



ANNUAL REPORT 2006



[HTTP://INFO.SBO.AT](http://info.sbo.at)

A world map graphic composed of a grid of small dots, with several dots highlighted in orange to indicate specific locations.

SCHOELLER
BLECKMANN
OILFIELD
EQUIPMENT

FINANCIAL HIGHLIGHTS

IN MEUR	2006	2005	2004	2003	2002	2001
Net sales	239.5	172.7	152.2	134.2	178.6	216.5
Income from operations	48.2	25.5	17.9	13.1	26.1	36.6
Income on ordinary activities	46.8	24.3	15.5	9.4	19.8	33.2
Net income	34.4	17.3	10.8	6.1	11.1	19.7
Earnings per share ¹ (in EUR)	2.15	1.13	0.83	0.47	0.85	1.51
Total assets	285.3	242.8	173.3	176.8	192.2	225.5
Share capital	16.0	16.0	13.0	13.0	13.0	13.0
Shareholders' equity	171.7	154.7	78.2	77.0	91.1	100.7
Return on capital employed (in %) ²	27.4	17.8	13.8	9.4	17.4	24.5
Dividend per share (in EUR)	0.80 ³	0.50	0.40	0.30	0.50	0.50
Number of shares outstanding at year end	16,000,000	16,000,000	13,000,000	13,000,000	13,000,000	13,000,000

¹ based on average shares outstanding

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

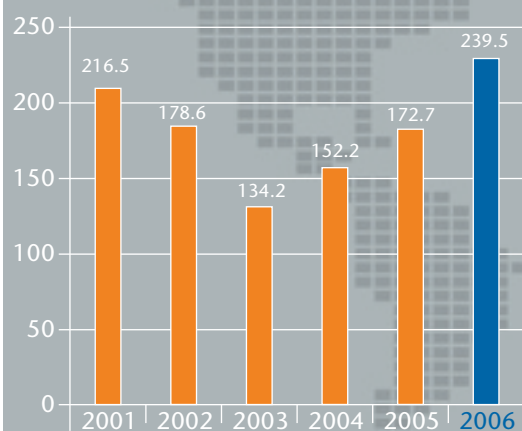
Capital employed = Total shareholders' equity + Bank loans + Finance lease obligations

– Cash and cash equivalents – Long-term investments

³ proposed

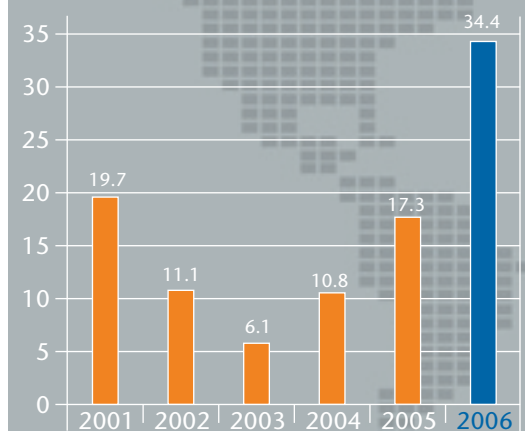
SALES

IN MEUR



NET INCOME

IN MEUR



RETURN ON CAPITAL EMPLOYED

IN PERCENT

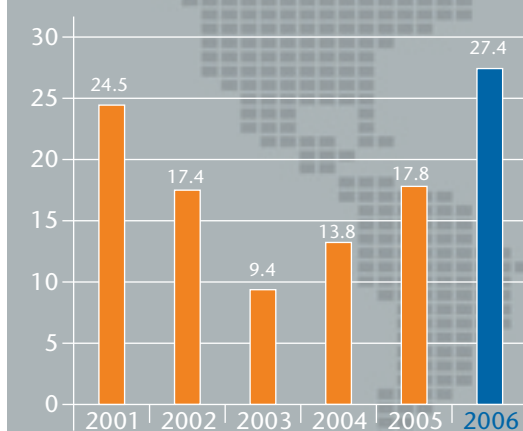


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COMPANY PROFILE

06



COMPANY PROFILE

Schoeller-Bleckmann Oilfield Equipment AG (SBO) is the global market leader in non-magnetic high-precision components for the oilfield service industry. The main application of Schoeller-Bleckmann products is directional drilling, a technology for changing the drillstring direction during drilling to tap oil deposits not located directly below the drilling rig.

With its products and services, Schoeller-Bleckmann as the leader in innovation and quality is setting the standards in the industry. Additionally, Schoeller-Bleckmann has had the cutting edge in manufacturing drillstring components made of non-magnetic specialty steel for many decades. Our employees' long-standing experience and in-depth know-how in production engineering have prepared the ground for solving even complex tasks with utmost precision. This is what SBO's customers appreciate all over the world and the reason why all major oilfield service companies have counted among Schoeller-Bleckmann's customers for many years.

The core business also includes drilling motors and drilling tools. In addition, Schoeller-Bleckmann offers customers comprehensive repair and maintenance services. New technologies and application procedures – so-called High-Tech Repair – were developed to optimize the service life and functionality of SBO products. Besides that, SBO's subsidiaries and service outlets are located in the major hubs of the global oil industry.

Consistent customer orientation combined with technology and quality leadership in tandem with a clear growth strategy are the foundations of Schoeller-Bleckmann's track record. For SBO, providing added value for our customers is both the starting point and target of our activities. The economic strength of the company is based on the continuous development of innovative products, high productivity, flexible use of production capacities and a foresighted and risk-aware investment policy.

SCHOELLER-BLECKMANN - THE
GLOBAL MARKET LEADER IN HIGH-
PRECISION COMPONENTS FOR THE
OILFIELD SERVICE INDUSTRY

SCHOELLER-BLECKMANN

OILFIELD EQUIPMENT AG

Ternitz/Austria

Group Sales: MEUR 239.5

Headcount: 1,086

NORTH AMERICA
Total Sales: MEUR 199.8
Headcount: 558

Knust-SBO Ltd. Houston, Tx/USA	100 %
Godwin-SBO L.P. Houston, Tx/USA	100 %
BICO Drilling Tools Inc. Houston, Tx/USA	100 %
BICO Faster Drilling Tools Inc. Nisku, Canada	100 %
Schoeller-Bleckmann Energy Services L.L.C. Lafayette, La/USA	100 %
Schoeller-Bleckmann Sales Co. Houston, Tx/USA	100 %
Schoeller-Bleckmann de Mexico, S.A. de C.V. Monterrey, Mexico	100 %

EUROPE
Total Sales: MEUR 100.2
Headcount: 464

Schoeller-Bleckmann Oilfield Technology GmbH & Co. KG Ternitz, Austria	100 %
Darron Tool & Engineering Ltd. Rotherham, UK	100 %
Schoeller-Bleckmann Darron Ltd. Aberdeen, UK	100 %

OTHER
Total Sales: MEUR 13.6
Headcount: 64

Schoeller-Bleckmann Oilfield Equipment Middle East FZE Dubai, U.A.E.	100 %
SB Darron Pte. Ltd. Singapore	100 %
Schoeller-Bleckmann de Venezuela C.A. Anaco, Venezuela	100 %
Schoeller-Bleckmann Darron Ltd. Noyabrsk, Russia	100 %

Non-operative holding companies are not shown
Headcount per 31 December 2006
Total Sales: Year Ending 31 December 2006, not consolidated

HIGHLIGHTS 2006



March

Annual Meeting approves dividend increase from 40 to 50 cents

April

SBO share posts annual intraday all-time high at EUR 35.50

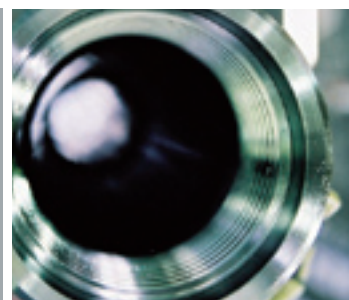


July

WTI oil price reaches annual high of USD 77.03

August

SBO reports doubling of six-month profit before tax to MEUR 21.4



September

Resolution passed on additional capex expansion worth MEUR 20

November

SBO posts new record EBIT margin of 19.9 % for Q3



THE OUTLOOK FOR OIL SERVICES
Still good to the end of the decade
Mick Pickup

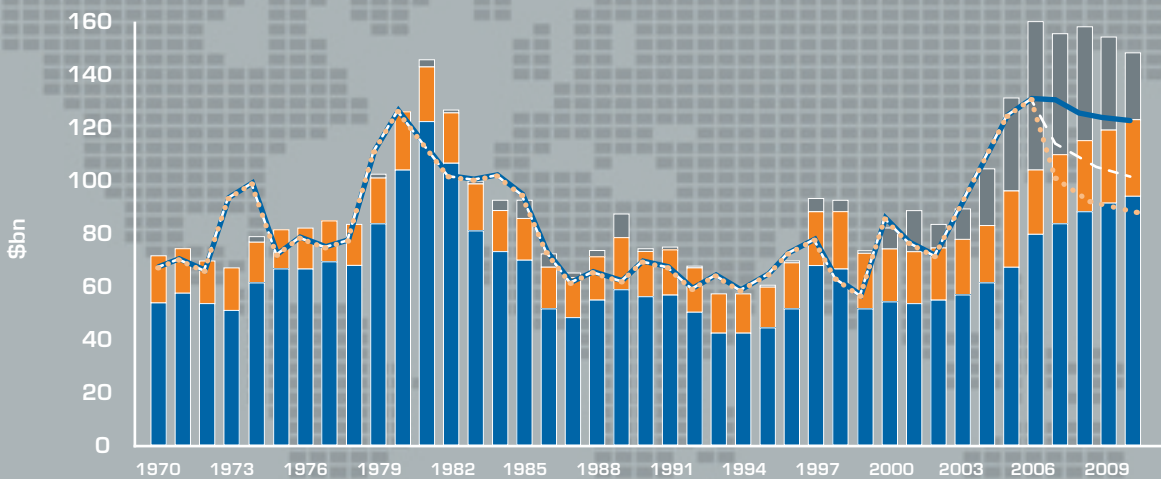
Senior Research Analyst, Lehman Brothers



As we move further into 2007, the oil service cycle shows little sign of slowing with all sub-sectors reporting record margins, and backlog lengths which imply the highest visibility that the industry has known. But, the industry is still cyclical and hence all commentators have one eye on indicators of a possible downturn; for now that point appears to be moving further away in time. Even the industries most prone to a downturn, those early cycle and building new capacity, see at least two more years of improving fortunes and then it may, or may not, continue.

The driver remains the need for the oil industry to correct 20 years of under-spend as it relied on a buffer of “free” capacity additions provided by OPEC spare capacity. Over the last four years, we have seen 15 % per annum oil industry capex growth, generating current levels of capital spending which are nearly 150 % from the lows of 1999.

Capex Dividend Share buybacks
 CFO on LB assumption CFO at \$50/bl CFO at \$40/bl



Source: Company data, Lehman Brothers estimates

It would be easy to believe that we are nearing the top of the capital spending cycle. However, two factors dominate.

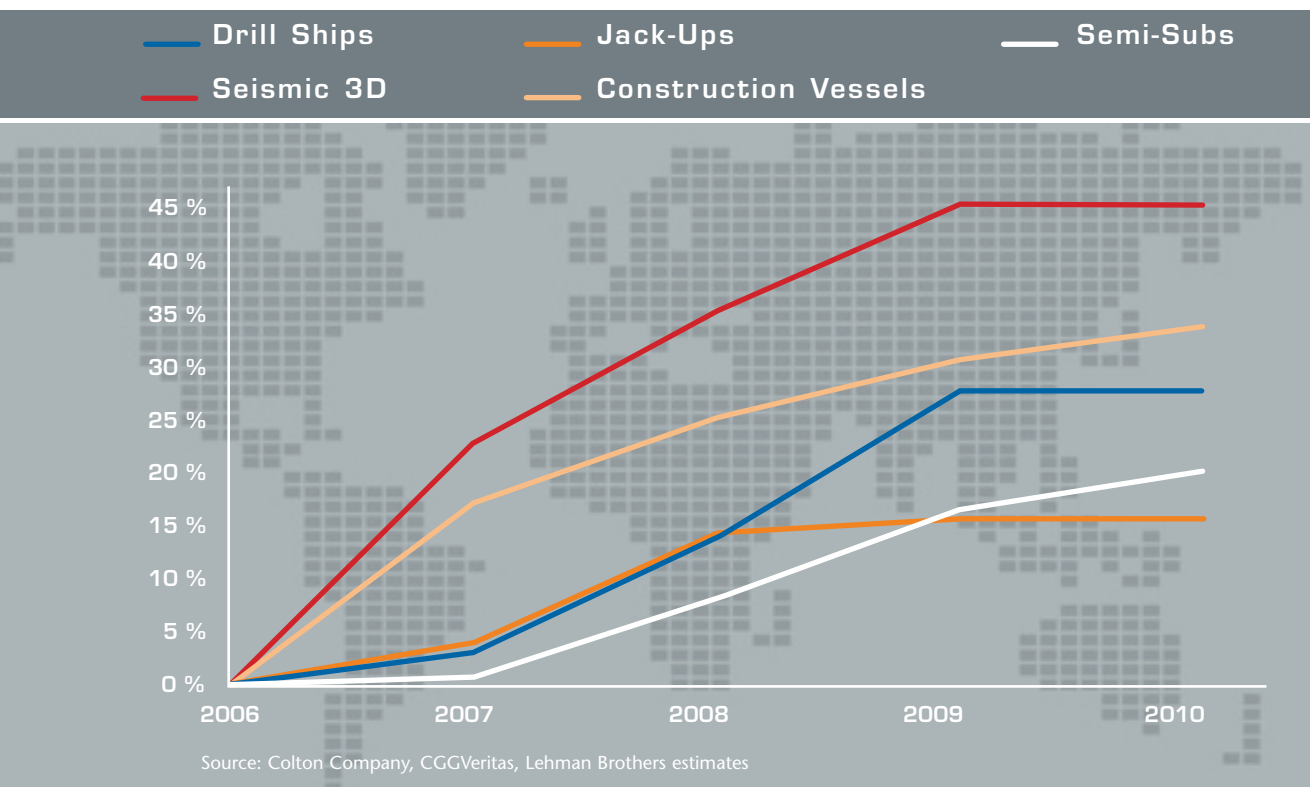
First, the International Energy Agency (IEA), in its World Energy Outlook 2006, stated that most of the increase in spending over recent years is attributable to cost inflation. It is not owing to increased workload, producing more crude and hence the oil cycle breaking. On an adjusted-for-inflation basis, the IEA believes that spending has only increased by 30 %, the other 120 % going directly to oil services companies and their suppliers. Even if the inflation element of capex growth is gone, the requirement for future growth and increased workload is still in place.

