SCHOELLER
BLECKMANN
OILFIELD
EQUIPMENT

# LETTER TO OUR SHAREHOLDERS 1-6 / 2015

## HIGHLIGHTS

- **Positive operating result in persistently challenging market environment**
- **Stringent measures taken to combat downturn**
- **Very sound balance sheet structure:**
  - **57 % equity ratio**
  - **MEUR 165 liquid means**
  - **MEUR 57 cashflow in HY 1**

## "GLOBAL RIG COUNT DOWN BY 38 %"

### MARKET ENVIRONMENT

Global economic growth remained restrained during the first half of 2015: In the emerging markets and developing countries growth slowed down as expected. The eurozone continued its moderate recovery despite the crisis in Greece. US economic development suffered from the harsh winter and massive cutbacks on expenditure in the crude oil sector.[1]

As before, the oil market was characterised by oversupplies. Average crude production in the second quarter of 2015, according to the International Energy Agency (IEA), came to 96.5 million barrels per day (mb/d), up 3.5 mb/d, or 3.8 %, from the same quarter of last year (Q2 2014: 93.0 mb/d). From May to June crude output surged by 0.96 mb/d, to 97.2 mb/d. OPEC's production contribution alone was 31.8 mb/d, representing the highest level in three years.

At the same time, global oil consumption in the second quarter grew by a mere 1.7 mb/d, or 1.9 %, to an aggregate 93.5 mb/d (Q2 2014: 91.8 mb/d), leading to excess supplies of 3.0 mb/d in the second quarter of 2015, whereas OPEC's spare capacity[2] in July 2015 fell by 0.65 mb/d to 2.22 mb/d (July 2014: 2.87 mb/d) year-on-year.[3]

In the second quarter, the oil price rebounded slightly from the massive slump seen since the summer of 2014: The price of one barrel of US crude WTI climbed by 24.6 %, from USD 47.72 per barrel (31 March 2015) to USD 59.48 per barrel (30 June 2015) in the second quarter of 2015. The price of one barrel of European crude Brent went up 12.3 %, from USD 53.69 (31 March 2015) to USD 60.31 (30 June 2015). Year-on-year (30 June), the price of one barrel of WTI contracted by 43.9 %, and that of Brent by 45.7 %. In July 2015 the market response to further growing crude production and mounting concerns about China's economic development was reflected by another drop of the oil price.[4]

As predicted by Schoeller-Bleckmann Oilfield Equipment (SBO) when the results for Q1 were published, the generally low oil price level triggered further declining global drilling activity in the second quarter. The number of globally active drilling rigs (= rig count[5]) dropped by another 16.5 %, or 421 units, to an average of 2,136 units in June 2015 (March 2015: 2,557 units) in the second quarter. Year-on-year, the global rig count shrank by 38 %, or 1,309 units (June 2014: 3,445 units). The rig count went down in all regions of the world, albeit to different degrees:

The decline was moderate in the Middle East. In June, compared to March, it had fallen by 1.5 %, or 6 rigs, to 401 rigs (March 2015: 407 rigs), and by 5.6 %, or 24 rigs (June 2014: 425 rigs) year-on-year, reflecting OPEC's decision to keep production volumes at a high level regardless of low oil prices.

[1] IMF World Economic Outlook (WEO), Update, July 2015
[2] Definition der International Energy Agency (IEA): *"IEA defines spare capacity as the capacity levels that can be reached within 90 days and sustained for an extended period."*
[3] International Energy Agency (IEA), Oil Market Report, August 2015
[4] U.S. Energy Information Administration (EIA): Spot Prices for Crude Oil and Petroleum Products
[5] Baker Hughes Inc. Rig Count

In June, 1,146 drilling rigs were active outside North America, representing a decline of 8.4 %, or 105 units, from March 2015 (1,251 rigs), and of 14.7 %, or 198 rigs, from last year (June 2014: 1,344 rigs).

