



Adding value through our knowledge

ANNUAL REPORT

08



**SCHOELLER  
BLECKMANN**  
OILFIELD  
EQUIPMENT

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## Financial Highlights

in MEUR

	2008	2007	2006	2005	2004	2003
Sales	388.7	317.4	239.5	172.7	152.2	134.2
Income from operations	88.0	76.1	48.2	25.5	17.9	13.1
Income before taxation	82.5	72.5	46.8	24.3	15.5	9.4
Income after taxation	58.8	50.0	34.4	17.3	10.8	6.1
Earnings per share <sup>1</sup> (in EUR)	3.69	3.13	2.15	1.13	0.83	0.47
Total assets	443.3	357.9	285.3	242.8	173.3	176.8
Share capital	15.9	16.0	16.0	16.0	13.0	13.0
Shareholders' equity	226.2	194.1	171.7	154.7	78.2	77.0
Return on capital employed (in %) <sup>2</sup>	32.2	35.1	27.4	17.8	13.8	9.4
Dividend per share (in EUR)	0.75 <sup>3</sup>	1.10	0.80	0.50	0.40	0.30
Number of shares outstanding at year end	15,880,116	16,000,000	16,000,000	16,000,000	13,000,000	13,000,000

<sup>1</sup> based on average shares outstanding

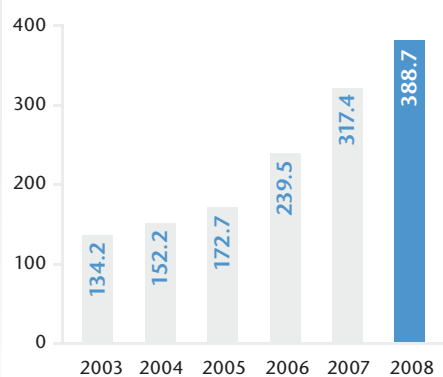
<sup>2</sup> Return on capital employed = Income from operations after non-recurring items, divided by average capital employed.

Capital employed = Total shareholders' equity + Bonds + Bank loans and overdrafts + Long-term loans + Finance lease obligations – Cash and cash equivalents

<sup>3</sup> proposed

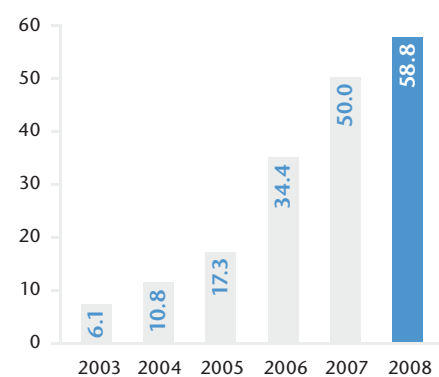
### Sales

in MEUR



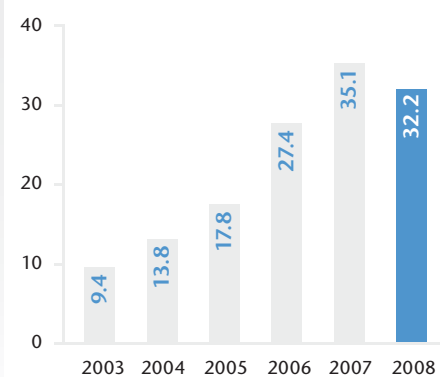
### Income after taxation

in MEUR

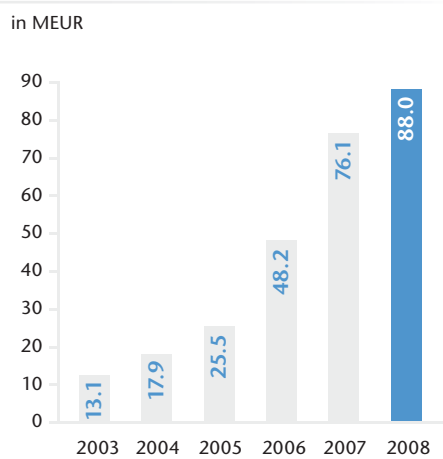


### Return on Capital Employed

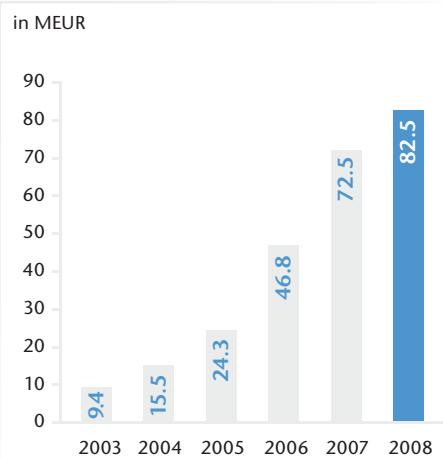
in Percent



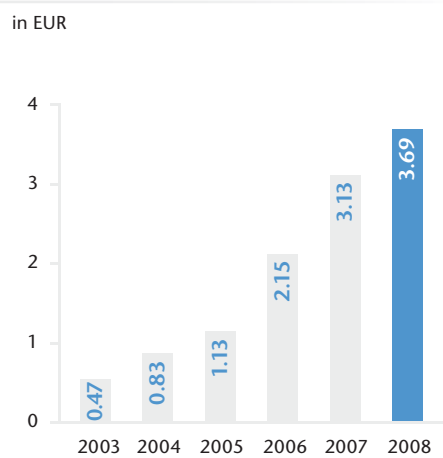
### Income from operations



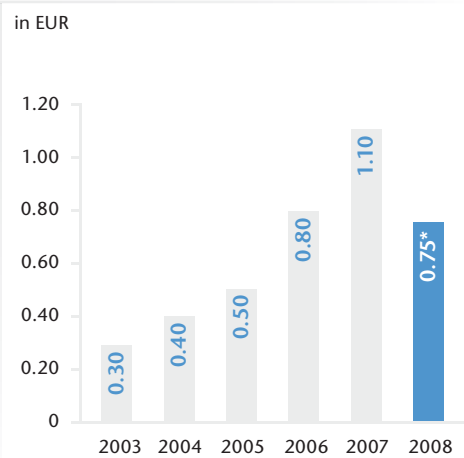
### Income before taxation



### Earnings per share



### Dividend per share



\* proposed



Annual Report 2008



Schoeller-Bleckmann:  
Market leader offering  
supreme quality,  
ongoing innovation and  
technological leadership.

## Company Profile

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Schoeller-Bleckmann Oilfield Equipment AG (SBO) is the global market leader in non-magnetic high-precision components for the oilfield service industry and a leading provider of high-performance drilling motors. SBO's products are primarily used in directional drilling technology.

Directional drilling is used for precisely targeting oil reservoirs not located directly below the drilling rig, and for continuous monitoring and adapting the drilling process in order to cut costs and increase efficiency. As the number of technologically challenging drilling projects has been rising for many years, directional drilling has gained in importance. The share of horizontal and directional drilling rigs in the total number of drilling rigs went from 29 % in 2000 to 53 % in 2008<sup>1</sup>. Directional drilling technology is applied in all offshore drilling activities. This clearly shows that technological complexity in drilling activities has been growing.

Apart from non-magnetic drillstring components, drilling motors and drilling tools are further core products of SBO. Additionally, Schoeller-Bleckmann offers a comprehensive after-sales services range, in particular in the field of repair and maintenance. It was particularly in the sector of high-tech repair, where new technologies and application procedures have been developed to optimise product functionality and service life time.

Being the leader in terms of quality and technology, SBO has set industry standards for many years and therefore counts all oilfield service companies specialising in directional drilling among its customers. Constantly high quality, ongoing innovations combined with the high technological know-how and long-standing experience of employees in production engineering are major parameters for operational excellence.

SBO solves highly complex tasks and offers customized products. With its consistent customer orientation SBO has become the market leader and has maintained and strengthened this position over many years. Schoeller-Bleckmann is located in the major hubs of the global oilfield service industry.

Providing added-value to customers is both the starting point and target of Schoeller-Bleckmann. Combined with leadership in technology, quality and innovation, market-oriented growth strategy, high productivity, flexibility and a focus on long-term strategic investment policy, this is the foundation of the proven track record of Schoeller-Bleckmann Oilfield Equipment AG.

<sup>1</sup> Baker Hughes: North America Rotary Rig Count (onshore)

## Schoeller-Bleckmann Oilfield Equipment AG

**GROUP SALES: MEUR 388.7**

**HEADCOUNT: 1,394**

### NORTH AMERICA



**TOTAL SALES: MEUR 300.2**

**HEADCOUNT: 638**

**Knust-SBO Ltd.**

Houston, Tx/USA

**Godwin-SBO L.P.**

Houston, Tx/USA

**BICO Drilling Tools Inc.**

Houston, Tx/USA

**BICO Faster Drilling Tools Inc.**

Nisku, Canada

**Schoeller-Bleckmann  
Energy Services L.L.C.**

Lafayette, La/USA

**Schoeller-Bleckmann Sales Co. L.P.**

Houston, Tx/USA

**Schoeller-Bleckmann de Mexico,  
S.A. de C.V.**

Monterrey, Mexico

### EUROPE



**TOTAL SALES: MEUR 237.5**

**HEADCOUNT: 691**

**Schoeller-Bleckmann Oilfield  
Technology GmbH**

Ternitz, Austria

**Darron Tool & Engineering Ltd.**

Rotherham, UK

**Schoeller-Bleckmann Darron Ltd.**

Aberdeen, UK

**Techman Engineering Ltd.**

Chesterfield, UK

### OTHER



**TOTAL SALES: MEUR 16.5**

**HEADCOUNT: 65**

**Schoeller-Bleckmann Oilfield  
Equipment Middle East FZE**

Dubai, U.A.E.

**SB Darron Pte. Ltd.**

Singapore

**Schoeller-Bleckmann Darron Ltd.**

Noyabrsk, Russia

Non-operative holding companies are not shown  
Headcount per 31 December 2008  
Total Sales: Year Ending 31 December 2008, not consolidated



## Highlights 2008

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### JANUARY

Completion and commissioning of new production facility in Ternitz.



### JULY

WTI oil prices peaks at USD 145.46 as per 14 July 2008.

### APRIL

Annual General Meeting resolves dividend increase from EUR 0.80 to EUR 1.10 per share.

### OCTOBER

Acquisition of 100 % of shares in British oilfield service provider Techman Engineering Ltd./Chesterfield on 1 October 2008.

### JUNE

SBO share reaches intra-day annual high at EUR 72.49 on 17 June 2008.





# RESEARCH AND DEVELOPMENT

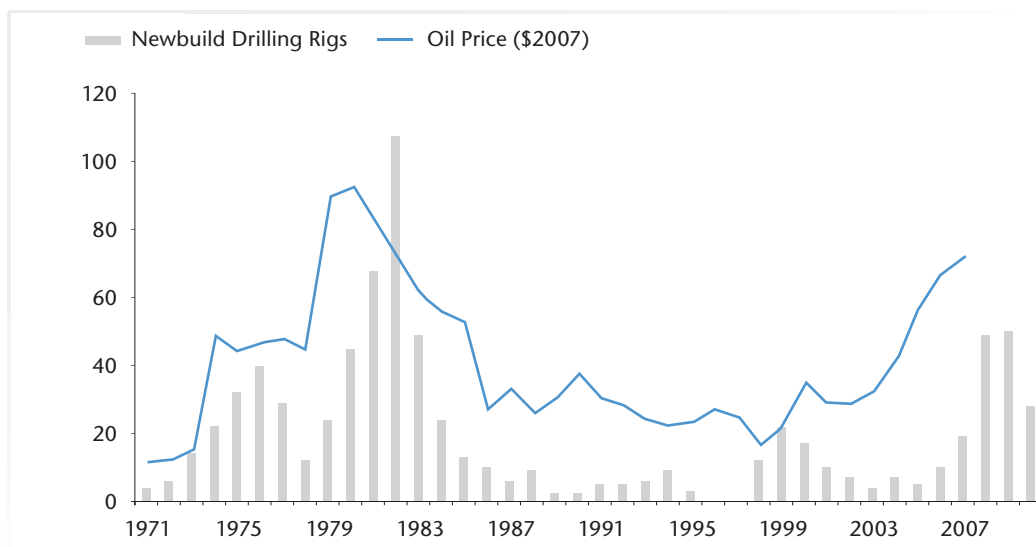
ADDING VALUE THROUGH ...

... DEVELOPMENT OF NEW HIGH-STRENGTH NON-MAGNETIC STEEL GRADES, CUTTING-EDGE MANUFACTURING TECHNOLOGIES AND HIGH-PERFORMANCE DRILLING MOTORS FOR THE OILFIELD SERVICE INDUSTRY.

## Oilfield Services Outlook – Beyond Recession

The oil & gas industry is a cyclical business, but it offers considerable rewards for those who can understand and ride the cycles. The one we have just witnessed began in the early 2000s but was preceded by a period of low oil prices which induced a 20 year investment famine – therefore when oil prices did rise the industry was unable to meet the demand for oilfield equipment & services and their prices reached unprecedented levels.

### Offshore rig builds lag oil price rises



Source: Douglas-Westwood

2008 saw both the largest rise in oil prices and the largest fall since 1861. After languishing in the \$20s for more than two decades, a massive growth in mainly Chinese oil demand pushed prices to \$100 in January and then to the dizzy heights of \$147 in June before the Lehman Brothers collapse and the results of the associated credit crisis caused a fall to \$35 in December.

As was the case in previous cycles, the recent oil price collapse was caused by external events, this time the outbreak of global recession. Recessions are not unusual events; they have struck America 20 times in the past century. In reality is the relatively unbroken prosperity of the past 25 years which is unprecedented!

As might be expected, examination of previous recessions shows they result in a reduction in oil demand – this time around the largest fall being in the United States where by September demand was down by 3 million barrels per day. However, the gap has been narrowing every month since then and also for global consumption. In December 2008, demand, as recorded by the US Energy Information Agency, shattered the all-time record of November 2007 by 1.2 million barrels per day (mbpd). These numbers may require revision or even be misleading, but they paint a picture of a global economy ready to purchase oil if the price is right.



John Westwood is chairman of energy business analysts Douglas-Westwood. He began his career in the North Sea in 1974 and has since been a founder of three oil industry companies. Douglas-Westwood was established in 1990 and has completed over 500 energy business research projects, advising clients in more than 50 countries.

Between the first oil price shock of 1973 and the second in 1979 global demand increased by nearly 9 mbpd. Indeed, in just 11 years, from 1960 to 1971, demand increased by nearly 30 mbpd. What was occurring during this period? – the US and Western Europe were completing their process of ‘motorisation’. The automobile was becoming a staple of everyday life and oil is its fuel.

China has now begun that same process. It now the world’s largest manufacturer of vehicles and will quickly become the world’s largest car market. The changes witnessed in the western world from 1950-1970 are beginning to occur in China. And China has by far the world’s biggest labour force, of around 800m – almost twice that of America, the European Union and Japan combined. As they become wealthier, many Chinese will be looking to acquire a vehicle.

Therefore, the recovery from this present recession may look like the recovery of 1974, where a decline in oil demand was following by a rapid build in demand. Bleak as the recession may be, in future years 2009 may well be remembered as the entry point for the next economic cycle.

But another factor is in play. Although oil demand has fallen slightly the underlying issues have not gone away. Across the world the average production of oilfields is declining at between 4 % and 7 % per annum (and in the case of the UK North Sea a reported 11 %). Current global oil production is some 84 million barrels per day (mbpd), so just to offset field depletion some 3.3 million bpd of production needs replacing each year. Saudi production capacity is currently about 10 million bpd therefore we need to find and bring into production the equivalent of a new Saudi Arabia every three years.

However, for the emerging economies per capita oil use to reach European levels we would need eight more Saudi Arabia’s producing – and we are just not discovering them anymore. Yes, we have had the massive subsalt discoveries offshore Brazil in its Santos Basin. However, in the words of the country’s National Petroleum Agency this will require ‘investments of approximately \$400 billion over 10 years’. It is unlikely these fields will reach peak production until approaching 2020. These discoveries are not a short term fix to the growing oil supplies problem.

The conclusion is that we need massive and continuing investment in all facets of exploration and production. Low oil prices only serve to restrict this investment, and in doing so could possibly accelerate the onset of peak oil production and serve to fuel the next oil price explosion.

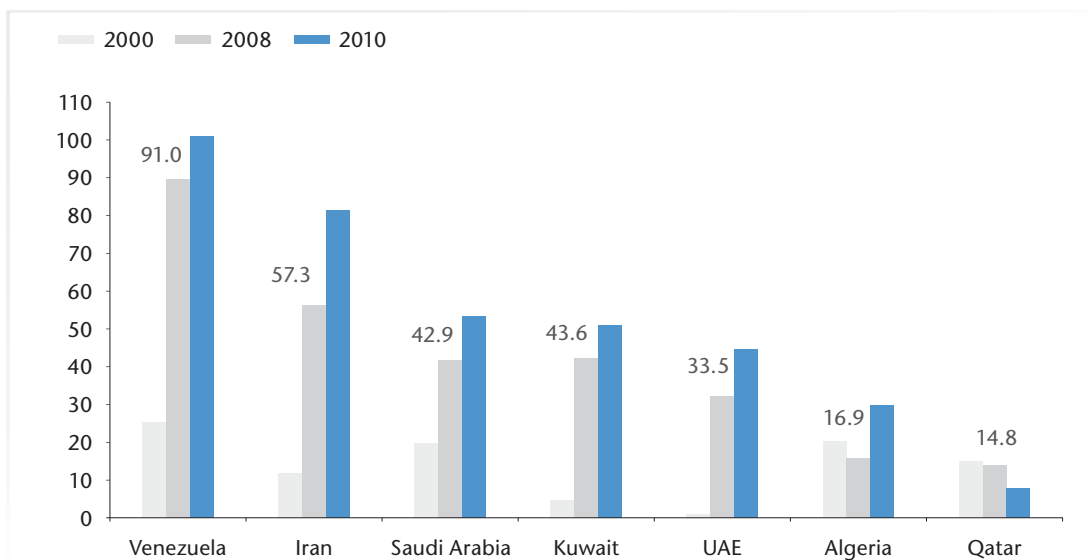
When Douglas-Westwood first published research on the outlook for global oil supplies in 2002, 52 countries had passed their peak production – today that number has grown to 66! Examples range from Mexico to Russia.

