

# LETTER TO OUR SHAREHOLDERS

## 1 - 6/2008

### HIGHLIGHTS

- Sustained positive business development in the first half of 2008
- Oil price supports industry cycle
- Favourable outlook for business development in 2008
- Long-term trend in demand unchanged

## MARKET ENVIRONMENT

In the first half of 2008, the oilfield service industry operated in a sustained positive market environment. The slower additions on the supply side and constantly growing demand from China and India kept E&P spending at a high level. As before, the surging oil price drives growth in the oilfield service industry and provides for rising exploration budgets. Even recent fears of economic slowdown had no negative repercussions on the oilfield service industry in the first six months of 2008.

Global demand for oil in the second quarter of 2008 was 86.2 million barrels per day (mbpd), following 85.1 mbpd in the same quarter of last year. Total demand for 2008 is estimated at 86.9 mbpd by the

International Energy Agency (IEA). For 2009, IEA expects another increase by around 1 % to 87.7 mbpd, driven by ongoing economic growth in the non-OECD countries mainly in Asia, the Middle East

and Latin America, while due to the high oil prices and slower economic growth, demand in OECD countries will go down slightly.<sup>1</sup>

The record prices of crude oil in the first quarter were again exceeded in the second quarter. At the beginning of the second quarter of 2008, the oil price<sup>2</sup> stood at around USD 101 per barrel and climbed to around USD 140 per barrel until 30 June 2008. At the onset of the third quarter, the oil price went to a record USD 145.6 (11 July 2008), but then fell considerably and, early in August 2008, arrived at USD 125 per barrel.

## BUSINESS DEVELOPMENT

Following the excellent results achieved in the first quarter of 2008, the positive business development of Schoeller-Bleckmann Oilfield Equipment AG (SBO) continued throughout the second quarter of 2008. The order backlog as at 30 June 2008 of MEUR 211 was at the same level as in the first quarter of 2008 (following MEUR 243 at the end of the first half of 2007). Aggregate bookings received in the first half of 2008 amounted to MEUR 175.6, after MEUR 162.4 year-on-year.

Group sales generated in the first half of 2008 were MEUR 185.5, an increase of 23 % over the first half of 2007 (MEUR 150.8). This substantial growth already reflects the start-up of the new production facilities, mainly at the Ternitz site. Adjusted for the US dollar exchange rate, sales would even have gone up by as much as approximately 37 %. EBIT went

from MEUR 35.3 in the first half of 2007 to MEUR 41.9, up 19 %. The EBIT margin for the first half of 2008 was 22.6 % (following 23.4 % in the first half of 2007). Profit before tax stood at MEUR 39.1, up 15 % over the same period of the previous year (first half of 2007: MEUR 33.9). Year-on-year, profit after tax was improved by 12 % to MEUR 27.5. Earnings per share in the second quarter rose to EUR 0.89, up 7 % against the first quarter of 2008. Compared with the first half of 2007, earnings per share grew 13 % to EUR 1.73 per share in the first half of 2008.

Concerning raw material costs, the price surge observed in recent years was followed by a decline for certain alloy metals, in line with the international trend. As for personnel costs and availability, the situation continued to be tense. As before, the market for skilled labour is characterized by a lack of highly qualified staff. Nevertheless, SBO could cover growing manpower requirements, and the headcount as at 30 June 2008 increased to 1,276 (31 March 2008: 1,249).

The Service & Supply Shops were again fully booked in the second quarter of 2008. We plan to establish our Russian site more firmly in the region by acquiring the property leased until now. Formal conclusion of the transaction is scheduled for the third quarter.

In June 2008, Schoeller-Bleckmann placed a corporate bond worth MEUR 40 divided into two tranches. The coupon rate for the first tranche is 5.75 % with a maturity of five years, and 5.875 % for the second tranche with a maturity of seven years. The offer was addressed exclusively to institutional investors and serves to optimize the debt capital structure of SBO.

