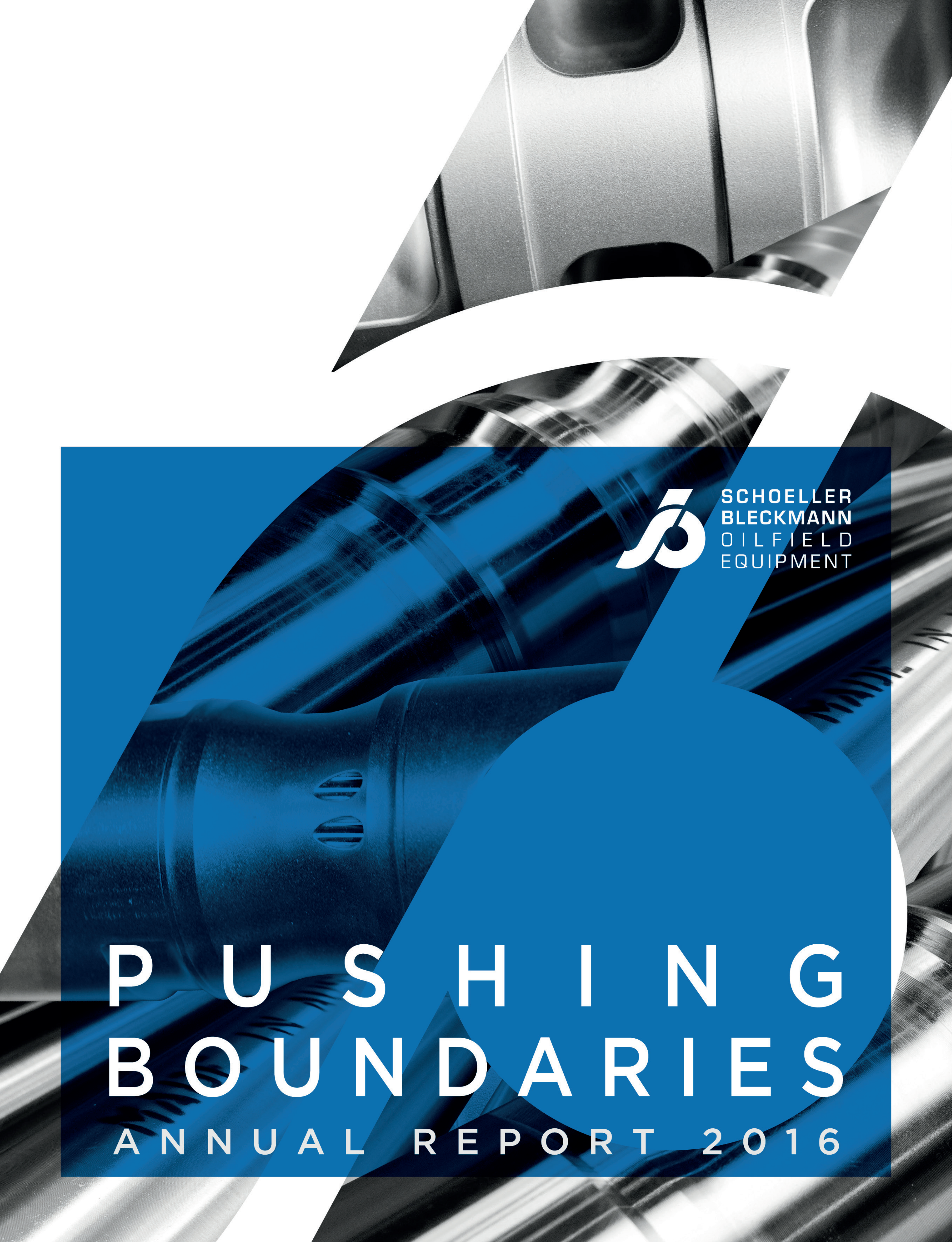


SCHOELLER
BLECKMANN
OILFIELD
EQUIPMENT

PUSHING BOUNDARIES

ANNUAL REPORT 2016

CONTENT

FINANCIAL HIGHLIGHTS

in MEUR

	2016	2015	2014	2013	2012	2011
Sales	183.0	**313.7**	488.6	458.6	512.1	408.6
Profit from operations	-58.3	**-22.1**	67.5	90.2	121.2	90.2
Earnings before Interest, Taxes Depreciation and Amortization[1]	0.4	**55.1**	149.3	136.5	160.8	125.0
Profit after tax	-28.0	**-19.0**	54.0	61.3	76.9	53.4
Earnings per share[2] (in EUR)	-1.75	**-1.19**	3.38	3.81	4.80	3.33
Total assets	802.1	**740.5**	800.4	703.5	698.4	620.0
Share capital	16.0	**16.0**	16.0	15.9	16.0	16.0
Shareholders´ equity	425.7	**450.4**	455.7	382.2	363.1	314.8
Return on capital employed (in %)[3]	-12.9	**-4.8**	15.2	22.7	32.1	26.8
Dividend per share (in EUR)	0.00[4]	**0.50**	1.50	1.50	1.50	1.20
Number of shares outstanding at year end	15,947,403	**15,982,000**	15,976,000	15,912,239	15,960,116	15,960,116

[1] Earnings before interest, taxes, depreciation, and amortisation before one-off expenses for due diligence and restructuring

[2] Based on average shares outstanding

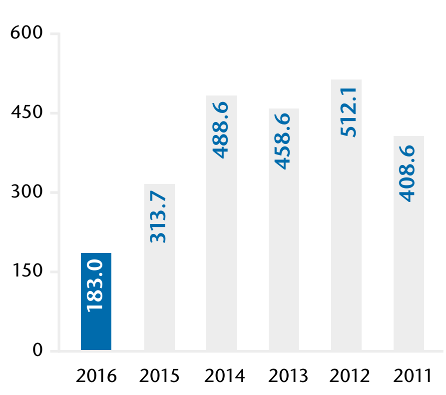
[3] Return on capital employed = Income from operations after impairments and restructuring measures/capital employed

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

[4] Proposed

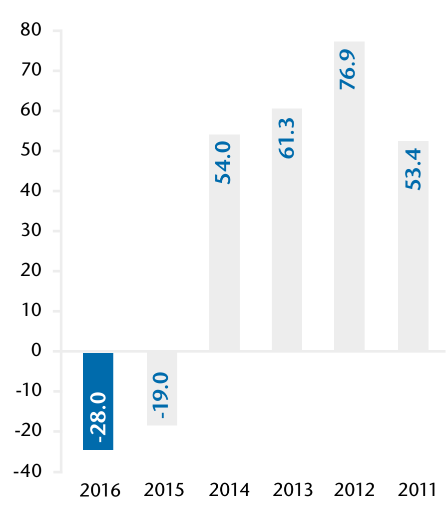
SALES

in MEUR



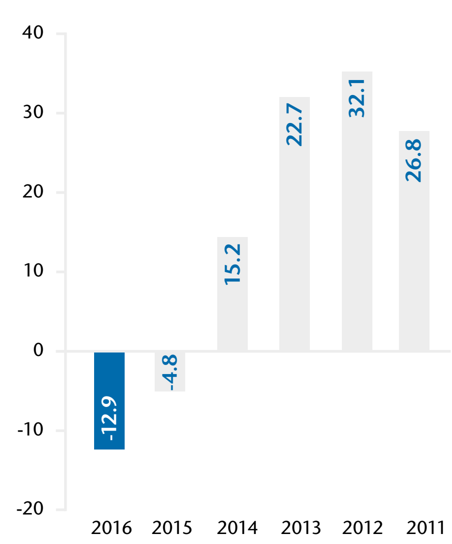
PROFIT AFTER TAX

in MEUR



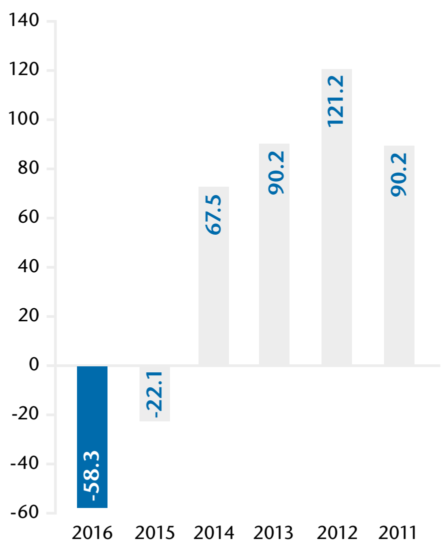
RETURN ON CAPITAL EMPLOYED

in Percent



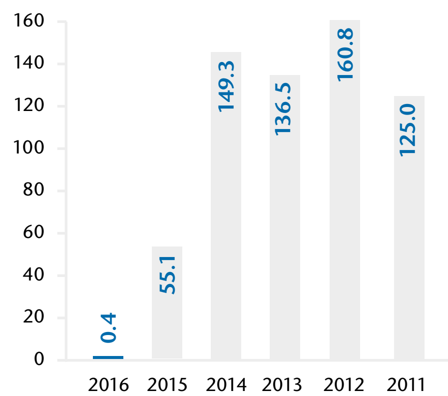
PROFIT FROM OPERATIONS

in MEUR



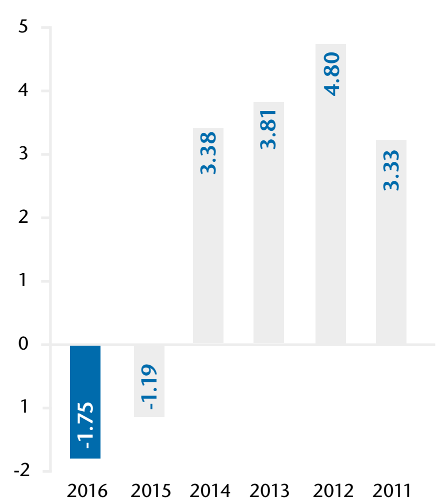
EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION

in MEUR



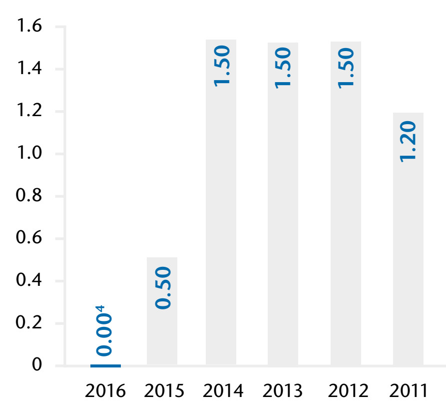
EARNINGS PER SHARE

in EUR



DIVIDEND PER SHARE

in EUR



MISSION STATEMENT

SOLID FOUNDATION
FOR SUSTAINABLE GROWTH

We maintain a fundamentally strong balance sheet structure and have initiated consistent countermeasures at an early stage in order to combat the deep of the cycle

LONG-TERM THINKING
WITH A CLEAR FOCUS

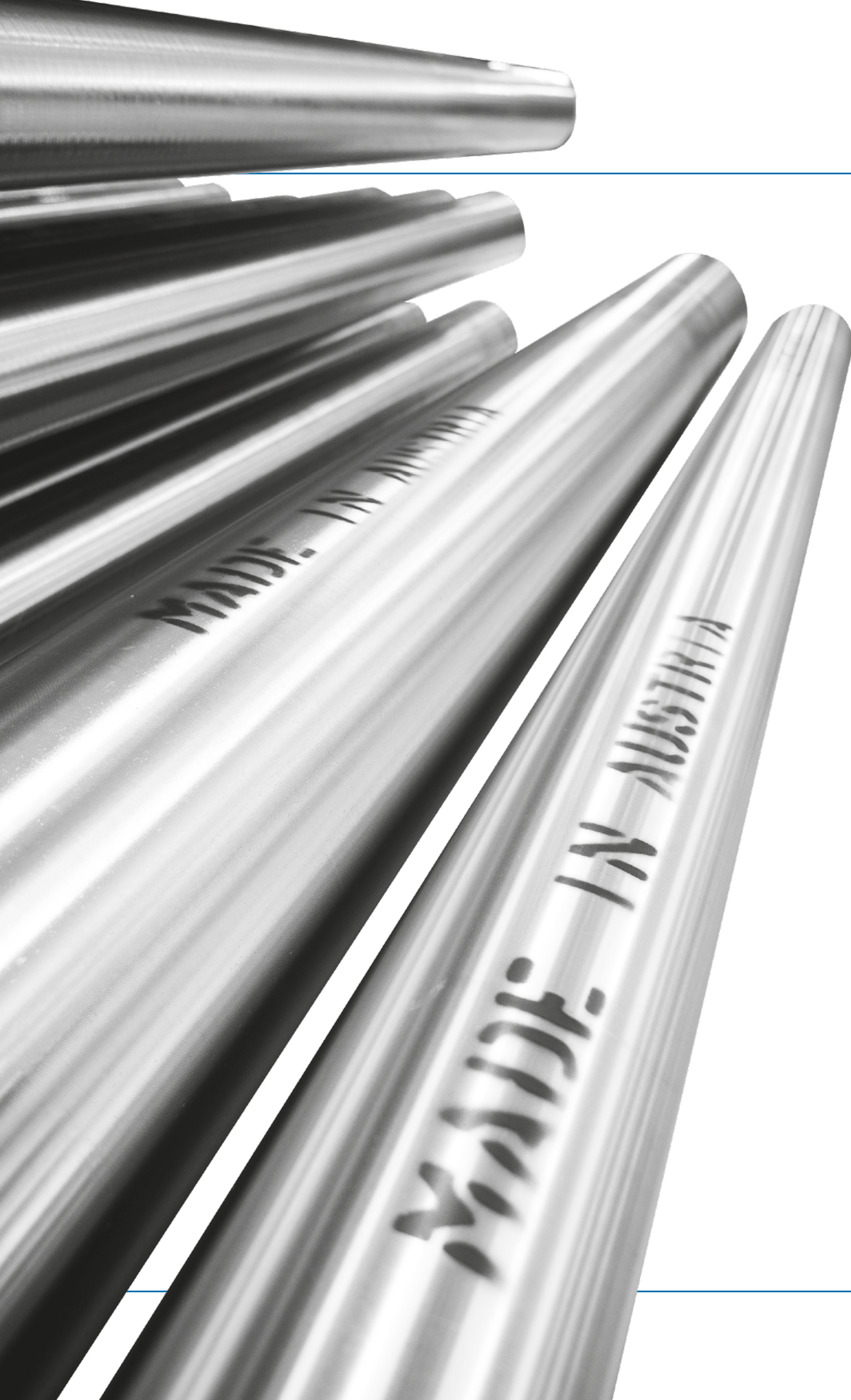
Our targeted steps in the fields of acquisition and innovation grow our market position and let us enter new sectors also in the challenging market environment

CONCLUSIVE STRATEGY
FOR A STRONG POSITIONING

Strategic broadening of our product portfolio by adding well completion has successfully been initiated by acquiring Resource

MOVING FORWARD
WITH A STRONG VISION OF THE FUTURE

By acquiring Downhole Technology, we clearly strengthen our presence in the well completion market and prepare ourselves for the next upswing


MADE IN AUSTRALIA

SOLID FOUNDATION

FOR SUSTAINABLE GROWTH

WE MAINTAIN A FUNDAMENTALLY STRONG BALANCE SHEET STRUCTURE AND HAVE INITIATED CONSISTENT COUNTERMEASURES AT AN EARLY STAGE IN ORDER TO COMBAT THE DEEP OF THE CYCLE

LONG-TERM THINKING

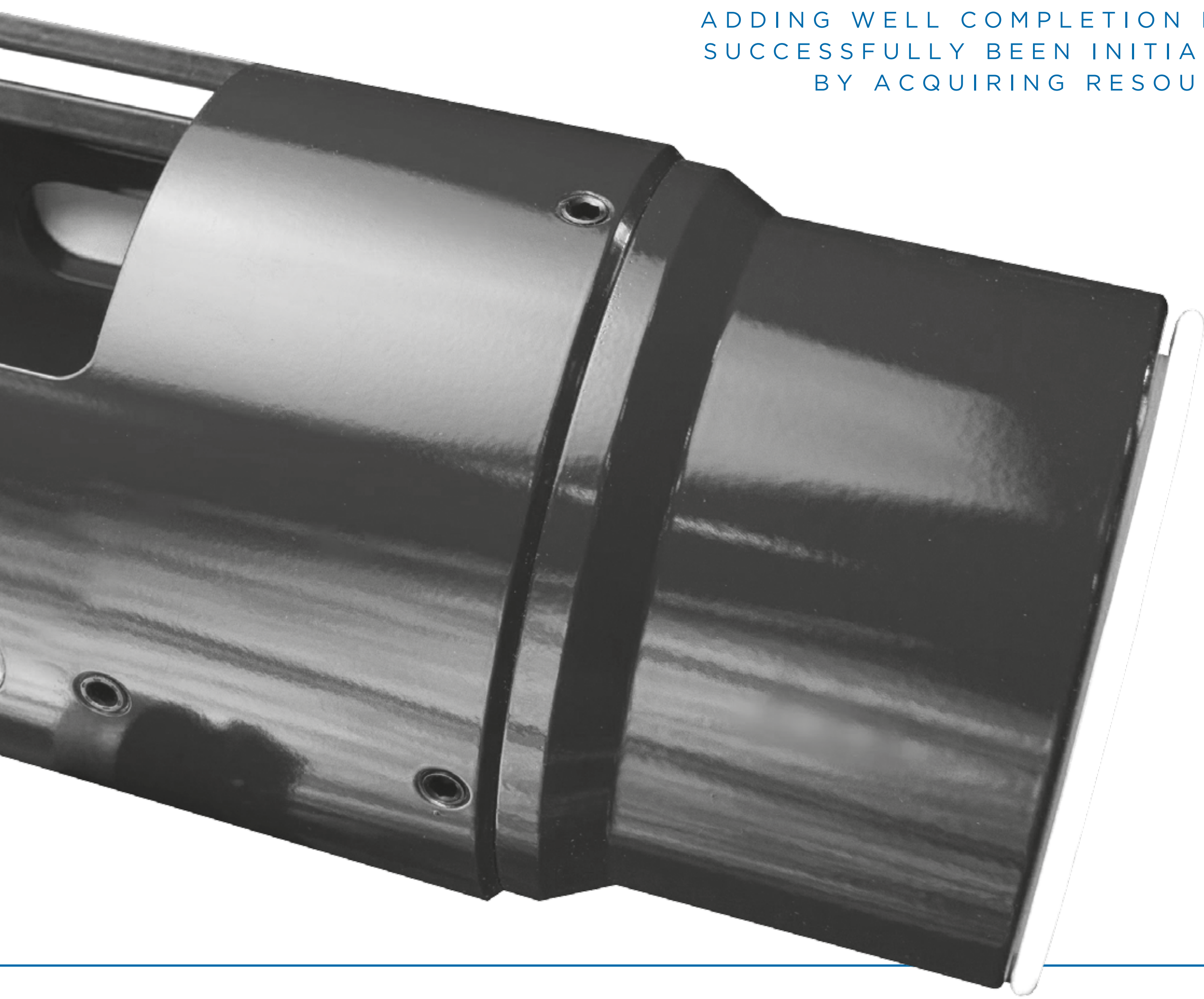
WITH A CLEAR FOCUS

OUR TARGETED STEPS IN THE FIELDS OF ACQUISITION AND INNOVATION GROW OUR MARKET POSITION AND LET US ENTER NEW SECTORS ALSO IN THE CHALLENGING MARKET ENVIRONMENT

CONCLUSIVE STRATEGY

FOR A STRONG POSITIONING

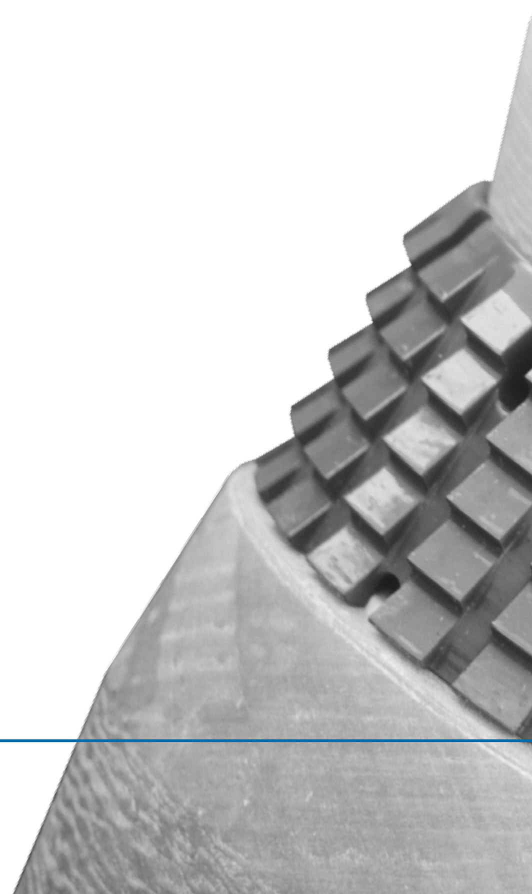
STRATEGIC BROADENING OF
OUR PRODUCT PORTFOLIO BY
ADDING WELL COMPLETION HAS
SUCCESSFULLY BEEN INITIATED
BY ACQUIRING RESOURCE



MOVING FORWARD

WITH A STRONG VISION OF THE FUTURE

BY ACQUIRING DOWNHOLE TECHNOLOGY, WE CLEARLY STRENGTHEN OUR PRESENCE IN THE WELL COMPLETION MARKET AND PREPARE OURSELVES FOR THE NEXT UPSWING



THE COMPANY

THE COMPANY

SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft (SBO) is the global market leader in high-precision components made of high-alloy steel and a leading supplier of key components for the oilfield service industry. The business focus is on non-magnetic drillstring components and high-tech downhole tools for drilling and completing directional and horizontal wells.

Vertical wells often allow depletion of only a fraction of the oil and gas from a reservoir. State-of-the-art directional drilling is applied to penetrate oil and gas fields that previously were undiscovered or inaccessible and to increase the recovery rate. SBO is a supplier of key components therefore: MWD (Measurement While Drilling) and LWD (Logging While Drilling) components made of non-magnetic, corrosion-resistant stainless steel and high-precision drilling tools for efficient directional drillstring drive.

Efficiency enhancements seen in recent years were due also to growing technologisation in the well completion sector. Well completion is the step that follows drilling and prepares the well for oil and gas production. SBO has expanded its operations to this market by acquiring Resource Well Completion Technologies Inc. (Resource) in November 2014. The acquisition of Downhole Technology LLC (Downhole Technology), at the beginning of the second quarter of 2016, enabled SBO to successfully advance the establishment of this business.

Developing oil and gas fields is becoming increasingly demanding. State-of-the-art directional drilling and completion technologies will continue to play a key role in covering growing global demand for energy. SBO has been preparing thoroughly by establishing the well completion business and pursuing research and development (R&D) activities.

SBO subdivides its business activities into two segments: "High Precision Components" and "Oilfield Equipment":

- The "High Precision Components" (HPC) segment consists of the machining of complex MWD (Measurement While Drilling) and LWD (Logging While Drilling) components, made of non-magnetic, corrosion-resistant stainless steel, which form the housing for sensitive measuring instruments needed for the precise measurement of inclination and azimuth of the drillstring as well as petrophysical parameters.

- The "Oilfield Equipment" (OE) segment comprises the manufacture and distribution of high-performance drilling motors and downhole circulation tools, the distribution of non-magnetic drill collars, service and repair work as well as products for completing wells in both dominating technologies sliding sleeve and plug-n-perf.

SBO is represented at all major hubs of the oilfield service industry worldwide and follows its customers as their partner when they move to new regions around the globe. In 2016, SBO extended its network by establishing sales companies in Saudi Arabia and Mexico.

As a leader in terms of quality and technology, SBO counts both, the major oilfield service companies, and also many exploration and production companies, among its customers and has set the market benchmark in the relevant business sectors over many years. The basis of SBO's lasting and successful business performance is a close interaction between leadership in technology, quality and innovation, and a market-oriented growth strategy, high productivity and flexibility as well as a long-term strategic investment policy. The company is well prepared to benefit fully from the next upswing.

BUSINESS LOCATIONS

› **SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft**
Ternitz, Austria

HIGH PRECISION COMPONENTS

› **SCHOELLER-BLECKMANN Oilfield Technology GmbH**
Ternitz, Austria

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

› **Schoeller-Bleckmann Oilfield Equipment Vietnam Co. Ltd.**
Binh Duong, Vietnam

› **Knust-SBD Pte. Ltd.**
Singapore

› **KNUST-GODWIN LLC**
Houston, TX/USA

› **Techman Engineering Ltd.**
Chesterfield, UK

OILFIELD EQUIPMENT

› **BICO Drilling Tools Inc.**
Houston, TX/USA

› **BICO FASTER Drilling Tools Inc.**
Nisku, Canada

› **DSI FZE**
Dubai, U.A.E.

› **DSI PBL de Mexico, S.A. de C.V.**
Villahermosa, Mexico

› **DSI SAUDI LLC**
Al-Khobar, KSA

› **Schoeller Bleckmann do Brasil, Ltda.**
Macae, Brazil

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

› **Schoeller-Bleckmann Darron (Aberdeen) Limited**
Aberdeen, UK

› **Schoeller-Bleckmann Darron Limited**
Noyabrsk, Russian Federation

› **Schoeller-Bleckmann Energy Services L.L.C.**
Broussard, LA/USA

› **Schoeller-Bleckmann Sales Co. L.L.C.**
Houston, TX/USA

› **Resource Well Completion Technologies Inc.**
Calgary, Canada

› **Resource Well Completion Technologies Corp.**
Oklahoma City, OK/USA

› **Downhole Technology LLC**
Houston, TX/USA

HIGHLIGHTS 2016

Q1

- Persistently challenging market environment weighs on result
- Fundamentally strong balance sheet structure with high equity ratio
- Consistent countermeasures to navigate safely through the cycle

Q2

- Market increases pressure on result
- Acquisition of Downhole Technology strengthens well completion business
- Further cost reduction: Restructuring started in Singapore

Q3

- First market signs indicate that cycle has reached its bottom
- Positive operating cashflow and fundamentally strong balance sheet structure with high equity ratio confirmed
- Integration of Downhole Technology running to schedule

Q4

- Increasing signals of rising activity in North America
- Liquidity situation almost unchanged by the end of the year despite largest acquisition in the company's history
- Optimal strategic position for upswing

EXECUTIVE BOARD

PREFACE OF THE EXECUTIVE BOARD

"THE HARSHEST CRISIS IN 30 YEARS HAS LEFT DEEP MARKS WHICH ARE STILL BEING FELT"

DEAR SHAREHOLDERS AND BUSINESS PARTNERS,

The past year showed a mixed picture for the oilfield service industry. The harshest crisis in 30 years has left deep marks which are still being felt. In 2016, the number of globally active drilling rigs contracted by another 29 %, after a reduction of 40 % already back in 2015. Global spending for exploration and production slumped by 27 %, whereas the total decline in the past two years came to as much as 42 %. North America was hit particularly hard by the downturn, as more than 350,000 workers were reported to have lost their jobs. SBO, too, was forced to implement targeted cost-cutting measures. In the past two years, we had to downsize our workforce by 40 %. Despite these cuts and ongoing pro-active cost containment, the downturn is reflected clearly in our results.

The cycles, which our industry is exposed to are a challenge to all companies in our industry. The volatility in the market can be mastered only by those companies that had an experienced team on board and adjusted their course right on time. The prerequisite of emerging from such cycles relatively unscathed is a prudent approach combined with business acumen. At SBO, we responded to the very first signs of the imminent downturn in the third quarter of 2014. And we consistently pursued countermeasures throughout 2016 again. This is why we were able to generate a positive operating cashflow also in the second, even fiercer, year of the downturn.

Crises are challenging, but they also are an opportunity to implement sustainable efficiency-enhancing measures. We have created permanent synergies within the SBO Group: We merged local subsidiaries in the United States and the United Kingdom and thus completed the restructuring process in those key markets for our company. The merger of our two subsidiaries in Singapore, as decided in mid-2016, is complete. At the same time, we entered new regions as we set up new distribution companies in Saudi Arabia and Mexico to strengthen our presence in these important markets. Following lifting of parts of the sanctions against Iran, we got in the position to re-establish our contacts with leading representatives of the Iranian oil and gas industry.

> "DOWNHOLE TECHNOLOGY, THE LARGEST ACQUISITION IN THE COMPANY'S HISTORY, HAS FURTHER IMPROVED OUR POSITION IN THE PROFITABLE GROWTH MARKET OF WELL COMPLETION"

Our goal is not only to navigate SBO safely through the cycle, but also to rapidly pick up full momentum as the market recovers. Apart from all required cost optimisation efforts, our strategic focus remains on further widening our range of operations. 2016 was clearly dominated by extending the well completion business. Our decision to expand this new field of business demonstrates that we belive in the long-term success and profitability of our industry.

The takeover of Resource in 2014 provided a solid foundation for our presence in the well completion market, which was further strengthened successfully by the acquisition of Downhole Technology at the beginning of the second quarter of 2016. As a result, SBO operates already today as leading independent product provider in the dominating well completion technologies sliding-sleeve and plug-n-perf.

The acquisition of Downhole Technology enables us to successfully continue our strategy to gain an even stronger position as niche provider of efficiency-enhancing products in the profitable growth market of well completion. Downhole Technology represents the largest acquisition in the history of SBO. As the acquisition was financed exclusively from existing liquid funds, SBO maintained its sound equity ratio of 53.1 % and gearing ratio of only 12.0 % at year-end 2016, even after the deal was closed. Preserving our fundamentally sound balance sheet structure plays a pivotal role in remaining flexible for new tasks. Additionally, the well completion business will help us benefit earlier from the next upswing than in our established core business, which by tradition, is late-cycle.

Apart from acquisitions, research and development (R&D) is an essential element of the long-term growth strategy of SBO. Consequently, we have made highly specific investments in future-oriented innovations despite the prohibitive market environment and have not curtailed our R&D budgets. We are pursuing our R&D activities actively and continuously and have achieved some innovative successes. A specific example in this context is our Direct Metal Laser Sintering unit, a 3D printer for time-efficient production of highly complex metal structures, which represents a manufacturing technology adding to the broad range of manufacturing technologies applied by SBO. Furthermore,

"OUR SOUND CAPITAL BASE, POSITIVE CASHFLOW AND INNOVATIVE STRENGTH ARE A STABLE FOUNDATION FOR THE FUTURE"

the method of "GooseNeck Drilling" has become ready to be marketed and is applied in the production of MWD (Measurement While Drilling) and LWD (Logging While Drilling) components. It is a technology which allows to drill S-shaped center bores in a drill collar.

