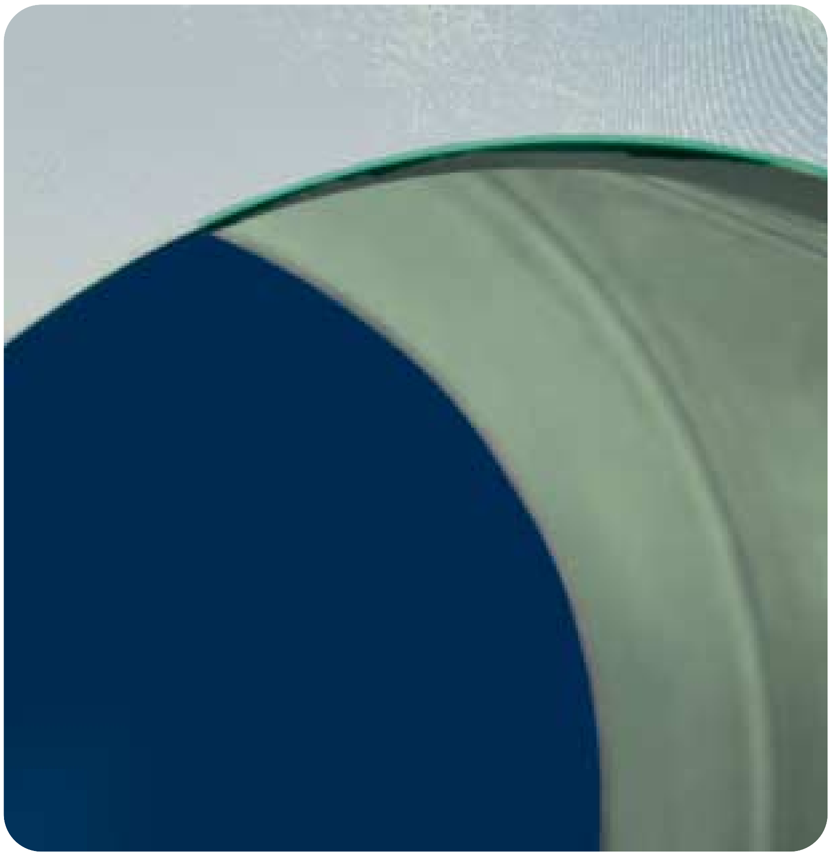
SCHOELLER
BLECKMANN
OILFIELD
EQUIPMENT

ANNUAL REPORT 2005



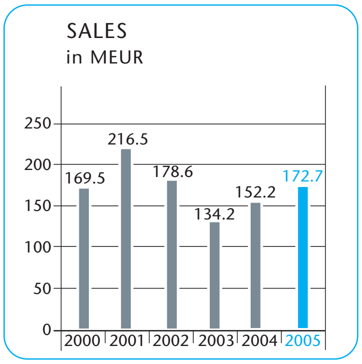
FINANCIAL HIGHLIGHTS

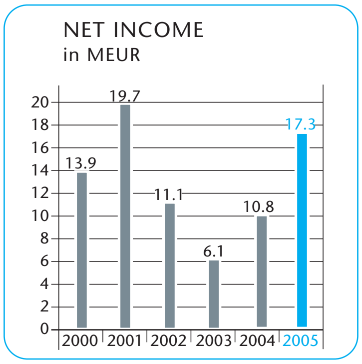
in MEUR (except share data)	2005	2004	2003	2002	2001	2000
Net sales	**172.7**	152.2	134.2	178.6	216.5	169.5
Income from operations	**25.5**	17.9	13.1	26.1	36.6	26.4
Income on ordinary activities	**24.4**	15.5	9.4	19.8	33.2	23.9
Net income	**17.3**	10.8	6.1	11.1	19.7	13.9
Earnings per share[1] (in EUR)	**1.13**	0.83	0.47	0.85	1.51	1.07
Total assets	**242.8**	173.3	176.8	192.2	225.5	199.0
Share capital	**16.0**	13.0	13.0	13.0	13.0	13.0
Sharesholders' equity	**155.2**	78.2	77.0	91.1	100.7	79.4
Return on capital employed (in %)[2]	**17.8**	13.8	9.4	17.4	24.5	20.9
Dividend per share (in EUR)	**0.50**[3]	0.40	0.30	0.50	0.50	0.25
Number of shares outstanding at year end	**16,000,000**	13,000,000	13,000,000	13,000,000	13,000,000	13,000,000

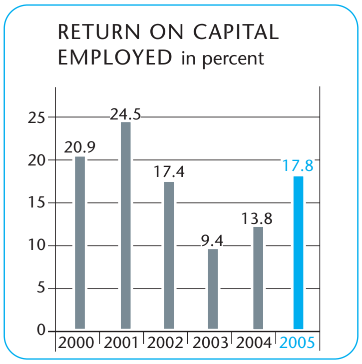
1 based on average shares outstanding

2 Return on capital employed = Income from operations after non-recurring items, divided by average capital employed.
Capital employed = Total shareholders´ equity + Bank loans + Finance lease obligations
– Cash and cash equivalents – Long-term investments

3 proposed







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COMPANY PROFILE

Schoeller-Bleckmann Oilfield Equipment (SBO) is the global market leader in non-magnetic high-precision components for the oilfield service industry. The main application of SBO products is directional drilling, a technology that allows to steer the drillbit and, therefore, to target oil deposits that are not located directly below the drilling rig. Being the leader in innovation and quality, SBO offers products and services that set the standard in the industry.

Manufacturing drillstring components made of non-magnetic specialty steels is SBO's core competence. Many decades of experience and the high technological expertise of our employees allow the company to solve even complex tasks with supreme precision. This is why the major oilfield service companies have counted among the global customers of Schoeller-Bleckmann Oilfield Equipment for many decades.

The company's core business also comprises drilling motors and drilling tools. Additionally, SBO offers its customers comprehensive after-sales repair and maintenance services. SBO's subsidiaries and service outlets are located in most hubs of the global oilfield service industry.

Schoeller-Bleckmann Oilfield Equipment's business success is based on consistent customer-orientation, combined with leadership in technology and quality. For SBO, providing added value to the customer is both the starting point and the objective of its activities. The economic strength of the company is a result of the continuous development of innovative products, high productivity, flexible use of manufacturing capacities and a foresighted investment policy.

SCHOELLER-BLECKMANN
OILFIELD EQUIPMENT AG

Ternitz/Austria
Group Sales: MEUR 172.7
Headcount: 913

NORTH AMERICA
Total Sales:
MEUR 142.1
Headcount: 468

Knust-SBO Ltd.
Houston, Tx/USA
100%

Godwin-SBO L. P.
Houston, Tx/USA
100%

BICO Drilling Tools Inc.
Houston, Tx/USA
100%

BICO Faster Drilling Tools Inc.
Nisku, Canada
100%

Schoeller-Bleckmann Energy Services L.L.C.
Lafayette, La/USA
85,5%

Schoeller-Bleckmann Sales Co.
Houston, Tx/USA
100%

Schoeller-Bleckmann de Mexico, S.A. de C.V.
Monterrey, Mexico
100%

EUROPE
Total Sales:
MEUR 78.4
Headcount: 385

Schoeller-Bleckmann Oilfield Technology GmbH & Co. KG
Ternitz, Austria
100%

Darron Tool & Engineering Ltd.
Rotherham, UK
100%

Schoeller-Bleckmann Darron Ltd.
Aberdeen, UK
100%

OTHER
Total Sales:
MEUR 11.6
Headcount: 60

Schoeller-Bleckmann Middle East FZE
Dubai, U.A.E.
100%

SB Darron Pte. Ltd.
Singapore
100%

Schoeller-Bleckmann de Venezuela C.A.
Anaco, Venezuela
100%

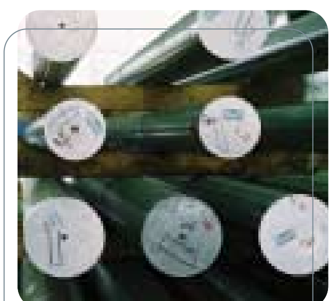
Schoeller-Bleckmann Darron Ltd.
Noyabrsk, Russia
100%

Non-operative holding companies are not shown
Headcount per Dec. 31, 2005
Sales Figures: Year Ending Dec. 31, 2005

HIGHLIGHTS 2005

March
Successful placement of capital increase – MEUR 54 issue proceeds

April
Increased dividend of 40 cents distributed



May
SBO posts above-average level of bookings

July
OPEC increases production quota to record 28 million barrels

August
WTI oil price reaches annual high of 69.82 US dollars

September
SBO share reaches all-time high of EUR 28.78

November
Start of largest investment programme in the company's history at the Ternitz site

March | April | May | June | July | August | Sept. | Oct. | November

GERALD GROHMANN MEETS PROF THONHAUSER AND PROF RUTHAMMER

In 2005, Gerald Grohmann, Chief Executive Officer of SBO, founded a think tank on the subject of "Future Technologies for the Production of Fossil Fuels" in collaboration with Univ.-Prof. Bergrat h.c. Dipl.-Ing. Dr. Gerhard Ruthammer and Univ.-Prof. Dr. Gerhard Thonhauser. Professor Ruthammer und Professor Thonhauser hold chairs at Leoben Mining University, Department of Petroleum Engineering and are internationally renowned experts in the field. The object of the think tank is to exchange experience among experts through regular discussions for sharing ideas and debating trends which have an impact on future oil and gas exploration. The purpose of this cooperation between Austrian industry and research is to focus on the essential contribution by Austrian technology and science to maintaining the global supply of oil and gas in the future.

The discussion printed below took place in Vienna in November 2005.

Grohmann:
At the moment, there is a lively debate going on concerning the price of oil and the future of oil and gas, the fossil energy sources. As early as 1972 the Club of Rome's report "The Limits to Growth" sparked heated discussions and wide-spread fears that fossil fuels might be depleted within a short time. If that scenario had materialized, fossil energy resources would be fully exhausted by now. Fortunately enough, we do have sufficient reserves today, although it is obvious that oil and gas are finite resources. But the controversy about when the oil peak will be reached and how long the reserves will last remains. Generally, renowned experts and energy agencies obtain the most diverging results when computing the peak year – after all, forecasts range from the year 2010 to the end of the 21st century.

