LETTER TO OUR SHAREHOLDERS 1-3/2016

HIGHLIGHTS

- Persistently challenging market environment impacts business results in Q1 2016
- Profoundly strong balance sheet structure with high equity ratio
- Acquisition of Downhole Technology strengthens position in the attractive Completion business

MANAGEMENT REPORT

„GLOBAL RIG COUNT FURTHER DOWN BY 21% IN THE FIRST QUARTER“

MARKET ENVIRONMENT

The global crude oil market remained oversupplied in the first quarter of 2016. Although demand continued to grow by 1.4 million barrels per day (mb/d) year-on-year, production exceeded consumption by 1.4 million barrels per day (mb/d), but excess production arrived below the level reached in the first and fourth quarters of 2015 (Q1 2015: 1.5 mb/d, Q4 2015: 1.7 mb/d).

Whereas oil supply in the first quarter of 2016, compared to the same quarter of the previous year, climbed by 1.3 mb/d to 96.4 mb/d (Q1 2015: 95.1 mb/d), it fell by 0.8 mb/d over the fourth quarter of 2015 (Q4 2015: 97.2 mb/d). While production arrived at 96.6 mb/d in January 2016, it stood at 96.0 mb/d in March 2016. Decline was reported both in the OPEC and non-OPEC countries: Production in the OPEC countries decreased from 39.5 mb/d in January to 39.2 mb/d in March, and in the non-OPEC countries from 57.1 mb/d in January to 56.8 mb/d in March. Global oil consumption in the first quarter of 2016 came to 95.0 mb/d, a year-on-year increase of 1.4 mb/d (Q1 2015: 93.6 mb/d). Year-on-year, OPEC's spare capacity went up by 0.2 mb/d, coming to 2.7 mb/d in March 2016 (March 2015: 2.5 mb/d).[1]

Early in 2016, prices of both standard crudes WTI and Brent were contracting from initially USD 36.76 (WTI) and USD 37.22 (Brent) down to their lows of USD 26.13 (WTI) and USD 27.10 (Brent), followed by a slight recovery leading to another slump in February 2016. Finally, one barrel of European crude Brent traded at USD 39.60 at the end of March, up by 6.4 % from the beginning of the year. Compared to the previous year's reading at the end of the first quarter (31 March 2015: USD 55.11), the price dropped by 28.1 %. The price of one barrel of US crude WTI climbed by 4.3 % over the first quarter of 2016 to USD 38.34 (31 March 2016). Year-on-year, the price went down by 19.5 % (31 March 2015: USD 47.60). The dynamic upwards trend of both crudes continued in April 2016.[2]

The number of globally active drilling rigs (rig count) further declined in the first quarter. In March 2016, the rig count stood at 1,551 rigs, down 39.3 % from last year's reading (March 2015: 2,557 rigs). Compared to December 2015, the rig count dropped by 21.2 % (December 2015: 1,969 rigs) in all regions of the world. The reduction of drilling rigs was particularly sharp in North America, arriving at 566 rigs in March 2016, down 56.7 % from March 2015 (1,306 rigs) and 35.2 % from the number reported in December 2015 (874 rigs).[3]

1 International Energy Agency (IEA), Oil Market Report, May 2016.
2 Bloomberg: CO1 Brent Crude (ICE) and CL1 WTI Crude (Nymex).
3 Baker Hughes Rig Count.

„PRESSURE ON RESULTS, BUT FUNDAMENTALLY STRONG BALANCE SHEET STRUCTURE“

BUSINESS DEVELOPMENT

At the moment, the oilfield service industry is facing the sharpest downturn seen in the past 30 years. Against the background of this highly challenging environment, Schoeller-Bleckmann Oilfield Equipment AG (SBO) generated a positive free cashflow and has a fundamentally sound balance sheet structure. Due to its high liquidity, SBO is in a position to pursue targeted investments within its long-term growth strategy even in the current cycle, such as illustrated by the acquisition of Downhole Technology LLC on 1 April 2016.