Most severely affected by that decline were the US and Canada. The Canadian rig count fell by 67 rigs, or 34.2 %, to 129 rigs in the second quarter of 2015 (March 2015: 196 drilling rigs), down by 46.3 %, or 111 rigs, from last year (June 2014: 240 drilling rigs). In the United States, the rig count contracted by 22.4 %, or 249 rigs (March 2015: 1,110 drilling rigs). Year-on-year, the decline came to 53.7 %, or 1,000 rigs (June 2014: 1,861 drilling rigs), and was due to the oil price collapse that made technologically highly challenging and costly production from unconventional sources - the preferred type of production in the United States - partly unprofitable. However, in June the rig count decline in the United States slowed down from the previous months, dropping by 28 rigs from May, and following a decrease of 87 units in May, 134 units (April) and 238 units (March) in the preceding months.

Nevertheless, the share of directional and horizontal drilling rigs in the total count of US drilling rigs continued to grow and arrived at 88 % at the end of June 2015. The remaining 12 % were accounted for by vertical drilling rigs. At the end of June 2014, 80 % of all drilling rigs were directional and horizontal drilling rigs and 20 % were vertical drilling rigs. At the same time, the share of oil wells in the overall number of US wells was decreasing further. At the end of June 2015 only 73 % were oil wells and 27 % were gas wells. At the end of June 2014 83 % had been oil wells and 17 % had been gas wells.[6]

## BUSINESS DEVELOPMENT

The entire oilfield service industry was hit by the expected slump of drilling activity in the first half of 2015. Schoeller-Bleckmann Oilfield Equipment AG (SBO) could not escape this development either. Nevertheless, SBO was able to generate positive operating income in this extremely difficult market environment.

SBO posted a drop in bookings from the first half of the previous year by 54.1 %, to MEUR 104.8 (1-6/2014: MEUR 228.5). Sales fell by 18.9 %, to MEUR 186.9 (1-6/2014: MEUR 230.3). Here, SBO still profited from the strong bookings in the fourth quarter of 2014. At the end of the first half of the year, the order backlog arrived at MEUR 60.9, down 43.7 % from last year's reading (30 June 2014: MEUR 108.1).

Customer restraint in ordering went hand in hand with persistent pressure on prices. SBO started at an early point to take a set of measures to counter this tendency, but they could not fully absorb the effects of the downturn.

[6] Baker Hughes Inc. North America Rotary Rig Count

## "LIQUID MEANS UP BY CLOSE TO 30 %"

Earnings before interest, taxes, depreciation, and amortisation (EBITDA) fell by 31.5 %, to MEUR 45.1 (1-6/2014: MEUR 65.9). Earnings before interest and taxes (EBIT) shrank by 57.6 %, to MEUR 19.3 (1-6/2014: MEUR 45.7). An effect created by the quarterly valuation of option commitments was reflected in the financial result, concerning essentially the option for acquiring 33 % of the shares in Resource Well Completion Inc. (Resource): According to IFRS 13, an additional non-cash-effective expenditure of MEUR 12.1 had to be included. While business prospects for Resource remain unchanged and thus had no influence on this adjustment, modification of the quarterly multiple used - which had no effect on the actual value of the option - was relevant to increasing the option commitment.

As a result, profit before tax arrived at MEUR 4.8, down 88.5 % from last year's reading (1-6/2014: MEUR 41.4). Profit after tax dropped to MEUR 0.0 (1-6/2014: MEUR 30.3). Half-year earnings per share were EUR 0.0 (1-6/2014: EUR 1.90). The EBITDA margin came to 24.1 % (1-6/2014: 28.6 %), the EBIT margin was 10.4 % (1-6/2014: 19.8 %), and the pre-tax margin came to 2.6 % (1-6/2014: 18.0 %). Cashflow from operating activities increased from MEUR 28.4 by 101.5 % to MEUR 57.1.