Second, oil companies' price decks for project sanction began to rise only in 2006, towards the \$35-40/bl range. In part, this is a realisation of higher oil prices for longer, in part we believe a reverse engineering to a price that makes future projects economical. With this rise comes an inherent admission that the cost base rise that the companies have seen over recent years is here to stay.

In line with the IEA forecast, we too believe that capital spending is once again going to grow in 2007, but not surprisingly, at a lower rate than in previous years, as the inflationary aspect is partly removed. Industry-wide, we would expect to see capital expenditure growth in the region of 9 % at this stage of the year. And, as we have seen since the start of the decade, we fully expect to see early year expectations below the year-end outcome.

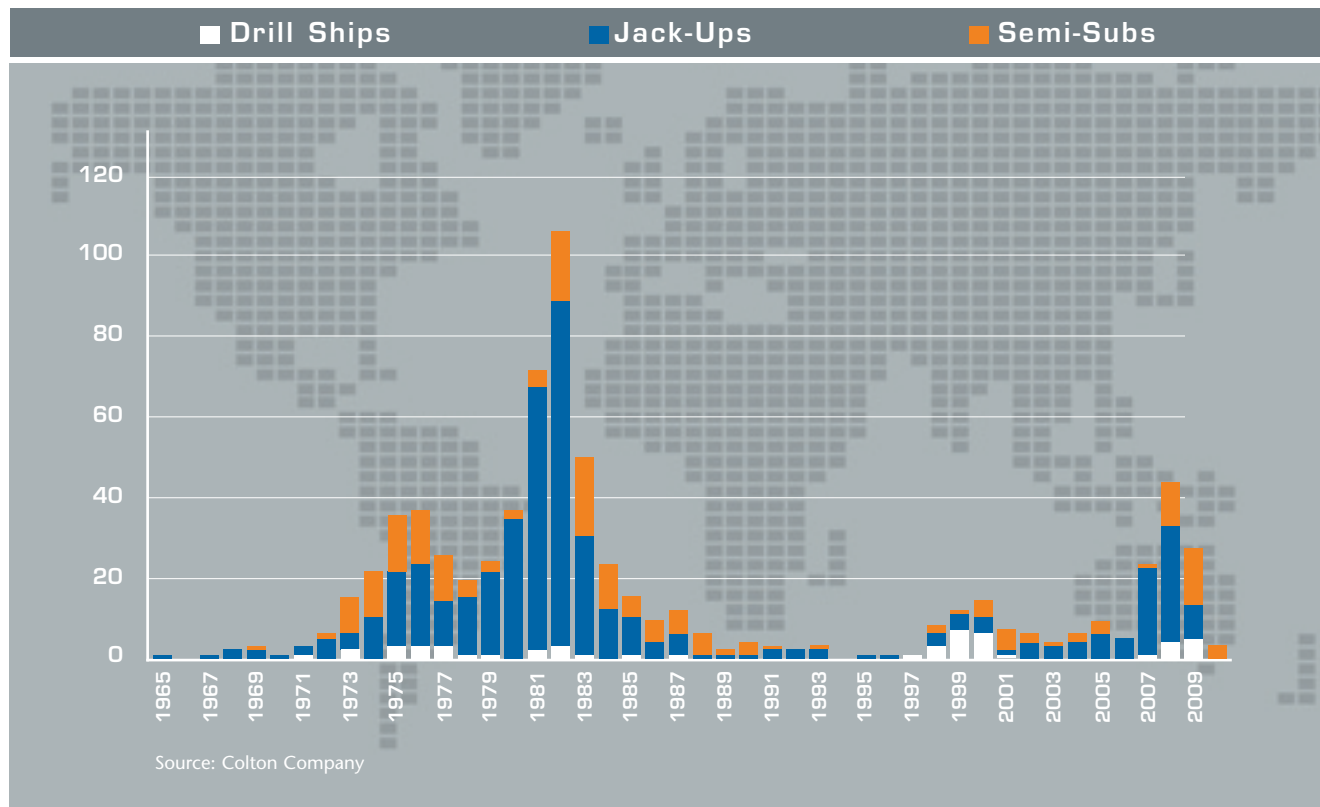
Beyond 2007, we would expect to see ca 7 % per annum growth in spending for the industry. From inflated levels this may appear optimistic, but in real terms industry spending today is only back to the level of the late 1970s and we are some way off the peak of 1982. That may be offset by a service industry that is becoming ever more efficient – 3D and multi-component seismic and horizontal drilling making success rates and recovery factors ever greater – but countered by resources that are in more difficult geologies and remoter areas. In real terms, we see 2006 as a year that finally matched the spending (on a per barrel basis) of 1985 – the year of peak OPEC spare capacity – with 20 years and several hundred billion dollars of under-spend in between, equivalent to two whole years of spending. This cannot easily and quickly be put back into the system.

Not surprisingly the oil service industry has reacted to the much improved environment and for the first time in 20 years is adding capacity of its own, with the biggest threat to the cycle in our opinion being over-exuberance on the part of service providers. It is possible that, at some stage, however strong the oil company spending cycle, there may be a surplus of capacity of equipment to deliver on that capex. We see this in all sub-sectors, from seismic vessels (where the fleet is set to expand 40 % by 2010) to drilling units (where the growth is 10-25 %) and to construction vessels (where we see a 30 % increase in the fleet).



Whether the new capacity is too little or too much is impossible to tell, largely because in many sub-sectors the capacity is typically not contracted until 6-18 months beforehand. Hence, unless we see a step change in contracting styles, with longer-term contracts becoming the norm, we will not have the definitive demand for equipment numbers until we are closer to the point where capacity comes on-stream.

We are comfortable with the amount of capacity being committed and by the degree of capex relative to previous spending cycles. The last major investment in the oil service fleet was in the mid-1980s, where the bulk of the investment was in drilling units. During the 1981-83 period, over 220 drilling vessels were added to the fleet, more than double what we have coming before the end of the decade. Indeed, in 1982 alone, more units were added than are currently under construction. Hence, whilst we have had a supply response to the cycle, we have not seen anything like the exuberance which has been prevalent historically.



So, we have two cycles competing: an oil spending cycle that shows little sign of slowing and increasing visibility on the one hand, and a supply side response that may or may not be too much. Only time will tell, but for now the future is as bright as it has ever been. New contracts coming to market for further out years and backlog filling will only boost the confidence level in continuously increasing fortunes. We are comfortable enough to say that the cycle is "Still good to the end of the decade". We would hope that 2007 gives us the ability to extend this view.



Gerald Grohmann
(President and CEO)



Franz Gritsch
(Executive Vice-president and CFO)

A stylized world map composed of a grid of small grey squares. Several squares are highlighted in orange, representing specific global locations. The map is centered on the Atlantic Ocean.

DYNAMIC COURSE OF
GROWTH CONTINUED

PREFACE OF THE EXECUTIVE BOARD

To our shareholders

It is a pleasure for us to present to you this Annual Report, which proves once again the outstanding performance of our company in the fiscal year 2006, the best year ever in our history. All SBO key financial figures were improved to an all-time high and major strategic decisions were made and implemented in that year.

With sales rising by 39 per cent and profit before tax up 93 per cent against the previous year, Schoeller-Bleckmann in 2006 accomplished the highest growth rate in the company's history. It is certainly worth mentioning that fiscal 2005 had already been marked by an excellent business development.

As bookings stood at a record MEUR 349 and the unprecedented order backlog at the end of 2006 totalled MEUR 241, we prepared the ground for continued positive operations in fiscal 2007 and beyond.

THIS DEVELOPMENT WAS DRIVEN BY SEVERAL KEY FACTORS:

- As we expected, the economic environment of the oilfield service industry remained very prosperous in 2006. This was due, on the one hand, to the sustained high demand for oil and gas, mainly from the rapid growth in China and India and, on the other hand, the robust development of the global economy. The declining demand for gas observed in the US in the second half of 2006 was a result both of the currently weaker US economy and the above-average temperatures of this winter. Nonetheless, we expect this decline to be short-lived and compensated by the demand in China and India, provided that the current momentum of these economies is maintained.
- Since SBO early on had decided to pursue a growth strategy, we could make full use of the present cyclical upswing. Our three-year strategic investment programme launched in 2005, totalling approx. MEUR 100, made itself felt in 2006 already. Part of the additional production capacities affected sales and net income already in 2006.
- Despite of the booming order situation we paid great attention to securing our quality leadership position and to guarantee optimal service to our customers.
- By the same token, we were able to substantially increase our headcount. At the same time, we prepared our employees to meet the requirements of a booming market environment with in-depth training courses.

The growth programme launched in 2005, the largest ever in the company's history, was further implemented according to plan in the previous year. The Executive Board approved aggregate capex spendings of MEUR 58 in 2006.

Besides that, a large number of potential acquisition objects were analyzed with the help of international investment banks in the past two years. In the process, it turned out that the economic boom in the oilfield service industry had sent company evaluations and sellers' asking prices skyrocketing.

This situation in the oilfield service market has prompted us to tailor our strategy to the current prevailing market conditions and to further expand our production capacities.

APPROVAL OF MEUR 58 CAPEX SPENDING FOR FURTHER GROWTH

Building a grass-roots manufacturing plant at the Ternitz site is the cornerstone of the strategy. The reason for doing so is the fact that while acquisitions are excessively costly at the moment, customers' demand for our products – regardless of our already implemented production equipment additions – still exceed our available capacities. The size of the capital investment required for this project is comparable with an acquisition but does not require payment of inflated company evaluations.

At the same time, we were able to negotiate and agree on long-term capacity utilisation of that greenfield investment with our customers. Although no downturn seems to be in the offing, these contracts ensure that we are adequately prepared to respond to a potential slowdown of the economy.

Long-term customer contracts of that type are an absolute novelty in our industry. This expansion strategy offers Schoeller-Bleckmann the following benefits over conventional acquisitions:

- Growth at book value and not through excessively priced acquisitions
- As a result, no balance sheet inflation through goodwill
- Machinery meets latest state-of-the-art requirements
- High value for the tense oilfield service market, as globally available total capacities are expanded in contrast to acquisitions which involve only a change of ownership but do not create new capacities
- No integration risks
- Overhead dilution by using on-premise synergies

We are convinced that this decision bodes well for the company, our customers and shareholders. Also, it will create a large number of new high-qualification jobs.

It should also be noted that we were the first in our industry to change the customer-supplier relationship from the previous quarter-to-quarter ordering system to a long-term, multi-year planning base, certainly a milestone in this respect.

The strategic investment programme launched in 2005 is now running at full speed. We are confident to see our company develop positively in the future, as we set the course in 2006 for long-term, secured and above-average growth in a prospering market environment.

It goes without saying that we will continue to pursue potential acquisitions for further growth, if overall conditions appear to be favourable.

In view of the excellent development in fiscal 2006, we will suggest to the Annual Meeting to increase the base dividend from 30 eurocents per share to 50 eurocents per share and to increase the bonus from previously 20 eurocents to 30 eurocents. As a result, the suggested aggregate distribution per share amounts to 80 eurocents per share, another record figure for our shareholders of MEUR 12,8 (following MEUR 8 for fiscal 2005, up 60 percent).

In closing, we would like to thank all of our customers, partners and shareholders for the excellent cooperation and the confidence placed in our company in the past business year. Our thanks also go to all our employees whose commitment generated this record result in 2006.

SBO IS FIRST TO CONCLUDE MULTI-YEAR DELIVERY CONTRACTS WITH KEY CUSTOMERS

Gerald Grohmann
Chairman of the Executive Board

Franz Gritsch
Member of the Executive Board



HUMAN RESOURCES 06



HUMAN RESOURCES

Schoeller-Bleckmann Oilfield Equipment AG is the global market leader in high-precision components for the oilfield service industry. The products of Schoeller-Bleckmann enjoy an excellent reputation all over the world, which is the result mainly of the personal commitment, qualifications, the customer-oriented attitude and profound identification of our employees with the company and its products. Our open and appreciative corporate culture creates the foundation for all employees to unfold their full potential.

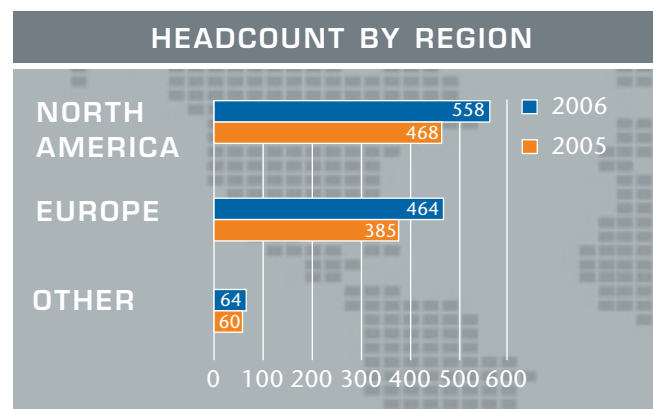
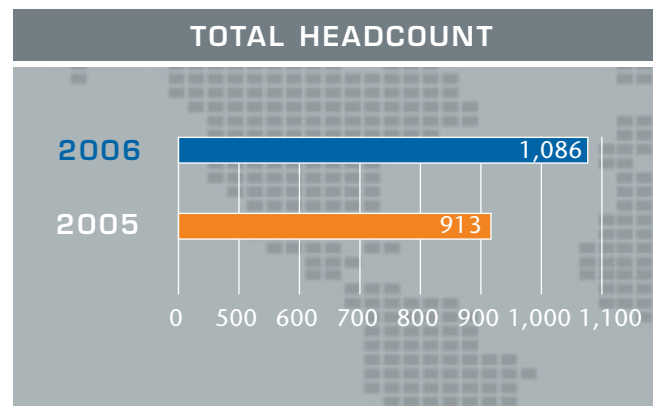
As per 31 December 2006 the global headcount of the Schoeller-Bleckmann group was 1,086. Compared to previously 913 employees, this is an increase of 173 employees or 19 %. As per 31 December 2006 the headcount in North America (including Mexico) totalled 558 and 464 in Europe. The number of employees in North America (including Mexico) grew by 19 % (468 employees) over last year. In Europe the headcount went up 21 %. The remaining 64 employees as at the end of 2006 were employed by our subsidiaries in Venezuela, Singapore, Dubai and Russia.

