liabilities | 98,777 | 105,566 | 35,779 | 95,186 | 335,308 |
| Capital expenditure | 16,702 | 26,554 | 8,244 | 1,738 | 53,238 |
| Depreciation & amortization | 11,316 | 18,306 | 7,327 | 2,661 | 39,610 |
| Thereof impairments | 2,181 | 0 | 0 | 0 | 2,181 |
| Head count (average) | 693 | 656 | 189 | 21 | 1,559 |

| Year 2011 in TEUR | Europe | North America | Other regions | SBO-Holding & consolidation adjustments | SBO Group |
|---|---|---|---|---|---|
| **Sales by origin** | | | | | |
| External sales | 69,269 | 298,512 | 40,868 | 0 | 408,649 |
| Intercompany sales | 128,451 | 21,874 | 1,216 | -151,541 | 0 |
| Total sales | 197,720 | 320,386 | 42,084 | -151,541 | 408,649 |
| Operating income | 38,097 | 52,077 | 4,228 | -4,203 | 90,199 |
| Attributable assets | 166,399 | 312,483 | 100,373 | 40,792 | 620,047 |
| Attributable liabilities | 96,093 | 125,852 | 28,776 | 54,554 | 305,275 |
| Capital expenditure | 5,232 | 24,603 | 6,917 | 280 | 37,032 |
| Depreciation & amortization | 11,879 | 14,291 | 5,949 | 2,647 | 34,766 |
| Head count (average) | 596 | 604 | 153 | 21 | 1,374 |

### Sales by product line:

| in TEUR | 2012 | 2011 |
|---|---|---|
| High-precision components | 283,373 | 219,003 |
| Oilfield supplies and services | 228,773 | 189,646 |
| **Total Sales** | **512,146** | **408,649** |

The following categories are used, based on the intended purpose of the goods and services.

#### 1. High-precision components

For applications in the MWD/LWD technology sector, collars and internals made of highly alloyed steel and other non-magnetic metals are required. These collars and internals are used to mount antennas, sensors, batteries, generators and other kind of electronic parts, for making measurements and analyses during the drill operation. All those components need the utmost high dimensional accuracy in intricate machining.

#### 2. Oilfield supplies and services

This group comprises the following products:

- **Non-Magnetic Drill Collars (NMDC),** steel bars which are used to prevent magnetic interference during MWD operations.
- **Drilling motors,** which drive the bit for directional drilling operations.
- **Circulation tools** steer the flow direction of drilling muds in the drill string.
- Various **other tools** for the oilfield such as stabilizers, reamers, hole openers, drilling jars and shock tools.

In addition to the manufacture of the above mentioned products, **service and repair work** is carried out. These activities focus on drillstring components which need to be inspected, checked for magnetic inclusions, rethreaded, buttwelded, resurfaced with hard metal, reground, shot peened, etc. as quickly as possible and with the highest standard in workmanship.

### Geographic information:

Sales to external customers were as follows:

| in TEUR | 2012 | 2011 |
|---|---|---|
| Austria | 3,303 | 3,531 |
| Great Britain | 40,726 | 25,887 |
| U. S. A. | 283,908 | 263,820 |
| Other countries | 184,209 | 115,411 |
| **Total Sales** | **512,146** | **408,649** |

The classification is based on the location of the customer.
For information regarding most important customers we refer to Note 32.

## NOTE 29

### Remuneration for the executive and supervisory board

The remuneration for the Executive Board in the year 2012 was as follows:

| in TEUR | fixed | variable | total |
|---|---|---|---|
| Gerald Grohmann | 444 | 608 | 1,052 |
| Franz Gritsch | 355 | 474 | 829 |
| **Total** | **799** | 1,082 | **1,881** |

The remuneration for the Supervisory Board amounted to TEUR 93 in the business year, which is a combination of a flat rate and a variable rate depending on the Group´s results (2011: TEUR 60).

No loans were granted to the members of the Executive Board or to the Supervisory Board, respectively.

## NOTE 30

### Transactions with related parties

The following transactions with related but non-consolidated companies were carried out:

**Schleinzer & Partner, attorneys-at-law:**
This law firm is the legal consultant to the Company. One of the law firm´s partners, Dr. Karl Schleinzer, is a member of the Supervisory Board. Total charges for 2012 amounted to TEUR 36 (2011: TEUR 36), thereof outstanding as of 31 December 2012 is TEUR 12 (31 December 2011: TEUR 11).

# NOTE 31

## Financial instruments

### Derivative Financial Instruments

#### 1. Forward exchange contracts

The Austrian company hedges its net receivables and order backlog denominated in US dollars and CAN dollars on an ongoing basis by entering into forward exchange contracts. All transactions have short-term durations (3 – 8 months).

| Forward exchange transactions as of 31 December 2012 | Hedged receivables in TEUR | Receivables at effective date rates in TEUR | Fair value in TEUR |
|---|---|---|---|
| USD | 33,322 | 32,580 | +742 |
| CAD | 2,295 | 2,202 | +93 |

| Forward exchange transactions as of 31 December 2011 | Hedged receivables in TEUR | Receivables at effective date rates in TEUR | Fair value in TEUR |
|---|---|---|---|
| USD | 32,498 | 33,989 | -1,491 |
| CAD | 3,762 | 3,966 | -204 |

The forward exchange transactions are measured at fair value and recognized in the profit and loss statement, since the requirements under IAS 39 for hedge accounting are not fully met.

#### 2. Interest swap

The Company entered into an interest swap until 2015. For this purpose, a variable interest rate was swapped with a fixed interest rate of 5.48 %. The fair value at 31 December 2012 amounted to TEUR -279 (31 December 2011: TEUR -411), the variance was expensed into profit and loss.

#### 3. Other derivative financial instruments

In place are liabilities for contingent purchase price payments from business combinations (see Note 19) and an option commitment relating to cancelable non-controlling interests (see Note 14).