Reflecting the strong constraint of customers, bookings in the first quarter of 2016 shrank by 28.8 % to MEUR 40.6 (1-3/2015: MEUR 57.1). Sales went down by 56.5 % to MEUR 46.8 (1-3/2015: MEUR 107.5). In the first quarter of 2015, SBO had still profited from record bookings received in 2014. The order backlog at the end of the first quarter of 2016 was MEUR 28.3, following MEUR 34.3 as at 31 December 2015 and MEUR 91.7 as at 31 March 2015.

Customer restraint in ordering went hand in hand with the constant pressure on prices. Management had responded early, already in the 2014 record year, by launching a set of countermeasures to navigate the company safely through the downturn. Nevertheless, the market collapse is reflected in the operating result of SBO.

Earnings before interest, taxes, depreciation, and amortisation (EBITDA) was MEUR minus 4.8 (1-3/2015: MEUR 29.0). Earnings before interest and taxes (EBIT) came to MEUR minus 16.9 (1-3/2015: MEUR 16.1). These include one-off expenses for due diligence and restructuring in the amount of MEUR 3.0. The quarterly non-cash-effective valuation of option commitments of MEUR minus 2.8 was reflected in the financial result. This concerned mainly the option for acquiring 33 % of the shares in Resource Well Completion Technologies Inc., bringing the financial result to MEUR minus 3.3 (1-3/2015: MEUR minus 1.6). Profit before tax stood at MEUR minus 20.2 (1-3/2015: MEUR 14.5). Profit after tax came to MEUR minus 15.0 (1-3/2015: MEUR 10.4). Earnings per share arrived at EUR minus 0.94 (1-3/2015: EUR 0.65). The market collapse was reflected also in the margins: The EBITDA margin was minus 10.2 % (1-3/2015: 27.0 %) and the EBIT margin was minus 36.1 % (1-3/2015: 15.0 %). The pre-tax margin was minus 43.2 % (1-3/2015: 13.5 %).

Despite the difficult market conditions, SBO generated a positive free cashflow in the amount of MEUR 3.8 in the first quarter of 2016 (1-3/2015: MEUR 28.6).

The company has a profoundly strong balance sheet structure: SBO's equity ratio as at 31 March 2016 was 57.1 % (31 December 2015: 60.8 %), liquid funds stood at MEUR 224.9 (31 December 2015: MEUR 196.3) and the net cash position at MEUR 24.2 (31 December 2015: MEUR 26.2). Spending for property, plant and equipment and for intangible assets (CAPEX) was reduced by 61.7 % to MEUR 3.1 compared to the same quarter of the previous year (1-3/2015: MEUR 8.0). Purchase commitments for expenditure in property, plant and equipment as at 31 March 2016 were MEUR 0.1 (31 March 2015: MEUR 4.4).

Based on its sound balance sheet structure, SBO was in the position to acquire ca. 68 % (rounded) of the shares in Downhole Technology LLC at a purchase price of MUSD 102.9 (or MEUR 90.4 at the relevant date) at the beginning of the second quarter of 2016. Even after the acquisition, SBO has liquid funds of MEUR 135.0 and a gearing ratio below 16 % (based on equity as at 31 March 2016: MEUR 418.9).

DEVELOPMENT OF THE SEGMENTS

SBO subdivides its business activities into two segments: "High Precision Components" (manufacturing of high-precision drillstring components) and "Oilfield Equipment" (non-magnetic drill collars, drilling motors, circulation tools and other components including service and repair). Both segments were appreciably affected by the market contraction.

The segment of "High Precision Components" developed in line with the considerably curtailed spending by customers in the first three months of 2016. Segment sales dropped by 60.2 % to MEUR 19.9 (1-3/2015: MEUR 50.1). Operating income (EBIT) in the segment arrived at MEUR minus 6.3 (1-3/2015: MEUR 5.1).

In the segment of "Oilfield Equipment" the sharp downturn in global drilling activity had a dampening effect on business. Although customers preferred to use high-quality products also in the downturn, declining demand put downward pressure on prices. As a result, segment sales fell by 53.2 % to MEUR 26.9 (1-3/2015: MEUR 57.4). Operating income (EBIT) in the segment arrived at MEUR minus 4.3 (1-3/2015: MEUR 8.8).