The growth strategy continued in fiscal 2006 and the capacity expansion programme kicked off in 2005 required continuous upsizing of our headcount, in particular in the field of production. Despite of the tense labour market situation with respect to the availability of skilled workers in the oilfield service industry, Schoeller-Bleckmann could recruit additional highly-qualified personnel.

Schoeller-Bleckmann's innovative thrust heavily depends both on high-quality initial and ongoing further training and development schemes for our employees. This is why in-depth training measures were again taken at all sites during the past business year in order to prepare all our workforce to meet the ever more complex challenges for consistent technology and customer orientation. Intensive initial training phases allow rapid integration of new members into the company.

As required by the growth strategy of Schoeller-Bleckmann, training courses for further production and quality improvement and efficiency enhancement were conducted at all sites. In addition, training courses to operate the machinery purchased under the capacity programme were held.

We would like to thank again all of our employees for their commitment and job performance which has made a major contribution to the operating success of Schoeller-Bleckmann in fiscal 2006.

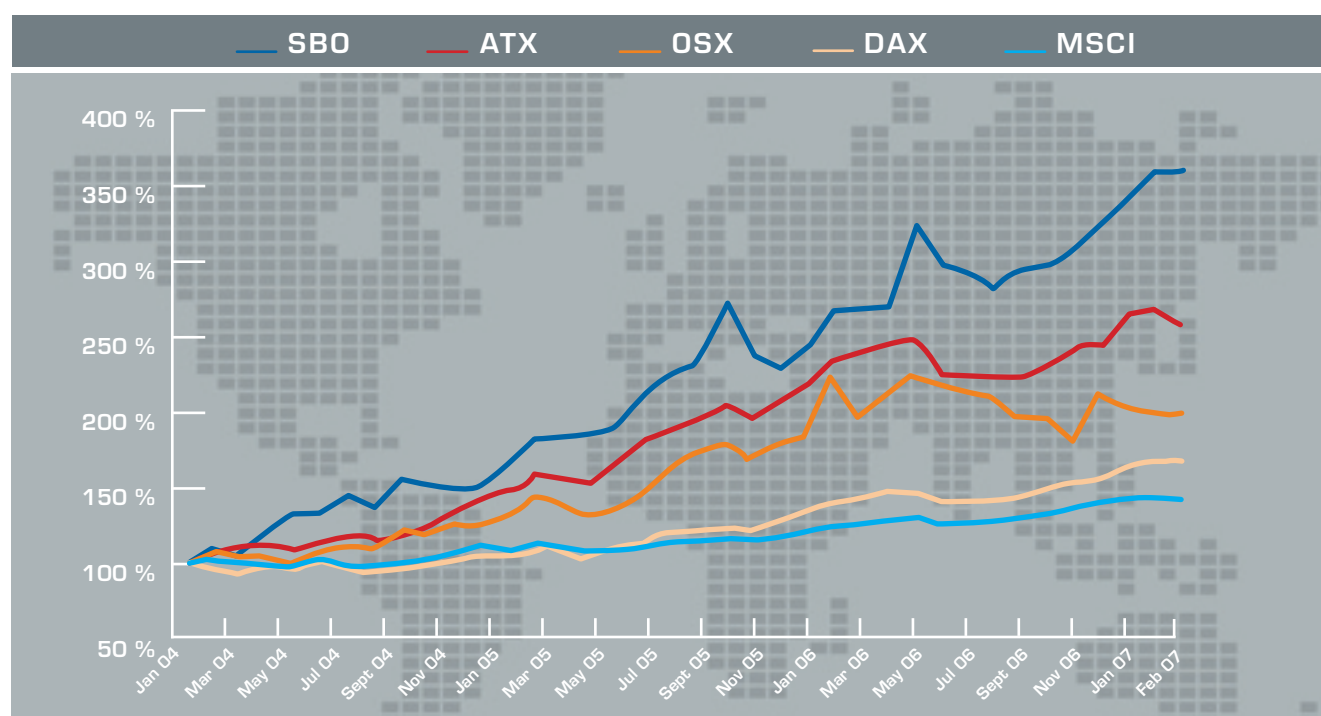




THE SHARE 06

THE SBO-SHARE

As in the years before, the share of Schoeller-Bleckmann Oilfield Equipment AG (SBO) demonstrated an excellent performance in the year 2006. The SBO share closed at a rate of EUR 24.7 on the first trading day of 2006, which was also the annual low posted in that year. The annual high was reached by the share of Schoeller-Bleckmann in December 2006, when it climbed to EUR 35.2, while the intraday all-time high of the share was slightly higher, EUR 35.5. The closing price of the SBO share was EUR 34.76 for the 2006 trading year. The price increase since SBO's listing on the Vienna Stock Exchange (first listed price on 27 March 2003: EUR 9.08) was 283 %.



Due to the continued strong industry cycle, the economic environment for oilfield service shares remained highly favourable in fiscal 2006. The share also profited from the excellent development of the company fundamentals, another outstanding stock exchange year in Vienna and the satisfying ATX performance. Throughout fiscal 2006, the SBO share posted an increase of 41 %.

Together with the gratifying share performance, the liquidity of the SBO share was retained at a high level. The average daily volume traded amounted to 88,927 shares, a further rise of around 19 % over the previous year (average volume: 74,756 shares).

In the past business year, the rules under the Corporate Governance Code were further complied with and implemented actively for the purpose of transparent management. Moreover, as laid down in our open and transparent communication policy, a large number of information events both for institutional and private investors were held. The management of Schoeller-Bleckmann engaged in roadshows

in Edinburgh, Geneva, Kitzbühel, London, New York, Stegersbach, Zurich and Zürs to present the company to an international audience of investors.

Schoeller-Bleckmann continued and accelerated its proactive communication policy by organising press conferences and permanent contacts with the press over the past business year.

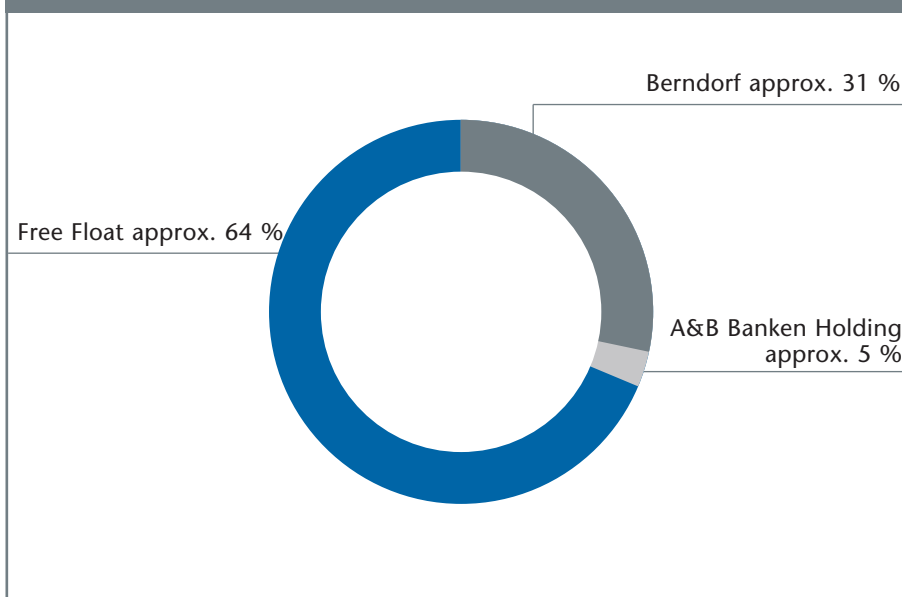
FINANCIAL CALENDAR

19 April 2007 **Annual shareholders' Meeting**
 3 May 2007 **Ex-day, dividend distribution day**

Publications:

23 May 2007 1st quarter 2007
 23 August 2007 2nd quarter 2007
 21 November 2007 3rd quarter 2007

SHAREHOLDER STRUCTURE - 31 DEC. 2006



Also in fiscal 2006, Schoeller-Bleckmann offered institutional and private investors the opportunity to visit the company and to get to know the manufacture of SBO products. We also maintained contacts with analysts so as to implement our strategy of comprehensive and open dialogues. SBO is regularly analysed by all three major Austrian banks (BA-CA, Erste Bank and Raiffeisen Centrobank). The first non-Austrian bank to include an analysis of SBO was Sal. Oppenheim.

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

SHARE KEY DATA	2006	2005
Share capital (in EUR)	16,000,000	16,000,000
Number of shares	16,000,000	16,000,000
Average number of shares traded per day ¹	88,927	74,756
Closing share price at year end (in EUR)	34.76	24.65
High/Low (in EUR)	35.50/24.70	28.78/15.50
Market capitalization at year end (in EUR)	556,160,000	394,400,000
Earnings per share (in EUR) ²	2.15	1.13
Price/earnings ratio at year end	16.16	21.81
Dividend per share (in EUR)	0.80 ³	0.50

¹ double counting

² based on average shares outstanding (2006: 16,000,000; 2005: 15,260,274)

³ proposed

CORPORATE GOVERNANCE

The Executive Board and Supervisory Board of Schoeller-Bleckmann Oilfield Equipment AG committed themselves in 2005 to observe the Austrian Corporate Governance Code, which the management consistently complied with and implemented in fiscal 2006. The Austrian Corporate Governance Code is a set of rules for transparent corporate governance and control with the aim of further strengthening the confidence in the Austrian capital market and Austrian enterprises.

The Austrian Corporate Governance Code comprises 80 rules subdivided into three categories. L-Rules (Legal Requirements) describe mandatory legal requirements that must be complied with. C-Rules (Comply or Explain) are in line with customary international provisions. Any deviation must be explained and reasoned. The third category, R-Rules (Recommendations), is of recommendatory nature. Non-compliance does not have to be disclosed or explained.

The legal provisions described in the Austrian Corporate Governance Code are complied with by Schoeller-Bleckmann Oilfield Equipment AG without restriction.

Explain

The C-Rules of the Austrian Corporate Governance Code are largely complied with. 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 the tasks of auditing 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 HGB („Austrian Commercial Code“) applies, pursuant to which disclosure of expenditures for severance payments and retirement pensions for members of the Executive Board and senior executives as well as the remuneration of the members of the Executive Board and Supervisory Board is not required. This exemption is applicable to Rule 30.

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 objected to the introduction of such age limits, as the Supervisory Board is of the opinion that such limits do not supply any 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

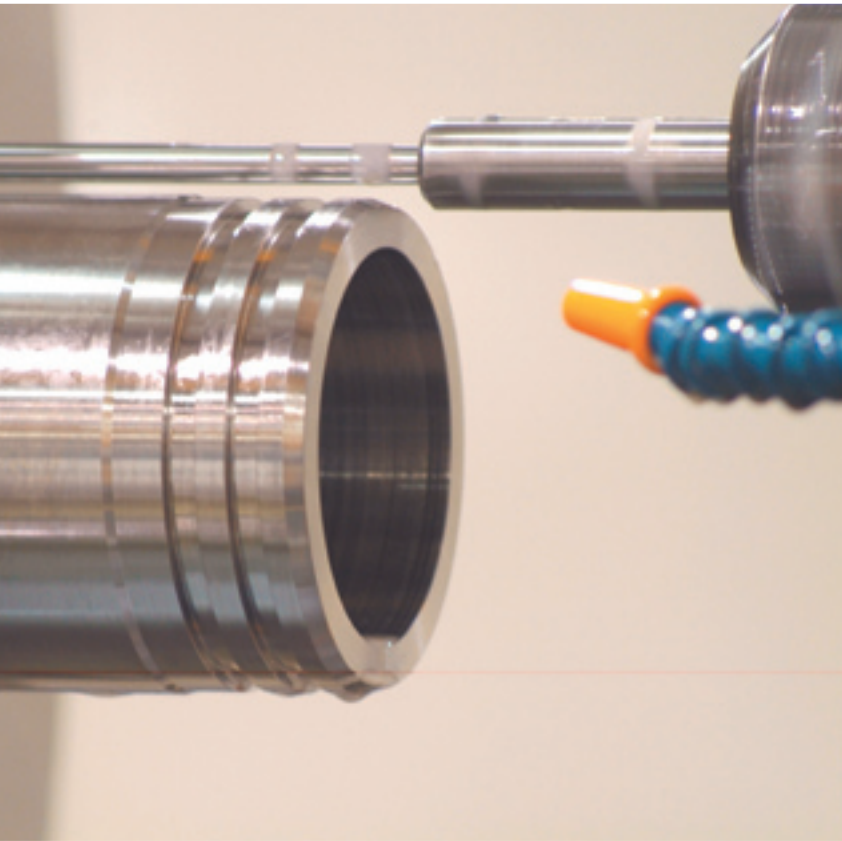
The members of Schoeller-Bleckmann Oilfield Equipment's Supervisory Board act independently. The scope of activities of Supervisory Board member Dr. Schleinzer in 2006 as the company's legal adviser was not regarded to be substantial pursuant to Annex 1 of the Austrian Corporate Governance Code.