Sales and profit increase  
in the first half of 2008

## CAPITAL EXPENDITURE

SBO's organic growth was continued as planned in the first half of 2008 via further capital spending. Aggregate additions to fixed assets in the first half of 2008 were MEUR 22.5, following MEUR 34.8 in the first half of 2007. Investment efforts focused on acquiring further production equipment at the Ternitz site and additional capacity increases in North America. The stock of drilling motors at our subsidiary BICO was also enlarged; drilling motors are leased out to exploration companies. The investment was made with a view to the anticipated increase of drilling activities in North America.

Purchase commitments for fixed assets as at 30 June 2008 were MEUR 18.1 (MEUR 21.0 as at 30 June 2007).

<sup>1</sup> International Energy Agency Oil Market Report

<sup>2</sup> Oil price of Western Texas Intermediate (WTI) brand

## RISK MANAGEMENT REPORT

Business risks of Schoeller-Bleckmann did not change substantially in the first six months of 2008 over the risks mentioned in the 2007 financial statements. We therefore refer to the risks described in the Annual Report 2007, in particular the USD/EUR currency exchange risk and recommend to read this report on the first half of 2008 in conjunction with the Annual Report 2007.

## THE SBO SHARE

The share of Schoeller-Bleckmann Oilfield Equipment AG completed the first half of 2008 at a closing price of EUR 68.45 on 30 June 2008, which was an increase of 11.2 % compared with the annual closing price 2007 of EUR 61.57. The ATX lost 12.6 % in the same period. In the second quarter of 2008, the SBO share rose by 21.3 % (31 March 2008: EUR 56.44) and the ATX by 4.7 %. The quarterly intraday all-time high arrived at EUR 72.49 (17 June 2008).

On 21 May 2008 SBO was informed that A & B Banken-Holding GmbH reduced their shareholding from more than 5 % to 4.95 % as at 26 May 2008.

## OUTLOOK

Schoeller-Bleckmann Oilfield Equipment AG expects business to develop favourably in the second half of 2008, as all production capacities are fully booked. Despite a slowdown of the global economic development, the industry cycle is not expected to lose momentum in the second half of 2008 either. The market environment remains intact, as the growing number of drilling projects conducted under increasingly difficult conditions still drives the demand for high-tech drilling components.

Uncertainties influencing the bottom-line still arise from the further development of the USD/EUR exchange rate, changing customer dispositions and the overall economic development with its immediate effects on global oil consumption. Moreover, growing competition and price awareness in the oilfield service industry have to be factored in.

Growth trend in oilfield service industry continues undiminished

On the long term, we expect the growth tendency in the oilfield service industry to continue undiminished, as oil and gas will remain the leading sources of energy in the next years and decades.

## OTHER DISCLOSURES

The interim report as at 30 June 2008 has been prepared according to the principles of the International Financial Reporting Standards (IFRS), rules for interim financial reporting (IAS 34), to be applied in the European Union.

The accounting and valuation methods of 31 December 2007 have been applied unchanged; in this context, we refer to the consolidated financial statements for the year ended 31 December 2007. In the first six months of 2008 no changes occurred in the scope of consolidation.

The Executive Board declares that the financial statements for the first half of 2008 of SBO, prepared in accordance with the International Financial Reporting Standards (IFRS), give a true and fair view of the net assets, financial position and results of operations of all entities included in consolidation. The report also gives a true and fair view of the net assets, financial position and results of operations of SBO and provides information about business development and effects of existing and/or future risks on the business operations of SBO. This report on the first half of 2008 of the SBO group has neither been audited nor reviewed by independent accountants. Business development of SBO is not subject to seasonal influences.

Under the share buyback programme adopted last year, 48,298 own shares were acquired for MEUR 2.1 in the first half of 2008.

No important events have occurred after the balance sheet date.



