Letter to our Shareholders
1-9/2012

SCHOELLER
BLECKMANN
OILFIELD
EQUIPMENT

THE DEMAND SUPPLY STORY

HIGHLIGHTS

- Nine-month record sales and profit figures
- Bookings in first nine months clearly above last year's level
- Global demand for oil remains stable despite weakening economic growth

MANAGEMENT REPORT

Market environment

Following a short period of recovery early in 2012, global economic growth started to take a continuous slowdown. In the Western industrialised world, this development was mainly due to the budget consolidation policy pursued by governments to respond to the public debt problem, weak domestic demand and persistent uncertainty in the financial markets. In turn, the weakness seen in the industrialised nations had repercussions on the emerging markets, where exports to the Western industrialised countries decreased.

Regardless of the relatively weak global economic growth worldwide demand for oil remained stable. According to the International Energy Agency (IEA) global demand for oil arrived at 90.1 million barrels per day in the third quarter of 2012, up 0.7 % or 0.6 million barrels per day year-on-year.[1]

„Sound market environment despite weak global economic growth"

The prices of US crude WTI and European crude Brent climbed by 10.8 % to USD 92.18 for one barrel of WTI and 12.9 % to USD 111.36 for one barrel of Brent from the beginning of June to the end of September 2012. Compared to last year's figures at the end of the third quarter, this represented a price increase of 16.8 % for WTI and 5.6 % for Brent in the same period.[2]

The global rig count[3], the number of active drilling rigs worldwide, came to 3468 rigs in September 2012. Year-on-year (rig count September 2011: 3662 rigs) the number of globally operating drilling rigs fell by 5.3 %, mainly due to the somewhat weaker development in North America.

The US rig count, decreased by 7.1 % to 1848 rigs from end of September 2011 to end of September 2012 (28 September 2012), primarily because the number of gas wells had gone down by 46.4 % since the beginning of the year. However, this decline was almost fully offset by the strongly growing number of oil wells. While as much as 76.3 % of all US wells was accounted for by oil wells at the end of September 2012, the share of gas wells shrunk to 23.5 %. At the end of the third quarter of 2011, the share of oil wells had still stood at 53.3 % (gas wells: 46.4 %). In view of the oversupply of gas in the market gas prices started to fall considerably.

However, compared to the end of September 2010 the overall US rig count grew by 12.0 %, a strong indicator of the fundamentally healthy development of the US market. Compared to September 2010 (3122 units) the global rig count increased by 11.1 %.

The share of directional and horizontal drilling rigs in the total number of US rigs grew again to account for 72.2 % as at 28 September 2012. Last year, their share had been 69.0 % (30 September 2011).

Following the typical seasonal "spring breakup", the Canadian rig count had recovered slightly less than expected to 359 units at the end of September 2012. Compared to the end of September 2011 this represents a decrease of 29.6 %, but an increase of 27.3 % from the end of September 2010.

The number of rigs in the Gulf of Mexico had surged to 48 units, or by 60.0 %, until the end of September 2012, following 30 active drilling rigs at the end of September 2011.

Year-on-year, international drilling activity as at the end of September rose from 1174 rigs to 1254, or by 6.8%. This is another indicator of the fundamentally robust industry cycle.

Business development

In the third quarter of 2012 Schoeller-Bleckmann Oilfield Equipment AG (SBO) continued the very successful business development seen in the preceding two quarters. As a result of the strong booking volumes posted in the first half of the year, sales revenues of the first three quarters climbed from MEUR 293.9, or by 31.6 %, to MEUR 386.7 year-on-year.

„Profit improved due to higher sales and better capacity utilisation"

Earnings before interest and taxes (EBIT) in the first nine months of 2012 improved from MEUR 62.4 to MEUR 89.9, up 44.2 %. This represented an EBIT margin of 23.3 % (following 21.2 % in the first nine months of 2011). Nine-month profit before tax also improved significantly to MEUR 83.0 (following MEUR 54.2), bringing the EBT margin to a record 21.5 % (following 18.4 %). Nine-month earnings per share climbed to EUR 3.54 (following EUR 2.31).

Therefore, key sales and earnings figures in the first nine months of 2012 represent a new absolute record in the history of the company.

Increased earnings were generated both by higher sales and once again improved production capacity utilisation.

[1] *IEA Oil Market Report, November 2012*
[2] *EIA Spot Prices for Crude Oil and Petroleum Products*
[3] *Baker Hughes Rig Count*

Arriving at MEUR 56.0, net debt at the end of the third quarter was on the same level as year-on-year, MEUR 55.3. This was due to higher capital expenditure in property, plant and equipment and expansion of business volumes requiring appropriate cash-flow financing.