The fundamental fact is that the ‘cheap’ easy-to-access oil has gone. And what remains is in either politically or technically difficult (i.e. expensive) locations. The new unexploited reserves lie in ultra deepwater, in the arctic, in small pockets and /or complex reservoirs (and also in expensive to access oil sands). Wells will be deeper and longer, employ more advanced downhole technology and tooling and be increasingly more expensive to drill. And in addition, just to keep the oil flowing tens of thousands of existing wells worldwide must be maintained every year requiring a large ongoing expenditure on well services.

Considering the short term (the next 2-3 years), there are many field development projects underway requiring the drilling of large numbers of wells. And many of the associated oilfield services companies are reasonably protected by large backlogs and cash reserves; however, some are not and there will be interesting M&A opportunities ahead.

More oil production capacity will be coming onstream so oil prices will be mainly determined by the effectiveness or otherwise of OPEC production controls. And despite views that the Middle East can produce at \$3 per barrel most OPEC countries economies need between \$40-90 oil. Indeed, many OPEC countries have grown their oil price 'needs' by two to four times in eight years – in a number of instances population growth being a major driver.

### OPEC countries oil price needs to meet national budgets



Source: *Financial Times*

Without doubt, oil prices are the major driver of oilfield services activity, but they are not the only one and in some geographies politics are just as important. The biggest oilfield projects are controlled by the oil majors and also increasingly the national oil companies (NOC) who now control some 80% of the world's oil reserves (a complete reversal of the situation of some 20 years ago). Both of these groups can probably afford to continue drilling at \$40. In his January presentation of their \$147 billion five-year plan, the president of Brazil's state oil company Petrobras stated 'we will implement upwards of 500 projects'.

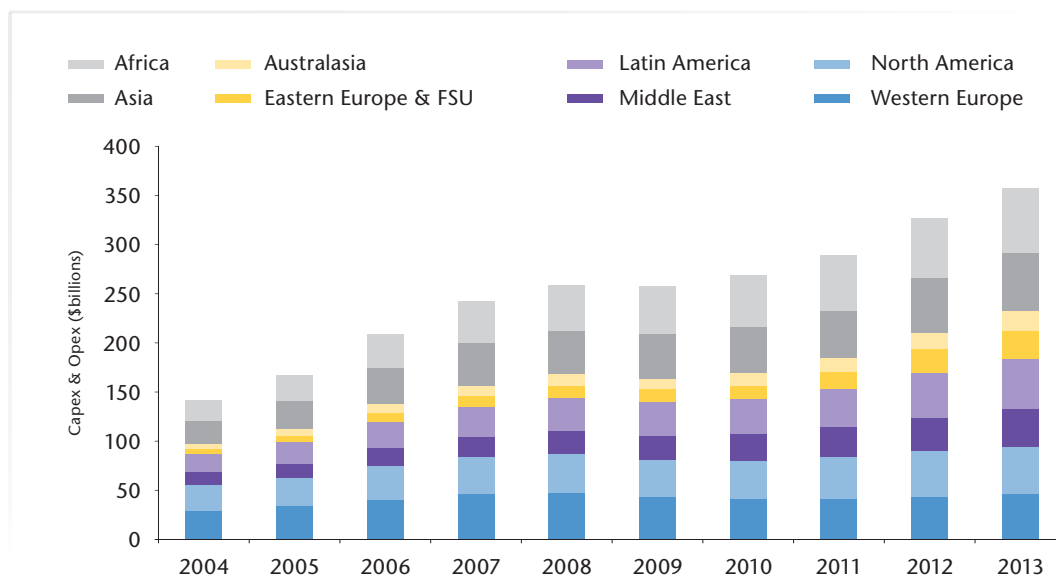
And both the majors and NOCs tend to take a long-term view on oil prices and not make decisions on short-term peaks & troughs. We should remember that in 2002 oil prices were \$20 and how we were all amazed when they reached the incredible highs of \$40 in 2004. It is not \$40 oil that is the industry's problem, but \$80 costs! So oil companies will of course use the downcycle to squeeze their suppliers' prices and the best projects will go ahead.

In the short / medium term small and marginal oilfield projects will take the hit – but these are mainly onshore and in North America. Discretionary expenditure (on, for example, seismic and exploration) may also be targeted for cuts, and projects that source funding from the credit markets will grind to a halt. This is most likely to occur in high cost areas which are dominated by small oil companies (such as the UK North Sea).

However, even in troubled times, the best equipment and services tend to be able to achieve a premium. An example is deep water semi-submersible drilling rigs which are still commanding day rates exceeding \$500,000 per day and utilisation near 100 %, whilst basic shallow water jack-up rigs have seen their utilisation and rates fall.

In the offshore sector we think the bigger projects and OPEX<sup>2</sup> will be less affected. In fact we expect to see only a very slight fall in total offshore spend in 2009 and the long-term growth trend to continue in 2010 to drive spend from \$260 bn in 2008 to \$360 bn in 2013.

### Global Offshore Expenditure



Source: Douglas-Westwood / EnergyFiles

Over the longer term (say 4-10 years), the Douglas-Westwood view is unchanged. Firstly, most recessions last less than 18 months from peak to trough so it is likely that the recovery from this one will begin sometime during 2009.

Secondly, oil is the fuel of transportation; therefore currently, without oil economic development is impossible. The world car fleet is of the order of 800 million and most people only change their cars every six years of so and in addition, there is the population growth and 'motorisation' of China and the developing economies we referred to earlier. In short, a very rapid move away from oil is both impractical and highly unlikely in the next decade or so. Demand will grow.

However, we believe that as demand grows non-OPEC oil production will continue to fall. The eventual outcome of these two factors means that during the next decade oil prices will rise – possibly dramatically.

So what does this mean for investors in oilfield service companies? Oil is a cyclical business and now we could be nearing an optimum time in the cycle to invest – some unprecedented bargains may be in the offing!

*The statements made in this comment are based on the views expressed by Mr. John Westwood, Chairman of Douglas-Westwood Ltd (DWL), Canterbury, and do not necessarily reflect the views of the management of Schoeller-Bleckmann Oilfield Equipment AG and/or one of its affiliated companies.*

<sup>2</sup> OPEX = Operating expense



Third record year in a row.



## Preface of the Executive Board

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### **Dear shareholders and business partners,**

The past business year 2008 was an exceptional year in many respects: On the one hand, our company Schoeller-Bleckmann Oilfield Equipment posted the third record year in a row. We again improved the outstanding result achieved in the year before. With group sales 2008 standing at now MEUR 388.7 sales have soared 2.9 times from the last low cycle in 2003. The 2008 net income of MEUR 58.8 was around 13 times higher than six years ago.

On the other hand, repercussions of the financial crisis originating in the USA in the second half of 2008 were profound. This not only led to the sharpest drop in oil prices ever seen within a few weeks, but uncertainties about the future global economic development also hit almost all industrial sectors and regions of the globe by the fourth quarter of 2008.

Nonetheless, our company looks back on a very successful performance in that year of extremes. Despite tightening competition we further expanded and strategically secured our global leadership position in high-precision components for the oilfield service industry. Our ambitious investment programme, the pillar of the strong organic growth of our company in the past years, was rapidly implemented and reached its preliminary peak as our new production facility was commissioned at the Austrian site in Ternitz. Acquisition of British company Techman was a perfect addition to our range of products.

Any company like ours operating in a cyclical industry has to act with utmost flexibility to hold its ground in a highly volatile market environment. In the past years, since the economic boom started in the oilfield service industry, we demonstrated our flexibility and fulfilled our customers' needs in the best possible way supported by the joint efforts of all our employees and capacity expansions. Our products and services make a major contribution to secure oil supplies all over the world.

Higher efficiency and improved technology ensure more considerate use of oil and gas today than in the past. Although the significance of alternative sources of energy will continue to grow in the next years, all conceivable scenarios have oil and gas as the leading energy source for humankind over many decades to come. Even a fundamental recession scenario would entail a massive decline, but not a complete collapse of the oil and gas market.

Production rates of existing oil fields decline by an average of six to eight per cent every year<sup>3</sup> and, therefore, the gap between oil demand and available supplies will widen even further. Although this problem will be temporarily mitigated by the present reduction of demand for energy, it will not be resolved as such. Cuts on spending for developing new oil and gas reservoirs due to the currently low oil price will thus result in a need for much higher investment at a later point in time.

<sup>3</sup> IEA: *World Energy Outlook 2008*

Ever more efficient methods to detect reservoirs and exploit brown fields will secure oil and gas supplies even for longer periods of time. However, easy access to oil reserves – “easy oil” – is over. Development and production of new oil reservoirs often involve complex technological efforts because they are located in hard-to-access regions or at great depths below the sea floor.

Therefore, application of high technology in the oilfield service industry, in particular directional drilling, will grow over the long term. With it, SBO’s core competence, production and development of high-precision components for the oilfield service industry, will become ever more important.

In view of those general considerations we are highly confident about the long-term future of our company and will persistently continue our strategy of market-oriented growth. Similarly, we will push ahead with product innovations as before, both for high-precision components and drilling motors.

We will widen our global presence so that we can offer our customers – wherever necessary – the best possible service also locally. At the turn of the year we started activities for a new Service & Supply Shop in Brazil. The company will focus on marketing non-magnetic steel products. The strategic background to this decision is the fact that extensive exploration and production activities are planned off the Brazilian coast and, as a result, local demand for offshore oilfield equipment will grow accordingly.

Also, experience gathered with our production site in Mexico shows that we are able to produce high-quality products even in countries offering labour cost advantages and benefit from such cost advantages.

We plan to pursue this cost-optimizing approach further by establishing a new site in Vietnam, where we intend to enter the market segment of standard LWD/MWD tools. Such products are currently produced mainly by competitors in high-wage countries. By combining SBO’s know-how with production at a lower-cost site we expect to gain competitive advantages in rounding off our product range. It is not planned to shift existing productions to Vietnam. Moreover, Vietnam is an important step for SBO to follow customers in their expansion towards Asia.

SBO: Success through flexibility in a highly volatile market environment

In implementing this package of measures we will secure and further expand our global market leadership in high-precision components for the oilfield service industry even in a more challenging economic environment. Our sound balance sheet, high liquidity from operations and our deliberately conservative financing policy form the solid foundation for implementing our strategy.

New sites planned in  
Vietnam and Brazil

We are perfectly prepared today to respond to most diverse scenarios and have proved our flexibility in a period of economic upswing. Conversely, we will react swiftly to opposite market developments.

The Executive Board proposes to the Annual Meeting to pay to the shareholders a distribution of EUR 0.75 per share for fiscal 2008. Of this amount, EUR 0.50 go to the base dividend and EUR 0.25 to the bonus, totalling a distribution of MEUR 11.9 to our shareholders. In doing so, we take into account, on the one hand, the excellent business development in 2008, but, on the other hand, also bear in mind the considerably less favourable overall conditions for the new business year 2009, in which a cautious distribution policy appears to be essential.

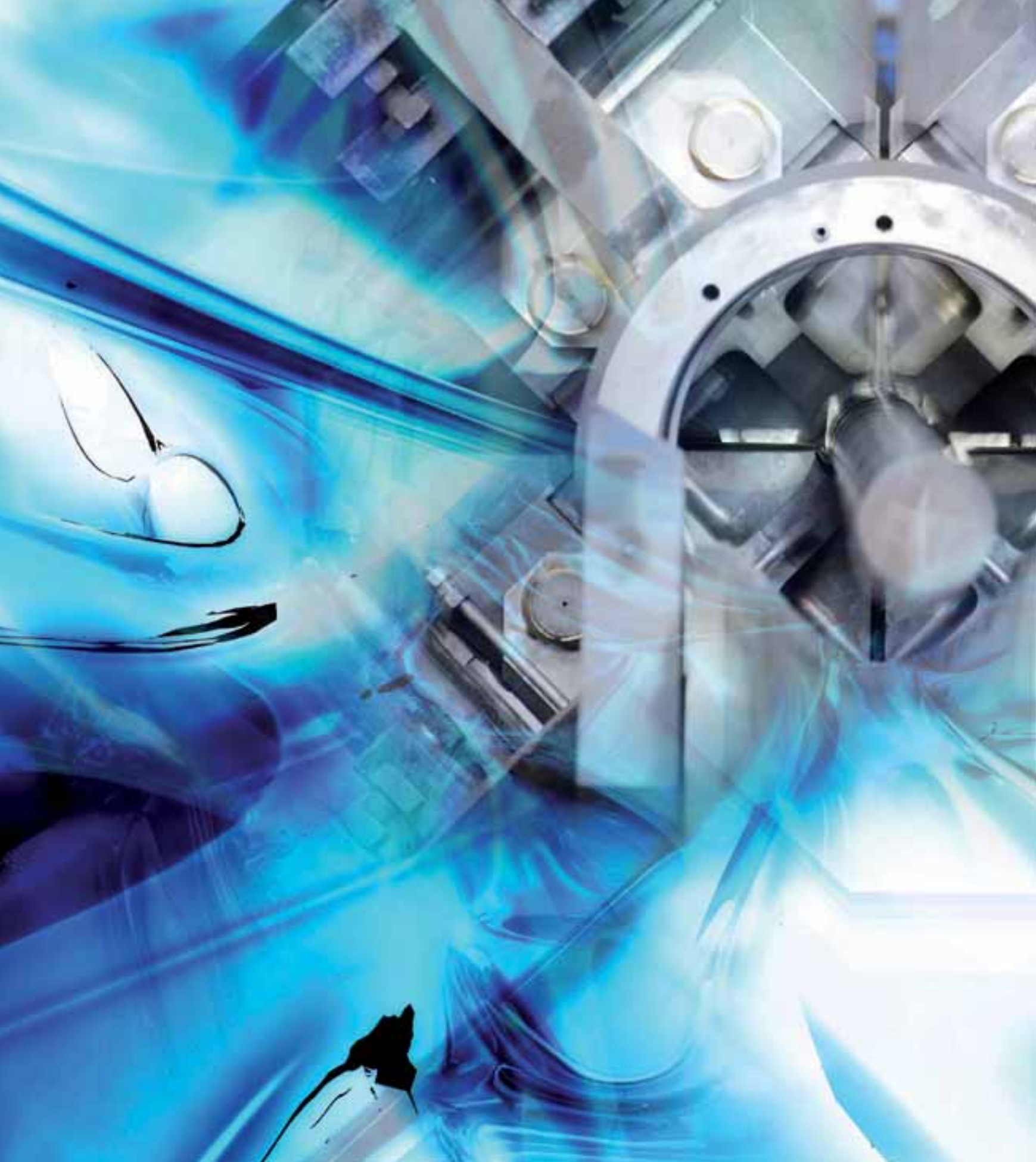
In closing, we would like to thank our employees for their commitment. Our thanks also go to our customers and business partners for the confidence placed in us.



**Gerald Grohmann**  
Chairman of the Executive Board



**Franz Gritsch**  
Member of the Executive Board





# COLD FORGING

ADDING VALUE THROUGH ...

... OUR UNIQUE COLD FORGING  
PROCESS FOR MANUFACTURING  
HIGH-STRENGTH NON-MAGNETIC  
STEEL GRADES FOR THE OILFIELD  
SERVICE INDUSTRY.



SBO employees: Integrity, service awareness, absolute customer orientation and commitment.

## Human Resources

The successful performance and dynamic growth of Schoeller-Bleckmann Oilfield Equipment AG in the past years is mainly due to the high commitment of our employees. Characteristic features such as integrity, quality and service awareness, absolute customer orientation and strong motivation make SBO's employees highly appreciated partners in the oilfield service industry. Schoeller-Bleckmann promotes the entrepreneurial attitude of its employees.

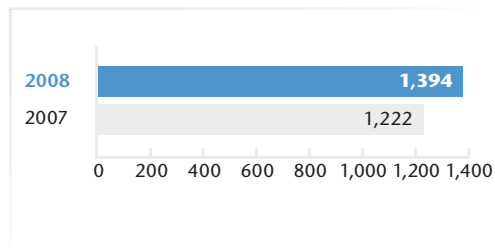
Responsible human resources development and transparent internal communication have created a corporate culture based on trust. The operating companies of Schoeller-Bleckmann offer their employees attractive jobs in a challenging work environment. SBO's employees strongly identify themselves with the company.

As per 31 December 2008, the global headcount of the Schoeller-Bleckmann group was 1,394. Compared to 2007, this is an increase of 14.1 % or 172 employees.

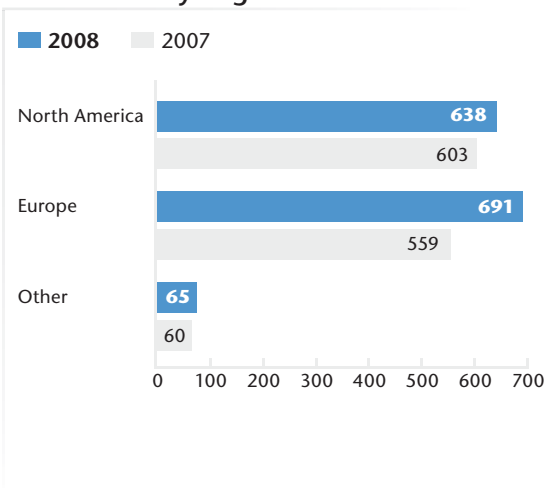
This clear rise in personnel capacities followed the increase of production capacities. In Europe, the year-end headcount was 691, up + 23.6 % from the year before. This growth was accounted for mainly by the Ternitz site. The headcount in North America (including Mexico) increased by 35 people or 5.8 %.