Ruthammer:
The Club of Rome had based its dramatic forecast concerning the end of hydrocarbon reserves on the development of consumption at that time, but had not included in its models the enormous technological innovation boost in the field of oil and gas exploration and production. Similarly, saving potentials were not accounted for sufficiently. It is beyond any doubt that we will reach the oil peak at some point in time. But one should confront that pessimistic view with what Al Levorson said 50 years ago: "Oil is first found in the minds of men". This statement has been confirmed by the continuous increase in hydrocarbon reserves; in the past 20 years, proven oil reserves climbed 56, gas reserves by even 96 percent. The oil industry has a tremendous innovative and financial potential; this will help us supply the world with oil and gas for many decades to come.

Thonhauser:
I quite agree, because there are two areas where there is room for potential progress: on the one hand, exploration, that is finding new oil fields, and, on the other hand, production. We can give many examples of technological innovations which have significantly improved oil recovery from oil and gas fields. Discussions about the oil supply often ignore the fact that, even today, most of the oil contained in the reservoirs we know cannot be produced economically. Technological developments will again change that.

Grohmann:
Twenty years ago it would have been impossible to imagine what could be produced today from so-called brown fields, deposits tapped with the equipment available at that time. 3D-seismic surveys, horizontal and multilateral drilling technology, enhanced oil recovery and reservoir simulation are but a few examples of how to improve recovery from older oil fields.

Thonhauser:
In the 1970's, oil production was much simpler, technologically speaking: Wells were drilled vertically, production required no additional technological efforts. Today, oil and gas exploration has become high technology – material specifications and complexity of technology are comparable to aerospace technology. The electronic components, which are used, for instance, in the aerospace industry, have to be further upgraded to meet the requirements of exploration engineering, otherwise they would not resist the conditions caused by heat and vibrations.

Ruthammer:
Due to the oil price level of the past years and the technologies applied, only around one third of the oil contained in the reservoirs, the so-called oil in place, could be produced profitably. This is why two thirds of the oil remained untapped. So, there is still a lot of oil in the reservoirs we know. What we have to do is to ensure that we can produce that oil commercially. This means to extend the proven reserves – defined as the quantities of oil that can be produced commercially with the technological equipment available at the current price of oil. If we increase oil recovery by only one percent, we can cover global oil consumption for two years.

Grohmann:
There are some examples of technological innovations which are applied already today but have a lot of potential for development. For instance, we use infill drilling for re-tapping old oil fields, involving state-of-the art 3D and 4D seismic surveys, where measuring equipment already analyses the rock formations during drilling. Smart Well Technology is used downhole for steering the oil flow of a reservoir.

Thonhauser:
Against this background it is clear that calculations of the volume of oil reserves remain valid for a rather limited period only, because they can refer only to those quantities of oil that can be produced profitably at the given moment. But that also means that with every technological innovation to enhance oil recovery such calculations have to be revised accordingly.

Grohmann:
Of the around 6,000 billion barrels of the original oil in place known, only around 800 billion barrels have been

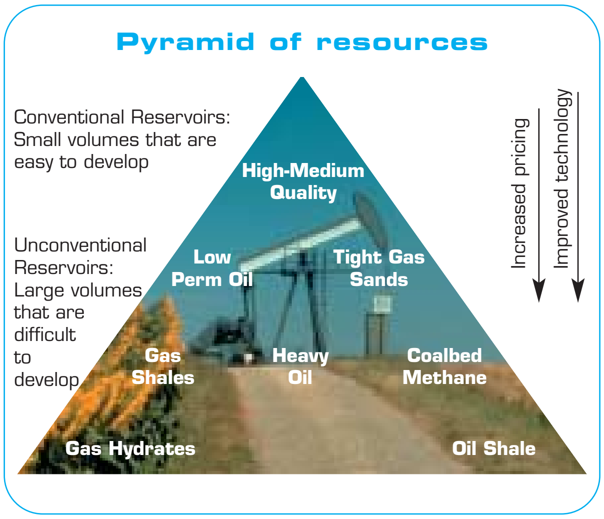
produced so far. The present recovery factor of 30 percent leaves room for producing another 1,200 billion barrels. Accordingly, if no more technological innovation takes place, some 4,000 billion barrels would be left unused in the ground. But if the recovery factor could be stepped up by only 10 percent to 40 percent, another 600 billion barrels could be produced, which would secure oil supplies for 20 more years, based on today's annual consumption figures.

Thonhauser:
There are many reasons to assume that this will happen with the use of improved technology. Finding more new oil and gas fields will also play a major role in this process, in particular in deep-sea drilling projects. Exploring new oil sources is highly contingent on the applied technology. Before we used 3D seismic surveys, which now have become indispensable for exploring, only one out of ten drillings hit oil. Today, with 3D seismic surveys, one out of four exploration drillings hits oil. Assuming that drilling a single well may involve several million US dollars, this certainly has a positive effect on production costs.

Prof Gerhard Thonhauser

Grohmann:
Applying 3D seismic surveys for oilfield exploration has become an ideal field for using SBO-developed motors for microdrilling. First, the oil field is visualized by 3D seismic surveys, then the data gathered are reviewed by ready-to-apply and low-cost exploration drillings. Microdrilling can best be described as a miniature drilling technology.

Ruthammer:
We have learnt from the past that anything is possible in terms of technology. People working in oil and gas exploration are highly talented engineers and full of new ideas. What we see on oil fields is an incredibly inspiring and creative mood, some of the best heads are working there.



Thonhauser:
A look at the pyramid of resources shows that we are currently in the top third; that is the area of conventional, easy-to-recover reserves. The two lower thirds of the pyramid represent the unconventional reserves which are extremely hard to recover at the moment, but account for the much larger share of all known fossil energy sources. If the high level of oil prices persists, it may happen that currently "expensive" technologies pay off and companies can better afford to further develop their production technologies. At present, production costs per barrel for easy-to-access oil sources is somewhere around three to five dollars. But with crude

oil prices exceeding 50 dollars, even costs twice as high or higher would pay.

Grohmann:
Or let's take the above-average growth of offshore exploration. If an oil drilling platform costs 300,000 dollars or more per day, the oil price of 16 dollars per barrel we saw some years ago is no incentive for exploring new offshore reservoirs. Today, however, even old, abandoned platforms are reactivated to cover the demand for offshore drilling. It is in particular the offshore sector where we can expect major impulses in the next years. In the past, drilling took place in rather shallow waters, but now reservoirs at depths of more than 2,500 metres are about to be explored. The ongoing development of directional drilling technology, in which our high-precision components are used, already allows us to do precise drilling at such enormous depths today.

Thonhauser:
Incidentally, it is quite remarkable that a small landlocked country such as Austria should play a leading global role in this high-tech niche of directional drilling. On the one hand, your company – SBO – is a leader in innovation, certainly also because SBO has internationally acknowledged raw material know-how; on the other hand, this is little wonder if I remember how many graduates from

Prof Gerhard Ruthammer

Gerald Grohmann

Leoben University I met when I visited oil platforms and complex oil drilling projects.

Ruthammer:
25 petroleum engineers graduate from Leoben University every year; these are much sought-after experts all around the world. In the US, the leading "oil nation", only some 100 students take their master's degree in that specific discipline. So, by comparison, we in Austria train an incredibly large number of these engineering experts so much in demand in the field of oil and gas exploration. Therefore, it is no surprise that our students have many well-paid job offers to choose from.

Grohmann:
So it must be our common goal to further expand this knowledge bonus which we have jointly acquired over many years. We as managers of industry need to look beyond the limits of daily operative business, recognize trends and tendencies early and use them for the industry. For it is the vision we share today that becomes the development concept of tomorrow and, maybe, the standard technology of the future. This is why I am very happy that we have a technical university here in Austria which accompanies us in that direction. The fact that we can contribute to further securing mankind's energy supply is an additional stimulus for our efforts.

PREFACE OF THE EXECUTIVE BOARD

To our shareholders

In retrospect, the 2005 business year was one of the most eventful years in the history of our company.

Against the background of a sustained strong demand, our company was able to post a new and absolute record order backlog at the end of 2005 that was 244 percent up from the previous year. This boom already started to become apparent in 2004 and prompted us to adjust the corporate strategy to the new situation at an early stage.

Analysts agree that the international oil companies significantly curtailed their E&P spendings in the preceding, low-cycle years. However, the strong demand for oil and gas in the booming economies of Asia will be covered only by exploring new reserves, resulting in increased drilling activities.

From today's perspective, we anticipate an above-average growth of the oilfield service industry in the years to come. As the requirements with respect to exploration technology become more and more complex, high technology, in particular directional drilling, will be applied to a much greater extent. As the global market leader in high-precision components for directional drilling, it is our objective to further strengthen our market position and to use the economic upswing for expanding our business activities. Consequently, the following strategic measures are envisaged by the end of 2007:

- Capacity expansions at the existing, highly developed locations in the US and Europe.
- New manufacturing sites in low-wage regions.
- Widening the international network of Service & Supply Shops.
- Development and market introduction of new products, in particular also in the field of drilling motors.
- Acquisitions and green field developments if considered opportune.

In order to implement this primarily growth-oriented strategic investment programme, we have specified a required investment volume of around MEUR 100, one quarter each to be covered from the operative cash flow and loans and the remaining half from equity. Even with such an ambitious expansion programme which, after all, amounts to more than 50 percent of the annual sales volume, we will maintain the sound balance-sheet policy pursued over the past years.

With the above considerations in mind, we decided to implement a capital increase in the first quarter of 2005 by issuing new shares so as to ensure the equity basis required for conducting this ambitious expansion programme.

Our previous majority shareholder, Berndorf AG, decided not to participate in this capital increase and to offer the majority shareholding in our company to investors under a secondary public offering. With this, the liquidity of the SBO share was substantially improved as was its attractiveness mainly to large institutional investors. This factor was an important and positive element for

Gerald Grohmann Franz Gritsch

placing the capital increase. In doing so, we complied with a repeatedly voiced request by investors to improve the liquidity of the SBO share.

Berndorf AG has declared its intention to remain a long-term oriented core shareholder of SBO even after divesting its majority holding. With this, Schoeller-Bleckmann Oilfield Equipment is able to secure continuous corporate development and continue on its course of success.

The more than successful capital increase which was highly oversubscribed, the inclusion of SBO in the ATX index and the promising development of the share price showing an increase of 55.90 percent over the year and 34.70 percent following the capital market transaction ultimately confirm our decisions.

Hence, we were able to set the course for our extensive capex spending programme during 2005. As a first step, the largest investment ever was launched for the Ternitz site. Further projects are in preparation and under review.