### Overview financial instruments

The following table shows the financial instruments, classified in accordance with IAS 39 and IFRS 7:

## FINANCIAL INSTRUMENTS

**31.12.2012**
**in TEUR**

| | | Category acc. to IAS 39 | | | Classification acc. to IFRS 7: Valuation method | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Fair value | Amortized costs | | | | | |
| | | Loans and receivables | Other financial liabilities | Derivatives | Derivatives | Cash and cash equivalents | Accounts receivable trade | Lendings | Financing liabilities | Accounts payable trade | Other |
| **Current assets** | | | | | | | | | | | |
| Cash and cash equivalents | 138,260 | 138,260 | | | | 138,260 | | | | | |
| Trade accounts receivable | 71,854 | 71,854 | | | | | 71,854 | | | | |
| Income tax receivable | 1,497 | | | | | | | | | | |
| Other accounts receivable and prepaid expenses | 6,649 | | | 835 | 835 | | | | | | |
| Inventories | 157,973 | | | | | | | | | | |
| **Total current assets** | **376,233** | | | | | | | | | | |
| **Non-current assets** | | | | | | | | | | | |
| Property, plant & equipment | 165,462 | | | | | | | | | | |
| Goodwill | 65,560 | | | | | | | | | | |
| Other intangible assets | 61,091 | | | | | | | | | | |
| Long-term receivables | 17,736 | 17,530 | | | | | | 17,530 | | | |
| Deferred tax assets | 12,356 | | | | | | | | | | |
| **Total non-current assets** | **322,205** | | | | | | | | | | |
| **TOTAL ASSETS** | **698,438** | **227,644** | **0** | **835** | **835** | **138,260** | **71,854** | **17,530** | **0** | **0** | **0** |
| **Current liabilities** | | | | | | | | | | | |
| Bank loans and overdrafts | 31,455 | | 31,455 | | | | | | 31,455 | | |
| Current portion of bonds | 19,988 | | 19,988 | | | | | | 19,988 | | |
| Current portion of long-term loans | 15,606 | | 15,606 | | | | | | 15,606 | | |
| Finance lease obligations | 189 | | 189 | | | | | | 189 | | |
| Accounts payable trade | 37,819 | | 37,819 | | | | | | | 37,819 | |
| Government grants | 358 | | | | | | | | | | |
| Income taxes payable | 17,316 | | | | | | | | | | |
| Other payables | 30,405 | | 4,739 | 7,345 | 7,345 | | | | | | 4,739 |
| Other provisions | 6,773 | | | | | | | | | | |
| **Total current liabilities** | **159,909** | | | | | | | | | | |
| **Non-current liabilities** | | | | | | | | | | | |
| Bonds | 19,963 | | 19,963 | | | | | | 19,963 | | |
| Long-term loans | 85,307 | | 85,307 | | | | | | 85,307 | | |
| Finance lease obligations | 83 | | 83 | | | | | | 83 | | |
| Government grants | 744 | | | | | | | | | | |
| Retirement benefit obligations | 5,884 | | | | | | | | | | |
| Other payables | 40,469 | | 29,051 | 11,418 | 11,418 | | | | 26,382 | | 2,669 |
| Deferred tax payables | 22,949 | | | | | | | | | | |
| **Total non-current liabilities** | **175,399** | | | | | | | | | | |
| **Shareholders´ equity** | | | | | | | | | | | |
| Share capital | 15,960 | | | | | | | | | | |
| Contributed capital | 65,203 | | | | | | | | | | |
| Legal reserve - non-distributable | 785 | | | | | | | | | | |
| Other reserves | 29 | | | | | | | | | | |
| Translation component | -15,956 | | | | | | | | | | |
| Retained earnings | 295,382 | | | | | | | | | | |
| Non-controlling interests | 1,727 | | | | | | | | | | |
| **Total shareholders´ equity** | **363,130** | | | | | | | | | | |
| **TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY** | **698,438** | **0** | **244,200** | **18,763** | **18,763** | **0** | **0** | **0** | **198,973** | **37,819** | **7,408** |

## FINANCIAL INSTRUMENTS

**31.12.2011**
**in TEUR**

| | | Category acc. to IAS 39 | | | Classification acc. to IFRS 7: Valuation method | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Fair value | Amortized costs | | | | | |
| 31.12.2011 in TEUR | | Loans and receivables | Other financial liabilities | Derivatives | Derivatives | Cash and cash equivalents | Accounts receivable trade | Lendings | Financing liabilities | Accounts payable trade | Other |
| **Current assets** | | | | | | | | | | | |
| Cash and cash equivalents | 120,842 | 120,842 | | | | 120,842 | | | | | |
| Trade accounts receivable | 72,973 | 72,973 | | | | | 72,973 | | | | |
| Income tax receivable | 2,074 | | | | | | | | | | |
| Other accounts receivable and prepaid expenses | 6,842 | | | | | | | | | | |
| Inventories | 139,087 | | | | | | | | | | |
| **Total current assets** | **341,818** | | | | | | | | | | |
| **Non-current assets** | | | | | | | | | | | |
| Property, plant & equipment | 147,507 | | | | | | | | | | |
| Goodwill | 58,734 | | | | | | | | | | |
| Other intangible assets | 48,457 | | | | | | | | | | |
| Long-term receivables | 13,808 | 13,604 | | | | | | 13,604 | | | |
| Deferred tax assets | 9,723 | | | | | | | | | | |
| **Total non-current assets** | **278,229** | | | | | | | | | | |
| **TOTAL ASSETS** | **620,047** | **207,419** | **0** | **0** | **0** | **120,842** | **72,973** | **13,604** | **0** | **0** | **0** |
| **Current liabilities** | | | | | | | | | | | |
| Bank loans and overdrafts | 29,099 | | 29,099 | | | | | | 29,099 | | |
| Current portion of long-term loans | 19,751 | | 19,751 | | | | | | 19,751 | | |
| Finance lease obligations | 361 | | 361 | | | | | | 361 | | |
| Accounts payable trade | 46,944 | | 46,944 | | | | | | | 46,944 | |
| Government grants | 271 | | | | | | | | | | |
| Income taxes payable | 9,966 | | | | | | | | | | |
| Other payables | 22,091 | | 4,331 | 2,087 | 2,087 | | | | | | 4,331 |
| Other provisions | 6,225 | | | | | | | | | | |
| **Total current liabilities** | **134,708** | | | | | | | | | | |
| **Non-current liabilities** | | | | | | | | | | | |
| Bonds | 39,906 | | 39,906 | | | | | | 39,906 | | |
| Long-term loans | 74,532 | | 74,532 | | | | | | 74,532 | | |
| Finance lease obligations | 274 | | 274 | | | | | | 274 | | |
| Government grants | 556 | | | | | | | | | | |
| Retirement benefit obligations | 4,571 | | | | | | | | | | |
| Other payables | 32,661 | | 25,367 | 7,294 | 7,294 | | | | 22,465 | | 2,902 |
| Deferred tax payables | 18,067 | | | | | | | | | | |
| **Total non-current liabilities** | **170,567** | | | | | | | | | | |
| **Shareholders´ equity** | | | | | | | | | | | |
| Share capital | 15,960 | | | | | | | | | | |
| Contributed capital | 65,203 | | | | | | | | | | |
| Legal reserve - non-distributable | 785 | | | | | | | | | | |
| Other reserves | 33 | | | | | | | | | | |
| Translation component | -10,859 | | | | | | | | | | |
| Retained earnings | 242,149 | | | | | | | | | | |
| Non-controlling interests | 1,501 | | | | | | | | | | |
| **Total shareholders´ equity** | **314,772** | | | | | | | | | | |
| **TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY** | **620,047** | **0** | **240,565** | **9,381** | **9,381** | **0** | **0** | **0** | **186,388** | **46,944** | **7,233** |