In fiscal 2008 specific training courses were conducted for around 400 skilled workers, preparing them for forthcoming demanding positions within the entire group. Furthermore, operation of a large number of new machines requiring in part sophisticated know-how necessitated substantial training efforts for employees.

### Total Headcount



### Headcount by Region



SBO share performance:  
Better than ATX





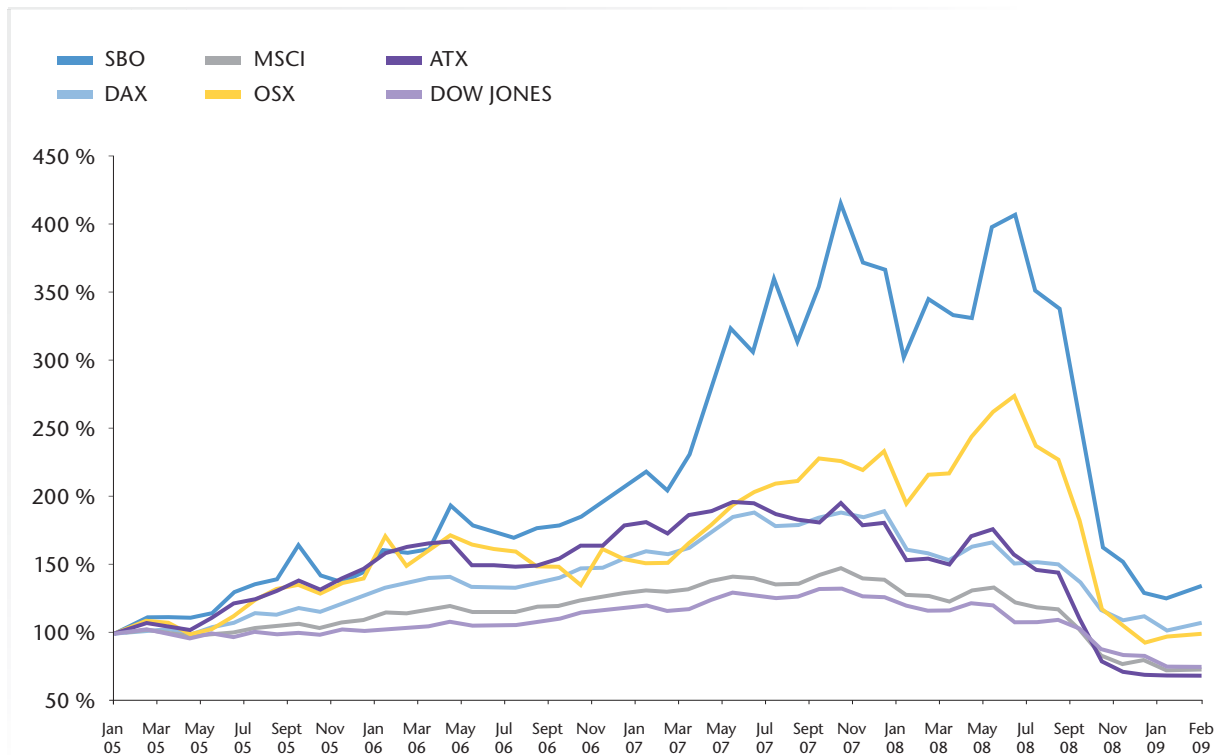
## The SBO Share

The year 2008 at the world's stock exchanges, following a sideways development in the first half of the year, was characterized by a dramatic drop in prices in the second half triggered by the financial crisis originating in the United States. Oil stocks came under additional pressure by the oil price slump observed towards the end of 2008.

The share of Schoeller-Bleckmann Oilfield Equipment AG could not escape that development, either. While in the first half of the year the SBO share performed markedly better than the Vienna ATX leading share index, it essentially followed the sharp decline of the ATX in the second half of the year.

The SBO share started off in 2008 at a price of EUR 61.00 per share and, on 17 June, climbed to its annual high of EUR 72.49 per share. At the end of the year, the share closed at EUR 21.90, near the annual low of EUR 19.02.

### Share Performance

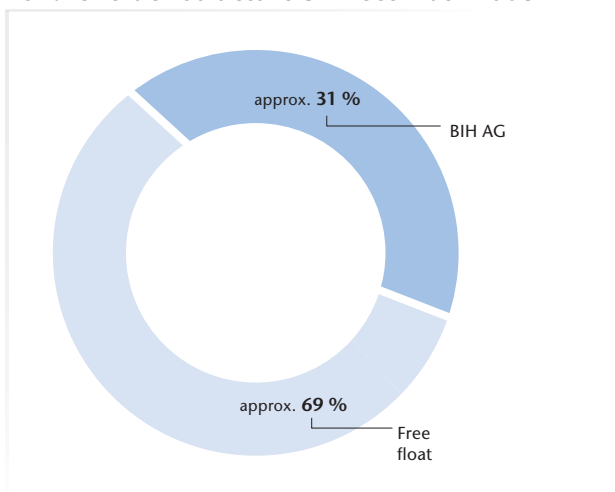


## Open and transparent communication

Continuous and comprehensive exchange of information with participants in the capital market was a cornerstone of corporate communication in 2008. Schoeller-Bleckmann Oilfield Equipment AG is now regularly covered by analysts of UniCredit, Erste Bank, Raiffeisen Centrobank, Sal. Oppenheim, Capital Bank, Berenberg Bank, Merrill Lynch, Goldman Sachs, Deutsche Bank, Cheuvreux and Cazenove. Due to this scope of coverage and the associated close dialogue between the capital market and the company, the SBO share is in high and constant demand both from institutional and private investors.

In fiscal 2008, the Executive Board and Head of Investor Relations of Schoeller-Bleckmann attended a large number of company presentations for institutional investors, such as road shows organised in Amsterdam, Chicago, Denver, Düsseldorf, Edinburgh, Frankfurt, Cologne, London, Montreal, New York, Paris, Toronto and Zurich, as well as in Austria at conferences held in Kitzbühel, Stegersbach and Zürs.

### Shareholder Structure 31 December 2008



### Financial Calendar

30 April 2009	Annual Shareholders' Meeting
14 May 2009	Ex-day, dividend distribution day
<b>Publications:</b>	
19 May 2009	1 <sup>st</sup> Quarter 2009
19 August 2009	2 <sup>nd</sup> Quarter 2009
19 November 2009	3 <sup>rd</sup> Quarter 2009

At the end of May 2008, SBO organised a series of events for journalists, investors, employees and neighbours on the occasion of opening the new production facilities in Ternitz, among them a press seminar, an Investor's Day for institutional investors and analysts as well as an Open House Day for the local population.

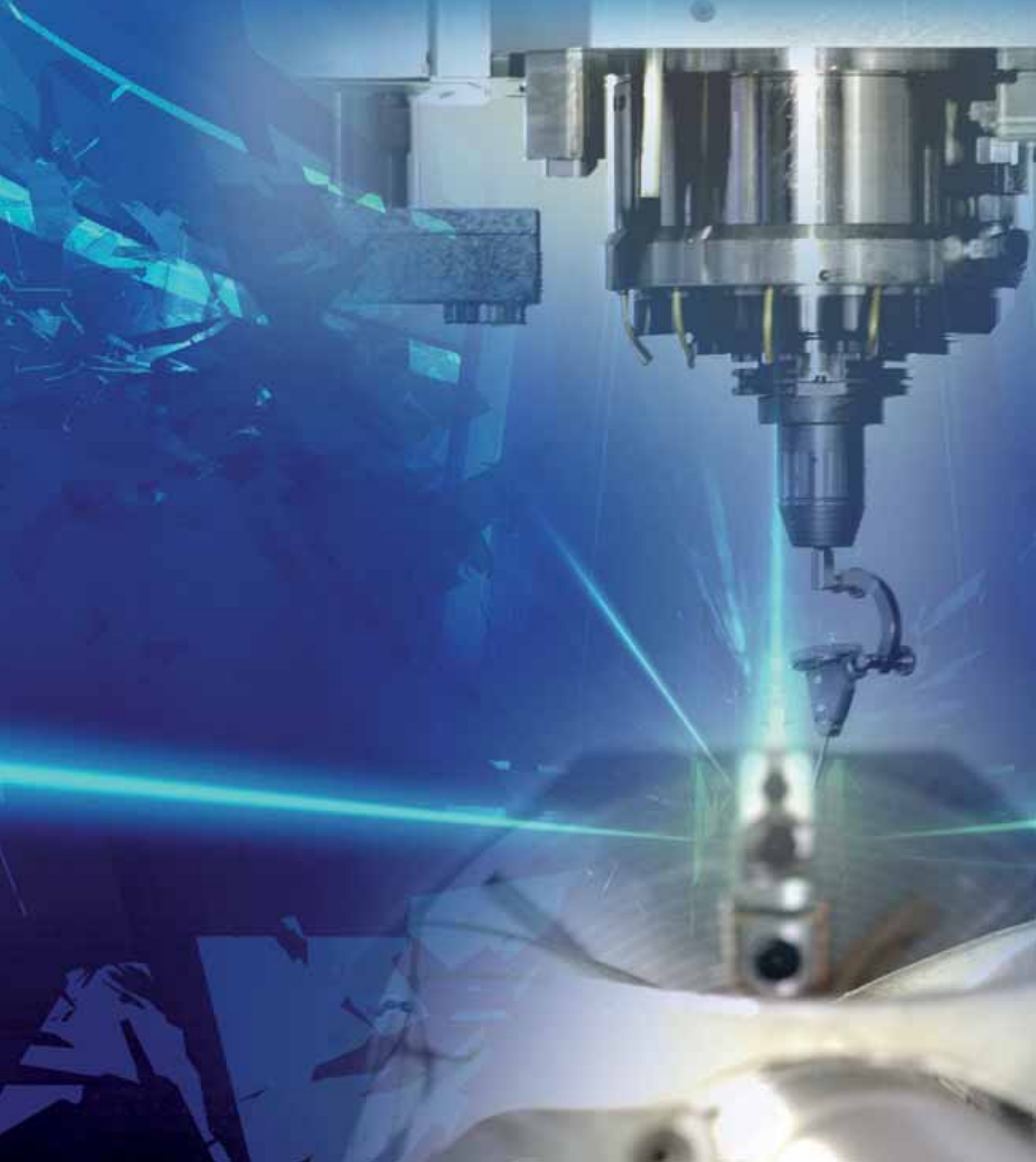
The purpose of the events was to present the achievements of the company in detail and to inform about the products and services offered by SBO. In the process, both the current developments in the oilfield service industry and the new production together with the options involved were debated in depth.

The latest information about the company and all publications by SBO are available on the company website <http://info.sbo.at>.

### Share Key Data

	2008	2007
Share capital (in EUR)	15,880,116	16,000,000
Number of shares	15,880,116	16,000,000
Average number of shares traded per day <sup>1</sup>	95,530	102,786
Closing share price at year end (in EUR)	21.90	61.57
High/Low (in EUR)	71.80/19.02	75.00/33.50
Market capitalization at year end (in EUR)	347,774,540	985,120,000
Earnings per share (in EUR)	3.69	3.13
Price/earnings ratio at year end	5.93	19.67
Dividend per share (in EUR)	0.75 <sup>2</sup>	1.10

<sup>1</sup> double counting  
<sup>2</sup> proposed





**MANUFACTURE OF HIGH-PRECISION COMPONENTS**

ADDING VALUE THROUGH ...

... MANUFACTURING INCREASINGLY  
COMPLEX MWD/LWD TOOLS FOR  
OUR CUSTOMERS.

## Corporate Governance

---

Schoeller-Bleckmann Oilfield Equipment AG has committed itself to comply with the Austrian Corporate Governance Code since 2005 and consistently implements its rules. The Austrian Corporate Governance Code is a set of rules meeting international standards for responsible management and governance. By observing the Austrian Corporate Governance Code Schoeller-Bleckmann makes a contribution to strengthen trust in Austrian companies and the Austrian capital market.

The 80 rules of the Austrian Corporate Governance Code are subdivided in 3 categories: L-Rules (Legal Requirements) describe mandatory legal requirements that must be complied with by law. The second category is C-Rules (Comply or Explain) and contains customary international provisions, deviation from which is subject to explanation. The third category, R-Rules (Recommendation), is of recommendatory nature. Non-compliance does not have to be explained.

The mandatory legal provisions (L-Rules) are fully complied with by Schoeller-Bleckmann.

### **Explain**

The C-Rules are largely complied with by SBO. Deviations are explained as follows:

### **Rule 18**

Schoeller-Bleckmann Oilfield Equipment has not set up a separate unit for internal auditing and does not intend to do so in future. The controlling staff of the holding company has also assumed auditing tasks for the company and its subsidiaries and regularly presents any material findings to the audit committee. Furthermore, the company and all its subsidiaries are audited annually when the annual financial statements are reviewed by international certified accountants.

### **Rule 30**

As the Executive Board of Schoeller-Bleckmann Oilfield Equipment consists of two members, Article 241 Para 4 UGB („Austrian Commercial Code“) applies, pursuant to which disclosure of compensation of members of the Executive Board and of expenditures for severance payments and retirement pensions for members of the Executive Board is not required. This exemption is applicable to Rule 30. The company, however, voluntarily publishes the total compensation of the members of the Executive Board and the managing directors of its subsidiaries.

(For details see Notes to the Consolidated Income Statement)

### **Rule 38**

Neither the company's articles of association nor the rules of procedure provide for any age limits for the members of the Executive Board. The Supervisory Board of the company has basically objected to the introduction of such age limits, as this would not provide any substantial additional value for the company.

**Rule 41**

In line with the Austrian Corporate Governance Code, the function of the nomination committee is exercised by the remuneration committee.

**Rule 53**

The members of the Supervisory Board of Schoeller-Bleckmann Oilfield Equipment act independently. The scope of activities of Supervisory Board member Dr. Schleinzner in 2008 as the company's legal counsel was not regarded to be substantial pursuant to Annex 1 of the Austrian Corporate Governance Code. (For details see Notes to the Consolidated Income Statement)

**Rule 54**

At present, no member of the Supervisory Board is explicitly designated as representative of minority shareholders. It is the opinion of the Executive Board that the minority shareholders feel that their interests are well represented in the Supervisory Board: All members of the current Supervisory Board were elected unanimously, i.e. without any dissenting vote and thus with the votes of the minority shareholders present. Therefore, the Executive Board sees no need for action in this matter at the moment.

**Rule 57**

Neither the company's articles of association nor the rules of procedure provide for any age limit for the members of the Supervisory Board. The Supervisory Board of the company has basically objected to the introduction of such age limits, as this would not provide any substantial additional value for the company.



**Ternitz, Austria**  
Schoeller-Bleckmann Oilfield Technology GmbH  
Schoeller-Bleckmann Oilfield Equipment AG (Holding)

**Houston, USA**  
Schoeller-Bleckmann Sales Co. L.P.  
Knust-SBO Ltd.  
Godwin-SBO L.P.  
BICO Drilling Tools Inc.

**Lafayette, USA**  
Schoeller-Bleckmann  
Energy Services L.L.C.

**Rotherham, UK**  
Darron Tool & Engineering Ltd.

**Aberdeen, UK**  
Schoeller-Bleckmann Darron Ltd.

**Chesterfield, UK**  
Techman Engineering Ltd.

**Monterrey, Mexico**  
Schoeller-Bleckmann de Mexico  
S.A. de C.V.

**Macaé, Brazil\***  
Schoeller-Bleckmann do Brasil, Ltda.

**Nisku, Canada**  
BICO Faster Drilling Tools Inc.

**Singapore**  
SB Darron Pte. Ltd.

**Dubai, U.A.E.**  
Schoeller-Bleckmann Oilfield Equipment  
Middle East FZE

**Noyabrsk, Russia**  
Schoeller-Bleckmann Darron Ltd.

**Ho Chi Minh City, Vietnam\***  
Schoeller-Bleckmann Oilfield Equipment  
Vietnam Co. Ltd.

*\* in the course of formation*





Noyabrsk

Ho Chi Minh City\*  
Singapore

GLOBAL PRESENCE

ADDING VALUE THROUGH ...

... GLOBAL PRESENCE. WE ARE  
CLOSE TO OUR CUSTOMERS  
AROUND THE WORLD.

Considerably weaker industry cycle expected for 2009. SBO is well prepared for all scenarios.



## Management Report

### MARKET ENVIRONMENT

Fiscal 2008, as the years before, was generally characterized for the oilfield service industry by continued intensive exploration and production activities of national and international oil companies. The driving force behind this development was the constantly growing global demand for energy which was triggered in particular by the booming economies of the emerging markets and was maintained at least until the second quarter of 2008.

From mid-2008 on, the credit and financial crisis originating from the USA was aggravating substantially. While immediate repercussions were initially limited to the USA, the crisis rather rapidly spilt over to the capital and commodities markets of the rest of the world. The global stock market plunge and the restrained lending policy of banks had measurable effects on economic development and, consequently, global energy consumption in the fourth quarter.

International forecasters<sup>4</sup> assess global GDP growth for 2008 at 2.5 % (following 3.8 % in 2007), mainly accounted for by the decline in the US from 2.0 % to 1.4 % in 2008 and in the euro zone from 2.6 % to 1.2 % in 2008. For China, GDP growth is expected to go down from 11.9 % in 2007 to 9.6 % in 2008. India's economic growth should have arrived at 5.4 % in 2008 (following 6.3 %).

Turbulences at the international stock and commodities markets are clearly reflected in the oil price development: Early in January, the oil price (WTI) started off at USD 99.63 per barrel, reaching its annual high in July at USD 145.46. Then the backlash set in, leading to the annual low of USD 30.81 per barrel at the end of December.

Oil consumption also was subject to volatility. Already in the second quarter of 2008, demand for oil started to go down continuously. It was notably the consumption of crude oil products in North America that was clearly declining throughout 2008<sup>5</sup>. As a consequence, crude oil inventories started to build up, a major factor in the oil price slump.