The development of operative business in 2005 – with record bookings of MEUR 269 – impressively endorsed the growth strategy we initiated at an early stage. As pre-tax profit went up 57 percent against the previous year, our company was able to make full use of the upswing in terms of profit also. In addition, the unprecedented order backlog of MEUR 134 is the basis of continuing the positive business development throughout 2006.

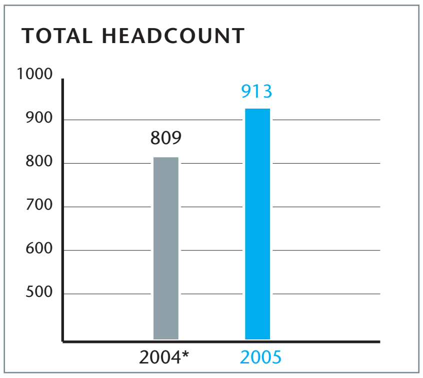
As a result of this favourable situation, we will propose to the General Meeting to distribute a base dividend of 30 cents plus a bonus of 20 cents, totalling 50 cents per share. As the number of shares rose to 16 million (following 13 mill), the profit distribution to our shareholders will rise 54 percent from MEUR 5.2 to MEUR 8.0.

In closing, we would like to thank all of our customers, partners, and shareholders for the excellent cooperation and the confidence placed in our company in the past year. Our thanks also go to our employees who, after all, have generated the outstanding result achieved in 2005.

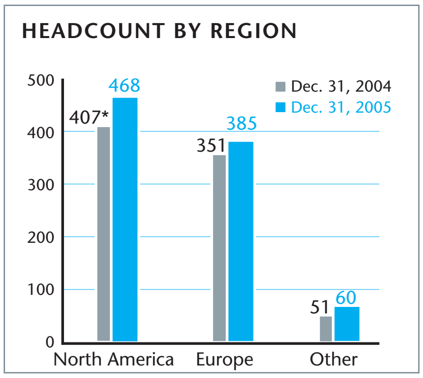
Gerald Grohmann
Chairman of the Executive Board

Franz Gritsch
Member of the Executive Board

HUMAN RESOURCES



* without employees of Bafco (demerged Q1/2005)



* without employees of Bafco (demerged Q1/2005)

The excellent reputation the products of Schoeller-Bleckmann Oilfield Equipment enjoy all over the world is due largely to the commitment of our employees. Our corporate culture is characterized by the profound identification of our employees with the company and its products. It is above all in the quality aspects that our employees make no compromise whatsoever, even in times of above-average capacity utilisation.

913 employees worked for the SBO group worldwide as per December 31, 2005, which is an increase of 76 full-time employees against 837 employees as per December 31, 2004. Adjusted for the Bafco subsidiary divested in the first quarter of 2005, the headcount as per December 31, 2004 was 809. The headcount, therefore, increased by 104 full-time employees.

At the end of the year, Schoeller-Bleckmann Oilfield Equipment employed a workforce of 468 in North America (including Mexico), and 385 in Europe; the rest is employed with our subsidiaries in Venezuela, Singapore, Dubai and Russia.

Upsizing the headcount was a result of the expansion of our production capacities due to the high level of bookings received in the year under review. As a result of the persistent lack of skilled workers in the US, our American production sites had to hire personnel from the new EU member states.

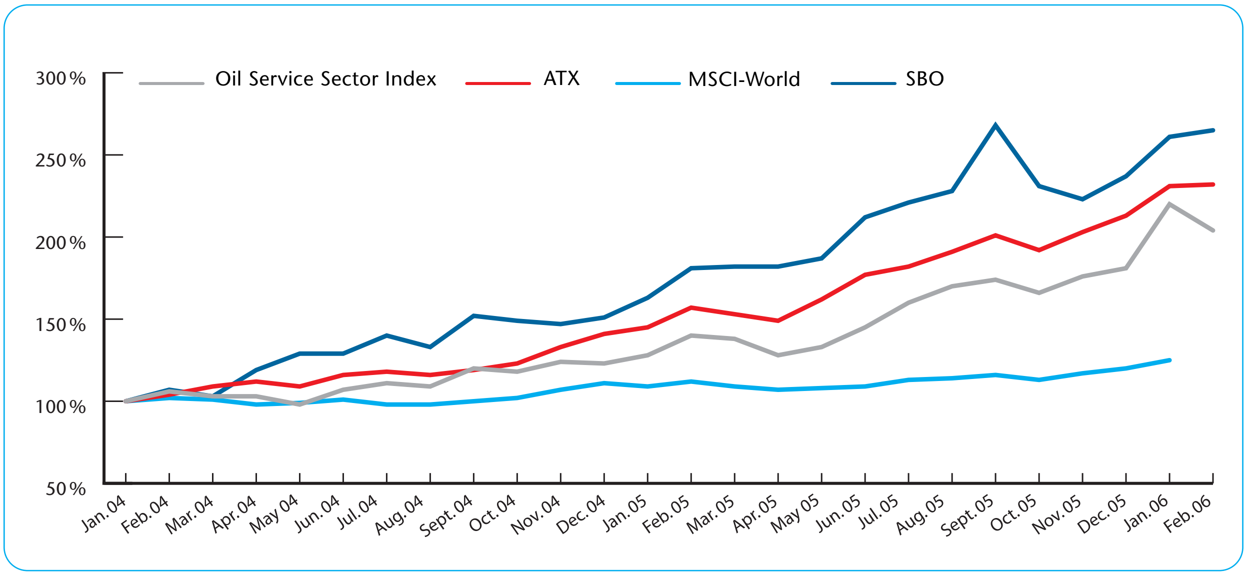
Basic and further training of employees is a major pillar supporting the business success of Schoeller-Bleckmann Oilfield Equipment. In the past business year measures were again taken at all sites to prepare our personnel for the increasing complexity of requirements in order to comply with our technology- and customer-orientated policy.

The in-depth the maintenance of initial training of our new employees guaranteed our high production standards. Intensive training was also carried out at our Mexican subsidiary which started production in 2004. The focus was on deepening product and technology know-how provided by first-rate trainers, all of them perfectly prepared staff members of our Houston production companies.

At our production companies in the US, UK, and Austria, we implemented employee-oriented projects for further production and quality improvement and for shortening the lead times. During those projects, teams composed of employees worked out suggestions which have largely been implemented.

At this point, we would like to thank all our employees very much for their performance and commitment.

THE SHARE



2005 turned out to be one of the most successful years for the share of Schoeller-Bleckmann Oilfield Equipment since its IPO in 1997.

The highlight of the year was the capital increase in March 2005 by 3 million shares to the current 16 million shares. At the same time, a Secondary Public Offering of 1.16 million shares from the portfolio of Berndorf AG took place. The transaction was managed by Raiffeisen Centrobank as sole global coordinator. Joint lead managers and joint bookrunners were Raiffeisen Centrobank and Bank Austria Creditanstalt. The period of offer started on March 10 and ended on March 25, 2005. During a two-week road show, the Executive Board of Schoeller-Bleckmann presented the company to institutional investors in Frankfurt, Munich, Stuttgart, Zurich, Geneva, Paris, London, Edinburgh, Copenhagen, Milan, Vienna, and Linz. Advertising and PR activities for private investors were added to the set of measures taken with respect to the placement.

The capital market transaction was a success all along the line. The order book was fourfold subscribed. Not only have numerous renowned international funds become shareholders of SBO, but also many private and institutional investors already holding shares have exercised their subscription rights and subscribed to new shares. The subscription and offer price was determined on the basis of a bookbuilding procedure and finally set at a shareholder-friendly price of EUR 18 per share. Following the issue of the new shares, the price of the SBO share has constantly increased.

The capital increase resulted in issue proceeds for SBO amounting to MEUR 54.

	2005	2004
Share capital (in EUR)	16,000,000	13,000,000
Number of shares	16,000,000	13,000,000
Average number of shares traded per day	74,756	24,212
Closing share price at year end (in EUR)	24.65	15.81
High/low (in EUR)	28.78/15.50	16.99/9.05
Market capitalization at year end (in EUR)	394,400,000	205,530,000
Earning per share (in EUR)[1]	1.13	0.83
Price/earnings ratio at year end	21.81	19.05
Pay-out per share	0.50[2]	0.40

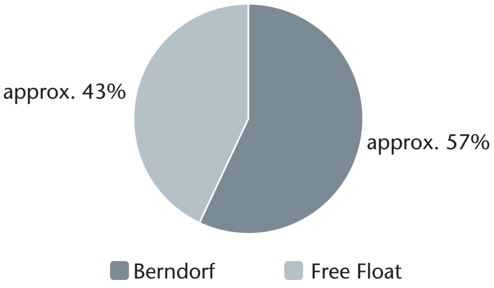
[1] based on average shares outstanding (2005: 15,260,274; 2004: 13,000,000)
[2] proposed

Due to the high demand, an over-allotment option of another 500,000 shares from the stock of Berndorf AG was placed.

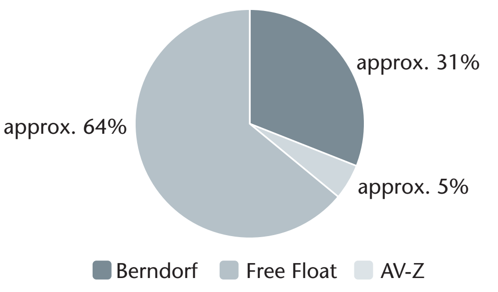
As a result of this capital market transaction, SBO has become a publicly held company, with the free float increasing to around 64%, a fact to which the capital market responded very positively and which was reflected in a considerable improvement of the share's liquidity. The average daily volume of shares traded was 74,756 (double counting), which is an improvement of almost 200% against the previous year (average volume traded -24,212 shares).

Currently, the following shareholders have reported their shareholdings pursuant to the legal requirements (sec 91, para 1 "Österreichisches Börsegesetz")
Berndorf AG 31%,
AV-Z Vermögensverwaltungs GmbH over 5%,
Deutsche Bank via DWS over 5%.
Being an investment fund company, the latter is allocated to the free float.

Structure of Shareholders before capital market transaction



Recent Structure of Shareholders



The closing price of the Schoeller-Bleckmann Oilfield Equipment share on the first day of trading in 2005 was EUR 15.95. The share's annual low of EUR 15.50 was posted in mid-January. The highest closing price of the SBO share, EUR 28, was reached at the end of September. The all-time high of EUR 28.78 was even slightly better. The closing price of the SBO share in the 2005 trading year was EUR 24.65.