## Fair value of financial instruments

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

**Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities;

**Level 2:** other techniques for which all inputs which have significant effects on the recorded fair value are observable, either directly or indirectly;

**Level 3:** Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

| in TEUR | 31 December 2012 | Level 2 | Level 3 |
|---|---|---|---|
| **Assets** | | | |
| Derivatives | 835 | 835 | 0 |
| **Liabilities** | | | |
| Derivatives | -18,763 | -279 | -18,484 |

| in TEUR | 31 December 2011 | Level 2 | Level 3 |
|---|---|---|---|
| **Liabilities** | | | |
| Derivatives | -9,381 | -2,106 | -7,275 |

During the reporting years 2012 and 2011, there were no transfers between level 1 and level 2 fair value measurements.

Derivatives shown under level 3 consist only of contingent liabilities for purchase price payments, which are disclosed in Note 19, and the option commitment relating to cancelable non-controlling interests to purchase the offered shares from the minority shareholders due to the business combinations in 2012 (see Note 14).

The development was as follows:

| in TEUR | 2012 | 2011 |
|---|---|---|
| As of 1 January | -7,275 | -4,820 |
| Additions from business combinations | -3,275 | 0 |
| Addition from option commitment relating to cancelable non-controlling interests | -6,313 | 0 |
| Addition of accrued interest | -2,379 | -213 |
| Gains/losses from the revaluation | 97 | -1,909 |
| Disposals from settlements | 449 | 0 |
| Currency adjustment | 212 | -333 |
| **As of 31 December** | **-18,484** | **-7,275** |

For each category of financial instruments which are amortized at acquisition costs, both the carrying value and the fair value are provided in the table below:

| in TEUR | 2012 | | 2011 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| **Assets** | | | | |
| Trade receivables | 71,854 | 71,854 | 72,973 | 72,973 |
| Lendings | 17,530 | 17,530 | 13,604 | 13,604 |
| **Liabilities** | | | | |
| Bonds | -39,951 | -41,000 | -39,906 | -42,100 |
| Borrowings from banks, finance lease obligations and other loans | -132,640 | -134,405 | -124,017 | -122,927 |
| Management interest and participation rights | -26,382 | -26,382 | -22,465 | -22,465 |
| Trade payables | -37,819 | -37,819 | -46,944 | -46,944 |
| Other | -7,408 | -7,408 | -7,233 | -7,233 |

Acknowledged valuation methods have been used to determine the fair values of the derivative financial instruments. For assessing the fair value of lendings, borrowings and leasing obligations, the expected cash-flows have been discounted using market interest rates. The fair value for bonds was derived from the stock exchange price.

Regarding bank and other long-term loans with variable interest, the interest rates charged are current market rates, resulting in the fact that the carrying values equal the fair values to a large extent.

Cash and cash equivalents, trade receivables and payables and all other items have mostly short residual lives. Therefore, the carrying values equal the fair values at the balance sheet date.

## Net result from financial instruments

The following table shows the net result by classification, according to IAS 39:

| Year 2012 in TEUR | Allowance | Revaluation | | Deletion/Disposal | | Net result |
|---|---|---|---|---|---|---|
| | | P/L | OCI(*) | P/L | OCI(*) | |
| Loans and receivables | -671 | - | - | - | - | -671 |
| Derivatives | - | +380 | - | - | - | +380 |

| Year 2011 in TEUR | Allowance | Revaluation | | Deletion/Disposal | | Net result |
|---|---|---|---|---|---|---|
| | | P/L | OCI(*) | P/L | OCI(*) | |
| Loans and receivables | -1,476 | - | - | - | - | -1,476 |
| Derivatives | - | -3,321 | - | - | - | -3,321 |

(*) OCI = other comprehensive income

# NOTE 32

## Risk management

The operations of the Company are exposed to a great number of risks that are inextricably linked to its worldwide business activities. Efficient steering and control systems are being used to detect, analyze, and cope with these risks, with the help of which the management of each company monitors the operating risks and reports them to the group management board.

From a current point of view, no risks are discernible that may pose a threat to the survival of the Company.

### General economic risks

The business situation of Schoeller-Bleckmann Oilfield Equipment highly depends on cycles, in particular on the cyclical development of oil and gas drilling activities performed by the international oil companies. In order to minimize the risks of pertinent order fluctuations, the manufacturing companies of the Group have been designed to ensure maximum flexibility.