According to estimates by EIA (Energy Information Administration), global oil consumption in 2008 fell for the first time since 1983<sup>6</sup>. For 2008, IEA (International Energy Agency) expects to see an overall demand of only 85.8 million barrels per day (2007: 86.0 million barrels per day), a reduction of 200,000 barrels per day<sup>7</sup>.

Exploration and production (E&P) activities of the major national and international oil companies still remained geared to an increase of global energy consumption for the large part of 2008. The upward tendency of the oil price leading to its all-time high at mid-year allowed for rising E&P spending. In particular, activities in the technologically challenging E&P sector (directional drilling, off-shore drilling) have resulted in strong demand for high-tech components. As a result, the order situation for the oilfield service industry in 2008 was characterized by strong demand. The total rig count (number of active drilling rigs worldwide), an indicator of global drilling activities, climbed to an annual average of 3,336 units from 3,116 units in 2007, with a decline in activities starting to show already at the end of the year<sup>8</sup>.

<sup>4</sup> Economist Intelligence Unit, International Monetary Fund

<sup>5</sup> World Oil Demand, International Energy Agency, December 2008

<sup>6</sup> Short-Term Energy Outlook, Energy Information Administration, December 2008

<sup>7</sup> Oil Market Report, International Energy Agency, December 2008

<sup>8</sup> Baker Hughes: Rig Count (worldwide)

## BUSINESS DEVELOPMENT

### Sustained favourable order situation for high-precision components

Schoeller-Bleckmann Oilfield Equipment AG fully benefited from the favourable economic development of the industry in fiscal 2008. Expansion of production capacities as a consequence of the strategic investment programme helped to post new record company fundamentals.

Bookings received in fiscal 2008 amounted to MEUR 367.3 around 8 % above the level of 2007. The favourable order situation concerned all segments alike until well into the fourth quarter. Towards the end of the year, some caution in placing orders over the previous quarters started to emerge.

The order backlog at the end of 2008 amounted to MEUR 214 (following MEUR 249 at the end of 2007). The decline shows that lead times were back to normal as higher capacities were available but also reflects a slowdown of bookings in the fourth quarter. All production capacities were fully utilised in 2008, the continued high level of bookings was managed with multi-shift operation and overtime.

Robust order situation continues until fourth quarter 2008, signs of incipient restraint start to appear at year-end.

Cost-wise, another increase of personnel costs had to be absorbed. By contrast, prices of alloy metals fell in line with developments in international commodities markets over the year.

Selling prices came under growing pressure from customers during 2008. Adding to this was increased competition as a result of capacity expansions throughout the oilfield service industry.

### Service & Supply Shops post good results

In the business segment of oilfield supplies and services, Schoeller-Bleckmann operates a global network of Service & Supply Shops, which were very heavily booked mainly in the first half of fiscal 2008. The site in Russia was expanded and the property previously leased was bought. Following the boom in the past years, a slight slowdown was felt for the first time in this segment from the third quarter onwards, but this had no effect yet on the overall favourable earnings situation of the segment.

### Drilling motor business excellent again

The segment of drilling motors of Schoeller-Bleckmann Oilfield Equipment is pooled in North American subsidiary BICO Drilling Tools Inc. (BICO). BICO's core business is to lease out drilling motors. In fiscal 2008, BICO gained additional market shares due to the high market acceptance of high-performance drilling motor „Spiro Star“ and by increasing the motor fleet. Approximately 50 % of all BICO leased-out drilling motors are already accounted for by „Spiro Star“ models.

### Expansion of Ternitz site in the centre of attention

The multi-year investment programme reached its preliminary peak in 2008, as expansion at the Ternitz site was completed. With the new production facility, manufacturing equipment for producing high-precision components (MWD/LWD) was gradually expanded over 2008. In order to utilize the new capacities in the best possible way, a new rotary forging machine producing semi-finished materials for large-volume MWD/LWD components had been commissioned already in 2007. The company's strong growth also required construction of a modern administrative building to accommodate the head office of the holding company.

In order to meet the strong demand, the manufacturing equipment at our sites in North America was also continuously expanded.

Aggregate additions to fixed assets in fiscal 2008 amounted to MEUR 45.8 (following MEUR 66.0 in the year before). Austrian site Ternitz accounted for MEUR 14.6 (following MEUR 34.3), North American sites (including Mexico) MEUR 21.1 (following MEUR 26.4), and the remainder was spent for the other sites of the group.

### Acquisition of Techman

Effective 1 October 2008, 100 % of the shares of British oilfield service provider Techman Engineering Ltd./ Chesterfield were acquired. Techman is a manufacturer of precision components (collars) and tools for the oilfield service industry and, with around 70 employees, recently generated annual sales of approximately Million British Pounds 13.5. The sellers were the former private owners of the company.

Techman is an ideal addition to Schoeller-Bleckmann's capacities in the core business of high-precision components for the oilfield service industry. Moreover, Techman has expertise in using composite materials, complementing the broad material know-how of the SBO group. Techman remains a separate entity within the group. In the medium run, the aim is to integrate the specific know-how of Techman to extend SBO's range of products.

Apart from the production site in Rotherham and the Service & Supply Shop in Aberdeen, Techman Engineering is now the third location of Schoeller-Bleckmann in the United Kingdom.

### Corporate bond issued

In June 2008 Schoeller-Bleckmann placed a corporate bond worth MEUR 40 divided into two tranches for the purpose of long-time financing the company's growth and optimising its debt capital structure. The coupon rate for the first tranche is 5.75 % with a maturity of five years, and 5.875 % for the second tranche with a maturity of seven years. The offer was addressed exclusively to institutional investors and was several times oversubscribed. Issuing of the corporate bond was completed still before the turbulences in the financial markets set in.

## Research and development

Schoeller-Bleckmann Oilfield Equipment has integrated its research and development activities largely in its operating business units. This structure has proved its worth over the past years, securing optimal use of funds and customer- and market-oriented developmental work with a high success rate.

The focus of research and development was on the segment of MWD/LWD prototype manufacture in close cooperation with SBO's customers. At BICO Drilling Tools Inc., test runs for a new steerable drilling motor were continued.

## Environment

The manufacture of SBO's products generates no appreciable emissions into air or water. Therefore, no official licensing requirements in the field of environmental protection beyond the customary scope are in place.

As a result, the company's environmental management concentrates on waste disposal, energy saving focusing on optimising power consumption and noise abatement measures.

## Risk management report

Concerning the risks of the business model of Schoeller-Bleckmann Oilfield Service AG we refer to Note 33 of Consolidated Financial Statement.

## OUTLOOK

### Difficult economic situation

The global economic situation has considerably deteriorate since the beginning of the new business year 2009. The magnitude and intensity of the crisis are hard to assess today. Global economic growth, according to estimates of renowned forecasters<sup>9</sup>, will presumably go down to only 0.8 % in 2009. Both the eurozone and the USA are expected to see declining GDPs. In the emerging markets growth is projected to continue also in 2009, but at a considerable lower level than in the preceding years.

In the first months of 2009 energy consumption is assumed to drop in all parts of the world because of economic slowdown, leaving no room for oil price increases to previous levels any time soon.

<sup>9</sup> Economist Intelligence Unit, International Monetary Fund

For full 2009, oil consumption forecasts leave no doubt: Both EIA and IEA estimate that total demand will fall worldwide. EIA assesses total demand for 2009 at 84.67 million barrels per day<sup>10</sup>, a decline of -1.39 %. IEA expects total demand to arrive at 84.7 million barrels per day, a decline of -1.16 % over total consumption of 85.7 million barrels per day in 2008.<sup>11</sup>

### E&P spending expected to go down

Dropping oil prices have made the majority of national and international oil companies reconsider their short-term exploration and production expenditure despite their excellent earnings situation in 2008. Global E&P spending in 2009 is expected to be cut by around 8 % compared to 2008, but the sharpest decline of more than 30 % – as an immediate consequence of the credit crisis – is expected to occur in North America.<sup>12</sup>

With oil prices settling at around USD 40 per barrel, new oil deposits often can no longer be developed profitably and expenditures are more and more postponed to a later date.

On the whole, the above factors lead to expect a considerably weaker business cycle for the oilfield service industry in 2009 compared to 2008.

### Outlook for Schoeller-Bleckmann

As the extent and duration of the current global economic crisis cannot be projected at the moment, any forecast on SBO's business development in 2009 is associated with substantial uncertainties. The major macro-economic factors influencing the bottom-line in 2009, apart from the unfavourable economic development, will be the oil price and development of oil demand as well as the EUR/USD exchange rate. As for the industry

itself, 2009 will see increasing competition and price pressure as well as decreasing bookings.

As global recession is expected to deepen over the year, SBO will inevitably be hit by this negative development and the resulting drop in sales and profit. SBO responds to the current environment by implementing a comprehensive package of measures comprising cost savings at all subsidiaries, postponing capital expenditures and insourcing of services. SBO will make every possible effort to adapt production

capacities to the market situation in 2009. The company has a sound financial structure, its current equity ratio standing at 51 % of the balance sheet total and its net debt at MEUR 74.2. Solid liquidity together with secured credit facilities gives SBO sufficient leeway. This will help the company to proactively use market opportunities also in economically challenging times.

Solid financing provides  
the basis of grasping future  
market opportunities

<sup>10</sup> Short-Term Energy Outlook, Energy Information Administration, January 2009

<sup>11</sup> Monthly Oil Market Report, IEA, Februar 2009

<sup>12</sup> Credit Suisse: Oilfield Services in 2009

## 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). In the past business year, the scope of consolidated companies was expanded by the acquisition of British company Techman Engineering Ltd. effective 1 October 2008 and establishment of Vietnamese company Schoeller-Bleckmann Oilfield Equipment Vietnam Co. Ltd. effective 23 October 2008. No changes were made in the business of the group.

### Sales

Fiscal 2008, as the years before, was characterised by a favourable market environment, which led to an increase in sales of 22.5 % (after 32.5 % in 2007) from MEUR 317.4 to MEUR 388.7.

As in the years before, the US dollar continues to be the most important currency by far for the SBO group. In 2008, about 78 % (after 75 % in 2007) of total sales and revenues were generated in US dollars.

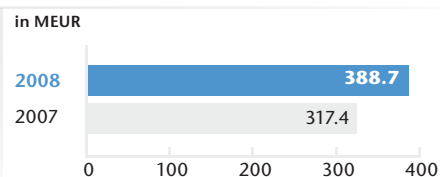
The average rates for the years ended 31 December 2007 and 31 December 2008 were used by the Company in the preparation of the Consolidated Profit and Loss Statements, whereas the closing rates for the years 2007 and 2008 were used in the preparation of the Consolidated Balance Sheets. The weakening of the US dollar in 2008, compared with the US dollar rate in 2007, had an effect of approximately MEUR 22 on the sales figure reported.

### Sales by regions

The table beside shows sales by regions of origin. The largest increase was achieved in Europe, which resulted mainly from the expansion of the production facility in Ternitz/Austria.

Regarding sales markets, North America 72 % continues to be the most important market for the Company, as the major oilfield service companies are located in the USA. However, the products of the SBO group are used all over the world.

### Sales



### Exchange rate

in EUR/USD

	High	Low	Average	Closing
Year 2008	1.5990	1.2460	1.4706	1.4090
Year 2007	1.4874	1.2893	1.3706	1.4730

### Sales by regions

in MEUR

	2008	2007
North America	300.2	256.4
Europe	237.5	174.0
Other	16.5	15.9
- Intercompany Sales	-165.5	-128.9
<b>Total Sales</b>	<b>388.7</b>	<b>317.4</b>



## Sales by products

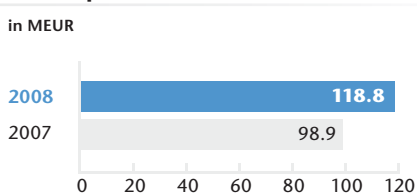
in MEUR		
	2008	2007
High-Precision Components	237.7	196.5
Oilfield Supplies and Service	150.2	119.3
Other	0.8	1.6
<b>Total Sales</b>	<b>388.7</b>	<b>317.4</b>

## Sales by products

Both business segments, high-precision components and oilfield supplies and service, reported significant sales increases in fiscal 2008. The business segment of high-precision components achieved an increase by 21 %; it comprises primarily MWD/LWD collars, MWD/LWD internals and high-precision parts.

In the segment of oilfield supplies and service, sales grew by approximately 26 %. It comprises non-magnetic drill collars, non-magnetic material, drilling motors and other components for the oilfield as well as service and repair activities. Disproportionately high increases in this sector were achieved by non-magnetic material and drilling motors.

## Gross profit

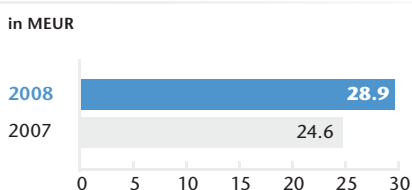


## Gross profit

Gross profit amounted to MEUR 118.8 after MEUR 98.9 in the year before, which is an increase of 20 %. The gross margin arrived at 30.6 % after 31.2 % in the year before. Despite the negative influence of the US dollar exchange rate, the gross margin could thus be kept at a satisfactory level.

This development results from both price increases and economy of scale due to full utilisation of capacities.

## Selling and administrative expenses



## Selling and administrative expenses

Selling, general and administrative (SGA) expenses amounted to MEUR 28.9, compared with MEUR 24.6 in 2007. Therefore, SGA expenses again increased only disproportionately and, expressed as a percentage of sales, were reduced from 7.8 % in 2007 to 7.4 % in 2008.

Although the growth in business volume resulted in increased overhead expenses, they could be kept disproportionately low due to strict cost management. SGA expenses mainly consist of salary and salary-related expenses, professional fees, travel and entertainment, communication and insurance costs.

### Other operating income and expenses

- Other operating expenses MEUR 17.2 (2007: MEUR 7.3)  
This item contains mainly R&D expenses and exchange losses.
- Other operating income MEUR 14.5 (2007: MEUR 7.3)  
The major item covered here are exchange gains. Further operating income consists of rental income, service charges as well as scrap sales and gains from the sale of fixed assets.

### Income from non-recurring restructuring measures

This item shows an income of MEUR 0.8 in 2008 (2007: MEUR 1.8). It mainly refers to the partial reversal of provisions made in previous years for restructuring an operating unit. Restructuring was completed in 2008.

### Income from operations

Income from operations after non-recurring items increased by 15.6 % to MEUR 88.0 after MEUR 76.1 in the year before. This is a margin of 22.6 % (2007: 24.0 %) of sales. This decline over the previous year is due to the weaker US dollar exchange rate. Based on the US dollar exchange rate in 2007, the financial result would have increased by approximately MEUR 13. Nevertheless, the result is satisfying due to almost full capacity utilisation and strict cost management.

### Financial result

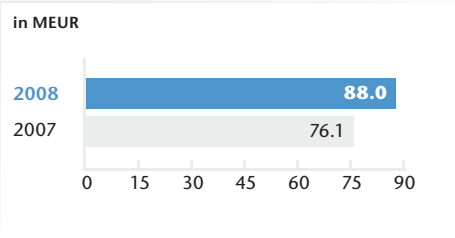
The financial result stood at MEUR – 5.5 after MEUR – 3.6 in the year before. Net interest expenses were MEUR 3.6 after MEUR 2.0 in the year before. The increase is due to financing the higher business volume and investments. Minority interests amount to MEUR 2.2 after MEUR 1.7 in 2007.

### Net income/dividend

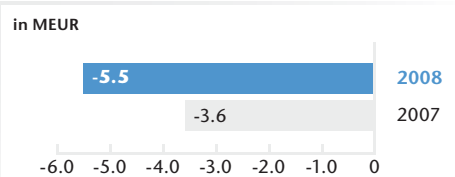
The net income for the year 2008 amounts to MEUR 58.8, i.e. EUR 3.69 per share, compared with MEUR 50.0 and EUR 3.13 per share in 2007.

The Executive Board proposes to the Annual Meeting to pay to the shareholders a distribution of EUR 0.75 per share for fiscal 2008. Of this amount, EUR 0.50 go to the

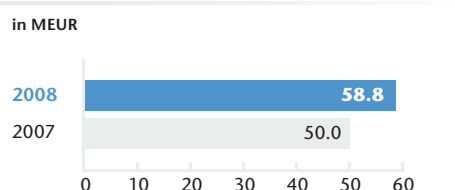
### Income from operations



### Financial result



### Net income/dividend



base dividend and EUR 0.25 to the bonus, totalling a distribution of MEUR 11.9 to our shareholders. In doing so, we take into account, on the one hand, the excellent business development in 2008, but, on the other hand, also bear in mind the considerably less favourable overall conditions for the new business year 2009, in which a cautious distribution policy appears to be essential.

### Capital resources and liquidity

Corresponding to profit development, the cash-flow from profit was also substantially improved from MEUR 71.0 in 2007 to MEUR 89.1 in the period under review. The main elements contributing to this figure were income after taxation amounting to MEUR 58.8 and depreciation and amortisation amounting to MEUR 26.2. Cash-flow from operating activities arrived at MEUR 65.0 (2007: MEUR 37.5). The net working capital went up by MEUR 21.8 from MEUR 99.4 to MEUR 121.2. This is mainly due to higher receivables from increased sales.

Cash-flow from investing activities amounted to MEUR 59.5 after MEUR 60.9 in 2007. Expenditures for property, plant and equipment were MEUR 45.8 in 2008 (2007: MEUR 66.0).

Expenditures for property, plant and equipment for the business segment of high-precision components amounted to MEUR 22.8 (2007: MEUR 37.8) and concerned mainly spending for building a production hall at Godwin-SBO L.P. and acquisition of manufacturing equipment for Schoeller-Bleckmann Oilfield Technology GmbH in Ternitz/Austria, Godwin-SBO L.P., and Knust-SBO Ltd. in Houston/USA.