The overall economic situation created an extremely gratifying environment for oilfield service shares in 2005. The sustained requirement for fossil fuels and the high oil price triggered a strong global demand for oil-related shares. The record year of the Vienna Stock Exchange, in which the ATX blue-chip index jumped 50%, further boosted the SBO share. The extremely successful trading year, both for SBO and its shareholders, was reflected in the share's price surge of 55.90% over the whole year. On top of that, the share of Schoeller-Bleckmann Oilfield Equipment AG was included in the ATX, the index of the volume leaders on the Vienna Stock Exchange, in March 2005.

From the very beginning, Schoeller-Bleckmann Oilfield Equipment has welcomed the provisions of the Austrian Corporate Governance Code and committed itself to the Code for the first time in fiscal 2005.

As SBO pursues a transparent communication policy, the past financial year – apart from measures taken in the wake of the capital increase – was used to further extend the dialogue with institutional and private investors in numerous information events. Additionally, Schoeller-Bleckmann Oilfield Equipment's management had repeated opportunities to present the company at national and international conferences.

The proactive public relations policy pursued by SBO in several press conferences and ongoing contacts with media representatives was further intensified during 2005. In October 2005 a seminar was held for journalists on the subject "Crude oil scarcity or secured oil supply".

On the same note, a large number of institutional and private investors were able to visit the Ternitz plant in 2005 and to gather ample information on the manufacture of high-tech components for the oilfield service industry.

Extensive and open dialogues were maintained with analysts in the past year as well. SBO is regularly analyzed by all three major Austrian banks (CA IB, Erste Bank, Raiffeisen Centrobank).

Further information about the company and all publications of SBO are available on the website http://info.sbo.at

Financial calendar

March 23, 2006	ANNUAL SHAREHOLDERS' MEETING
April 6, 2006	Ex-day, dividend distribution day

Publications:

May 24, 2006	1st quarter 2006
August 24, 2006	2nd quarter 2006
November 23, 2006	3rd quarter 2006

CORPORATE GOVERNANCE

The Executive Board and Supervisory Board of Schoeller-Bleckmann Oilfield Equipment have clearly committed themselves to the Austrian Corporate Governance Code. The Austrian Corporate Governance Code is a major building block for strengthening the confidence of national and international investors in the company. This is why the Executive Board decided to deal with the Corporate Governance Code as amended in January 2006 already in the 2005 Annual Report.

On the one hand, the Austrian Corporate Governance Code contains important statutory requirements and standard international provisions whose non-compliance must be explained and justified. On the other hand, it contains rules which exceed those requirements and should be used on a voluntary basis.

The code comprises a total of 80 rules subdivided into three categories:

L-rules (Legal Requirement) describe mandatory legal requirements.
C-rules (Comply or Explain) should be complied with. Any deviation must be explained and the reasons be stated in order to be in compliance with the Code.
R-rules (Recommendation) are rules of recommendatory nature. Non-compliance does not have to be disclosed or explained.

The legal requirements described in the Austrian Corporate Governance Code are complied with by Schoeller-Bleckmann Oilfield Equipment AG without exception.

Explain

The C-Rules are largely complied with. Deviations are explained as follows:

Rule 18
Schoeller-Bleckmann Oilfield Equipment has not set up a separate staff unit for internal auditing, and the Company does not intend to do so in future. The financial control staff have also assumed the task of auditing, and regularly present any material findings to the audit committee. Furthermore, every year the Company and its affiliates are additionally audited when the annual financial statements are reviewed by international independent certified accountants.

Rule 30
As the Executive Board of Schoeller-Bleckmann Oilfield Equipment consists of two members, the disclosure of expenditures for both severance payments and the retirement pensions of members of the Executive Board and the senior management, as well as the remuneration of the Executive and Supervisory board, is not required pursuant to sec 241 para 4 HGB ("Austrian Commercial Code"). This exemption is applicable to rule 30.

Rule 38
Neither the Company's articles of association nor the rules of procedure provide for any age limits for the members of the Executive Board. The Company's Supervisory Board objected to the introduction of age limits, as the Supervisory Board is of the opinion that such limits do not supply any substantial added value for the Company.

Rule 41
In line with the Corporate Governance Code, the function of the nominating committee is exercised by the remuneration committee.

Rule 53
The members of Schoeller-Bleckmann Oilfield Equipment's Supervisory Board act independently. The scope of activity of Dr Schleinzer in 2005, as the Company's legal adviser, was not regarded to be substantial in terms of annex 1 to the Austrian Corporate Governance Code.

Rule 54
At present, no member of the Supervisory Board is explicitly designated as representative of minority shareholders. It is the Management Board's opinion that the Company's minority shareholders feel that their interests are well represented in the Supervisory Board, due to the fact that the current Supervisory Board was appointed unanimously, i.e. without any dissenting votes and thus with the unanimous consent of the current minority shareholders. Therefore, the Executive Board sees no reason for action in this matter at present.

Rule 57
Neither the Company's articles of association nor the rules of procedure provide for any age limit for the members of the Supervisory Board. The Company's Supervisory Board objected to the introduction of age limits, as the Supervisory Board is of the opinion that such limits do not supply any substantial added value for the Company.

MANAGEMENT'S DISCUSSION

Market environment

The sustained improvement of the market environment for the oilfield service industry which started in 2004 continued throughout fiscal 2005. The upswing was driven by the surging worldwide demand for oil and gas. The Asian growth engine keeps running at full speed, propelling the consumption of fossil energy sources. The picture is completed by the positive economic development in the US and the ongoing economic recovery observed in South America.

According to estimates by IEA (International Energy Agency), the global business development triggered an increase of the world's oil consumption in 2005 to 83.3 million barrels per day (following 82.2 mill barrels per day in 2004). The major share of that growth in worldwide oil consumption is due to the high energy demand of the developing countries. In terms of quantities, however, the US and China are the largest consumers of oil.

Strong demand, but also speculative and political factors uphold the high oil price level which in 2005 fluctuated between 42.13 and 69.82 dollars per barrel (WTI). Global oil production activities were stepped up considerably; for instance, the production rate of OPEC 10 (Organisation of Petroleum Exporting Countries) lately reached a record level of 28 million barrels per day.

As a result of the surging demand for oil, high oil prices and the conclusion that exploration of new reservoirs will be indispensable for securing oil and gas supplies, international oil companies further widened their drilling activities. The global rig count, the most important indicator of drilling activities, rose from 2,555 units at the end of 2004 to 2,993 at the end of 2005. SBO was particularly pleased to see increased activities in those areas in which high-precision directional drilling is applied. Also in the field of drilling motors, the company profited from the boom in performance drilling, in particular in North America.

Business development

Industry upswing in 2005 leads to high level of bookings

Due to its leading market position in high-precision components, Schoeller-Bleckmann Oilfield Equipment greatly benefited from the upswing observed in 2005. Bookings rose from MEUR 161 in fiscal 2004 to MEUR 269 in fiscal 2005, which is an increase of 66%. In the process, structural changes were observed as well. For the first time – and untypical of the industry – long-term orders were placed. While in regular years the order horizon hardly ever exceeded one or two quarters, orders with delivery dates as late as 2007 were received from the second half of 2005 on. This is an indication that SBO's customers also expect the upward cycle to continue for a long time.

The capacity expansion measures already initiated in 2004 (foundation of Schoeller-Bleckmann de Mexico, widening of drilling motor business) helped work off the massive order backlog in 2005. Additional production shifts and overtime together with optimal utilisation of the existing machinery further added to these measures. Moreover, when the strategic investment programme was launched, deliveries of additional manufacturing equipment were started in 2005 to significantly extend the capacity at the US and Austrian production sites.

The global prices of stainless steel also continued to soar in 2005; however, they could be passed on to our customers in most cases. The raw material boom during 2005 partly resulted in alarming bottlenecks in some stainless steel specialty alloys for high-precision components in the US. The US subsidiaries of the SBO group had to start stockpiling certain stainless steel alloys to be prepared for future orders.

Also, the bad weather conditions involving several fierce hurricanes hit the oilfield service industry concentrated in the South of the United States in 2005. SBO's subsidiaries in Houston had to discontinue production for a few days; however, our production facilities were not damaged.

The positive business development in the industry was also reflected in the performance of SBO's worldwide Service & Supply Shops in 2005.

In the first quarter of 2005 a new outlet was opened in Siberia for servicing the international exploration companies operating there. At the moment, the site is in the startup phase.

Also in the first quarter of 2005, the US subsidiary Bafco Inc. was divested for strategic reasons as Bafco was not part of the core business.

Research and development highlights

A particularly encouraging development was observed in the drilling motor division operated by US affiliate BICO Drilling Tools Inc. BICO has developed a new high-performance drilling motor and launched it in the market under the brand name "Spiro Star". The motor excels by an up to 50% higher torque than conventional motors and has quickly gained a superior market position.

Expanding the drilling motor business

SBO operates the drilling motor business mainly on a leasing basis, which means that customers lease the motors as required. As demand was high, the drilling motor stock was expanded significantly. BICO has gained further market shares in this segment and has become the global leader in the independent motor market[1] of high-performance drilling motors.

CAPEX clearly above last year

Launching the strategic investment programme after the successful completion of the capital increase already resulted in a marked increase of capital expenditures in fiscal 2005. Amounting to MEUR 22.9, 129% above last year's level, they were used to expand the manufacturing equipment for producing high-precision components at all sites. Similarly, the rising volume of the drilling motor business was reflected in the company's investments.

Moreover, the Executive Board adopted a comprehensive investment programme for capacity expansion at the Ternitz site which totals around MEUR 15 and will be completed early in 2007.

The core of the programme is a new forging plant which will double our forging capacity. The forging plant at Ternitz is a key element for the entire group. With the new forging plant, new forging technology will be developed and applied in the Ternitz manufacturing line. The new forging plant will create more capacity and sufficient flexibility for SBO to utilize capacities according to the market situation. The downstream manufacturing equipment will be expanded accordingly.

Risk management

Schoeller-Bleckmann Oilfield Equipment AG acts as a strategic management holding company for its subsidiaries. A major task of the holding company is to deal with strategic and operative risks and to take measures for optimizing such risks in due time. The group-wide reporting system supports the management of SBO in constantly monitoring the operative business and in assessing the operative risks of the subsidiaries. The strategic risks are discussed and assessed by the executive

[1] "Independent" means all downhole motors used by directional drillers except the major oil service companies.

board of the management holding company and the managing directors of the subsidiaries when the annual medium-term planning is carried out.