### Sales and procurement risks

The market for products and services of the Company is to a great extent determined by continuous development and the application of new technologies. Therefore, securing and maintaining the Company’s customer stock depends on the ability to offer new products and services tailored to the customers’ needs.

In the year 2012, the three biggest customers (which are the worldwide dominant service companies in the directional drilling market) accounted for 61.6 % of all sales worldwide (2011: 59.5 %). SBO addresses the risk of potential sales declines following the loss of a customer by means of continuous innovation, quality assurance measures and close customer relationship management.

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

The Company procures non-magnetic steel, its most essential raw material, almost exclusively from one supplier and therefore faces the risk of delayed deliveries, capacity shortages or business interruptions. From today´s perspective, the Company foresees no difficulty in obtaining quality steel from this supplier in future. In the event this supplier falls short of deliveries, there is only limited potential of substitution in the short-term.

### Substitution risks

SBO is subject to the risk of substitution of its products and technologies, which may result in the emergence of new competitors. SBO counteracts that risk through continuous market observation, intensive customer relationship management and proprietary innovations.

### Financial risks

As a direct result of its business operations, the Company on the one hand holds various financial assets, such as trade receivables as well as cash and cash equivalents. On the other hand, it also uses financial instruments to ensure the continuity of its operations, such as bonds, payables due to banks and trade payables.

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

The financial instruments principally entail interest-related cash-flow 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 cash-flows caused by foreign exchange fluctuations.

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

From a long-term perspective, SBO invoices around 80 % of its sales volume in US dollars. This is due to its customer structure. All dominating service companies on the directional drilling market are located in the US, handling their worldwide activities in US dollars. Also from a long-term perspective, approximately 50 % of the costs are incurred in US dollars, with important production facilities being located both in the US and Europe. In order to minimize the currency exposure involved, orders are hedged between the times of order acceptance and invoicing. However, for reasons of costs and expedience, SBO does not hedge its entire net dollar exposure. In any case, the profit generated by SBO is contingent on the dollar-euro exchange rates.

The Company also faces currency translation risks when sales revenues, operating results and balance sheets of foreign subsidiaries are converted into the group currency. The respective values depend on the exchange rate in force at the respective date. The US is not only the main market for the Group but also the base of important production facilities with significant investments. Therefore, changes in the US dollar rate have a strong impact on the group balance sheet, which SBO addresses by taking out US dollar loans.

The table below shows the implications of a potential change in the US dollar exchange rate on the consolidated financial statements only in respect of the value of the derivative instruments in place at balance sheet date:

| in TEUR<br>Changes in EURO – US dollar rate | 2012 | | 2011 | |
|---|---|---|---|---|
| | +10 cents | -10 cents | +10 cents | -10 cents |
| Change in profit before taxes | +2,582 | -2,582 | +2,626 | -2,626 |

## Interest rate risks

Interest rate risks result from fluctuations in interest rates on the market; these fluctuations may lead to changes in value of financial instruments and interest-related cash-flows.

The majority of the long-term borrowings (approximately 98 %) have fixed interest rates; therefore they are without any interest rate risk. However, the fair value of these credit facilities is subject to fluctuations. The interest rates for all loans are disclosed in Note 17. With the exception of bonds, loans and finance-lease obligations, no other liabilities are interest bearing and therefore not subject to any interest rate risk.

The interest rate risk is further reduced by short-term interest-bearing investments which the Company holds on a permanent basis. Depending on whether there is a credit or debit balance, the interest risk may result from increasing or decreasing interest rates.

The table below shows the reasonably foreseeable implications of a potential change in interest rates on profit before taxes (there are no implications on group equity). These implications could affect the amount of interest payable to banks or interest earned on bank deposits, both only in the case of variable rates.

| in TEUR<br>Change in basic points | 2012 | | 2011 | |
|---|---|---|---|---|
| | + 10 | + 20 | + 10 | + 20 |
| Change in profit before taxes | +70 | +140 | +83 | +166 |

## Credit risks

Credit risk arises from the non-compliance with contractual obligations by business partners and the resulting losses. The maximum default risk equals the book value of the respective receivables.

The credit risk with our customers can be considered as low as there have been long-standing, stable and smooth business relations with all major customers. Furthermore, we regularly check the credit rating of new and existing customers and monitor the amounts due. Adequate allowances for default risks are established.

With regard to loans granted to the management of subsidiaries, the default risk is eliminated as the loans are securitized by the acquired shares (see Note 10).

As for other financial assets (liquid funds, marketable securities), the maximum credit risk equals the respective book values, in the event the counterparty defaults. The pertinent credit risk may, however, be considered as low since we choose highly rated banks and well-renowned issuers of securities only.

### Liquidity risks

Liquidity risk bears the uncertainty whether or not the Company has the liquid funds required to settle its obligations at all times and in a timely manner.

Due to the high self-financing capability and earning power of the Company, the liquidity risk is relatively low. The Company earns liquid funds through its operating business and uses external financing when needed. The worldwide spread of financing sources prevents any significant concentration of risk.

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.