Likewise, bookings worth MEUR 386.7 also arrived at levels clearly above the figures posted for the same period of last year, which had come to MEUR 338.5. Due to the exceptionally strong development of the bookings situation in the first half of 2012, which was based on customers' overly optimistic assessment of the industry cycle, the volume of bookings slightly diminished in the third quarter. Additionally, general uncertainty over global economic development prompted customers to be cautious in placing orders in the third quarter. Nevertheless, SBO's order backlog of MEUR 190.3 as at 30 September 2012 significantly exceeded last year's figure of MEUR 167.4 by 13.6 %.

Very strong performance of high-precision components segment

All segments of SBO benefited from the strong order and sales performance in the first nine months of 2012. In particular, above-average sales volumes were posted in the segment of high-precision components. Demand for downhole tools also developed very positively. The strong performance of the drilling motor segment continued throughout the third quarter. With more oil than gas wells being drilled in the US, drilling motors are now used mainly in liquid-rich plays. SBO's Service & Supply shops also delivered sound results.

As SBO products were in brisk demand the company further increased the workforce. At the end of the third quarter the group employed 1598 persons (following 1418 at the end of the third quarter of 2011). The largest headcount additions were recorded at the Austrian site in Ternitz, in response to the strong demand for high-precision components.

Capital expenditure

Capital expenditure rose to MEUR 62.6 in the first nine months of 2012 (following MEUR 26.6 in the first nine months of 2011), attributed primarily to ongoing additions to machinery and extension of production capacities at the company's sites in North America and Austria and initial expenditures for expansion at the site in Ternitz, Austria, announced early in 2012. Also, the drilling motor fleet of the company's subsidiary BICO and the downhole circulation tool fleet of subsidiary DSI were extended. Purchase commitments for expenditure in property, plant and equipment as at 30 September 2012 were MEUR 11.3 (MEUR 10.6 as at 30 September 2011). The purchase price allocation for the acquisition made in the first quarter of the year has not yet been completed.

Risk report

Business risks of Schoeller-Bleckmann Oilfield Equipment AG did not change substantially in the first nine months of 2012 over the risks mentioned in the annual financial statements 2011. We therefore refer to the risks described in the Annual Report 2011, in particular the USD/EUR currency exchange rate and recommend to read this report on the third quarter of 2012 in conjunction with the Annual Report 2011.

The SBO share

The share of Schoeller-Bleckmann Oilfield Equipment AG closed at EUR 80.78 at the end of the third quarter of 2012 (28 September 2012), which also marks the quarterly high and represents a rise in the share price of 17.3 % within the first nine months of the year 2012 (2 January 2012: EUR 68.85). Compared with the closing price of EUR 51.76 on 30 September 2011 this is a remarkable increase of 56.1 %.

On 16 October 2012 the share of SBO reached its all-time high during the day at EUR 83.76 and EUR 83.15 at the close of business.

Outlook

The International Monetary Fund (IMF) has slightly revised its global economic growth projection for 2012 from 3.5 % to 3.3 %. This was due to the fact that global economic recovery had suffered setbacks in recent months. For 2013, the IMF's current forecast for global economic growth is 3.6 %.[4]

While economic output in the industrialised world is set to be sluggish in the near term, it will continue largely robust in many of the emerging markets and developing economies.

[4] *IMF World Economic Outlook Update, October 2012*

As a consequence, global demand for oil and gas will remain on the rise. The International Energy Agency (IEA) expects average global demand for oil in 2012 to total 89.6 million barrels per day (up 0.8 % or 0.7 million barrels per day from 2011) and 90.4 million barrels per day (up 0.9 % or 0.8 million barrels per day from 2012) in 2013.[5]

Even on the assumption that the global economy should grow by only 3.9 % annually in the next five years, the IEA projects annual global demand for oil to grow by approximately 1.2 % or 1.1 million barrels per day in that period - a rise in average global oil demand to 95.68 million barrels per day in 2017.[6]

This continuing healthy development of demand for oil is contrasted by the tight supply situation. Compensating for the globally declining production rates alone would require to discover and produce roughly 47 million barrels per day by 2035, which is more than half of the current daily oil demand. At the moment, effective OPEC spare capacity of approximately 2.5 million barrels per day has come close to its four-year low - clearly below the levels of 2009 and 2010, when it amounted to around 5 to 6 million barrels per day. This tight balance between oil supply and demand has brought the current oil price (Brent) considerably above USD 100 per barrel. This is the oil price level that makes all technologically highly complex oil drilling projects profitable.

