LETTER TO OUR SHAREHOLDERS 1-6

09

HIGHLIGHTS

- Recession leads to steep decline in exploration and production activities
- Cost-cutting programme on track
- Long-term growth perspectives for SBO remain intact

SCHOELLER BLECKMANN OILFIELD EQUIPMENT

MANAGEMENT REPORT

Market Environment

In the first half of 2009, overall development in the oilfield service industry was characterized by the global recession and associated weaker demand for oil and gas. According to the International Energy Agency (IEA), worldwide oil demand will contract by 2.7 % to 83.94 million barrels a day for the full year 2009 (2008: 86.2 million barrels a day).[1]

The fall in demand, accompanied by sufficient oil supplies, resulted in a sharp decline in exploration and production activities. Numerous projects were either discontinued or postponed to a later date. The global „rig count", an important indicator of activities in the oilfield service industry, plunged to 1987 units by mid-2009, down around 41 % from the average number of 3336 rigs in 2008, the most dramatic slump since the early 1980s[2]. This resulted in excess capacities along the entire value chain as well as growing inventories of drilling tools and equipment. The major oilfield service companies prefer to ship drilling equipment across thousands of miles from decommissioned drill sites to operative rigs over ordering new parts. Consequently, the upstream industry was faced with plummeting orders, cancellations and considerable price pressure.

Dropping oil demand due to global recession involves sharp decline in drilling activities

However, the long-term growth drivers of the oilfield service industry remain intact, such as accelerating decline rates of existing oil fields and rising service intensity to explore new oil sources.

Business development

Schoeller-Bleckmann Oilfield Equipment AG could not escape this dramatic market development. Whilst the weak booking situation in the first quarter continued over the second quarter, cancellations of orders went down substantially throughout the second quarter of 2009. Sales generated in the first half of the year fell to MEUR 137.6 (following MEUR 185.5 year-on-year), a decline of 25.8 %.

SBO profited mainly in the first quarter from the high order backlog from last year, which stood at MEUR 121.4 (following MEUR 214 at the beginning of 2009) in mid-2009. All orders were verified for their validity and, for reasons of commercial prudence, deleted from the backlog if postponed or associated with a risk of being cancelled. As a result, accumulated bookings in the first half of 2009 went down to approximately MEUR 37 (following MEUR 175.6 in the first half of 2008 and MEUR 101 in the second quarter of 2008, respectively).

SBO responded to the change in overall conditions early on. A package of measures focusing on insourcing previously outsourced manufacturing steps and systematic adjustment of capacities to demand by reducing the headcount was implemented and negotiations with SBO's customers to minimize the repercussions of the market pressure were held. At the Ternitz site, short-time work was introduced in mid-2009. This group-wide cost-cutting programme aims at saving at least MEUR 25 annually at all levels from now on.

Despite these counter-measures the unfavourable market development resulted in an EBIT decrease from MEUR 41.9 in the first half of 2008 to MEUR 20.3 (- 51.6 %). In view of the overall environment, the EBIT margin of approx. 14.7% (following 22.6 %) in the first half of 2009 was rather satisfying. Profit before tax arrived at MEUR 17.3 (following MEUR 39.1), declining by 55.7 %. Profit after tax of MEUR 12.1 (following MEUR 27.5) in the first half of the year went down by 55.9 % compared with the same period last year. This brought half-year earnings per share to EUR 0.76 (following EUR 1.73), down by 55.7 %. This development was mainly due to price pressure and the diseconomies of scale as a result of lower capacity utilisation. The situation was further aggravated by one-time effects caused by the required headcount downsizing in the first half of 2009.

Early implementation of package of measures to respond to changed overall conditions

The business segment hit hardest by the unfavourable market development was high-precision components. The drilling motors segment developed satisfactorily in the first half of 2009, mainly because „Spiro Star", a motor for which new applications were found and market shares were gained, continued its strong performance. The weak industry cycle in the first half of 2009 made itself felt also in the Service & Supply segment, where orders were on the decline.

Capital expenditure

SBO's investment policy is based on long-term considerations. Current investment projects of strategic significance, such as building the new sites in Vietnam and Brazil, were continued as planned in the first half of 2009. Capital expenditure already initiated for the sites in Ternitz and Houston were postponed and cancelled as far as possible. Furthermore, the drilling motor business operated mainly on a lease-out basis was secured by expanding the drilling motor fleet of SBO's subsidiary BICO.

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[1] *Oil Market Report, International Energy Agency, August 2009*
[2] *Baker Hughes Rig Count*
[3] *IEA on 29 June 2009 / Press release on Medium-Term Oil Markets Report 2009 and the Natural Gas Market Report 2009*

Purchase commitments for expenditure on property, plant and equipment as at 30 June 2009 were MEUR 12.3 (MEUR 18.1 as at 30 June 2008).