We are determined not to let the current market situation take the wind out of our sails. Based on our improved cost structure and a wider product range we have adopted a proactive course to navigate our company into the future. Our sound capital base, positive cashflow and innovative strength provide a stable foundation. We steer into year 2017 with a noticeable market recovery in North America. However, internationally, such revival has not yet started to take place and it will take some more time until the inventories of our customers, which have been built up over the last two years, will have come down. This is why we expect 2017 to be a year of transition for SBO.

We would like to thank our employees, our customers and shareholders for their trust and support in our endeavours and look forward to successful cooperation in the 2017 financial year.

The Executive Board, March 2017

Gerald Grohmann
Chief Executive Officer

Klaus Mader
Member of the Executive Board

TEAM

HUMAN RESOURCES

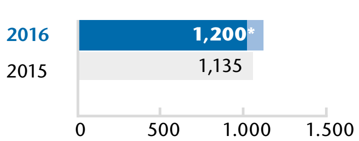
During 2016, SBO again adjusted the size of its workforce to the steep decline in demand, as required by the individual sites. Due to the acquisition of Downhole Technology, the headcount went up slightly by 5.7 % year-on-year, from 1,135 employees as at 31 December 2015, to 1,200 as at 31 December 2016. Without Downhole Technology, the headcount would have dropped to 1,034. At year-end 2016, 315 employees were on the payroll in Austria, 544 in North America and Mexico (thereof USA: 443), 120 in the United Kingdom and 221 in other regions of the world.

The skills, long-standing experience and strong quality awareness of its employees have made a major contribution to maintaining and even improving the high service and quality level of SBO.

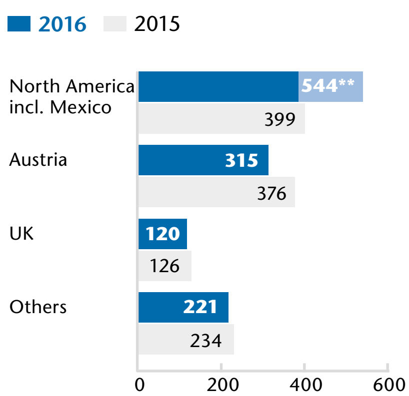
In order to expand this high level of know-how, SBO offered a large number of basic and further training courses aimed at improving employees' skills and capabilities or specialising in certain fields of expertise also in 2016. Employees could take courses in the fields of law, languages (English), applied IT, quality management, materials engineering and –testing, protection and security measures, and first aid, and gain additional skills on other machines and tools in order to be used more flexibly within the company in the future.

Despite Group-wide cost-cutting programmes, 4 new apprentices were recruited, bringing their total number to 35. SBO is continuously investing in training young people in order to cover demand for highly qualified skilled workers. The training centre for apprentices is where young workers can acquire expert skills to become, for instance, skilled metal workers. Many trainees stay with the company after they have passed their final examinations to become skilled workers. By training new skilled employees, SBO is investing in the future development of the company, as its business success is largely based on high technical expertise of its employees.

TOTAL HEADCOUNT

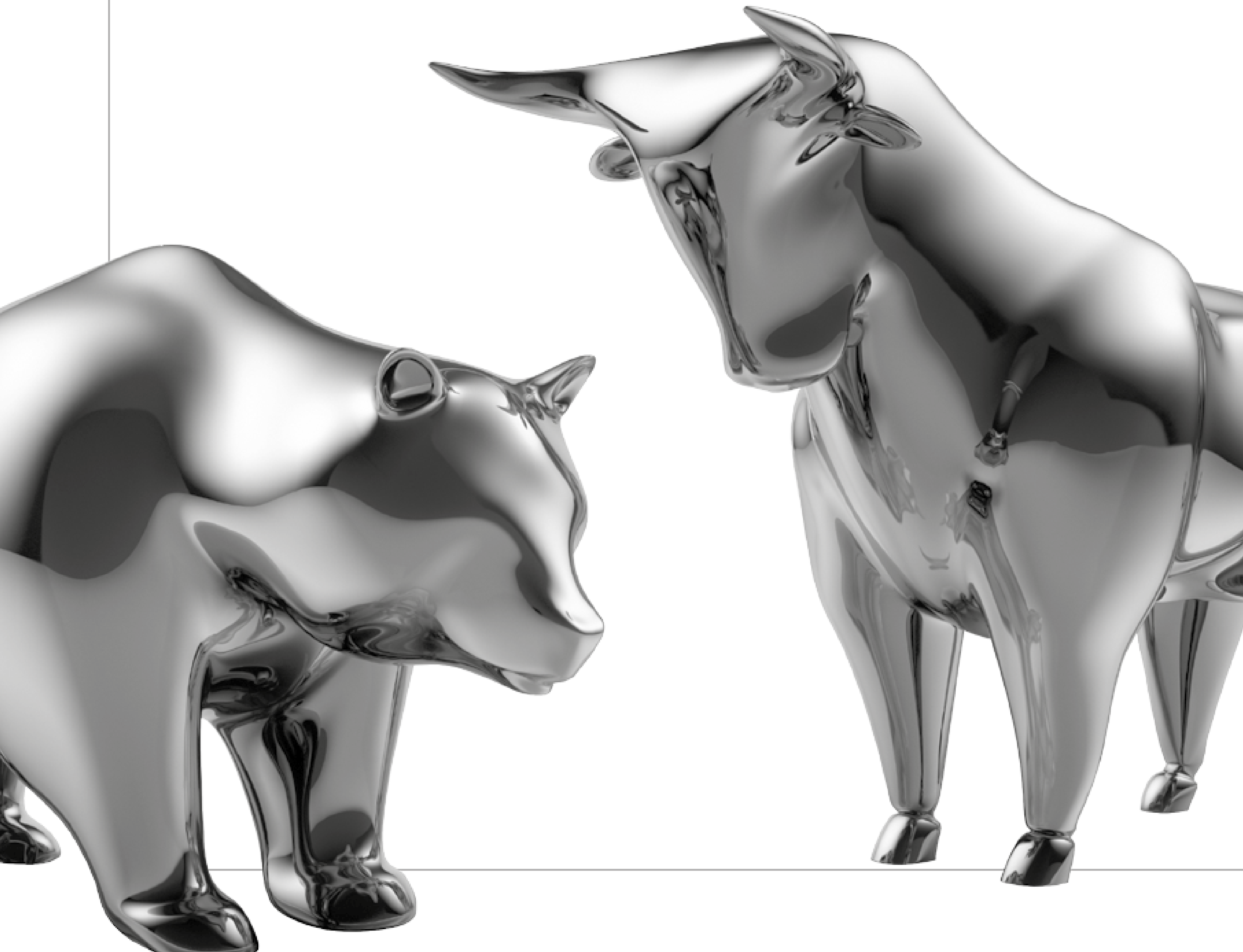


HEADCOUNT BY REGION



* Excluding Downhole Technology: 1,034 employees
** Excluding Downhole Technology: 378 employees

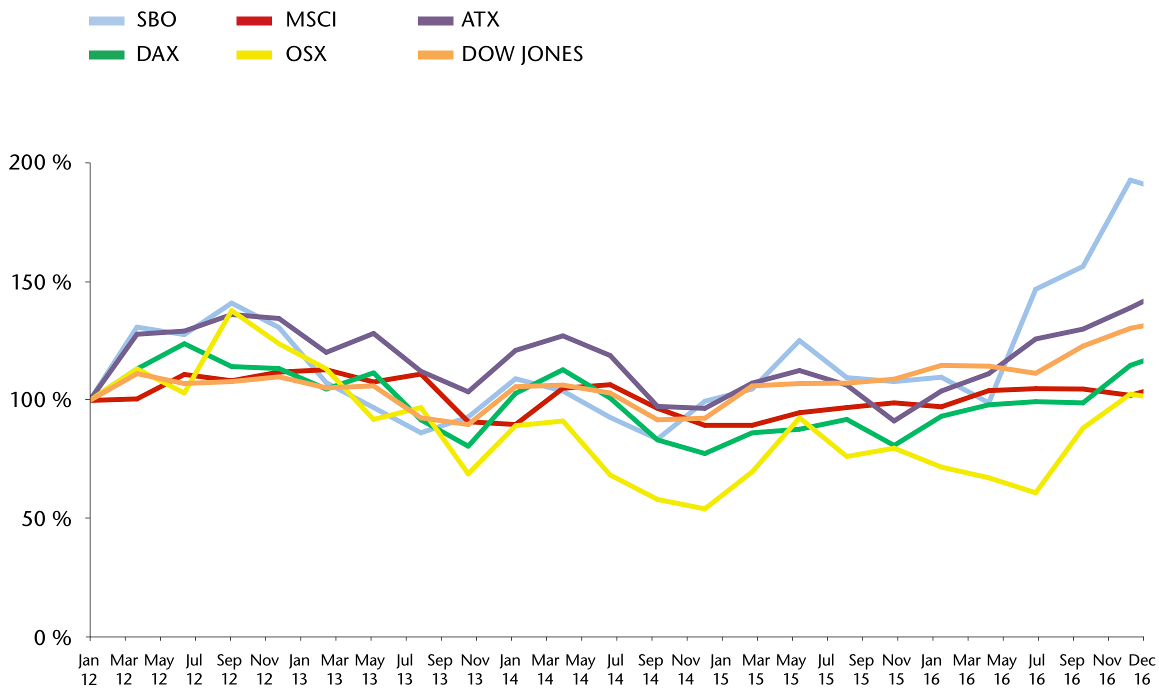
THE SBO SHARE



The SBO share is quoted on the prime market of the Vienna Stock Exchange and listed in the Austrian ATX blue-chip index. On 4 January 2016, the share started into the trading year at a price of EUR 50.41. On 29 December 2016, the SBO share reached its annual high of EUR 79.00. The annual low was EUR 40.33 on 26 January 2016. In the first quarter, the share price developed largely in line with the oil price, in the second quarter, it anticipated losses in the oil market. On 30 December 2016, following an outright price rally from mid of the second half of the year, it closed at EUR 76.53, up 51.8 % from the beginning of the year. In the same period, the price per barrel of US brand WTI climbed by 46.1 %, from USD 36.76 to USD 53.72, whereas the price per barrel of European crude Brent went up by 52.7 %, from USD 37.22 to USD 56.82.[1]

The Oil Service Sector Index (OSX) representing the stock performance of the world's largest oil service companies rose by 15.1 %, from USD 159.65 to USD 183.79, over the same period. Vienna's ATX blue-chip index posted an increase of 9.2 %, from 2,396.94 points at the beginning of the year to 2,618.43 points on 30 December 2016. The SBO share thus outperformed both the OSX and the ATX. Trading volumes averaged 30,875 shares per day (single counting).

SHARE PERFORMANCE



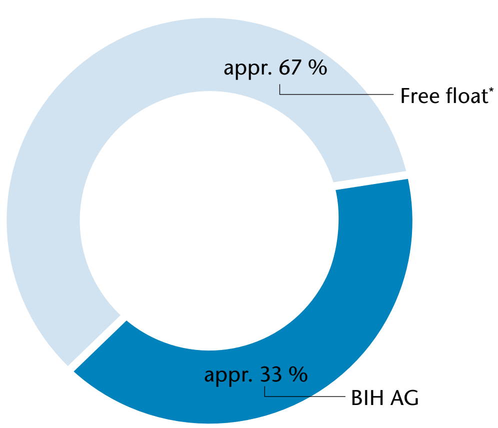
[1] Bloomberg: CO1 Brent Crude (ICE) and CL1 WTI Crude (Nymex).

"SBO PURSUES A PROACTIVE AND OPEN COMMUNICATION WITH THE CAPITAL MARKET"

The Executive Board dedicates itself to a proactive and open communication with the capital market. Private and institutional investors were given the opportunity to learn more about the company at numerous types of events held in 2016. In the year under review, SBO attended road shows and relevant conferences staged on 38 days in Austria and abroad. The Executive Board and Investor Relations team presented the company to the international investor community, for instance in Amsterdam, Berlin, Boston, Brussels, Chicago, Edinburgh, Frankfurt, Geneva, Helsinki, Copenhagen, London, Los Angeles, Montréal, Munich, New York, Oslo, Paris, San Francisco, Stegersbach, Stockholm, Ternitz, Toronto, Vienna and Zürs.

In 2016, SBO continued on broadening the investor base geographically. As at the end of 2016, SBO's shareholder structure (as far as known) was as follows: SBO's core shareholder, Berndorf Industrieholding AG (BIH AG), held 33.4 % of the shares in SBO as at 31 December 2016, leaving a free float of 66.6 %, of which roughly 19 % was held by investors from the United Kingdom, 14 % by US investors, 6 % by German investors, 5 % each by Swiss and Swedish investors, and 4 % each by French and Austrian investors. Further investors in SBO included, among others, those from Norway, Italy, Belgium, Luxembourg, Australia and Canada.[2]

SHAREHOLDER STRUCTURE AS OF 31 DECEMBER 2016



* Shareholders exceeding notification thresholds:
Threshold of 5 %: EARNEST Partners, LLC
Threshold of 4 %: Aberdeen Asset Managers Ltd.

FINANCIAL CALENDAR 2017

17 April 2017	Record Date AGM
27 April 2017	Annual General Meeting
9 May 2017	Ex-Dividend Date
10 May 2017	Record Date
11 May 2017	Dividend Payment Date

Publications:

17 March 2017	Financial statements 2016
24 May 2017	1st Quarter 2017
24 August 2017	Half year 2017
23 November 2017	3rd Quarter 2017

[2] Big Dough, SBO Shareholder Structure, as at 31 December 2016.

SBO has been covered periodically by analysts of the following ten banks: Baader, Berenberg, Credit Suisse, Deutsche, Erste and Raiffeisen Centrobank, as well as Hauck & Aufhäuser, Kepler Cheuvreux, Canaccord Genuity and Natixis. This makes SBO rank among the leading ATX-listed companies.

Focus in 2016 also was a transparent and proactive communication with business and finance journalists. CEO Gerald Grohmann used the contacts with journalists to explain the strategy and business model of SBO beyond the day-to-day business and to inform them about the background on particular developments in the oil market and the oilfield service industry.

The latest information about the company and all publications of SBO are available on the company website at www.sbo.at.

KEY SHARE FIGURES

	2016	2015
Share capital (in EUR)	16,000,000	16,000,000
Number of shares	16,000,000	16,000,000
Average daily trading volume[1]	30,875	40,697
Last close at year end (in EUR)	76.53	50.41
High/low (in EUR)	79.00/40.33	67.22/42.40
Market capitalisation at year-end (in EUR)	1,224,480,000	806,560,000
Earnings per share (in EUR)	-1.75	-1.19
Price-earnings ratio at year-end	N.A.	N.A.
Dividend per share (in EUR)	0.00[2]	0.50

[1] Single counting
[2] Proposed

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE REPORT

SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft (SBO) has committed itself to comply with the Austrian Corporate Governance Code since 2005 and has consistently implemented its rules. The Austrian Corporate Governance Code is a set of rules meeting international standards for responsible management and governance of companies. By observing the Austrian Corporate Governance Code, SBO makes a contribution to strengthen trust in Austrian companies and the Austrian capital market.

The Austrian Corporate Governance Code, as amended in January 2015 and as applicable to this report, is accessible at the website of the Austrian Working Group for Corporate Governance at www.corporate-governance.at.

SBO complies with the Austrian Corporate Governance Code. The rules of this Code are subdivided into three categories:

First: L-Rules (Legal Requirements): They describe mandatory legal requirements that must by complied with by law.

Second: C-Rules (Comply or Explain). This category contains customary international provisions; non-compliance must be explained.

Third: R-Rules (Recommendation): These rules are recommendations only; non-compliance requires neither disclosure nor explanation.

SBO complies fully with mandatory legal requirements (L-Rules).

Regarding the 2016 financial year, SBO had to prepare both a consolidated and a non-consolidated Corporate Governance Report. Pursuant to Section 267a in conjunction with Section 251 (3) UGB (Austrian Corporate Code), these reports may be merged into one report. Therefore, this report contains the data required pursuant to Section 243b UGB as regards both the parent company, SBO, and the subsidiaries of SBO included in consolidation.

Explain

SBO largely complies with the C-Rules. Deviations are explained as follows (according to the guidelines under Annex 2b to the Austrian Corporate Governance Code):

C-Rule 27

The Rule stipulates, inter alia, that Executive Board contracts shall contain provisions to the effect the company may reclaim variable remuneration components if it becomes clear that the Executive Board member concerned has received them on the basis of wrongful data. Such provisions do not apply to the employment contracts of SBO's Executive Board members, as it is in the interest of good governance to pay variable remuneration components only on the basis of information referring to the past and only after the underlying relevant figures have been identified and reviewed thoroughly. Forward-looking statements are not considered in any way.

C-Rule 28

The remuneration of 6,000 SBO shares granted to Gerald Grohmann, CEO, for the 2016 financial year is subject to disposal and encumbrance restrictions effective for a period of two years (instead of at least three years), because the Supervisory Board is of the opinion that a retention period of two years is adequate and expedient for the purpose of good corporate governance.

C-Rule 39

The Rule provides, inter alia, that a committee of the Supervisory Board shall be authorised to take decisions in urgent matters. As the Supervisory Board of SBO has only a limited number of members and did take decisions promptly also in urgent matters in the past, SBO has not set up such committee. Since it is always the full Supervisory Board that deals with such matters, it is ensured that the expertise of all members of the Supervisory Board is taken into account in the decision in urgent matters as well.

C-Rule 41

In line with the Austrian Corporate Governance Code, the function of the Nomination Committee is exercised by the joint Nomination and Remuneration Committee, instead of a Nomination Committee established separately from the Remuneration Committee. As the Executive Board consists of only two members and the Nomination and Remuneration Committee is responsible for all other issues relating to the Executive Board, this appears to be advisable for efficiency purposes.

THE EXECUTIVE BOARD

The rules of procedure for the Executive Board govern the composition and working method of the Executive Board, cooperation of the Executive Board and the Supervisory Board, procedures and the approach to conflicts of interest, information and reporting duties of the Executive Board and decisions requiring approval of the Supervisory Board, applying also to key business transactions of the major subsidiaries. As a rule, the Executive Board holds at least weekly meetings for mutual information and decision-making.

In the 2016 financial year, the Executive Board was composed of the following members:

	Year of birth	Date of first appointment	End of current term of office
Gerald Grohmann CEO	1953	3 October 2001	31 December 2018
Klaus Mader CFO	1970	1 October 2015	30 September 2018

In the 2016 financial year, the members of the Executive Board did not hold any Group-external supervisory board mandates or comparable functions in Austria or abroad.

ALLOCATION OF RESPONSIBILITIES

Allocation of responsibilities and cooperation of the members of the Executive Board are governed by the rules of procedure of the Executive Board. The Executive Board has not set up any committees. The areas of responsibility allocated to the members of the Executive Board have been laid down by the Supervisory Board as follows, notwithstanding the collective responsibility of the Executive Board:

Gerald Grohmann	Strategy, marketing, technology and public relations
Klaus Mader	Finance and accounting, human resources and legal matters

As representatives of the parent company SBO, the members of the Executive Board perform a supervisory function at all subsidiaries of SBO included in consolidation (see Consolidated Financial Statements), similar to that of a supervisory board in an Austrian stock corporation, but no management or executive function.

TOTAL REMUNERATION FOR THE MEMBERS OF THE EXECUTIVE BOARD AND OUTLINE OF THE EXECUTIVE BOARD REMUNERATION SYSTEM

The remuneration system for the Executive Board takes into account both the situation in the market and a performance-related component. Remuneration consists of fixed and variable components. Variable components are always paid in the following year, as achievement of objectives can be determined only at the end of the year. Variable components are performance-related and depend on the degree to which the objectives defined for the financial year have been achieved.

Pursuant to the employment agreements of the Executive Board members, the variable remuneration component is limited to 65 % of the total remuneration.

Variable components are subject to individual provisions. They are composed of the following elements: Development of long-term corporate growth, profit, cashflow, equity and fixed capital. Fulfilment of these performance criteria is determined based on the annual financial statements or is dependent on achieved results. In addition, non-financial criteria for determining the variable components are in place. They are defined subject to specific medium- and long-term corporate goals, such as in the area of research and development or corporate development.

No stock option program is in place for the members of the Executive Board of SBO or the managing directors of its subsidiaries; in particular, no stock option program or program for the preferential transfer of shares within the meaning of C-Rule 28. Starting with the 2014 financial year, an agreement on share-based remuneration was concluded with Gerald Grohmann, CEO, which provides for an annual transfer of 6,000 SBO shares each. Said shares are subject to a disposal and encumbrance restriction by Mr. Grohmann for a period of two years from the respective transfer date, at the latest until termination of the employment agreement.

The rules for severance payments follow the legal requirements. Upon leaving the company, the CEO will additionally receive a voluntary severance benefit of 30,000 SBO shares. No future burdens related to pension fund contributions or any other entitlements of the members of the Executive Board arise to the company after termination of their employment agreements.

All members of the Executive Board are covered by a D & O insurance (Directors & Officers insurance), taken out by, and at the expense of, the company.

For the 2016 financial year, the following remuneration was paid to the members of the Executive Board:

	Fixed remuneration in TEUR	Variable remuneration in TEUR	Total in TEUR
Gerald Grohmann	573	180	753
Klaus Mader	288	50	338

The above table does not include the aforementioned share-based remuneration for Gerald Grohmann.

THE SUPERVISORY BOARD

In the 2016 financial year, the Supervisory Board was composed of the following members:

	Year of birth	Date of first appointment	End of current term of office*
Norbert Zimmermann Chairman	1947	10 April 1995	2017
Peter Pichler Deputy Chairman	1958	10 April 1995	2018
Wolfram Littich	1959	27 April 2016	2021
Karl Schleinzer	1946	24 May 1995	2020
Brigitte Ederer	1956	23 April 2014	2019
Helmut Langanger	1950	29 April 2003	2019
Karl Samstag	1944	24 October 2005	2016**

* According to the articles of association of SBO, each year one member of the Supervisory Board withdraws from the Supervisory Board at the end of the Annual General Meeting. The withdrawing member can be re-elected immediately.

** The Supervisory Board mandate of Karl Samstag expired at the end of the 2016 Annual General Meeting. He was replaced by Wolfram Littich, who was appointed for the legally permitted maximum term of office.

According to C-Rule 54 in conjunction with the guidelines set forth by the Supervisory Board on the independence of Supervisory Board members, Helmut Langanger and Wolfram Littich (prior: Karl Samstag) represent the minority shareholders in the Supervisory Board.

Other seats in supervisory boards or comparable functions in Austrian or foreign listed companies are disclosed as follows:

	Company	**Function**
Norbert Zimmermann	-----	-----
Peter Pichler	-----	-----
Wolfram Littich	----*	----
Karl Schleinzer	----	----
Brigitte Ederer	Jenoptik AG	Member of the Supervisory Board
Helmut Langanger	ENQUEST plc.	Member of the Board of Directors as Non-Executive Director
	SERINUS Energy Inc.	Member of the Board of Directors as Non-Executive Director
Karl Samstag	Bank für Tirol und Vorarlberg AG	Member of the Supervisory Board
	BKS Bank AG	Member of the Supervisory Board
	Oberbank AG	Member of the Supervisory Board

* Member of the supervisory board of OMV AG until 18 May 2016.

No member of the Supervisory Board exercises a management or supervisory function in one of the subsidiaries of SBO included in consolidation.

WORKING METHOD OF THE SUPERVISORY BOARD

In exercising its functions, in particular monitoring and strategic support of the Executive Board, the Supervisory Board discusses the situation and targets of the company and adopts resolutions.

The rules of procedure for the Supervisory Board govern in detail the composition, working method and tasks of the Supervisory Board, the approach to conflicts of interest, and all committees (Audit Committee, Nomination and Remuneration Committee) and their responsibilities.

The Supervisory Board held four meetings in the period under review. Moreover, the Executive Board submitted several oral and written reports to the Supervisory Board to inform about the development of business and the situation of the company and the Group companies. The main focus of discussions was on the strategic orientation and development of the Group and on major business transactions and measures taken.

All members of the Supervisory Board personally attended more than half of the meetings of the Supervisory Board in the period under review.

COMMITTEES

The Supervisory Board appoints the members of the Audit Committee and the Nomination and Remuneration Committee from among its members.

No separate Strategy Committee or Committee authorised to take decisions in urgent matters has been set up. Pertinent matters are dealt with by the Supervisory Board collectively.

The committees are elected for the terms of office of their members. Each committee elects a chairman and deputy chairman from among its members.

AUDIT COMMITTEE

The Audit Committee is responsible for auditing and preparing the approval of the annual financial statements, the proposal on the disbursement of profits, and the management report. The Audit Committee also audits the consolidated financial statements and submits a proposal for selecting the independent auditor and reports on this to the Supervisory Board.

Members: **Norbert Zimmermann (Chairman)**
Peter Pichler
Wolfram Littich (prior: Karl Samstag)

In the year under review, the Audit Committee held two meetings, in which specific issues to the financial statements, the internal control system and risk management were discussed.

An independent auditor provided an assessment of the effectiveness of the company's risk management. The auditor's report on the assessment of the effectiveness of the risk management was discussed by the Audit Committee.

NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee deals with matters relating to the remuneration of the members of the Executive Board and the terms and conditions of employment contracts concluded with members of the Executive Board. Furthermore, it submits to the Supervisory Board proposals to fill vacant positions in the Executive Board and deals with issues of succession planning.

Members: **Norbert Zimmermann (Chairman)**
Peter Pichler
Karl Schleinzer

In the year under review, the Nomination and Remuneration Committee held two meetings.

INDEPENDENCE

Regarding independence in accordance with C-Rule 53, the Supervisory Board follows the guidelines contained in Annex 1 of the Austrian Corporate Governance Code. According to the guidelines, all members of the Supervisory Board qualify as independent.

The scope of services provided for the company by Supervisory Board member Karl Schleinzer as legal counsel during the 2016 financial year is not deemed significant pursuant to Annex 1 of the Austrian Corporate Governance Code (for details see Notes to the Consolidated Financial Statements).

In the past year, no agreements requiring approval were in effect with members of the Supervisory Board or companies in which a member of the Supervisory Board held a considerable economic interest.

REMUNERATION OF THE SUPERVISORY BOARD MEMBERS

The remuneration for the members of the Supervisory Board for the 2015 financial year was approved at the 2016 Annual General Meeting. The remuneration consists of a fixed and a variable component, which is determined as a percentage share of the Group income after tax for the 2015 financial year. The remuneration for the members of the Supervisory Board for the 2016 financial year will be subject to adoption of a pertinent resolution at the 2017 Annual General Meeting.

For the 2015 financial year, the following remuneration was resolved and paid:

	Fixed remuneration in EUR	Variable remuneration in EUR	Total in EUR
Norbert Zimmermann	9,000	0	9,000
Peter Pichler	6,000	0	6,000
Karl Schleinzer	6,000	0	6,000
Brigitte Ederer	6,000	0	6,000
Helmut Langanger	6,000	0	6,000
Karl Samstag	6,000	0	6,000

No loans or advances were paid to the members of the Supervisory Board.

All members of the Supervisory Board are covered by a D & O insurance (Directors & Officers insurance), taken out by, and at the expense of, the company.

DIVERSITY

The whole SBO Group attaches greatest importance to strictly equal treatment of men and women in the recruitment process and in all areas of employment without requiring explicit "women's quotas" or measures specifically designated as "measures to promote women" to the Executive Board, Supervisory Board and to top management positions at the parent company and subsidiaries included in consolidation.

FUNDAMENTALS OF THE REMUNERATION POLICY WITHIN THE SBO GROUP

Remuneration of managing directors of the subsidiaries of SBO included in consolidation takes into account both the situation in the market and a performance-related component. Remuneration consists of fixed and variable components. Variable components are performance-related and depend on the degree to which the objectives defined for the financial year have been achieved.

Variable components are subject to individual provisions. They are composed of the following elements: Development of long-term corporate growth, profit, cashflow, equity and fixed capital. Fulfilment of these performance-related criteria is determined based on the annual financial statements or is dependent on achieved results. In addition, non-financial criteria for determining the variable components are in place. They are defined subject to specific medium- and long-term corporate goals, such as in the area of research and development or corporate development.

Furthermore, the managing directors of the subsidiaries of SBO included in consolidation may acquire shares and participation rights in the respective subsidiary company up to a certain limit.

EXTERNAL EVALUATION OF COMPLIANCE WITH THE C-RULES OF THE ACGC

According to C-Rule 62, the company shall evaluate compliance with the C-Rules of the Austrian Corporate Governance Code (ACGC) on a regular basis, but at least every three years, by an external institution and report about the result in the Corporate Governance Report. Implementation of, and compliance with, the individual Rules of the Austrian Corporate Governance Code, insofar as related to C-Rules, in the 2016 financial year, was evaluated by DORDA BRUGGER JORDIS Rechtsanwälte GmbH. The evaluation, which represented no statutory audit, review or activity similar to auditing, revealed no findings in contradiction to the declarations made by the Executive Board and Supervisory Board on the adherence to, and compliance with, the C-Rules of the Austrian Corporate Governance Code.

SUSTAINABILITY REPORT

SUSTAINABILITY REPORT

SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft (SBO) is the global market leader in high-precision components made of high-alloy steel and a leading supplier of key components for the oilfield service industry. The business focus is on non-magnetic drillstring components and high-tech downhole tools for drilling and completing directional and horizontal wells.

As a future-oriented technology provider, SBO has actively pursued the principles of sustainable business operations for many years. Adopting a responsible attitude to the environment, in dealing with employees, customers and suppliers and assuming responsibility towards society as a major industrial enterprise has become daily practice at SBO.