Risk factors and risk-hedging measures

The business situation of Schoeller-Bleckmann Oilfield Equipment greatly depends on cycles, in particular on the cyclical development of oil and gas drilling activities performed by the international oil companies. In order to minimize the risks of order fluctuations involved in the process, the manufacturing companies of the group have been adjusted to ensure maximum flexibility.

The market for non-magnetic high-precision drilling components is restricted to only a few globally acting oilfield service companies. SBO tries to limit the risk of a potential decline in sales involved in losing a customer by continuous innovation, quality assurance measures and maintaining close relations with customers. The extensive quality assurance programme of SBO is also the basis of minimizing product liability risks. In the period under review, customer complaints did not exceed the average volume observed in the past years.

Due to the strong global demand for raw materials, SBO in 2005 was faced with the risk of delivery problems due to the lack of certain semi-finished products. As a result of the new purchasing policy, of stockpiling certain specialty alloys in the US and intensified cooperation with a major supplier, those risks were identified and minimized early on.

From a long-term perspective, SBO invoices around 80 percent of its sales volume in US dollars. Also on a long-term basis, approximately 60 percent of costs are incurred in US dollars. In order to minimize the currency exposure involved, orders are hedged between the time of order acceptance and invoicing. However, for reasons of costs and expedience, SBO does not hedge the entire net dollar exposure. In any case, the profit generated by SBO is contingent on the dollar-euro exchange rate.

SBO is subject to the risk of substitution of its products and technologies, which may result in the emergence of new competitors. SBO tries to counteract that risk through continuous market observation, maintaining strong ties with customers and proprietary innovations.

Outlook

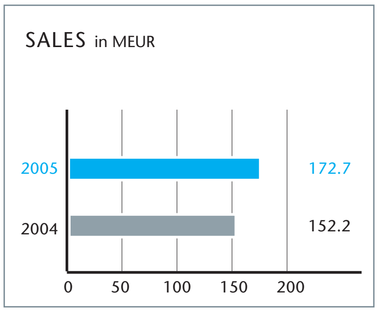
The market environment for the oilfield service industry continues to be very positive. Market observers and industry analysts assume that the oil price and demand will remain high and, therefore, support the current business cycle in the industry for several quarters to come.

The record order backlog of around MEUR 134 at the turn of 2005/06 (following MEUR 39) reflects the optimistic mood in the industry and forms the basis of a continued positive business development in 2006.

The challenge over the next months will be to ensure availability of the human resources needed for swiftly working off the order backlog and sufficient supply of raw materials. The investment programme that has just been initiated will already considerably expand our production activities in 2006; the new forging plant at Ternitz, scheduled to be commissioned in 2007, will substantially add to that increase. Further investment projects are being prepared and will be launched in 2006.

Although the development of the US-dollar stabilised in the past months, the dollar-euro exchange rate remains a factor of uncertainty for our earnings situation.

On the whole, we expect that the positive development of the company will be maintained and our course of growth will once again be accelerated in 2006.



SALES BY REGION in MEUR

	2005	2004
North America	142.1	126.1
Europe	78.4	65.6
Other	11.6	10.4
- Intercompany Sales	-59.4	-49.9
Total Sales	172.7	**152.2**

SALES BY PRODUCT in MEUR

	2005	2004
High-Precision Components	107.5	95.1
Oilfield Supplies and Service	64.0	51.2
Other	1.2	5.9
Total Sales	172.7	**152.2**

Analysis and Results

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), formerly International Accounting Standards (IAS). Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation. The reclassifications have no significant impact on the presentation.

In the year under review the Company sold its US-subsidiary Bafco Inc., which is not engaged in the oil service industry. Bafco Inc. was deconsolidated as of January 1, 2005. Due to the small size of Bafco Inc. this sale had no significant influence on the consolidated financial statements.

In 2005 the newly founded Russian branch of Schoeller-Bleckmann Darron Ltd., Aberdeen/UK, started its operations in Noyabrsk.

Sales

The sustained improvement of the market requirements allowed an increase in sales from MEUR 152.2 to MEUR 172.7.

As in the previous years, the US dollar was by far the most important currency for the SBO group. About 80% of the total sales and revenues were generated in US dollars.

Exchange rate*)	High	Low	Average	Closing
Year 2005	1.3507	1.1667	1.2448	1.1847
Year 2004	1.3662	1.1802	1.2433	1.3662

*) EUR/USD

The average rates for the years ended December 31, 2004 and December 31, 2005 were used by the Company in the preparation of its Consolidated Profit and Loss Statements, whereas the closing rates for the years 2004 and 2005 were used in the preparation of its Consolidated Balance Sheets.

Sales by regions

As in the past, North America was the most important region for the Group. The share of sales invoiced by the North American companies remained almost unchanged at 76.9% after 76.3% in 2004.

The European companies invoiced 16.9% (2004: 17.3%), those in other regions (Asia, South America) 6.2% (2004: 6.4%).

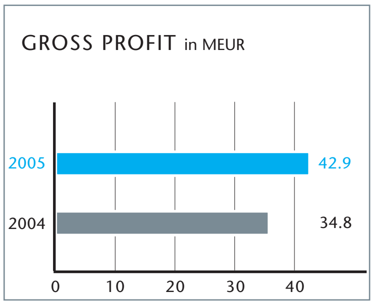
Sales by product

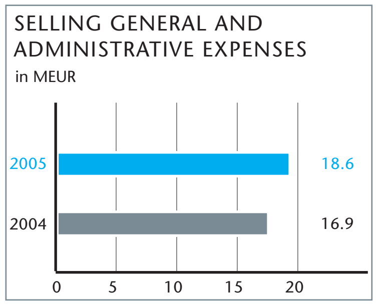
In the year under review sales soared in both business segments, high-precision components as well as oilfield supplies and service.

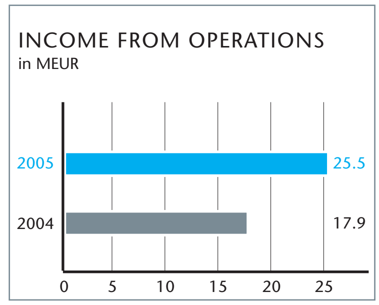
The business segment high-precision components comprises MWD/LWD collars and MWD/LWD internals and parts. In this segment specifically MWD/LWD collars showed a significant sales increase.

The business segment oilfield supplies and service comprises nonmag drill collars, drilling motors and various other tools for the oilfield as well as repair and service activities. This segment achieved the most significant growth. The increase in sales in 2005 was 25% in comparison to the year before. It was primarily achieved with non magnetic drill collars and drilling motors. The demand for these products shows the most direct correlation with the drilling activities. The sales growth reflects the increase in drilling activities, specifically on the North American continent.

The segment other, which includes all activities outside the oilfield industry as well as occasional trading activities decreased because of the deconsolidation of Bafco Inc.







Gross Profit

Gross Profit amounted to MEUR 42.9 after MEUR 34.8 in the year before, which is an increase of 23.1%. The margin was improved to 24.8% of sales after 22.9% in the year before. According to the impairment-tests there was no goodwill amortization in the year 2005, which had a major impact on the gross profit development.

Selling, General and Administrative Expenses

Selling, general and administrative expenses amounted to MEUR 18.6 compared to MEUR 16.9 in 2004. Selling, general and administrative expenses increased only disproportionally in relation to sales, so that expressed as a percentage of sales, SGA expenses were reduced from 11.1% in 2004 to 10.8% in 2005.

This is the result of the continuing strict cost management as well as the tight organization of the Group.

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

Other operating income and expenses

These items consist of:

Other operating expenses

A major position of this line item are exchange losses in the amount of MEUR 3.7 (2004: MEUR 2.2), whereby on the other hand

Other operating income

includes exchange gains of MEUR 3.3 (2004: MEUR 2.1).

Further other operating income consists of rental income, service charges as well as scrap sales and gains from sale of fixed assets.

Income from Operations

Income from operations after non-recurring items increased to MEUR 25.5 compared to MEUR 17.9 in the year before, an increase of 42.3%. Expressed as a percentage of sales, this amounts to 14.7% (2004: 11.8%).

This improvement in comparison to the year before was achieved through the growth of the business volume and selective price increases which enabled a compensation of the cost increases on the material side.

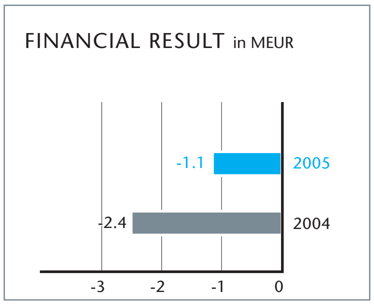
Financial result

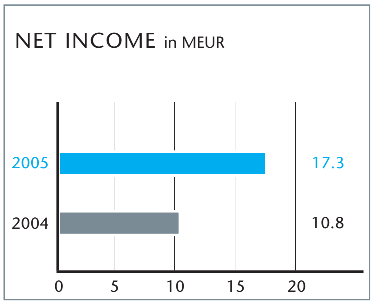
The financial result arrived at MEUR -1.1 after MEUR -2.4 in the year before. This improvement reflects the change in the financing structure of the Group after the capital increase in spring 2005.

Net income/dividend

Net income for the year 2005 amounted to MEUR 17.3, i.e. EUR 1.13 per share, compared with MEUR 10.8 for 2004 (i.e. EUR 0.83 per share).

The Management Board proposes to the Shareholders that a dividend of EUR 0.30 per share plus a bonus of





EUR 0.20 per share, in total EUR 0.50 per share should be paid. So the total distribution amounts to MEUR 8.0.

Capital Resources and Liquidity

Cash flow from the profit was MEUR 28.7 (2004: MEUR 26.6), which is at a satisfactory level again. The main elements contributing to this figure were income after taxation, depreciation and amortization as well as changes in deferred taxes.

Cash flow from operating activities arrived at MEUR 10.6 (2004: MEUR 28.5). The high rise in bookings, strategic stockpiling of certain stainless steel alloys to absorb supply bottlenecks in the US as well as the increased business level of the Group in general led to an inventory increase of MEUR 17.9. Net working capital in total went up from MEUR 36.7 to MEUR 61.4.

Cash flow from investing activities amounted to MEUR 21.4 after 6.9 in the year 2004. The expenditures for property, plant and equipment were MEUR 22.9 in 2005 (2004: MEUR 9.9), proceeds from the sale of fixed assets amounted to MEUR 1.5 (2004: MEUR 3.1). Investments for fixed assets were intensified in line with the expansion strategy.