With its equity ratio of 57 % SBO has a very sound balance sheet structure and therefore was able, despite the current downturn, to distribute to shareholders an unchanged high dividend of EUR 1.50 per share for the year 2014 (MEUR 24).

SBO significantly reduced net debt compared to 31 December 2014 and 30 June 2014: As at 30 June 2015 it stood at MEUR 10.9 (31 December 2014: Net debt of MEUR 35.6; 30 June 2014: Net debt of MEUR 32.3). Liquid means climbed by 27.3 %, to MEUR 165.7 (31 December 2014: MEUR 130.2). This rise was mainly attributable to a decrease of the net working capital of MEUR 38.6. Spending for property, plant and equipment and for intangible assets was reduced by 38.0%, to MEUR 12.9 (1-6/2014: MEUR 20.8). Total purchase commitments for expenditure in property, plant and equipment as at 30 June 2015 were MEUR 2.5 (30 June 2014: MEUR 7.2).

## DEVELOPMENT OF THE SEGMENTS

SBO subdivides business activities into two segments: High Precision Components (manufacture of high-precision drillstring components) and Oilfield Equipment (non-magnetic drill collars, drilling motors, circulation tools and other components including service and repair). Regardless of the challenging environment both segments delivered positive operating income.

In the first half of 2015, the segment of High Precision Components developed in line with considerably curtailed capex spending by customers. Segment sales went down by 22.6 %, to MEUR 88.1 (1-6/2014: MEUR 113.8). Operating income in the segment fell by 67.3 %, to MEUR 6.1 (1-6/2014: MEUR 18.6).

In the segment of Oilfield Equipment the sharp downturn in global drilling activity had a dampening effect on business. Although customers preferred to use high-quality products even in the downturn, declining demand put downward pressure on prices. As a result, sales revenues generated in the segment fell by 15.2 %, to MEUR 98.7 (1-6/2014: MEUR 116.5). Operating income went down by 58.5 %, to MEUR 12.3 (1-6/2014: MEUR 29.6).

## MEASURES TO COMBAT THE DOWNTURN

SBO has gained vast experience in managing the cycles in the oilfield service industry and has promptly responded to the current downturn in order to combat deteriorating market conditions at an early stage. The company launched initial corrective measures early in the second half of 2014 and systematically continued to pursue that course in the first half of 2015:

- SBO initiated a programme in the third quarter of 2014 to streamline cost structures of its UK activities. In view of the current business environment it was decided to merge operational activities of the two neighbouring subsidiaries "Techman Engineering Ltd." and "Darron Tool & Engineering Ltd." at the location of Techman. As a result, structural and sustainable cost benefits will be created after the programme has been completed. Restructuring is running according to plan and should be finished in 2015.

- SBO started also in 2014 to internationalise the successful drilling motor business of BICO. In Russia and the Far East, initial business success has been reported, and our subsidiary established in Dubai and a newly founded sales company in Saudi Arabia will market drilling motors.

- Expenditure for plant, property and equipment (capex) was largely reduced to maintenance investments in the first half of 2015. Spending for research and development has not been curbed.

- SBO adjusted personnel capacities to the expected decline in demand already in the first half of the year. The headcount as at 30 June 2015 was 1,279 (1,720 as at 31 December 2014 and 1,640 as at 30 June 2014).

## RISK REPORT

The business risks of Schoeller-Bleckmann Oilfield Equipment AG did not change substantially in the first six months of 2015 over the risks described in the 2014 annual financial statements. The entire oilfield service industry continues to be confronted with considerable cuts on capital expenditure due to low oil prices and large quantities of crude offered in the market. Regardless of the corrective measures described in the report on the first quarter of 2015 and already initiated, this has a significant influence on the financial position and financial performance of Schoeller-Bleckmann Oilfield Equipment AG. Additionally, we refer to all risks described in the Annual Report 2014. We recommend to read this report on the second quarter of 2015 in conjunction with the risk report contained in the Annual Report 2014.