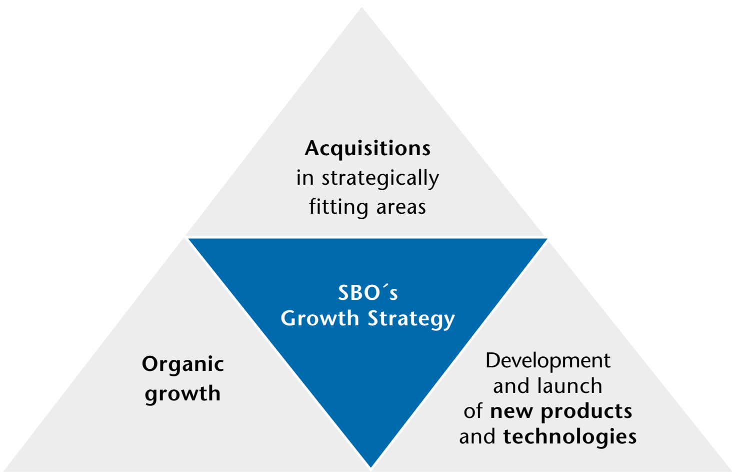
As a supplier to the oilfield service industry, SBO makes an important contribution to global energy supply. Targeted directional drilling is used to increase recovery factors from already developed oil and gas fields. The company's products in the segments "High Precision Components" (HPC) and "Oilfield Equipment" (OE) make SBO a provider of key components for this process: MWD (Measurement While Drilling) and LWD (Logging While Drilling) components made of non-magnetic, corrosion-resistant stainless steel and high-precision downhole drilling tools for efficient drillstring steering.

Efficiency improvements seen in recent years were due also to the growing level of technologisation in the well completion sector. Well completion is the step that follows drilling and prepares the well for oil and gas production. The well completion business of SBO is part of the "Oilfield Equipment" (OE) segment.

For details on the market environment, please refer to the Management Report included in the Annual Report.

PILLARS OF A SUSTAINABLE GROWTH STRATEGY

SBO pursues a strategy of medium- to long-term growth, which rests on three pillars:



Apart from organic growth, SBO focuses on developing and launching new products and technologies and on acquisitions in strategically fitting business sectors, allowing SBO to respond promptly to changes in the market environment.

SUSTAINABILITY CONCEPT

Sustainable growth requires strong relations with customers and suppliers and cautious interaction with employees and the society. SBO's sustainability concept is based on the "quality first" principle. Employees' know-how and their qualified use of resources and products are crucial to the business success of SBO. Relations with customers and suppliers based on quality are a guarantee to generate sustainable growth. It was the crisis over the past two years, which demonstrated that stable customer and supplier relations can become a survival factor for companies.

Building on SBO's growth strategy, the sustainability concept based on the “quality first” principle consists of the following four components:

Continuous improvement

Developing and launching new products and technologies is crucial for preserving the strong position SBO holds in the competitive environment. Increasingly complex exploration projects and stringent environmental regulations have required the equipment to be turned into high-tech tools and components. Product designers have to face more and more demanding challenges.

Developing and launching new products and technologies is a pillar not only for preserving the company's strong position in the competitive environment, but also a key driver for the efficiency improvements which have played a major role in maintaining the energy supply in recent years of the downturn. Efficiency has grown massively both in drilling and well completion over the last couple of years. According to all generally accepted analyst estimates, marginal costs of producing one barrel of oil have gone down substantially in the past two years. The IEA Upstream Investment Cost Index (UICI), which represents the capital costs of an upstream project on an index base, confirms these estimates.[3] Furthermore, new technologies and products help to use resources carefully and make a considerable contribution to avoiding environmental accidents.

[3] IEA, World Energy Outlook 2016.

Sustainable growth

Acquisitions in strategically fitting areas serve the purpose of corporate growth in new fields of business and of adding new products and technologies to SBO's portfolio. A strong IP base is a crucial point in all acquisition projects envisaged by SBO. Additionally, the company makes targeted investments in building new sites and expanding existing capacities.

Sustainable growth needs to be pursued throughout at least one cycle, because the oilfield service industry is a highly cyclical sector.

Efficient process design

During boom phases, working at full engagement is required both from operators and machines. The employees of the SBO Group are trained and prepared specifically for fulfilling their tasks and are familiar with the production processes.

Downturns are used to restructure the organisation and prepare it for the next upswing. Apart from restructuring activities in the Unites States, the United Kingdom and Singapore, a new machining centre for non-magnetic oilfield service drillstring components was set up at the Ternitz site and completed in 2014. At the new plant, production is supported by more efficient logistic processes and delivers the highest possible quality of products.

Supply chain control

SBO's business relations are, in principle, based on a long-term perspective. Even during the downturn of the past two years, SBO preserved close contacts with its key suppliers.

Stringent work instructions ensure that both suppliers and employees meet the rigorous quality criteria that are crucial for the business success of SBO as niche provider of high-precision tools and components.

EVALUATION AND RISK MANAGEMENT

The concepts described in this chapter and the following measures are continuously evaluated by the SBO holding company and the managers of the subsidiaries, and analysed – both in general and specific terms – within the Group's risk management. The efficiency of the risk management system is assessed annually by an independent audit firm. The report of the auditor on the evaluation of the efficiency of the risk management system is dealt with by the Audit Committee of the Supervisory Board of SBO.

SUSTAINABLE ENVIRONMENTAL CONCEPT

Fundamental factors

The world's hunger for energy is growing constantly. According to the International Energy Agency (IEA), global demand for energy from 2014 to 2040 will rise by 30 %, or 1 % p.a. At the same time, the world's population is expected to grow from 7.3 billion in 2014 to 9.2 billion in 2040, or by 1.9 billion, representing an annual increase of 0.9 %. Most of this growth will take place in the less developed countries, which are also the driving force behind the constantly rising demand for energy.

Oil and gas will remain the major primary energy sources: According to acknowledged analyst estimates, oil and gas will account for more than 50 % of the energy supply also in 2040. The share of renewables (including biofuels) is expected to arrive at just over 10 %. [4]

Continuous improvement

Whereas demand for energy – and with it for oil and gas – is growing all over the world, development of future reservoirs is becoming more and more challenging. At the same time, oil companies aim to achieve high production rates in short time spans, while it is mainly Western societies that intend to keep production levels high and the environmental impact of their operations low. All of this poses major challenges to product designers.

[4] IEA, World Energy Outlook 2016

State-of-the-art directional drilling is applied to tap into reservoirs located at distances three to four times longer than 30 years ago. This technology is also used to reduce the environmental footprint in drilling regions, as directional drilling often requires drilling of only one centre borehole instead of a large number of vertical boreholes to produce the same quantities of oil. So-called PBL tools are used to minimise circulation losses and prevent unwanted liquids and substances from penetrating the borehole, without having to pull the drillstring from the borehole. SBO delivers state-of-the art components and tools for these applications. SBO's well completion products make an important contribution to maximise hydrocarbon recovery from each well and thus minimise the footprint of each unit produced.

By specialising in directional drilling and well completion, SBO makes its contribution to a sustainable reduction of the environmental impact in the wake of globally rising demand for energy. To reach oil and gas reservoirs with even greater precision, the number and complexity of MWD (Measurement While Drilling) and LWD (Logging While Drilling) measuring instruments has risen sharply in recent years. Customers request more room for installing their measuring equipment without having to compromise on material strength and elasticity. SBO has not curtailed its R&D budget in the downturn. “GooseNeck Drilling”, a cutting-edge innovation in traditional steel manufacturing, has now been brought to the market by SBO and creates new opportunities in product design.

Continuous improvement of products and manufacturing methods plays a pivotal role at SBO, as exemplified by the company's Spirostar Supreme Motor, which stands out from similar products because of its clearly longer service life while generating a higher power and showing improved performance capabilities.

SBO's specialised service and repair shops located in Aberdeen (UK), Noyabrsk (Russia), Dubai and Singapore deliver technically demanding solutions for repairing worn-off components, extending their service life and, as a result, reducing raw material consumption for new products (Life Cycle Engineering). Developing new and evolving existing materials helps to increase the lifetime of products which are made of them.

The majority of SBO’s global steel machining firms are certified according to EN ISO 9001, API Spec Q1 and API-7-1. The business in Austria is further certified to EN ISO 14001.

Sustainable growth

Apart from organic growth, SBO focuses on developing and launching new products and technologies and on acquisitions in strategically fitting fields of business. With the acquisition of Downhole Technology at the beginning of the second quarter of 2016, SBO not only advanced the establishment of the new well completion business successfully, but also widened its portfolio by adding composite frac plugs - highly efficient products for rapid, efficient, and safe completion of oil and gas wells.

Compared to conventional products, major savings on the use of resources can be achieved. The composite frac plugs offered by Downhole Technology need significantly less water than conventional products in similar well completion operations. Tests have shown that 30 % to 50 % of liquids required for pumping down such frac plugs can be saved in each well. In some of today's plug-n-perf completion operations more than 100 frac plugs are used in a single well.

Efficient process design

Apart from offering product upgrades to improve drilling and production processes, SBO is always striving to optimise its internal processes, including, on the one hand, training for employees and raising their awareness, and, on the other hand, upgrading production plants and processes as well as sustainable restructuring activities.

SBO operates facilities meeting state-of-the-art requirements. In 2016, a deep hole drilling and an orbital welding machine were acquired for the site in Ternitz, yet another addition to the cutting-edge machinery fleet installed at SBO. This is to ensure that production is based on environmentally sound and cost-efficient deployment of resources. Environmental aspects are evaluated using cost-benefit analysis, as this assessment involves the input of individual experts.

In the wake of restructuring (mergers) in the US and UK, two sites were shut down without curtailing SBO's production capacity. These are illustrative examples to demonstrate that with leaner structures, and optimised process flows, SBO's tried and tested performance efficiency could be increased once again in the two past years.

Production at SBO is based on utmost precision and efficiency. Compression of raw materials during cold forging is key to the high quality of SBO products and increases their stress corrosion cracking resistance. The new cold forging plant reduces noise emissions generated during the process to a minimum so as not to disturb employees or neighbours. The high-precision manufacturing process (turning, milling, boring) is, in general, a low-noise method.

The energy needed for production is usually fed in from the local power grid. In the expansion of SBO's largest production site in Ternitz to build a new machining centre for non-magnetic drillstring components in 2014, 720 solar panels with a total output of 720 kWp (kilowatt peak) were installed to produce up to 45,000 kWh per year. As a result, a portion of the energy needed for production in Ternitz can be generated from renewable energy sources.

Supply chain control

Due to long-term cooperation with suppliers and customers, it was possible to achieve efficiency increases in material procurement and delivery over the years. Large parts of raw material deliveries in Austria have been shifted from road to rail transport. Deliveries to SBO's globally operating customers are usually made by truck and ship, and only in urgent exceptional cases also by air freight.

Stringent work instructions ensure that suppliers and employees meet the rigorous quality criteria of SBO. Consequently, the company's environmental management concentrates on optimised and efficient energy and power consumption as well as maximum waste reduction and state-of-the-art disposal in conformity with legal requirements.

The Group attaches great importance to the management of production waste. Steel chips are recycled as valuable raw material for steelmaking. Lubricants (used in production) are filtered, as far as possible, during production and returned to the production cycle. Sustainable research and improvement programmes are in place to ensure reduction of waste volumes and higher recyclability.

In the production process, neither worrying water or hazardous air pollution (greenhouse gas emissions), nor other harmful effects on the environment are generated. The volume of waste water produced in manufacturing is low as water is handled with great care and efficiency.

In order to prevent specific and general risks – and to respond appropriately to emergencies – contingency plans have been prepared at all levels and all Group companies. Subsidiaries, for instance, have detailed response plans for pollution control and fire fighting in place.

SUSTAINABLE SOCIAL AND HUMAN RESOURCES CONCEPT

Employee development

Excellent training and strong quality awareness of employees are fundamental requirements for the high service and quality level of SBO, as their skills and expertise are crucial for the company's success. Only skilled workers with first-rate qualifications are allowed to operate the high-precision machines of SBO.

As at 31 December 2016, SBO employed a workforce of 1,200 at its sites. Due to the current cycle, their number had to be downsized over the past two years. All the same, good relations with employees, the works council and trade unions, where established, are the foundation to ensure that SBO is able to respond with great flexibility to cycles and keeps a perfectly trained team on board to start into the upswing. Despite Group-wide cost-cutting programmes, 4 new apprentices were hired, bringing their total number to 35 all over the Group. Many of them will be taken over as skilled workers at a later point.

Continuous improvement

Maintaining our competitiveness and being part of the latest developments in the market by offering a range of innovative products is a challenge to made-to-measure training and development of human resources. For production, SBO hires only the best skilled workers worldwide. The company provides basic apprenticeship training for young workers and offers induction programmes for experienced employees in course of recruitment.

SBO's corporate culture is characterised by employees' high identification with the company and its products. Strong commitment and motivation play an essential role in the recruitment process. SBO always endeavours to find the best and most suitable person for the individual task. Employee recruitment takes place without regard to sex or cultural background. The whole SBO Group attaches greatest importance to strictly equal treatment of men and women in the recruitment process and in all areas of employment without requiring explicit "women's quotas" or measures specifically designated as "measures to promote women".

Also in 2016, SBO offered a large number of basic and further training courses. Employees could improve their skills and capabilities in course of educational programs and trainings, or specialise in a certain field of expertise. Employees were educated in the fields of law, languages (English), applied IT, quality management, material engineering and testing, protection and safety measures and first aid. They were offered training to operate other machines and equipment in order to be used for an even wider range of tasks within the company in the future.

Due to the innovative efforts of employees at the Austrian subsidiary in Ternitz, SBO was granted certification according to EN 9100 (machining of components and parts from metallic and non-metallic materials for the aviation, aerospace and defence industries) in 2016.

Sustainable growth

Apart from developing and launching new products and technologies and acquisitions in strategically fitting fields of business, SBO focuses on organic growth, including interesting career opportunities in a performance-oriented environment.

At most of SBO's subsidiaries, performance and development plans for employees are in place: Factors such as quality of work, productivity, expert knowledge, motivation, teamwork skills and safety awareness are assessed regularly of every single employee. Line managers and employees prepare individualised training programmes jointly to tap development and improvement potentials. Training progress is continuously evaluated and recorded in a personal progress report.

Internal apprentice training programmes and cooperation schemes with colleges in the US and Austrian universities are pursued vigorously by SBO to identify potential employees and select, train and then hire the best candidates. The majority of employees trained by SBO remain with the company after they have completed apprenticeship.

In the recruitment process, equal application opportunities are given to men and women. No discrimination whatsoever is permitted in employee remuneration and job promotion. SBO's workforce is composed of 9 % women and 91 % men. The substantially higher share of men is due to the nature of the industry with generally a particularly low share of female employment. According to a study published by research institutions IHS Global and American Petroleum Institute, the US oil and gas upstream sector (exploration and production) employs only 2 %[5] women as highly qualified skilled workers. This illustrates how difficult it is to find and employ female workers. Where the supply of workers is more balanced between men and women, female employees are well represented at SBO. For instance, half of all positions as department heads in controlling are filled by female executives across the Group.

In the past two years, SBO established new sales companies in Mexico and Saudi Arabia, which, together with other locations set up outside Austria previously, are an addition to the existing production sites. In the process, no jobs have been relocated from industrialised countries to the emerging markets.

Efficient process design

Optimising internal process flows is achieved not only by upgrading production plants and sustainable restructuring in addition to training and raising employee awareness, but requires also steadiness in production procedures. This includes, above all, a healthy and motivated team standing out by their commitment even in times of above-average capacity utilisation.

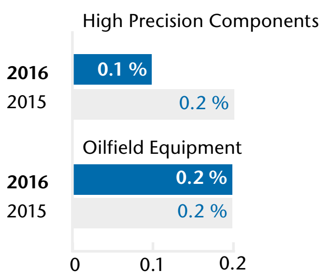
SBO pays great attention to performance-related remuneration in addition to provisions under collective agreements that may apply. Alongside with their regular pays, employees receive a bonus payment at the end of the year that depends on the profit generated by the company. Furthermore, the managing directors of subsidiaries have the opportunity to acquire shares in their company and thus participate financially in its success. These measures help to increase employees' personal identification with the company and serve as an important contribution to keep employee fluctuation as low as possible.

SBO rigorously complies with local requirements concerning minimum wage at all sites worldwide. The SBO holding company and its individual subsidiaries adhere to statutory limitations on working time and offer models for flexible working hours to their employees. Depending on their function, employees may work full-time, part-time, or, at least to a certain extent, from home. Whereas part-time employment may make sense in areas such as controlling or accounting, it is not applicable to shift operations in manufacturing. The company strives to create an environment that both allows to respond flexibly and rapidly to market demand and to help employees to sustain a healthy work-life balance. To do so, the company supports female employees in returning to work after maternity leave or staff members' joint participation in sports events, such as the Vienna City Marathon.

[5] IHS for API, Minority and Female Employment in the Oil and Gas and Petrochemical Industries, March 2016.

SBO places special emphasis on health and safety at work, as continuous operation and production at constant quality levels requires employees to remain viable and fit. SBO is committed to comply with the standards of the Occupational Health and Safety Assessment Series (OHSAS). In addition and as required by the individual sites, up-to-date health promotion programmes, including first-aid courses, are held. The site in Ternitz/Austria, the largest in terms of headcount, employs a company doctor. Regular initiatives, such as vaccinations to protect employees from the flu and tick bites, provide far-reaching health offers for SBO employees.

Across the Group, the lost time injury rate (LTIR) over recent years was very low, as expressed in the following rates per paid production hours:



Good relations with employees, the works council and trade unions, where established, play a decisive role in ensuring that production is running as smoothly as possible and without friction. SBO respects the fundamental freedom of assembly at its global branch offices. SBO has set up employee representation bodies at all sites as requested by employees or legal provisions. Employees' identification with the company is very strong. The relationship and dealings between management and workforce are characterised by mutual respect, trust and professionalism.

Supply chain control

SBO has set an industry benchmark as quality and technology leader for many years. This is one of the reasons why SBO counts the major oilfield service companies among its customers and has established itself as global market leader. SBO fully understands customers' needs and commits itself to long-term, transparent and fair customer relations.

Stringent work instructions ensure that both suppliers and employees meet the rigorous quality criteria of SBO. Employees are required to evaluate, already during the selection process, whether or not suppliers meet the defined quality standards. To qualify as a supplier of SBO, evidence must be submitted that his quality management system (QMS) matches the requirements of SBO. Supplier performance is evaluated at least annually.

When joining SBO, each employee is informed about applicable statutory provisions regarding occupational health and safety and advised thoroughly of the company's internal safety policy. Furthermore, each new employee is made aware of the applicable fire safety regulations.

SUSTAINABLE CONCEPT FOR THE RESPECT OF HUMAN RIGHTS AND FOR COMBATING CORRUPTION AND BRIBERY

Fundamental principles of business ethics

Trust is the fundamental basis of good relationships – be it the relations of SBO to its employees, customers and suppliers, or the capital market.

In order to create the foundation of this approach, SBO is committed to integrity and honesty. Management, together with the employees, has defined clear and binding principles of business ethics (Business Ethics Policy) and is strongly committed to complying with these principles. On recruitment, employees pledge to adhere to these values.

Unfair business practices, such as illegal price fixing, bribery or other unfair trade practices are strictly prohibited at SBO. Non-compliance with these principles is punished rigorously.

Efficient process design

Performance-related remuneration and good relations with employees, the works council and trade unions, where established, not only are instrumental for the company's success, but also represent expedient anti-corruption and anti-bribery measures.

SBO is committed to the protection of human rights, prohibition of child labour and the equal treatment of men and women, and strictly rejects any kind of discrimination on grounds of ethnic or religious background, sex, age or sexual orientation. Any form of sexual harassment (gestures, expressions, etc) is strictly prohibited. Non-observance of these standards leads to clear consequences, including termination of employment, criminal prosecution and / or claims for damages. SBO's Code of Conduct specifically addresses issues such as conflicts of interest, donations and social responsibility, bribery and corruption. All members of the Executive Board and managing directors of SBO's subsidiaries are aware of the provisions of the Code of Conduct.

SBO maintains close contacts with regional and national authorities and agencies. Moreover, SBO is aware of its social responsibility as employer in the respective regions and supports regional social projects: As at 31 December 2016, SBO employed 5 persons with physical or mental disabilities.

With its wage, salary and tax payments, SBO contributes to the economic strength of the region. However, the company does not pursue political activities nor support political parties financially. Moreover, it does not engage in lobbying nor prompt lobbying by third parties.

DIVERSITY CONCEPT

When filling positions on the Executive Board and the Supervisory Board, SBO focuses on finding the best and most suitable person for the respective function. The Executive Board and the Supervisory Board consist of a diversified panel of experts. Fundamental prerequisites include a solid expert background and sound understanding of management.

SBO attaches utmost importance to good management culture characterised by strong identification with the company and its products, reaching beyond factors such as age and sex. As a result, no explicit "women's quotas" or measures specifically designated as "measures to promote women" are in place.

USE OF PROFITS

The company uses the profits generated mainly for financing and implementing the corporate strategy: As an example, SBO invests, depending on the cycle, in expanding capacities, in research and development as well as acquisitions in strategically fitting sectors.

Furthermore, profits are spent for the distribution of the annual dividend, which depends on various factors, such as the operating result, current and future market situation, outlook for the company, level of liquid funds, other financial obligations, etc. While seeking to keep dividends at a constant level, the Executive Board of SBO is firmly convinced that consistently implementing the company's sustainable growth strategy is in the best interest of investors and necessary for maintaining a successful position in the capital market.

MANAGEMENT REPORT

MANAGEMENT REPORT

"GLOBAL SPENDING FOR EXPLORATION AND PRODUCTION WAS CURTAILED ONCE AGAIN IN 2016 AND THUS FOR TWO YEARS IN A ROW FOR THE FIRST TIME"

MARKET ENVIRONMENT

Global economic development was stable in 2016. According to current estimates of the International Monetary Fund (IMF), global economic growth arrived at 3.1 %, similar to the level seen in the year before. The average growth rate of the industrialised countries in 2016 was 1.6 %, following 2.1 % in 2015. Economic growth in the emerging markets in 2016 came to 4.1 %, the same as in the year before. In particular China and India delivered a robust performance. The low oil price put oil-exporting emerging markets under pressure. The Russian economy showed signs of stabilisation. The vote on the UK's exit from the European Union (Brexit) caused uncertainty in the Western world.[6]

Average global oil demand in 2016, according to the International Energy Agency (IEA), rose by 1.6 million barrels per day (mb/d), or 1.7 %, to 96.6 mb/d (2015: 95.0 mb/d). Higher demand came mainly from non-OECD countries and Asia. Demand in non-OECD countries went up by 1.2 mb/d, or 2.5 %, to 49.8 mb/d (2015: 48.6 mb/d). Demand in OECD countries grew by 0.3 mb/d, or 0.6 %, to 46.7 mb/d (2015: 46.4 mb/d).

The oil market remained oversupplied in 2016. While worldwide crude supply overhang in the first quarter of 2016 came to 1.3 mb/d, it totalled only 0.1 mb/d in the second and turned, for a short while, into a small demand overhang of 0.2 mb/d in the third quarter. Starting from the middle of the second quarter, OPEC countries led by Saudi Arabia, Iraq and Libya increased their output from an average 38.7 mb/d in May 2016 to 39.8 mb/d in December 2016 (33.1 mb/d excluding natural gas liquids / NGLs), although discussions on the introduction of a production limit had already commenced. In the non-OPEC countries, supply decreased by 0.8 mb/d to 57.7 mb/d, led by the USA and China. OPEC production (including natural gas liquids / NGLs) reached its maximum of 40.2 mb/d in November 2016. In the fourth quarter, rising demand could not compensate the rising production of the OPEC countries anymore. Over the year 2016, the oil market remained oversupplied by 0.4 mb/d. The OPEC spare capacity at the end of the fourth quarter reached only 2.5 mb/d in December 2016 (2.9 mb/d in January 2016).

On 30 November 2016, the OPEC countries agreed to introduce a production limit of 32.5 mb/d (crude oil excluding natural gas liquids / NGLs) for a period of at least six months. Based on the supply figures of the IEA, effective reduction even was 1 mb/d over the turn of the years 2016 / 2017, which should accelerate restoration of the balance between supply and demand.

[6] International Monetary Fund (IMF), World Economic Outlook Update, January 2017.

A decisive role in this restoration will be played by the change in OECD inventories. Crude oil inventories went down from 1,177 million barrels (mb) at the beginning of 2016 to 1,170 mb in December 2016, and exceeded the five-year average by 115 mb. At the same time, OECD member states increased their crude oil imports from 20.1 mb/d in the previous year to 21.1 mb/d in 2016. In May 2016, crude oil inventories reached their peak of 1.215 mb.[7]

Initially, the global rig count shrank by 29 %, to 1,405 rigs in May 2016. Since the end of the second quarter, a marked recovery had set in mainly in the North American rig count, bringing the December 2016 rig count to 1,772, down 6 % from the reading for the beginning of the year (January 2016: 1,891 rigs), or down 10 % year-on-year (December 2015: 1,969 rigs). The North American rig count picked up from its low of 450 rigs in May 2016 back to 843 rigs at the end of the year, therefore returning close to the level reported in January 2016. In the remaining regions of the world, the number of drilling rigs was falling by 11 % to 929 since January 2016.[8] The number of drilled but uncompleted wells (DUCs) in North America initially contracted by 10 % from its peak of 5,596 units at the beginning of the year to 5,039 units, but - in the wake of rising drilling activity - recently started to climb again by 5 % to 5,289 units at the end of the year.[9]

Worldwide spending for exploration and production (E&P spending) was curbed even further in 2016. Having contracted by as much as 21 % in 2015, spending was cut once again by 27 % in 2016, according to analyst estimates. The sharpest drop in 2016 was reported in North America, where figures went down by 41 %, following a decline of 33 % in 2015. Since the downturn started in 2014, global E&P spending fell by 42 % and North American spending by 62 %.[10]

Prices of both crudes were heavily influenced by the expectations of the financial market regarding supply and demand. Early in the year, the price per barrel of US brand WTI hit its low of USD 26.21 in January, while European crude Brent fell to a low of USD 27.88 in February. This oil prices plunge came as a complete surprise to the market, triggering yet another cutback on E&P budgets. Over the year, the oil price fluctuated in a range of USD 40 to 52, but was exposed to severe volatility. The decision passed by OPEC's members on 30 November 2016 to introduce a production limit received an immediate positive response from the market and restored the necessary confidence in a sustained higher oil price. Until the end of the year, the price of one barrel of US crude WTI rose from USD 36.76 on 4 January 2016 to USD 53.72 on 30 December 2016, and the price of European crude Brent from USD 37.22 to USD 56.82.[11]

[7] International Energy Agency (IEA), Oil Market Report, February 2017.
[8] Baker Hughes Rig Count.
[9] U.S. Energy Information Administration (EIA), Drilling Productivity Report, February 2017.
[10] Evercore ISI, The 2017 Evercore ISI Global E&P Spending Outlook, December 2016.
[11] Bloomberg: CO1 Brent Crude (ICE) and CL1 WTI Crude (Nymex).

"BASED ON ITS SOUND BALANCE SHEET STRUCTURE SBO WAS ABLE TO COMPLETE THE LARGEST ACQUISITION IN THE COMPANY'S HISTORY AT THE BEGINNING OF THE SECOND QUARTER OF 2016"

BUSINESS DEVELOPMENT

Key developments in 2016

For the second year in a row, the oilfield service industry was confronted with the sharpest decline in the past 30 years in 2016. Customers' restraint in placing orders added to persistent pressure on prices. This collapse naturally is reflected in the sales and earnings results of SBO. SBO's management had responded early, already in 2014, by launching a set of countermeasures to navigate the company safely through the downturn. This course was consistently followed throughout 2016 as well.

Despite this highly challenging environment, SBO generated a positive operating cashflow and has a fundamentally sound balance sheet structure. Thanks to its high liquidity base, the company is strong enough to make targeted investments in future fields of growth even in the current cycle. Management decided to focus on two strategic directions in this challenging market environment: One the one hand, sustainable and one-off cost optimisation measures (see "Measures to combat the downturn"), and, on the other hand, investments in building the new well completion business as well as research and development (see "Strategic investments" and "Research and development"). The acquisition of Downhole Technology on 1 April 2016 was the largest acquisition in SBO's corporate history.

The 2016 financial year

Due to subdued demand, SBO's sales in 2016 contracted by 41.7 % to MEUR 183.0 (2015: MEUR 313.7). Year-on-year bookings dropped by 16.8 % to MEUR 169.3 (2015: MEUR 203.6). In the second half of 2016, an increase was recorded in bookings compared to the first two quarters. In 2015, SBO had still profited from the record bookings level in year 2014. The order backlog at the end of 2016 stood at MEUR 20.5 following MEUR 34.3 as at 31 December 2015.

Operating earnings before interest, taxes, depreciation, and amortisation (EBITDA) were MEUR 0.4 (2015: MEUR 55.1). Considering one-off expenses for due diligence of MEUR 2.4 and for restructuring amounting to MEUR 0.5, therefore totaling MEUR 2.9, reported EBITDA came to MEUR minus 2.5 (2015: MEUR 53.1). Operating earnings before interest and taxes (EBIT) before one-off effects came to MEUR minus 50.4 (2015: MEUR 3.7). Considering the aforementioned one-off expenses and expenses for impairment on property and goodwill amounting to MEUR 5.1, therefore totaling MEUR 8.0, reported EBIT came to MEUR minus 58.3 (2015: MEUR minus 22.1). Financial result arrived at MEUR 13.3 (2015: MEUR 2.1), including the result from the valuation of option commitments of MEUR 17.2. Profit before tax came to MEUR minus 45.1 (2015: MEUR minus 20.0), profit after tax was MEUR minus 28.0 (2015: MEUR minus 19.0). Earnings per share arrived at EUR minus 1.75 (2015: EUR minus 1.19). The margins reflected the market collapse: Operating EBITDA margin was 0.2 % (2015: 17.6 %), operating EBIT margin was minus 27.5 % (2015: 1.2 %). The pre-tax margin stood at minus 24.6 % (2015: minus 6.4 %).

Regardless of the persisting downturn, SBO generated a positive operating cashflow of MEUR 31.3 in the 2016 financial year (2015: MEUR 103.4). This was achieved primarily through active working capital management.