Expenditures for the business segment of oilfield supplies and service amounted to MEUR 21.9 (2007: MEUR 25.9). They were spent mainly for additions to the rental fleet of drilling motors of the companies BICO Drilling Tools Inc. in Houston/USA and BICO Faster Drilling Tools Inc. in Nisku/Canada as well as acquisition of land for the Service and Supply Shop in Russia.

Net debt as at 31 December 2008 was MEUR 74.2 after MEUR 51.6 as at 31 December 2007. The increase in net debt is a result of the above-mentioned capital expenditures and the rising net working capital.

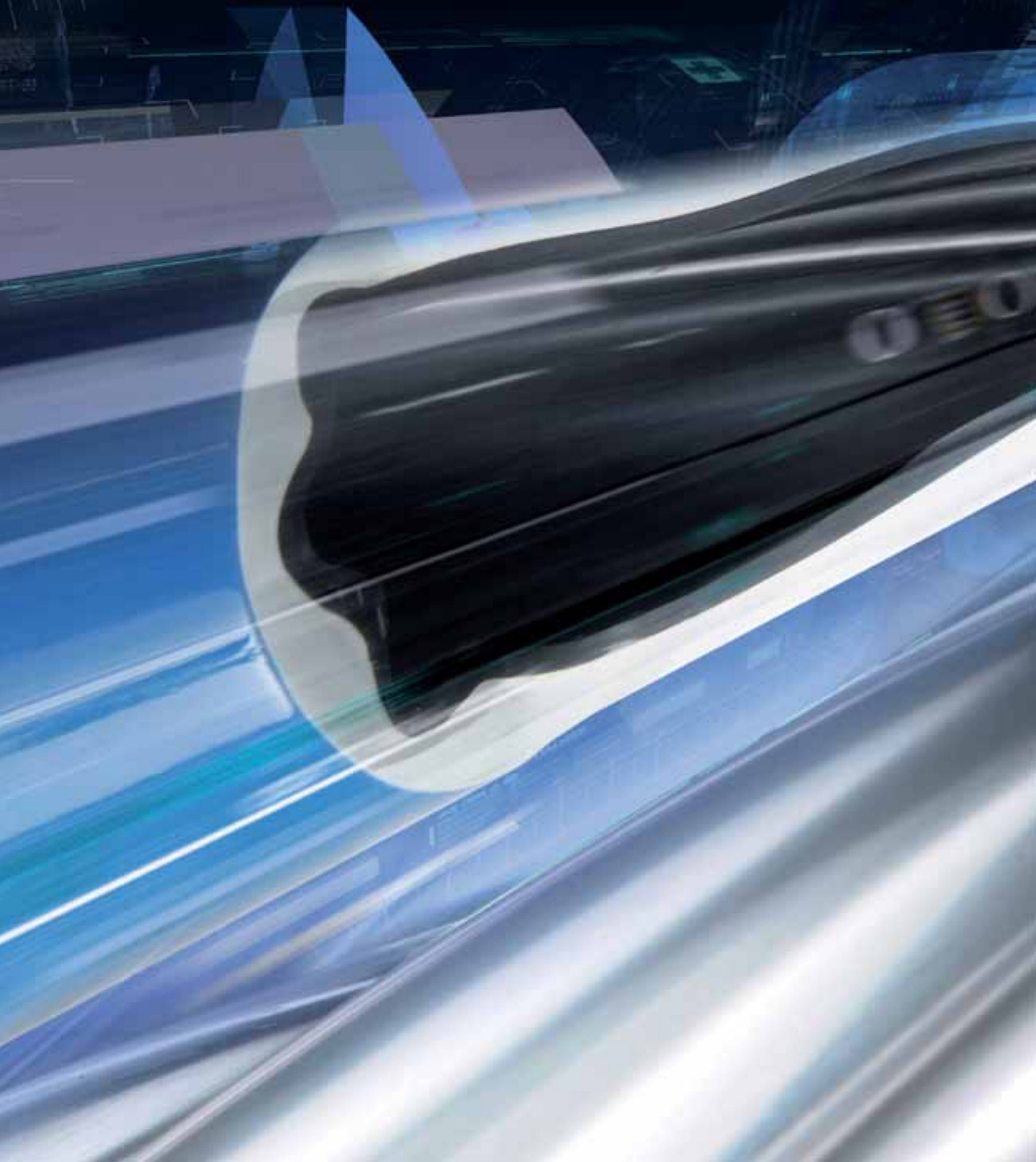
The gearing ratio, defined as net debt divided by shareholders' equity, was 32.8 % as at 31 December 2008 after 26.6 % in the year before.

### EVENTS AFTER THE BALANCE SHEET DATE

Please refer to Note 39, Consolidated Financial Statement, page 93.

### ADDITIONAL INFORMATION ACC. TO SECTION § 243A, AUSTRIAN COMMERCIAL CODE

Please refer to Note 20, Consolidated Financial Statement, page 76.





HIGH-PERFORMANCE DRILLING MOTORS

ADDING VALUE THROUGH ...

... OUR HIGH-PERFORMANCE SPIRO STAR MOTORS, OFFERING HIGHER SERVICE LIFE AND GREATER RATE OF PENETRATION.

The background features a large, glowing blue sphere on the right side, set against a dark blue background with lighter blue, wavy, concentric lines. The left side of the image is a solid white vertical band.

Sound financing  
minimises risks in a  
volatile environment.

## Financial Information

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## Consolidated Balance Sheet

ASSETS in TEUR		31.12.2008	31.12.2007
<b>Current assets</b>			
Cash and cash equivalents		49,348	23,916
Trade accounts receivable	Note 5	56,101	44,954
Other accounts receivable and prepaid expenses	Note 6	9,846	6,033
Inventories	Note 7	127,147	119,339
<b>TOTAL CURRENT ASSETS</b>		<b>242,442</b>	<b>194,242</b>
<b>Non-current assets</b>			
Property, plant & equipment	Note 8	139,091	116,709
Goodwill	Note 9	39,279	33,934
Other intangible assets	Note 9	9,136	277
Long-term receivables	Note 10	4,676	4,740
Deferred tax assets	Note 11	8,690	8,003
<b>TOTAL NON-CURRENT ASSETS</b>		<b>200,872</b>	<b>163,663</b>
<b>TOTAL ASSETS</b>		<b>443,314</b>	<b>357,905</b>



## Consolidated Balance Sheet

LIABILITIES AND SHAREHOLDERS' EQUITY in TEUR		31.12.2008	31.12.2007
<b>Current liabilities</b>			
Bank loans and overdrafts	Note 12	27,880	41,871
Current portion of long-term loans		8,729	3,516
Finance lease obligations		374	0
Accounts payable trade		38,689	40,035
Subsidies received	Note 13	284	254
Income taxes payable		4,260	6,846
Other payables	Note 14	21,429	15,818
Other provisions	Note 15	7,601	8,397
<b>TOTAL CURRENT LIABILITIES</b>		<b>109,246</b>	<b>116,737</b>
<b>Non-current liabilities</b>			
Bonds	Note 16	39,787	0
Long-term loans	Note 17	45,400	30,079
Finance lease obligations		1,356	0
Subsidies received	Note 13	1,299	1,175
Retirement benefit obligations	Note 18	3,528	3,382
Other payables	Note 19	7,795	5,960
Deferred tax payables	Note 11	8,687	6,467
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>107,852</b>	<b>47,063</b>
<b>Shareholders' equity</b>			
Share capital	Note 20	15,880	16,000
Contributed capital		61,808	65,799
Legal reserve - non-distributable	Note 21	785	785
Other reserves	Note 22	44	50
Translation component		-34,441	-29,388
Retained earnings		182,140	140,859
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>226,216</b>	<b>194,105</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>443,314</b>	<b>357,905</b>

## Consolidated Profit and Loss Statement

in TEUR		2008	2007
<b>Sales</b>	Note 23	<b>388,705</b>	<b>317,372</b>
Cost of goods sold	Note 24	-269,954	-218,424
<b>Gross profit</b>		<b>118,751</b>	<b>98,948</b>
Selling expenses	Note 24	-11,919	-10,083
General and administrative expenses	Note 24	-17,025	-14,547
Other operating expenses	Note 25	-17,162	-7,290
Other operating income		14,514	7,292
<b>Income from operations before non-recurring items</b>		<b>87,159</b>	<b>74,320</b>
Result from non-recurring restructuring measures	Note 26	844	1,790
<b>Income from operations after non-recurring items</b>		<b>88,003</b>	<b>76,110</b>
Interest income		1,349	1,218
Interest expenses		-4,981	-3,248
Other financial income		329	432
Other financial expenses		-2,221	-1,987
<b>Financial result</b>		<b>-5,524</b>	<b>-3,585</b>
<b>Income before taxation</b>		<b>82,479</b>	<b>72,525</b>
Income taxes	Note 27	-23,657	-22,501
<b>Income after taxation</b>		<b>58,822</b>	<b>50,024</b>
Average number of shares outstanding		15,937,381	16,000,000
<b>Earnings per share in EUR (basic=diluted)</b>		<b>3.69</b>	<b>3.13</b>

## Consolidated Cash-Flow Statement

in TEUR		2008	2007
Income after taxation		58,822	50,024
Depreciation and amortization		26,155	16,785
Change in retirement benefit obligations		146	-115
Gain (loss) from sale of property, plant & equipment		-218	-307
Gain (loss) from sale of long-term investments		-1	290
Income from release of subsidiaries		-337	-259
Other non-cash expenses and revenues		6,369	5,107
Change in deferred taxes		-1,857	-565
<b>Cash-flow from the profit</b>		<b>89,079</b>	<b>70,960</b>
Change in accounts receivable trade		-9,624	-14,682
Change in other accounts receivable and prepaid expenses		-3,527	-1,587
Change in inventories		-6,792	-45,847
Change in accounts payable trade		-4,508	18,740
Change in other payables and provisions		330	9,956
<b>Cash-flow from operating activities</b>	Note 36	<b>64,958</b>	<b>37,540</b>
Expenditures for property, plant & equipment		-45,840	-65,975
Expenditures for intangible assets		-98	-97
Expenditures for the acquisition of subsidiaries less cash acquired	Note 37	-16,654	0
Proceeds from sale of property, plant & equipment		3,127	3,585
Proceeds from sale of long-term investments		1	1,636
<b>Cash-flow from investing activities</b>	Note 36	<b>-59,464</b>	<b>-60,851</b>
Acquisition of own shares	Note 20	-5,114	0
Dividend payments		-17,547	-12,800
Subsidies received		594	906
Change in finance lease		-112	-321
Flotation of bonds	Note 16	39,769	0
Change in bank loans and overdrafts		-14,463	16,284
Borrowings of long-term loans		35,080	8,917
Repayment of long-term loans		-17,638	-4,236
Repayment of other long-term payables		-597	-197
<b>Cash-flow from financing activities</b>	Note 36	<b>19,972</b>	<b>8,553</b>
<b>Change in cash and cash equivalents</b>		<b>25,466</b>	<b>-14,758</b>
Cash and cash equivalents at the beginning of the year		23,916	40,850
Effects of exchange rate changes on cash and cash equivalents		-34	-1,845
Revaluation effects on cash and cash equivalents		0	-331
<b>Cash and cash equivalents at the end of the year</b>	Note 36	<b>49,348</b>	<b>23,916</b>
<b>Supplementary information on operating cash-flow</b>			
Interest received		1,287	1,228
Interest paid		-3,580	-3,191
Income tax paid		-29,134	-17,056

## Statement of Shareholders' Equity

Year 2008 in TEUR	Share capital	Contributed capital	Legal reserve	Other reserves	Revaluation reserve	Translation component	Retained earnings	Total
Note	20		21	22				
<b>1 January 2008</b>	<b>16,000</b>	<b>65,799</b>	<b>785</b>	<b>50</b>	<b>0</b>	<b>-29,388</b>	<b>140,859</b>	<b>194,105</b>
Currency translation shareholders' equity						-4,688		-4,688
Hedging of a net investment						-267		-267
Currency translation other items <sup>1</sup>						-766		-766
Tax effect						668		668
Total income and expense for the year recognized directly in equity	0	0	0	0	0	-5,053	0	-5,053
Income after taxation							58,822	58,822
<b>Total income and expense for the year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-5,053</b>	<b>58,822</b>	<b>53,769</b>
Dividends <sup>2</sup>							-17,547	-17,547
Acquisition of own shares	-131	-4,983						-5,114
Disposal of own shares for the acquisition of a subsidiary	11	481						492
Tax effect on own shares		511						511
Change in reserves				-6			6	0
<b>31 December 2008</b>	<b>15,880</b>	<b>61,808</b>	<b>785</b>	<b>44</b>	<b>0</b>	<b>-34,441</b>	<b>182,140</b>	<b>226,216</b>

<sup>1</sup> Mainly result from translation differences from net investments in foreign entities such as long-term receivables.

<sup>2</sup> The dividend payment in the year 2008 of TEUR 17,547 was distributed to a share capital eligible for dividends of TEUR 15,952. Accordingly, the dividend per share amounted to EUR 1.10.

Year 2007 in TEUR	Share capital	Contributed capital	Legal reserve	Other reserves	Revaluation reserve	Translation component <sup>3</sup>	Retained earnings <sup>3</sup>	Total
Note	20		21	22				
<b>1 January 2007</b>	<b>16,000</b>	<b>65,799</b>	<b>785</b>	<b>58</b>	<b>248</b>	<b>-14,819</b>	<b>103,627</b>	<b>171,698</b>
Currency translation shareholders' equity						-10,688		-10,688
Hedging of a net investment						557		557
Revaluation marketable securities					-331			-331
Currency translation other items <sup>1</sup>						-4,255		-4,255
Tax effect					83	-183		-100
Total income and expense for the year recognized directly in equity	0	0	0	0	-248	-14,569	0	-14,817
Income after taxation							50,024	50,024
<b>Total income and expense for the year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-248</b>	<b>-14,569</b>	<b>50,024</b>	<b>35,207</b>
Dividends <sup>2</sup>							-12,800	-12,800
Change in reserves				-8			8	0
<b>31 December 2007</b>	<b>16,000</b>	<b>65,799</b>	<b>785</b>	<b>50</b>	<b>0</b>	<b>-29,388</b>	<b>140,859</b>	<b>194,105</b>

<sup>1</sup> Mainly result from translation differences from net investments in foreign entities such as long-term receivables.

<sup>2</sup> The dividend payment in the year 2007 of TEUR 12,800 was distributed to a share capital of TEUR 16,000. Accordingly, the dividend per share amounted to EUR 0.80.

<sup>3</sup> The opening balances were changed because of a reclassification of tax effects on currency translation differences in prior periods.

## Notes

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### 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 2008 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.

As per Supervisory Board resolution, the consolidated financial statements for SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft and its subsidiaries for the business year 2008 (as of 31 December 2008) will be released on 10 March 2009.

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 2008 comprise the accounts of SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft as the group parent company and its subsidiaries as follows:

Company	Location	Interest held in %
Schoeller-Bleckmann Drilling and Production Equipment GmbH	Ternitz, Austria	100,00
Schoeller-Bleckmann Oilfield Technology GmbH	Ternitz, Austria	100,00
Schoeller-Bleckmann Oilfield Investment GmbH	Ternitz, Austria	100,00
Schoeller-Bleckmann America Inc.	Wilmington, USA	100,00
B.K.G.P. Inc.	Wilmington, USA	100,00
B.K.L.P. Inc.	Wilmington, USA	100,00
Accudrill L.P.	Houston, USA	100,00
Bafco Investment Co.	Warminster, USA	100,00
Godwin-SBO L.P.	Houston, USA	100,00
Knust-SBO Ltd.	Houston, USA	100,00
Schoeller-Bleckmann Energy Services L.L.C. (*)	Lafayette, USA	100,00
Schoeller-Bleckmann Sales Co. L.P.	Houston, USA	100,00
BICO Drilling Tools Inc. (*)	Houston, USA	100,00
BICO Faster Drilling Tools Inc.	Nisku, Kanada	100,00
Schoeller-Bleckmann de Mexico S.A. de C.V.	Monterrey, Mexico	100,00
Schoeller-Bleckmann de Venezuela C.A.	Anaco, Venezuela	100,00
SB Darron Pte. Ltd.	Singapur	100,00
Schoeller-Bleckmann Oilfield Equipment Middle East FZE	Dubai, U.A.E.	100,00
Schoeller-Bleckmann Oilfield Equipment (UK) Ltd. (**)	Rotherham, UK	100,00
Darron Oil Tools Ltd.	Rotherham, UK	100,00
Darron Tool & Engineering Ltd. (*)	Rotherham, UK	100,00
Schoeller-Bleckmann Darron Ltd. (*)	Aberdeen, UK	100,00
Techman Engineering Ltd.	Chesterfield, UK	100,00
Schoeller-Bleckmann Oilfield Equipment Vietnam Co. Ltd.	Binh Duong, Vietnam	100,00

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

(\*\*) formerly Darron Holdings Limited.

In 2008, the following changes in the scope of consolidated entities took place:

- Schoeller-Bleckmann Oilfield Technology GmbH & Co KG was merged into Schoeller-Bleckmann Oilfield Technology GmbH as of 1 January 2008;
- Acquisition of 100 % of the shares of Techman Engineering Limited as of 1 October 2008 (see Note 37);
- Foundation of Schoeller-Bleckmann Oilfield Equipment Vietnam Co. Ltd. on 23 October 2008.

## NOTE 4 | Significant accounting policies

As of 1 January 2008 the Group has applied the following new and revised standards and interpretations:

- Amendments to IAS 39 and IFRS 7 – Reclassification of financial instruments,
- IFRIC 11 IFRS 2 – Transactions with own equity or group equity instruments,
- IFRIC 14 IAS 19 – Limit on a defined benefit asset, minimum funding requirements and their interaction.

The application of these standards and interpretations has not resulted in any implications on the group's assets, its financial and profit situation or on any additional data.