## SBO SHARE

The share of Schoeller-Bleckmann Oilfield Equipment AG started the second quarter of 2015 at a price of EUR 59.99 on 1 April 2015 and completed the quarter at a price of EUR 54.23 on 30 June 2015. Thus, the share price went down by 9.6 % over the second quarter. Year-on-year, this closing price represented a decline of 42.5 % (30 June 2014: EUR 94.24) and also a development similar to the oil price which fell by 43.9 % (WTI) and 45.7 % (Brent) in that period.

## OUTLOOK

In its most recent report the International Monetary Fund (IMF) reviewed its forecast for global economic growth in full 2015 slightly downwards, from 3.5 % to 3.3 % (2014: 3.4 %). For 2016, the IMF currently projects growth to arrive at 3.8 %.

In the industrialised nations, the IMF expects growth to come to 2.1 % in 2015. The moderate slowdown seen in the first quarter of 2015, above all in North America, prompted the IMF to somewhat reduce its original projection of 2.4 %. Nevertheless, the prerequisites for economic recovery to progress further are intact in the industrialised countries: For 2016, the IMF expects growth to go up to 2.4 % again.

Regarding the development of emerging markets and developing countries, the IMF also slightly modified its growth forecast for 2015 from the projections made in April (4.3 %) to 4.2 %. In 2016, the IMF still anticipates growth to arrive at 4.7 %.[7]

Experts take similar assumptions on the development of global oil consumption: According to the International Energy Agency (IEA), oil consumption is set to go up in the third and fourth quarter (94.5 mb/d and 95.2 mb/d, following 93.5 mb/d in the second quarter). Calculated for full 2015, this should bring average growth up by 1.6 mb/d to 94.2 mb/d. For 2016, the IEA anticipates slightly decelerating growth to come to 1.4 mb/d.[8]

Barclays, one of Britain's major banks, also projects global oil consumption in 2015 to rise by 1.6 mb/d, and by 1.7 mb/d in 2016. According to Barclays, excess supply in the oil market is set to shrink as early as in the second half of 2015, and this tendency should grow even stronger in 2016.[9]

At the moment, the market expects Saudi Arabia to maintain its high production quotas for strategic reasons, whereas massive curtailment of E&P spending in the non-OPEC countries will probably make production stagnate or go down. Subsequently, this may involve expenditure ramp-up primarily in North America so as to meet growing demand in the oil market. The modest growth of the rig count in the United States reported in July, from 859 to 874 units, could point to this direction. However, it is too early to make clear statements, as visibility in the market continues to be extremely low.

[7] IMF World Economic Outlook (WEO), Update, July 2015
[8] International Energy Agency (IEA), Oil Market Report, August 2015
[9] Barclay's Oil Market Outlook, August 2015

## "SBO TO CONTINUE STRINGENT COUNTERMEASURES"

As a result, SBO braces for a continuation of the extremely difficult development in fiscal 2015. It is impossible to predict at the moment at which point customers of SBO will abandon their restrictive spending policies. As bookings are very low, the company is set to face significant challenges.

SBO will consistently continue implementing the countermeasures initiated in 2014 throughout the second half of 2015: Cost-cutting programmes will be intensified, and capacities will be further adjusted to the market situation. Optimisation of operations at our site in the United Kingdom is running as planned, and the strategy adopted last year to open up new markets for the products of SBO in the Oilfield Equipment segment will be maintained.

However, those measures can compensate for only part of the fierce decline in demand in the established core markets. Our operating cashflow remains positive, debt is low and liquid means are sufficiently high to provide SBO with a stable basis to overcome the current cyclical downturn. As a result, SBO is in a position to continue its search for strategically fitting acquisition targets, even in the present challenging environment.

The current situation has demonstrated once again how fast the business cycle in the oil and gas industry can turn around. While full attention is now focused on managing the downturn, it is clear that the medium to long-term growth perspectives for the oilfield service industry remain absolutely intact. Growing demand for oil and gas, in addition to increasing decline rates from existing fields, will call for new spending and usher in the next upswing for which SBO, as technology and market leader, is well prepared.