The balance sheet structure of SBO remains fundamentally strong. Liquid funds as at year end 2016 amounted to MEUR 193.5 (31 December 2015 - prior to the acquisition of Downhole Technology: MEUR 196.3). Net debt stood at MEUR 51.0 (31 December 2015: Net cash position of MEUR 26.2), the gearing ratio only was 12.0 %. Spending for property, plant and equipment and intangible assets (CAPEX) was scaled back from 2015 by 43.4 % to MEUR 13.0 (2015: MEUR 23.1).

Its sound balance sheet structure allowed SBO to acquire, at the beginning of the second quarter of 2016, a 68 % share in Downhole Technology at a purchase price of MUSD 103 (or, based on the exchange rate of the relevant date, MEUR 90.4). The purchase price was financed from existing liquid funds. Since its acquisition, Downhole Technology has delivered positive contributions to the business result of SBO in line with expectations. Even after this acquisition, SBO's equity ratio as at 31 December 2016 stood at a sound 53.1 % (31 December 2015: 60.8 %).

Development of the segments

SBO subdivides its business activities into two segments: "High Precision Components" (HPC) (machining of complex MWD (Measurement While Drilling) and LWD (Logging While Drilling) components) and "Oilfield Equipment" (OE) (high-performance drilling motors and downhole circulation tools, the distribution of non-magnetic drill collars, service and repair work as well as products for completing wells). Both segments were notably affected by the market contraction in 2016.

The "High Precision Components" segment developed according to the considerably curtailed capital expenditures of the customers in 2016. Segment sales dropped by 61.5 % to MEUR 55.3 (2015: MEUR 143.5). Operating result (EBIT) before expenses for impairment on property and goodwill as well as restructuring in the segment arrived at MEUR minus 29.3 (2015: MEUR minus 5.9).

In the "Oilfield Equipment" segment, the sharp drop in global drilling activity had a dampening effect on the business. Although customers preferred to use high-quality products even in the downturn, declining demand put downward pressure on prices. As a result, sales generated in the segment fell by 25.0 % to MEUR 127.7 (2015: MEUR 170.2). Operating result (EBIT) before expenses for impairment on property and goodwill as well as restructuring in the segment arrived at MEUR minus 18.0 (2015: MEUR 13.3).

Measures to combat the downturn

SBO has gained vast experience in managing the cycles in the oilfield service industry. As before, management responded promptly also to the downturn of the last two years by launching initial countermeasures at an early stage in the third quarter of 2014 in order to combat deteriorating market conditions. SBO systematically continued to pursue that course throughout 2016:

- Both restructurings (mergers) in the United States and the United Kingdom have been completed. The merger of SBO's two subsidiaries in Singapore, which was decided in mid-2016, is also complete. A joint management has been installed for operating the two sites of "Knust-SBO Far East Pte. Ltd." and "SB DARRON Pte. Ltd." under the name of "Knust-SBD Pte. Ltd." Restructuring will create structural and sustainable cost benefits.

- Capital expenditure was further reduced by 43.4 % from MEUR 23.1 in year 2015 to MEUR 13.0 in year 2016, with the exception of spending for research and development (R&D).

- Personnel capacities were adjusted to declining demand in 2016, as required at the individual sites: Short-time work was extended until 31 July 2017 at the plant in Ternitz, Austria. The headcount as at 31 December 2016 was 1,200 or, without Downhole Technology, 1,034 (1,135 as at 31 December 2015). This represents a reduction of 40 % since the downturn started in 2014 (31 December 2014: 1,720 employees).

Strategic investments

Back in November 2014, SBO acquired Canadian "Resource Well Completion Technologies Inc." (Resource) so as to prepare the ground for establishing itself in the well completion market. Previously, SBO had primarily manufactured products for directional drilling.

Well completion is the next process step in the life cycle of a well after drilling where the well is prepared for the production of oil and gas. Like in directional drilling, state-of-the art technology and expertise are becoming more and more important in well completion. Efficiency improvements seen in recent years are also due to growing technologisation in this sector. By entering the well completion business, SBO has taken a new strategic positioning to participate in this attractive market.

SBO acquired 68 % of the shares in „Downhole Technology LLC" (Downhole Technology) on 1 April 2016, representing the largest acquisition in the company's history. Downhole Technology is based in Houston, United States, and is a technologically leading provider of composite frac plugs for completing oil and gas wells. The design, manufacturing know-how and the high quality standards of the products ensure that wells can be completed more rapidly, efficiently and safely compared to similar products. Offering both high quality and innovative design, Downhole Technology has achieved strong acceptance in the market.

Downhole Technology and Resource enable SBO to offer a wide range of tight formation completion tools. While Resource provides high-tech sliding sleeve solutions for completing the well, Downhole Technology delivers plug-n-perf equipment for such application. SBO has already become a leading independent product provider in the market.

Furthermore, in year 2016, SBO continued to push ahead the internationalisation of the successful drilling motor business of its subsidiary BICO that had 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 established distribution companies in Saudi Arabia and Mexico offer additional market opportunities, mainly for SBO's subsidiary DSI and its downhole circulation technology.

Research and development

The growth strategy of SBO is based on a long-term approach focusing, apart from organic growth, on acquisitions and research and development (R&D). With its targeted spending for R&D even during the downturn, SBO ensures its full participation in the next upswing.

As the R&D budgets of SBO were not subject to cost-cutting in year 2016, several innovative successes were achieved:

With its Direct Metal Laser Sintering (DMLS) unit, SBO has now also commercially entered the field of high-precision 3D metal printing. This novel fibre laser-based additive manufacturing technology expands the broad range of manufacturing technologies applied by SBO. It is used to produce taylor-made, highly complex metal parts within a relatively short period of time, without compromising on quality and mechanical properties.

In addition thereto, electronic beam welding (EBW) was commercialised. Systems that were previously available in the market turned out to be unreliable or did not meet quality requirements. This technology can be applied flexibly to customer requirements which cannot be fulfilled by using conventional machining methods.

As regards traditional manufacturing, a technology called "GooseNeck Drilling" has become ready for marketability. It is used to produce directed bores with diametres starting from 1 ½“ (38 mm) inside the drill collar and provides customers with completely new ways in the design of complex MWD (Measurement While Drilling) and LWD (Logging While Drilling) measuring equipment. Through an off-centre shift of the centre bore in the drill collar, more room for installing electronics is made available without reducing the strength of the drill collar as it would be the case in a stub welding process.

The "MASTER Motor Concept" is a product line of high-performance motors developed by SBO featuring improved design and output. More robust connections and higher maintenance standards ensure that these motors can manage higher flow velocities and temperatures considerably better than conventional drilling motors. The new product line, combined with other high-performance components of SBO, is designed to generate high torques specifically in environments characterised by extreme harshness or impaired by circulation losses. Operators benefit above all from higher rates of penetration, increased time efficiency during drilling and faster drill-out of isolation equipment in well completion. The new technology will be used commercially from this year on.

In the field of well completion, besides the "open only" sleeve system, also a "closable” sleeve system was developed, allowing to close again sleeves that have been opened for production. Pressures within the production string are kept stable, as zones penetrated by dirt and less productive zones can be isolated, optimising production for operators. The system is compact and comes with a hydraulic closing mechanism. The technology can be used for refracking procedures at a later point in time as well.

"BY ESTABLISHING THE WELL COMPLETION BUSINESS AND PURSUING RESEARCH AND DEVELOPMENT ACTIVITIES, SBO HAS PREPARED THOROUGHLY FOR THE NEXT UPSWING"

OUTLOOK

For 2017, the International Monetary Fund (IMF) forecasts an increase in global economic growth of 3.4 %, for 2018 of 3.6 % (following 3.1 % in 2016 and 3.2 % in 2015). In the industrialised nations, economic growth in 2017 should come to 1.9 %, 2.0 % in 2018 (following 1.6 % in 2016 and 2.1 % in 2015), thereby pointing at a continuation of the moderate economic recovery in the industrialised nations. Regarding emerging markets and developing countries, the IMF assumes that growth will arrive at 4.5 % in 2017, and 4.8 % in 2018 (following each 4.1 % in 2016 and 2015).

According to the IMF, global economic recovery in 2017 and 2018 will be based above all on accelerated growth in the emerging markets. The slowdown in China is projected to be overcompensated by stronger growth in the emerging markets and developing countries which went through a recession in 2016, including Brazil, Nigeria and Russia. Moreover, the IMF expects that accompanying fiscal policy measures in the industrialised nations and easing geopolitical tensions will contribute to stronger growth in the countries concerned. Brexit, the IMF believes, should not have significant effects on the global economy, if no major economic barriers are created and negotiations between the United Kingdom and the European Union are running smoothly.[12]

The International Energy Agency (IEA) estimates that oil demand will go up further in 2017: Oil consumption is set to rise by 1.4 mb/d to 98.0 mb/d in 2017. In OECD countries, average demand for oil coming to around 46.8 mb/d should increase a little from 2016. In non-OECD countries, average demand should rise by 1.4 mb/d to a total of 51.2 mb/d.

[12] International Monetary Fund (IMF), World Economic Outlook Update, January 2017.

After two years of continuous spending cuts in the industry, the downturn finally seems to have come to an end. The IEA expects production in non-OPEC countries to rise by 0.3 mb/d, from 57.7 mb/d in 2016 to 58.0 mb/d in 2017. On 30 November 2016, OPEC members agreed on a production ceiling of 32.5 mb/d for a duration of at least six months. As a result, restoration of the supply and demand balance should be accelerated.[13]

There is growing evidence that North America is adapting rather flexibly to the new situation. Leading analysts expect to see a rise in E&P spending in North America of 21 % in 2017, and of 2 % globally.[14] This is the first rise since 2014. In view of the sharp capital expenditure curbs in 2015 and 2016, the need for spending is fundamentally strong. E&P spending in recent years was used to a large extent only for maintaining the existing production levels. Without such spending, the post-peak decline rate is projected to come to an annual 5-7 %.[15] Taking account of this factor and the constantly rising demand for oil, it cannot be excluded that the oil market might be undersupplied over the medium term.

Assumptions for 2017 are that in particular in North America, a noticeable market recovery should be seen. However, internationally, such revival has not yet started to take place and it will take some more time until the inventories of the customers, which have been built up over the last two years, will have come down. All in all, 2017 is expected to be a year of transition. By establishing its well completion business and pursuing research and development activities, SBO has prepared itself systematically for the next upswing. The strong cash balance, low net debt and high equity ratio provide SBO with the flexibility to respond rapidly to the challenges ahead. As technology and market leader, SBO is well positioned to benefit fully from the next upswing.

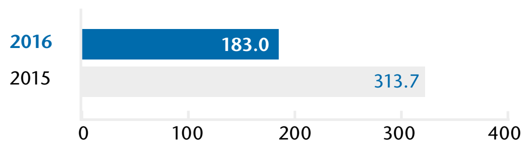
[13] International Energy Agency (IEA), Oil Market Report, February 2017.
[14] Evercore ISI, The 2017 Evercore ISI Global E&P Spending Outlook, December 2016; somewhat more optimistic: Barclays, 2017 E&P Spending Outlook, January 2017.
[15] HSBC Global Research, February 2017.

ANALYSIS AND RESULTS

The consolidated financial statements of the company have been prepared in accordance with the International Financial Reporting Standards (IFRS).

In the past financial year, the well completion business was extended by the acquisition of US-based Downhole Technology. The company was first included in the scope of consolidation as of 1 April 2016.

Sales in MEUR



Due to low demand, sales decreased by 41.7 % from MEUR 313.7 in 2015 to MEUR 183.0 in 2016.

As in the previous years, the US dollar continued to be the most important currency by far for the SBO Group. In 2016, 84 % (following 85 % in 2015) of sales and income were generated in US dollars, and around 60 % (following 50 % in 2015) of expenses were incurred in US dollars. Whereas the average exchange rate in 2016 of 1 Euro = 1.1066 USD remained almost unchanged from 2015, when it had been 1 Euro = 1.1096 USD, the US dollar increased significantly over the Euro towards the end of the year. The closing price as of 31 December 2016 was 1 Euro = 1.0541 USD, compared to 1 Euro = 1.0887 USD on 31 December 2015.

Exchange rate in EUR/USD

	High	Low	Average	Closing
2016	1.1569	1.0364	1.1066	1.0541
2015	1.2043	1.0552	1.1096	1.0887

The average rates for the years ending 31 December 2015 and 31 December 2016 were used by the company in the preparation of the consolidated profit and loss statements, whereas the closing rates for the years 2015 and 2016 were used in the preparation of the consolidated balance sheets.

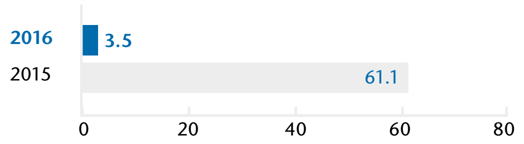
Sale by business segments in MEUR

	High Precision Components	Oilfield Equipment	Total sales
2016	55.3	127.7	183.0
2015	143.5	170.2	313.7

In the ”High Precision Components“ segment, sales in 2016 fell by 61.5 %, from MEUR 143.5 in 2015 to MEUR 55.3 in 2016, as customers again curtailed their CAPEX spending considerably.

In the ”Oilfield Equipment“ segment, the significant decline in global drilling activity resulted in a drop of sales by 25.0 %, from MEUR 170.2 to MEUR 127.7, which could be set off only in part by the acquisition of Downhole Technology.

Gross profit in MEUR

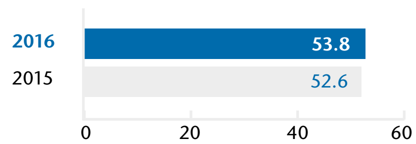


In 2016, gross profit dropped by 94.2 %, from MEUR 61.1 to MEUR 3.5, and the gross margin fell from 19.5 % to 1.9 %.

Despite the cost-cutting measures that had been launched, the gross margin continued to go down. Lower production output, on the one hand, resulted in further underutilisation of capacities, while, on the other hand, declining demand put growing pressure on prices, especially in the ”Oilfield Equipment“ segment.

The major elements of production costs are expenses for materials and energy, costs of personnel and depreciation of fixed assets.

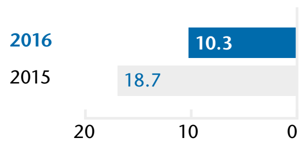
Selling, general and administrative expenses in MEUR



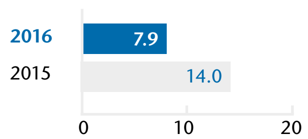
Selling, general and administrative expenses (SG&A) rose from MEUR 52.6 in 2015 to MEUR 53.8 in 2016. While the rise in selling expenses from MEUR 19.8 in 2015 to MEUR 20.1 in 2016 was due to the business extension in the "Oilfield Equipment" segment, the increase in administrative expenses from MEUR 32.8 to MEUR 33.7 was caused, apart from due diligence expenses incurred in the wake of acquiring Downhole Technology, mainly by the business extension in the "Oilfield Equipment" segment. Without consideration of these expenses, selling, general and administrative expenses were MEUR 42.0 in 2016.

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

Other operating income and expenses in MEUR

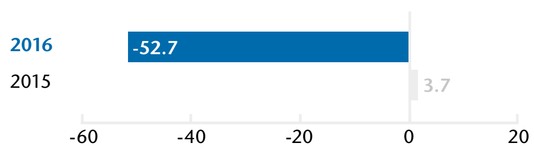


Other operating expenses amounted to MEUR 10.3 in 2016 (2015: MEUR 18.7). This item contains primarily research and development costs amounting to MEUR 7.6 (2015: MEUR 8.2), incurred mainly for the "Oilfield Equipment" segment, as well as exchange losses of MEUR 2.6 (2015: MEUR 10.5), while exchange gains in other operating income totalled MEUR 6.5 (2015: MEUR 12.4).



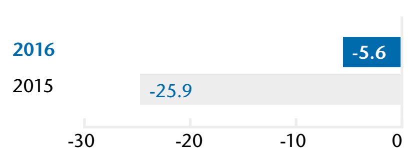
Total other operating income in 2016 was MEUR 7.9 (2015: MEUR 14.0) and, apart from exchange gains, consisted of rental income, service charges and income from the sale of fixed assets.

Income from operations before non-recurring items in MEUR



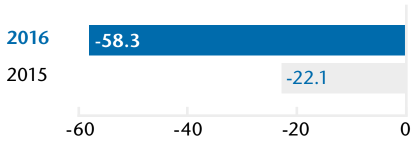
Income from operations before non-recurring items arrived at MEUR minus 52.7 (minus 28.8 % of sales) compared to MEUR 3.7 (1.2 % of sales) in the previous year. This development is largely due to the decline in sales and the reduced gross margin.

Non-recurring items in MEUR



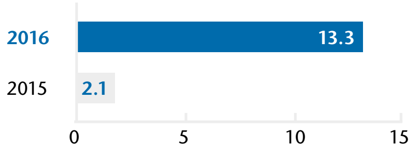
In fiscal 2016, expenses for non-recurring items totalled MEUR 8.1, with MEUR 3.0 spent for costs associated with restructuring of production sites in the United States, and MEUR 5.1 for impairment of property, plant and equipment and goodwill. These expenses are opposed by income from the disposal of property, plant and equipment associated with the aforementioned restructuring amounting to MEUR 1.7, and income from the sale of land in the United Kingdom amounting to MEUR 0.8, in total MEUR 2.5.

Income from operations in MEUR



Income from operations after non-recurring items dropped from MEUR minus 22.1 in 2015 to MEUR minus 58.3 in 2016.

Financial result in MEUR

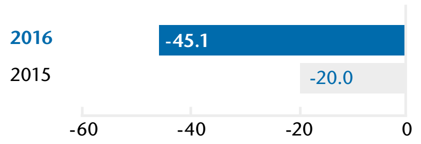


In 2016, the financial result arrived at MEUR 13.3, following MEUR 2.1 in 2015.

Other financial income generated from earn-out and option revaluations increased from MEUR 8.7 in 2015 to MEUR 17.3 in 2016.

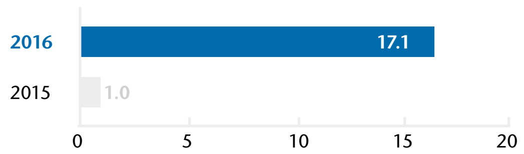
In the past fiscal year, net interest result was MEUR minus 4.0 (2015: MEUR minus 6.6). Net interest result also includes the proportionate result of shares held by the respective managements and participation rights, coming to MEUR 1.8 in 2016 (2015: MEUR minus 1.3).

Income before tax in MEUR



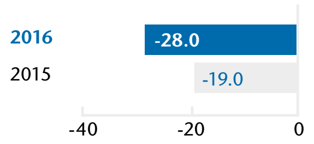
Income before tax for 2016 was MEUR minus 45.1, following MEUR minus 20.0 in 2015.

Income taxes in MEUR



Income taxes arrived at MEUR 17.1 in 2016 (2015: MEUR 1.0), resulting mainly from loss carrybacks for profits in prior years of MEUR 8.3 and changes in deferred taxes of MEUR 8.8.

Net income/dividend in MEUR



Income after tax for 2016 was MEUR minus 28.0, following MEUR minus 19.0 in the year before.

Earnings per share arrived at EUR minus 1.75 in 2016, following EUR minus 1.19 in 2015.

The Executive Board proposes to the Annual General Meeting not to pay a dividend for the 2016 financial year.

Assets and financial position

Shareholders' equity as of 31 December 2016 was MEUR 425.7, following MEUR 450.4 as of 31 December 2015. The equity ratio arrived at 53.1 %, compared to 60.8 % in the year before. This development is due, on the one hand, to the increased balance sheet total resulting from the acquisition of Downhole Technology, and, on the other hand, to the reduction of cumulative earnings caused by negative income after tax and dividend payment in 2016. In part, this development was compensated by the higher USD exchange rate leading to a positive development of the currency translation reserve.

Net debt as of 31 December 2016 was MEUR 51.0, up MEUR 77.2 from the net cash position as of 31 December 2015 (MEUR 26.2), mainly resulting from the acquisition of Downhole Technology, which was funded from existing liquid funds. The gearing ratio (net debt in percent of shareholders' equity) as of 31 December 2016 arrived at 12.0 %, following -5.8 % the year before.

Due to negative income after tax, cashflow from operating activities fell from MEUR 46.3 in 2015 to MEUR 13.7 in 2016.

Net working capital dropped from MEUR 150.4 as of 31 December 2015 to MEUR 131.3 as of 31 December 2016. This decline is mainly due to the substantial reduction of inventories, bringing cashflow from operating activities to MEUR 31.3, following MEUR 103.4 in 2015.

Net cash outflow from investing activities totalled MEUR 100.4 (2015: MEUR 18.3), of which MEUR 90.4 were spent for the acquisition of Downhole Technology, and MEUR 13.0 (2015: MEUR 23.1) for additions to fixed assets and intangible assets. Thereof, MEUR 12.1 were used for the "Oilfield Equipment" segment, primarily to expand the drilling motor rental fleet, and MEUR 0.9 for the "High Precision Components" segment.

REPORT ON THE MAIN FEATURES OF THE INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS

The Executive Board has overall responsibility for the risk management of the SBO Group, whereas direct responsibility lies with the managing directors of the operational entities.

Consequently, the system of internal continuous reporting to corporate headquarters plays a particularly important role in identifying risks at an early stage and implementing countermeasures. Operational subsidiaries provide the necessary information by timely monthly reporting to the Executive Board.

The Group has defined uniform standards for all global subsidiaries regarding implementation and documentation of the complete internal control system and, in particular, the financial reporting process. The underlying objective is to avoid risks leading to incomplete or erroneous financial reporting.

Furthermore, internal reports prepared by subsidiaries are checked for plausibility at corporate headquarters and compared with budgets in order to take appropriate action whenever deviations occur. For this purpose, subsidiaries are required to prepare annual budgets and mid-term planning to be approved by the Executive Board.

In addition, liquidity planning of the subsidiaries is continuously monitored and aligned with the requirements defined by the holding company.

Group controlling monitors subsidiaries' compliance with accounting regulations. Moreover, the annual financial statements of all operational subsidiaries and holding companies are audited by international auditors.

At the Executive Board's regular meetings with local managing directors, the current business development and foreseeable risks and opportunities are discussed.

In addition to the International Financial Reporting Standards, internal Group guidelines are in place for the preparation of the consolidated financial statements to ensure uniform presentation by the companies reporting (accounting and valuation issues). A certified consolidation programme equipped with the necessary auditing and consolidation routines is used for automated preparation of the consolidated financial statements.

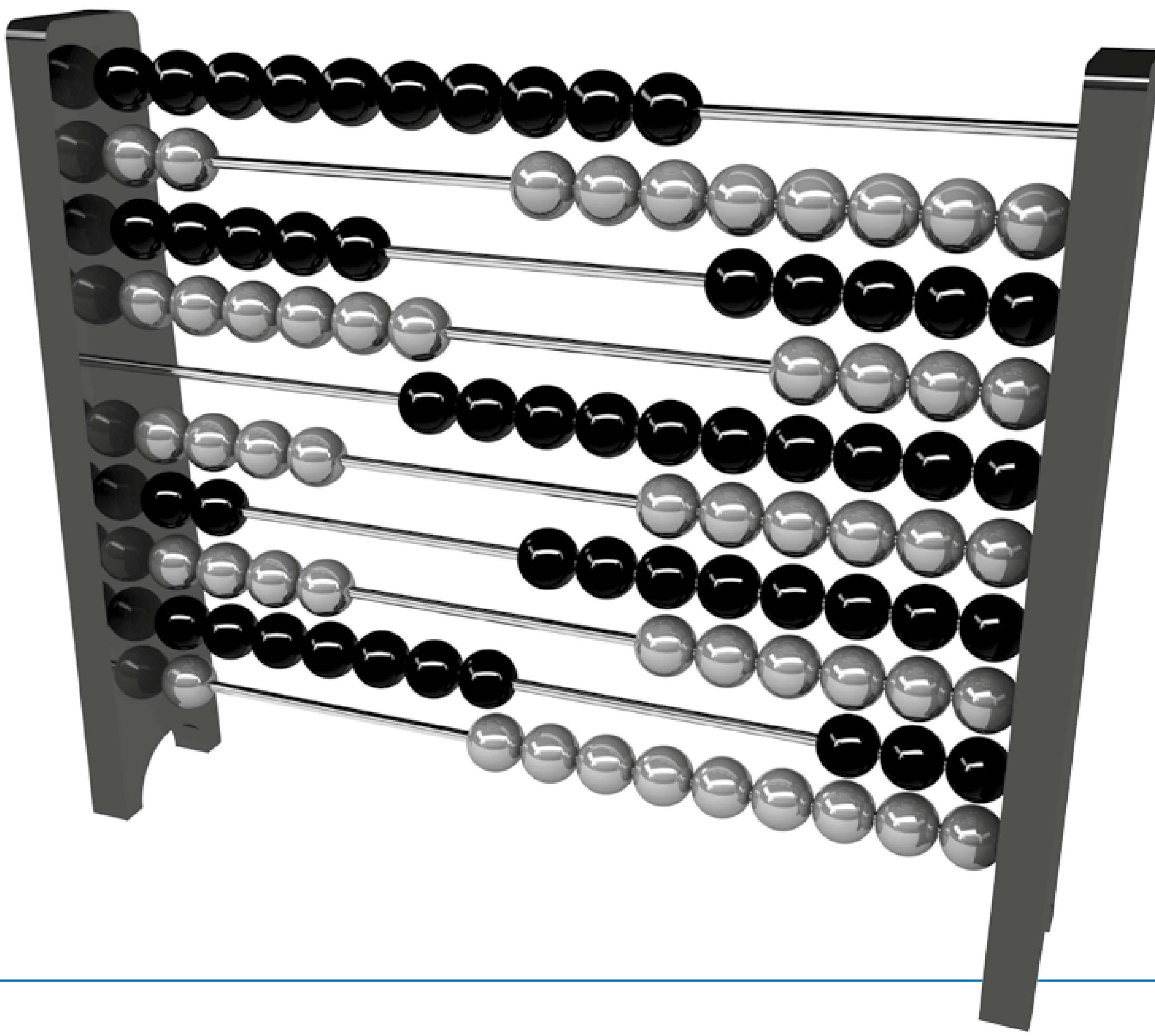
EVENTS AFTER THE BALANCE SHEET DATE

Please refer to Note 42, Financial Information.

ADDITIONAL INFORMATION ACC. TO SECTION 243a AUSTRIAN COMMERCIAL CODE

Please refer to Note 21, Financial Information.

FINANCIAL INFORMATION



FINANCIAL INFORMATION

CONSOLIDATED BALANCE SHEET

ASSETS in TEUR		31.12.2016	31.12.2015
Current assets			
Cash and cash equivalents		193,453	196,278
Trade accounts receivable	Note 5	49,526	49,199
Income tax receivable		11,406	5,205
Other accounts receivable and other assets	Note 6	2,864	4,320
Assets held for sale	Note 12	5,068	2,230
Inventories	Note 7	105,653	133,748
TOTAL CURRENT ASSETS		**367,970**	**390,980**
Non-current assets			
Property, plant & equipment	Note 8	165,344	193,024
Goodwill	Note 9	174,716	81,718
Other intangible assets	Note 9	69,904	50,749
Long-term receivables and assets	Note 10	12,483	12,864
Deferred tax assets	Note 11	11,639	11,168
TOTAL NON-CURRENT ASSETS		**434,086**	**349,523**
TOTAL ASSETS		**802,056**	**740,503**

CONSOLIDATED BALANCE SHEET

LIABILITIES AND SHAREHOLDERS´ EQUITY in TEUR		31.12.2016	31.12.2015
Current liabilities			
Bank loans and overdrafts	Note 13	32,499	32,174
Current portion of long-term loans	Note 17	37,233	12,783
Finance lease obligations		28	63
Trade accounts payable		11,929	11,150
Government grants	Note 14	97	205
Income taxes payable		2,010	1,502
Other payables	Note 15, 20	19,979	24,696
Other provisions	Note 16	4,206	4,708
TOTAL CURRENT LIABILITIES		**107,981**	**87,281**
Non-current liabilities			
Long-term loans	Note 17	174,691	125,049
Finance lease obligations		0	27
Government grants	Note 14	57	153
Employee benefit obligations	Note 18	5,296	5,821
Other payables	Note 19, 20	78,260	52,459
Deferred tax liabilities	Note 11	10,038	19,353
TOTAL NON-CURRENT LIABILITIES		**268,342**	**202,862**
Shareholders´ equity			
Share capital	Note 21	15,947	15,982
Contributed capital		66,812	68,357
Legal reserve	Note 22	785	785
Other reserves		19	19
Currency translation reserve		61,109	50,166
Retained earnings		281,061	315,051
TOTAL SHAREHOLDERS´ EQUITY		**425,733**	**450,360**
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY		**802,056**	**740,503**

CONSOLIDATED PROFIT AND LOSS STATEMENT

in TEUR		2016	2015
Sales	Note 23	**182,990**	**313,734**
Cost of goods sold	Note 24	-179,453	-252,610
Gross profit		**3,537**	**61,124**
Selling expenses	Note 24	-20,070	-19,757
General and administrative expenses	Note 24	-33,750	-32,879
Other operating expenses	Note 25	-10,331	-18,738
Other operating income	Note 25	7,890	13,995
Profit from operations before impairments and restructuring measures		**-52,724**	**3,745**
Restructuring income	Note 26	2,525	1,181
Restructuring expenses	Note 26	-3,013	-3,146
Impairment on tangible assets	Note 12	-1,789	-2,010
Impairment on goodwill	Note 9	-3,316	-21,880
Profit from operations after impairments and restructuring measures		**-58,317**	**-22,110**
Interest income	Note 27	3,101	1,308
Interest expenses	Note 27	-7,091	-7,940
Other financial income	Note 28	52	3,180
Other financial expenses		-30	-45
Income/expense from revaluation of option commitments	Note 29	17,232	5,575
Financial result		**13,264**	**2,078**
Profit/loss before tax		**-45,053**	**-20,032**
Income taxes	Note 30	17,052	1,050
Profit/loss after tax		**-28,001**	**-18,982**
Average number of shares outstanding		15,967,789	15,980,422
Earnings per share in EUR (basic = diluted)		**-1.75**	**-1.19**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR		2016	2015
Profit/loss after tax		**-28,001**	**-18,982**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Foreign exchange adjustment - subsidiaries		9,867	34,560
Foreign exchange adjustment - other items (1)		1,435	2,362
Income tax effect	Note 30	-359	-590
		10,943	**36,332**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods			
Remeasurement gains (losses) on defined benefit plans	Note 18	23	673
Income tax effect	Note 30	-6	-168
		17	**505**
Other comprehensive income, net of tax		**10,960**	**36,837**
Total comprehensive income, net of tax		**-17,041**	**17,855**

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

CONSOLIDATED CASHFLOW STATEMENT

in TEUR		2016	2015
Profit/loss after tax		-28,001	-18,982
Depreciation, amortization and impairments		56,060	75,255
Write-ups of fixed assets		-229	0
Change in employee benefit obligations		-525	-1,010
Gain (loss) from sale of property, plant & equipment		-146	-1,529
Income from release of government grants		-194	-123
Other non-cash expenses and revenues		-4,495	-715
Change in deferred taxes		-8,753	-6,615
Cashflow from profit		**13,717**	**46,281**
Change in trade accounts receivable		7,884	65,624
Change in other accounts receivable and other assets		-2,329	-3,896
Change in inventories		35,869	43,301
Change in trade accounts payable		-2,726	-14,211
Change in payables for option commitments		-17,232	-5,575
Change in other payables and provisions		-3,921	-28,087
Cashflow from operating activities	Note 39	**31,262**	**103,437**
Expenditures for property, plant & equipment		-12,656	-22,875
Expenditures for other intangible assets		-384	-176
Change in accounts payable for capital expenditure		111	-68
Expenditures for the acquisition of subsidiaries less cash acquired	Note 40	-90,028	0
Proceeds from sale of property, plant & equipment		2,595	4,811
Cashflow from investing activities	Note 39	**-100,362**	**-18,308**
Free Cashflow		**-69,100**	**85,129**
Acquisition of own shares	Note 21	-2,167	0
Dividend payment		-7,994	-23,973
Repayment finance lease	Note 34	-66	-86
Change in bank loans and overdrafts		1,443	-4,176
Proceeds from long-term loans	Note 17	86,875	41,200
Repayments of long-term loans	Note 17	-12,783	-13,238
Repayments of bonds		0	-20,000
Repayments of other long-term payables		-2,224	-5,189
Cashflow from financing activities	Note 39	**63,084**	**-25,462**
Change in cash and cash equivalents		**-6,016**	**59,667**
Cash and cash equivalents at the beginning of the year		196,278	130,220
Effects of exchange rate changes on cash and cash equivalents		3,191	6,391
Cash and cash equivalents at the end of the year	Note 39	**193,453**	**196,278**
Supplementary information on operating cashflow			
Interest received		933	700
Interest paid		-3,107	-5,187
Income tax paid		1,971	-18,467

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

Year 2016 in TEUR	Share capital	Contributed capital	Legal reserve	Other reserves	Currency translation reserve	Retained earnings	Total
Note	21		22				
1 January 2016	15,982	68,357	785	19	50,166	315,051	450,360
Profit/loss after tax						-28,001	-28,001
Other comprehensive income, net of tax					10,943	17	10,960
Total comprehensive income, net of tax	0	0	0	0	10,943	-27,984	-17,041
Dividends (1)						-7,994	-7,994
Acquisition of own shares	-41	-2,126					-2,167
Share-based payment	6	581					587
Option commitment relating to cancelable non-controlling interests						1,988	1,988
31 December 2016	15,947	66,812	785	19	61,109	281,061	425,733

(1) The dividend payment in the year 2016 of TEUR 7.994 was distributed to a share capital eligible for dividends of TEUR 15.988. Accordingly, the dividend per share amounted to EUR 0.50.