Rule 54

At present, no member of the Supervisory Board is explicitly designated as representative of minority shareholders. It is the Executive Board's opinion that the minority shareholders feel that their interests are well represented in the Supervisory Board, due to the fact that the current Supervisory Board was appointed unanimously, i.e. without any dissenting votes and thus with the votes of the minority shareholders present. Therefore, the Executive Board presently sees no need for action in this matter.

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 objected to the introduction of such age limits, as the Supervisory Board is of the opinion that such limits do not supply any substantial added value for the company.



MANAGEMENT REPORT

06



MANAGEMENT REPORT

MARKET ENVIRONMENT

The market environment of the oilfield service industry is largely influenced by the exploration and production (E&P) activities of the international oil companies. Recent experience shows that it is primarily the global demand for oil and gas that is decisive for E&P activities. Adding to that, high oil prices have a stimulating effect on the industry at large.

In fiscal 2006 the upward cycle in the oilfield service industry remained in full swing as in the year before. The main driver behind this development was the unabated strong worldwide demand for oil and gas. Major contributors were the growth regions of China and India. According to estimates of IEA (International Energy Agency), China, like in the previous year, accounted for the strongest increase in oil consumption, i.e. 5.6 %.¹ Apart from that, the continued strong global economy triggered a rising demand for oil and gas. The decline in gas demand in the US in the second half of 2006 appears to be due to the currently weaker US economy and the above-average winter temperatures. However, we do expect that this decline will be short-lived and compensated by the demand of China and India, if the present momentum continues. The estimated global oil consumption as at the end of 2006 rose to 84.5 million barrels per day, following 83.6 million barrels per day in 2005.² 2007 is expected to see another surge in demand to around 86 million barrels per day.³

As a result of the sustained strong demand, speculative and political factors, the oil price in fiscal 2006 again reached an extremely high level, fluctuating between USD 56.27 and 77.03 per barrel.⁴ OPEC 10 (Organisation of Petroleum Exporting Countries) responded by continuously cutting their production rate, which as at February 2007 was 25.8 million barrels per day, following 28 million barrels per day at the start of fiscal 2006.⁵

OILFIELD SERVICE INDUSTRY SEES
UNABATED UPWARD CYCLE

¹ Monthly Oil Market Report, IEA, December 2006

² Monthly Oil Market Report, IEA, December 2006

³ Monthly Oil Market Report, IEA, December 2006

⁴ West Texas Intermediate Crude Oil Prices, January through December 2006

⁵ OPEC

The continued strong demand for oil, the higher depletion rates and lower discovery rates necessitate increased exploration activities, as well as increased application of advanced technologies to improve the efficiency of hydrocarbon extraction. This is reflected in the higher global rig count, the leading indicator of global drilling activities. It again rose in fiscal 2006, from 2,993 rigs at the end of 2005 to 3,125 rigs at the end of 2006.⁶ In the past fifteen years, the rig count showed a growth rate of around 71 %, underpinning the rising E&P activities.

The development described above was setting the stage for Schoeller-Bleckmann. SBO is clearly benefiting from a more robust exploration growth environment. Demand for high-precision and cutting-edge SBO components for directional drilling once again was brisk. Similarly, the booming demand for drilling motors was continued throughout 2006 as it had in 2005.

BUSINESS DEVELOPMENT

Record booking and order backlog levels

Schoeller-Bleckmann fully benefited from the undiminished upward cycle in the oilfield service industry and pressed ahead with its course of growth in fiscal 2006. Consequently, both bookings and order backlog reached new record levels. Bookings improved from MEUR 269 in fiscal 2005 to MEUR 349 in fiscal 2006, increasing by 29.7 %. As a result of the worldwide shortage of manufacturing capacities Schoeller-Bleckmann's customers had started to place orders well ahead already in 2005. Already now, part of the bookings received in 2006 are scheduled for delivery in fiscal 2008, underlining our customers' confidence that the current upward cycle in the oilfield service industry will persist.

In 2006 we were faced with increasing costs mainly of human resources but also of energy and, partly, raw materials, but they could be covered by higher sales prices. As in fiscal 2005, a tendency of shortage in specialty alloys required for producing high-precision components for the oilfield service industry emerged in 2006 as well. Foresighted feedstock planning and temporary stocks of key raw materials, combined with a partnership-oriented ordering policy with steel manufacturers allowed Schoeller-Bleckmann to successfully counteract this development.

Due to the sustained positive industry development, the order situation at the globally operating Service & Supply Shops of Schoeller-Bleckmann Oilfield Equipment AG was also highly satisfying.

⁶ Worldwide Rig Count, Baker Hughes, January 2007

Research and development

The forging plant purchased under the capacity expansion programme is a state-of-the-art stainless steel cold forging machine, developed in close cooperation with SBO and the first of its kind worldwide. It will significantly increase the capacity of the Ternitz plant. In 2006, all required steps were taken to ensure that the forge will go on stream in 2007 as planned.

In addition, in 2006 numerous prototypes were designed to meet customer-specific requirements and developed in cooperation with customers. Further research was conducted to develop new steerable drilling motors.

Positive development of the drilling motor business

The encouraging development observed in the past year continued over fiscal 2006. The drilling motor business, which SBO operates mainly on a leasing basis in North America, again benefited from the strong demand for the drilling motor „Spiro Star“, developed by our US subsidiary BICO Drilling Tools Inc. The motor excels by an up to 50 % higher torque than conventional motors. SBO's drilling motor stock was expanded by around 45 %, compared with the previous year.

CAPEX programme further accelerated

The capacity expansion programme approved and launched in the wake of the capital increase of 2005, which amounts to around MEUR 100 and is scheduled for completion by the year 2007, helped to assure the company's momentum of growth already in 2006. Under the programme, the Executive Board approved capital expenditures of MEUR 58 in fiscal 2006. New machine tools for high-precision components (MWD/LWD) were purchased at the Ternitz site, some of them already commissioned. They include additional special manufacturing equipment and the new forging plant which is to be commissioned in 2007. Besides Ternitz, extensive capacity expansions were conducted at the US sites and in Mexico, with a focus on increasing the machinery stock. Together with the recently approved construction of another manufacturing plant at Ternitz, aggregate investments will clearly exceed the MEUR 100 threshold.

GROWTH SEEN AT ALL FACILITIES,
IN PARTICULAR IN AUSTRIA
AND THE UNITED STATES

Asset additions amounted to MEUR 28.8, of which around 30 % accounted for ongoing maintenance and replacement capital expenditures and around 70 % for strategic expansions. Apart from large-scale investments in the Ternitz plant of MEUR 12.4, approximately MEUR 10.4 were invested in expanding the capacities at the US sites in fiscal 2006, concerning mainly our two US subsidiaries Godwin-SBO L.P. and Bico Drilling Tools Inc.

Environmental interests

The manufacture of our 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 focuses on waste disposal, energy saving and noise abatement measures.

Risk management report

For the risk management report see Financial Information, Note 30 page 64.

OUTLOOK

If the global economic development remains stable, no end of the upward cycle in the oilfield service industry appears to be in sight. Market observers and industry analysts alike forecast sustained demand for oil and gas on a high level and, consequently, no changes in the strong industry cycle. The decline in gas demand in particular in North America – a result of the above-average temperatures this winter – may bring about a temporary reduction of the rig count in North America. However, this will have no

influence on international drilling activities. This assessment is reflected in the longer-term order horizon of SBO's customers. In any case, the record order backlog of MEUR 241 as at the end of 2006 (following MEUR 134) is a sound basis of continued positive business development in fiscal 2007. The challenges in the months ahead will be the speedy implementation of the capacity expansion programme, further extension and optimisation

of production capacities and raw material planning and procurement. In addition, new personnel will have to be recruited to work off the high order backlog according to plan. Capex spending in fiscal 2006 will further increase production capacities in 2007. We therefore expect an excellent business development of our company and the consistent continuation of the course of growth of Schoeller-Bleckmann in 2007. We also expect a strong bottomline, which, however, may be influenced by uncer-

RECORD ORDER BACKLOG OF
MEUR 241 CREATES BASIS OF
PROMISING DEVELOPMENT
IN 2007

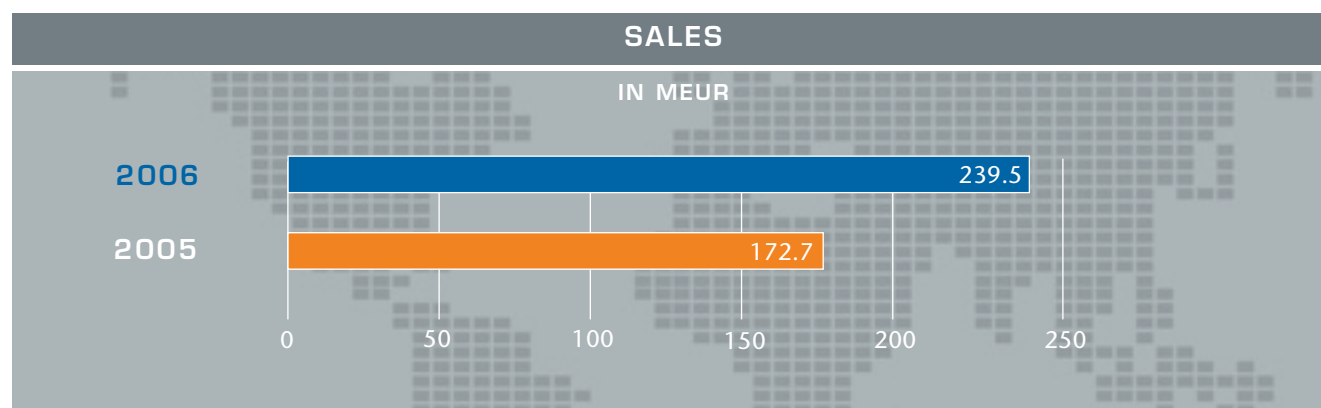
tainties such as the euro-dollar exchange rate. All in all, we are very confident to continue the successful track record of our company in 2007 as well.

ANALYSIS AND RESULTS

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), formerly International Accounting Standards (IAS). Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. The reclassifications have no significant impact on the presentation. In the year under review the scope of consolidated Companies remained unchanged and no changes were made in the business of the Group.

Sales

The sustained improvement of the market requirements allowed an increase in sales of 38.6 % from MEUR 172.7 to MEUR 239.5. As in the previous years, the US dollar was by far the most important currency for the SBO group in 2006. About 80 % of the total sales and revenues were generated in US dollars, but only about 60 % of the costs were incurred in US-dollars.



Exchange rate (EUR/USD)	High	Low	Average	Closing
Year 2006	1.3331	1.1826	1.2557	1.3160
Year 2005	1.3507	1.1667	1.2448	1.1847

The average rates for the years ended 31 December 2005 and 31 December 2006 were used by the Company in the preparation of its Consolidated Profit and Loss Statements, whereas the closing rates for the years 2005 and 2006 were used in the preparation of its Consolidated Balance Sheets.

SALES BY REGIONS

IN MEUR

	2006	2005
North America	199.8	142.1
Europe	100.2	78.4
Other	13.6	11.6
- Intercompany Sales	-74.1	-59.4
Total Sales	239.5	172.7

Sales by regions

Unchanged as in the past, North America was the most important region for the Group, because the headquarters of all main oilservice companies are located there. About 75 % of sales were invoiced to customers in North America (2005: approx. 72 %), about 17 % to Europe (2005: approx. 18 %) and about 8 % (2005: approx. 10 %) to other regions.

SALES BY PRODUCT

IN MEUR

	2006	2005
High-Precision Components	154.9	107.5
Oilfield Supplies and Service	83.0	64.0
Other	1.6	1.2
Total Sales	239.5	172.7

Sales by product

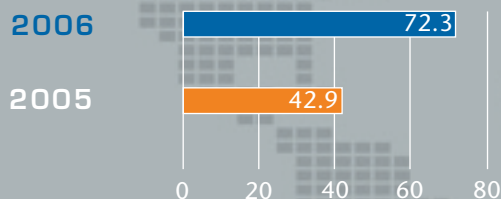
In the year under review both business segments were able to achieve significant sales increases, high precision components 44 %, oilfield supplies and service 30 %.

The business segment high-precision components comprises MWD/LWD collars and MWD/LWD internals and parts. In this segment particularly MWD/LWD collars showed a significant sales increase.

The business segment oilfield supplies and service comprises nonmag drill collars, nonmag material, drilling motors and various other tools for the oilfield as well as repair and service activities. In this segment, drilling motors showed the highest growth, i.e. 55%, while the product lines non-mag drill collars and nonmag materials were limited by manufacturing capacities.

GROSS PROFIT

IN MEUR



Gross profit

Gross profit amounted to MEUR 72.3 after MEUR 42.9 in the year 2005, which is an increase of 69 %. The margin was improved to 30.2 % of sales after 24.8 % in the year before. This development results both from price increases and economy of scale from the full utilization of the capacities.

Selling, general and administrative expenses

Selling, general and administrative expenses amounted to MEUR 21.5 compared to MEUR 18.6 in 2005. Selling, general and administrative expenses increased only disproportionately in relation to sales, so that expressed as a percentage of sales, SGA expenses were reduced from 10.8 % in 2005 to 8.9 % in 2006. This development results, on the one hand, from the favourable sales growth, and on the other hand, reflects the continuing strict cost management of the Group.

Selling, general and administrative expenses mainly consist of salary and salary related expenses, professional fees, travel and entertainment, communication and insurance costs.

Other operating income and expenses

These items consist of

- **Other operating expenses**

The major position of this line item are exchange losses in the amount of MEUR 2.7 (2005: MEUR 3.7), whereby on the other hand

- **Other operating income**

includes exchange gains of MEUR 2.4 (2005: MEUR 3.3). Other operating income consists of rental income, service charges as well as scrap sales and gains from sales of fixed assets.