# CONSOLIDATED PROFIT AND LOSS STATEMENT

| in TEUR | 6 month period ended 30.06.2015 | 6 month period ended 30.06.2014 | 3 month period ended 30.06.2015 | 3 month period ended 30.06.2014 |
|---|---|---|---|---|
| **Sales** | **186,855** | **230,281** | **79,339** | **117,835** |
| Cost of goods sold | -140,792 | -157,606 | -61,346 | -81,130 |
| **Gross profit** | **46,063** | **72,675** | **17,993** | **36,705** |
| Selling expenses | -11,113 | -11,067 | -5,110 | -5,566 |
| General and administrative expenses | -16,540 | -16,118 | -8,119 | -8,120 |
| Other operating expenses | -10,165 | -5,014 | -805 | -2,043 |
| Other operating income | 11,104 | 5,188 | -732 | 2,813 |
| **Profit from operations** | **19,349** | **45,664** | **3,227** | **23,789** |
| Interest income | 280 | 295 | 180 | 177 |
| Interest expenses | -4,012 | -5,429 | -1,620 | -3,054 |
| Other financial income | 1,229 | 119 | 512 | 98 |
| Income/expense from revaluation of option commitments | -12,078 | 800 | -12,078 | 400 |
| **Financial result** | **-14,581** | **-4,215** | **-13,006** | **-2,379** |
| **Profit before tax** | **4,768** | **41,449** | **-9,779** | **21,410** |
| Income taxes | -4,731 | -11,110 | -559 | -5,529 |
| **Profit after tax** | **37** | **30,339** | **-10,338** | **15,881** |
| Average number of shares outstanding | 15,978,818 | 15,943,558 | 15,981,604 | 15,974,533 |
| **Earnings per share in EUR (basic = diluted)** | **0.00** | **1.90** | **-0.65** | **0.99** |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| in TEUR | 6 month period ended 30.06.2015 | 6 month period ended 30.06.2014 | 3 month period ended 30.06.2015 | 3 month period ended 30.06.2014 |
|---|---|---|---|---|
| **Profit after tax** | **37** | **30,339** | **-10,338** | **15,881** |
| **Other comprehensive income to be reclassified to profit or loss in subsequent periods** | | | | |
| Foreign exchange adjustment - subsidiaries | 30,523 | 4,656 | -13,557 | 4,479 |
| Foreign exchange adjustment - other items | 1,784 | 154 | -942 | 139 |
| Income tax effect | -466 | -38 | 215 | -34 |
| **Other comprehensive income, net of tax** | **31,841** | **4,772** | **-14,284** | **4,584** |
| **Total comprehensive income, net of tax** | **31,878** | **35,111** | **-24,622** | **20,465** |

# CONSOLIDATED BALANCE SHEET

| ASSETS in TEUR | 30.06.2015 | 31.12.2014 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | 165,709 | 130,220 |
| Trade accounts receivable | 71,696 | 107,311 |
| Other accounts receivable and prepaid expenses | 5,149 | 5,419 |
| Inventories | 169,695 | 164,694 |
| **TOTAL CURRENT ASSETS** | **412,249** | **407,644** |
| **Non-current assets** | | |
| Property, plant & equipment | 207,045 | 203,688 |
| Goodwill | 104,657 | 100,417 |
| Other intangible assets | 57,344 | 59,735 |
| Long-term receivables and assets | 18,250 | 18,962 |
| Deferred tax assets | 14,069 | 9,990 |
| **TOTAL NON-CURRENT ASSETS** | **401,365** | **392,792** |
| **TOTAL ASSETS** | **813,614** | **800,436** |