Year 2015 in TEUR	Share capital	Contributed capital	Legal reserve	Other reserves	Currency translation reserve	Retained earnings	Total
Note	21		22				
1 January 2015	15,976	67,560	785	22	13,834	357,498	455,675
Profit/loss after tax						-18,982	-18,982
Other comprehensive income, net of tax					36,332	505	36,837
Total comprehensive income, net of tax	0	0	0	0	36,332	-18,477	17,855
Dividends (1)						-23,973	-23,973
Share-based payment	6	797					803
Change in reserves				-3		3	0
31 December 2015	15,982	68,357	785	19	50,166	315,051	450,360

(1) The dividend payment in the year 2015 of TEUR 23,973 was distributed to a share capital eligible for dividends of TEUR 15,982. Accordingly, the dividend per share amounted to EUR 1.50.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1

INFORMATION ABOUT THE COMPANY

SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft (the Company, SBO), located in 2630 Ternitz at Hauptstrasse 2, was established on 26 May 1994 in Ternitz, Austria and is registered with the company register of the Commercial Court in Wiener Neustadt, Austria under FN 102999w.

The Company is engaged in the industrial manufacturing of components and parts for the oil and gas industry, mostly in directional drilling, and provides services in these areas.

The shares of the Company have been listed at the Wiener Börse (Vienna Stock Exchange) since 27 March 2003.

NOTE 2

ACCOUNTING STANDARDS

The Company's consolidated financial statements as of 31 December 2016 were prepared in accordance with International Financial Reporting Standards (IFRS) as well as with the Interpretations of the International Financial Reporting Interpretation Committee (IFRIC), as adopted by the EU. In addition, the supplemental requirements of Sec. 245a (1) UGB (Austrian Commercial Code) were adhered to.

The consolidated financial statements for SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft and its subsidiaries for the business year 2016 (as of 31 December 2016) were released by the Executive Board on 3 March 2017.

The financial statements are denominated in Euros. Unless otherwise provided, all figures have been rounded to thousands of Euros (TEUR). As a result of automated computation, the rounded amounts and percentage figures may display rounding differences.

NOTE 3

SCOPE OF CONSOLIDATION

The consolidated financial statements as of 31 December 2016 comprise the accounts of SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft as the Group parent company, and 39 subsidiaries (2015: 36 subsidiaries).

Company	Location	Interest held in % 31.12.2016	Interest held in % 31.12.2015
SCHOELLER-BLECKMANN Oilfield Technology GmbH	Ternitz, AT	100.00	100.00
Schoeller-Bleckmann America Inc.	Wilmington, US	100.00	100.00
Knust-Godwin LLC (*)	Houston, US	100.00	100.00
Schoeller-Bleckmann Energy Services L.L.C. (*)	Lafayette, US	97.00	93.25
Schoeller-Bleckmann Sales Co. L.L.C.	Houston, US	100.00	100.00
Downhole Technology LLC (**)	Houston, US	67.73	0.00
BICO Drilling Tools Inc. (*)	Houston, US	89.71	89.55
BICO Faster Drilling Tools Inc. (*)	Nisku, CA	79.84	77.91
Schoeller-Bleckmann Canada Ltd.	Calgary, CA	100.00	100.00
Resource Completion Systems Holdings Inc. (**)	Calgary, CA	67.00	67.00
Resource Well Completion Technologies Inc. (**)	Calgary, CA	67.00	67.00
Resource Completion Systems Inc. (**)	Calgary, CA	67.00	67.00
Resource Well Completion Technologies Corp. (**)	Dallas, US	67.00	67.00
Schoeller-Bleckmann Oilfield Equipment (UK) Limited	Rotherham, GB	100.00	100.00
Darron Tool & Engineering Limited	Rotherham, GB	100.00	100.00
Darron Oil Tools Limited	Rotherham, GB	100.00	100.00
Schoeller-Bleckmann Darron Limited (*)	Aberdeen, GB	93.00	91.00
Schoeller-Bleckmann Darron (Aberdeen) Limited (*)	Aberdeen, GB	94.00	94.00
Techman Engineering Limited (*)	Chesterfield, GB	90.65	90.65
Schoeller-Bleckmann (UK) Limited	Chesterfield, GB	100.00	100.00
OOO "Schoeller-Bleckmann"	Noyabrsk, RU	99.00	0.00
DSI FZE	Dubai, AE	100.00	100.00
Drilling Systems International Limited	Cayman Islands, CY	100.00	100.00
DSI Saudi LLC	Al-Khobar, KSA	100.00	100.00
DSI PBL de Mexico S. A. de C. V.	Villahermosa, MX	100.00	100.00
ADRIANA HOLDING COMPANY LIMITED (*)	Dubai, AE	99.00	0.00
Schoeller Bleckmann do Brasil, Ltda.	Macaé, BR	100.00	100.00
Schoeller-Bleckmann de Mexico S. A. de C. V. (*)	Monterrey, MX	98.00	97.00
Knust-SBD Pte. Ltd.	Singapore, SG	100.00	0.00
Schoeller-Bleckmann Oilfield Equipment Middle East FZE	Dubai, AE	100.00	100.00
Schoeller-Bleckmann Oilfield Equipment Vietnam Co., Ltd.	Binh Duong, VN	100.00	100.00

(*) With respect to the disclosure of the shares held by the Management of these Companies please see Note 19.
(**) With respect to the disclosure of shares relating to existing option agreements please see Note 20.

The shares disclosed for each company represent the respective voting rights. Therefore the control of the entity directly relates to the shares held.

In 2016, the following changes were made within the consolidation scope:

- Acquisition of 67.73 % shares in Downhole Technology LLC, Houston, US, as of 1 April 2016 (see Note 40).
- Establishment of ADRIANA HOLDING COMPANY LIMITED, based in Dubai, in June 2016.
- Establishment of Knust-SBD Pte. Ltd. in September 2016 and merger with Knust-SBO Far East Pte. Ltd. as well as SB Darron Pte. Ltd. at 31 October 2016.
- Acquisition of OOO “Schoeller-Bleckmann” in December 2016.

NOTE 4

SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in the previous year generally remain unchanged, with the exception of the following:

1. Changes in accounting policies

The following new or amended standards and interpretations were applied for the first time in the business year 2016. The adoption of these standards and interpretations affected the consolidated statements as of 31 December 2016 only if the word “yes“ is displayed in the table below:

Regulation		Effective Date [1]	Material effects on the financial statements of the SBO Group
IAS 1	Disclosure Initiative (Amendments to IAS 1)	1 January 2016	no
IAS 16 IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization	1 January 2016	no
IAS 16 IAS 41	Bearer Plants	1 January 2016	no
IAS 19	Defined Benefit Plans: Employee Contributions	1 February 2015	no
IAS 27	Equity Method in Separate Financial Statements	1 January 2016	no
IFRS 10 IFRS 12 IAS 28	Investment Entities – Applying the Consolidation Exception	1 January 2016	no
IFRS 11	Accounting for Acquisition of Interests in Joint Operations	1 January 2016	no
various	Annual improvements to IFRS 2010-2012 Cycle	1 February 2015	no
various	Annual improvements to IFRS 2012-2014 Cycle	1 January 2016	no

[1] To be applied in the EU on business years starting on or after the indicated date.

Not applied in business year 2016 were the following new or revised standards and interpretations which have been published but not adopted by the EU, or which are not mandatory so far. They will be applied in the future as required for the respective reporting period.

Regulation		Effective Date [1]	Material effects on the financial statements of the SBO Group
IAS 7	Disclosure Initiative	1 January 2017 [2]	no
IAS 12	Recognition of Deferred Tax Assets for Unrealized Losses	1 January 2017 [2]	no
IAS 40	Transfers of Investment Property	1 January 2018 [2]	no
IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018 [2]	no
IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018 [2]	no
IFRS 9	Financial Instruments	1 January 2018 [1]	see below
IFRS 10 IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely	no
IFRS 15	Revenue from Contracts with Customers	1 January 2018 [1]	see below
IFRS 16	Leases	1 January 2019 [2]	see below
various	Annual improvements to IFRS 2014-2016 Cycle	1 January 2018 [2]	no
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018 [2]	no

[1] To be applied in the EU on business years starting on or after the indicated date.
[2] This standard is not yet mandatory in the EU; therefore it was not applied early in 2016. The date indicated is the effective date as determined by the IASB.

IFRS 9 Financial Instruments

IFRS 9 introduces a single approach for the classification and measurement of financial assets. The standard refers to their cashflow characteristics and the business model they are managed in, and provides a new impairment model based on expected credit losses. IFRS 9 also includes new regulations regarding the application of hedge accounting to better reflect an entity's risk management activities especially with regard to managing non-financial risks. Based on a preliminary assessment the Company does not expect a material impact on the recognition of trade accounts receivable, loans and other financial assets in the consolidated statements. No changes in the evaluation of accounts receivable are expected due to the new impairment model. Furthermore, no changes are expected for the current foreign exchange hedging activities due to the initial application of the new standard. The Group intends the initial application as of 1 January 2018, no early adoption is planned.

IFRS 15 Revenue from Contracts with Customers

According to the new standard, the recognition of revenue is to reflect the amount for the transfer of promised goods or services to a customer that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. Revenue is recognized when the entity fulfills the delivery of goods or services. IFRS 15 also requires a set of quantitative and qualitative disclosures to enable users of the Company's Consolidated Financial Statements to understand the nature, amount, timing, and uncertainty of revenue and cashflows arising from contracts with customers.

The Group is currently evaluating the impact of the new standard on the consolidated financial results. The analysis carried out to date has shown that no impact on the consolidated figures is expected in the case of contracts with customers when the performance obligation is limited to the sale of goods. Revenue is recognized at the date on which the power of disposition for the delivered asset passes to the customer. This is principally the case when the respective goods are delivered. In the event of repair or maintenance services, revenue is recognized at the time of delivery of the repaired or maintained goods, which is identical with the passing of the disposition power to the customer. In the event of contracts with customers where the obligation is the lease of drilling tools, revenue recognition depends on the use, i.e. over the period during which the customer benefits from the use of the drilling tools. Also in this case no impact on the consolidated figures is expected. Multiple-element arrangements do currently not exist. The evaluation process will be continued and an early adoption of the standard is not considered at this point. SBO intends to apply the new standard for the first time as of 1 January 2018 by using the modified retrospective approach with adjusting retained earnings for the cumulative effect of the first-time application in the opening balance.

IFRS 16 Leasing

The new standard covers the recognition and measurement of lease agreements, as well as the obligation to disclose data therein. It requires one single accounting model for the lessee which results in the lessee's obligation to recognize all assets and liabilities from lease agreements in the balance sheet. Exempted are lease agreements with a term of 12 months or less, or agreements regarding low-value assets (each at the Company's option).

The lessor will continue to distinguish between financing and operating lease, with the IRFS 16 model being almost identical with the IAS 17 standard. The company is currently evaluating the impact of applying IFRS 16 on the consolidated financial statements. The analysis carried out to date has shown that the application of the new standard shall not result in any material impact on the consolidated financial statements of SBO (see disclosures to operating lease commitments in Note 8). For leases with SBO as lessor also no significant impact on the consolidated financial results is expected (see Note 23). An early application of this standard is currently not intended. SBO intends the initial application of the new standard IFRS 16 as of 1 January 2019 by using the modified retrospective approach with adjusting the retained earnings for the cumulative effect in the opening balance, but without adjusting the comparative amounts of the previous year.

2. Balance sheet date

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

3. Recognition of non-controlling interests in the consolidated statements

Non controlling interests are recognized at the fair value of the proportionate share in identifiable net assets as at the acquisition date. Subsequently, an appropriate share of profit after taxes and other comprehensive income is attributed to non-controlling interests. Thus, a loss in the respective subsidiary could lead to a negative balance. Changes in ownership without loss of control are recorded as equity transactions.

For the existing option commitments reference is made to Note 20.

4. Foreign currency translation

The consolidated financial statements are denominated in Euros, the functional and reporting currency of the parent company. Each Group member determines its own functional currency. All line items in the financial statements of each individual company are measured by using this functional currency.

Foreign currency transactions were translated at the exchange rate in effect at the transaction date. Monetary items denominated in foreign currencies were converted at the rate in effect at the balance sheet date. Currency differences were recognized in profit or loss in the period they occurred.

For the Group financial statements, the financial statements of foreign subsidiaries which are prepared using their functional currency are translated into Euros using the modified closing rate method:

- Assets and liabilities, both monetary and non-monetary, are translated at the exchange rate at balance sheet date.
- All income and expense items of foreign subsidiaries are translated at an average exchange rate for the year.

The development of the currency rates was as follows:

	Balance sheet date		Average annual rate	
1 EUR =	**31.12.2016**	**31.12.2015**	**2016**	**2015**
USD	1.0541	1.0887	1.1066	1.1096
GBP	0.8562	0.7340	0.8189	0.7260
CAD	1.4188	1.5116	1.4664	1.4176
MXN	21.7719	18.9145	20.6550	17.5995
BRL	3.4305	4.3117	3.8616	3.6916
VND	23,942.2	24,575.2	24,664.9	24,223.1

Exchange differences resulting from translating the financial statements of the subsidiaries are recognized in the item Currency translation reserve within equity in the consolidated financial statements, the movement in the current year is recorded under Other comprehensive income.

5. Split in current and non-current 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 non-current. Residual time to maturity is determined on the basis of the balance sheet date.

Operating assets and liabilities, such as trade accounts receivable and trade accounts payable, are always considered as current, even if their maturity is beyond 12 months as of the balance sheet date, as this refers to the usual business cycle.

6. Financial instruments

Transactions of financial instruments are recognized at the settlement date, according to IAS 39.

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

Cash and cash equivalents

All cash, bank deposits and short-term financial investments available for sale are recorded under line item Cash and cash equivalents, because they can be converted into cash at any time. They are measured at their current value at the balance sheet date and are not subject to significant changes in their value.

Short-term financial investments are marketable financial instruments with a maturity of three months or less; they are non-derivative financial assets not held for trading.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or definable payments, which are not listed at an active market. They particularly include Trade receivables, Loans, and Other receivables. Interest at market rates is charged on those trade receivables which are granted for credit periods which exceed those normally granted in business.

Receivables are recognized at the settlement date at acquisition costs, thereafter they are measured at amortized costs using the effective interest method, less any allowance for impairment. In view of the amortization process, gains and losses are booked using the effective interest method; when the loans and receivables are derecognized or impaired they are accounted for in the income statement.

The Company grants credits to its customers under customary business terms, but generally does not require any collateral or security to support the amounts due, with the exception of occasional customers and customers located in high risk countries from whom the Company obtains confirmed letters of credit.

The Company performs regular credit evaluations of its customers and records allowances for doubtful accounts if required. These allowances are sufficient to cover the expected risk of default whereas actual defaults result in writing off the respective receivable. The decision of whether to account for the default risk by means of allowances or to recognize impairment losses depends on the reliability of the risk evaluation.

Management evaluates the adequacy of the allowances for doubtful debts using structural analyses of due dates and balances in accounts receivable, the history of payment defaults, customer credit ratings and changes in payment behavior.

Liabilities

Financial liabilities particularly include Trade payables, Payables due to banks, Payables under finance leasing and Derivative financial liabilities.

Liabilities are initially recognized at their fair value less directly attributable transaction costs; subsequently they are measured at amortized costs, using the effective interest method. Income and expenses resulting from the use of the effective interest method are recoreded in profit and loss.

In addition, financial liabilities include purchase prices for shares in subsidiaries held by Management. The Management is obliged by contract to sell these shares to the Company under specific circumstances, and the Company is obliged to buy these shares. The selling price is based on the value of the respective equity portion at the date of the transaction. Pursuant to IAS 32.23, such contracts constitute a financial liability, valued at the present value of the re-acquisition amount. As no exact measurement of the future value is possible, the regular measurement refers to the respective portion of the equity at the balance sheet date, which includes the portion of the income from the current year. The income portion of the current year is recognized in the consolidated profit and loss statement under Interest expenses and Interest income, respectively, and is considered to be representative of the effective interest result.

Furthermore, participation rights in subsidiaries which were granted to the Management are recorded under financial liabilities. A transfer of such rights to third parties needs the approval of the Company. The Company has the option to purchase participation rights under specific circumstances, with the purchase price being based on the respective equity portion at the date of the transaction. Current year’s income portion is considered to be representative of the effective interest result which changes the liability accordingly.

Derivative financial instruments and hedging relationships

The Group uses financial instruments, such as currency futures to cover its currency risks. These derivative financial instruments are recognized at fair value at the contract dates and are measured at the respective fair values in the following periods. Derivative financial instruments are recognized as assets if their fair values are positive and as liabilities if fair values are negative.

The Company uses the following instruments:

Other derivatives

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

Income and expenses resulting from foreign currency hedging transactions which were made to hedge the exchange risk related to intra-Group trading in foreign currencies and which do not fulfil the accounting criteria regarding hedging relationships under IAS 39, are not displayed separately but reported together with the foreign exchange income and expenses from the hedged items in the operating result.

In addition, the Company records liabilities for contingent purchase price payments from business combinations and option commitments relating to cancelable non-controlling interests (see Notes 15 and 20).

Hedging relationships

In the course of a business combination in 2010 the foreign currency hedge transaction of the purchase price between signing and closing dates of the business combination was recognized as fair value hedge of a fixed underlying transaction not recognized in the balance sheet. The loss attributable to the secured risk was recognized as basis adjustment for the acquired assets and is now expensed in the profit and loss statement according to the profit and loss effectiveness of the assets (according to the depreciation based on the estimated useful lives).

7. Inventories

Inventories consist of materials and purchased parts in various stages of assembly and are stated at the lower of cost or net realizable value at the balance sheet date. Costs are determined by the first-in, first-out, weighted average or specific identification methods. The costs of finished goods comprise raw material expenses, other direct costs and related production overheads, but exclude interest expense. The Company reviews inventories for slow moving or obsolete items on an ongoing basis and establishes appropriate adjustment provisions if necessary.

8. Tangible and intangible fixed assets

The Company's non-current assets are recorded at cost less depreciation/amortization. Depreciation is computed by means of the straight-line method over the expected useful life of the asset. The estimated useful lives are as follows:

	Useful life in years
Intangible assets:	
Software	4
Technology	5 - 10
Customer base	5 - 10
Non-compete agreements	5 - 10
Trademarks	10
Property, plant & equipment:	
Buildings and improvements	5 - 50
Plant and machinery	3 - 17
Fixtures, furniture and equipment	2 - 10

The Company assesses at each reporting date whether there is an indication that a tangible or intangible asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. Impairment losses of continuing operations are recognized in the profit and loss account under Impairment on tangible assets.

For assets excluding goodwill, an assessment is made at each reporting date whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit and loss account.

Borrowing costs are also expensed as incurred, unless they are related to a qualifying asset.

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

Interest expenditures on capitalized lease objects are based on interest rates of 4 %. This rate is in turn determined using the Company's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

The determination whether an arrangement contains a lease is based on its economic substance and requires judgement as to whether the fulfilment of the contractual arrangement depends on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset.

9. Goodwill

Goodwill is recognized at acquisition cost and is not amortized but tested for impairment annually as of 31 December. For this purpose, the goodwill is assigned to cash generating units. The impairment test for cash generating units is performed by calculating the value in use on the basis of expected future cashflows.

A write down of goodwill cannot be reversed in future periods.

10. Current and deferred income taxes

The actual tax refund receivables and tax payables for the current and previous periods are measured in the amount of the expected refund by, or payment to the tax authority. The respective amounts are based on the current tax rates and tax laws applicable at the balance sheet date.

The Company uses the "balance sheet liability method" according to IAS 12 under which deferred taxes are determined. Deferred taxes are measured at the tax rates that are expected to apply to the year, when the asset is realized or the liability is settled.

In case that the entity has suffered a loss in either the current or preceding period deferred tax assets arising from unused tax losses are recognized only to the extent that there is convincing evidence based on existing mid-term plans that sufficient taxable profits will be available against which the unused tax losses can be utilized by the entity. For tax loss carryforwards which do not expire, a justification period of 5 years is considered.

Current and deferred taxes which relate to items recognized under Other comprehensive income or Equity are recorded within Other comprehensive income or Equity but not through profit and loss.

11. Government grants

Subsidies are recognized only when there is reasonable assurance that the Company will comply with any conditions attached to the grants and that the grants will in fact be received. Grants are recognized systematically as income over the period necessary to match them with the related costs, for which they are intended to compensate.

Grants relating to assets are recognized as a liability upon fulfilment of all requirements for the receipt of such grants. They are released over the useful life of the respective assets. The release is displayed in the consolidated profit and loss statement (line item Other operating income).

12. Provisions

In accordance with IAS 37, provisions are recognized when the Company has current legal or constructive obligations which are based on past events and which will probably lead to a payment. The provisions are measured at Management's best estimate at the balance sheet date. If a reliable estimate is not possible, no provision is made.

13. Provisions for employee benefits

Defined benefit plans

Defined benefit plans exclusively refer to severance payment obligations of Austrian companies. Employers are obliged to pay a lump sum upon normal retirement or termination of an employment agreement, if the employee has been with the Company for at least three years, and provided that the employment commenced before 1 January 2003. Severance payments range from four to twelve months of salary at the time of termination based on the length of service. Payments are made on normal retirement or any other termination, with the exception of voluntary terminations by employees. The obligations accrued for at each balance sheet date are determined on the basis of actuarial reports applying the Projected Unit Credit Method using a service period of 25 years and correspond to the present value of the benefits accruing to the employees at the end of the reporting period. Pension entry ages are considered in compliance with current legal provisions. Expected future salary increases and fluctuation rates are considered based on medium-term past experiences. All remeasurements relating to defined benefit plans (actuarial gains and losses) are recognized under Other comprehensive income according to IAS 19. For further details on provisions for severance payments please refer to Note 18.

Defined contribution plans

According to the legal requirements for employment agreements commenced after 1 January 2003 under Austrian labor law, the Company has to contribute 1.53 % of current remunerations to an external providence fund.

Further contribution-based pension schemes are in place in several Group entities. These are based either on legal obligations or bargaining agreements or subject to individual contractual agreements. The obligation of the Group is limited at paying the contribution to each pension fund when it is due. There is no legal or constructive obligation for future benefits. All contributions to defined contribution plans are recognized as expense at the time when employees have fulfilled their services obliging the Company to make this contribution.

Employees' jubilee payments for long service

According to the collective work agreement, employees in Austria are entitled to jubilee payments, depending on their length of service with their company (defined benefit plan). The amounts accrued for these provisions were also calculated by applying the Projected Unit Credit Method. The actuarial assumptions used for the severance payments are also applied for the calculation of the jubilee payment provision. Remeasurements (actuarial gains or losses) are recognized in the profit and loss statement as incurred.

14. Revenue recognition

Sales revenue from the sale of manufactured items and goods is recognized when risks are transferred, generally upon delivery to the customer. Revenues from service and repair are recognized at the time of performance of the related services.

Several entities within SBO Group operate as lessors. Lease agreements refer to operating lease only. Revenue on operating leases is recognized based on actual usage of the tools under the lease agreement by the customer. In principle, no minimum leasing obligations and minimum revenues, respectively, are defined in the agreements.

Income on interest is recognized on a pro-rated basis over the period, by taking the effective interest into account.

15. Research and development

Pursuant to IAS 38, research costs are booked as incurred. Development costs are only expensed, if the requirements of IAS 38 for a capitalization of development expenses are not fully met. In the Group accounts development cost were not capitalized since the requirements of IAS 38 are not met and amounts have not been significant, respectively.

16. Share based payment

In 2014 an agreement on share based payments was entered into with the Chief Executive Officer for the period 2014-2018 under the condition that a valid employment status prevails. In addition, an agreement for granting a voluntary severance benefit in the form of SBO shares at the end of the employment agreement was concluded. As the plans are and will be settled with equity instruments, the related expenses for the transactions of these agreements are recognized in personnel expense and within equity (also see Note 33).

17. Estimates, discretionary decisions and assumptions

The preparation of consolidated annual financial statements in conformity with International Financial Reporting Standards (IFRS) requires estimates and assumptions as well as discretionary decisions to be made by Management that affect the amounts reported in the balance sheet, in the notes and in the profit and loss statement. Actual future results may differ from such estimates; however, as seen from today´s perspective, the Board does not expect any major negative implications on the financial results in the near future. Significant estimates and discretionary decisions underlying the Group's consolidated annual financial statements are explained below.

Assumptions and discretionary decisions need to be taken for the recognition and valuation of intangible assets acquired in the course of business combinations (see Note 9).

In property, plant and equipment and intangible assets it is necessary to include estimates for the period during which these assets are expected to be used (see Notes 8 and 9). Should there be any indication of impairment of property, plant and equipment or intangible assets, estimates of the achievable amount are required.

For the yearly impairment test of goodwill and intangible assets not yet in use, an estimate of the value in use is necessary. Management has to make assumptions on the expected future cashflows of the cash-generating units and has to choose an adequate discount rate (see Note 9).

Deferred tax assets are accounted for tax losses not used, to the extent it is expectable that taxable income will in fact be available so that losses carried forward can actually be used. When accounting deferred tax assets, a significant amount of discretion on the part of Management is required to determine at which time and to what extent taxable income will be available so that the temporary differences or losses carried forward can actually be used (see Note 11).

In order to measure inventories, management expectations of price and market developments are required (see Note 7).

It is necessary to make assumptions regarding the default probability of receivables (see Note 5).

For the recognition of provisions the probability of occurrence needs to be evaluated at balance sheet date by Management. Provisions are carried at those values which correspond to the best estimate by Management at the balance sheet date (see Note 16).

Expenses for defined benefit plans are based on actuarial computations. For such calculations it is necessary to make assumptions on the discount rate, future salary increases, mortality rates and fluctuation rates (see Note 18).

Liabilities for option commitments relating to cancelable non-controlling interests are recorded at the time of acquisition at their fair value and are revalued in the following periods at their fair value on each reporting date. The fair values are determined on the basis of the discounted cashflows, which are derived from the most recent profit planning of the companies involved. Discretionary decisions are necessary to anticipate future cashflows and the choice of a reasonable discount rate as well (see Note 20).

Liabilities from contingent purchase price payments due to business combinations are measured as part of the business combination at the fair value on the acquisition date. If the contingent purchase price payment fulfils the criteria of a financial liability it will be revalued in the following periods to reflect the fair value at the reporting date. The fair values are determined on the basis of the discounted cashflows, each of which is derived from the most recent sales and earnings forecast. The basic assumptions take into consideration the discount factor and the probability that the result targets will actually be achieved (see Note 15).