**Gerald Grohmann**  
Chairman of the  
Executive Board, CEO



**Franz Gritsch**  
Member of the  
Executive Board, CFO

## PROFIT AND LOSS STATEMENT

| in TEUR  | 6 months ended |                | 3 months ended |               |
|--|----------------|----------------|----------------|---------------|
|  | 30.06.2008     | 30.06.2007     | 30.06.2008     | 30.06.2007    |
| <b>Sales</b>                                       | <b>185,523</b> | <b>150,809</b> | <b>96,889</b>  | <b>80,030</b> |
| Cost of goods sold                                 | -128,875       | -103,407       | -67,470        | -54,815       |
| <b>Gross profit</b>                                | <b>56,648</b>  | <b>47,402</b>  | <b>29,419</b>  | <b>25,215</b> |
| Selling expenses                                   | -5,678         | -5,204         | -2,890         | -2,659        |
| General and administrative expenses                | -8,021         | -6,865         | -4,088         | -3,599        |
| Other operating expenses                           | -6,792         | -2,377         | -2,475         | -1,047        |
| Other operating income                             | 5,786          | 2,359          | 1,814          | 1,486         |
| <b>Operating profit</b>                            | <b>41,943</b>  | <b>35,315</b>  | <b>21,780</b>  | <b>19,396</b> |
| Interest income                                    | 416            | 517            | 264            | 365           |
| Interest expenses                                  | -2,031         | -1,347         | -1,092         | -706          |
| Other financial income                             | 0              | 577            | 0              | 99            |
| Other financial expenses                           | -1,211         | -1,117         | -708           | -972          |
| <b>Financial result</b>                            | <b>-2,826</b>  | <b>-1,370</b>  | <b>-1,536</b>  | <b>-1,214</b> |
| <b>Income before taxation</b>                      | <b>39,117</b>  | <b>33,945</b>  | <b>20,244</b>  | <b>18,182</b> |
| Income taxes                                       | -11,580        | -9,459         | -5,989         | -5,161        |
| <b>Income after taxation</b>                       | <b>27,537</b>  | <b>24,486</b>  | <b>14,255</b>  | <b>13,021</b> |
| Average number of shares outstanding               | 15,957,009     | 16,000,000     | 15,951,702     | 16,000,000    |
| <b>Earnings per share in EUR (basic = diluted)</b> | <b>1.73</b>    | <b>1.53</b>    | <b>0.89</b>    | <b>0.81</b>   |

## STATEMENT OF SHAREHOLDERS' EQUITY

| 31 December 2007 - 30 June 2008  |                | in TEUR |
|----------------------------------|----------------|---------|
| Equity at 31 December 2007       | 194,105        |         |
| Income after taxation            | 27,537         |         |
| Dividend                         | -17,547        |         |
| Currency translation adjustments | -8,932         |         |
| Acquisition of own shares        | -2,065         |         |
| <b>Equity at 30 June 2008</b>    | <b>193,098</b> |         |

| 31 December 2006 - 30 June 2007  |                | in TEUR |
|----------------------------------|----------------|---------|
| Equity at 31 December 2006       | 171,698        |         |
| Income after taxation            | 24,486         |         |
| Dividend                         | -12,800        |         |
| Currency translation adjustments | -2,490         |         |
| Other changes                    | -248           |         |
| <b>Equity at 30 June 2007</b>    | <b>180,646</b> |         |

## BALANCE SHEET

| ASSETS in TEUR                                 | 30.06.2008     | 31.12.2007     |
|--|----------------|----------------|
| <b>Current assets</b>                          |                |                |
| Cash and cash equivalents                      | 39,187         | 23,916         |
| Trade accounts receivable                      | 58,301         | 44,954         |
| Other accounts receivable and prepaid expenses | 5,746          | 6,033          |
| Inventories                                    | 118,168        | 119,339        |
| <b>Total current assets</b>                    | <b>221,402</b> | <b>194,242</b> |
| <b>Non-current assets</b>                      |                |                |
| Property, plant & equipment                    | 121,467        | 116,709        |
| Goodwill                                       | 32,293         | 33,934         |
| Other intangible assets                        | 248            | 277            |
| Long-term receivables                          | 4,030          | 4,740          |
| Deferred tax assets                            | 7,588          | 8,003          |
| <b>Total non-current assets</b>                | <b>165,626</b> | <b>163,663</b> |
| <b>TOTAL ASSETS</b>                            | <b>387,028</b> | <b>357,905</b> |