The table below shows all obligations for repayments and interest on financial obligations accounted for and agreed by contract as of 31 December. For the other obligations, the non-discounted cash-flows for the following business years are stated.

| **31. December 2012 in TEUR** | **Due at call** | **2013** | **2014** | **2015** | **2016 cont´d** |
|---|---|---|---|---|---|
| Bonds | - | 21,750 | 1,175 | 20,588 | - |
| Payables due to banks | 31,773 | - | - | - | - |
| Long-term loans | - | 18,379 | 14,959 | 12,891 | 65,160 |
| Leasing obligations | - | 192 | 85 | - | - |
| Management interest and Partici-pation rights | - | - | - | - | 26,382 |
| Trade payables | - | 34,053 | - | - | - |
| Derivatives | 6,054 | 1,291 | 2,293 | 4,073 | 6,951 |
| Other | - | 27,199 | 453 | 373 | 1,868 |

| 31. December 2011<br>in TEUR | Due at call | 2012 | 2013 | 2014 | 2015 cont´d |
|---|---|---|---|---|---|
| Bonds | - | 2,325 | 21,750 | 1,175 | 20,588 |
| Payables due to banks | 29,562 | - | - | - | - |
| Long-term loans | - | 22,457 | 19,343 | 15,239 | 47,051 |
| Leasing obligations | - | 379 | 191 | 83 | - |
| Management interest and Participation rights | - | - | - | - | 22,465 |
| Trade payables | - | 43,430 | - | - | - |
| Derivatives | - | 2,087 | 1,117 | 1,858 | 5,372 |
| Other | - | 23,904 | 466 | 466 | 2,318 |

### Other financial market risks

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

## Capital management

It is a paramount goal of the Group to ensure that we maintain a high credit rating and equity ratio in order to support our operations and to maximize the shareholder value.

It is particularly the gearing ratio (net indebtedness as a percentage of equity) that is used to monitor and manage capital. The indebtedness includes bonds, long-term loans, payables due to banks and leasing rates, less cash and cash equivalents and long-term financial investments. The gearing was 9.5 % as of 31 December 2012 and 13.7 % as of 31 December 2011.

| in TEUR | 31. December 2012 | 31. December 2011 |
|---|---|---|
| Bank loans | 31,455 | 29,099 |
| Long-term loans | 100,913 | 94,283 |
| Finance lease obligations | 272 | 635 |
| Bonds | 39,951 | 39,906 |
| Less: Cash and cash equivalents | -138,260 | -120,842 |
| **Net debt** | **34,331** | **43,081** |
| Total equity | 363,130 | 314,772 |
| **Gearing** | **9.5 %** | **13.7 %** |

The Company considers a gearing ratio of up to 60 % reasonable without having an impact on the refinancing conditions. In addition an average dividend ratio of 30-60 % (of the consolidated profit after tax) payable to the shareholders is deemed to be appropriate.

## NOTE 33

### Contingencies

No contingencies existed as of the balance sheet dates 31 December 2012 and 31 December 2011.

## NOTE 34

### Other Commitments

The Company has operating lease commitments and commitments for capital expenditure (see Note 8). Apart from that no other commitments existed.

## NOTE 35

### Cash flow Statement

The consolidated cash flow statement displays the change of cash and cash equivalents in the reporting year as a result of inflows and outflows of resources.

The liquid fund corresponds to cash and cash equivalents in the consolidated balance sheet and only includes cash on hand and bank balances as well as short-term investments/marketable securities.

In the cash flow statement, cash flows are classified into cash flow from operating activities, cash flow from investing activities and cash flow from financing activities.
The cash flows from foreign operations have been allowed for by applying average foreign exchange rates.

The cash flow from operating activities is determined using the indirect method, based on income after taxation and adjusting it for non-cash expenses and revenues. The result plus changes in net working capital (excluding liquid funds) as shown in the balance sheet is the cash flow from operating activities.

Inflows/outflows of resources from current operations include inflows and outflows from interest payments and income taxes.

Dividend payments are shown under cash flow from financing activities.

For the allotment of shares in subsidiaries and participation rights to the managers in 2012 and 2011, the Company granted loans to the participants in the same amount of TEUR 5,007 (2011: TEUR 7,990). Hence, no cash flows were effected.

# NOTE 36

## Business combinations

### Year 2012

As of 28 February 2012, 85.02 % of the shares of **D-TECH (UK) Limited, Bristol, UK,** were acquired. D-TECH (UK) Limited is an engineering company in the process of being set up. By integrating this company into the SBO group, the Group expects to gain know-how to optimize the product range in the segment Oilfield Supplies & Services.

In connection with a business combination in 2012, the Company offered to the non-controlling shareholders the right to sell their remaining interest to the Company at any time, whereas the Company is obliged to purchase the offered shares. The purchase price for these shares is based on the achieved financial results of the acquired entity. The expected discounted payment price for this option of extraordinary termination is booked under other payables (see Note 14), as there is an unconditional payment obligation for the Company. The financial liability was recognized by reclassification of the non-controlling interest, which resulted from the acquisition, and recorded at the fair value of the net assets. The residual balance to the expected payment obligation at acquisition date was reclassified from the retained earnings not affecting profit or loss. Because of this option commitment, 100 % of this company are incorporated into the Group´s accounts.

Furthermore, the company **Foxano AG, Luzern, Switzerland,** was acquired on 13 December 2012. This company does not yet carry out any operating activities.

Listed below are the fair values of the acquired identifiable assets and liabilities for both business combinations at the acquisition date:

| **in TEUR** | **Fair value** |
|---|---|
| Intangible assets | 22,147 |
| Property, plant & equipment | 254 |
| Other accounts receivable | 228 |
| Deferred taxes | 969 |
| Liquid funds | 174 |
| | **23,772** |
| Trade accounts payable | -83 |
| Deferred taxes | -4,974 |
| **Net assets** | **18,715** |
| Goodwill resulting from the acquisitions | 7,685 |
| Non-controlling interests | -2,779 |
| **Total considerations** | **23,621** |

The intangible assets contain technology in the amount of TEUR 18,320 and a non-compete-agreement in the amount of TEUR 3,827.

The gross amount of accounts receivable amounted to TEUR 228 and was equal to their fair value. None of the accounts receivable were impaired.

The total consideration for both business combinations were transferred in 2012.

The cash outflow due to the business combinations were as follows (in TEUR):

| | |
|---|---|
| Cash outflow | 20,346 |
| Net cash acquired | -174 |
| | **20,172** |

The consideration for the business combination includes the fair value of a contingent consideration of TEUR 3,275 at acquisition date which will be payable when sales are exceeding a contractually agreed upon amount in the next 4 years and which has been calculated by discounting expected future contingent payments based on the business plan. The respective liabilities have been recognized in “other payables” in the balance sheet.

Additionally, transaction costs of TEUR 957 have been expensed and are included in general and administrative expenses.