The essential implications of these amendments are as follows:

### Amendments to IAS 39 and IFRS 7 – Reclassification of financial instruments

As a response to the financial crisis, IASB has decided on 13 October 2008 to amend IAS 39 with regard to the classification of financial instruments. These amendments have come into effect retroactively, as of 1 July 2008. As the Group has not reclassified any financial instruments, this modification has no implication, neither on its assets nor its financial and profit situation.

### IFRIC 11 IFRS 2 – Transactions with own shares or group equity instruments

The Company has not issued any instruments to which this interpretation applies.

### IFRIC 14 IAS 19 – Limit on a defined benefit asset, minimum funding requirements and their interaction

The application of this interpretation has not resulted in any implications on the Group's assets, its financial and profit situation as there is no surplus in benefit plan.

The following new or revised standards and interpretations as published and adopted by the European Union were not applied prematurely in business year 2008 but will be applied in following reporting periods as they become obligatory:

### Amendments to IFRS 1 First time adoption of International Financial Reporting Standards and IAS 27 Consolidated and separate financial statements according to IFRS

Both amendments have to be applied for periods beginning on, or after 1 January 2009. The amendment to IAS 27 must be applied prospectively. These new regulations will have no implication on the consolidated financial statements.

### IFRS 2 Share-based payment

The amendment will become applicable for periods beginning on, or after 1 January 2009. The new regulation will not have any implication on the assets, financial and profit situation of the Group.

### IFRS 8 Operating segments

IFRS 8 was published in November 2006 and is first applicable for periods beginning on or after 1 January 2009. Once in effect, IFRS 8 will replace IAS 14 segment reporting (IAS 14).

In contrast to the IAS 14 reporting requirement by business and geographical segments, IFRS 8 follows a management approach where the published segment information is based on the information which the chief operating decision makers use for resource allocation decisions and for the assessment of segment performance. The distinction between primary and secondary segments is abolished, however, IFRS 8 establishes a segment reporting requirement also for major or exclusive inter-segment services or transfers. The application of IFRS 8 will probably not have any significant change in the Company's segment structure. It is expected that the application of the new standards will result in additional disclosures.

#### **IAS 1 Presentation of financial statements (revised)**

The revised standard was published in September 2007 and is first applicable in the periods starting on, or after 1 January 2009. The standard requires the presentation of all changes in equity resulting from transactions with owners in their capacity as owners separately from any other changes in equity. The application of the revised standard merely results in a changed presentation.

#### **IAS 23 Borrowing costs (revised)**

IASB published an amendment to IAS 23 in April 2007, which is first applicable for periods starting on, or after 1 January 2009. The revised IAS 23 requires entities to capitalize borrowing costs which are directly attributable to the acquisition, the construction or production of qualifying assets. So far, the Company has expensed borrowing costs in the period during which they were incurred. This will result in changed accounting and valuation methods for borrowing costs and in additional disclosures in 2009.

#### **IAS 32 Financial instruments: Presentation and IAS 1 Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation**

These amendments to IAS 32 and IAS 1 were published in February 2008 and are first applicable for periods commencing on, or after 1 January 2009. The changed standards shall have no impact on the consolidated assets, financial or profit situation as the Group has not issued any such instruments.

#### **IFRIC 13 Customer loyalty programmes**

IFRIC published IFRIC 13 in June 2007. The interpretation is first mandatory for periods starting on, or after 1 July 2008. The new interpretation will have no effect on the Group assets or its financial or profit situation, as the Group has no customer loyalty programmes pursuant to the definition of IFRIC 13.

#### **Improvements to IFRS 2008**

In May 2008, the Board first published a collective standard on amendments to various standards, with the primary goal to abolish inconsistencies and clarify some wordings. Each standard has its own transitional regulations. Those amendments which were developed within the framework of the Improvements to IFRS 2008 project, were not applied prematurely. The following amendment will result in changed accounting and valuation methods:

**IAS 20 Accounting for government grants and disclosures of government assistance:** In future, interest-free or low-interest loans will not be exempted from the required display of interest benefits. The difference between the grant received and the discounted amount shall be accounted in Subsidies received. So far, the Group has accounted the nominal value of interest-free or low-interest loans. In addition, some wording has been revised in order to ensure consistency with other IFRS.



- **Balance sheet date**

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

- **Consolidation principles**

Upon capital consolidation, the acquisition costs of purchased shares were offset against the proportionate present value of the acquired assets and liabilities of the respective entity in applying the purchase method of consolidation accounting.

All inter-company 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.

Inter-company 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. The profit and loss accounting between 1 January 2008 and 31 December 2008 reflects exchange gains or losses from foreign currency transactions in the amount of TEUR - 3,014 (2007: TEUR - 1,231).

For the group financial statements, the annual accounts 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 rate	
	31.12.2008	31.12.2007	2008	2007
USD	1.4090	1.4730	1.4706	1.3706
GBP	0.9585	0.7365	0.7965	0.6845
CAD	1.7090	1.4460	1.5593	1.4689
AED	5.1500	5.4100	5.4160	5.0687
MXN	19.2333	16.0735	16.2967	15.0726

Exchange differences resulting from translating the financial statements of the subsidiaries are classified as translation components in the equity section of the consolidated financial statements.

#### ● Split in current and long-term 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 long-term. 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 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, cancelled or when it expires.

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

#### Liquid funds

All cash and financial investments with a residual term of up to 90 days from the date of receipt which are booked under line item Cash and cash equivalents are classified as liquid funds. They are measured at current value at the balance sheet date.

### 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 Cash and cash equivalents, 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 the respective present value less related lending fees; 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.

### 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 present value at the contract dates and are measured at the respective present values in the following periods. Derivative financial instruments are recognized as assets if their present values are positive and as liabilities if present values are negative.

The present values of derivative financial investments traded on organized 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 present values are determined by means of other acknowledged valuation methods (recent, comparable transactions between knowledgeable, independent partners willing to trade, comparison with the present value of other, essentially identical financial instruments, as well as other valuation methods).

The Company uses the following instruments:

### Hedging of net investment

A hedging relationship for securing a net investment in a foreign operation, including the safeguarding of monetary items that are entered in the balance sheet as part of the net investment, is accounted for as follows: the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized directly in equity, whereas the ineffective portion shall be recognized in profit or loss. Upon disposal of the foreign operation, the cumulative gain or loss previously recognized in equity shall be recognized in profit or loss.

### Other derivatives

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

Income or expenses resulting from changes in the present value of financial instruments which do not fulfil the accounting criteria regarding hedging relationships under IAS 39, are immediately accounted for with effect to the profit and loss statement.

Income and expenses resulting from foreign currency hedging transactions which were made to secure 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 trades.

### ● 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 historical 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

Repairs and refurbishments are charged to the profit and loss statement at the time the expenditure has been incurred. Borrowing costs are also expensed as incurred.

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 present value of the minimum lease payments. The corresponding leasing liabilities are shown in the balance sheet as finance lease obligations.

Depreciation of assets under finance lease was included in the depreciation expenses.

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 fulfillment 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 and verified on a yearly basis as of 31 December. For this purpose, the goodwill is assigned to regional business units. The valuation of the business units is performed using the utility value on the basis of expected future cash flows.

- **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 equity are not recognized in profits and losses 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.

- **Subsidies received**

Subsidies are recognised 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 recognised 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.

- **Retirement benefits**

#### Austrian pension plan

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 3,930 (2007: EUR 3,840)). For employees contributing 1 % of their annual salaries to the pension fund, the Company also contributes 1 %.

#### Other retirement plans

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 Godwin-SBO L.P., Schoeller-Bleckmann Sales Co. L.P., Schoeller-Bleckmann Energy Services L.L.C. and BICO Drilling Tools Inc.

Employees are eligible for participation in the plan upon reaching 21 years of age and completion of one year 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 on a monthly basis.

Knust-SBO Ltd. sponsors a 401(K) profit sharing and income deferral plan which covers substantially all employees. Under this plan, employees may contribute from 2 % to 20 % of their salaries. The partnership may then make matching contributions equal to a discretionary percentage of the participants' salary deductions. For the years ended on 31 December 2008 and 2007, 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. 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 (2007: AVÖ 1999-P) by Pagler & Pagler and an interest rate of 5.75 % (2007: 5.0 %), an annual increase in salaries of 4.75 % (2007: 4.0 %) 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.

#### 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. The amounts accrued for this were also calculated by applying the Projected Unit Credit Method.

For all provisions for retirement 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 is 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 also expensed as incurred, but are not capitalized due to the uncertainties of the future economic benefits attributable to them. 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 net income for the period by the average number of ordinary shares outstanding during the period.

- Estimates, discretionary decisions and assumptions

The **preparation of 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 retirement 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).

**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
<b>2008</b>	<b>56,101</b>	<b>34,046</b>	<b>11,560</b>	<b>4,663</b>	<b>2,622</b>	<b>943</b>	<b>1,597</b>
<b>2007</b>	<b>44,954</b>	<b>28,223</b>	<b>9,583</b>	<b>3,939</b>	<b>1,327</b>	<b>1,122</b>	<b>759</b>

The allowance account reflects the following:

in TEUR	2008	2007
As of 1 January	467	361
Exchange differences	-133	-47
Usage	-118	-12
Reversal	-166	-9
Expensed additions	920	174
<b>As of 31 December</b>	<b>970</b>	<b>467</b>

The receivables listed are not secured.

**NOTE 6 | Other accounts receivable and prepaid expenses**

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

in TEUR	Carrying value		not past-due and not impaired
	Other accounts receivable and prepaid expenses	Thereof receivables	
<b>2008</b>	<b>9,846</b>	<b>9,018</b>	<b>9,018</b>
<b>2007</b>	<b>6,033</b>	<b>5,496</b>	<b>5,496</b>

The receivables listed are not secured, no allowances were recorded.



**NOTE 7 | Inventories**

Inventories are detailed by major classification as follows:

in TEUR	31 December 2008	31 December 2007
Raw materials	11,386	14,503
Work in progress	62,014	60,418
Finished goods	53,703	44,348
Prepayments	44	70
<b>Total</b>	<b>127,147</b>	<b>119,339</b>

Allowance expenses booked for 2008 were TEUR 10,752 (2007: TEUR 3,388).

**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 2008 in TEUR	Land & buildings	Plant & machinery	Fixtures, furniture & equipment	Prepayments & assets under construction	Total
<b>At cost</b>					
1 January 2008	35,849	143,186	7,218	13,183	199,436
Exchange differences	-1,437	-3,248	-379	-307	-5,371
Change in Scope of Consolidation	4,101	3,547	37	419	8,104
Additions	6,928	22,392	1,765	14,755	45,840
Transfers	857	12,293	33	-13,183	0
Disposals	-448	-5,999	-384	-531	-7,362
31 December 2008	45,850	172,171	8,290	14,336	240,647
<b>Accumulated depreciation</b>					
1 January 2008	8,377	69,851	4,499	0	82,727
Exchange differences	-375	-1,678	-329	0	-2,382
Change in Scope of Consolidation	51	574	16	0	641
Additions	1,580	22,359	1,084	0	25,023
Disposals	-446	-3,668	-339	0	-4,453
31 December 2008	9,187	87,438	4,931	0	101,556
<b>Carrying value</b>					
31 December 2008	36,663	84,733	3,359	14,336	139,091
31 December 2007	27,472	73,335	2,719	13,183	116,709

Year 2007 in TEUR	Land & buildings	Plant & machinery	Fixtures, furniture & equipment	Prepayments & assets under construction	Total
<b>At cost</b>					
1 January 2007	22,083	117,065	6,246	8,537	153,931
Exchange differences	-1,996	-8,353	-455	-161	-10,965
Additions	14,863	30,790	1,720	18,602	65,975
Transfers	1,114	12,588	93	-13,795	0
Disposals	-215	-8,904	-386	0	-9,505
31 December 2007	35,849	143,186	7,218	13,183	199,436
<b>Accumulated depreciation</b>					
1 January 2007	8,084	64,799	4,382	0	77,265
Exchange differences	-547	-4,005	-327	0	-4,879
Additions	1,016	14,737	815	0	16,568
Disposals	-176	-5,680	-371	0	-6,227
31 December 2007	8,377	69,851	4,499	0	82,727
<b>Carrying value</b>					
31 December 2007	27,472	73,335	2,719	13,183	116,709
31 December 2006	13,999	52,266	1,864	8,537	76,666

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

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

For the business year 2008, write-downs of Plant & Machinery were made in the amount of TEUR 250 (2007: TEUR 87). These expenses are included in the consolidated Profit and Loss-statement under line item "Cost of Sales" (depreciation).

In 2008 and 2007 there were no write-ups.

As of 31 December 2008 commitments for capital expenditure amounted to TEUR 22,433 (2007: TEUR 22,820).

#### Finance Lease

Plant and machinery held under finance lease are as follows:

in TEUR	31 December 2008	31 December 2007
Acquisition cost	2,582	0
Accumulated depreciation	-525	0
<b>Carrying value</b>	<b>2,057</b>	<b>0</b>

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

in TEUR	31 December 2008	31 December 2007
For the following year	477	0
Between one and five years	1,350	0
More than five years	179	0
Total minimum lease payments	2,006	0
Less discount	-276	0
<b>Present value</b>	<b>1,730</b>	<b>0</b>

#### Operating lease

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

in TEUR	31 December 2008	31 December 2007
For the following year	850	921
Between one and five years	914	1,444
After five years	200	218

Payments for operating leases which were expensed in the current year amounted to TEUR 912 in 2008 (2007: TEUR 904).

#### NOTE 9 | Intangible assets

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

Year 2008 in TEUR	Goodwill	Other intangibles	Total
<b>At cost</b>			
1 January 2008	53,429	3,395	56,824
Exchange differences	757	-1,854	-1,097
Change in Scope of Consolidation	5,146	11,712	16,858
Additions	0	98	98
Disposals	0	-23	-23
31 December 2008	59,332	13,328	72,660
<b>Accumulated amortization</b>			
1 January 2008	19,495	3,118	22,613
Exchange differences	558	-35	523
Additions	0	1,132	1,132
Disposals	0	-23	-23
31 December 2008	20,053	4,192	24,245
<b>Carrying value</b>			
31 December 2008	39,279	9,136	48,415
31 December 2007	33,934	277	34,211
<b>Year 2007 in TEUR</b>			
<b>At cost</b>			
1 January 2007	57,996	3,627	61,623
Exchange differences	-4,567	-328	-4,895
Additions	0	97	97
Disposals	0	-1	-1
31 December 2007	53,429	3,395	56,824
<b>Accumulated amortization</b>			
1 January 2007	21,082	3,215	24,297
Exchange differences	-1,587	-313	-1,900
Additions	0	217	217
Disposals	0	-1	-1
31 December 2007	19,495	3,118	22,613
<b>Carrying value</b>			
31 December 2007	33,934	277	34,211
31 December 2006	36,914	412	37,326

In the years 2008 and 2007 no impairments were made.

No write-ups were made in the years 2008 and 2007.

As of 31 December 2008, commitments for acquisitions of intangible assets amounted to TEUR 0 (31 December 2007: TEUR 0).

### 1. Goodwill

The valuation of the business units was computed by using their value in use, which is based on the estimated future cash flows and a 9 % capital cost rate before taxes (WACC = Weighted Average Costs of Capital). A detailed planning period of 3 years is used; for the following period of 12 – 15 years, a flat cash flow without further growth is assumed. The risk component is taken into account in the cash flows, which in turn are derived from the budgets of the management.

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 test carried out as of 31 December 2008 demonstrated that no write-down of goodwill was necessary. The goodwill set out in the balance sheet is mainly attributable to the following cash generating units:

in TEUR	31 December 2008	31 December 2007
Knust-SBO Ltd.	14,553	13,921
Godwin-SBO L.P.	12,139	11,636
Schoeller-Bleckmann Oilfield Technology GmbH	4,655	4,655
Schoeller-Bleckmann Oilfield Equipment (UK) Limited	3,675	3,675
Techman Engineering Limited (see Note 37)	4,217	0

Changes in the book values were exclusively due to the conversion of foreign exchange amounts.

### 2. Other intangible assets

Other intangible assets are IT software as well as rights in non-compete agreements.

Non-compete agreements were entered into with certain employees of Godwin Machine Works in 1998. The capitalized rights are being amortized over the life of the respective agreements, ranging from four to ten years.

As part of the initial accounting of Techman Engineering Limited, TEUR 9,230 for the acquired customer base and TEUR 2,482 for acquired technology were capitalized in 2008. These assets will be amortized over a period of 5 – 10 years (see Note 37).

## NOTE 10 | Long term receivables

This line item mainly refers to interest-bearing loans which have been granted to the management of companies within the consolidation group for the acquisition of stock 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 Company worth mentioning.

in TEUR	31 December 2008	31 December 2007
Loans	4,612	4,421
Other receivables	64	319
<b>Total</b>	<b>4,676</b>	<b>4,740</b>

As there were no past-due receivables, no write-downs had to be made either as of 31 December 2008 or 31 December 2007. The other receivables are not secured.

#### NOTE 11 | Deferred taxes

As of 31 December 2008, the Company had a net deferred tax asset of TEUR 3 (as of 31 December 2007: TEUR 1,536).

The components of the Company's deferred tax assets and deferred tax liabilities as of the balance sheet dates were as follows:

in TEUR	31 December 2008	31 December 2007
Fixed assets (different measurements and useful lives)	-9,028	-2,330
Inventory (different valuation)	7,146	1,664
Other items (different valuation)	96	-75
Not deductible accruals	2,553	2,608
Accruals (unrealized exchange differences)	-1,061	-718
Tax loss carry forward	297	387
<b>Total</b>	<b>3</b>	<b>1,536</b>

The line items as reflected in the group balance sheet:

in TEUR	2008	2007
Deferred tax assets	8,690	8,003
Deferred tax payables	-8,687	-6,467
	<b>3</b>	<b>1,536</b>

Not recognized are deferred tax assets in the amount of TEUR 177 (2007: TEUR 2,126) related to tax losses carried forward, because the exploitation of these losses could not be expected in the foreseeable future.