Expenditures for property, plant and equipment for the business segment high-precision components amounted to MEUR 9.8 (2004: MEUR 4.3). The main spendings were made for the acquisition of mills and lathes for the companies Godwin-SBO L.P. in Houston/USA and Darron Tool and Engineering Ltd. in Rotherham/UK and advance payments for manufacturing machines at Schoeller-Bleckmann Oilfield Technology GmbH & Co KG in Ternitz/Austria.

Expenditures for the business segment oilfield supplies & services amounted to MEUR 11.8 (2004: MEUR 5.7), primarily additions to the rental fleet of the companies BICO Drilling Tools, Inc. in Houston/USA and BICO Faster Drilling Tools, Inc. in Nisku/Canada as well as advance payments for a long-forge and a scarving machine at Schoeller-Bleckmann Oilfield Technology GmbH & Co KG in Ternitz/Austria.

The net proceeds from the capital increase which was executed in April 2005 amounted to MEUR 51.8. The proceeds were used to repay short term debts and invested into liquid funds as well.

Net debt at December 31, 2005 amounted to MEUR 9.7 after MEUR 42.8 at December 31, 2004.

The gearing ratio, defined as net debt divided by shareholders equity, was 6.3% at December 31, 2005 compared to 54.7% at December 31, 2004.

Events after the balance sheet date

After the balance sheet date no events of particular significance have occurred, which would have changed the presentation of the net worth, financial position and earnings situation of the Company.

FINANCIAL-
INFORMATION

CONSOLIDATED BALANCE SHEET

		Dec. 31, 2005 TEUR	Dec. 31, 2004 TEUR
ASSETS			
Current assets			
Cash and cash equivalents		**35,598**	17,042
Trade accounts receivable	**Note 5**	**28,460**	19,987
Other accounts receivable and prepaid expenses		**5,402**	7,069
Inventories	**Note 6**	**58,108**	36,226
Total current assets		**127,568**	80,324
Non-current assets			
Property, plant & equipment	**Note 7**	**68,200**	52,329
Goodwill	**Note 8**	**40,019**	35,884
Other intangible assets	**Note 8**	**548**	636
Long-term investments	**Note 9**	**1,480**	1,328
Long-term receivables		**1,355**	134
Total non-current assets		**111,602**	90,311
Deferred tax assets	**Note 10**	**3,677**	2,699
TOTAL ASSETS		**242,847**	173,334

CONSOLIDATED BALANCE SHEET

LIABILITIES AND SHAREHOLDERS EQUITY		Dec. 31, 2005 TEUR	Dec. 31, 2004 TEUR
Current liabilities			
Bank loans and overdrafts	Note 11	24,647	34,200
Current portion of loans not due within one year		4,333	5,820
Finance lease obligations		236	205
Accounts payable trade		16,384	14,482
Income taxes payable		907	461
Other payables and accrued expenses	Note 12	14,598	11,798
Total current liabilities		61,105	66,966
Subsidies received	Note 13	648	743
Non-current liabilities			
Loans not due within one year	Note 14	17,286	20,382
Long-term finance lease obligations		308	530
Retirement benefit obligations	Note 15	3,105	2,571
Total non-current liabilities		20,699	23,483
Deferred tax payables	Note 10	5,238	3,791
Negative goodwill	Note 16	0	171
Shareholders´ equity			
Common stock	Note 17	16,000	13,000
Contributed capital		65,799	16,996
Legal reserve – non-distributable	Note 18	785	785
Other reserves	Note 19	59	60
Translation component		-7,939	-20,892
Retained earnings		80,026	67,915
Minority interests in consolidated subsidiaries	Note 20	427	316
Total shareholders´ equity		155,157	78,180
TOTAL LIABILITIES AND SHAREHOLDERS´ EQUITY		242,847	173,334

CONSOLIDATED PROFIT AND LOSS STATEMENT

		2005 TEUR	2004 TEUR
Sales		**172,747**	152,162
Cost of goods sold		**-129,893**	-117,362
Gross profit		**42,854**	34,800
Selling expenses		**-8,787**	-8,186
General and administrative expenses		**-9,836**	-8,679
Research and development expenses		**-572**	-709
Other operating expenses		**-3,742**	-2,205
Other operating income		**5,546**	3,831
Income from operations before non-recurring items		**25,463**	18,852
Non-recurring write-offs and provisions related to restructuring	**Note 21**	**0**	-958
Income from operations after non-recurring items		**25,463**	17,894
Interest income		**1,010**	192
Interest expenses		**-2,148**	-2,565
Other financial income		**26**	0
Financial result		**-1,112**	-2,373
Income on ordinary activities before taxation		**24,351**	15,521
Income taxes	**Note 22**	**-6,982**	-4,732
Income after taxation		**17,369**	10,789
Minority interests		**-59**	-25
NET INCOME		**17,310**	10,764
Number of average shares outstanding		**15,260,274**	13,000,000
Earnings per share (in EUR)	**Note 23**	**1,13**	0,83
Retained earnings as of 1.1.		**67,915**	60,931
Net income		**17,310**	10,764
Dividends		**-5,200**	-3,900
Change in reserves		**1**	120
RETAINED EARNINGS AS OF 31.12.		**80,026**	67,915

CASH FLOW STATEMENT

	2005 TEUR	2004 TEUR
Income after taxation	**17,369**	10,789
Depreciation and amortization	**11,150**	14,459
Change in retirement benefit obligations	**534**	54
Gain (loss) from sale of property, plant and equipment	**-224**	-309
Gain (loss) from sale of investments	**-101**	0
Income from release of subsidies	**-105**	-144
Other non-cash expenses and revenues	**-161**	-4
Change in deferred taxes	**253**	1,715
Cash flow from the profit	**28,715**	26,560
Change in accounts receivable trade	**-6,044**	-2,742
Change in other accounts receivable and prepaid expenses	**1,672**	802
Change in inventories	**-17,946**	-3,376
Change in accounts payable trade	**1,352**	5,468
Change in other payables and accrued expenses	**2,893**	1,769
Cash flow from operating activities	**10,642**	28,481
Expenditures for property, plant & equipment	**-22,873**	-9,922
Expenditures for intangible assets	**-61**	-42
Proceeds from sale of fixed assets	**1,511**	3,070
Proceeds from sale of investments	**67**	0
Cash flow from investing activities	**-21,356**	-6,894
Share issuance	**51,803**	0
Dividend payments	**-5,200**	-3,900
Subsidies received	**0**	441
Change in finance lease	**-212**	-194
Change in bank loans and overdrafts	**-10,976**	-4,679
Borrowings of long-term loans	**0**	0
Repayment of long-term loans	**-5,828**	-5,947
Cash flow from financing activities	**29,587**	-14,279
Translation adjustment	**-2,175**	927
Change in cash and cash equivalents	**16,698**	8,235
Cash and cash equivalents at the beginning of the year	**17,042**	9,966
Effects of exchange rate changes on cash and cash equivalents	**1,858**	-1,159
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	35,598	17,042

Supplementary information on operating cash flow **Note 32**

Interest received	**818**	188
Interest paid	**-2,234**	-2,387
Income tax paid	**-3,047**	-3,107

STATEMENT OF SHAREHOLDERS EQUITY

in TEUR	Common stock	Contributed capital	Legal reserve	Other reserves	Translation component	Retained earnings	Subtotal	Minority interests	Total
January 1, 2005	**13,000**	**16,996**	**785**	**60**	**-20,892**	**67,915**	**77,864**	**316**	**78,180**
Currency translation shareholders´equity					7,239		7,239	52	7,291
Currency translation other items[1]					5,714		5,714		5,714
Total income and expense for the year recognized directly in equity	0	0	0	0	12,953	0	12,953	52	13,005
Income after taxation						17,310	17,310	59	17,369
Total income and expense for the year	0	0	0	0	12,953	17,310	30,263	111	30,374
Dividends[2]						-5,200	-5,200		-5,200
Change in reserves				-1		1	0		0
Share issuance[3]	3,000	48,803					51,803		51,803
December 31, 2005	**16,000**	**65,799**	**785**	**59**	**-7,939**	**80,026**	**154,730**	**427**	**155,157**
January 1, 2004	13,000	16,996	785	180	-14,869	60,931	77,023	315	77,338
Currency translation shareholders´equity					-2,299		-2,299	-24	-2,323
Currency translation other items[1]					-3,724		-3,724		-3,724
Total income and expense for the year recognized directly in equity	0	0	0	0	-6,023	0	-6,023	-24	-6,047
Income after taxation						10,764	10,764	25	10,789
Total income and expense for the year	0	0	0	0	-6,023	10,764	4,741	1	4,742
Dividends						-3,900	-3,900		-3,900
Change in reserves				-120		120	0		0
December 31, 2004	13,000	16,996	785	60	-20,892	67,915	77,864	316	78,180

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

2 The dividend payment in the year 2005 of TEUR 5,200 was distributed to a share capital of TEUR 13,000. Accordingly, the dividend per share amounted to EUR 0.40.

3 Share issuance 2005:

Revenue	54,000
less transaction costs	-2,929
plus tax benefit	732
Net increase	51,803

1

Note 1

INFORMATION ABOUT THE COMPANY

SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft (the Company), located in 2630 Ternitz, Hauptstrasse 2, was incorporated on May 26, 1994 in Ternitz, Austria and is registered at the Commercial Court in Wr. Neustadt, Austria (FN 102999w).

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

The Company's shares had been listed at the NASDAQ Europe in Brussels from June 20, 1997 to June 30, 2003. Since March 27, 2003 the shares of the Company have been listed at the Wiener Börse (Vienna Stock Exchange).

2

Note 2

ACCOUNTING STANDARDS

The Company's consolidated financial statements for the business year 2005 were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, formerly International Accounting Standards (IAS), as adopted by the International Accounting Standards Board (IASB), as well as the interpretations of the International Financial Reporting Interpretation Committee (IFRIC), formerly Standard Interpretation Committee (SIC).