Risk management report

Business risks of Schoeller-Bleckmann Oilfield Equipment AG did not change substantially in the first six months of 2009 over the risks mentioned in the 2008 financial statements. The current risks involved in declining order backlogs have been reported above. We therefore refer to the risks described in the Annual Report 2008, in particular the USD/EUR currency exchange risk, and recommend to read this report on the first half of 2009 in conjunction with the Annual Report 2008.

The SBO share

The SBO share closed the first half of 2009 at EUR 26.00 on 30 June 2009. Compared to the annual closing price of EUR 21.90 on 30 December 2008 this was an increase of 18.7 %. In the second quarter of 2009 the SBO share went up by 19.9 % (31 March 2009: EUR 21.69). The quarterly high arrived at EUR 30.00 (5 June 2009).

Outlook

The prerequisite for drilling activities to pick up again is a continued increase in demand for oil and gas. While the rising oil price of the past months alone is not enough to stimulate exploration and production activities, it can be taken as a first sign of global economic recovery.

SBO does not expect business to pick up yet in the second half of 2009. Owing to persistently high inventories in the oilfield service industry, SBO's customers will continue to exercise great caution in placing orders. If required, SBO will respond to the unpleasant market development by implementing further capacity adjustments and cost-cutting measures so as to mitigate negative repercussions on the earnings situation.

Further development will depend primarily on the anticipated recovery of the global economy. At any rate, IEA expects oil demand to grow by 0.4 % to 1.4 % annually from 2010 on, depending on the development of the world economy[3]. With exploration and production activities remaining at a much too low level, the search for new oil sources requiring more and more complex technologies and production rates of existing oil fields declining, demand for high-precision components for the oilfield service industry is bound to pick up.

> In the medium and long term, demand for high-precision components is bound to pick up

The medium- to long-term positive outlook for the business of Schoeller-Bleckmann remains unchanged. SBO's continued high equity ratio of 53.2 % at mid-2009, low net debt of currently around MEUR 89.2 as well as sound liquidity and sufficient credit facilities provide security for the company even beyond the next quarters.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

The interim report as at 30 June 2009 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.

The accounting and valuation methods of 31 December 2008 have been applied basically unchanged, with the exception of the standards which came into force in 2009. 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 2008. In the first six months of 2009 the scope of consolidation was enlarged because of the incorporation of Schoeller-Bleckmann do Brasil Ltda.

The business development of SBO is not subject to seasonal influences.

No important events have occurred after the balance sheet date.

This report on the first half of 2009 of the SBO group has neither been audited nor reviewed by independent accountants.

STATEMENT OF ALL LEGAL REPRESENTATIVES

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

Gerald Grohmann
Chairman of the
Executive Board, CEO

Franz Gritsch
Member of the
Executive Board, CFO

CONSOLIDATED PROFIT AND LOSS STATEMENT

in TEUR	6 months ended		3 months ended	
	30.06.2009	30.06.2008	30.06.2009	30.06.2008
Sales	**137,570**	**185,523**	**56,771**	**96,889**
Cost of goods sold	-103,743	-128,875	-45,066	-67,470
Gross profit	**33,827**	**56,648**	**11,705**	**29,419**
Selling expenses	-5,326	-5,678	-2,479	-2,890
General and administrative expenses	-8,978	-8,021	-4,293	-4,088
Other operating expenses	-4,758	-6,792	-1,950	-2,475
Other operating income	5,526	5,786	1,700	1,814
Operating profit	**20,291**	**41,943**	**4,683**	**21,780**
Interest income	282	416	216	264
Interest expenses	-2,829	-2,031	-1,388	-1,092
Other financial income	0	0	0	0
Other financial expenses	-430	-1,211	-120	-708
Financial result	**-2,977**	**-2,826**	**-1,292**	**-1,536**
Income before taxation	**17,314**	**39,117**	**3,391**	**20,244**
Income taxes	-5,174	-11,580	-991	-5,989
Income after taxation	**12,140**	**27,537**	**2,400**	**14,255**
Average number of shares outstanding	15,880,116	15,957,009	15,880,116	15,951,702
Earnings per share in EUR (basic=diluted)	**0.76**	**1.73**	**0.15**	**0.89**

STATEMENT OF COMPREHENSIVE INCOME

in TEUR	6 months ended	
	30.06.2009	30.06.2008
Income after taxation	12,140	27,537
Currency translation adjustments	4,990	-10,368
Pertaining taxes	-219	985
Hedging of a net investment	248	602
Pertaining taxes	-62	-151
Other comprehensive income, net of tax	4,957	-8,932
TOTAL COMPREHENSIVE INCOME	**17,097**	18,605