Due to the positive fundamental data indicating growing demand for oil and tight oil supplies we assume, from today's perspective, that the market environment will continue to develop positively. Given customers' overly optimistic ordering behaviour in the first half of 2012 and the still unclear outlook for further global economic development, a temporarily cautious spending policy of SBO´s customers has to be taken into account.

„Positive market environment based on growing demand for oil against tight supply side"

This will neither have an effect on the medium- to long-term tendency of oil and gas to remain major sources of energy in future nor on the necessity to cover the constantly growing demand for oil and gas by drilling projects of increasing technological complexity. This is why SBO, as the global market leader in high-precision components, will consistently pursue its growth strategy even in view of the currently somewhat more volatile overall conditions.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

The interim report as at 30 September 2012 has been prepared in accordance with the principles of the International Financial Reporting Standards (IFRS), rules for interim financial reporting (IAS 34), to be applied in the European Union.

The accounting and valuation methods of 31 December 2011 have been applied basically unchanged, with the exception of the standards which came into force in 2012. The new regulations do not have a significant implication on the consolidated financial statements. In this context, we refer to the consolidated financial statements for the year ended 31 December 2011. In the first nine months of 2012 no changes occurred in the scope of consolidation, except for the acquisition of D-TECH (UK).

Business development of SBO is not subject to seasonal influences.

No important events have occurred after the balance sheet date.

This report on the third quarter of 2012 of the SBO group has neither been audited nor reviewed by independent accountants.

STATEMENT OF ALL LEGAL REPRESENTATIVES

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

Gerald Grohmann
Chairman of the
Executive Board, CEO

Franz Gritsch
Member of the
Executive Board, CFO

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[5] *IEA Oil Market Report, November 2012*
[6] *IEA Medium-Term Oil Market Report 2012*

CONSOLIDATED PROFIT AND LOSS STATEMENT

in TEUR	9 months ended 30.09.2012	9 months ended 30.09.2011	3 months ended 30.09.2012	3 months ended 30.09.2011
Sales	**386,721**	**293,935**	**130,999**	**99,523**
Costs of goods sold	-258,753	-201,684	-86,759	-68,716
Gross profit	**127,968**	**92,251**	**44,240**	**30,807**
Selling expenses	-13,701	-11,510	-4,799	-3,979
General and administrative expenses	-21,289	-16,049	-7,020	-5,127
Other operating expenses	-13,880	-9,441	-6,464	-1,035
Other operating income	10,829	7,118	5,530	1,573
Profit from operations	**89,927**	**62,369**	**31,487**	**22,239**
Interest income	546	618	106	231
Interest expenses	-4,235	-4,841	-1,332	-1,645
Other financial income	0	0	0	0
Other financial expenses	-3,231	-3,989	-1,068	-1,347
Financial result	**-6,920**	**-8,212**	**-2,294**	**-2,761**
Profit before tax	**83,007**	**54,157**	**29,193**	**19,478**
Income taxes	-25,972	-16,879	-9,308	-5,825
Profit after tax	**57,035**	**37,278**	**19,885**	**13,653**
Thereof attributable to non-controlling interests	471	358	238	60
Thereof attributable to the owners of the parent company	56,564	36,920	19,647	13,593
	57,035	**37,278**	**19,885**	**13,653**
Average number of shares outstanding	15,960,116	15,960,116	15,960,116	15,960,116
Earnings per share in EUR (basic = diluted)	**3.54**	**2.31**	**1.23**	**0.85**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in TEUR	9 months ended 30.09.2012	9 months ended 30.09.2011	3 months ended 30.09.2012	3 months ended 30.09.2011
Profit after tax	57,035	37,278	19,885	13,653
Foreign exchange adjustment - subsidiaries	2,460	-2,102	-6,508	14,871
Foreign exchange adjustment - other items	948	-1,450	184	1,672
Income tax effect	-229	363	-38	-417
Other comprehensive income, net of tax	3,179	**-3,189**	-6,362	**16,126**
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**60,214**	**34,089**	**13,523**	**29,779**
Thereof attributable to non-controlling interests	470	330	99	448
Thereof attributable to the owners of the parent company	59,744	33,759	13,424	29,331
	60,214	**34,089**	**13,523**	**29,779**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS´ EQUITY

in TEUR	9 months ended 30.09.2012	9 months ended 30.09.2011
As at 1 January	314,772	267,127
Profit after tax	57,035	37,278
Other comprehensive income, net of tax	3,179	-3,189
Total comprehensive income, net of tax	60,214	34,089
Dividend paid	-19,152	-15,960
AS AT 30 SEPTEMBER	**355,834**	**285,256**