Goodwill of TEUR 7,685 comprises the value of expected synergies arising from the acquisitions and has been allocated temporarily to the segment “Europe”. The Group is still evaluating to which extent some business units will benefit from the synergies due to the acquisition of the engineering company, which is still being established. Therefore it was not possible to conclude the allocation of the goodwill to cash-generating units in 2012.

It is expected that none of the goodwill will be deductible for income tax purposes.

Due to the acquisitions, the Group´s profit after tax was reduced by TEUR 633 in 2012, the Group sales remained unchanged. If the businesses had been acquired at the beginning of the year, Group sales would not have changed, too.

Regarding the development of the liabilities for contingent purchase price payments we refer to Note 19.

### Year 2011

No business combinations were executed in 2011.

# NOTE 37

## Personnel

The total average number of employees was as follows:

| | 2012 | 2011 |
|---|---|---|
| Blue collar | 1,230 | 1,070 |
| White collar | 329 | 304 |
| | **1,559** | **1,374** |

# NOTE 38

## Events after the balance sheet date

After the balance-sheet date no events of particular significance have occurred that would have changed the presentation of the Group's financial position and financial performance.

# NOTE 39

## Proposed dividend

The Executive Board proposes to the shareholders that a dividend of EUR 0.50 per share (2011: EUR 0.50) plus a bonus of EUR 1.00 per share (2011: EUR 0.70), in total EUR 1.50 (2011: EUR 1.20) per share should be paid. Thus, the total distribution will amount to MEUR 24.0 compared to MEUR 19.2 in the year before.

# NOTE 40

## Expenses incurred for the group auditors

The following expenses were incurred from **Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.:**

| **in TEUR** | **2012** | **2011** |
|---|---|---|
| Audit of the consolidated annual financial statements | 65 | 79 |
| Due diligence | 162 | 0 |
| Other services | 52 | 57 |

# MANAGEMENT INFORMATION

## Executive Board:

Gerald Grohmann (President and CEO)
Franz Gritsch (Executive Vice-president and CFO)

The contracts with the members of the Executive Board are valid for one term and will expire on 31 December 2015.

## Committees of the Supervisory Board:

Remuneration Committee:

- Norbert Zimmermann
- Dr. Peter Pichler
- Dr. Karl Schleinzer

Audit Committee:

- Norbert Zimmermann
- Dr. Peter Pichler
- Karl Samstag

## Supervisory Board:

Norbert Zimmermann (Chairman)
First nomination: 1995
End of current appointment: 2017

Dr. Peter Pichler (Deputy Chairman)
First nomination: 1995
End of current appointment: 2017

Helmut Langanger
First nomination: 2003
End of current appointment: 2017

Karl Samstag
First nomination: 2005
End of current appointment: 2017

Dr. Karl Schleinzer
First nomination: 1995
End of current appointment: 2017

In each year one member of the Supervisory Board withdraws from the Supervisory Board with the end of the Annual General Meeting, thereby guaranteeing that in the course of the Annual General Meeting the election of one member of the Supervisory Board can be resolved. As far as the order of withdrawal cannot be ascertained from the term of office it shall be ascertained by lot. In the Supervisory Board meeting that takes place before the Annual General Meeting for consultation on the proposed resolutions and elections in accordance with section 108 paragraph 1 Austrian Stock Corporation Act the lot shall decide which member of the Supervisory Board shall withdraw with the end of the next Annual General Meeting. The withdrawing member can immediately be reelected.

Ternitz, 28 February 2013

Gerald Grohmann Franz Gritsch
Members of the Executive Board

# AUDITORS' REPORT*)

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements of SCHOELLER BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft, Ternitz, for the fiscal year from January 1, 2012 to December 31, 2012. These consolidated financial statements comprise the consolidated balance sheet as of December 31, 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year ended December 31, 2012, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Consolidated Financial Statements and for the Accounting System

The Company's management is responsible for the group accounting system and for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility and Description of Type and Scope of the Statutory Audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and Austrian Accounting Standards on Auditing, as well as in accordance with International Standards on Auditing (ISAs), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

### Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as of December 31, 2012 and of its financial performance and its cash flows for the fiscal year from January 1, 2012 to December 31, 2012 in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU.

## Comments on the consolidated Management Report

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditor's report also has to contain a statement as to whether the consolidated management report is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

In our opinion, the consolidated management report is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a UGB (Austrian Commercial Code) are appropriate.

Vienna, February 28, 2013

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H

| | |
|---|---|
| Mag. Karl Rab | Mag. Markus Jandl |
| Certified Auditor | Certified Auditor |

*) This report is a translation of the original report in German, which is solely valid. Publication of the consolidated financial statements together with our auditor's opinion may only be made if the consolidated financial statements and the consolidated management report are identical with the audited version attached to this report. Section 281 paragraph 2 UGB (Austrian Commercial Code) applies.

# REPORT OF THE SUPERVISORY BOARD CONCERNING THE 2012 BUSINESS YEAR

During the 2012 business year, the Supervisory Board carried out the duties allocated to it by law and the articles of association and held 6 meetings to this end. The management provided the Board with regular written and verbal reports concerning business developments and the company's status, including the situation of the Group companies. An Audit Committee for handling questions of the Financial Statements and a Remuneration Committee for handling questions regarding the reimbursement of the Executive Board was installed.

The Annual Accounts for the 2012 business year and the Status Report of SBO AG were examined by SST Schwarz & Schmid Wirtschaftsprüfungsgesellschaft m.b.H., Vienna. The Consolidated Financial Statements and the Consolidated Status Report for the SBO Group as at 31 December 2012 were examined by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna. According to their unqualified audit certification, the accounts, the Annual Accounts for the 2012 business year and the 2012 Consolidated Financial Statements meet the statutory requirements, present a true and fair view of the assets, financial position and profitability of the company and the Group in accordance with generally accepted accounting principles. The Annual Accounts of SBO AG have been prepared in accordance with the Austrian Commercial Code and Austrian Generally Accepted Accounting Principles; the Consolidated Financial Statements of the SBO Group have been prepared in accordance with the International Financial Reporting Standards (IFRS).