„SBO SYSTEMATICALLY CONTINUES COUNTERMEASURES“

MEASURES TO COMBAT THE DOWNTURN

SBO has gained vast experience in managing the cycles in the oilfield service industry and has promptly responded to the current downturn in order to combat deteriorating market conditions at an early stage. The company launched initial corrective measures already in the second half of 2014 and systematically continued to pursue that course in the first quarter of 2016:

› SBO merged its two US subsidiaries „Godwin-SBO L.L.C.“ (Godwin) and „Knust-SBO L.L.C.“ (Knust) as of 1 October 2015. Restructuring was expedited promptly in the first quarter of 2016 and should be completed by mid-2016. The merger of newly established „Knust-Godwin LLC“ at the site of Godwin aims to create structural and sustainable cost benefits without curtailing existing capacities. As a result, the company will be excellently positioned to fully meet the demand that should re-emerge from the next upswing.

› SBO completed restructuring of its UK activities at the end of 2015. Business activities of the two neighbouring subsidiaries „Techman Engineering Ltd.“ and „Darron Tool & Engineering Ltd.“ were merged at the location of Techman. The structural and thus sustainable cost benefits achieved in the process were reflected in the business results of the first quarter of 2016.

› CAPEX was further reduced in the first quarter of 2016, with the exception of spending for research and development.

› As required at individual sites, SBO further adjusted personnel capacities to the expected decline in demand. Short-time work schemes were introduced in Austria from 1 February 2016. The headcount as at 31 March 2016 was 1,062 (1,135 as at 31 December 2015 and 1,534 as at 31 March 2015).

› In the first quarter of 2016, SBO pushed ahead with the internationalisation of the successful drilling motor business of its subsidiary BICO that has been started in 2014: Drilling motors are increasingly marketed in Russia and the Far East and from the existing subsidiary established in Dubai. Those regions are the ones least affected worldwide by the decline in demand. Moreover, the newly founded sales companies in Saudi Arabia and Mexico offer additional market opportunities primarily for SBO’s subsidiary DSI and its downhole circulation technology.

RISK REPORT

The business risks of Schoeller-Bleckmann Oilfield Equipment AG did not change substantially in the first three months of 2016 over the risks described in the 2015 annual financial statements. The entire oilfield service industry continues to be confronted with considerable cuts on capital expenditure due to low oil prices and large quantities of crude offered in the market. Regardless of the corrective measures described in the previous quarterly reports and already initiated, this has a significant influence on the assets and financial position of SBO. Additionally, we refer to all risks described in the Annual Report 2015. We recommend to read this report on the first three months of 2016 in conjunction with the risk report contained in the Annual Report 2015.

SBO SHARE

The share of SBO AG started the year 2016 at a price of EUR 50.42 on 4 January and closed at EUR 53.51 on 31 March 2016. This represented a share price increase of 6.1 % in the first quarter and a development similar to the prices of standard crudes WTI (up 4.3 %) and Brent (up 6.4 %). Year-on-year, performance of the SBO share was considerably stronger: It fell by only 10.1 % from 31 March 2015, while WTI and Brent dropped by 19.5 % and 28.1 %.

OUTLOOK

The International Monetary Fund (IMF) revised down its forecast for global economic growth in 2016 by 0.2 percentage points to 3.2 % in April 2016. The reason, according to the IMF, was the economic downturn seen in the industrialised nations and political and economic uncertainty in some of the major emerging markets. Economic growth in the industrialised nations is expected to come to 1.9 % in 2016, following 1.9 % in 2015 and 1.8 % in 2014. In the emerging markets and developing countries, according to the IMF, growth should be 4.1 % in 2016, following 4.0 % in 2015 and 4.6 % in 2014.[4]

[4] IMF World Economic Outlook (WEO), May 2016.