STATEMENT OF SHAREHOLDERS´ EQUITY

in TEUR	6 months ended	
	30.06.2009	30.06.2008
As at 1 January 2009	226,216	194,105
Total comprehensive income	17,097	18,605
Dividends paid	-11,910	-17,547
Acquisition of own shares	0	-2,065
AS AT 30 JUNE 2009	**231,403**	**193,098**

CONSOLIDATED BALANCE SHEET

ASSETS in TEUR	30.06.2009	31.12.2008
Current assets		
Cash and cash equivalents	52,691	49,348
Trade accounts receivable	43,884	56,101
Other accounts receivable and prepaid expenses	4,577	9,846
Inventories	125,036	127,147
TOTAL CURRENT ASSETS	**226,188**	**242,442**
Non-current assets		
Property, plant & equipment	145,022	139,091
Goodwill	39,735	39,279
Other intangible assets	8,985	9,136
Long-term receivables	4,300	4,676
Deferred tax assets	10,727	8,690
TOTAL NON-CURRENT ASSETS	**208,769**	**200,872**
TOTAL ASSETS	**434,957**	**443,314**

LIABILITIES AND SHAREHOLDERS' EQUITY in TEUR	30.06.2009	31.12.2008
Current liabilities		
Bank loans and overdrafts	33,889	27,880
Current portion of long-term loans	7,970	8,729
Finance lease obligations	418	374
Accounts payable trade	12,580	38,689
Subsidies received	290	284
Income taxes payable	3,462	4,260
Other payables	14,515	21,429
Other provisions	8,288	7,601
TOTAL CURRENT LIABILITIES	**81,412**	**109,246**
Non-current liabilities		
Bonds	39,805	39,787
Long-term loans	58,492	45,400
Finance lease obligations	1,297	1,356
Subsidies received	1,866	1,299
Retirement benefit obligations	3,430	3,528
Other payables	7,841	7,795
Deferred tax payables	9,411	8,687
TOTAL NON-CURRENT LIABILITIES	**122,142**	**107,852**
Shareholders' equity		
Share capital	15,880	15,880
Contributed capital	61,808	61,808
Legal reserve - non-distributable	785	785
Other reserves	42	44
Translation component	-29,484	-34,441
Retained earnings	182,372	182,140
TOTAL SHAREHOLDERS´ EQUITY	**231,403**	**226,216**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**434,957**	**443,314**

CASH FLOW STATEMENT

in TEUR	6 months ended 30.06.2009	6 months ended 30.06.2008
Cash and cash equivalents at the beginning of the period	49,348	23,916
Cash earnings	24,574	45,425
Cash flow from operating activities	15,238	18,674
Cash flow from investing activities	-18,782	-21,553
Cash flow from financing activities	6,105	19,402
Effects of exchange rate changes and revaluations	782	-1,252
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**52,691**	**39,187**

DIVIDEND PAID

	Total amount TEUR	Number of shares (ordinary shares)	Per share EUR
For the business year 2008 paid in 2009	11,910	15,880,116	0.75
For the business year 2007 paid in 2008	17,547	15,951,702	1.10

SEGMENT INFORMATION

in TEUR	Europe	North America	Other regions	SBO-Holding & Consolidation	Group
1-6/2009					
External sales	25,288	109,295	2,987	0	137,570
Intercompany sales	48,865	4,867	456	-54,188	0
Total sales	74,153	114,162	3,443	-54,188	137,570
Operating profit	9,999	12,745	76	-2,529	20,291
1-6/2008					
External sales	47,852	129,651	8,020	0	185,523
Intercompany sales	70,667	9,690	1,324	-81,681	0
Total sales	118,519	139,341	9,344	-81,681	185,523
Operating profit	19,241	24,626	2,168	-4,092	41,943

- Schoeller-Bleckmann Oilfield Equipment AG is the global market leader in high-precision components for the oilfield service industry.
- The business focus is on non-magnetic drillstring components for high-tech directional drilling.
- Worldwide, the company employs a workforce of 1,109 (end of 2008: 1,394), thereof 328 in Ternitz/Austria and 501 in North America (including Mexico).

This report includes information and forecasts that are based on the future development of the SBO Group and its member companies. These forecasts represent estimates, which were prepared based on the information available at this time. If the assumptions underlying these forecasts are not realized or risks – as described in the risk report – should in fact occur, actual results may differ from the results expected at this time.
This report is not connected with a recommendation to buy or sell shares in Schoeller-Bleckmann Oilfield Equipment AG.
The English translation of this report is for convenience. Only the German version is binding.

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