At its meeting on 19 March 2013, the Supervisory Board approved the Annual Accounts for the 2012 business year, the Consolidated Financial Statements as at 31 December 2012, the proposal for the distribution of profits, the Corporate Governance Report and the Status Report combined with the Consolidated Status Report presented by the Executive Board.

Ternitz, 19 March 2013

Norbert Zimmermann
Chairman of the Supervisory Board

# CORPORATE INFORMATION

**Schoeller-Bleckmann Oilfield Equipment AG**
Hauptstrasse 2, A-2630 Ternitz, Austria
phone: (+43) 2630 315 100, fax: (+43) 2630 315 501
e-mail: info@sbo.co.at

**BICO Drilling Tools Inc.**
1604 Greens Road, Houston, Tx 77032, USA
phone: (+1) 281 590 6966, fax: (+1) 281 590 2280
e-mail: sales@bicodrilling.com

**BICO Faster Drilling Tools Inc.**
2107 – 7th Street, Nisku, AB T9E 7YE, Canada
phone: (+1) 780 955 5969, fax: (+1) 780 955 4707
e-mail: info@bicofaster.com

**Darron Tool & Engineering Ltd.**
West Bawtry Road, Rotherham S60 2XL,
South Yorkshire, UK
phone: (+44) 1709 722 600, fax: (+44) 1709 722654
e-mail: info@darron-sbo.com

**DSI FZE**
Roundabout 6, Behind OSC
Jebel Ali Free Zone, P.O. Box 30576,
Dubai - U.A.E.
phone: +971 (4) 887 1556, fax: +971 (4) 887 1008
e-mail: enquiries@dsi-pbl.com

**Godwin-SBO L.L.C.**
28825 Katy-Brookshire Road, Katy, Tx 77494, USA
phone: (+1) 281 371 5400, fax: (+1) 281 371 5424
e-mail: info@godwin-sbo.com

**Knust-SBO L.L.C.**
8625 Meadowcroft Dr., Houston, Tx 77063, USA
phone: (+1) 713 785 1060, fax: (+1) 713 953 4580
e-mail: info@knust.com

**Knust-SBO Far East Pte Ltd.**
9 Tuas Loop
Singapore 637340
phone: (+65) 6830 8460
e-mail: info@knust.com.sg

**SB Darron Pte. Ltd.**
14 Gul Street 3, Singapore 629268
phone: (+65) 6861 4302, fax: (+65) 6861 4556
e-mail: sales@sbdarron.com.sg

**Schoeller-Bleckmann Darron (Aberdeen) Ltd.**
Howemoss Terrace, Kirkhill Industrial Estate,
Dyce, Aberdeen AB21 0GR, UK
phone: (+44) 1224 799 600, fax: (+44) 1224 770 156
e-mail: operations@sbdl.co.uk

**Schoeller-Bleckmann Oilfield Equipment Vietnam Co., Ltd.**
Lot B2.6, Street D3, Dong An 2 Industrial Zone,
Thu Dau Mot City,
Binh Duong Province, Vietnam
phone: (+84) 6503 589 590- Ext 15
fax: (+84) 6503 589 595
e-mail: cmacpherson@sboevn.com

**Schoeller-Bleckmann Darron Ltd.**
Industrial Zone, Panel XI, Noyabrsk, 629800, Yamala
Nenetsky Autonomous, Region, Russian Federation
phone: (+7) 3496 344576, fax: (+7) 3496 343062
e-mail: office@sbdr.ru

**Schoeller-Bleckmann Energy Services L.L.C.**
712 St. Etienne Road, P.O. Box 492, Broussard, LA 70518-0492, USA
phone: (+1) 337 837 2030, fax: (+1) 337 837 4460
e-mail: info@sbesllc.com

**Schoeller-Bleckmann Oilfield Equipment Middle East FZE**
P.O. Box 61327, Roundabout 10, Road 1030,
Jebel Ali Free Zone, Dubai, U.A.E.
phone: (+971) 4883 4228, fax: (+971) 4883 4022
e-mail: groberts@sboe.co.uk

**Schoeller-Bleckmann Oilfield Technology GmbH**
Hauptstrasse 2, A-2630 Ternitz, Austria
phone: (+43) 2630 315 0, fax: (+43) 2630 315 401
e-mail: f.wurzer@sbo.co.at

**Schoeller-Bleckmann Sales Co. L.L.C.**
11525 Brittmoore Park Drive, Houston, Tx 77041, USA
phone: (+1) 713 856 6500, fax: (+1) 713 856 6565
e-mail: info@sbsaleshouston.com

**Schoeller-Bleckmann de Mexico S.A. de C.V.**
517-5 Calle C, Parque Industrial Almacentro,
Apodaca, 66600, Nuevo Leon, Mexico
phone: (+52) 81 1344-3343, fax: (+52) 81 1344-3346
e-mail: info@sbmex.mx

**Techman Engineering Limited**
Techman House, Broombank Park, Chesterfield
Trading Estate, Sheepbridge, Chesterfield, S41 9RT, UK
phone: (+44) 1246 261385, fax: (+44) 1246 453734
e-mail: enquiries@techman-engineering.co.uk

**Schoeller Bleckmann do Brasil Ltda.**
Rua Piloto Rommel de Oliveira Garcia, 375
CEP n° 27.932-355,
Macaé, Rio de Janeiro, Brazil
phone: (+55) 22 2773-3947, (+55) 22 2773-3155 ,
(+55) 22 2773-4529
fax: (+55) 22 2773-4214
e-mail: info@sbbrasil.com

# GLOSSARY

## Conventional resources

A „normal" reservoir, where the reservoir and fluid characteristics permit crude oil or natural gas to flow readily into wellbores. The term „conventional" shall make a distinction from other unconventional resources such as shale or tight gas.