„CONTINUATION OF GROWTH STRATEGY IN PERSISTENTLY CHALLENGING MARKET ENVIRONMENT“

As a result of persistent oversupplies of the oil market, oil companies are continuously and heavily cutting back on their spending for exploration and production (E&P) in 2016. Following global curtailment of 30 % in 2015, current market surveys suggest that spending will go down by another 25 % in 2016; decline in North America is projected to account for 40 % and 15 % internationally.[5]

The downturn hitting the oilfield service industry since the fourth quarter of 2014 is not over yet. Crucial will be how long the considerable oversupply of the crude market will last. It is only a matter of time that the massive cuts on E&P spending and the decline of global drilling activity will lead to a situation where the rising demand will not be met any more. At this point, new spending will be required. There are some indications that the oversupply in the oil market will decrease during the second half of the year, and supply and demand will gradually move towards reaching a stable balance: As a result of sharply curbed spending, production in North America and other non-OPEC countries has already decreased. The forest fires raging in Canada in May 2016 will also have an at least temporary effect.

Market observers, such as investment advisory firm Evercore ISI, expect to see a production decline in 2016 of 0.5 mb/d for North America.[6] The forecast published by the IEA is similar, as the IEA expects for 2016 a decline of production in North America by 0.5 mb/d and 0.8 mb/d for non-OPEC countries (including North America). In the first quarter of 2016, the decline in non-OPEC countries was already stronger. OPEC is largely producing at maximum level. At the same time, current expectations are that global demand should go up by 1.2 mb/d in 2016. Quarter-on-quarter, the rise was even 1.4 mb/d (1-3/2015 vs. 1-3/2016).[7]

A decisive factor will be OPEC's further behaviour. Talks on freezing production held in April 2016 produced no result, but the problem OPEC members have remains that the current policy of keeping production much higher than at 30 mb/d puts pressure on the oil price and leads to enormous loss of income. It is not clear how long Saudi Arabia and the poorer members of OPEC will be willing and able to accept that situation. But past experience in the oilfield service industry has told us one thing: The sharper and longer the downturn, the steeper the next upswing usually is.

[5] Evercore ISI Research, April 2016.
[6] Evercore ISI Research, April 2016.
[7] International Energy Agency (IEA), Oil Market Report, May 2016.

With its strong cash balance and high equity ratio, SBO is prepared even for a lengthy downturn. The company will systematically continue the measures initiated in 2014 and 2015 to combat the decline in 2016. SBO is improving its cost base and invests specifically in growth: Cost-cutting programmes will further be implemented consistently, and capacities adjusted to the market situation. Site optimisation in the United States will be completed by mid-year. The strategy to develop new markets for the products of SBO in the „Oilfield Equipment" segment will be pursued.

Following acquisition of Canada-based Resource Well Completion Technologies Inc. (Resource) in November 2014, SBO took over US-based Downhole Technology LLC (Downhole Technology) on 1 April 2016. With Resource and Downhole Technology, SBO now has become a leading provider of products in the fields of „sliding sleeve" and „plug-n-perf", the two dominating completion technologies.

Based on targeted spending to expand the Completion segment and the implementation of ongoing restructuring activities, SBO will be well prepared to fully benefit from the next upswing as technology and market leader.

FINANCIAL INFORMATION

CONSOLIDATED PROFIT AND LOSS STATEMENT

in TEUR 3 months period ended	31.03.2016	31.03.2015
Sales	**46,782**	**107,516**
Cost of goods sold	-46,540	-79,446
Gross profit	**242**	**28,070**
Selling expenses	-4,272	-6,003
General and administrative expenses	-9,827	-8,421
Other operating expenses	-4,907	-9,360
Other operating income	1,892	11,836
Profit from operations	**-16,872**	**16,122**
Interest income	691	100
Interest expenses	-1,284	-2,392
Other financial income	44	717
Other financial expense	-1	0
Income/expense from revaluation of option commitments	-2,791	0
Financial result	**-3,341**	**-1,575**
Profit before tax	**-20,213**	**14,547**
Income taxes	5,174	-4,172
Profit after tax	**-15,039**	**10,375**
Average number of shares outstanding	15,982,066	15,976,000
Earnings per share in EUR (basic = diluted)	**-0.94**	**0.65**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR 3 months period ended	31.03.2016	31.03.2015
Profit after tax	**-15,039**	**10,375**
Other comprehensive income to be reclassified to profit or loss in subsequent periods		
Foreign exchange adjustment - subsidiaries	-16,009	44,080
Foreign exchange adjustment - other items	-927	2,726
Income tax effect	232	-681
Other comprehensive income, net of tax	**-16,704**	**46,125**
Total comprehensive income, net of tax	**-31,743**	**56,500**