The valuation of liabilities for Management interest in subsidiaries and similar participation rights is based on assumptions about the service life of the respective managers with the company and the expected profitability of the subsidiaries as well. The Company considers the proportion of the yearly profit as representative for the effective interest expense in the period payable to the managers (see Note 19).

NOTE 5

TRADE ACCOUNTS RECEIVABLE

An analysis of trade accounts receivable as of 31 December shows the following situation:

in TEUR	Carrying amount	Not past-due and not impaired	Past-due, not impaired				
			≤ 30 days	31-60 days	61-90 days	91-120 days	> 120 days
2016	49,526	26,109	9,843	5,996	3,824	1,761	1,979
2015	49,199	26,016	10,389	5,740	4,045	1,702	1,167

Trade accounts receivable with a duration of more than 12 months amount to TEUR 508 (2015: TEUR 0).

The carrying amount of impaired balances amounted to TEUR 14 (2015: TEUR 139). Provisions for bad debts are recorded when there is evidence for an impending payment default, usually when payments are overdue by more than 180 days.

The allowance account reflects the following:

in TEUR	2016	2015
As of 1 January	5,885	2,176
Exchange differences	241	154
Business combinations	1,414	0
Consumption	-1,777	-28
Reversal	-969	-1,227
Allocation	1,585	4,810
As of 31 December	**6,379**	**5,885**

The receivables listed are not secured.

NOTE 6

OTHER ACCOUNTS RECEIVABLE AND ASSETS

This line item mainly consists of balances due from tax authorities and deferred charges.

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

NOTE 7

INVENTORIES

Inventories are detailed by major classification as follows:

in TEUR	31.12.2016	31.12.2015
Raw materials	7,434	7,021
Work in progress	39,832	56,049
Finished goods	58,359	70,644
Prepayments	28	34
Total	**105,653**	**133,748**

Allowance expenses recorded in 2016 were TEUR 3,939 (2015: TEUR 5,643).

NOTE 8

PROPERTY, PLANT & EQUIPMENT

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

Year 2016 in TEUR	Land & buildings	Plant & machinery	Fixtures, furniture & equipment	Prepayments & assets under construction	Total
At cost					
1 January 2016	101,623	372,239	13,740	1,073	488,675
Exchange differences	-3	2,348	70	22	2,437
Business combinations	634	4,186	153	399	5,372
Additions	553	11,128	599	376	12,656
Transfers	430	735	198	-1,568	-205
Classification as "held for sale"	-9,635	0	0	0	-9,635
Disposals	-328	-12,168	-1,184	-16	-13,696
31 December 2016	93,274	378,468	13,576	286	485,604
Accumulated depreciation & impairment					
1 January 2016	26,989	257,915	10,747	0	295,651
Exchange differences	13	2,177	47	0	2,237
Depreciation	3,307	32,479	1,285	0	37,071
Impairment	1,789	0	0	0	1,789
Reversal of impairment losses	0	-229	0	0	-229
Transfers	0	-57	57	0	0
Classification as "held for sale"	-4,974	0	0	0	-4,974
Disposals	-284	-9,993	-1,008	0	-11,285
31 December 2016	26,840	282,292	11,128	0	320,260
Carrying amount					
31 December 2016	66,434	96,176	2,448	286	165,344
31 December 2015	74,634	114,324	2,993	1,073	193,024

Year 2015 in TEUR	Land & buildings	Plant & machinery	Fixtures, furniture & equipment	Prepayments & assets under construction	Total
At cost					
1 January 2015	96,941	354,406	14,561	5,810	471,718
Exchange differences	6,084	21,948	715	162	28,909
Additions	2,164	18,930	598	1,183	22,875
Transfers	24	6,030	14	-6,073	-5
Classification as “held for sale”	-3,250	-12,608	-372	0	-16,230
Disposals	-340	-16,467	-1,776	-9	-18,592
31 December 2015	101,623	372,239	13,740	1,073	488,675
Accumulated depreciation & impairment					
1 January 2015	24,300	233,087	10,643	0	268,030
Exchange differences	1,488	13,376	556	0	15,420
Depreciation	3,409	34,479	1,613	0	39,501
Impairment	0	2,010	0	0	2,010
Classification as “held for sale”	-1,871	-11,780	-349	0	-14,000
Disposals	-337	-13,257	-1,716	0	-15,310
31 December 2015	26,989	257,915	10,747	0	295,651
Carrying amount					
31 December 2015	74,634	114,324	2,993	1,073	193,024
31 December 2014	72,641	121,319	3,918	5,810	203,688

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

Service and maintenance as well as marketing outlets are maintained in the USA, Canada, UK, Singapore, the United Arab Emirates, Saudi Arabia, Russia, Mexico and Brazil.

Further details on the classification as “held for sale” and impairment expenses from the fiscal years 2016 and 2015 are disclosed in Note 12.

In 2016 reversals of prior impairment losses in the amount of TEUR 229 were recorded in the segment ”High Precision

Components". Because of the disposal of redundant capacity the remaining machinery can be utilized properly again in future. No write-ups were made in 2015.

As of 31 December 2016 commitments for capital expenditure amounted to TEUR 89 (2015: TEUR 3,062).

FINANCE LEASE

The carrying amount of leased assets shown under plant & machinery amounted to TEUR 27 as at 31 December 2016 (2015: TEUR 38), the present value of the future minimum lease payments amounted to TEUR 28 (2015: TEUR 90).

OPERATING LEASE

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

in TEUR	31.12.2016	31.12.2015
For the following year	2,244	1,361
Between one and five years	3,060	2,128
More than five years	2,059	2,010

Payments for operating leases which were expensed in 2016 amounted to TEUR 2,570 (2015: TEUR 2,079).

NOTE 9

INTANGIBLE ASSETS

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

Year 2016 in TEUR	Goodwill	Technology	Non-compete agreements	Customer base	Miscellaneous intangible assets	Total
At cost						
1 January 2016	166,305	51,820	10,722	38,350	11,600	278,797
Exchange differences	11,323	-529	50	-67	227	11,004
Business combinations	86,846	22,552	5,765	0	1,905	117,068
Additions	0	0	0	0	384	384
Transfers	0	0	0	0	205	205
Disposals	0	0	0	0	-149	-149
31 December 2016	264,474	73,843	16,537	38,283	14,172	407,309
Accumulated amortization and impairments						
1 January 2016	84,587	28,497	5,915	20,617	6,714	146,330
Exchange differences	1,855	-1,775	-428	-354	-29	-731
Amortization	0	6,150	2,370	4,226	1,138	13,884
Impairment	3,316	0	0	0	0	3,316
Disposals	0	0	0	0	-110	-110
31 December 2016	89,758	32,872	7,857	24,489	7,713	162,689
Carrying amount						
31 December 2016	174,716	40,971	8,680	13,794	6,459	244,620
31 December 2015	81,718	23,323	4,807	17,733	4,886	132,467

Year 2015 in TEUR	Goodwill	Technology	Non-compete agreements	Customer base	Miscellaneous intangible assets	Total
At cost						
1 January 2015	162,204	48,360	10,715	35,948	10,734	267,961
Exchange differences	4,101	3,460	7	2,402	690	10,660
Additions	0	0	0	0	176	176
Transfers	0	0	0	0	5	5
Disposals	0	0	0	0	-5	-5
31 December 2015	166,305	51,820	10,722	38,350	11,600	278,797
Accumulated amortization and impairments						
1 January 2015	61,787	21,886	3,740	14,962	5,434	107,809
Exchange differences	920	2,012	235	1,312	303	4,782
Amortization	0	4,599	1,940	4,343	982	11,864
Impairment	21,880	0	0	0	0	21,880
Disposals	0	0	0	0	-5	-5
31 December 2015	84,587	28,497	5,915	20,617	6,714	146,330
Carrying amount						
31 December 2015	81,718	23,323	4,807	17,733	4,886	132,467
31 December 2014	100,417	26,474	6,975	20,986	5,300	160,152

As of 31 December 2016, commitments for acquisitions of intangible assets amounted to TEUR 0 (2015: TEUR 0).

1. Goodwill

Goodwill amounts according to the balance sheet refer to the following cash generating units and segments:

in TEUR	31.12.2016	31.12.2015
Segment High Precision Components		
Knust-Godwin LLC	21,154	20,482
SCHOELLER-BLECKMANN Oilfield Technology GmbH	4,655	4,655
Segment Oilfield Equipment		
Downhole Technology LLC	93,800	-
Resource Well Completion Technologies Inc.	26,074	27,690
DSI FZE	23,676	22,938
BICO Drilling Tools Inc.	4,427	5,031
Schoeller-Bleckmann Darron (Aberdeen) Limited	798	798
BICO Faster Drilling Tools Inc.	132	124
Total	**174,716**	**81,718**

The goodwill for the cash generating unit Downhole Technology LLC was recognized in connection with the business combination executed as at 1 April 2016 (see Note 40).

Impairment testing for each cash generating unit was computed by using their value in use, which is based on the estimated future cashflows and a capital cost rate after taxes (WACC = Weighted Average Costs of Capital). The WACC was determined based on the current figures for similar companies in the same industry segment and adjusted for specific inflation rates in different countries. A detailed planning period of 5 years (2015: 5 years) is used, which is based on the budgeting by the Management. For the terminal period, a fixed growth rate of 1 % (2015: 1 %) was used for all cash generating units.

Due to the diverging development of risk-free interest rates of individual markets relevant for the cash generating units of the SBO Group, notably during the fourth quarter of 2016, SBO changed their estimation underlying the applicable market risk premium in accordance with IAS 8 in the fourth quarter of 2016 on a prospective basis. In order to respond to the diverging developments of interest rate levels in different countries, the policy of using one single market risk premium applicable to all cash generating units was abandoned and replaced by the derivation of a market risk premium taking into account country-specific factors and corresponding to the respective specific interest rate level.

The following discount rates were used as of 31 December 2016 and 2015, respectively:

WACC (before tax) in %	31.12.2016	31.12.2015
Segment High Precision Components		
Knust-Godwin LLC	14.2	12.7
SCHOELLER-BLECKMANN Oilfield Technology GmbH	12.8	10.7
Techman Engineering Limited	-	11.1
Segment Oilfield Equipment		
Downhole Technology LLC	14.8	-
Resource Well Completion Technologies Inc.	14.7	10.8
DSI FZE	12.0	10.1
BICO Drilling Tools Inc.	13.4	12.1
Schoeller-Bleckmann Darron (Aberdeen) Limited	13.0	11.2

Cashflows are determined based on revenue expectations and planned capital expenditures. The value in use of the cash generating unit is largely determined by sales revenues. Sales and cashflow plans consider the cyclicality of the industry derived from historical experiences as well as long-term developments of the business market. Sales plans of cash generating units are based on the expected business development in the oilfield service industry. This is derived from expected drilling activities, geographic regions and company specific developments. In addition, margin plans are derived from the estimated product mix and estimated cost developments based on expected material price developments and planned capital expenditures. Furthermore, estimated personnel development (based on planned headcount, required qualification of employees and expected personnel cost based on current economic climate) is considered.

Due to the current earnings situation in the first two quarters of 2016 and the reduced earnings expectations for the full year 2016 in connection with further reductions of expenditures for exploration and production in the oilfield service industry, the Company performed impairment tests at the end of each quarter during 2016. As of 30 June 2016 these tests resulted in an impairment of goodwill of the cash generating unit Resource Well Completion Technologies Inc. (specializing in the production of high-end products to stimulate oil and gas production). Due to rising discount factors caused by external developments, the carrying amount (including goodwill) of the cash generating unit exceeded its value in use. This impairment in the amount of TEUR 3,316 was recorded in the profit and loss statement under the item Impairment on goodwill.

The required annual impairment tests as of 31 December 2016 were based on updated parameters. Modifications of the applicable business plans and WACCs resulted in changed values in use as of 31 December 2016 and did not indicate a requirement for impairment of goodwill. Impairment amounts recorded during the year were not reversed. The calculated value in use as of 31 December 2016 of the cash generating unit Resource Well Completion Technologies Inc. amounts to TEUR 44,483 (31 December 2015: TEUR 54,471).

Changes of the carrying amounts of goodwill of the cash generating units Knust-Godwin LLC, DSI FZE, BICO Drilling Tools Inc. as well as BICO Faster Drilling Tools Inc. resulted from foreign currency translation.

Sensitivity analyses were carried out for all cash generating units. As the value in use is particularly reactive to changed assumptions regarding cashflows and discounting factors, an isolated increase of the discounting factor by one percentage point as well as a reduction of cashflows by 10 % as deemed possible by Management was taken into account. This resulted in additional impairment losses for the cash generating unit Resource Well Completion Technologies Inc.

In the following, the parameters were modified in such a way that the estimated recoverable amount as of 31 December 2016 is equal to the carrying amount. The results of this analysis for the cash generating units with significant amounts of goodwill and for which the sensitivity analysis either resulted in an impairment or in only a small headroom are listed in the following table:

	Recoverable amount exceeds carrying amount by TEUR	Change of parameters	
		Cashflows	WACC before tax
Knust-Godwin LLC	8,508	-13.10 %	+1.29 percentage points
Resource Well Completion Technologies Inc.	3,258	-7.32 %	+0.74 percentage points

Impairment 2015

Reduced oil prices during the year 2015 resulted particularly in North America in a decline of drilling activities of oilfield service companies. Therefore goodwill of the cash generating unit Resource Well Completion Technologies Inc. was impaired by TEUR 14,461 in 2015.

The unfavorable development of drilling activities on the North American market and reduced price levels led to an adjustment in the evaluation of the development of the cash generating unit BICO Drilling Tools Inc., which is mainly operating in the drilling motor business. As a result, an impairment charge of TEUR 5,587 was recognized in 2015.

As a result of reduced profit expectations due to unfavorable development of CAPEX plans of customers in UK, goodwill of the cash generating unit Techman Engineering Limited was fully impaired in 2015. The impairment charge amounted to TEUR 1,832.

2. Other intangible assets

Other intangible assets mainly comprise acquired technology, customer base, trademarks and rights from non-compete agreements relating to circulation tools from a business combination in the year 2010 (carrying amount 31 December 2016: TEUR 19,418; 31 December 2015: TEUR 25,254). These assets are amortized over a useful life of 10 years.

In addition, as part of the initial accounting of Resource Well Completion Technologies Inc. acquired technology (carrying amount 31 December 2016: TEUR 3,313; 31 December 2015: TEUR 3,753) and acquired customer base (carrying amount 31 December 2016: TEUR 3,926; 31 December 2015: TEUR 4,986) were capitalized in the business year 2014. The acquired technology will be amortized over a period of 7 years starting from acquisition date, the customer base will be amortized over a useful life of 5 years. Furthermore, non-compete agreements with a minimum duration of 5 years were capitalized (carrying amount 31 December 2016: TEUR 2,016; 31 December 2015: TEUR 2,560).

As part of the initial accounting of Downhole Technology LLC in 2016, acquired technologies (carrying amount 31 December 2016: TEUR 22,531) as well as trademarks (carrying amount 31 December 2016: TEUR 1,878) were capitalized with a useful life of 10 years. In addition, rights from non-compete agreements (carrying amount 31 December 2016: TEUR 5.448) were recorded which will be amortized over a period of 6 years. For further details on the business combination Downhole please see Note 40.

Further Other intangible assets relate to technology and non-compete agreements which were acquired in the course of a business combination in 2012.

In addition, Other intangible assets include right-of-use for IT software.

NOTE 10

LONG-TERM RECEIVABLES AND ASSETS

This line item mainly refers to interest-bearing loans which have been granted to the Management of subsidiaries of the Company for the acquisition of stock or participation rights in their respective companies (also see Note 19). As the stock has to be returned in the event of non-compliance with the loan agreements, there is no material credit risk for the Group.

in TEUR	31.12.2016	31.12.2015
Loans	11,347	12,259
Other receivables and assets	1,136	605
Total	**12,483**	**12,864**

As there were no past-due receivables, no write-downs were required either as of 31 December 2016 or 31 December 2015.

Other receivables and assets are not secured.

NOTE 11

DEFERRED TAXES

The Company's deferred tax assets and deferred tax payables result from the following items:

in TEUR	31.12.2016 assets	31.12.2016 liabilities	31.12.2015 assets	31.12.2015 liabilities
Property, plant & equipment	1,334	-7,546	925	-10,624
Other intangible assets (differences in useful lives)	598	-410	0	-458
Goodwill and other intangible assets (differences in valuation)	12	-11,720	14	-11,231
Inventories (differences in valuation)	9,355	0	8,798	0
Valuation of shares in subsidiaries	3,461	0	1,775	0
Other items (differences in valuation)	1,767	-793	2,049	-402
Accruals and provisions	2,755	0	1,840	0
Exchange differences intercompany debt elimination	0	-1,485	0	-3,420
Tax loss carryforwards	4,273	0	2,549	0
Subtotal	23,555	-21,954	17,950	-26,135
Netting related to identical taxation authorities	-11,916	11,916	-6,782	6,782
Total	**11,639**	**-10,038**	**11,168**	**-19,353**

Deferred tax assets related to tax loss carry forwards in the amount of TEUR 4,662 (2015: TEUR 3,061) were not recognized, because the utilization of these losses could not be substantiated for the foreseeable future based on the current mid-term plan (thereof an amount of TEUR 0 can only be utilized until 2017; 2015: TEUR 0 can only be utilized until 2016).

Gross deferred tax balances include tax assets of companies in two tax jurisdictions that have incurred losses during the business year, with deferred tax assets exceeding deferred tax liabilities by TEUR 10,271 (TEUR 5,069 and TEUR 5,202 respectively). The recognition of these deferred tax assets is substantiated by adequate positive taxable results in future years on the basis of tax planning derived from the business planning in place.

Deferred tax assets include tax benefits in the amount of TEUR 1,413, resulting from impairments of investments in subsidiaries in the amount of TEUR 5,650, which are tax deductable according to the Austrian tax law.

Relating to consolidated subsidiaries included in the consolidated financial statements differences exist between the tax base of equity interests and the proportional share of equity (outside basis differences) which in particular result from retained earnings and uncovered losses. Such timing differences as at 31 December 2016 amount to TEUR 87,761 (2015: TEUR 113,178) due to the fact that dividend payments or the sale of certain subsidiaries would be taxable. However, as the Group does not plan dividends from or disposals of these subsidiaries in the foreseeable future no deferred taxes were recognized according to IAS 12.39. In default of any expected dividend payments no deferred tax liabilities for withholding taxes were recognized at 31 December 2016 (2015: TEUR 0).

NOTE 12

ASSETS HELD FOR SALE

In relation to the combination of the two production sites of Knust-Godwin LLC which was started in 2015, it was decided in the fiscal year 2016 to sell property no longer needed for manufacturing purposes and to demolish the building on it. For this reason, an impairment loss was recognized for the building in the amount of TEUR 1,789 (fair value TEUR 0) and recorded in the consolidated profit and loss statement under the item Impairment on tangible assets. Prior to the transfer to Assets held for sale an impairment of the land was not necessary (carrying amount TEUR 4,661).

Management expects that this transaction will be closed within the next 12 months.

Impairment expenses of TEUR 680 for two machines which had already been held for sale as of 31 December 2015 in the segment "High Precision Components" were recognized under Restructuring expenses during the business year 2016. This impairment resulted from their valuation at fair value less cost to sell. The recoverable amount was determined by means of a level 3 valuation by an external appraisal report and amounts to TEUR 170.

For details on other assets held for sale as of 31 December 2015 please see Note 26.

NOTE 13

BANK LOANS AND OVERDRAFTS

As of 31 December 2016, the short-term loan arrangements were as follows:

Currency	Amount in TEUR	Interest rate in %
GBP loans	7,008	1.41 % variable
CAD loans	1,491	4.20 % variable
Subtotal	8,499	
Export promotion loans (EUR)	24,000	0.18-0.45 % variable
	32,499	

As of 31 December 2015, the short-term loan arrangements were as follows:

Currency	Amount in TEUR	Interest rate in %
GBP loans	8,174	1.33 % variable
Subtotal	8,174	
Export promotion loans (EUR)	24,000	0.28 % variable
Total	**32,174**	

The export promotion loans represent revolving short-term credit facilities; according to those arrangements the Company may use these funds permanently as long as it complies with the terms of agreement. In accordance with export promotion guidelines, the Company has agreed to assign receivables in the amount of TEUR 28,800 (2015: TEUR 28,800) to securitize these loans.

The CAD borrowings due to banks in the amount of TEUR 1,491 (2015: TEUR 0) are collateralized by the entire assets of the borrowing company (“floating charge”).

NOTE 14

GOVERNMENT GRANTS

The subsidies include a grant by the Federal Investment and Technology Fund, as well as other investment subsidies received for the acquisition of fixed assets, and research and development expenses. For some investment grants specific covenants have to be met (e.g. number of workers employed), as was the case at the balance sheet dates 2016 and 2015. The subsidies received amounted to TEUR 154 as of 31 December 2016 (2015: TEUR 358).

NOTE 15

OTHER PAYABLES

Other short-term payables were as follows:

in TEUR	31.12.2016	31.12.2015
Vacation not yet used	1,485	1,457
Other personnel expenses	4,641	4,608
Legal and other counseling fees	921	1,049
Taxes	1,382	1,945
Social expenses	1,951	3,721
Option commitments relating to cancelable non-controlling interests	4,917	5,048
Contingent purchase price payments	5	2,237
Sundry payables	4,677	4,631
Total	**19,979**	**24,696**

For option commitments relating to cancelable non-controlling interests we refer to Note 20.

Contingent purchase price payments amount to a total of TEUR 17 (2015: TEUR 2,290), of which TEUR 12 (2015: TEUR 53) are long-term. The contingent purchase prices are payable in the amount of a certain percentage of the achieved revenue (in part only when exceeding an agreed ceiling) per year. In 2016, one contingent purchase price commitment was fulfilled by payment of the last installment on the basis of 2015 sales revenue. The remaining amount has a residual term of further 3 years.

Liabilities for contingent purchase price payments are measured with the discounted amount to be paid as expected at the reporting date on the basis of the underlying agreement and current business planning with a risk-adequate interest rate for the duration of the commitment. Revaluation gains and losses due to changes of the expected discounted payments regarding earn-outs are recognized under Other financial income or Other financial expenses. In 2016 liabilities in the amount of TEUR 52 (2015: TEUR 3,151) were adjusted within Other financial income. Revaluation gains represent unrealized profits. The addition of accrued interest for contingent purchase price payments amounting to TEUR 2 (2015: TEUR 391) is recognized within Interest expenses.

During the fiscal year, the development of payables resulting from contingent purchase price payments was as follows:

in TEUR	2016	2015
As of 1 January	2,290	8,975
Addition of accrued interest	2	391
Revaluation gains	-53	-3,151
Revaluation losses	1	0
Disposals from settlements of contingent purchase price payments	-2,187	-4,813
Currency adjustment	-36	888
As of 31 December	**17**	**2,290**

In the course of the settlement of contingent purchase price payments, the amount paid was TEUR 1 higher than the accrued amount in the previous balance sheet (2015: TEUR 5 paid less than accrued). The difference was recognized under Other financial income.

The revaluation gains and losses shown in the table refer entirely to financial instruments existing at the reporting date.

The sensitivity analysis performed for significant non-observable input parameters only resulted in immaterial changes of the liabilities for contingent purchase price payments both when considering reasonable possible changes in sales revenues and interest rates.

NOTE 16

OTHER PROVISIONS

The other provisions developed as follows:

2016 in TEUR	31.12.2015	Usage	Reversal	Additions	31.12.2016
Warranty/Product liability	4,645	0	-1,623	0	3,022
Other	63	0	0	1,121	1,184
Total	**4,708**	**0**	**-1,623**	**1,121**	**4,206**

2015 in TEUR	31.12.2014	Usage	Reversal	Additions	31.12.2015
Warranty/Product liability	6,513	-383	-1,528	43	4,645
Other	500	-16	-421	0	63
Total	**7,013**	**-399**	**-1,949**	**43**	**4,708**

The reduction of the warranty provision in 2016 is the result of the reduced sales volume generated in the relevant business field.

A warranty provision amounting to TEUR 1,528 as of 31 December 2014 relating to nonconformance of parts delivered within a comprehensive single order could be released during fiscal year 2015 due to reaching mutual consent with the customer.

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

At the end of fiscal year 2015, a competitor claimed patent infringements by a subsidiary of SBO. Management evaluated this claim to be entirely unfounded and vigorously rejects any allegations. As of 31 December 2016, a provision in the amount of TEUR 1,100 was recorded in the consolidated balance sheet for related legal fees.

A subsidiary of SBO filed an action for non-payment of goods against another competitor. In response of this claim, the defendant filed a counterclaim which in turn resulted in another counterclaim of the SBO Company. In 2016 the parties agreed that the competitor is obliged to pay the originally claimed debt to the SBO company and that the parties will waive all other claims and counterclaims.

NOTE 17

LONG-TERM LOANS INCLUDING CURRENT PORTION (AMORTIZATION IN FOLLOWING YEAR)

As of 31 December 2016, long-term borrowings consist of the following:

Currency	Amount in TEUR	Interest rate in %	Term	Repayment
EUR	1,918	0.00 % fixed	2008 – 2024	quarterly from 2011
EUR	47,375	0.69 % fixed	2016 – 2023	semi-annually from 2018
EUR	10,000	2.06 % fixed	2016 – 2023	bullet loan
EUR	2,500	0.96 % variable	2016 – 2023	semi-annually from 2018
EUR	2,500	1.84 % fixed	2016 – 2023	bullet loan
EUR	1,200	0.00 % fixed	2015 – 2022	quarterly from 2017
EUR	10,000	1.59 % fixed	2016 – 2021	bullet loan
EUR	5,000	1.43 % fixed	2016 – 2021	bullet loan
EUR	5,000	1.44 % fixed	2016 – 2021	bullet loan
EUR	2,500	1.44 % fixed	2016 – 2021	bullet loan
EUR	1,000	1.62 % fixed	2016 – 2021	bullet loan
EUR	1,000	1.62 % fixed	2016 – 2021	bullet loan
EUR	20,000	3.11 % fixed	2013 – 2020	bullet loan
EUR	10,000	3.11 % fixed	2013 – 2020	bullet loan
EUR	3,570	1.50 % fixed	2013 – 2019	semi-annually from 2015
EUR	8,000	3.10 % fixed	2010 – 2018	bullet loan
EUR	10,000	3.30 % fixed	2010 – 2018	semi-annually from 2012
EUR	20,000	0.75 % fixed	2015 – 2018	bullet loan
EUR	20,000	0.75 % fixed	2015 – 2018	bullet loan
EUR	361	0.00 % fixed	2011 – 2017	quarterly from 2012
EUR	5,000	2.40 % fixed	2012 – 2017	bullet loan
EUR	10,000	2.31 % fixed	2012 – 2017	bullet loan
EUR	15,000	2.40 % fixed	2012 – 2017	bullet loan
	211,924			

The following borrowings were collateralized:

EUR-loans:

- TEUR 7,049 – mortgage on land and building and machinery pledged with a carrying amount of TEUR 14,520

As of 31 December 2015, long-term borrowings consist of the following:

Currency	Amount in TEUR	Interest rate in %	Term	Repayment
EUR	2,183	0.00 % fixed	2008 – 2024	quarterly from 2011
EUR	1,200	0.00 % fixed	2015 – 2022	quarterly from 2017
EUR	20,000	3.11 % fixed	2013 – 2020	bullet loan
EUR	10,000	3.11 % fixed	2013 – 2020	bullet loan
EUR	4,998	0.50 % fixed	2013 – 2019	semi-annually from 2015
EUR	8,000	3.10 % fixed	2010 – 2018	bullet loan
EUR	15,000	3.05 % fixed	2010 – 2018	semi-annually from 2012
EUR	20,000	0.75 % fixed	2015 – 2018	bullet loan
EUR	20,000	0.75 % fixed	2015 – 2018	bullet loan
EUR	842	0.00 % fixed	2011 – 2017	quarterly from 2012
EUR	5,000	2.40 % fixed	2012 – 2017	bullet loan
EUR	10,000	2.31 % fixed	2012 – 2017	bullet loan
EUR	15,000	2.40 % fixed	2012 – 2017	bullet loan
EUR	416	4.73 % fixed	2009 – 2016	semi-annually from 2010
EUR	5,000	5.25 % fixed	2009 – 2016	bullet loan
EUR	193	0.00 % fixed	2008 – 2016	quarterly from 2011
	137,832			

The following borrowings were collateralized:

EUR-loans:

- TEUR 8,214 – Mortgage on land and building and machinery pledged with a carrying amount of TEUR 15,923

Referring to disclosures on the fair value of the loans see Note 35, regarding interest rate risk and hedging see Note 36.

NOTE 18

EMPLOYEE BENEFIT OBLIGATIONS

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

in TEUR	31.12.2016	31.12.2015
Severance payments	3,761	4,444
Jubilee payments for long service	1,535	1,377
Total	**5,296**	**5,821**

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

	2016	2015
Interest rate	1.50 %	2.20 %
Salary increases	3.50 %	3.50 %
Fluctuation rate (mark-down)	0.0 – 15.0 %	0.0 – 15.0 %

Provisions were determined based on mortality tables AVÖ 2008-P (2015: AVÖ 2008-P) of Pagler & Pagler. Remeasurements of provisions for severance payments (actuarial gains or losses) are recognized under Other comprehensive income according to IAS 19.

No contributions were made to separately maintained funds for these obligations.

Provisions for severance payments

The status of the accrual for severance payments has developed as follows:

in TEUR	2016	2015
Defined benefit obligation as of 1 January	4,444	5,184
Current service cost	174	245
Interest cost	82	103
Total expenses for severance payments	256	348
Remeasurements during the year	-23	-673
Current severance payments	-916	-415
Defined benefit obligation as of 31 December	**3,761**	**4,444**

The expenses shown in the table are recognized within profit and loss under personnel expenses of each functional cost group (see Note 24).

Remeasurements recognized in other comprehensive income according to IAS 19 are as follows:

in TEUR	2016	2015
Remeasurement of obligations		
from changes to demographic assumptions	0	0
from changes to financial assumptions	283	-279
adjustments based on past experience	-306	-394
Total	**-23**	**-673**

The average duration of the defined benefit plan obligation as of 31 December 2016 is 11.7 years (2015: 11.0 years).