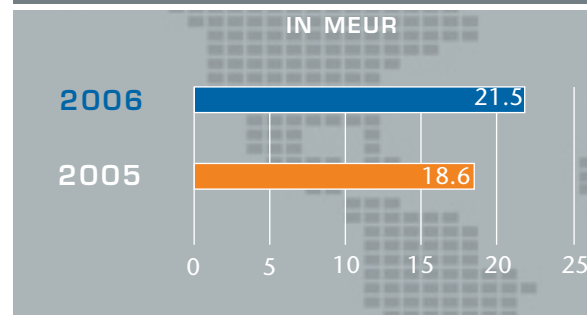
Non-recurring write-offs and provisions related to restructuring

The amount of MEUR 1.5 (2005: MEUR 0) refers to a provision for the necessary restructuring of the business activities in Venezuela due to the political development in that country.

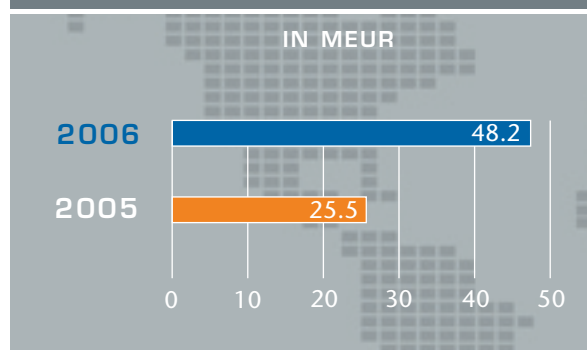
Income from operations

Income from operations after non-recurring items increased to MEUR 48.2 compared to MEUR 25.5 in the year before, an increase of 89.5 %. Expressed as a percentage of sales this amounts to 20.1 % (2005: 14.7 %).

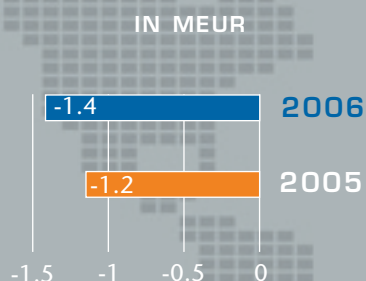
SELLING GENERAL AND ADMINISTRATIVE EXPENSES



INCOME FROM OPERATIONS



FINANCIAL RESULT



As shown, this improvement over the year before was achieved both through the growth of the business volume, price increases and strict cost management.

Financial result

The financial result arrived at MEUR – 1.4 after MEUR – 1.2 in the year before. Because of the low net indebtedness of the Group, this item does not have a significant impact on the net income.

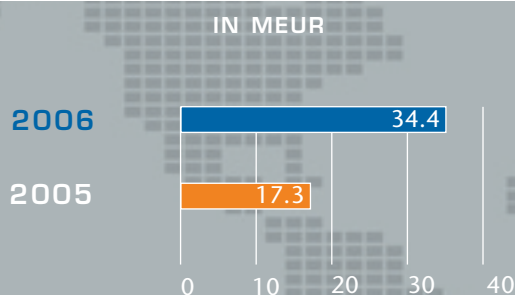
Net income/dividend

Net income for the year 2006 amounted to MEUR 34.4, i.e. EUR 2.15 per share, compared with MEUR 17.3 for 2005 (i.e. EUR 1.13 per share). The Executive Board proposes to the Shareholders that a dividend of EUR 0.50 per share (2005: EUR 0.30) plus a bonus of EUR 0.30 per share (2005: EUR 0.20), in total EUR 0.80 per share should be paid. So the total distribution amounts to MEUR 12.8, compared to MEUR 8.0 in 2005.

Capital resources and liquidity

In correspondence with the development of the profit, the cash flow from the profit was improved significantly, from MEUR 28.7 in 2005 to MEUR 47.1. The main elements contributing to this figure were income after taxation, depreciation and amortization as well as changes in deferred taxes and long-term provisions.

NET INCOME



Cash flow from operating activities arrived at MEUR 24.8 (2005: MEUR 10.6). The increased business level of the Group as well as strategic stockpiling of certain stainless steel alloys to absorb supply bottlenecks in the US led to a considerable inventory increase, sales growth was combined with higher receivables. Net working capital in total went up by MEUR 15.9 to MEUR 76.0.

Cash flow from investing activities amounted to MEUR 25.4 after 21.4 in the year 2005. The expenditures for property, plant and equipment were MEUR 28.8 in 2006 (2005: MEUR 22.9), proceeds from the sale of fixed assets amounted to MEUR 3.7 (2005: MEUR 1.5). Investments for fixed assets were intensified in line with the expansion strategy of the group and the market development in general.

Expenditures for property, plant and equipment for the business segment high-precision components amounted to MEUR 13.4 (2005: MEUR 9.8). The main spendings were made for the acquisition of mills and lathes for the companies Schoeller-Bleckmann Oilfield Technology GmbH & Co KG in Ternitz/Austria, Godwin-SBO L.P. and Knust-SBO Ltd. in Houston/USA, and Schoeller-Bleckmann de Mexico S.A. de C.V. in Monterrey/Mexico.

Expenditures for the business segment oilfield supplies & services amounted to MEUR 15.2 (2005: MEUR 11.8). The main expenditures were made for a scarving machine, a deephole-borer and advance payments for a long-forge at Schoeller-Bleckmann Oilfield Technology GmbH & Co KG in Ternitz/Austria, and for additions to the rental fleet of the companies BICO Drilling Tools, Inc. in Houston/USA and BICO Faster Drilling Tools, Inc. in Nisku/Canada.

Net debt at 31 December 2006 amounted to MEUR 15.7 after MEUR 9.7 at 31 December 2005.

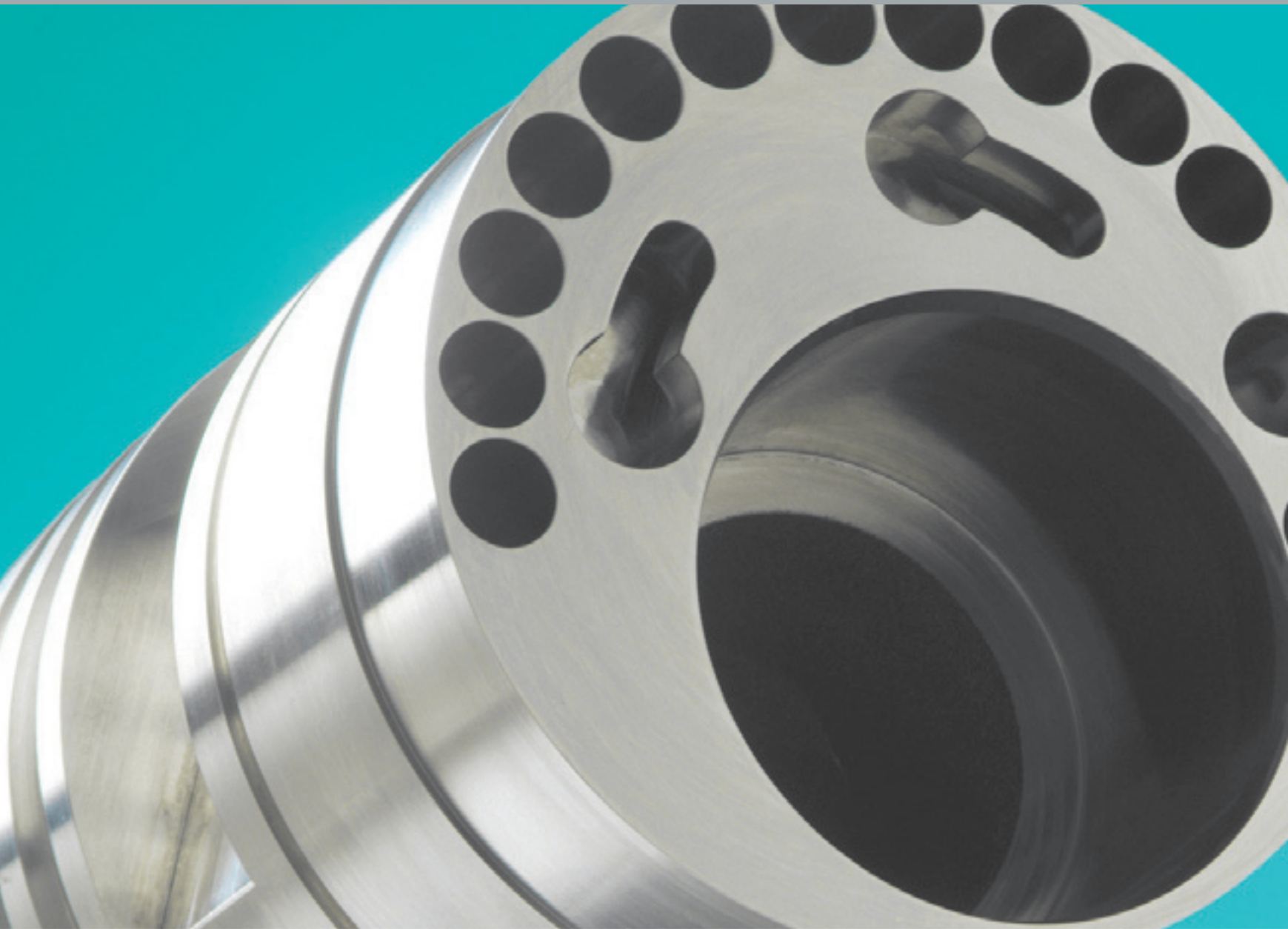
The gearing ratio, defined as net debt divided by shareholders equity, was 9.2 % at 31 December 2006 compared to 6.3 % at 31 December 2005.

EVENTS AFTER THE BALANCE SHEET DATE

Please see Financial Information, Note 35, page 66.

ADDITIONAL INFORMATION ACCORDING TO § 243A HGB

Please see Financial Information, Note 17, page 57.



FINANCIAL INFORMATION 06

FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEET

ASSETS		31 Dec. 2006	31 Dec. 2005
		TEUR	TEUR
Current assets			
Cash and cash equivalents		40,850	35,598
Trade accounts receivable	Note 5	33,977	28,460
Other accounts receivable and prepaid expenses		3,906	5,402
Inventories	Note 6	83,312	58,108
Total current assets		162,045	127,568
Non-current assets			
Property, plant & equipment	Note 7	76,666	68,200
Goodwill	Note 8	36,914	40,019
Other intangible assets	Note 8	412	548
Long-term investments	Note 9	1,507	1,480
Long-term receivables		2,419	1,355
Deferred tax assets	Note 10	5,337	3,677
Total non-current assets		123,255	115,279
TOTAL ASSETS		285,300	242,847

CONSOLIDATED BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY		31 Dec. 2006 TEUR	31 Dec. 2005 TEUR
Current liabilities			
Bank loans and overdrafts	Note 11	27,129	24,647
Current portion of long-term bank loans		3,847	4,333
Finance lease obligations	Note 7	328	236
Accounts payable trade		22,404	16,384
Subsidies received	Note 12	144	105
Income taxes payable		1,419	907
Other payables	Note 13	13,481	9,027
Other accruals	Note 13	7,935	5,571
Total current liabilities		76,687	61,210
Non-current liabilities			
Long-term bank loans	Note 14	26,802	17,286
Long-term finance lease obligations	Note 7	0	308
Subsidies received	Note 12	687	543
Retirement benefit obligations	Note 15	3,497	3,105
Other payables	Note 16	1,448	427
Deferred tax payables	Note 10	4,481	5,238
Total non-current liabilities		36,915	26,907
Shareholders' equity			
Share capital	Note 17	16,000	16,000
Contributed capital		65,799	65,799
Legal reserve - non-distributable	Note 18	785	785
Other reserves	Note 19	58	59
Revaluation reserve		-17,608	-7,939
Translation component		248	0
Retained earnings		106,416	80,026
Total shareholders' equity		171,698	154,730
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		285,300	242,847

CONSOLIDATED PROFIT AND LOSS STATEMENT

		2006 TEUR	2005 TEUR
Sales	Note 20	239,501	172,747
Cost of goods sold	Note 21	-167,195	-129,893
Gross profit		72,306	42,854
Selling expenses	Note 21	-9,385	-8,787
General and administrative expenses	Note 21	-12,086	-9,836
Other operating expenses	Note 22	-5,301	-4,314
Other operating income		4,257	5,546
Income from operations before non-recurring items		49,791	25,463
Non-recurring write-offs and provisions related to restructuring	Note 23	-1,547	0
Income from operations after non-recurring items		48,244	25,463
Interest income		1,064	1,010
Interest expenses		-2,282	-2,148
Other financial income		0	26
Other financial expenses		-219	-59
Financial result		-1,437	-1,171
Income on ordinary activities before taxation		46,807	24,292
Income taxes	Note 24	-12,418	-6,982
Income after taxation		34,389	17,310
Average number of shares outstanding		16,000,000	15,260,274
Earnings per share in EUR (basic = diluted)		2.15	1.13

CASH-FLOW STATEMENT

	2006 TEUR	2005 TEUR
Income after taxation	34,389	17,310
Depreciation and amortization	12,824	11,150
Change in retirement benefit obligations	392	534
Gain (loss) from sale of property, plant and equipment	-38	-224
Gain (loss) from sale of investments	10	-101
Income from release of subsidiaries	-172	-105
Other non-cash expenses and revenues	1,130	-102
Change in deferred taxes	-1,429	253
Cash-flow from the profit	47,106	28,715
Change in accounts receivable trade	-7,872	-6,044
Change in other accounts receivable and prepaid expenses	1,038	1,672
Change in inventories	-30,347	-17,946
Change in accounts payable trade	6,700	1,352
Change in other payables and accrued expenses	8,126	2,893
Cash-flow from operating activities	Note 33 24,751	10,642
Expenditures for property, plant & equipment	-28,779	-22,873
Expenditures for intangible assets	-126	-61
Expenditures for investments	-300	0
Proceeds from sale of fixed assets	3,656	1,511
Proceeds from sale of investments	179	67
Cash-flow from investing activities	Note 33 -25,370	-21,356
Share issuance	0	51,803
Dividend payments	-8,000	-5,200
Subsidies received	342	0
Change in finance lease	-226	-212
Change in bank loans and overdrafts	3,627	-10,976
Borrowings of long-term loans	14,281	0
Repayment of long-term loans	-4,327	-5,828
Cash-flow from financing activities	Note 33 5,697	29,587
Translation adjustment	963	-2,175
Change in cash and cash equivalents	6,041	16,698
Cash and cash equivalents at the beginning of the year	35,598	17,042
Effects of exchange rate changes on cash and cash equivalents	-1,120	1,858
Revaluation effects on cash and cash equivalents	331	0
Cash and cash equivalents at the end of the year	Note 33 40,850	35,598
Supplementary information on operating cash-flow		
Interest received	1,140	818
Interest paid	-2,239	-2,234
Income tax paid	-11,409	-3,047

STATEMENT OF SHAREHOLDERS' EQUITY

2006 in TEUR	Share capital	Contributed capital	Legal reserve	Other reserves	Revaluation reserve	Translation component	Retained earnings	Total
1 January 2006	16,000	65,799	785	59	0	-7,939	80,026	154,730
Currency translation shareholders' equity						-6,764		-6,764
Hedging of a net investment						779		779
Revaluation marketable securities					331			331
Currency translation other items ¹						-4,564		-4,564
Deferred taxes					-83	880		797
Total income and expense for the year recognized directly in equity	0	0	0	0	248	-9,669	0	-9,421
Income after taxation							34,389	34,389
Total income and expense for the year	0	0	0	0	248	-9,669	34,389	24,968
Dividends ²							-8,000	-8,000
Change in reserves				-1			1	0
31 December 2006	16,000	65,799	785	58	248	-17,608	106,416	171,698

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

² The dividend payment in the year 2006 of TEUR 8,000 was distributed to a share capital of TEUR 16,000. Accordingly, the dividend per share amounted to EUR 0.50.