CONSOLIDATED BALANCE SHEET

ASSETS in TEUR	31.03.2016	31.12.2015
Current assets		
Cash and cash equivalents	224,887	196,278
Trade accounts receivable	44,153	49,199
Other accounts receivable and prepaid expenses	10,680	9,525
Assets held for sale	2,092	2,230
Inventories	118,008	133,748
TOTAL CURRENT ASSETS	**399,820**	**390,980**
Non-current assets		
Property, plant & equipment	180,071	193,024
Goodwill	80,523	81,718
Other intangible assets	47,035	50,749
Long-term receivables and assets	12,582	12,864
Deferred tax assets	13,592	11,168
TOTAL NON-CURRENT ASSETS	**333,803**	**349,523**
TOTAL ASSETS	**733,623**	**740,503**

CONSOLIDATED BALANCE SHEET

LIABILITIES AND SHAREHOLDERS´ EQUITY in TEUR	31.03.2016	31.12.2015
Current liabilities		
Bank loans and overdrafts	31,580	32,174
Current portion of long-term loans	7,174	12,783
Finance lease obligations	64	63
Trade accounts payable	11,029	11,150
Government grants	198	205
Income taxes payable	1,415	1,502
Other payables	19,576	24,696
Other provisions	4,469	4,708
TOTAL CURRENT LIABILITIES	**75,505**	**87,281**
Non-current liabilities		
Long-term loans	161,863	125,049
Finance lease obligations	8	27
Government grants	153	153
Employee benefit obligations	5,154	5,821
Other payables	54,668	52,459
Deferred tax liabilities	17,399	19,353
TOTAL NON-CURRENT LIABILITIES	**239,245**	**202,862**
Shareholders´ equity		
Share capital	15,988	15,982
Contributed capital	68,607	68,357
Legal reserve - non-distributable	785	785
Other reserves	18	19
Currency translation reserve	33,462	50,166
Retained earnings	300,013	315,051
TOTAL SHAREHOLDERS´ EQUITY	**418,873**	**450,360**
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY	**733,623**	**740,503**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

1-3/2016 in TEUR	Share capital	Contributed capital	Legal reserve	Other reserves	Currency translation reserve	Retained earnings	Total
1 January 2016	**15,982**	**68,357**	**785**	**19**	**50,166**	**315,051**	**450,360**
Profit after tax						-15,039	-15,039
Other comprehensive income, net of tax					-16,704		-16,704
Total comprehensive income, net of tax	0	0	0	0	-16,704	-15,039	-31,743
Share-based payment	6	250					256
Change in reserves				-1		1	0
31 March 2016	**15,988**	**68,607**	**785**	**18**	**33,462**	**300,013**	**418,873**

1-3/2015 in TEUR	Share capital	Contributed capital	Legal reserve	Other reserves	Currency translation reserve	Retained earnings	Total
1 January 2015	**15,976**	**67,560**	**785**	**22**	**13,834**	**357,498**	**455,675**
Profit after tax						10,375	**10,375**
Other comprehensive income, net of tax					46,125		**46,125**
Total comprehensive income, net of tax	0	0	0	0	46,125	10,375	**56,500**
Share-based payment		352					**352**
Change in reserves				-1		1	**0**
31 March 2015	**15,976**	**67,912**	**785**	**21**	**59,959**	**367,874**	**512,527**

CONSOLIDATED CASHFLOW STATEMENT

in TEUR	3 months period ended	31.03.2016	31.03.2015
Cash and cash equivalents at the beginning of the period		**196,278**	**130,220**
Cashflow from profit		-4,834	16,701
Cashflow from operating activities		6,253	35,688
Cashflow from investing activities		-2,473	-7,044
Cashflow from financing activities		30,804	36,019
Effects of exchange rate changes		-5,975	8,689
Cash and cash equivalents at the end of the period		**224,887**	**203,572**

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1

BASIS OF PREPARATION

The interim report as at 31 March 2016 has been prepared in accordance with the principles of the International Financial Reporting Standards (IFRS), rules for interim financial reporting (IAS 34), to be applied in the European Union.