Sensitivity analysis

The effects on the obligations resulting from changes in significant actuarial assumptions were presented in the following sensitivity analysis. One significant factor of influence was changed in each case, while the remaining factors were held constant. In reality, however, these factors of influence are more likely to be correlated. The changed obligation was determined in accordance with IAS 19 in the same way as the actual obligation, using the Projected Unit Credit Method.

Severance payments		Present value of obligation (DBO) 31.12.2016	
in TEUR	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Interest rate	+/- 0.5 percentage points	-206	+226
Increase in salaries	+/- 0.5 percentage points	+212	-195

Jubilee payments for long service

The status of the accrual for jubilee payments has developed as follows:

in TEUR	2016	2015
Defined benefit obligation as of 1 January	1,377	1,647
Current service cost	124	162
Interest cost	30	32
Total expenses for jubilee payments	154	194
Remeasurement during the year	41	-379
Current jubilee payments	-37	-85
Defined benefit obligation as of 31 December	**1,535**	**1,377**

Defined contribution plans

Payments made under defined contribution plans (pensions and other providence funds) were expensed and amounted to TEUR 360 in 2016 (2015: TEUR 799). For the following year contributions are expected at approximately TEUR 400.

NOTE 19

OTHER PAYABLES

Other long-term payables were as follows:

in TEUR	31.12.2016	31.12.2015
Option commitments	53,615	23,007
Management interest	14,726	17,180
Contingent purchase price payments	12	53
Participation rights	5,566	6,339
Non-compete agreements	1,395	1,712
Other obligations	2,946	4,168
Total	78,260	52,459

For option commitments please refer to Note 20.

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

Company	31.12.2016	31.12.2015
BICO Drilling Tools Inc.	10.29 %	10.45 %
BICO Faster Drilling Tools Inc.	11.00 %	13.00 %
Schoeller-Bleckmann Energy Services L. L. C.	3.00 %	6.75 %
Schoeller-Bleckmann Darron Limited	7.00 %	9.00 %
Techman Engineering Limited	9.35 %	9.35 %
Schoeller-Bleckmann Darron (Aberdeen) Limited	6.00 %	6.00 %
Schoeller-Bleckmann de Mexico S. A. de C. V.	2.00 %	3.00 %
ADRIANA HOLDING COMPANY LIMITED	1.00 %	-

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

The Management of the following (fully consolidated) subsidiaries held the following participation rights in their respective companies:

Company	31.12.2016	31.12.2015
DSI FZE	5.50 %	6.10 %
SCHOELLER-BLECKMANN Oilfield Technology GmbH	0.80 %	0.90 %
Resource Well Completion Technologies Inc.	5.00 %	5.00 %

In 2016 the effective interest expense recorded for Management interest and participation rights amounts to TEUR 385, effective interest income amounts to TEUR 2,220 (2015: expense TEUR 1,887, income TEUR 607). Income and expense is recorded under Interest expenses and Interest income, respectively.

In business year 2015, the Company received grants in the amount of TEUR 2,638 which are contingent upon compliance with certain regulations in the years 2018-2020. Due to the uncertainty of future compliance with these conditions, the amounts received are reported under Other liabilities as of 31 December 2016 and 31 December 2015.

NOTE 20

OPTION COMMITMENTS

In the course of business combinations the Company concluded option agreements with non-controlling shareholders for the purpose of acquisition of such non-controlling interests at a later time. The purchase price of options from cancelable non-controlling interests depends on the results achieved by the Companies concerned.

Such option commitments from cancelable non-controlling interests are determined based on planning figures available as of acquisition date and are recognized in Other payables as granting of these options created unconditional payment obligations for the Group. From a Group's perspective, 100 % of the shares in these Companies are consequently consolidated. The results of the respective subsidiaries are attributed 100 % to the owners of the parent company.

Option commitments are consequently measured with the expected discounted payment amount on the basis of the current business planning. The liabilities are discounted using a risk-adequate interest rate for the duration of the commitment. Current interest expenses are recognized under the item Interest expenses. Gains and losses due to changes of the expected discounted payment amount are recognized under the item Expenses/income from the revaluation of option commitments.

In the course of two business combinations the Company assigned the right to the non-controlling interests to offer their shares to the Company, and at the same time, the Company committed to purchase the offered shares. In addition, the Company acquired the right to purchase the shares of the non-controlling interests, who have committed themselves to transfer their shares to the Company in such case (Put and Call Option). As put and call options comprise all shares which are not yet in the possession of the Group and the conditions for transfer in the respective put and call case are identical, the Group has effectively acquired 100 % of the shares at the time of acquisition. The option from the business combination in 2014 can be exercised by both parties at any time on or after 31 March 2018; the option from the business combination in 2016 can be exercised at any time from 1 April 2019. The resulting liabilities are recognized within Other long-term payables.

In the first half of 2016 the option agreement from the business combination in 2014 was amended replacing the EBITDA multiple of SBO at the exercise date by a fixed multiple. The resulting valuation adjustments are reported in the table on the development of option commitments (see below) as addition / disposal due to contractual amendments. The valuation adjustments are recognized in the profit and loss statement together with revaluation gains and losses under the item Expenses/income from the revaluation of option commitments.

In the course of an earlier business combination in 2012 the Company assigned the right to the non-controlling interests to offer their shares to the Company. At the same time, the Company committed to purchase the offered shares (put option). As this option can be exercised at any time by the non-controlling interests it is recognized under short-term other payables. The financial liability was recognized at the date of acquisition by reclassifiying the non-controlling interests created by the acquisition at the fair value of the proportionate share in identifiable net assets. Revaluation changes are subsequently booked under the item Expenses/income from the revaluation of option commitments. In 2016 a unilateral capital increase by SBO resulted in a partial disposal of this option commitment of TEUR 1,988 which was recognized within equity in retained earnings without affecting profit and loss.

The development of option commitments in 2016 is shown below: :

in TEUR	2016	2015
As of 1 January	28,055	33,836
Additions from business combinations	42,915	0
Addition of accrued interest	3,078	1,556
Revaluation gains	-11,011	-5,575
Revaluation losses	13,218	0
Disposal due to unilateral capital increase	-1,988	0
Disposal from contract amendments	-32,637	0
Addition from contract amendments	13,198	0
Currency adjustments	3,704	-1,762
As of 31 December	**58,532**	**28,055**

For further information on the business combination in the year 2016 please see Note 40.

A portion of the revaluation loss shown in the table in the amount of TEUR 8,796 refers to the disposal of the liability before amendment of the contract. The remaining revaluation gains and / or losses refer to financial instruments existent at the reporting date.

The sensitivity analysis for significant non-observable input factors regarding the option commitments is shown below:

in TEUR	Assumption	Change in assumption	If assumptions increase, liabilities change in total by	If assumptions decrease, liabilities change in total by
	Result	+/- 10 %	+5,593	-5,591
	Interest rate 20.0 %, 4.61 % and 4.82 %	+/- 5, +/- 1, +/- 1 percentage points	-1,721	+1,865

NOTE 21

SHARE CAPITAL

The share capital of the Company as of 31 December 2016 as well as of 31 December 2015 was EUR 16 million, divided into 16 million common shares with a par value of EUR 1.00 each.

The Ordinary Shareholders' Meeting on 27 April 2016 authorized the Management Board for a period of 30 months to buy back own shares of the Company up to a maximum of 10 % of the share capital. In 2016 the Company bought 40,597 own shares at a purchase price of TEUR 2,167. Although authorized by the Ordinary Shareholders' Meeting on 23 April 2014, this right was not exercised in 2015.

As of 31 December 2016, the Company holds 52,597 own shares (2015: 18,000 shares) at acquisition costs of TEUR 2,884 (2015: TEUR 1,074), equaling a 0.33 % share in its capital stock (2015: 0.11 %). There are 15,947,403 shares in circulation (2015: 15,982,000 shares).

In the course of a business combination in 2010, 50,000 shares of the Company would become due as contingent consideration, if future sales levels are achieved as agreed. Since the sales target was not met in 2016, no dilution in the number of shares in circulation was effected at 31 December 2016.

As of 31 December 2016, approximately 33.4 % of the share capital is held by Berndorf Industrieholding AG, Vienna (2015: approximately 33.4 %).

NOTE 22

LEGAL RESERVE

Austrian law requires the establishment of a legal reserve in the amount of one tenth of the nominal value of the Company's share capital. As long as the legal reserve and other restricted capital reserves have not reached such an amount, the Company is required to allocate five percent of its annual net profit (net of amounts allocated to make up losses carried forward from prior years, after changes in untaxed reserves have been taken into consideration) to such reserves. For the formation of such reserves, only the annual financial statements of the parent company are relevant, which are prepared in accordance with Austrian Accounting Principles. No further allocation is required because of the contributions already made.

NOTE 23

ADDITIONAL BREAKDOWN OF REVENUES

Net sales consist of:

in TEUR	2016	2015
Sale of goods	110,516	215,645
Sale of services and repair	14,494	17,869
Operating lease revenue	57,980	80,220
Total net sales	**182,990**	**313,734**

The Company leases drilling machinery under operating leases with terms of less than a year. As the respective leasing fees are charged to customers according to the duration of use there is no entitlement for obtaining minimum future lease payments.

NOTE 24

ADDITIONAL BREAKDOWN OF EXPENSES

As the Company classifies its expenses by function, the following additional information is given as required by IAS 1 (disclosure according to Total Cost Accounting Method):

in TEUR	2016	2015
Material expenses	56,810	113,424
Personnel expenses	72,375	91,511
Depreciation of property, plant & equipment incl. impairment	38,860	41,511
Amortization of other intangible assets incl. impairment	13,884	11,864
Impairment on Goodwill	3,316	21,880
Impairment on assets held for sale	680	0

NOTE 25

OTHER OPERATING EXPENSES AND INCOME

The main items within other operating expenses are:

in TEUR	2016	2015
Exchange losses	2,589	10,486
Research and development expenses	7,631	8,238

Up to present development costs were not capitalized due to the uncertainties of the future economic benefits attributable to them.

The main items within other operating income are:

in TEUR	2016	2015
Exchange gains	6,514	12,417

NOTE 26

RESTRUCTURING EXPENSES AND INCOME

Restructuring expenses amounted to TEUR 3,013 in 2016, of which an amount of TEUR 2.333 resulted from the combination of production sites in the USA in the segment "High Precision Components" which was started in 2015 and completed in 2016. In this context, an impairment loss of TEUR 680 was recorded in 2016 for machines which had already been recognized as "held for sale" in the consolidated financial statements of 2015. The remaining machinery recognized as "held for sale" in the consolidated financial statements of 2015 was sold in 2016. These transactions resulted in income in the amount of TEUR 1.755, which is included in restructuring income in the reporting period. Restructuring income further includes an amount of TEUR 770 from the sale of property in the UK which had also been recognized as "held for sale" in the consolidated financial statements of 2015.

In relation to the combination of production sites in the USA and UK, restructuring expenses in the amount of TEUR 3,146 were recorded in the fiscal year 2015. In the same year, income from the sale of property, plant and equipment amounted to TEUR 1,181.

NOTE 27

INTEREST INCOME AND EXPENSES

Interest income is as follows:

in TEUR	2016	2015
Bank deposits and other lendings	881	701
Management participation and participation rights	2,220	607
Interest income	**3,101**	**1,308**

Interest expenses are as follows:

in TEUR	2016	2015
Loans and bonds	3,626	4,106
Accrued interest for liabilities for option commitments and liabilities for contingent purchase price payments	3,080	1,947
Management participation and participation rights	385	1,887
Interest expenses	**7,091**	**7,940**

With regard to accrued interests for liabilities for option commitments and liabilities from contingent purchase price payments see Notes 15 and 20.

NOTE 28

OTHER FINANCIAL INCOME

The line item Other financial income mainly includes revaluation gains relating to liabilities for contingent purchase price payments in the amount of TEUR 52 (2015: TEUR 3,151) (see Note 15).

NOTE 29

INCOME/EXPENSE FROM REVALUATION OF OPTION COMMITMENTS

This line item shows gains or losses in connection with liabilities for option commitments (see Note 20).

in TEUR	2016	2015
Revaluation gains	11,011	5,575
Revaluation losses	-13,218	0
Disposal / addition from contract amendments	19,439	0
	17,232	**5,575**

NOTE 30

INCOME TAXES

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

in TEUR	2016	2015
Income tax benefit (+) / expense (-) at tax rate of 25 %	11,264	5,008
Foreign tax rate differentials	4,208	3,808
Change in foreign tax rates	-389	171
Impairment on goodwill	-895	-5,383
Non deductible expenses	-1,287	-1,063
Non-taxable changes of option commitments and contingent purchase prices	5,071	1,005
Income exempt from tax and tax incentives	271	50
Valuation of shares in subsidiaries	0	1,137
Withholding and foreign taxes	-555	-691
Prior year adjustments	220	628
Tax loss carryforwards not recognized	-2,834	-2,348
Impairment of tax loss carryforwards recognized in prior years	-156	-708
Consumption of tax loss carryforwards not capitalized in prior years	2	2
Profit allocation to management participations	375	-118
Profit allocation to non-controlling interests	959	0
Other differences	798	-448
Consolidated income tax benefit	**17,052**	**1,050**
Profit/loss before tax	-45,053	-20,032
Profit allocation to management participations	-1,656	470
	-46,709	**-19,562**
Consolidated income tax benefit	**17,052**	**1,050**
Consolidated tax rate	36.5 %	5.4 %

The components of income taxes were as follows:

in TEUR	2016	2015
Current taxes	8,299	-5,566
Deferred taxes	8,753	6,616
Total	**17,052**	**1,050**

Deferred taxes mainly result from the formation and reversal of temporary differences and the capitalization of tax effects relating to current tax losses.

The following income taxes were recognized under Other comprehensive income:

in TEUR	2016	2015
Current taxes		
Exchange rate differences	-1,249	0
Remeasurements IAS 19	-6	-168
Deferred taxes		
Exchange rate differences	890	-590
Total	**-365**	**-758**

The negative balance of deferred taxes was reduced by TEUR 143 during 2016 (2015: increase by TEUR 1,556) due to exchange rate differences.

The payment of dividends to the shareholders will not result in any implications on income taxes for the Company for the business year 2016 and the comparative period of 2015.

NOTE 31

SEGMENT REPORTING

The Company worldwide mainly operates in one industry segment, the design and manufacturing of drilling equipment for the oil and gas industry.

The following segment report is prepared in accordance with IFRS 8 using the "management approach" of the Management Board of SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft in its capacity as the chief operating decision maker who monitors the performance of the business units and decides on the allocation of resources to the business segments.

Internal management of the Group as well as the allocation of resources is based on the financial performance of these segments. Management monitors sales, operating profit and profit before tax of these business units separately for the purpose of making decisions on the allocation of resources.

The business units 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. For applications in the MWD/LWD technology sector, collars and internals made of highly alloyed steel and other non-magnetic metals are required. These collars and internals are used to mount antennas, sensors, batteries, generators and other kind of electronic parts, for making measurements and analyses during the drill operation.

The segment "Oilfield Equipment" covers products directly ordered by the operating oilfield organizations of our customers, such as

› Non-Magnetic Drill Collars (NMDC), steel bars which are used to prevent magnetic interference during MWD operations;
› Drilling motors, which drive the bit for directional drilling operations;
› Circulation tools steer the flow direction of drilling muds in the drill string;
› Various other tools for the oilfield such as stabilizers, reamers, hole openers, drilling jars and shock tools;
› Completion tools which allow for an improved oil and gas production at increased well integrity.

In addition to the manufacture of the above mentioned products, service and repair work is carried out. These activities focus on drillstring components which need to be inspected, checked for magnetic inclusions, rethreaded, buttwelded, resurfaced with hard metal, reground, shot peened, etc. as quickly as possible and with the highest standard in workmanship.

The decision on the aggregation to the two segments "High Precision Components" and "Oilfield Equipment" is based on the comparability of major economic characteristics (particularly types of product groups and services, customer groups, sales methods and currency risks).

As the figures stated represent a summary of the single balance sheets and income statements of the consolidated companies, holding adjustments and consolidation entries (elimination of intercompany profits and other Group transactions) have to be taken into account in order to arrive at the reported Group numbers.

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

Intersegment sales are carried out in accordance with the "at arm's length" principle.

Year 2016 **in TEUR**	**High Precision Components**	**Oilfield Equipment**	**SBO-Holding & Consolidation**	**Group**
External sales	55,261	127,729	0	182,990
Intercompany sales	16,504	16,355	-32,859	0
Total sales	71,765	144,084	-32,859	182,990
Profit from operations before impairments and restructuring measures	-29,282	-17,966	-5,476	-52,724
Profit/loss before tax	-31,228	-6,965	-6,860	-45,053
Attributable assets	276,578	530,528	-5,050	802,056
Attributable liabilities	63,863	175,197	137,263	376,323
Capital expenditure	883	12,144	13	13,040
Depreciation & amortization	16,334	38,664	1,062	56,060
thereof impairment	1,789	3,316	0	5,105
Reversal of impairments	229	0	0	229
Head count (average)	610	529	24	1,163

Year 2015 **in TEUR**	**High Precision Components**	**Oilfield Equipment**	**SBO-Holding & Consolidation**	**Group**
External sales	143,484	170,250	0	313,734
Intercompany sales	40,359	53,016	-93,375	0
Total sales	183,843	223,266	-93,375	313,734
Profit from operations before impairments and restructuring measures	-5,906	13,326	-3,675	3,745
Profit/loss before tax	-11,349	-1,037	-7,646	-20,032
Attributable assets	338,277	417,897	-15,671	740,503
Attributable liabilities	112,067	109,682	68,394	290,143
Capital expenditure	4,348	18,199	504	23,051
Depreciation & amortization	24,005	50,114	1,136	75,255
thereof impairment	3,842	20,048	0	23,890
Reversal of impairments	0	0	0	0
Head count (average)	841	472	26	1,339

GEOGRAPHIC INFORMATION

Sales to external customers were as follows:

in TEUR	2016	2015
Austria	651	2,411
Great Britain	12,283	30,285
USA	93,779	158,878
Other countries	76,277	122,160
Total sales	**182,990**	**313,734**

The classification is based on the location of the customer. There are no other countries with sales exceeding 10 % of total sales of SBO Group.

For information regarding the most important customers see Note 36.

Long-term assets are located as follows:

in TEUR	2016	2015
Austria	51,847	58,453
Great Britain	31,433	40,656
USA	224,391	112,049
Canada	36,853	41,078
Dubai	49,170	55,500
Other countries	16,270	17,754
Total long-term assets	**409,964**	**325,490**

Assets are classified according to the location of the entity.

NOTE 32

REMUNERATION FOR THE EXECUTIVE AND SUPERVISORY BOARD

The remuneration paid to the Executive Board was as follows:

2016 in TEUR	fixed	variable	total
Gerald Grohmann	573	180	753
Klaus Mader	288	50	338
Total	**861**	**230**	**1,091**

2015 in TEUR	fixed	variable	total
Gerald Grohmann	565	717	1,282
Franz Gritsch (until 30 September 2015)	262	205	467
Klaus Mader (from 1 October 2015)	81	0	81
Total	**908**	**922**	**1,830**

Expenses for pensions and severance payments relating to the Executive Board amounted to TEUR -107 (2015: TEUR 426). Thereof, TEUR 103 (2015: TEUR 324) referred to defined contribution pension plans. Expenses for share-based payments in business years 2016 and 2015 are not included in the remuneration amounts mentioned above. For information on the voluntary severance and share-based payments see Note 33.

Remuneration for the Supervisory Board amounted to TEUR 39 in the business year 2016 (2015: TEUR 115), which is a combination of a flat rate and a variable rate depending on the Group´s results.

In 2016 and 2015 no loans were granted to the members of the Executive Board or to the Supervisory Board, respectively.

NOTE 33

SHARE-BASED PAYMENTS

In business year 2016 expenses for share-based payments totaled TEUR 587 (2015: TEUR 803). In business year 2014 the Chairman of the Board, Gerald Grohmann, was granted an annual transfer of 6,000 SBO shares, contingent upon a valid employment agreement. The first shares were transferred in 2014. For a period of two years following the transfer, however not exceeding the termination of the employment agreement, the shares are subject to a restriction on alienation or encumbrance on Mr. Grohmann's part. The transfer of shares is limited to a total market value of TEUR 1,300 with the market value being assessed at the end of each retention period. The market value of 6,000 shares at the time of transfer in 2016 was TEUR 321 (2015: TEUR 384). The market value of 12,000 shares transferred (but still under the restriction mentioned above) totaled TEUR 918 as of 31 December 2016 (2015: 12,000 shares equaling a market value of TEUR 605).

In addition, during 2014 the Company granted to the Chief Executive Officer a voluntary severance payment of 30,000 SBO shares at the end of the employment contract in December 2018. At the commitment date the value per share was determined at EUR 70.00, based on the average price for the previous 36 months.

NOTE 34

TRANSACTIONS WITH RELATED PARTIES

The following transactions with related but non-consolidated companies and persons were carried out at generally acceptable market conditions:

The law firm Schleinzer & Partner is the legal consultant to the Company. One of the law firm´s partners, Karl Schleinzer, is a member of the Supervisory Board. Total charges for 2016 amounted to TEUR 36 (2015: TEUR 36), thereof outstanding as of 31 December 2016 TEUR 0 (31 December 2015: TEUR 9).

NOTE 35

FINANCIAL INSTRUMENTS

Derivative Financial Instruments

1. Forward exchange contracts

The Austrian company hedges its net receivables denominated in US dollars and CAN dollars on an ongoing basis by entering into forward exchange contracts. All transactions have short-term durations (3 – 8 months).

Forward exchange transactions as of 31.12.2016	Hedged receivables in TEUR	Receivables at effective date rates in TEUR	Fair value in TEUR
USD	2,715	2,838	-123
CAD	69	70	-1

Forward exchange transactions as of 31.12.2015	Hedged receivables in TEUR	Receivables at effective date rates in TEUR	Fair value in TEUR
USD	8,607	8,694	-87
CAD	0	0	0

The forward exchange transactions are measured at fair value and recognized in the profit and loss statement, since the requirements under IAS 39 for hedge accounting are not fully met.

2. Other derivative financial instruments

The Group has recognized liabilities for contingent purchase price payments from business combinations and option commitments relating to cancelable non-controlling interests (see Notes 15 and 20).

Overview financial instruments

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

Financial Instruments 31.12.2016 in TEUR		Category acc. to IAS 39			Classification acc. to IFRS 7: Valuation method Fair value	Amortized costs					
		Loans and receivables	Other financial liabilities	Derivatives	Derivatives	Cash and cash equivalents	Trade accounts receivable	Lendings	Financing liabilities	Trade accounts payable	Other
Current assets											
Cash and cash equivalents	193,453	193,453				193,453					
Trade accounts receivable	49,526	49,526					49,526				
Income tax receivable	11,406										
Other accounts receivable and other assets	2,864										
Assets held for sale	5,068										
Inventories	105,653										
Total current assets	**367,970**										
Non-current assets											
Property, plant & equipment	165,344										
Goodwill	174,716										
Other intangible assets	69,904										
Long-term receivables	12,483	11,347						11,347			
Deferred tax assets	11,639										
Total non-current assets	**434,086**										
TOTAL ASSETS	**802,056**	**254,326**	**0**	**0**	**0**	**193,453**	**49,526**	**11,347**	**0**	**0**	**0**
Current liabilities											
Bank loans and overdrafts	32,499		32,499						32,499		
Current portion of long-term loans	37,233		37,233						37,233		
Finance lease obligations	28		28						28		
Trade accounts payable	11,929		11,929							11,929	
Government grants	97										
Income taxes payable	2,010										
Other payables	19,979		4,553	5,046	5,046						4,553
Other provisions	4,206										
Total current liabilities	**107,981**										
Non-current liabilities											
Long-term loans	174,691		174,691						174,691		
Finance lease obligations	0										
Government grants	57										
Employee benefit obligations	5,296										
Other payables	78,260		24,633	53,627	53,627				20,293		4,340
Deferred tax payables	10,038										
Total non-current liabilities	**268,342**										
Shareholders´ equity											
Share capital	15,947										
Contributed capital	66,812										
Legal reserve	785										
Other reserves	19										
Translation reserve	61,109										
Retained earnings	281,061										
Total shareholders´ equity	**425,733**										
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY	**802,056**	**0**	**285,566**	**58,673**	**58,673**	**0**	**0**	**0**	**264,744**	**11,929**	**8,893**

Financial Instruments		Category acc. to IAS 39			Classification acc. to IFRS 7: Valuation method — Fair value	Classification acc. to IFRS 7: Valuation method — Amortized costs					
31.12.2015 in TEUR		Loans and receivables	Other financial liabilities	Derivatives	Derivatives	Cash and cash equivalents	Trade accounts receivable	Lendings	Financing liabilities	Trade accounts payable	Other
Current assets											
Cash and cash equivalents	196,278	196,278				196,278					
Trade accounts receivable	49,199	49,199					49,199				
Income tax receivable	5,205										
Other accounts receivable and other assets	4,320										
Assets held for sale	2,230										
Inventories	133,748										
Total current assets	**390,980**										
Non-current assets											
Property, plant & equipment	193,024										
Goodwill	81,718										
Other intangible assets	50,749										
Long-term receivables	12,864	12,259						12,259			
Deferred tax assets	11,168										
Total non-current assets	**349,523**										
TOTAL ASSETS	**740,503**	**257,736**	**0**	**0**	**0**	**196,278**	**49,199**	**12,259**	**0**	**0**	**0**
Current liabilities											
Bank loans and overdrafts	32,174		32,174						32,174		
Current portion of long-term loans	12,783		12,783						12,783		
Finance lease obligations	63		63						63		
Trade accounts payable	11,150		11,150							11,150	
Government grants	205										
Income taxes payable	1,502										
Other payables	24,696		4,544	7,372	7,372						4,544
Other provisions	4,708										
Total current liabilities	**87,281**										
Non-current liabilities											
Long-term loans	125,049		125,049						125,049		
Finance lease obligations	27		27						27		
Government grants	153										
Employee benefit obligations	5,821										
Other payables	52,459		29,399	23,060	23,060				23,519		5,880
Deferred tax payables	19,353										
Total non-current liabilities	**202,862**										
Shareholders´ equity											
Share capital	15,982										
Contributed capital	68,357										
Legal reserve	785										
Other reserves	19										
Translation reserve	50,166										
Retained earnings	315,051										
Total shareholders´ equity	**450,360**										
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY	**740,503**	**0**	**215,189**	**30,432**	**30,432**	**0**	**0**	**0**	**193,615**	**11,150**	**10,424**

Fair value of 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.

The financial instruments recognized at fair value in the consolidated financial statements are allocated as shown below:

2016 in TEUR	Balance sheet item	Total	Level 2	Level 3
Liabilities				
Derivatives	Other payables	-58,673	-124	-58,549

2015 in TEUR	Balance sheet item	Total	Level 2	Level 3
Liabilities				
Derivatives	Other payables	-30,432	-87	-30,345

During the reporting years 2016 and 2015, no transfers between the individual levels for the fair value measurements were carried out. In general, if required, transfers are carried out at the end of each reporting period.

Derivatives shown under level 3 only consist of contingent liabilities for purchase price payments (see Note 15) and the option commitments relating to cancelable non-controlling interests (see Note 20).

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

For assessing the fair value of lendings, borrowings and leasing obligations, the expected cashflows 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 amount equal the fair values to a large extent.

Cash and cash equivalents, trade receivables and trade payables and all other items have mostly short residual lives. Therefore, the carrying amounts equal the fair values at the balance sheet date.

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

		2016		2015	
in TEUR	Level	Carrying amount	Fair value	Carrying amount	Fair value
Liabilities					
Borrowings from banks, finance lease obligations and other loans	2	-244,451	-249,329	-170,096	-171,377

Net result from financial instruments

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

		Revaluation		Derecognition/Disposal		
Year 2016 in TEUR	Allowance	Profit and loss	Other comprehensive income	Profit and loss	Other comprehensive income	Fair value
Loans and receivables	-885	-	-	-	-	-885
Derivatives	-	-5,272	-	19,439	-	14,167

		Revaluation		Derecognition/Disposal		
Year 2015 in TEUR	Allowance	Profit and loss	Other comprehensive income	Profit and loss	Other comprehensive income	Fair value
Loans and receivables	-3,764	-	-	-	-	-3,764
Derivatives	-	-7,746	-	-	-	-7,746

The total amount of interest expenses determined by using the effective interest rate method for financial liabilities not valued at fair value through profit or loss is TEUR 4,011 (2015: TEUR 5,993).

NOTE 36

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 Board.

From a current point of view, no risks are discernible that may pose a threat to the survival of the Company.

General economic risks

The business situation of the Company highly depends on economic cycles, in particular on the cyclical development of oil and gas drilling activities performed by the international oil companies. As a result of reduced oil prices in 2015 and 2016 again at low level SBO Group is currently confronted with a reduction of capital expenditures of oilfield service companies. In connection with the current downturn and stockbuilding in the supply chain of customers there is a risk that a buffer effect can occur in the expected upturn due to decreasing existing stock levels. In order to minimize the risks of pertinent order fluctuations, the manufacturing companies of the Group have been designed to ensure maximum flexibility.

Sales and procurement risks

The market for products and services of the Company is to a great extent determined by continuous development and the application of new technologies. Therefore, securing and maintaining the Company's customer stock depends on the ability to offer new products and services tailored to the customers' needs.

In the year 2016, the three largest customers (which are the worldwide dominant service companies in the directional drilling market) accounted for a share of 39.9 % of all sales worldwide (2015: 52.5 %). SBO addresses the risk of potential sales declines following the loss of a customer by means of continuous innovation, quality assurance measures and close customer relationship management.

On the procurement side, raw materials and in particular alloy surcharges for non-magnetic steel are subject to significant price fluctuations. These alloy surcharges are partly passed on to the customers as part of our agreements.

The Company procures high-alloy special steel, its most essential raw material, to a great extent from one supplier and therefore faces the risk of delayed deliveries, capacity shortages or business interruptions. From today´s perspective, the Company foresees no difficulty in obtaining quality steel from this supplier in the future. In the event this supplier falls short of deliveries, there is only limited potential of substitution in the short-term.