# CONSOLIDATED BALANCE SHEET

| LIABILITIES AND SHAREHOLDERS´ EQUITY in TEUR | 30.06.2015 | 31.12.2014 |
|---|---|---|
| **Current liabilities** | | |
| Bank loans and overdrafts | 34,816 | 35,744 |
| Current portion of bonds | 0 | 19,993 |
| Current portion of long-term loans | 13,744 | 11,673 |
| Finance lease obligations | 79 | 92 |
| Trade accounts payable | 15,427 | 24,050 |
| Government grants | 133 | 37 |
| Income taxes payable | 10,600 | 10,524 |
| Other payables | 32,270 | 36,629 |
| Other provisions | 5,485 | 7,013 |
| **TOTAL CURRENT LIABILITIES** | **112,554** | **145,755** |
| **Non-current liabilities** | | |
| Long-term loans | 127,915 | 98,196 |
| Finance lease obligations | 64 | 91 |
| Government grants | 340 | 437 |
| Employee benefit obligations | 7,011 | 6,831 |
| Other payables | 76,969 | 70,807 |
| Deferred tax liabilities | 24,671 | 22,644 |
| **TOTAL NON-CURRENT LIABILITIES** | **236,970** | **199,006** |
| **Shareholders´ equity** | | |
| Share capital | 15,982 | 15,976 |
| Contributed capital | 68,064 | 67,560 |
| Legal reserve - non-distributable | 785 | 785 |
| Other reserves | 20 | 22 |
| Currency translation reserve | 45,675 | 13,834 |
| Retained earnings | 333,564 | 357,498 |
| **TOTAL SHAREHOLDERS´ EQUITY** | **464,090** | **455,675** |
| **TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY** | **813,614** | **800,436** |

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

| 1-6 / 2015 in TEUR | Share capital | Contributed capital | Legal reserve | Other reserves | Currency translation reserve | Retained earnings | Total parent company | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| **1 January 2015** | 15,976 | 67,560 | 785 | 22 | 13,834 | 357,498 | 455,675 | 0 | 455,675 |
| Profit after tax | | | | | | 37 | 37 | | 37 |
| Other comprehensive income, net of tax | | | | | 31,841 | | 31,841 | | 31,841 |
| Total comprehensive income, net of tax | 0 | 0 | 0 | 0 | 31,841 | 37 | 31,878 | 0 | 31,878 |
| Dividend | | | | | | -23,973 | -23,973 | | -23,973 |
| Share-based payment | 6 | 504 | | | | | 510 | | 510 |
| Changes in reserves | | | | -2 | | 2 | 0 | | 0 |
| **30 June 2015** | 15,982 | 68,064 | 785 | 20 | 45,675 | 333,564 | 464,090 | 0 | 464,090 |

| 1-6 / 2014 in TEUR | Share capital | Contributed capital | Legal reserve | Other reserves | Currency translation reserve | Retained earnings | Total parent company | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| **1 January 2014** | 15,912 | 61,567 | 785 | 26 | -30,203 | 332,257 | 380,344 | 1,843 | 382,187 |
| Profit after tax | | | | | | 30,339 | 30,339 | | 30,339 |
| Other comprehensive income, net of tax | | | | | 4,772 | | 4,772 | | 4,772 |
| Total comprehensive income, net of tax | 0 | 0 | 0 | 0 | 4,772 | 30,339 | 35,111 | 0 | 35,111 |
| Dividend | | | | | | -23,964 | -23,964 | -997 | -24,961 |
| Share based payment | 6 | 515 | | | | | 521 | | 521 |
| Disposal of non-controlling interests | 58 | 4,905 | | | | -4,681 | 282 | -846 | -564 |
| Change in reserves | | | | -2 | | 2 | 0 | | 0 |
| **30 June 2014** | 15,976 | 66,987 | 785 | 24 | -25,431 | 333,953 | 392,294 | 0 | 392,294 |