2005 in TEUR	Share capital	Contributed capital	Legal reserve	Other reserves	Revaluation reserve	Translation component	Retained earnings	Total
1 January 2005	13,000	16,996	785	60	0	-20,892	67,915	77,864
Currency translation shareholders' equity						7,239		7,239
Currency translation other items ¹						5,714		5,714
Total income and expense for the year recognized directly in equity	0	0	0	0	0	12,953	0	12,953
Income after taxation							17,310	17,310
Total income and expense for the year	0	0	0	0	0	12,953	17,310	30,263
Dividends ²							-5,200	-5,200
Change in reserves				-1			1	0
Share issuance ³	3,000	48,803						51,803
31 Dezember 2005	16,000	65,799	785	59	0	-7,939	80,026	154,730

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

² The dividend payment in the year 2005 of TEUR 5,200 was distributed to a share capital of TEUR 13,000. Accordingly, the dividend per share amounted to EUR 0.40.

³ Share issuance 2005:

Revenue	54,000
less transaction costs	-2,929
plus tax benefit	732
Net increase	51,803

NOTE 1

INFORMATION ABOUT THE COMPANY

SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft (the Company), located in 2630 Ternitz, Hauptstrasse 2, was incorporated on 26 May 1994 in Ternitz, Austria and is registered at the Commercial Court in Wr. Neustadt, Austria (FN 102999w). The Company is engaged in the industrial manufacturing of components and parts for the oil and gas industry, mostly in the directional drilling segments and provides services in these areas. The Company's shares had been listed at the NASDAQ Europe in Brussels from 20 June 1997 to 30 June 2003. Since 27 March 2003 the shares of the Company have been listed at the Wiener Börse (Vienna Stock Exchange).

NOTE 2

ACCOUNTING STANDARDS

The Company's consolidated financial statements for the business year 2006 were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, formerly International Accounting Standards (IAS), as adopted by the International Accounting Standards Board (IASB), as well as the interpretations of the International Financial Reporting Interpretation Committee (IFRIC), formerly Standard Interpretation Committee (SIC).

NOTE 3

SCOPE OF CONSOLIDATION

The consolidated financial statements as of 31 December 2006 comprise the accounts of SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft and its subsidiaries as follows:

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

In 2006, no changes in the scope of consolidated entities took place.

NOTE 4

SIGNIFICANT ACCOUNTING POLICIES

The accounting and valuation methods used by the Company remain unchanged from December 2005 with the exception of the following principles:

■ **Changes in accounting policies**

The following changes came into force on 1 January 2006 and have been taken into account for the Financial Statements as of 31 December 2006 for the first time:

IAS 19 Retirement benefits: As of 1 January 2006, the Group adopted the amendments to IAS 19. As a result, additional disclosures are made providing information about trends in the asset and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change has resulted in additional disclosures being included for the years ending 31 December 2006 and 31 December 2005 but did not have a recognition or measurement impact, as the Group chose not to apply the new option offered to recognize actuarial gains and losses outside of the income statement.

As of 1 January 2006, the Group adopted the amendments to **IAS 21 (the effect of changes in foreign exchange rates)**. As a result, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognized in a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated. This change did not have an effect on the consolidated financial statements.

Regarding **IAS 39 Financial instruments** the following three changes came into force:

- Financial guarantee contracts – such transactions did not exist (such contracts that are not considered to be insurance contracts should be recognized initially at fair value and should be remeasured at the higher of the amount determined in accordance with IAS 37 and the amount initially recognized less cumulative amortization).
- Amendment for hedges of forecast intragroup transactions did not have an effect on the consolidated financial statements, because the requirements for hedge accounting were not fully met.
- The amendment for the fair value option in IAS 39 did not have an effect on the consolidated financial statements, since the Company did not apply this new option.

IFRIC 4 determining whether an arrangement contains a lease: The Group adopted IFRIC 4 as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This change in accounting policy did not have a significant impact on the Group as at 31 December 2006 or 31 December 2005.

At 31 December 2006 no standards or interpretations existed, which were voluntarily adopted in advance by the Group, although they were not obligatory yet.

■ **Materiality**

The recognition, measurement and disclosure as well as the combination of individual items of the balance sheet, the profit and loss statement, the cash flow statement and the non-owner movements in equity as well as the scope of the notes provided are guided by the principle of materiality.

■ **Balance sheet date**

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

■ **Consolidation principles**

Upon capital consolidation the investments in the subsidiaries were offset against the equity of the respective entity in applying the purchase method of consolidation accounting in line with International Financial Reporting Standards.

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

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

Intercompany profits arising from the provision of goods between group-companies are 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**

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. At the balance sheet date foreign currency monetary items are reported using the closing rate. Any exchange differences arising are recognized as income or expense in the period in which they arise. Foreign exchange differences recognized in the profit and loss statement were TEUR - 319 and TEUR - 435 for the years ended 31 December 2006 and 2005, respectively.

For all subsidiaries with financial statements denominated in foreign currency, the local currency was used as the functional currency for the translation into EURO.

- The assets and liabilities, both monetary and non-monetary, are translated at the closing rate (2006: 1 EUR = 1.3160 USD; 2005: 1 EUR = 1.1847 USD).

- All income and expense items of the foreign subsidiaries are translated at an average exchange rate for the period (2006: 1 EUR = 1.2557 USD; 2005: 1 EUR = 1.2448 USD).

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.

■ **Liquid funds**

All cash holdings and financial investments with a residual term to maturity not exceeding 90 days at the time of acquisition that are included in the item Cash and cash equivalents are classified as liquid funds. These items are carried at current values as of the balance sheet date (mark-to-market).

■ **Accounts receivable**

Receivables and other assets are stated at cost of acquisition at the execution date. In case of any expected losses, allowances are made to arrive at the current value.

The Company grants loans 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 any casual 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.

■ **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. Costs are determined by the first-in, first-out, weighted average or specific identification methods. The costs of finished goods comprise raw materials, other direct costs and related production overheads, but exclude interest expense. The Company reviews inventories for slow moving items or obsolete items on an ongoing basis and establishes reserves if necessary.

■ **Tangible and intangible fixed assets**

The Company's fixed assets are recorded at historical cost less depreciation/amortization. Depreciation is provided for in amounts which are sufficient to relate the cost of depreciable assets to operations over their estimated service lives computed by the straight-line method. The estimated service lives are as follows:

	Years of service
Other Intangibles	4 - 10
Buildings and improvements	5 - 50
Plant and machinery	4 - 17
Fixtures, furniture and equipment	2 - 10
Automobiles	3 - 8
Fleet assets (drilling tools under operating leases)	3 - 5

Repairs and refurbishments are charged to the profit and loss statement at the time the expenditure has been incurred.

Interest expenses 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.

■ **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 on the basis of the estimated cash flows.

■ **Financial instruments**

Such transactions are recognized at the settlement date, according to IAS 39. The position "long-term investments" includes units of an investment fund and other securities. Units of other investment funds are also held in the position "Cash and Cash equivalents". They are classified as available-for-sale and are measured at cost and later on at fair value without deducting transaction costs, according to IAS 39.

Fair value deemed to be the market price of these financial instruments at the balance sheet date. Any gains or losses from the change in the fair value are recognized directly in the equity (revaluation reserve).

A financial instrument is derecognized when:

- the rights to receive cash flows from the asset have expired,
- the Group 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 Group 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.

■ **Hedging transactions (derivative financial instruments)**

Hedging transactions are reported at fair value on the balance sheet date. The fair value is determined through the capital market.

■ **Deferred Taxes**

The Company uses the liability method under which deferred taxes are determined based on the difference between the financial statements and tax bases of assets and liabilities as measured by the enacted tax rates which will become effective when these differences reverse (IAS 12). Deferred tax expense is the result of changes in deferred tax assets and liabilities. 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.

■ Subsidies received

Subsidies are recognized as a liability upon fulfilment of all requirements for receipt of such funds. They are released over the useful life of the respective assets (other operating income).

■ Liabilities

Liabilities are stated at the actual amount received, less any transaction costs. At the balance sheet date, liabilities are valued at amortized costs by applying the effective interest rate method.

Gains and losses arising from the effective interest rate method are recognized in the profit and loss account.

A liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

For lease obligations see note 7.

■ Provisions

In accordance with IAS 37, provisions are stated in the amount that is necessary as of the balance sheet date, according to reasonable commercial standards, to cover future payment obligations, identifiable risks and contingent liabilities of the group. The amount stated is the amount most likely to result from a careful consideration of the facts involved.

■ Retirement benefits

Austrian Pension obligations

In Austria the Company operates a defined contribution 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 on an annual basis the following contributions for its employees: for employees who do not themselves contribute to the pension scheme, the Company contributes 0.5 % of the annual salary (up to a maximum monthly salary of EUR 3,750 (2005: EUR 3,630) per employee), for employees contributing 1 % of their annual salary to the pension fund, the Company also contributes 1 %.

Other retirement plans

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

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 to 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 to the maximum Dollar set by law. Employer contributions are discretionary. The Company decided to contribute 33.3 % on 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 make matching contributions equal to a discretionary percentage, to be determined by the partnership, of the participants' salary deductions. For the years ended 31 December 2006 and 2005, the partnership has elected to make no matching contributions.

Termination indemnities

Austrian law requires payment of a lump sum upon normal retirement or termination of an employment if the employee has been with the company for at least three years, and provided that the employment commenced before 1 January 2003. Indemnities range from a two to twelve-months salary based on the length of service. Payments are made on normal retirement or any other termination with exception of voluntary terminations. The amounts accrued were calculated by applying the Projected Unit Credit Method using the mortality table AVÖ 1999-P by Pagler & Pagler (2005: by Klaus Heubeck) and an interest rate of 4.0 % (2005: 4.5 %) and allowing for an annual increase in salaries of 3 % as well as an appropriate fluctuation rate. The pension age was taken into account according to the most recent changes in the Austrian legislation.

For employments commenced after 1 January 2003, the Company has to contribute 1.53 % of the current remuneration to an external providence fund, according to the legal requirements.

Employees' long service premium

According to the collective work agreement, employees in Austria are entitled to premium payments depending on their length of service with the company. The amounts accrued for 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.

■ Revenue recognition

Revenue is recognized on sales when title passes, generally upon delivery to the customer or on performance of the related service. Revenue from the lease of drilling motors under sales-type lease is recognized at the commencement of the lease to the extent of the present value of the minimum lease payments. Revenue on operating leases is recognized as invoiced, usually on a monthly basis.

Interest income is recognized on a pro rata basis by reference to effective interest rates.

■ Research and development

Pursuant to IAS 38 research costs are expensed as incurred. Development costs are also expensed as incurred and are not capitalized due to the uncertainties of the future economic benefits attributable. 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

The preparation of annual financial statements in conformity with generally recognised International Financial Reporting Standards (IFRS) requires estimates and assumptions 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 results may differ from such estimates.

For the yearly impairment test of goodwill, an estimate for the utility value is necessary. The management has to make assumptions for the expected future cash flows of the cash-generating unit and has to choose a suitable discount rate (see note 8).

For the consideration of deferred taxes it is necessary to make estimates for the future taxable income, which is available for the usage of tax losses and other timing differences (see note 10).

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 15).

NOTE 5

TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable of TEUR 33,977 as of 31 December 2006 were stated net of valuation allowance amounting to TEUR 361 compared to a trade accounts receivable total of TEUR 28,460 net of valuation allowance of TEUR 519 as of 31 December 2005.

NOTE 6

INVENTORIES

Inventories were summarized by major classification as follows:

in TEUR	31 December 2006	31 December 2005
Raw materials	17,033	8,661
Work in process	43,413	30,272
Finished goods	22,866	19,175
Total	83,312	58,108

Because of the increase in provisions, an expense in the amount of TEUR 307 was booked in the year 2006 (2005: TEUR 439).