CONSOLIDATED BALANCE SHEET

ASSETS in TEUR	30.09.2012	31.12.2011
Current assets		
Cash and cash equivalents	91,901	120,842
Trade accounts receivable	77,609	72,973
Other accounts receivable and prepaid expenses	6,663	8,916
Inventories	162,071	139,087
TOTAL CURRENT ASSETS	**338,244**	**341,818**
Non-current assets		
Property, plant & equipment	167,046	147,507
Goodwill	66,667	58,734
Other intangible assets	64,632	48,457
Long-term receivables	13,676	13,808
Deferred tax assets	10,962	9,723
TOTAL NON-CURRENT ASSETS	**322,983**	**278,229**
TOTAL ASSETS	**661,227**	**620,047**

LIABILITIES AND SHAREHOLDERS´ EQUITY in TEUR	30.09.2012	31.12.2011
Current liabilities		
Bank loans and overdrafts	29,273	29,099
Current portion of long-term loans	17,146	19,751
Finance lease obligations	219	361
Accounts payable trade	38,884	43,430
Government grants	273	271
Income taxes payable	10,746	9,966
Other payables	32,175	25,213
Other provisions	6,271	6,225
TOTAL CURRENT LIABILITIES	**134,987**	**134,316**
Non-current liabilities		
Bonds	39,939	39,906
Long-term loans	61,164	74,532
Finance lease obligations	128	274
Government grants	949	556
Employee benefit obligations	4,851	4,571
Other payables	40,585	33,053
Deferred tax liabilities	22,790	18,067
TOTAL NON-CURRENT LIABILITIES	**170,406**	**170,959**
Shareholders´ equity		
Share capital	15,960	15,960
Contributed capital	65,203	65,203
Legal reserve - non-distributable	785	785
Other reserves	30	33
Currency translation reserve	-7,679	-10,859
Retained earnings	279,564	242,149
Equity attributable to the owners of the parent company	353,863	313,271
Non-controlling interests	1,971	1,501
TOTAL SHAREHOLDERS´ EQUITY	**355,834**	**314,772**
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY	**661,227**	**620,047**

CONSOLIDATED CASH-FLOW STATEMENT

in TEUR	9 months ended 30.09.2012	30.09.2011
Cash and cash equivalents at the beginning of the period	120,842	136,989
Cash earnings	87,902	65,660
Cash flow from operating activities	67,730	35,868
Cash flow from investing activities	-60,759	-24,565
Cash flow from financing activities	-36,301	-29,348
Effects of exchange rate changes	389	-1,753
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**91,901**	**117,191**

DIVIDEND PAID

	Total amount TEUR	Number of shares (ordinary shares)	Per share EUR
For the business year 2011 paid in 2012	19,152	15,960,116	1.20
For the business year 2010 paid in 2011	15,960	15,960,116	1.00

SEGMENT INFORMATION

in TEUR	Europe	North America	Other regions	SBO-Holding & Consolidation	Group
1-9/2012					
External sales	107,250	238,829	40,642	0	386,721
Intercompany sales	98,911	18,024	2,275	-119,210	0
Total sales	206,161	256,853	42,917	-119,210	386,721
Operating profit	52,360	41,853	5,442	-9,728	89,927
1-9/2011					
External sales	49,462	212,750	31,723	0	293,935
Intercompany sales	95,986	16,465	1,014	-113,465	0
Total sales	145,448	229,215	32,737	-113,465	293,935
Operating profit	25,596	35,334	4,371	-2,932	62,369

- 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 1,598 (end of 2011: 1,459), thereof 457 in Ternitz/Austria and 664 in North America (including Mexico).

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

This report is not connected with a recommendation to buy or sell shares in Schoeller-Bleckmann Oilfield Equipment AG.

The English translation of this report is for convenience. Only the German version is binding.

For additional information please contact: Schoeller-Bleckmann Oilfield Equipment AG, A-2630 Ternitz/Austria, Hauptstraße 2
phone: +43 2630 315 251, fax: +43 2630 315 501, e-mail: f.schuetz@sbo.co.at, Internet: www.sbo.at