# CONSOLIDATED CASHFLOW STATEMENT

| in TEUR | 6 month period ended 30.06.2015 | 6 month period ended 30.06.2014 |
|---|---|---|
| **Cash and cash equivalents at the beginning of the period** | 130,220 | 158,366 |
| Cashflow from profit | 18,506 | 51,909 |
| Cashflow from operating activities | 57,130 | 28,353 |
| Cashflow from investing activities | -11,102 | -18,588 |
| Cashflow from financing activities | -15,991 | -26,231 |
| Effects of exchange rate changes | 5,452 | 875 |
| **Cash and cash equivalents at the end of the period** | 165,709 | 142,775 |

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1

### Basis of preparation

The interim report as at 30 June 2015 has been prepared in accordance with the principles of the International Financial Reporting Standards (IFRS), rules for interim financial reporting (IAS 34), to be applied in the European Union.

This report on the second quarter of 2015 of the SBO group has neither been audited nor reviewed by independent accountants.

## NOTE 2

### Accounting Policies

The accounting and valuation methods of 31 December 2014 have been applied basically unchanged, with the exception of the standards which came into force in 2015. The new regulations do not have a significant implication on the consolidated financial statements. In this context, we refer to the consolidated financial statements for the year ended 31 December 2014.

## NOTE 3

### Scope of consolidation

In May 2015, the Company Resource Well Completion Technologies Corp. was incorporated. So far, this company has not started operations jet.

## NOTE 4

### Seasonality

Business development of SBO is not subject to seasonal influences.

## NOTE 5

## Dividend paid

| | Total amount TEUR | Number of shares (ordinary shares) | Per share EUR |
|---|---|---|---|
| For the business year 2014 paid in 2015 | 23,973 | 15,981,900 | 1.50 |
| For the business year 2013 paid in 2014 | 23,964 | 15,975,900 | 1.50 |

## NOTE 6

## Segment information

Manufacturing and service sites are combined to the segments “High Precision Components“ and “Oilfield Equipment“ in accordance with product groups and services offered and existing customer groups, respectively.

The segment “High Precision Components“ includes complex machining of high-precision components with utmost high dimensional accuracy which are ordered by the engineering divisions of our customers. The segment “Oilfield Equipment“ covers non-magnetic drill collars, drilling motors, circulation tools, completion tools and other components including service and repair work directly ordered by the operating oilfield organizations of our customers.

Internal management of the group as well as the allocation of resources is based on the financial performance of these segments.

Results in the total column correspond to the amounts in the income statement.

| Jan-Jun 2015 in TEUR | High Precision Components | Oilfield Equipment | SBO-Holding & Consolidation | Group |
|---|---|---|---|---|
| External sales | 88,125 | 98,730 | 0 | 186,855 |
| Intercompany sales | 30,080 | 37,110 | -67,190 | 0 |
| Total sales | 118,205 | 135,840 | -67,190 | 186,855 |
| Operating Profit before non-recurring items | 6,082 | 12,275 | 992 | 19,349 |
| Profit before taxes | 6,195 | 280 | -1,707 | 4,768 |

| Jan-Jun 2014 in TEUR | High Precision Components | Oilfield Equipment | SBO-Holding & Consolidation | Group |
|---|---|---|---|---|
| External sales | 113,807 | 116,474 | 0 | 230,281 |
| Intercompany sales | 26,044 | 33,539 | -59,583 | 0 |
| Total sales | 139,851 | 150,013 | -59,583 | 230,281 |
| Operating Profit before non-recurring items | 18,624 | 29,598 | -2,558 | 45,664 |
| Profit before taxes | 18,726 | 29,351 | -6,628 | 41,449 |

## NOTE 7

## Own shares

During the reporting period the company transferred 6,000 SBO shares to the Chief Executive Officer based on the share based payment program introduced in 2014.

## NOTE 8

## Related Party Transactions

With respect to business transactions with related parties there were no substantial changes compared to 31 December 2014. All transactions with related parties are carried out at generally acceptable market conditions. For further information on individual business relations please refer to the consolidated financial statements of SBO AG for the year ended 31 December 2014.