NOTE 7

TANGIBLE ASSETS

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

Year 2006 in TEUR	Land & buildings	Plant & machinery	Fixtures, furniture & equipment	Prepayments & assets under construction	Total
Gross valuation					
1 January 2006	23,433	106,991	5,914	7,415	143,753
Exchange rate adjustments	-1,123	-6,205	-213	-77	-7,618
Additions	452	20,652	929	6,746	28,779
Transfers	14	5,428	97	-5,539	0
Disposals	-693	-9,801	-481	-8	-10,983
31 December 2006	22,083	117,065	6,246	8,537	153,931
Accumulated depreciation					
1 January 2006	7,659	63,696	4,198	0	75,553
Exchange rate adjustments	-356	-3,063	-131	0	-3,550
Additions	917	10,945	736	0	12,598
Transfers	0	0	0	0	0
Disposals	-136	-6,779	-421	0	-7,336
31 December 2006	8,084	64,799	4,382	0	77,265
Net book value					
31 December 2006	13,999	52,266	1,864	8,537	76,666
31 December 2005	15,774	43,295	1,716	7,415	68,200
Year 2005 in TEUR	Land & buildings	Plant & machinery	Fixtures, furniture & equipment	Prepayments & assets under construction	Total
Gross valuation					
1 January 2005	21,000	91,359	4,239	709	117,307
Exchange rate adjustments	1,428	7,736	237	49	9,450
Change in consolidated entities	-492	-259	-134	0	-885
Additions	1,370	13,459	620	7,424	22,873
Transfers	134	-746	1,149	-537	0
Disposals	-7	-4,558	-197	-230	-4,992
31 December 2005	23,433	106,991	5,914	7,415	143,753
Accumulated depreciation					
1 January 2005	6,898	54,747	3,123	210	64,978
Exchange rate adjustments	178	3,696	162	20	4,056
Change in consolidated entities	-319	-256	-127	0	-702
Additions	866	9,434	629	0	10,929
Transfers	41	-633	592	0	0
Disposals	-5	-3,292	-181	-230	-3,708
31 December 2005	7,659	63,696	4,198	0	75,553
Net book value					
31 December 2005	15,774	43,295	1,716	7,415	68,200
31 December 2004	14,102	36,612	1,116	499	52,329

The Company has manufacturing capacities in the following countries: USA, Austria, UK and Mexico. Service and maintenance, as well as marketing outlets, are entertained in the USA, Canada, Venezuela, UK, Singapore, U.A.E. and Russia. In 2006, non-recurring write-offs were made in the amount of TEUR 68 (2005: TEUR 0). No appreciations were made in the years 2006 and 2005. As of 31 December 2006, commitments for capital expenditure amounted to TEUR 13,968 (2005: TEUR 9,827).

Finance Lease

The Company leases various properties under finance lease. The assets and liabilities under finance lease are recorded at the lower of the present value of the minimum lease payments or at the fair value of the asset. Depreciation of assets under finance lease was included in the depreciation expenses.

The interest rate was 5.5 % and was imputed based on the lower of the Company's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

Assets held under finance lease included under plant and machinery were as follows:

in TEUR	31 December 2006	31 December 2005
Cost	1,343	1,308
Accumulated depreciation	-575	-430
Net book amount	768	878

From the utilization of such assets reported on the balance sheet commitments arise minimum payments of:

in TEUR	31 December 2006	31 December 2005
For the following year	328	249
Between one and five years	0	308
Total Minimum Payments	328	557
Less: unearned income	0	-13
Present value	328	544

Operating lease

Obligations arising from lease and rental contracts for the use of fixed assets not shown in the balance sheet amounted to:

in TEUR	31 December 2006	31 December 2005
For the following year	746	608
Between one and five years	1,363	1,659
After five years	68	145

Payments for operating leases, which are expended in the current year, amounted to TEUR 687 in 2006 (2005: TEUR 564).

NOTE 8

INTANGIBLE ASSETS

The following is a summary of the gross carrying amounts and the accumulated amortization for intangible assets:

Year 2006 in TEUR	Goodwill	Other intangibles	Total
Gross value			
1 January 2006	62,810	5,420	68,230
Exchange rate adjustments	-4,814	-341	-5,155
Additions	0	126	126
Disposals	0	-1,578	-1,578
31 December 2006	57,996	3,627	61,623
Accumulated amortization			
1 January 2006	22,791	4,872	27,663
Exchange rate adjustments	-1,709	-305	-2,014
Additions	0	226	226
Disposals	0	-1,578	-1,578
31 December 2006	21,082	3,215	24,297
Book value			
31 December 2006	36,914	412	37,326
31 December 2005	40,019	548	40,567
Year 2005 in TEUR			
Gross value			
1 January 2005	56,390	4,909	61,299
Exchange rate adjustments	6,420	454	6,874
Additions	0	61	61
Disposals	0	-4	-4
31 December 2005	62,810	5,420	68,230
Accumulated amortization			
1 January 2005	20,506	4,273	24,779
Exchange rate adjustments	2,285	382	2,667
Additions	0	221	221
Disposals	0	-4	-4
31 December 2005	22,791	4,872	27,663
Book value			
31 December 2005	40,019	548	40,567
31 December 2004	35,884	636	36,520

In the years 2006 and 2005 no non-recurring write-offs were made. No appreciations were made in the years 2006 and 2005.

As of 31 December 2006, commitments for acquisitions of intangible assets amounted to TEUR 0 (31 December 2005: TEUR 0).

1. Goodwill

The valuation of the business units happens by means of the utility value, which is based on the estimated cash flows and a risk free interest rate of 6 %. A detailed planning period of 3 years is used, for the following period of 12 – 15 years a flat cash flow without any growth is assumed. The risk component is taken into account in the cash flows, which are derived from the budgets of the management.

The computation of the cash flow is based on the revenue expectations which are associated with the planned capital expenditure. Therefore, the sales volume is the most important driver for the value of the unit. Organic sales growth has been taken into account for the cash flow estimation.

Sales plans are performed by using the demand forecasts from the main customers and the already existing order-backlog as well.

The impairment test effected as of 31 December 2006 demonstrated that no write-down of goodwill was necessary. The goodwill set out in the balance sheet belongs mainly to the following business units:

in TEUR	31 December 2006	31 December 2005
Knust-SBO Ltd.	15,582	17,309
Godwin-SBO L.P.	12,957	14,331
Schoeller-Bleckmann Oilfield Technology GmbH & Co KG	4,655	4,655
Darron Holdings Limited	3,675	3,675

2. Other intangible assets

Other intangible assets consist of EDP-software as well as non-compete agreements. Non-compete agreements were entered into with certain employees of Godwin Machine Works in 1998. They are being amortized over the life of the respective agreements ranging from four to ten years.

NOTE 9

LONG-TERM INVESTMENTS

Long-term investments consisted of the following items:

in TEUR	31 December 2006	31 December 2005
Investment fund certificates	1,473	1,435
Pension funds and other	34	45
Total	1,507	1,480

The long-term securities are to be held as legally required coverage for the termination indemnities and pension provisions (available-for-sale). In general, they are recorded at market value. In case of revaluations these are directly booked into equity.

NOTE 10

DEFERRED TAXES

As of 31 December 2006 the Company had a net deferred tax asset of TEUR 856, as of 31 December 2005 a net deferred tax liability of TEUR – 1,561.

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 2006	31 December 2005
Fixed assets	-4,181	-3,139
Inventory	1,738	789
Other items	-269	245
Not deductible accruals	2,795	1,721
Accruals (unrealized exchange losses)	-481	-1,737
Tax loss carry forward	1,254	1,263
Subtotal	856	-858
Valuation allowances	0	-703
Total	856	-1,561

Not recognized are deferred tax assets in the amount of TEUR 2,336 (2005: TEUR 2,979) related to tax losses carried forward, because the use of these losses could not be expected in the foreseeable future.

From the usage of tax losses, which were not recognized in prior years, the effective taxes in 2006 were reduced by TEUR 451, deferred tax expenses by TEUR 252.

NOTE 11

BANK LOANS AND OVERDRAFTS

At 31 December 2006 the short-term loan arrangements were as follows:

Currency	Amount in TEUR	Interest rate in %
USD-loans	13,620	5.77 - 5.99 % variable
GBP-loans	4,475	5.27 % variable
Subtotal	18,095	
Export promotion loans (EUR)	9,034	3.12 - 3.55 % variable
Total	27,129	

At of 31 December 2005 the short-term loan arrangements were as follows:

Currency	Amount in TEUR	Interest rate in %
USD-loans	9,797	4.73 - 5.25 % variable
GBP-loans	4,360	5.55 % variable
CAD-loans	1,456	5.25 % variable
Subtotal	15,613	
Export promotion loans (EUR)	9,034	2.23 - 2.65 % variable
Total	24,647	

The export promotion loans represent revolving short-term credit facilities, for which the company has the ability to maintain these obligations permanently under certain credit agreements.

Borrowings in the amount of TEUR 13,620 (2005: TEUR 9,797) were collateralized by particular fixed and current assets.

NOTE 12

SUBSIDIES RECEIVED

The subsidies result from a federal investment and technology fund grant as well as other investment subsidies received in connection with acquisitions of fixed assets and research and development investments.

NOTE 13

OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses were as follows:

in TEUR	31 December 2006	31 December 2005
Vacation not yet used	1,148	1,015
other personnel expenses	4,114	3,674
Invoices not yet received	2,820	1,905
Professional fees	739	696
Taxes	2,243	1,103
Social expenses	705	452
other payables	1,712	182
Total payables	13,481	9,027
Total accruals	7,935	5,571
TOTAL	21,416	14,598

Movement in accruals during fiscal year 2006:

in TEUR	31 Dec. 2005	Exchange Transl.	Usage	Reversal	Provision	31 Dec. 2006
Warranty/product liability	1,038	0	0	-4	234	1,268
Restructuring	2,767	0	-133	0	1,547	4,181
Other	1,766	-36	-1,355	-64	2,175	2,486
Total	5,571	-36	-1,488	-68	3,956	7,935

Regarding the provision for restructuring see note 23.

NOTE 14

LONG TERM BANK LOANS INCLUDING CURRENT PORTION

At 31 December 2006 long-term bank loans consisted of the following:

Currency	Amount in TEUR	Interest rate in %	Duration	Repayment
EUR	2,225	3.99 % fixed	2006 - 2015	half-yearly from 2008
EUR	556	4.54 % variable	2006 - 2015	half-yearly from 2008
EUR	7,500	1.00 % fixed	2006 - 2012	half-yearly from 2008
EUR	2,800	3.54 % fixed	2006 - 2011	half-yearly
EUR	1,200	4.54 % variable	2006 - 2011	half-yearly
EUR	2,000	4.70 % variable	2003 - 2010	2010
EUR	3,231	4.75 % fixed	2002 - 2009	half-yearly
EUR	1,385	4.80 % fixed	2002 - 2009	half-yearly
EUR	487	2.95 % fixed	2002 - 2008	half-yearly
EUR	1,000	3.65 % fixed	2003 - 2007	yearly
USD	1,266	6.35 % fixed	2003 - 2016	monthly
USD	6,999	4.12 % fixed	2003 - 2010	2010
	30,649			

At 31 December 2005 long-term bank loans consisted of the following:

Currency	Amount in TEUR	Interest rate in %	Duration	Repayment
EUR	2,000	3.80 % variable	2003 - 2010	2010
EUR	6,154	4.75 % - 4.80 % fixed	2002 - 2009	half-yearly
EUR	812	2.95 % fixed	2002 - 2008	half-yearly
EUR	2,000	3.65 % fixed	2003 - 2007	yearly
EUR	365	2.99 % fixed	2001 - 2006	half-yearly
EUR	726	4.70 % fixed	2001 - 2006	quarterly
EUR	279	3.50 % fixed	1998 - 2006	half-yearly
USD	1,505	6.35 % fixed	2003 - 2016	monthly
USD	7,778	4.12 % fixed	2003 - 2010	2010
	21,619			

Borrowings in the amount of TEUR 9,253 (2005: TEUR 2,317) were collateralized by particular fixed assets and long-term investments.

Adjustments of these variable interest rates are made quarterly.

The book value of these loans approximates their market value.

Regarding the hedging against interest rate risks see note 30.

NOTE 15

RETIREMENT BENEFIT OBLIGATIONS

in TEUR	31 December 2006	31 December 2005
Termination indemnities	2,699	2,443
Employees' long service premium	787	651
Pension provision	11	11
Total	3,497	3,105

The actuarial assumptions for the provisions for termination indemnities and long-service premiums were as follows:

	2006	2005
Interest rate	4.0 %	4.5 %
Salary increases	3.0 %	3.0 %
Fluctuation rate	0.0 - 15.0 %	0.0 - 16.0 %

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

Termination indemnities

The status of the accrual for termination indemnities in the Austrian companies as of year-end was as follows:

in TEUR	2006	2005	2004	2003
Present value of the termination benefits as of 1 January	2,443	2,008	1,956	1,836
Current service cost	151	118	121	126
Interest cost	109	107	104	97
Actual benefit payments	-146	-161	-147	-91
Actuarial gain/loss during the year	142	371	-26	-12
Present value of the termination benefits as of 31 December	2,699	2,443	2,008	1,956

The change in the actuarial assumptions for the year 2006 resulted in additional expenses of TEUR 87.

Defined contribution plans

Payments made under the defined contribution plans (pensions and other providence funds) were expensed and amounted to TEUR 435 in 2006 (2005: TEUR 305).

NOTE 16

OTHER PAYABLES

The management of the following subsidiaries, which are fully consolidated, has an interest in these companies:

Company	31 December 2006	31 December 2005
Schoeller-Bleckmann Energy Services L.L.C.	15.00 %	14.47 %
Schoeller-Bleckmann Darron Limited	8.35 %	0 %
Darron Tool & Engineering Limited	4.17 %	0 %

Accordingly, the management is minority shareholder of 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 equity 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 other measurement is available.

The amounts reported under minority interest in prior years have been reclassified, what has led to the following changes:

■ Shareholders' equity	1 January 2005	TEUR – 316
■ Shareholders' equity	31 December 2005	TEUR – 427
■ Financial result	Year 2005	TEUR – 59

NOTE 17

SHARE CAPITAL

The share capital of the Company on 31 December 2006 as well as on 31 December 2005 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 Executive Board to raise the share capital by an amount of not exceeding EUR 5 million by issuing new shares. This authorization is in force until 8 April 2011.