From the exploitation of tax loss carry forwards the effective taxes in 2008 were reduced by TEUR 1,622 (2007: TEUR 329).

The payment of dividends to the shareholders will not result in any implications on income taxes for the business year 2008 and the comparative period of 2007.

**NOTE 12 | Bank loans and overdrafts**

As of 31 December 2008, the short-term loan arrangements were as follows:

Currency	Amount in TEUR	Interest rate in %
USD loans	8,516	4.42 % variable
GBP loans	3,130	6.38 % variable
Subtotal	11,646	
Export promotion loans (EUR)	16,234	2.88 - 3.30 % variable
<b>Total</b>	<b>27,880</b>	

As of 31 December 2007, the short-term loan arrangements were as follows:

Currency	Amount in TEUR	Interest rate in %
USD loans	13,610	5.58 - 5.66 % variable
GBP loans	6,527	6.55 - 6.80 % variable
EUR loans	5,500	4.69 - 5.01 % variable
Subtotal	25,637	
Export promotion loans (EUR)	16,234	4.58 - 5.10 % variable
<b>Total</b>	<b>41,871</b>	

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 18,754 (2007: TEUR 18,754) to securitize these loans.

The **USD borrowings** due to banks in the amount of TEUR 8,516 (2007: TEUR 13,610) are collateralized by specific current assets of the Company ("floating charge").

**NOTE 13 | Subsidies received**

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.

**NOTE 14 | Other payables**

Other payables were as follows:

in TEUR	31 December 2008	31 December 2007
Vacation not yet used	1,644	1,247
Other personnel expenses	6,704	4,774
Invoices not yet received	2,501	2,530
Legal and other counseling fees	890	680
Taxes	3,927	2,316
Social expenses	1,343	875
Other payables	4,420	3,396
<b>Total payables</b>	<b>21,429</b>	<b>15,818</b>

**NOTE 15 | Other provisions**

The following development was recorded:

Year 2008 in TEUR	31 Dec. 2007	Change in Scope of Cons.	Exchange Differences	Usage	Reversal	Provision	31 Dec. 2008
Warranty/product liability	2,257	0	-21	-106	-71	1,267	3,326
Restructuring	1,939	0	0	0	-844	0	1,095
Other	4,201	605	-237	-2,991	-217	1,819	3,180
<b>Total</b>	<b>8,397</b>	<b>605</b>	<b>-258</b>	<b>-3,097</b>	<b>-1,132</b>	<b>3,086</b>	<b>7,601</b>

Year 2007 in TEUR	31 Dec. 2006	Exchange Differences	Usage	Reversal	Provision	31 Dec. 2007
Warranty/product liability	1,268	0	0	0	989	2,257
Restructuring	4,181	0	-452	-1,790	0	1,939
Other	2,486	-94	-965	0	2,774	4,201
<b>Total</b>	<b>7,935</b>	<b>-94</b>	<b>-1,417</b>	<b>-1,790</b>	<b>3,763</b>	<b>8,397</b>

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

Regarding the provision for restructuring, see Note 26.



**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 2008, long-term borrowings consisted of the following:

Currency	Amount in TEUR	Interest rate in %	Term	Repayment
EUR	1,720	0.00 % fixed	2008 – 2023	quarterly from 2010
EUR	2,825	3.99 % fixed	2006 – 2015	semi-annually
EUR	2,500	0.00 % fixed	2008 – 2015	quarterly from 2010
EUR	235	5.69 % variable	2006 – 2015	semi-annually
EUR	7,500	2.25 % fixed	2008 – 2014	semi-annually from 2011
EUR	7,200	4.79 % fixed	2008 – 2013	semi-annually from 2010
EUR	7,500	1.50 % fixed	2006 – 2012	semi-annually
EUR	2,778	3.54 % fixed	2006 – 2011	semi-annually
EUR	4,800	5.69 % variable	2008 – 2010	semi-annually
EUR	2,000	5.85 % variable	2003 – 2010	2010
EUR	1,077	4.75 % fixed	2002 – 2009	semi-annually
EUR	462	4.80 % fixed	2002 – 2009	semi-annually
USD	1,000	6.35 % fixed	2003 – 2016	monthly
USD	3,265	3.97 % variable	2007 – 2011	quarterly
USD	6,708	4.12 % fixed	2003 – 2010	2010
GBP	65	3.75 % variable	2004 – 2024	monthly
GBP	1,975	3.00 % variable	2007 – 2022	monthly
GBP	519	3.50 % variable	2007 – 2022	monthly
<b>54,129</b>				

As of 31 December 2007, long-term borrowings consisted of the following:

Currency	Amount in TEUR	Interest rate in %	Term	Repayment
EUR	706	5.69 % variable	2006 - 2015	semi-annually
EUR	2,825	3.99 % fixed	2006 - 2015	semi-annually
EUR	7,500	1.50 % fixed	2006 - 2012	semi-annually from 2009
EUR	3,500	3.54 % fixed	2006 - 2011	semi-annually
EUR	389	5.69 % variable	2006 - 2011	semi-annually
EUR	2,000	5.85 % variable	2003 - 2010	2010
EUR	2,154	4.75 % fixed	2002 - 2009	semi-annually
EUR	923	4.80 % fixed	2002 - 2009	semi-annually
USD	1,046	6.35 % fixed	2003 - 2016	monthly
USD	4,073	5.92 % variable	2007 - 2013	quarterly
USD	2,037	5.61 % variable	2007 - 2013	quarterly
USD	6,442	4.12 % fixed	2003 - 2010	2010
	<b>33,595</b>			

The following borrowings were collateralized:

**EUR-loans:**

- TEUR 19,220 – Machinery pledged with a carrying-value of TEUR 21,901.

**USD-loans:**

- TEUR 1,000 – Mortgage on land and building with a carrying-value of TEUR 1,513;
- TEUR 3,265 – Pledge on particular assets (“floating charge”).

**GBP-loans:**

- TEUR 2,559 – Lien on property (land and building) with a carrying value of TEUR 3,351 and on other assets (“floating charge”).

Adjustments of the variable interest rates are made quarterly.

With respect to the present value of the loans see Note 32, regarding interest rate risk and hedging see Note 33.

## NOTE 18 | Retirement benefit obligations

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

in TEUR	31 December 2008	31 December 2007
Severance payments	2,796	2,700
Jubilee payments for long service	729	679
Pension provision	3	3
<b>Total</b>	<b>3,528</b>	<b>3,382</b>

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

	2008	2007
Interest rate	5.75 %	5.0 %
Salary increases	4.75 %	4.0 %
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	2008	2007	2006	2005	2004
Defined benefit obligations as of 1 January	2,700	2,699	2,443	2,008	1,956
Current service cost	175	169	151	118	121
Interest cost	133	107	109	107	104
Current severance payments	-194	-513	-146	-161	-147
Actuarial gain/loss during the year	-18	238	142	371	-26
<b>Defined benefit obligations as of 31 December</b>	<b>2,796</b>	<b>2,700</b>	<b>2,699</b>	<b>2,443</b>	<b>2,008</b>

Actuarial gains/losses are mainly the result from experience-based adjustments.

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 826 in 2008 (2007: TEUR 639).

**NOTE 19 | Other payables**

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

Company	31 December 2008	31 December 2007
Schoeller-Bleckmann Energy Services L.L.C.	15.00 %	15.00 %
Schoeller-Bleckmann Darron Limited	8.35 %	8.35 %
Darron Tool & Engineering Limited	6.97 %	6.97 %
BICO Drilling Tools Inc.	15.00 %	15.00 %

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

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 present 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".

**NOTE 20 | Share capital**

The share capital of the Company on 31 December 2008 as well as on 31 December 2007 was EUR 16 million; divided into 16 million common shares with a par value of EUR 1.00 each.

The Ordinary Shareholders' Meeting on 23 March 2006 authorized the Management Board to raise the share capital by an amount not exceeding EUR 5 million by issuing new shares. This authorization will be in force until 8 April 2011.

The Ordinary Shareholders' Meeting on 16 April 2008 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 100.00 at the most.

In the year 2008, 131,298 of our own shares were purchased at the price of TEUR 5,114. A total of 11,414 shares thereof (TEUR 492) were transferred as part of a business combination (see Note 37). At the reporting date, the Company holds 119,884 of its own shares, equalling a 0.75 % share in its capital stock. There are 15,880,116 shares in circulation.

As of 31 December 2008, 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.

**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 | Additional breakdown of revenues**

Net sales consist of:

in TEUR	2008	2007
Sale of goods	357,819	293,497
Operating lease revenue	30,886	23,875
<b>Total net sales</b>	<b>388,705</b>	<b>317,372</b>

**NOTE 24 | Additional breakdown of expenses**

As the Company classifies its expenses by function, the following additional information is given as required by IAS 1 (revised 2005) (accounted for by using the "total cost accounting method"):

in TEUR	2008	2007
Material expenses	179,479	187,341
Personnel expenses	75,660	67,629
Depreciation tangible assets	25,023	16,568
Amortization other intangibles	1,132	217

**NOTE 25 | Research and development expenses**

In the consolidated profit and loss statement, research and development expenses are included in line item "other operating expenses", with an amount of TEUR 1,591 in 2008 and TEUR 1,154 in 2007.

**NOTE 26 | Result from non-recurring restructuring measures**

In 2008, provisions from previous periods in the amount of TEUR 844 were released:

**Darron Tool & Engineering Limited:**

The restructuring of Darron Tool & Engineering Limited in Rotherham was completed in 2008. The provision made in the year 2006 for the partial decommissioning of operations was released.

In 2007, the following provisions posted in the previous years were reversed or used respectively:

**Schoeller-Bleckmann de Venezuela C.A.:**

An amount of TEUR 452 was used for expenses, which were incurred in the course of the termination of the business activities in 2007.

**Schoeller-Bleckmann Darron Limited:**

A notable improvement of the market in 2007 and the newly commenced long-term trading operations made the planned restructuring measures redundant, thereby effecting the reversal of provisions in the amount of TEUR 1,790.

**NOTE 27 | Taxes on income**

The components of income tax were as follows:

in TEUR	2008	2007
<b>Current taxes</b>		
Austria	-7,418	-5,923
U. S.	-13,386	-14,072
Other	-4,712	-3,071
<b>Deferred taxes</b>		
Austria	2,267	1,348
U. S.	-679	455
Other	271	-1,238
<b>Total</b>	<b>-23,657</b>	<b>-22,501</b>

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

in TEUR	2008	2007
Income tax expense at a calculated tax rate of 25 %	-20,620	-18,131
Foreign tax rate differentials	-4,360	-4,050
Valuation of shareholdings	-52	-674
Usage of tax losses not recognized in prior years	1,484	329
Other differences	-109	25
<b>Consolidated income tax expense</b>	<b>-23,657</b>	<b>-22,501</b>
<b>Consolidated tax rate</b>	<b>28.7 %</b>	<b>31.0 %</b>

The following income taxes were booked directly in equity:

in TEUR	2008	2007
<b>Current taxes</b>		
Valuation of own shares	511	0
Exchange rate differences	523	0
	<b>1,034</b>	<b>0</b>
<b>Deferred taxes</b>		
Hedging of net investment	67	-139
Revaluation of marketable securities	0	83
Exchange rate differences	78	-44
	<b>145</b>	<b>-100</b>

## 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 this reason, the **primary segment reporting** is displayed by geographical regions.

As the figures stated represent a summary of the single balance sheets and income statements of the consolidated companies, consolidation adjustments have to be allowed for in order to arrive at the consolidated figures shown.

Inter-segment 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

Primary segment information by region:

Year 2008 in TEUR	Europe	North America	Other regions	SBO-Holding & consolidation adjustments	SBO Group
<b>Sales by origin</b>					
External sales	92,713	281,342	14,649	0	388,705
Inter-company sales	144,759	18,844	1,849	-165,452	0
Total sales	237,472	300,186	16,498	-165,452	388,705
Operating income	43,631	49,195	3,205	-8,028	88,003
Attributable assets	179,465	243,240	15,030	5,579	443,314
Attributable liabilities	115,652	118,017	4,467	-21,038	217,098
Capital expenditure	22,217	21,110	1,441	1,170	45,938
Depreciation & amortization	10,168	14,107	226	1,654	26,155
Thereof impairments	0	250	0	0	250
<b>Head count (average)</b>	<b>655</b>	<b>634</b>	<b>64</b>	<b>20</b>	<b>1,373</b>
<b>Year 2007 in TEUR</b>					
	Europe	North America	Other regions	SBO-Holding & consolidation adjustments	SBO Group
<b>Sales by origin</b>					
External sales	68,181	234,875	14,316	0	317,372
Inter-company sales	105,843	21,538	1,555	-128,936	0
Total sales	174,024	256,413	15,871	-128,936	317,372
Operating income	30,655	46,620	2,973	-4,138	76,110
Attributable assets	149,478	200,355	12,354	-4,282	357,905
Attributable liabilities	88,004	108,714	4,430	-37,348	163,800
Capital expenditure	37,102	26,364	198	2,408	66,072
Depreciation & amortization	7,728	8,377	255	425	16,785
Thereof impairments	0	87	0	0	87
<b>Head count (average)</b>	<b>504</b>	<b>588</b>	<b>58</b>	<b>18</b>	<b>1,168</b>

The **secondary segment reporting** by product is classified by the intended purpose of the goods and services. The following categories are used:

#### 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. They are also used for other applications, such as underground river and road crossings for utility services, telephone cables and pipelines.
- 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.

## 3. Other Sales

The Company is, to a limited extent, active in other areas as well.

Secondary segment reporting by product:

Year 2008 in TEUR	High-precision components	Oilfield supplies and services	Other sales	SBO-Holding & consolidation adjustments	SBO Group
External sales	237,721	150,190	794	0	388,705
Attributable assets	257,392	180,343	0	5,579	443,314
Capital expenditure	22,893	21,875	0	1,170	45,938

Year 2007 in TEUR	High-precision components	Oilfield supplies and services	Other sales	SBO-Holding & consolidation adjustments	SBO Group
External sales	196,508	119,276	1,588	0	317,372
Attributable assets	201,235	160,951	1	-4,282	357,905
Capital expenditure	37,785	25,879	0	2,408	66,072

## NOTE 29 | Remuneration for the management

The remuneration including bonuses for 2007 paid in 2008 for the Executive Board and the General Managers of the subsidiaries (totaling 14 individuals as compared to 13 in the previous year) amounted to TEUR 4,320 (2007: TEUR 3,304). These amounts include the allocation to provisions for severance and jubilee payments amounting to TEUR 185 in 2008 and TEUR 99 in 2007.

With respect to the remuneration for the Executive Board of the Austrian parent company, § 266 (7) UGB (Austrian Commercial Code) is applied, pursuant to which no further disclosure is required.

The remuneration for the Supervisory Board amounted to TEUR 89 in the business year, which is a combination of a flat rate and a variable rate depending on the Group's results (2007: TEUR 69).

No loans were granted to the members of the Executive Board or to the Supervisory Board, respectively. The contracts with the members of the Executive Board are valid for one term and will expire on 31 December 2013.

### NOTE 30 | Transactions with related parties

The following transactions with related but non-consolidated companies were carried out in 2008:

#### Schleinzner & Partner, attorneys-at-law:

This law firm is the legal consultant to the Company. One of the law firm's partners, Dr. Karl Schleinzner, is a member of the Supervisory Board. Total charges for 2008 amounted to TEUR 66 (2007: TEUR 54), thereof outstanding as of 31 December 2008 is TEUR 39 (31 December 2007: TEUR 27).

### NOTE 31 | Lease transactions

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.

Revenues from short-term operating leases were TEUR 30,886 for 2008 and TEUR 23,875 for 2007.

### NOTE 32 | Financial instruments

IFRS distinguish between **derivative** and **non-derivative** financial instruments.

#### Non-derivative Financial Instruments

Non-derivative financial instruments held by the Company are shown in the balance sheet.

#### Derivative Financial Instruments

##### 1. Foreign currency receivables

The Austrian company hedges its net receivables and order backlog denominated in US 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 2008	Hedged receivables in TEUR	Receivables at effective date rates in TEUR	Present value in TEUR
USD	53,567	52,198	1,369

Forward exchange transactions as of 31 December 2007	Hedged receivables in TEUR	Receivables at effective date rates in TEUR	Present value in TEUR
USD	41,335	39,715	1,620

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. SWAP Transaction

The Company has entered into a foreign currency swap for the hedging of a long-term loan with a maturity in 2010, taken out to finance a net investment into a foreign business. For this purpose, an amount of TEUR 8,000 was swapped with an amount of TUSD 9,176, at a fixed interest rate of 4.12 %.

The market value of this swap as of 31 December 2008 was TEUR 1,291 (31 December 2007: TEUR 1,558). The change in value for the year was TEUR - 267 (2007: TEUR 557), which was completely booked into equity (translation adjustment), without any impact on the net income as there was no ineffective portion in this hedge.