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Note 3

SCOPE OF CONSOLIDATION

The consolidated financial statements as of December 31, 2005 comprise the accounts of SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft and its subsidiaries as follows:

Company	Location	Interest held in %
Schoeller-Bleckmann Drilling and Production Equipment GmbH	Ternitz, Austria	100
Schoeller-Bleckmann Oilfield Technology GmbH & Co KG	Ternitz, Austria	100
Schoeller-Bleckmann Oilfield Technology GmbH	Ternitz, Austria	100
Schoeller-Bleckmann Oilfield Investment GmbH	Ternitz, Austria	100
Schoeller Bleckmann America Inc.	Wilmington, USA	100
B.K.G.P. Inc.	Wilmington, USA	100
B.K.L.P. Inc.	Wilmington, USA	100
Accudrill L. P.	Houston, USA	100
Bafco Investment Co.	Warminster, USA	100
BICO Drilling Tools Inc.	Houston, USA	100
BICO Faster Drilling Tools Inc.	Nisku, Canada	100
Godwin-SBO L. P.	Houston, USA	100
Knust-SBO Ltd.	Houston, USA	100
Schoeller-Bleckmann Energy Services L. L. C.	Lafayette, USA	85.5
Schoeller-Bleckmann Sales Co. L. P.	Houston, USA	100
Schoeller-Bleckmann de Mexico S. A. de C. V.	Monterrey, Mexico	100
Schoeller-Bleckmann de Venezuela C. A.	Anaco, Venezuela	100
SB Darron Pte. Ltd.	Singapore	100
Schoeller-Bleckmann Darron Limited	Aberdeen, UK	100
Schoeller-Bleckmann Oilfield Equipment Middle East FZE	Dubai, U.A.E.	100
Darron Holdings Limited	Rotherham, UK	100
Darron Oil Tools Limited	Rotherham, UK	100
Darron Tool & Engineering Limited	Rotherham, UK	100

Change in consolidated entities:

On February 18, 2005 the Company sold its 100% interest in Bafco Inc., Warminster/USA (a wholly-owned subsidiary of Schoeller Bleckmann America Inc.) to the management of this corporation for a total consideration of TUSD 1,500, payable in fixed annual instalments. An amount of TEUR 1,013 is included under long-term receivables, bearing interest in line with market conditions.

Bafco Inc. was deconsolidated effective January 1, 2005. Because of the small size of Bafco Inc. this had no significant impact on the consolidated accounts of the SBO Group.

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Note 4

SIGNIFICANT ACCOUNTING POLICIES

The preparation of annual financial statements in conformity with generally recognised International Financial Reporting Standards (IFRS) requires estimates and assumptions to be made by the management that affect the amounts reported in the balance sheet, in the notes and in the profit and loss statement. Actual results may differ from such estimates.

The recognition, measurement and disclosure as well as the combination of individual items of the balance sheet, the profit and loss statement, the cash flow statement and the non-owner movements in equity as well as the scope of the notes provided are guided by the principle of materiality.

▲ Balance sheet date

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

▲ Consolidation principles

Upon capital consolidation the investments in the subsidiaries were offset against the equity of the respective entity in applying the purchase method of consolidation accounting in line with International Financial Reporting Standards.

All material intercompany receivable and payable balances were reconciled at the balance sheet date and offset in the course of the elimination process.

Sales and other income resulting from activities between the group companies were reconciled in the relating consolidation period and offset against the corresponding expenses.

▲ Going concern basis

The consolidated financial statements were prepared on a going concern basis.

▲ Reclassifications

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation.

▲ Uniform accounting principles

The financial statements of all consolidated entities were prepared in accordance with uniform group accounting policies.

▲ Revenue recognition

Revenue is recognized on sales when title passes, generally upon delivery to the customer or on performance of the related service. Revenue from the lease of drilling motors under sales-type lease is recognized at the commencement of the lease to the extent of the present value of the minimum lease payments. Revenue on operating leases is recognized as invoiced, usually on a monthly basis.

▲ Currency translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. At the balance sheet date foreign currency monetary items are reported using the closing rate. Any exchange differences arising are recognized as income or expense in the period in which they arise. Foreign exchange differences recognized in the profit and loss statement were TEUR -435 and TEUR -119 for the years ended December 31, 2005 and 2004, respectively.

For all subsidiaries with financial statements denominated in foreign currency, the local currency was used as the functional currency for the translation into EURO.

- The assets and liabilities, both monetary and non-monetary, are translated at the closing rate (2005: 1 EUR = 1.1847 USD; 2004: 1 EUR = 1.3662 USD).
- All income and expense items of the foreign subsidiaries are translated at an average exchange rate for the period (2005: 1 EUR = 1.2448 USD; 2004: 1 EUR = 1.2433 USD).

Exchange differences resulting from translating the financial statements of the subsidiaries are classified as translation components in the equity section of the consolidated financial statements.

▲ Split in current and long-term 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 long-term. Residual time to maturity is determined on the basis of the balance sheet date.

▲ Financial instruments

Such transactions are recognized at the settlement date, according to IAS 39. The position "long-term investments" includes units of an investment fund that serves to cover the employee benefit obligations as required by law. This item also includes other securities. They are classified as available-for-sale and are measured at cost and later on at fair value without deducting transaction costs, according to IAS 39.

▲ Liquid funds

All cash holdings and financial investments with a residual term to maturity not exceeding 90 days at the time of acquisition that are included in the item Cash and cash equivalents are classified as liquid funds. These items are carried at current values as of the balance sheet date (mark-to-market).

▲ Accounts receivable

Receivables and other assets are stated at the lower of cost of acquisition or the values at the balance sheet date.

The Company grants loans to its customers in the normal course of business, but generally does not require any collateral or security to support the amounts due with the exception of any casual customers and customers located in high risk countries from whom the Company obtains confirmed letters of credit. Management performs permanent credit evaluations of its customers and builds up allowances for doubtful accounts if required.

▲ 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. Costs are determined by the first-in, first-out, weighted average or specific identification methods. The costs of finished goods comprise raw materials, other direct costs and related production overheads, but exclude interest expense. The Company reviews inventories for slow moving items or obsolete items on an ongoing basis and establishes reserves if necessary.

▲ Tangible and intangible fixed assets

The Company's fixed assets are recorded at historical cost less depreciation/amortization. Depreciation is provided for in amounts which are sufficient to relate the cost of depreciable assets to operations over their estimated service lives computed by the straight-line method. The estimated service lives are as follows:

	Years of service
Other Intangibles	4–10
Buildings and improvements	5–50
Plant and machinery	4–7
Fixtures, furniture and equipment	2–10
Automobiles	3–8
Fleet assets (drilling tools under operating leases)	3–5

Repairs and refurbishments are charged to the profit and loss statement at the time the expenditure has been incurred.

Interest expenses are also expensed as incurred.

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

▲ Goodwill

The goodwill shown in the balance sheet is verified on a yearly basis as of December 31. For this purpose, the goodwill is assigned to regional business units. The valuation of the business units is performed on the basis of the estimated cash flows (detailed planning period of 3 years) and a riskfree interest rate of 6%. The risk component is taken into account in the cash flows, which are derived from the budgets of the management.

▲ Deferred Taxes

The Company uses the liability method under which deferred taxes are determined based on the difference between the financial statements and tax bases of assets and liabilities as measured by the enacted tax rates which will become effective when these differences reverse (IAS 12). Deferred tax expense is the result of changes in deferred tax assets and liabilities. Deferred tax assets are to be formed for tax loss carry forwards, provided these tax loss carry forwards can be consumed with future tax profits.

▲ Liabilities and provisions

Liabilities are stated at the redemption price.

In accordance with IAS 37, provisions are stated in the amount that is necessary as of the balance sheet date, according to reasonable commercial standards, to cover future payment obligations, identifiable risks and contingent liabilities of the group. The amount stated is the amount most likely to result from a careful consideration of the facts involved.

▲ Retirement benefits

Austrian Pension obligations

In Austria the Company operates a defined contribution pension scheme for its workforce with the related obligations having been transferred into the external APK (Allgemeine Pensionskasse) pension fund. Under this pension scheme the Company pays on an annual basis the following contributions for its employees: for employees who do not themselves contribute to the pension scheme, the Company contributes 0.5% of the annual salary (in 2005 up to a maximum monthly salary of EUR 3,630 (2004: EUR 3,450) per employee), for employees contributing 1% of their annual salary to the pension fund, the Company also contributes 1%.

Other retirement plans

During 1994 the Company established the Bafco Inc. 401(K) Retirement Savings Plan covering substantially all eligible employees of Bafco Inc. Effective June 1, 1998 the name of the plan was changed to SBOE U.S. Retirement Savings Plan. Effective July 1, 1998 the employees of Schoeller-Bleckmann Sales Co. L.P., BICO Drilling Tools Inc. and Schoeller-Bleckmann Energy Services L.L.C. were eligible to become participants in the plan. Effective August 1, 1998 the employees of Godwin-SBO L.P. were authorized to become eligible participants in the plan.

Employees are eligible to participation in the plan upon reaching 21 years of age and completion of one year of service, as defined. Employees may elect to defer a percentage of their qualifying wages to the maximum limit set by law. Employer contributions are discretionary. The Company decided to contribute 33.3% of the first 6% of employee contributions calculated on a monthly basis.

Knust-SBO Ltd. sponsors a 401(K) profit sharing and income deferral plan which covers substantially all employees. Under this plan, employees may contribute from 2% to 20% of their salaries. The partnership may make matching contributions equal to a discretionary percentage, to be determined by the partnership, of the participants' salary deductions. For the years ended December 31, 2005 and 2004, the partnership has elected to make no matching contributions.

Termination indemnities

Austrian law requires payment of a lump sum upon normal retirement or termination of an employment if the employee has been with the company for at least three years, and provided that the employment commenced before January 1, 2003. Indemnities range from a two to twelve-month salary based on the length of service. Payments are made on normal retirement or any other termination with exception of voluntary terminations. The amounts accrued for as of December 31, 2005 and as of December 31, 2004 were calculated by applying the Projected Unit Credit Method using the mortality table by Klaus Heubeck and an interest rate of 4.5% (2004: 5.5%), assuming a pension age of 61 years for men and 56 years for women and allowing for an annual increase in salaries of 3% as well as an appropriate fluctuation rate.

For employments commenced after January 1, 2003, the Company has to contribute 1.53% of the current remuneration to an external providence fund, according to the legal requirements.

Employees' long service premium

According to the collective work agreement, employees in Austria are entitled to premium payments depending on their length of service with the company. The amounts accrued for as of December 31, 2005 and December 31, 2004 were also calculated by applying the Projected Unit Credit Method.

▲ Hedging transactions (derivative financial instruments)

Hedging transactions are reported at fair value on the balance sheet date. The fair value is determined through the capital market.

▲ Research and development

Pursuant to IAS 38 research costs are expensed as incurred. Development costs are also expensed as incurred and are not capitalized due to the uncertainties of the future economic benefits attributable. The requirements of IAS 38 for a capitalization of development expenses are not fully met.