At 31 December 2006, circa 31 % of the share capital are held by Berndorf Industrie-holding AG, Berndorf.

NOTE 18

LEGAL RESERVE – NON-DISTRIBUTABLE

Austrian law requires the setting-up of a legal reserve in the amount of one tenth of the nominal value of the Company's share capital. Until 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 profits (net of amounts allocated to make up losses carried forward from prior years) to such reserves. For the formation of such reserves only the annual financial statements of the parent company are relevant.

NOTE 19

OTHER RESERVES

The other reserves as shown in the balance sheet result from accelerated depreciations: These are untaxed profit allocations due to tax incentives for specific fixed asset investments which may be transferred finally to retained earnings if specific requirements are fulfilled.

NOTE 20

ADDITIONAL BREAKDOWN OF REVENUES

Net sales consist of:

in TEUR	2006	2005
Sale of goods	217,489	159,227
Operating lease revenue	22,012	13,520
Total net sales	239,501	172,747

NOTE 21

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):

in TEUR	2006	2005
Material expenses	122,953	87,236
Personnel expenses	57,840	47,318
Depreciation tangible assets	12,598	10,929
Amortization other intangibles	226	221

NOTE 22

RESEARCH AND DEVELOPMENT EXPENSES

In the consolidated Profit- and Loss Statement, research and development expenses are included in line "other operating expenses", with an amount of TEUR 1,178 in 2006 and TEUR 572 in 2005.

NOTE 23

NON-RECURRING WRITE-OFFS AND PROVISIONS RELATED TO RESTRUCTURING

In 2006, an amount of TEUR 1,547 was provided for the reorganization of the subsidiary Schoeller-Bleckmann de Venezuela C.A., which is planned to be executed in 2007. An amount of TEUR 133 was used for the restructuring of the management of Schoeller-Bleckmann Energy Services L.L.C. in 2006. In 2005, an amount of TEUR 182 was used in association with the sale of the US-subsiary Bafco Inc.

NOTE 24

INCOME TAXES

The components of income tax were as follows:

in TEUR	2006	2005
Current		
Austria	-4,519	-2,539
U. S.	-8,629	-2,907
Other	-699	-551
Deferred		
Austria	703	-619
U. S.	167	-964
Other	559	598
Total	-12,418	-6,982

A reconciliation of income taxes using the Austrian statutory tax rate to actual income taxes provided for is as follows:

in TEUR	2006	2005
Income tax expense at a tax rate of 25 %	-11,702	-6,088
Foreign differential	-1,307	-874
Investment valuation	202	248
Tax losses	703	-137
Other differences	-314	-131
Group income tax expense	-12,418	-6,982
Group tax rate	26.5 %	28.7 %

NOTE 25

SEGMENT INFORMATION

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 information 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 2006 in TEUR	Europe	North America	Other regions	SBO-Holding & cons.-adjust- ments	SBO-Cons.
Sales by origin					
External sales	40,783	186,280	12,438	0	239,501
Intercompany sales	59,415	13,524	1,197	-74,136	0
Total sales	100,198	199,805	13,635	-74,136	239,501
Operating income	18,540	31,554	2,569	-4,419	48,244
Assets	91,758	161,646	10,311	21,585	285,300
Liabilities	64,389	99,087	3,340	-53,214	113,602
Capital expenditure	13,877	14,456	340	232	28,905
Depreciation & amortization	4,462	7,680	442	240	12,824
thereof non-recurring write-offs	68	0	0	0	68
Head count (average)	404	522	61	15	1,002

Year 2005 in TEUR	Europe	North America	Other regions	SBO-Holding & cons.-adjust- ments	SBO-Cons.
Sales by origin					
External sales	29,137	132,938	10,672	0	172,747
Intercompany sales	49,294	9,155	901	-59,350	0
Total sales	78,431	142,093	11,573	-59,350	172,747
Operating income	8,995	16,311	1,248	-1,091	25,463
Assets	67,471	145,132	9,593	20,651	242,847
Liabilities	51,848	91,515	3,311	-58,984	87,690
Capital expenditure	8,596	12,733	259	1,346	22,934
Depreciation & amortization	3,609	6,914	459	168	11,150
of which non-recurring write-offs	0	0	0	0	0
Head count (average)	344	435	60	14	853

The secondary segment information 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 collars and internals made of highly alloyed steel and other non-magnetic metals are requested. 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 utmost high dimensional accuracy in intricate machining.

2. Oilfield supplies and service

This group comprises the following products:

- Non-Magnetic-Drill-Collars (NMDC), steelbars which are used to reduce magnetic interferences with MWD operations.
- Drilling motors, which drive the bit for directional drilling operations. They are also used for other applications such as river and road crossing 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, shotpeened, 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, too.

Secondary segment information by product:

Year 2006 in TEUR	High-precision components	Oilfield supplies & service	Other sales	SBO-Holding & cons.-adjust- ments	SBO-Cons.
External sales	154,872	83,029	1,600	0	239,501
Assets	160,645	103,069	1	21,585	285,300
Capital expenditure	13,447	15,226	0	232	28,905

Year 2005 in TEUR	High-precision components	Oilfield supplies & service	Other sales	SBO-Holding & cons.-adjust- ments	SBO-Cons.
External sales	107,494	64,031	1,222	0	172,747
Assets	132,816	89,379	1	20,651	242,847
Capital expenditure	9,767	11,821	0	1,346	22,934

NOTE 26**TOTAL REMUNERATION FOR THE MANAGEMENT**

The total remuneration including bonuses for 2005 paid in 2006 for the Executive Board and the Managing Directors/General Managers of the subsidiaries (total 13 persons) amounted to TEUR 2,583 (2005: TEUR 2,333). These amounts include the increase in provisions for retirement benefits amounting to TEUR 51 in 2006 and TEUR 78 in 2005.

The total remuneration for the Supervisory Board amounted to TEUR 25, which refers to a flat rate payment (2005: TEUR 26).

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

The existing contracts for the members of the Executive Board have an expiring date of 31 December 2008.

NOTE 27**TRANSACTIONS WITH RELATED PARTIES**

The following transactions with related parties outside the scope of consolidated companies of the SBO-group were carried out in 2006:

Schleinzer & Partner, attorneys-at-law

This lawfirm is the legal consultant to the Company. A partner of this law firm, Dr. Karl Schleinzer, is a member of the Supervisory Board. The total charges for 2006 amounted to TEUR 36 (2005: TEUR 36), thereof outstanding as of 31 December 2006 TEUR 0.

C & P Consulting

Gerd Klaus Gregor, a member of the Supervisory Board until 12 May 2005 is managing director of this company. The consulting fees paid in 2005 amounted to TEUR 63. For the year 2006 this company is not considered as a related party.

NOTE 28**LEASE BUSINESS ACTIVITIES**

The Company's leasing operations consist of leasing drilling motors under sales-type and operating leases, expiring in various months through 2007.

Sales type lease

Below is a summary of the components of net investment in sales-type leases:

in TEUR	31 December 2006	31 December 2005
Total minimum lease payments to be received	373	397
Unearned income	-11	-20
Net investment	362	377
Thereof more than 1 year	0	37

Interest on capitalized leases was calculated using an interest rate of 10 %.

Operating lease income

The Company is also the lessor of drilling tools under operating leases with initial lease terms of less than one year. Revenues from these short term operating leases were TEUR 22,012 and TEUR 13,520 for the years ended 31 December 2006 and 2005.

Leasing charges to the customers are based on the utilisation of the respective tools.

NOTE 29

FINANCIAL INSTRUMENTS

A distinction is made between primary and derivative financial instruments by IFRS.

Primary Financial Instruments

Primary Financial Instruments held by the Company are shown in the balance sheet. The amounts stated under assets represent the maximum credit risk and risk of loss.

With regard to long-term investments please see notes 4 and 9.

Derivative Financial Instruments**1. Foreign currency receivables**

The Austrian company hedges its US-Dollar-accounts receivable balances and order backlog as well on an ongoing basis by entering into forward exchange contracts. All transactions have short-term durations (3 – 8 months).

Forward exchange transactions at 31 December 2006	Asset value (hedging rates) in TEUR	Asset value (effective date rates) in TEUR
USD	27,699	27,460

The forward exchange transactions are measured at fair value and recognized in the P & L account, 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 net investment into a foreign business, relating to long-term borrowings with a maturity in 2010, for which an amount of TEUR 8,000 was exchanged with an amount of TUSD 9,176, associated with a fixed interest rate of 4.12 %.

The market value of this swap at 31 December 2006 was TEUR + 1,001, the difference in the value for the year 2006 in the amount of TEUR 779 (2005: TEUR – 1,037) was booked directly into the equity (translation component), without any impact on the net income.

NOTE 30

RISK MANAGEMENT

The operations of the SBO group 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.

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 order fluctuations involved in the process, the manufacturing companies of the group have been adjusted to ensure maximum flexibility.

■ Sales and procurement risks

The market for products and services of the SBO group is to a great extent determined by the continuous development and application of new technologies. Therefore, securing and maintaining the group's customer stock depends on the ability to offer new products and services tailored to the customers' needs. Of all sales worldwide, 62 % in 2005 and 63 % in 2006 were generated for the three dominant service companies in the market for directional drilling (Schlumberger, Halliburton, Baker Hughes).

SBO tries to limit the risk of a potential decline in sales involved in losing a customer by continuous innovation, quality assurance measures and maintaining close relations with customers.

On the procurement side, raw materials, and in particular alloy surcharges for non-magnetic steel are subject to significant price fluctuations that are partly passed on to the customers as alloy surcharges on the basis of 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, of stockpiling certain specialty alloys in the U.S. and intensified cooperation with a major supplier, those risks were identified and minimized early on.

■ **Foreign currency risk**

Foreign risks arise in the SBO group where balance sheet items as well as income and expenses are generated or incur 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 percent of its sales volume in US dollars. Also on a long-term basis, approximately 60 percent of costs are incurred in US dollars. In order to minimize the currency exposure involved, orders are hedged between the time of order acceptance and invoicing. However, for reasons of costs and expedience, SBO does not hedge the entire net dollar exposure. In any case, the profit generated by SBO is contingent on the dollar-euro exchange rate.

■ **Substitution risk**

SBO is subject to the risk of substitution of its products and technologies, which may result in the emergence of new competitors. SBO tries to counteract that risk through continuous market observation, maintaining strong ties with customers and proprietary innovations.

■ **Interest rate risk**

The majority of the long-term bank borrowings (approximately 90 % as of 31 December 2006) 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 14. With the exception of bank loans and finance-lease obligations, no other liabilities are interest bearing and therefore not subject to any interest rate risk.

NOTE 31

CONTINGENCIES

No contingencies existed at the balance sheet dates 31 December 2006 and 31 December 2005.

NOTE 32

OTHER COMMITMENTS

Apart from operating lease commitments no further commitments existed at the balance sheet date (see note 7).

NOTE 33

CASH FLOW STATEMENT

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

The liquid fund only includes cash on hand and bank balances as well as short term investments. 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 34

PERSONNEL

The total average number of employees was as follows:

	2006	2005
Blue collar	802	676
White collar	200	177
	1,002	853

NOTE 35

EVENTS AFTER THE BALANCE SHEET DATE

After the balance-sheet date no events of particular significance have occurred, which would have changed the presentation of the net worth, financial position and earnings situation of the Company.

The Company entered into long-term supply-agreements with two main customers. For the fulfilment of these contracts, the company decided to make extensive capital expenditures at the production facility in Ternitz.

MANAGEMENT INFORMATION

Executive Board:

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

Supervisory Board:

Mag. Norbert Zimmermann (Chairman)
First nomination: 1995
End of current appointment: 2007

Dr. Peter Pichler (Deputy Chairman)
First nomination: 1995
End of current appointment: 2007

Mag. Dipl. Ing. Helmut Langanger
First nomination: 2003
End of current appointment: 2007

Karl Samstag
First nomination: 2005
End of current appointment: 2007

Dr. Karl Schleinzer
First nomination: 1995
End of current appointment: 2007

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

STATEMENT BY THE EXECUTIVE BOARD REGARDING COMPLIANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS WITH IFRS RULES

The Executive Board hereby declares that the consolidated financial statements present fairly, in all material respects, the financial position of SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft and the results of its operations as at 31 December 2006, and that International Financial Reporting Standards (IFRSs) as adopted by the EU were complied with in full.

Vienna, 20 February 2007

Ing. Gerald Grohmann

Mag. Franz Gritsch

Members of the Executive Board

AUDITOR'S REPORT

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft, for the financial year from 1 January 2006 to 31 December 2006. These consolidated financial statements comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year ended 31 December 2006, 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 31 December 2006, and of its financial performance and its cash flows for the financial year from 1 January 2006 to 31 December 2006 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, 20 February 2007

 **ERNST & YOUNG**
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT MBH

MAG. GERHARD SCHWARTZ

MAG. KARL FUCHS

(Certified Public Accountants)

REPORT OF THE SUPERVISORY BOARD OF THE SBO AG TO THE ANNUAL GENERAL MEETING CONCERNING THE 2006 BUSINESS YEAR

During the 2006 business year, the Supervisory Board carried out the duties allocated to it by law and the articles of association and held 5 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 2006 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 2006 were examined by ERNST & YOUNG Wirtschaftsprüfungsgesellschaft m.b.H., Vienna. According to their unqualified audit certification, the accounts, the Annual Accounts for the 2006 business year and the 2006 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 8 March 2007, the Supervisory Board approved the Annual Accounts for the 2006 business year, the Consolidated Financial Statements as at 31 December 2006, the proposal for the distribution of profits and the Status Report combined with the Consolidated Status Report presented by the Managing Board.

Ternitz, 8 March 2007



Norbert Zimmermann
Chairman of the Supervisory Board

MEMBERS OF THE BOARDS

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
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