This report on the first quarter of 2016 of the SBO group has neither been audited nor reviewed by independent accountants.

NOTE 2

ACCOUNTING POLICIES

The accounting and valuation methods of 31 December 2015 apply basically unchanged, with the exception of the standards which came into force in 2016. However, the new regulations do not have a significant implication on the consolidated financial statements. In this context, we refer to the consolidated financial statements for the year ended 31 December 2015.

NOTE 3

SCOPE OF CONSOLIDATION

During the first three months of 2016 no changes occurred in the scope of consolidation. As of 1 April 2016 SBO acquired 67,73 % of the shares in Downhole Technology LLC, Houston, USA. Further details can be found in section: Events after the balance sheet date.

NOTE 4

SEASONALITY

Business development of SBO is subject to insignificant seasonal influences only.

NOTE 5

SEGMENT INFORMATION

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

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

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

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

1-3/2016 in TEUR	High Precision Components	Oilfield Equipment	SBO-Holding & Consolidation	Group
External sales	19,921	26,861	0	46,782
Intercompany sales	7,088	3,153	-10,241	0
Total sales	27,009	30,014	-10,241	46,782
Operating profit	-6,265	-4,317	-6,290	-16,872
Profit before taxes	-6,185	-7,530	-6,498	-20,213

1-3/2015 in TEUR	High Precision Components	Oilfield Equipment	SBO-Holding & Consolidation	Group
External sales	50,083	57,433	0	107,516
Intercompany sales	15,653	21,251	-36,904	0
Total sales	65,736	78,684	-36,904	107,516
Operating profit	5,066	8,813	2,243	16,122
Profit before taxes	5,149	8,902	496	14,547

NOTE 6

OWN SHARES

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

NOTE 7

RELATED PARTY TRANSACTIONS

With respect to business transactions with related parties there were no substantial changes compared to 31 December 2015. All transactions with related parties are carried out at generally acceptable market conditions. For further information on individual business relations please refer to the consolidated financial statements of SBO AG for the year ended 31 December 2015.

NOTE 8

FINANCIAL INSTRUMENTS

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

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

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

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

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

in TEUR		31 Mar 2016	Level 2	Level 3
Assets				
Derivatives	Other receivables and assets	268	268	0
Liabilities				
Derivatives	Other liabilities	-31,970	0	-31,970

in TEUR		31 Dec 2015	Level 2	Level 3
Liabilities				
Derivatives	Other liabilities	-30,432	-87	-30,345

During the reporting period 2016 there were no transfers between level 1 and level 2 fair value measurements. In general, if required, transfers are carried out at the end of each reporting period.

Derivatives shown under level 3 consist only of contingent liabilities for purchase price payments and the option commitments relating to cancelable non-controlling interests to purchase the offered shares from the minority shareholders. The development in the reporting period 2016 was as follows:

in TEUR	Contingent purchase price payments	Option commitments
As at 1 Jan 2016	-2,290	-28,055
Addition of accrued interest	-1	-417
Gains from revaluation	44	421
Losses from revaluation	-1	-3,212
Disposals from settlements	2,196	0
Currency adjustment	28	-683
As at 31 Mar 2016	**-24**	**-31,946**

The foreign currency forward contracts are measured based on observable spot exchange rates.

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

The contingent purchase price payments determined as a certain percentage of achieved sales (to a certain extent when sales are exceeding a contractually agreed upon amount) are to be paid on a yearly basis. One agreement on contingent purchase prices was finally fulfilled with the payment of the last portion during the reporting period 2016. The remaining liabilities for contingent purchase price payments have a residual term of further three years. Gains from revaluation refer to unrealized profits and are reported in the income statement within "other financial income".

The exercise price of the option commitments relating to cancelable non-controlling interests is based on the achieved financial results of the acquired entities and the EBITDA multiple of SBO at the time of the transfer, respectively. Gains and losses from revaluation refer to non cash-effective unrealized gains and losses and are reported in the income statement within "income/expense from revaluation of option commitments". The increase of option commitments during the first quarter 2016 largely refers to an increase of the EBITDA-multiple to be applied.