| LIABILITIES AND SHAREHOLDERS' EQUITY in TEUR      | 30.06.2008     | 31.12.2007     |
|---|----------------|----------------|
| <b>Current liabilities</b>                        |                |                |
| Bank loans and overdrafts                         | 40,462         | 41,871         |
| Current portion of long-term bank loans           | 5,192          | 3,516          |
| Accounts payable trade                            | 34,480         | 39,863         |
| Subsidies received                                | 221            | 254            |
| Income taxes payable                              | 6,454          | 6,846          |
| Other payables                                    | 14,935         | 15,818         |
| Other accruals                                    | 8,602          | 8,397          |
| <b>Total current liabilities</b>                  | <b>110,346</b> | <b>116,565</b> |
| <b>Non-current liabilities</b>                    |                |                |
| Bonds   | 39,769         | 0              |
| Long-term bank loans                              | 26,365         | 30,079         |
| Subsidies received                                | 1,738          | 1,175          |
| Retirement benefit obligations                    | 3,445          | 3,382          |
| Accounts payable trade                            | 150            | 172            |
| Other payables                                    | 6,294          | 5,960          |
| Deferred tax payables                             | 5,823          | 6,467          |
| <b>Total non-current liabilities</b>              | <b>83,584</b>  | <b>47,235</b>  |
| <b>Shareholders' equity</b>                       |                |                |
| Share capital                                     | 15,952         | 16,000         |
| Contributed capital                               | 63,782         | 65,799         |
| Legal reserve - non-distributable                 | 785            | 785            |
| Other reserves                                    | 47             | 50             |
| Translation component                             | -41,109        | -32,177        |
| Retained earnings                                 | 153,641        | 143,648        |
| <b>Total shareholders' equity</b>                 | <b>193,098</b> | <b>194,105</b> |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>387,028</b> | <b>357,905</b> |

## CASH FLOW STATEMENT

| in TEUR   | 6 months ended |               |
|---|----------------|---------------|
|   | 30.06.2008     | 30.06.2007    |
| <b>Cash and cash equivalents at the beginning of the period</b> | <b>23,916</b>  | <b>40,850</b> |
| Cash earnings   | 42,150         | 31,616        |
| Cash flow from operating activities                             | 15,399         | 10,193        |
| Cash flow from investing activities                             | -21,553        | -32,578       |
| Cash flow from financing activities                             | 19,402         | 5,275         |
| Effects of exchange rate changes and revaluations               | 2,023          | 119           |
| <b>Cash and cash equivalents at the end of the period</b>       | <b>39,187</b>  | <b>23,859</b> |

## DIVIDEND PAID

|   | Total amount<br>TEUR | Number of shares<br>(ordinary shares) | Per share<br>EUR |
|---|----------------------|---------------------------------------|------------------|
| For the business year 2007 paid in 2008 | 17,547               | 15,951,702                            | 1.10             |
| For the business year 2006 paid in 2007 | 12,800               | 16,000,000                            | 0.80             |

## SEGMENT INFORMATION

| in TEUR          | Europe  | North<br>America | Other<br>regions | SBO-<br>Holding &<br>Consolidation | Group   |
|------------------|---------|------------------|------------------|------------------------------------|---------|
| <b>1-6/2008</b>  |         |                  |                  |                                    |         |
| Sales            | 118,519 | 139,341          | 9,344            | -81,681                            | 185,523 |
| Operating profit | 19,241  | 24,626           | 2,168            | -4,092                             | 41,943  |
| <b>1-6/2007</b>  |         |                  |                  |                                    |         |
| Sales            | 76,352  | 125,045          | 6,832            | -57,420                            | 150,809 |
| Operating profit | 15,005  | 23,415           | 1,416            | -4,521                             | 35,315  |

This report includes information and forecasts that are based on the future development of the SBO Group and its member companies. These forecasts represent estimates, which were prepared based on the information available at this time. If the assumptions underlying these forecasts are not realized or risks – as described in the risk report – should in fact occur, actual results may differ from the results expected at this time.

This report is not connected with a recommendation to buy or sell shares in Schoeller-Bleckmann Oilfield Equipment AG. The English translation of this report is for convenience. Only the German version is binding.

- Schoeller-Bleckmann Oilfield Equipment AG is the global market leader in high-precision components for the oilfield service industry.
- The business focus is on non-magnetic drillstring components for high-tech directional drilling.
- Worldwide, the company employs a workforce of 1,276 (end of 2007: 1,222), thereof 391 in Ternitz/Austria and 632 in North America (including Mexico).

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