## Deepwater

Generally defined as operations in water depths of 1000 ft. (ca. 300 meters) or greater. Operations in depths of more than 1,500 meters are called Ultra Deepwater operations.

## Depletion

Depletion describes the declining oil production from oil fields over time. According to the International Energy Agency (IEA) the oil production of producing fields in 2010 will decline by 47 million barrels per day until 2035.

## Directional drilling

Directional drilling is a method of increasing a well's productivity while reducing the environmental footprint of an oil and gas operation. New technologies enable to drill laterally or horizontally (see horizontal drilling) beneath the surface, as opposed to vertically, allowing for a wider range of possible well configurations. Because horizontal and directional drilling methods often utilize existing vertical wellbores, additional wells may be drilled without additional disruption to the environment. Utilizing this technique also helps maximize recovery (recovery factor) from existing reservoirs by penetrating a greater cross-section of the formation, allowing substantially more oil to be produced while reducing the total number of wells required. Directional drilling is common in shale reservoirs because it allows drillers to place the borehole in contact with the most productive reservoir rock.

## Drilling motor/downhole motor

The Positive Displacement Motor (PDM) is composed of a stator and a rotor. The stator is made of an extremely rigid elastomere. This material will yield when acted upon by a force, but will return to its original shape when that force is removed. The rotor, supported by bearings on each end, is mounted in the stator. The drill bit is attached, through a mechanical linkage, to the lower end of the rotor. As the drilling mud flows through the system, the cavity within the PDM is pressurized due to the hydraulic energy of the drilling mud. In the motor, the hydraulic energy is converted into rotational energy, which enables rotation of the rotor and the attached drill bit.

## Exploration and Production (E&P)

These terms refer to the search for and extraction of crude oil and natural gas.

## Gunhole drilling

A method to drill high-precision small-diameter boreholes over long distances. SBO's gunhole process has been developed in cooperation with Vienna Technical university and is already used on an industrial scale.

## Horizontal drilling

A subset of the more general term „directional drilling," used where the departure of the wellbore from vertical exceeds about 80 degrees. Note that some horizontal wells are designed such that after reaching true 90-degree horizontal, the wellbore may actually start drilling upward. Because a horizontal well typically penetrates a greater length of the reservoir, it can offer significant production improvement over a vertical well. Horizontal drilling is common in shale reservoirs because it allows drillers to place the borehole in contact with the most productive reservoir rock.

## IEA

International Energy Agency

## Laser welding

A method which uses a laser beam to apply a hardfacing layer. The layer used to be applied by welding resulting in undesired deviations in high-precision parts. More precise results can be achieved by using a laser beam.

## Logging-while-drilling collars (LWD)

Logging While Drilling collars help to analyse geological formations and, therefore, to locate reservoirs.

## Lost circulation

The reduced or total absence of fluid flow up the annulus when fluid is pumped through the drillstring. If a lack of drilling mud is returning to the surface after being pumped down a well lost circulation could be the reason. Lost circulation occurs when the drill bit encounters natural fissures, fractures or caverns, and mud flows into the newly available space.

## Measurement-while-drilling collars (MWD)

Measurement-while-drilling collars are used to measure depth, inclination and azimuth of the borehole.

## Mud

A liquid circulated through the wellbore during drilling and workover operations. One purpose of the mud is to remove rock cuttings produced by drilling. The mud also helps to cool the drill bit, it prevents the borehole walls from caving in, constrains high-pressure formation fluids, and provides a medium for MWD mud-pulse transmission signals.

## NMDC: Non-Magnetic Drill Collars

NMDC's – also called top collars – are non-magnetic drillstring components used to avoid adverse effects on measurements (in particular of the azimuth).

## Oil shale

An oil shale is a sedimentary rock containing bitumen or non-volatile oils. Oil shale is also called kerogen oil or kerogen shale and must not be confused with shale oil.

## Recovery factor

Amount in % of crude oil produced from the total oil-in-place of a reservoir, depending on the individual reservoir parameters and the quality of the crude oil produced. Currently, the average global recovery factor is approx. 35 %.

## Reservoir

A subsurface body of rock having sufficient porosity and permeability to store and transmit fluids. Sedimentary rocks are the most common reservoir rocks because they have more porosity than most igneous and metamorphic rocks and form under temperature conditions at which hydrocarbons can be preserved.

## Rig

The machine used to drill a wellbore.

## Shale

A fine-grained, fissile, detrital sedimentary rock formed by consolidation of clay- and silt-sized particles into thin, relatively impermeable layers. It is the most abundant sedimentary rock. Shale can include relatively large amounts of organic material compared with other rock types and thus has potential to become a rich hydrocarbon source rock, even though a typical shale contains just 1 % organic matter.

## Shale oil

Oil produced from shale with technologies similar to produce shale gas, i.e. horizontal drilling and multistage hydraulic fracturing.

## Unconventional resource

An umbrella term for oil and natural gas that is produced by means that do not meet the criteria for conventional production. What has qualified as unconventional at any particular time is a complex function of resource characteristics, the available exploration and production technologies, the economic environment, and the scale, frequency and duration of production from the resource. Perceptions of these factors inevitably change over time and often differ among users of the term. At present, coalbed methane, gas hydrates, shale gas, fractured reservoirs, and tight gas sands are considered unconventional resources .

**Further definitions about the oil and gas industry are available at SBO's oil and gas glossary on www.sbo.at.**

**For additional information please contact:**

Schoeller-Bleckmann Oilfield Equipment AG
A-2630 Ternitz/Austria, Hauptstrasse 2
phone.: +43 2630 315 100
fax: +43 2630 315 501
e-mail: investor_relations@sbo.co.at
Internet: www.sbo.at

**Imprint:**
Publisher and responsible for the contents: SBO AG, Ternitz
Co-operation: Metrum Communications GmbH, Wien
Graphic Design: freecomm Werbeagentur GmbH, Graz
Photos: SBO, freecomm, Foto Peter Melbinger

500 | 100
Sales in MEUR* | Profit in MEUR*

*rounded down figures

www.sbo.at