## NOTE 9

## 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.

As at balance sheet date, the Group held the following classes of financial instruments measured at fair value:

| in TEUR | Balance sheet item | 30 Jun 2015 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Derivates | Other liabilities | -51,586 | -306 | -51,280 |

| in TEUR | Balance sheet item | 31 Dec 2014 | Level 2 | Level 3 |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Derivates | Other liabilities | -43,865 | -1,055 | -42,810 |

During the reporting period 2015 there were no transfers between level 1 and level 2 fair value measurements. In general, if required, transfers are carried out at the end of each reporting period.

Derivatives shown under level 3 consist only of contingent liabilities for purchase price payments and the option commitments relating to cancelable non-controlling interests to purchase the offered shares from the minority shareholders. The development in the reporting period 2015 was as follows:

| in TEUR | Contingent purchase price payments | Option commitments |
|---|---|---|
| As at 1 Jan 2015 | -8,975 | -33,836 |
| Addition of accrued interest | -179 | -941 |
| Gains from revaluation | 1,200 | 0 |
| Losses from revaluation | 0 | -12,078 |
| Disposals from settlements | 4,786 | 0 |
| Currency adjustment | -777 | -480 |
| **As at 30 Jun 2015** | **-3,945** | **-47,335** |

The foreign currency forward contracts are measured based on observable spot exchange rates. The fair value of interest swaps which expired during the reporting period was determined using a discounted cash flow model based on interest curves observable on the market.

The contingent purchase price payments from business combinations and the option commitments relating to cancelable non-controlling interests are measured at balance sheet date according to the underlying agreements based on the expected discounted payments using the most recent sales forecast. The liabilities are discounted using a risk adequate discount rate for the duration of each liability.

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 to be paid on a yearly basis with a residual term of one and further 4 years, respectively. Gains from revaluation refer to unrealized profits and are reported in the income statement within "other financial income".

The exercise price of the option commitments relating to cancelable non-controlling interests is based on the achieved financial results of the acquired entities and the EBITDA multiple of SBO at the time of the transfer, respectively. Losses from revaluation in the reporting period refer to non cash-effective unrealized losses and are reported in the income statement within "income/expense from revaluation of option commitments". The increase of option commitments during the reporting period almost exclusively refers to a change in the EBITDA multiple applied for the valuation.

The sensitivity analysis for significant, non-observable input factors is as follows:

| in TEUR | Assumption | Change in assumption | If assumption increases, liability changes by | If assumption decreases, liability changes by |
|---|---|---|---|---|
| **Option commitment relating to cancelable non-controlling interests** | Net results | +/-10 % | +4,754 | -4,754 |
| | Interest rate 27.5 % resp. 1.7 % | +/-10 resp.+/-1 percentage points | -1,427 | +1,946 |
| | Multiple 10.6 | +/-30 % | +12,451 | -12,451 |
| **Contingent purchase price payments from business combinations** | Sales | +/- 10% | +690 | -690 |
| | Interest rate 27.5 % resp. 14.2 % resp. 4.0 % | +/-10 resp. +/-1 resp. +/-1 percentage points | -1 | +1 |

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

| | | 30 Jun 2015 | | 31 Dec 2014 | |
|---|---|---|---|---|---|
| in TEUR | Level | Carrying value | Fair value | Carrying value | Fair value |
| **Liabilities** | | | | | |
| Bonds | 1 | 0 | 0 | -19,993 | -20,480 |
| Borrowings from banks, finance lease obligations and other loans | 2 | -176,618 | -178,708 | -145,796 | -148,832 |

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.

## NOTE 10

## Events after the balance sheet date

No important events have occurred after the balance sheet date.

# STATEMENT OF ALL LEGAL REPRESENTATIVES

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

Ternitz, 19 August 2015

**Gerald Grohmann** **Franz Gritsch**

Executive Board

SCHOELLER BLECKMANN OILFIELD EQUIPMENT

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