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

FINANCIAL INSTRUMENTS	Category acc. to IAS 39				Classification acc. to IFRS 7: Valuation method								
		Loans and receivables	Other financial liabilities	Derivative instruments	Hedging instruments	Fair value	Amortized costs						Other items
						Derivatives	Liquid funds	Accounts receivable trade	Lendings	Bonds	Loans, Bank & Lease obligations	Accounts payable trade	
<b>31.12.2008 in TEUR</b>													
<b>Current assets</b>													
Cash and cash equivalents	49,348	49,348					49,348						
Trade accounts receivable	56,101	56,101						56,101					
Other accounts receivable and prepaid expenses	9,846	6,883		2,135		2,135							6,883
Inventories	127,147												
<b>Total current assets</b>	<b>242,442</b>												
<b>Non-current assets</b>													
Property, plant & equipment	139,091												
Goodwill	39,279												
Other intangible assets	9,136												
Long-term receivables	4,676	4,676						14	4,612				50
Deferred tax assets	8,690												
<b>Total non-current assets</b>	<b>200,872</b>												
<b>TOTAL ASSETS</b>	<b>443,314</b>	<b>117,008</b>	<b>0</b>	<b>2,135</b>	<b>0</b>	<b>2,135</b>	<b>49,348</b>	<b>56,115</b>	<b>4,612</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,933</b>
<b>Current liabilities</b>													
Bank loans and overdrafts	27,880		27,880								27,880		
Current portion of long-term loans	8,729		8,729								8,729		
Finance lease obligations	374		374								374		
Accounts payable trade	38,689		38,689									38,689	
Subsidies received	284												
Income taxes payable	4,260												
Other payables	21,429		3,656	765		765							3,656
Other provisions	7,601												
<b>Total current liabilities</b>	<b>109,246</b>												
<b>Non-current liabilities</b>													
Bonds	39,787		39,787							39,787			
Long-term loans													
of which primary liabilities	38,691		38,691								38,691		
of which hedging	6,709				6,709	6,709							
Finance lease obligations	1,356		1,356								1,356		
Subsidies received	1,299												
Retirement benefit obligations	3,528												
Other payables	7,795		7,795										7,795
Deferred tax payables	8,687												
<b>Total non-current liabilities</b>	<b>107,852</b>												
<b>Shareholders' equity</b>													
Share capital	15,880												
Contributed capital	61,808												
Legal reserve - non-distributable	785												
Other reserves	44												
Translation component	-34,441												
Retained earnings	182,140												
<b>Total shareholders' equity</b>	<b>226,216</b>												
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>443,314</b>	<b>0</b>	<b>166,957</b>	<b>765</b>	<b>6,709</b>	<b>7,474</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>39,787</b>	<b>77,030</b>	<b>38,689</b>	<b>11,451</b>

## FINANCIAL INSTRUMENTS

31.12.2007  
in TEUR

	Category acc. to IAS 39					Classification acc. to IFRS 7: Valuation method							
	Loans and receivables	Other financial liabilities	Derivative Instruments	Hedging Instruments	Fair value Derivatives	Amortized costs						Other items	
						Liquid funds	Accounts receivable trade	Lendings	Bonds	Loans, Bank & Lease obligations	Accounts payable trade		
<b>Current assets</b>													
Cash and cash equivalents	23,916	23,916				23,916							
Trade accounts receivable	44,954	44,954					44,954						
Other accounts receivable and prepaid expenses	6,033	3,877	1,620		1,620								3,877
Inventories	119,339												
<b>Total current assets</b>	<b>194,242</b>												
<b>Non-current assets</b>													
Property, plant & equipment	116,709												
Goodwill	33,934												
Other intangible assets	277												
Long-term receivables	4,740	4,740					257	4,421					62
Deferred tax assets	8,003												
<b>Total non-current assets</b>	<b>163,663</b>												
<b>TOTAL ASSETS</b>	<b>357,905</b>	<b>77,487</b>	<b>0</b>	<b>1,620</b>	<b>0</b>	<b>1,620</b>	<b>23,916</b>	<b>45,211</b>	<b>4,421</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,939</b>
<b>Current liabilities</b>													
Bank loans and overdrafts	41,871	41,871								41,871			
Current portion of long-term loans	3,516	3,516								3,516			
Finance lease obligations	0												
Accounts payable trade	40,035	40,035										40,035	
Subsidies received	254												
Income taxes payable	6,846												
Other payables	15,818	3,396											3,396
Other provisions	8,397												
<b>Total current liabilities</b>	<b>116,737</b>												
<b>Non-current liabilities</b>													
Bonds													
Long-term loans													
of which primary liabilities	23,637	23,637								23,637			
of which hedging	6,442			6,442	6,442								
Finance lease obligations	0												
Subsidies received	1,175												
Retirement benefit obligations	3,382												
Other payables	5,960	5,960											5,960
Deferred tax payables	6,467												
<b>Total non-current liabilities</b>	<b>47,063</b>												
<b>Shareholders' equity</b>													
Share capital	16,000												
Contributed capital	65,799												
Legal reserve - non-distributable	785												
Other reserves	50												
Translation component	-32,177												
Retained earnings	143,648												
<b>Total shareholders' equity</b>	<b>194,105</b>												
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>357,905</b>	<b>0</b>	<b>118,415</b>	<b>0</b>	<b>6,442</b>	<b>6,442</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>69,024</b>	<b>40,035</b>	<b>9,356</b>

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

in TEUR	2008		2007	
	Carrying value	Present value	Carrying value	Present value
<b>Assets</b>				
Trade receivables	56,115	56,115	45,211	45,211
Lendings	4,612	4,612	4,421	4,421
Other line items	6,933	6,933	3,939	3,939
<b>Liabilities</b>				
Bonds	-39,787	-42,793	0	0
Borrowings from banks, finance lease obligations and other loans	-77,030	-77,056	-69,024	-68,529
Trade payables	-38,689	-38,689	-40,035	-40,035
Other line items	-11,451	-11,451	-9,356	-9,356

The respective market values have been used to determine the fair values of the derivative financial instruments. For assessing the present value of lendings, borrowings and leasing obligations, the expected cash-flows have been discounted using market interest rates. The bonds were valued at 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 present 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 present values at the balance sheet date.

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

Year 2008 in TEUR	Allowance	Revaluation		Deletion/Disposal		Net result
		P/L	Equity	P/L	Equity	
Loans and receivables	-766	-	-	-	-	-766
Derivative instruments	-	-250	-	-	-	-250
Hedging transactions	-	-	-267	-	-	-267
Year 2007 in TEUR	Allowance	Revaluation		Deletion/Disposal		Net result
Loans and receivables	-165	-	-	-	-	-165
Assets available for sale	-	-	-	406	-331	75
Derivative instruments	-	1,277	-	-	-	1,277
Hedging transactions	-	-	557	-	-	557

Following the sale of securities in 2008, TEUR 0 (2007: TEUR 331) previously stated in equity were recognized in the profit and loss statement.

## NOTE 33 | 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.

The three dominant service companies in the market (Schlumberger, Halliburton, Baker Hughes) accounted for 62 % of all sales worldwide in 2008 and for 65 % in 2007. 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.

Due to the strong global demand for raw materials, SBO was faced with the risk of delivery problems due to the lack of certain semi-finished products during the reporting period. As a result of the new purchasing policy, the stockpiling of certain specialty alloys in the U.S. and intensified cooperation with a major supplier, those risks were identified and minimized early on.

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, derivatives 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 45 % 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 a potential change in the US dollar exchange rate may reasonably have on the group's results. To derive at the result, the Company uses a model based on the long-term revenue and cost structures of the Group. Regarding the equity, the model is based on the differences caused by the conversion rates used for the companies accounting in foreign currencies. The same method is applied for the hedge of a net investment. Since there were no other substantial financial instruments denominated in foreign currencies, no further currency risks have to be taken into account. The models have remained unchanged for all years stated.

in TEUR Changes in EURO – US dollar rate	2008		2007	
	+10 cents	-10 cents	+10 cents	-10 cents
Change in profit before taxes	-11,370	13,029	-8,548	9,893
Change in equity	-9,829	11,328	-7,170	7,949



### 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 76 %) have fixed interest rates; therefore they are without any interest rate risk. However, the fair value of these credit facilities is subject to fluctuations. For fixed and variable interest rates and the associated risk of interest changes, we refer to 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 earnings 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 Change in basic points	2008		2007	
	+10	+20	+10	+20
Change in profit before taxes	-13	-26	-23	-46

### 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. These obligations include derivative financial instruments for which the fair market value is stated. For the other obligations, the non-discounted cash-flows for the following business years are stated.

<b>31 December 2008 in TEUR</b>	<b>Due at call</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012 cont'd</b>
Bonds	-	2,325	2,325	2,325	45,838
Payables due to banks	29,416	-	-	-	-
Long-term loans	-	9,424	9,896	9,291	20,661
Leasing obligations	-	477	477	477	575
Trade payables	-	38,641	48	-	-
Other payables	-	20,664	-	-	-
Derivative instruments	-	1,095	6,956	-	-

<b>31 December 2007 in TEUR</b>	<b>Due at call</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011 cont'd</b>
Payables due to banks	44,096	-	-	-	-
Long-term loans	-	4,688	7,259	7,426	11,311
Trade payables	-	39,863	172	-	-
Other payables	-	15,818	-	-	-
Derivative instruments	-	265	265	6,575	-

#### Other financial market risks

The risk variables are in particular the share prices and stock indexes. As all securities available for sale were disposed of in 2007, there is no significant risk arising from this item.

#### ● 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.

In the long-term, the Company considers an average gearing ratio of 40 – 60 % as desirable, as well as an average dividend ratio of 30 – 60 % payable to the shareholders of the parent company. The gearing was 32.8 % as of 31 December 2008 and 26.6 % as of 31 December 2007.

in TEUR	31 December 2008	31 December 2007
Bank loans	27,880	41,871
Long-term loans	54,129	33,595
Finance lease obligations	1,730	0
Bonds	39,787	0
Less: Cash and cash equivalents	-49,348	-23,916
<b>Net debt</b>	<b>74,178</b>	<b>51,550</b>
Total equity	226,216	194,105
<b>Gearing</b>	<b>32.8 %</b>	<b>26.6 %</b>

#### NOTE 34 | Contingencies

No contingencies existed as of the balance sheet dates 31 December 2008 and 31 December 2007.

#### NOTE 35 | Other commitments

Apart from operating lease commitments and commitments for capital expenditure, no further commitments existed as of the balance sheet date (see Note 8).

#### NOTE 36 | 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.

**NOTE 37 | Business combinations**

As of 1 October 2008, 100 % of the shares of Techman Engineering Limited, based in Chesterfield, England were acquired. The company produces precision components and tools for the oilfield service industry and has experience in processing composites.

Listed below are the carrying values of the identifiable assets and liabilities directly before the acquisition date and their fair values at the acquisition date:

in TEUR	Fair value	Carrying value
Intangible assets	11,712	0
Property, plant & equipment	7,462	7,462
Inventories	5,845	5,184
Trade accounts receivable	4,913	4,913
Other accounts receivable	215	215
Cash and cash equivalents	1,111	1,111
	<b>31,258</b>	<b>18,885</b>
Loans and payables due to banks	4,017	4,017
Finance lease obligations	2,194	2,194
Trade payables	4,688	4,688
Other payables	3,124	3,124
Deferred tax payables	4,124	413
	<b>18,147</b>	<b>14,436</b>
<b>Net assets</b>	<b>13,111</b>	<b>4,449</b>
Goodwill resulting from the acquisition	5,146	
<b>Total acquisition costs</b>	<b>18,257</b>	

Total acquisition costs were TEUR 18,257, comprising the cash amount of TEUR 17,765 (including transaction costs) and the transfer of 11,414 own shares at TEUR 492 (the share price on 1 October 2008).

The cash outflow due to the acquisition of the company was as follows:

Cash outflow	TEUR	-17,765
Net cash acquired with the subsidiary	TEUR	1,111
	<b>TEUR</b>	<b>-16,654</b>

Following the acquisition of Techman Engineering Limited, the financial group result was reduced by TEUR 1,239. If the Company had been acquired at the beginning of the year, the group result would have increased by TEUR 1,159 and sales by TEUR 12,429.

The goodwill in the amount of TEUR 5,146 comprises the fair value of expected synergies resulting from the acquisition. The data available on the newly acquired customers were not complete at the balance sheet date; as a final assessment was not possible they were recognized at their preliminary fair values. A final assessment will be available until October 2009 at the latest.

#### NOTE 38 | Personnel

The total average number of employees was as follows:

	2008	2007
Blue collar	1,091	933
White collar	282	235
	<b>1,373</b>	<b>1,168</b>

#### NOTE 39 | 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 net worth, financial position and earnings situation of the Company.

#### NOTE 40 | Proposed dividend

The Executive Board proposes to the shareholders that a dividend of EUR 0.50 per share (2007: EUR 0.50) plus a bonus of EUR 0.25 per share (2007: EUR 0.60), in total EUR 0.75 (2007: EUR 1.10) per share should be paid. Thus, the total distribution amounts to MEUR 11.9 compared to MEUR 17.5 in 2007.

## Management Information

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### Executive Board:

Ing. Gerald Grohmann (President and CEO)

Mag. Franz Gritsch (Executive Vice-president and CFO)

### Committees of the Supervisory Board:

Remuneration Committee:

Mag. Norbert Zimmermann

Dr. Peter Pichler

Dr. Karl Schleinzer

Audit Committee:

Mag. Norbert Zimmermann

Dr. Peter Pichler

Karl Samstag

### Supervisory Board:

Mag. Norbert Zimmermann (Chairman)

First nomination: 1995

End of current appointment: 2012

Dr. Peter Pichler (Deputy Chairman)

First nomination: 1995

End of current appointment: 2012

Mag. Dipl. Ing. Helmut Langanger

First nomination: 2003

End of current appointment: 2012

Karl Samstag

First nomination: 2005

End of current appointment: 2012

Dr. Karl Schleinzer

First nomination: 1995

End of current appointment: 2012

Ternitz, 25 February 2009

Gerald Grohmann

Franz Gritsch

Members of the Executive Board

## Report of the Supervisory Board of the SBO AG to the Annual General Meeting Concerning the 2008 Business Year

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During the 2008 business year, the Supervisory Board carried out the duties allocated to it by law and the articles of association and held 4 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 2008 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 2008 were examined by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H., Vienna. According to their unqualified audit certification, the accounts, the Annual Accounts for the 2008 business year and the 2008 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 10 March 2009, the Supervisory Board approved the Annual Accounts for the 2008 business year, the Consolidated Financial Statements as at 31 December 2008, the proposal for the distribution of profits and the Status Report combined with the Consolidated Status Report presented by the Managing Board.

Ternitz, 10 March 2009

A handwritten signature in black ink, appearing to read "Zimmermann N.", is centered on the page.

Norbert Zimmermann  
Chairman of the Supervisory Board

## Auditor's Report

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### REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft, Ternitz, for the financial year from January 1, 2008 to December 31, 2008. These consolidated financial statements comprise the balance sheet as at December 31, 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended December 31, 2008, and a summary of significant accounting policies and other explanatory notes.

#### Management's Responsibility for the Consolidated Financial Statements

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

#### Auditor's Responsibility

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 in accordance with International Standards on Auditing, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 basis for our audit opinion.



## Opinion

Our audit did not give rise to any objections.

Based on the results of our audit in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as of December 31, 2008, and of its financial performance and its cash flows for the financial year from January 1, 2008 to December 31, 2008 in accordance with International Financial Reporting Standards as adopted by the EU.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Laws and regulations applicable in Austria require us to perform audit procedures whether the consolidated management report is consistent with the consolidated financial statements and whether the other disclosures made in the consolidated management report do not give rise to misconception of the position of the group.

In our opinion, the consolidated management report for the group is consistent with the consolidated financial statements.

Vienna, February 25, 2009

 **ERNST & YOUNG**

**WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT MBH**

Mag. Karl Rab mp      &      Mag. Karl Fuchs mp  
Certified Public Accountant      Certified Public Accountant

## Corporate Information

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e-mail: enquiries@techman-engineering.co.uk

### **Schoeller-Bleckmann do Brasil, Ltda.\***

Macaé, Brazil

\* in the course of formation

## Members of the Boards

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### EXECUTIVE BOARD

Gerald Grohmann  
President and CEO

Franz Gritsch  
Executive Vice-president and CFO

### SUPERVISORY BOARD

Norbert Zimmermann  
Chairman

Peter Pichler  
Deputy Chairman

Helmut Langanger  
Karl Samstag  
Karl Schleinzer

## Glossary

● **Non-magnetic steel**

Non-magnetic steel characterized by particularly high material strength and corrosion resistance. Special processes such as cold-forging or surface treatment are applied to ensure high resistance to stress corrosion.

● **Barrel**

The barrel is a measure of capacity and corresponds to 42 US gallons or around 159 litres.

● **Carbon Capture and Storage (CCS)**

The purpose of CCS is to reduce CO<sub>2</sub> emissions from fossil fuels used for power generation. In the process, carbon dioxide (CO<sub>2</sub>) generated in the combustion of fossil energy is separated and stored.

● **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 %.

● **Exploration and Production (E&P)**

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

● **IEA** = International Energy Agency● **LNG (liquefied natural gas)**

Liquefied natural gas is natural gas that has been converted to liquid form by cooling it to – 161°C (110 K) for ease of storage or transport. One volume of this liquid takes up only about 1/600th of the volume of natural gas.

● **Logging While Drilling (LWD)**

The petrophysical parameters indicating the presence of a reservoir are measured by the LWD tools and the data

collected are transferred to the surface on a continuous basis.

● **Measurement While Drilling (MWD)**

During drilling, MWD tools measure the inclination and direction of the drill bit.

● **Oil sand**

Oil sand is a mixture of clay, sand, water and hydrocarbons. Hydrocarbons of oil sands have a most diverse composition, ranging from bitumen to conventional crude oil. Oil sand reservoirs are either surface-mined or extracted from deeper layers.

● **Oil shale**

An oil shale is a sedimentary rock containing bitumen or non-volatile oils.

● **Peak oil**

The point in time when the maximum rate of global petroleum production is reached, after which the rate of production enters its terminal decline.

● **Directional drilling**

This technology is used for precisely targeting oil reservoirs not located directly below the drilling rig and for continuous monitoring and adapting the drilling process.

The collars produced by Schoeller-Bleckmann are used as „high-tech housings“ to accommodate special logging instruments, sensors, antennas and generators. SBO also supplies high-precision parts (internals) which contain electronic components and other parts needed for measurements and analysis.

● **Rig** = drilling rigs● **Deep water drilling**

Drilling in water depths of more than 1500 metres.

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