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

in TEUR	Assumption	Change in assumption	If assumption increases, liability changes by	If assumption decreases, liability changes by
Option commitment relating to cancelable non-controlling interests	Net results	+/-10 %	+3,195	-3,194
	Interest rate 27.5 % resp. 1.2 %	+/-10 resp. +/-1 percentage points	-757	+613
	Multiple 16.93	+/-30 %	+8,248	-8,249
Contingent purchase price payments from business combinations	Sales	+/- 10%	+2	-2
	Interest rate 13.0 %	+/-1 percentage point	0	0

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

		31 Mar 2016		31 Dec 2015	
in TEUR	Level	Carrying value	Fair value	Carrying value	Fair value
Liabilities					
Borrowings from banks, finance lease obligations and other loans	2	-200,688	-201,776	-170,096	-171,377

For assessing the fair value of lendings, borrowings and leasing obligations, the expected cash-flows have been discounted using market interest rates. Regarding bank and other long-term loans with variable interest, the interest rates charged are current market rates, resulting in the fact that the carrying values equal the fair values to a large extent. Cash and cash equivalents, trade receivables and payables and all other items have mostly short residual lives. Therefore, the carrying values equal the fair values at the balance sheet date.

NOTE 9

EVENTS AFTER THE BALANCE SHEET DATE

As of 1 April 2016, SBO acquired 67,73 % of the shares in Downhole Technology LLC, Houston, USA. Therefore, assets and liabilities related to this acquisition have not yet been reported in the consolidated financial statements as of 31 March 2016.

The company is a technologically leading provider of patent protected “composite frac plugs” for completion of oil and gas wells and achieved sales at MEUR 38.4 in 2015. Well completion relates to the preparation of the well for the production of oil and gas. Downhole Technology offers plug-and-perforation equipment for such operations. The patented design, the manufacturing know-how and the high quality standard of its products enable completion of the well to be done faster, more efficiently and more securely. As a consequence, Downhole Technology has reached an outstanding acceptance on the market. With Downhole Technology, SBO is now in a position to offer a wide range of tight formation completion tools. The purchase price paid for the shares acquired amounts to MEUR 90.4.

Due to the complexity of the transaction and the size of the acquisition as well as the short time period between closing and publishing the interim financial report, the purchase price allocation is based on preliminary values. The final valuation of the purchase price allocation will be completed within 12 months of the date of acquisition, once all the bases for calculating the fair values, in particular relating to acquired technology, trademarks, non-compete agreements as well as deferred taxes, have been analyzed in detail.

The purchase price allocation at the time of acquisition based on preliminarily estimated fair values is as follows:

in MEUR	**2016**
Purchase price paid in cash	90
Option commitment relating to cancellable non-controlling interests	43
Subtotal	133
Net assets	-45
Goodwill	88

Net assets acquired at the time of acquisition based on preliminarily estimated fair values are as follows:

in MEUR	Fair value
Intangible assets	29
Property, plant and equipment	5
Inventories	6
Trade receivables	7
Cash and cash equivalents	1
	48
Trade payables	-3
Deferred taxes	-0
Net assets	**45**

Net cashflows from the acquisition were as follows:

in MEUR	2016
Purchase price paid in cash	90
Cash and cash equivalents acquired	-1
	89

In the course of this business combination, the Company entitled the non-controlling interests to sell their shares to the Company at any time on or after 1 April 2019. The Company has committed itself to purchase the offered shares. In addition the Company obtained the right to purchase the shares from the non-controlling interests at any time on or after 1 April 2019. The non-controlling interests have committed themselves to sell the respective shares (put- and call option) in this case. The purchase price depends on the profits generated by the acquired company.

Goodwill determined based on the preliminary purchase price allocation will be allocated to the segment „Oilfield Equipment" and refers to the expected business development and employee know-how considering the expected synergies arising from the acquisition.

In 2016, transaction cost at MEUR 2.5 were paid, thereof MEUR 2.3 are included in general and administrative expenses in the reporting period.

Apart from that, no material events have occurred after the balance sheet date.

STATEMENT OF ALL LEGAL REPRESENTATIVES

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

Ternitz, 23 May 2016

Gerald Grohmann Executive Board **Klaus Mader**


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