Substitution risks

SBO is subject to the risk of substitution of its products and technologies, which may result in the emergence of new competitors. SBO counteracts that risk through continuous market observation, intensive customer relationship management and proprietary innovations.

Financial risks

As a direct result of its business operations, the Company on the one hand holds various financial assets, such as trade receivables as well as cash and cash equivalents. On the other hand, it also uses financial instruments to ensure the continuity of its operations, such as payables due to banks and trade payables.

In addition, the Company also uses derivative financial instruments to hedge interest rate and foreign exchange risks arising from its financing and business operations. However, derivatives are not used for trading or speculative purposes.

The financial instruments principally entail interest-related cashflow risks, as well as liquidity, currency and credit risks.

Foreign currency risks

Foreign currency risks arise from fluctuations in the value of financial instruments or cashflows caused by foreign exchange fluctuations.

Foreign currency risks arise in the Company where balance sheet items as well as income and expenses are generated or incurred in a currency other than the local one. Forward exchange contracts (mainly in US dollars) are concluded in order to secure receivables and liabilities in foreign currencies.

From a long-term perspective, SBO invoices approximately 80 % of its sales volume in US dollars. This is due to its customer structure. All dominating service companies on the directional drilling market are located in the US, handling their worldwide activities in US dollars. Also from a long-term perspective, approximately 50 % - 60 % of the costs are incurred in US dollars, with important production facilities being located both in the US and Europe. For reasons of costs and expedience, SBO does not hedge its entire net dollar exposure. In any case, the profit generated by SBO is contingent on the Dollar-Euro exchange rates.

The Company also faces currency translation risks when sales revenues, operating results and balance sheets of foreign subsidiaries are converted into the Group currency. The respective values depend on the exchange rate in force at the respective date. The US is not only the main market for the Group but also the base of important production facilities with significant investments. Therefore, changes in the US dollar rate have a strong impact on the Group balance sheet, which SBO addresses by taking out US dollar loans.

The table below shows the implications of a potential change in the US dollar exchange rate on the consolidated financial statements only in respect of the value of the derivative instruments in place at balance sheet date, as no material accounts receivable or accounts payable exist which are not denominated in the functional currency of each Group currency :

in TEUR	2016		2015	
Changes in EURO – US Dollar rate	+10 cents	-10 cents	+10 cents	-10 cents
Change in profit before tax	+268	-268	+698	-698

Interest rate risks

Interest rate risks result from fluctuations in interest rates on the market; these fluctuations may lead to changes in value of financial instruments and interest-related cashflows.

Almost all long-term borrowings as of 31 December 2016 have fixed interest rates; therefore they are without any interest rate risk. However, the fair value of these credit facilities is subject to fluctuations. The interest rates for all loans are disclosed in Note 17. With the exception of loans and finance-lease obligations, no other liabilities are interest bearing and therefore not subject to any interest rate risk.

The interest rate risk is further reduced by short-term interest-bearing investments which the Company holds on a permanent basis. Depending on whether there is a credit or debit balance, the interest risk may result from increasing or decreasing interest rates.

The table below shows the reasonably foreseeable implications of a potential change in interest rates on profit before tax (there are no implications on Group equity). These implications could affect the amount of interest payable to banks or interest earned on bank deposits, both only in the case of variable rates.

in TEUR	2016		2015	
Change in basis points	**+10**	**+20**	**+10**	**+20**
Change in profit before tax	+134	+268	+157	+314

Credit risks

Credit risk arises from the non-compliance with contractual obligations by business partners and the resulting losses. The maximum default risk equals the carrying amount of the respective receivables.

The credit risk with our customers can be considered as low as there have been long-standing, stable business relations with all major customers. Furthermore, we regularly check the credit rating of new and existing customers and monitor the amounts due. Adequate allowances for default risks are made.

With regard to loans granted to the Management of subsidiaries, the default risk is limited as the loans are securitized by the acquired shares (see Note 10).

As for other financial assets (liquid funds, marketable securities), the maximum credit risk equals the respective carrying amounts, in the event the counterpart defaults. The pertinent credit risk may, however, be considered as low since we choose highly rated banks only.

Liquidity risks

Liquidity risk bears the uncertainty whether or not the Company has the liquid funds required to settle its obligations at all times and in a timely manner.

Due to the high self-financing capability of the Company, the liquidity risk is relatively low. The Company earns liquid funds through its operating business and uses external financing when needed. The worldwide spread of financing opportunities prevents any significant concentration of risk.

As the most important risk spreading measure, the Group Management constantly monitors the liquidity and financial planning of the Company´s operative units. Also the financing requirements are centrally managed and based on the consolidated financial reporting of the Group members.

The table below shows all obligations for repayments and interest on financial obligations accounted for and agreed by contract as of 31 December. For other obligations, the non-discounted cashflows for the following business years are stated.

31.12.2016 **in TEUR**	**Due at call**	**2017**	**2018**	**2019**	**2020 cont´d**
Payables due to banks	32,717	-	-	-	-
Long-term loans	-	40,757	62,104	12,187	108,335
Lease obligations	-	29	-	-	-
Management interest and participation rights	-	-	-	-	20,293
Trade payables	-	11,929	-	-	-
Derivatives	4,917	5	2,802	57,378	0
Other	-	15,580	1,825	839	3,180

31.12.2015 **in TEUR**	**Due at call**	**2016**	**2017**	**2018**	**2019 cont´d**
Payables due to banks	32,350	-	-	-	-
Long-term loans	-	15,789	39,784	56,598	34,760
Lease obligations	-	65	27	-	-
Management interest and participation rights	-	-	-	-	23,519
Trade payables	-	11,150	-	-	-
Derivatives	5,048	2,238	24	23,684	19
Other	-	17,783	1,617	659	3,384

Other financial market risks

The risk variables are in particular the share prices and stock indexes.

Capital management

It is a paramount goal of the Group to ensure that we maintain a high credit rating and equity ratio in order to support our operations and to maximize the shareholder value.

It is particularly the gearing ratio (net indebtedness as a percentage of equity) that is used to monitor and manage capital. The indebtedness includes long-term loans, payables due to banks and leasing rates, less cash and cash equivalents.

Gearing was 12.0 % as of 31 December 2016 and -5.8 % as of 31 December 2015.

in TEUR	31.12.2016	31.12. 2015
Bank loans	32,499	32,174
Long-term loans	211,924	137,832
Finance lease obligations	28	90
Less: cash and cash equivalents	-193,453	-196,278
Net debt	**50,998**	**-26,182**
Total equity	425,733	450,360
Gearing	**12.0 %**	**-5.8 %**

An average dividend ratio of 30 - 60 % (of the consolidated profit after tax) payable to the shareholders is deemed to be appropriate.

NOTE 37

CONTINGENCIES

No contingencies existed as of the balance sheet dates 31 December 2016 and 31 December 2015.

NOTE 38

OTHER COMMITMENTS

The Company has operating lease commitments and commitments for capital expenditure (see Note 8). Apart from that no other commitments exist.

NOTE 39

CASHFLOW STATEMENT

The consolidated cashflow statement displays the change of cash and cash equivalents in the reporting year as a result of inflows and outflows of resources.

The liquid fund corresponds to cash and cash equivalents in the consolidated balance sheet and only includes cash on hand and bank balances as well as short-term investments.

In the cashflow statement, cashflows are classified as cashflow from operating activities, cashflow from investing activities and cashflow from financing activities.

The cashflows from foreign operations have been allowed for by applying average foreign exchange rates.

The cashflow 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 cashflow 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 cashflow from financing activities.

For the changes of shares in subsidiaries and participation rights held by managers in 2016 and 2015, the Company granted loans or reduced loans to the participants in the same amounts (TEUR -525; 2015: TEUR -6,701). Hence, no cashflows were effected.

NOTE 40

BUSINESS COMBINATIONS

Year 2016

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 were consolidated by the Group starting from 1 April 2016.

The company is a technologically leading provider of “composite frac plugs” for completion of oil and gas wells and owner of numerous patents. Well completion relates to the preparation of the well for the production of oil and gas. Downhole Technology offers composite frac plugs for the so called plug-and-perforation completions process. The 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 wider range of tight formation completion tools.

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

in TEUR	2016
Purchase price paid in cash	90,421
Option commitment relating to cancelable non-controlling interests	42,915
Total consideration	133,336
Net assets	-46,490
Goodwill	86,846

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

in TEUR	Fair value
Intangible assets	30,222
Property, plant and equipment	5,372
Inventories	6,178
Trade accounts receivable	7,088
Other receivables and assets	589
Cash and cash equivalents	393
	49,842
Trade accounts payable	-2,004
Other liabilities	-1,348
Net assets	**46,490**

For information on the acquired intangible assets please refer to Note 9.

The gross amount of acquired trade accounts receivable amounted to TEUR 8,502. Provisions for expected bad debts were TEUR 1,414. Other receivables and assets correspond to their fair values and were not impaired.

Net cashflows from the acquisition were as follows:

in TEUR	2016
Purchase price paid in cash	90,421
Cash and cash equivalents acquired	-393
	90,028

In the course of this business combination, the Company and the non-controlling shareholders agreed on a put / call option for the acquisition of the remaining 32.27 % of the shares which can be exercised at any time from 1 April 2019. For further information please refer to Note 20.

The goodwill allocated to the segment “Oilfield Equipment“ determined in the course of the first-time reporting is based on the expected development as well as on the know-how of the employees and the consideration of synergies resulting from the acquisition of the company. The recognized goodwill will be deductible for tax purposes over a period of 15 years.

In business year 2016, reported sales of the Group were increased due to the acquisition by TEUR 28,666, reported profit from operations by TEUR 5,446, thereby considering amortization of intangible assets. Had the business been acquired at the beginning of the year 2016, the Group’s sales would have increased by further TEUR 11,010; profit from operations considering amortization of intangible assets would have increased by further TEUR 1,402.

In 2016 transaction costs of TEUR 2,558 were paid, of which TEUR 2,350 are recorded in administrative expenses in business year 2016.

Year 2015

No business combinations were executed in 2015.

NOTE 41

PERSONNEL

The total number of employees was as follows:

	Annual average		Year-end	
	2016	2015	31.12.2016	31.12.2015
Blue collar	766	959	778	781
White collar	397	380	422	354
	1,163	**1,339**	**1,200**	**1,135**

NOTE 42

EVENTS AFTER THE BALANCE SHEET DATE

After the balance-sheet date no events of particular significance have occurred that would have changed the presentation of the Group's financial position and financial performance of the Group financial statements as of 31 December 2016.

NOTE 43

PROPOSED DIVIDEND

The Executive Board proposes to the shareholders that no dividend should be paid (2015: EUR 0.50 per share, which was a total distribution of MEUR 8.0 for the preceding year).

NOTE 44

EXPENSES INCURRED FOR THE GROUP AUDITORS

The following expenses were incurred from Ernst & Young Wirtschaftsprüfungsgesellschaft m. b. H. :

in TEUR	2016	2015
Audit of the consolidated annual financial statements	80	114
Other services	325	45

Other services in 2016 include expenses in the amount of TEUR 282 relating to the acquisition of Downhole Technology LLC on 1 April 2016.

MANAGEMENT INFORMATION

EXECUTIVE BOARD

Ing. Gerald Grohmann (President and CEO)
Mag. Klaus Mader (Vice President and CFO)

The contracts with the members of the Executive Board will expire on 31 December 2018 (Gerald Grohmann) and 30 September 2018 (Klaus Mader), respectively.

COMMITTEES OF THE SUPERVISORY BOARD

Nomination and Remuneration Committee:

Mag. Norbert Zimmermann
Dr. Peter Pichler
Dr. Karl Schleinzer

Audit Committee:

Mag. Norbert Zimmermann
Dr. Peter Pichler
Dr. Wolfram Littich (prior: Karl Samstag)

SUPERVISORY BOARD

Mag. Norbert Zimmermann (Chairman)
First nomination: 1995
End of current appointment: 2017

Dr. Peter Pichler (Deputy Chairman)
First nomination: 1995
End of current appointment: 2018

Mag. Brigitte Ederer
First nomination: 2014
End of current appointment: 2019

Mag. Dipl. Ing. Helmut Langanger
First nomination: 2003
End of current appointment: 2019

Dr. Wolfram Littich
First nomination: 2016 (from 27 April 2016)
End of current appointment: 2021

Karl Samstag
First nomination: 2005 (until 27 April 2016)

Dr. Karl Schleinzer
First nomination: 1995
End of current appointment: 2020

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Audit Opinion

We have audited the consolidated financial statements of SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft, Ternitz, and of its subsidiaries (the Group) comprising the consolidated statement of financial position as of December 31, 2016, the consolidated profit and loss statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year then ended and the notes to the consolidated financial statements.

Based on our audit, the accompanying consolidated financial statements were prepared in accordance with the legal regulations and present fairly, in all material respects, the assets and the financial position of the Group as of December 31, 2016 and its financial performance for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, and the additional requirements under Section 245a Austrian Company Code (UGB).

Basis for Opinion

We conducted our audit in accordance with Austrian Standards on Auditing. Those standards require that we comply with International Standards on Auditing (ISA). Our responsibilities under those regulations and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the Austrian General Accepted Accounting Principles and professional requirements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and ap-propriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the fiscal year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We considered the following matters as key audit matters for our audit:

1. **Valuation of property, plant and equipment and intangible assets, including goodwill**
2. **Acquisition of Downhole Technology LLC, including accounting of option over non-controlling interest**
3. **Valuation of deferred tax assets**

1. Valuation of property, plant and equipment and intangible assets, including goodwill

Description

In its consolidated financial statements, SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft shows Goodwill of mEUR 174.7, Property, plant & equipment of mEUR 165.3 and Other intangible assets of mEUR 69.9.

Under IFRS, as adopted by the EU, an entity is required to annually test the amount of goodwill for impairment. In addition, for intangible assets with a definite life as well as property, plant & equipment it is required to assess on each balance sheet date whether impairment indicators exist.

The currently low business volume in the Oilfield service industry, which had a key impact on the financial year 2016, serves as triggering event for the execution of impairment tests.

Recoverability of non-current assets depends on both external factors as future crude oil price, develop-ment of input factors for discount rates and internal assessment of e.g. the future development of rig counts, drilling activities as well as customer behavior and requires discretionary decisions of management. The significant risk lies in the estimation of future cash flows and discount rates respectively deviations therefrom, which could lead to further impairments not recognized in an appropriate extent.

We refer to the disclosure in the notes to the consolidated financial statements in sections "Note 4, item 8 and 9", "Note 9" and "Note 12".

How our audit addressed the matter

To address this risk, we have performed, among others, the following audit procedures:

We assessed the design of the entity's procedures for conducting impairment tests.

The composition of cash generating units (CGUs) as well as the allocation of assets, liabilities and cashflows thereto has been audited.

Forecasted sales, results and investments were reconciled to approved budgets and material planning assumptions (sales, expenditures, investments, changes in Working Capital) have been assessed in order to verify the appropriateness of budget information. Assumptions related to discount factors as well as growth rates were audited as well.

We involved EY valuation specialists in our audit procedures related to the assessment of the appropriateness of valuation models, cash flow assumptions as well as input factors.

We also evaluated whether disclosures regarding impairment testing in the notes to the consolidated financial statements were made in line with IAS 36.

2. Acquisition of Downhole Technology LLC, including accounting of option over non-controlling interest

Description

With contractual agreement dated April 1, 2016, SBO-group acquired 67.73% of Downhole Technology LLC. Main reasons for the acquisition were access to numerous patents as well as gaining know-how in preparation of drillings for the oil and gas production (completion). Net purchase price was mEUR 90.4. In the course of this business combination, a put-/call option was entered into, which entitles SBO group to purchase the remaining 32.27% on or after April 1, 2019.

In the course of a business combination, a purchase price allocation in line with IFRS 3 is performed which includes material assumptions about the existence and valuation of acquired assets and assumed liabilities. The significant risk lies in the determination of fair values and in the valuation of assets, the completeness of identifiable intangible assets as well as the estimation of future cash flows and discount rates applied. Like-wise requires the valuation of the put-/call-option input parameters which are based on estimates.

We refer to the disclosures in the Notes to the consolidated financial statements in “Note 40” and “Note 20”.

How our audit addressed the matter

We evaluated and scrutinized management’s procedures in relation to the purchase price allocation performed as well as the accounting treatment and conducted valuation calculations for the aforementioned put-/call-option. Our audit procedures included, but were not limited to, the following:

We performed inspection procedures on contractual agreements and other relevant documents related to the business combination and performed audit procedures related to the identification of assets and liabilities.

The appropriateness of valuation methods, used input factors, discount rates as well as estimation processes conducted to assess market values of identifiable assets, derive goodwill plus the put-/call-option on non-controlling interests was audited. In the course of these audit procedures, EY valuation specialists were involved.

We evaluated the appropriateness of disclosures in the Notes to the consolidated financial statements related to the business combination and the put-/call-option.

3. Valuation of deferred tax assets

Description

SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft shows deferred tax assets of in total mEUR 23.6, of which after balancing with deferred tax liabilities to same tax authorities mEUR 11.6 are shown in the consolidated balance sheet. This balance includes deferred tax assets out of unused tax losses in an amount of mEUR 4.3.

According to regulations of IFRS, the utilization of deferred tax assets is to be substantiated by tax planning procedures, which are to be conducted separately for each entity or tax group.

Due to uncertainties in the business environment the audit of the recoverability of deferred tax assets was of particular importance to us.

We refer to the disclosures in the Notes of the consolidated financial statements in “Note 11” and “Note 30”.

How our audit addressed the matter

Our audit procedures included, among others, the following:

We gained an understanding of the conceptual design of management's activities in accounting of deferred taxes.

We audited the appropriateness and correctness of considered temporary differences on assets, liabilities and unused tax losses per entity or tax group. This included the audit of the consistency of planning assumptions with approved budgets as well as therefrom derived tax planning calculations. We additionally assessed if deferred tax assets on tax losses can be utilized before they expire.

We involved EY tax specialists both on Group level as well as for significant subsidiaries in our audit to verify tax planning assumptions.

We evaluated the conformity of disclosures in the Notes to the consolidated financial statements on deferred taxes to associated assumptions.

Responsibilities of Management and of the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements in accordance with IFRS as adopted by the EU, and the additional requirements under Section 245a Austrian Company Code UGB for them to present a true and fair view of the assets, the financial position and the financial performance of the Group and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Austrian Standards on Auditing, which require the application of ISA, always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Austrian Standards on Auditing, which require the application of ISA, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Comments on the Management Report for the Group

Pursuant to Austrian Generally Accepted Accounting Principles, the management report for the Group is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the management report for the Group was prepared in accordance with the applicable legal regulations.

Management is responsible for the preparation of the management report for the Group in accordance with Austrian Generally Accepted Accounting Principles.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the management report for the Group.

Opinion

In our opinion, the management report for the Group was prepared in accordance with the valid legal requirements, comprising the details in accordance with Section 243a Austrian Company Code UGB, and is consistent with the consolidated financial statements.

Statement

Based on the findings during the audit of the consolidated financial statements and due to the thus obtained understanding concerning the Group and its circumstances, no material misstatements in the management report for the Group came to our attention.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the management report for the Group and the auditor’s report thereon. The annual report is estimated to be provided to us after the date of the auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, as soon as it is available, and, in doing so, to consider whether - based on our knowledge obtained in the audit - the other information is materially inconsistent with the consolidated financial statements or otherwise appears to be materially misstated.

Responsible Austrian Certified Public Accountant

The partner in charge of the audit resulting in this independent auditor’s report is Mr. Karl Fuchs, Certified Public Accountant.

Vienna, March 3, 2017

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Karl Fuchs eh	ppa Dipl.-Ing. (FH) Mag. Manfred Siebert eh
Certified Public Accountant	Certified Public Accountant

*) This report is a translation of the original report in German, which is solely valid. Publication or sharing with third parties of the consolidated financial statements together with our auditor's opinion is only allowed if the consolidated financial statements and the management report for the Group are identical with the German audited version. This audit opinion is only applicable to the German and complete consolidated financial statements with the management report for the Group. Section 281 paragraph 2 UGB (Austrian Company Code) applies to alternated versions.

REPORT OF THE SUPERVISORY BOARD ON THE 2016 FINANCIAL YEAR

In the 2016 financial year, the Supervisory Board performed its duties assigned to it by law and the Company's articles of association. It held four meetings and received regular oral and written reports about the business development and situation of the Company and its Group companies from the Executive Board, including information about relevant business occurrences. The discussions between the Supervisory Board and Executive Board focused on the strategic orientation and development of the Group as well as on key business transactions and measures.

At the 2016 Annual General Meeting, a personnel change took place in the Supervisory Board. Karl Samstag resigned from his position. The Supervisory Board thanks him for his many years of service at the Supervisory Board. Wolfram Littich was elected to succeed Mr. Samstag as member of the Supervisory Board. Apart from this change, the Supervisory Board and the Executive Board remained unchanged in the 2016 financial year.

The Supervisory Board has two committees: The Audit Committee and the Remuneration Committee.

In the 2016 financial year, the Remuneration Committee convened twice to prepare the above change in the Supervisory Board and to deal with matters regarding compensation of the members of the Executive Board.

The Audit Committee held two meetings in the 2016 financial year to discuss the financial reports of the Company (consolidated and annual financial statements) and performed the duties assigned to it according to section 92 (4a) Austrian Stock Corporation Act (AktG). Representatives of Deloitte Schwarz & Schmid Wirtschaftsprüfungs GmbH as auditor of the annual financial statements of the Company and of Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. as auditor of the consolidated financial statements of the Company attended the meeting of the Audit Committee which dealt with the preparation of the adoption of the annual and consolidated financial statements and their audits and reported about the auditing process. Additionally, the Audit Committee held a meeting for in-depth discussion about the planning of the audit of the consolidated financial statements with representatives of Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. The Supervisory Board was informed regularly about the results of the meetings of the Audit Committee.

The annual financial statements as of 31 December 2016 and the management report were audited by Deloitte Schwarz & Schmid Wirtschaftsprüfungs GmbH. The audit revealed that the annual financial statements comply with legal requirements, give a true and fair view of the Company's assets and financial position as of 31 December 2016 and of the earnings situation of the Company for the financial year from 1 January 2016 to 31 December 2016, and that the management report has been prepared in accordance with applicable legal requirements, contains accurate information pursuant to section 243a Austrian Commercial Code (UGB) and is consistent with the annual financial statements.

The consolidated financial statements as of 31 December, which have been prepared in accordance with the International Financial Reporting Standards (IFRS) to be applied in the EU, and the consolidated management report were audited by Ernst &

Young Wirtschaftsprüfungsgesellschaft m.b.H. The audit revealed that the consolidated financial statements comply with legal requirements, give a true and fair view of the Group's assets and financial position as of 31 December 2016 and of the earnings situation and the cashflows of the Group for the 2016 financial year, and that the consolidated management report has been prepared in accordance with applicable legal requirements, contains accurate information pursuant to section 243a Austrian Commercial Code (UGB) and is consistent with the consolidated financial statements.

As the audits did not give rise to any objections, the auditors issued unqualified audit opinions both for the annual financial statements 2016 and the consolidated financial statements 2016.

The Company's corporate governance report, which had been drawn up in accordance with the rules of the Austrian Corporate Governance Code (ACGC), was reviewed by DORDA BRUGGER JORDIS Rechtsanwälte GmbH regarding compliance with C-Rule 62 of the ACGC. This external evaluation found no facts indicating that the C-Rules of the ACGC had not been complied with.

At its meeting on 16 March 2017, and after discussion and review by the Audit Committee, the Supervisory Board reviewed the submitted annual financial statements as of 31 December 2016 and the management report as well as the consolidated financial statements as of 31 December 2016 and the consolidated management report and the corporate governance report. The final results of these reviews did not give rise to any objections. At its meeting on 16 March 2017, the Supervisory Board approved the annual financial statements as of 31 December 2016, which are therefore deemed adopted pursuant to section 96 (4) Austrian Stock Corporation Act (AktG).

The Supervisory Board extends its thanks and appreciation to the members of the Executive Board and all employees of the SBO Group for their strong commitment and performance in the 2016 financial year and thanks the shareholders and customers of the SBO Group for their trust.

Ternitz, 16 March 2017

The Supervisory Board

Norbert Zimmermann
(Chairman)

CORPORATE INFORMATION

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GLOSSARY

CIRCULATION TOOL / PBL TOOL

Circulation tool – also called PBL tool – is a special tool used for pumping plugging material through lateral openings in the drillstring to the annulus to prevent mud circulation losses in permeable rock formations or crevices. The use of such specialty tool creates considerable time and cost benefits for operators, as drilling can be continued with only a short interruption.

COMPOSITE

Composite refers to composite materials, such as fibreglass.

DECLINE RATE

Decline rate refers to the reduction in oil output from a well over time. Depending on reservoir and well, production rates from a well are declining with increasing intensity, unless specific additional investments are made to counteract the decline.

DIRECTIONAL DRILLING

Directional drilling is applied to drive the drillstring forward both in vertical and horizontal direction in order to increase the recovery factor of a reservoir, while keeping the number of central bores at a stable low level. Often, vertical wellbores are used as starting point for drilling horizontal and deviated wells to reduce the environmental footprint of operations. Directional drilling is common in shale reservoirs because it allows drillers to penetrate the most productive zones. Directional drilling is applied in close to 90 % of all exploration projects in North America.

DRILLED BUT UNCOMPLETED WELLS (DUCS)

Drilled but uncompleted well refers to a well after the end of the drilling process where initial completion has not been performed yet. For statistical reasons it is assumed that drilling is finished 20 days after it has been started. Initial completion is considered performed after the well has been fractured for the first time.

DRILLING A WELL

Drilling constitutes one part in an oil or gas exploration project. Drilling the exploration well is an essential part of the initial phase of exploration. Appraisal and production wells follow after successful completion of the exploration well. Once drilling operations have been concluded, the well is completed so as to be prepared for oil and gas production.

DRILLING MOTOR

A drilling motor is used to drive the drillstring below the surface. Within the drilling motor, hydraulic energy is converted into rotational energy, enabling rotational movement of the drill bit. In state-of-the-art drilling projects, rotation is additionally supported by the top drive unit installed on the drilling rig. Today's rotary steerable tools ensure that loss of torque in directional drilling operations is reduced to a minimum.

EXPLORATION AND PRODUCTION

Exploration refers to the development of a reservoir, and production to the extraction of oil and gas from a reservoir. Exploration and production are both part of the so-called upstream.

FRAC PLUG

Frac plug refers to a special equipment used in course of plug-n-perf completion operations to isolate different zones for building up pressure to conduct fracturing. For each well, more than 100 frac plugs may be used in today’s operations.

HORIZONTAL DRILLING

Horizontal drilling refers to a well where the departure from the vertical exceeds 80 degrees. It should be noted that some wells are designed such that, after reaching true 90-degree horizontal, the wellbore actually starts drilling upwards again. Horizontal drilling is a sub-set of the more general term directional drilling.

LOGGING WHILE DRILLING (LWD)

Logging While Drilling refers to the retrieval of geophysical parameters (and thus the discovery of reservoirs) in real-time while the drillstring is driven forward.

MEASUREMENT WHILE DRILLING (MWD)

Measurement While Drilling refers to the measuring of inclination and azimuth of the drillstring while it is driven forward.

PAD DRILLING

Pad drilling refers to drilling several horizontal wells from only one movable rig. Pad means the site where the wellheads of several boreholes are located. Pad drilling saves high costs required for disassembling and reassembling a rig at another site and reduces the overall surface footprint. Operators can drill five to ten wells from one pad.

PLUG-N-PERF

Plug-n-perf, besides sliding sleeve, refers to one of the two dominating completion technologies. At this type of completion, zones are isolated by a frac plug so as to build up pressure for the fracturing process.

RECOVERY FACTOR

The recovery factor refers to the recoverable amount of oil and gas initially in place, normally expressed as a percentage. The current global recovery factor averages 35 % and differs depending on the individual reservoir and composition of the deposit.

RESERVOIR

Reservoir refers to a subsurface body of rock having sufficient porosity and permeability to store and transmit fluids. Sedimentary rocks are the most common reservoir rocks, as they have more porosity than igneous and metamorphic rocks and form under temperature conditions at which hydrocarbons can be preserved.

RIG

Rig refers to the structure used for drilling.

RIG COUNT

Rig count refers to the number of active rigs for the exploration of oil and gas reservoirs in the individual regions.

SLIDING SLEEVE

Sliding sleeve, besides plug-n-perf, refers to one of the two dominating completion technologies. In the Ball Drop Activated Sliding Sleeve method, a ball is pumped to the relevant sleeve from the surface in order to build up pressure for activation of the opening mechanism of the sleeve. The Coil Activated Sliding Sleeve method uses an intervention tool that is run in the well alongside the coiled tubing from the surface, snapping into place at the respective sleeve to build up pressure for activation of the opening mechanism of the sleeve.

Both open-only and closable-sleeve systems are available. The latter are used to close sleeves that have already been opened for production. Pressure inside the production string is kept stable and production is optimised for the operator. This technology can be used for subsequent re-fracturing procedures as well.

SPENDING FOR EXPLORATION AND PRODUCTION

Spending for exploration and production (E&P spending) refers to the aggregate expenditure for oil and gas exploration. E&P spending forecasts serve as an indicator of the development of the oilfield service industry worldwide or for the respective region outlined.

VERTICAL DRILLING

Vertical drilling refers to wells with a departure from the vertical of up to 80 degrees. In today's cases, directional drilling is often also applied for drilling of vertical wells.

WELL COMPLETION

Well completion refers to the process step in which the well is prepared for oil and gas production once drilling operations have been concluded. Sliding sleeve and plug-n-perf are the two dominating completion technologies.

Further definitions of terms used in the oil and gas industry are outlined in the glossary at **www.sbo.at.**

IMPRESSUM

This annual report has been put together with the greatest possible diligence. Nevertheless, mistakes and printing errors cannot be excluded. This annual 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 have been prepared based on the information currently available. Should the assumptions underlying these forecasts not realize or risks – as those described in the risk report – occur, actual results may differ from the results currently expected.

This report does not stand in any connection with a recommendation to buy or sell shares in SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft.

This English translation of the report is for convenience. Only the German version shall be binding.

In the interest of simplicity and readability, the masculine or feminine gender always includes the other gender.

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