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Note 5

TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable of TEUR 28,460 as of December 31, 2005 were stated net of valuation allowance amounting to TEUR 519 compared to a trade accounts receivable total of TEUR 19,987 net of valuation allowance of TEUR 397 as of December 31, 2004.

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Note 6

INVENTORIES

Inventories were summarized by major classification as follows:

in TEUR	**December 31, 2005**	December 31, 2004
Raw materials	**8,661**	6,152
Work in process	**30,272**	16,148
Finished goods	**19,175**	13,926
Total	**58,108**	36,226

Because of the increase in provisions, an expense in the amount of TEUR 439 was booked in the year 2005.

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Note 7

TANGIBLE ASSETS

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

in TEUR **Year 2005**	Land & buildings	Plant & machinery	Fixtures, furniture & equipment	Prepayments & assets under construction	Total
Gross valuation					
January 1, 2005	21,000	91,359	4,239	709	117,307
Exchange rate adjustments	1,428	7,736	237	49	9,450
Change in consolidated entities	-492	-259	-134	0	-885
Additions	1,370	13,459	620	7,424	22,873
Transfers	134	-746	1,149	-537	0
Disposals	-7	-4,558	-197	-230	-4,992
December 31, 2005	23,433	106,991	5,914	7,415	143,753
Accumulated depreciation					
January 1, 2005	6,898	54,747	3,123	210	64,978
Exchange rate adjustments	178	3,696	162	20	4,056
Change in consolidated entities	-319	-256	-127	0	-702
Additions	866	9,434	629	0	10,929
Transfers	41	-633	592	0	0
Disposals	-5	-3,292	-181	-230	-3,708
December 31, 2005	7,659	63,696	4,198	0	75,553
Net book value					
December 31, 2005	15,774	43,295	1,716	7,415	68,200
December 31, 2004	14,102	36,612	1,116	499	52,329

in TEUR Year 2004	Land & buildings	Plant & machinery	Fixtures, furniture & equipment	Prepayments & assets under construction	Total
Gross valuation					
January 1, 2004	22,564	91,990	4,739	1,412	120,705
Exchange rate adjustments	-843	-3,811	-89	-8	-4,751
Additions	399	8,772	278	473	9,922
Transfers	618	633	-83	-1,168	0
Disposals	-1,738	-6,225	-606	0	-8,569
December 31, 2004	21,000	91,359	4,239	709	117,307

	Land & buildings	Plant & machinery	Fixtures, furniture & equipment	Prepayments & assets under construction	Total
Accumulated depreciation					
January 1, 2004	6,560	52,668	3,357	227	62,812
Exchange rate adjustments	-250	-1,975	-73	-17	-2,315
Additions	821	8,939	530	0	10,290
Transfers	0	83	-83	0	0
Disposals	-233	-4,968	-608	0	-5,809
December 31, 2004	6,898	54,747	3,123	210	64,978
Net book value					
December 31, 2004	14,102	36,612	1,116	499	52,329
December 31, 2003	16,004	39,322	1,382	1,185	57,893

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

Service and maintenance, as well as marketing outlets, are entertained in the USA, Canada, Venezuela, UK, Singapore, U.A.E. and Russia.

No non-recurring write-offs were made in the year 2005.

No appreciations were made in the year 2005.

As of December 31, 2005 commitments for capital expenditure amounted to TEUR 9,827 (2004: TEUR 615).

Finance Lease

The Company leases various properties under finance lease. The assets and liabilities under finance lease are recorded at the lower of the present value of the minimum lease payments or at the fair value of the asset. Depreciation of assets under finance lease was included in the depreciation expenses for 2005 and 2004.

The interest rate was 5.5% and was imputed based on the lower of the Company's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

Assets held under finance lease included under plant and machinery were as follows:

in TEUR	**December 31, 2005**	December 31, 2004
Cost	**1,308**	1,275
Accumulated depreciation	**-430**	-291
Net book amount	**878**	984

From the utilization of such assets reported on the balance sheet commitments arise minimum payments of:

in TEUR	**December 31, 2005**	December 31, 2004
For the following year	**249**	243
Between one and five years	**308**	543
Total Minimum Payments	**557**	786
Less: unearned income	**-13**	-51
Present value	**544**	735

Operating lease

Obligations arising from lease and rental contracts for the use of fixed assets not shown in the balance sheet amounted to:

in TEUR	**December 31, 2005**	December 31, 2004
For the following year	**608**	283
Between one and five years	**1,659**	758
After five years	**145**	172

Payments for operating leases, which are expended in the current year, amounted to TEUR 564 in 2005 (2004: TEUR 274).

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Note 8

INTANGIBLE ASSETS

The following is a summary of the gross carrying amounts and the accumulated amortization for intangible assets:

Year 2005	Goodwill	Other intangibles	Total
Gross value			
January 1, 2005	56,390	4,909	61,299
Exchange rate adjustments	6,420	454	6,874
Additions	0	61	61
Disposals	0	-4	-4
December 31, 2005	62,810	5,420	68,230
Accumulated amortization			
January 1, 2005	20,506	4,273	24,779
Exchange rate adjustments	2,285	382	2,667
Additions	0	221	221
Disposals	0	-4	-4
December 31, 2005	22,791	4,872	27,663
Book value			
December 31, 2005	40,019	548	40,567
December 31, 2004	35,884	636	36,520
Year 2004			
Gross value			
January 1, 2004	60,034	5,205	65,239
Exchange rate adjustments	-3,457	-245	-3,702
Additions	0	42	42
Disposals	-187	-93	-280
December 31, 2004	56,390	4,909	61,299
Accumulated amortization			
January 1, 2004	18,008	4,340	22,348
Exchange rate adjustments	-1,254	-204	-1,458
Additions	3,939	230	4,169
Disposals	-187	-93	-280
December 31, 2004	20,506	4,273	24,779
Book value			
December 31, 2004	35,884	636	36,520
December 31, 2003	42,026	865	42,891

1. Goodwill:

Until year-end 2004, goodwill was being amortized over 5 or 15 years, respectively, or over 20 years.

Impairment test goodwill:

The impairment test effected for the first time as of December 31, 2005 demonstrated that no write-down of goodwill was necessary. The goodwill set out in the balance sheet belongs mainly to the following business units:

Knust-SBO Ltd.

Godwin-SBO L. P.

Schoeller-Bleckmann Oilfield Technology GmbH & Co KG

Darron Holdings Limited

2. Other intangible assets:

Other intangible assets consist of licenses and EDP-software as well as non-compete agreements. Non-compete agreements were entered into with certain employees of Godwin Machine Works in 1998. They are being amortized over the life of the respective agreements ranging from four to ten years.

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Note 9

LONG-TERM INVESTMENTS

Long-term investments consisted of the following items:

in TEUR	**December 31, 2005**	December 31, 2004
Investment fund certificates	**1,435**	1,283
Pension funds and other	**45**	45
Total	**1,480**	1,328

The long-term securities are to be held as legally required coverage for the termination indemnities and pension provisions (available-for-sale). In general, they are recorded at market value. In case of revaluations these are directly booked into equity.

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Note 10

DEFERRED TAXES

For the determination of the deferred tax assets and liabilities it was taken into consideration that the corporate tax rate in Austria was lowered to 25% in 2005.

As of December 31, 2005 the Company had a net deferred tax liability of TEUR 1,561, as of December 31, 2004 a net deferred tax liability of TEUR 1,092.

The components of the Company's deferred tax assets and deferred tax liabilities as of the balance sheet dates were as follows:

in TEUR	**December 31, 2005**	December 31, 2004
Fixed assets	**-3,139**	-2,470
Inventory	**789**	531
Other items	**245**	406
Not deductible accruals	**1,721**	1,138
Accruals (unrealized exchange losses)	**-1,737**	-1,870
Tax loss carry forward	**1,263**	2,008
Subtotal	**-858**	-257
Valuation allowances	**-703**	-835
Total	**-1,561**	-1,092

Deferred tax assets were not recorded on tax losses carried forward, if the use of these losses cannot be expected in the foreseeable future (TEUR 703).

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Note 11

BANK LOANS AND OVERDRAFTS

At December 31, 2005 the short-term loan arrangements were as follows:

Currency	Amount in TEUR	Interest rate in %
USD-loans	**9,797**	**4.73–5.25**
GBP-loans	**4,360**	**5.55**
CAD-loans	**1,456**	**5.25**
Subtotal	**15,613**	
Export promotion loans (EUR)	**9,034**	**2.23–2.65**
Total	**24,647**	

The export promotion loans represent revolving short-term credit facilities, for which the company has the ability to maintain these obligations permanently under certain credit agreements. Because of a revision of IAS 1 in 2005, a reclassification of these export promotion loans was made from non-current liabilities to current liabilities.

As of December 31, 2004 bank loans and overdrafts amounted to TEUR 34,200.

Borrowings in the amount of TEUR 9,797 were collateralized by particular fixed and current assets.

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Note 12

OTHER PAYABLES AND ACCRUED EXPENSES

Other payables and accrued expenses were as follows:

in TEUR	**December 31, 2005**	December 31, 2004
Accruals	**12,861**	9,596
Taxes	**1,103**	918
Social expenses	**452**	718
Other payables	**182**	566
Total	**14,598**	11,798

Movement in accruals during fiscal year 2005:

in TEUR	Dec. 31, 2004	Change in consolidated entities	Exchange Transl.	Usage	Reversal	Provision	**Dec. 31, 2005**
Vacation not yet used	941	0	34	-460	0	500	**1,015**
Other personnel expenses	2,242	-99	261	-1,681	-30	2,981	**3,674**
Invoices not yet received	850	0	105	-847	0	1,797	**1,905**
Professional fees	884	0	73	-534	-363	636	**696**
Warranty/product liability	1,494	0	9	-283	-421	239	**1,038**
Restructuring	2,949	0	0	-182	0	0	**2,767**
Other	236	0	54	-236	0	1,712	**1,766**
Total	9,596	-99	536	-4,223	-814	7,865	**12,861**

Regarding the provision for restructuring see note 21.

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Note 13

SUBSIDIES RECEIVED

The subsidies result from a federal investment and technology fund grant as well as other investment subsidies received in connection with acquisitions of fixed assets and research and development investments and are released over the useful life of the respective assets (other operating income).

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Note 14

LOANS NOT DUE WITHIN ONE YEAR INCLUDING CURRENT PORTION

At December 31, 2005 long-term bank loans consisted of the following:

Currency	Amount in TEUR	Interest rate in %	Duration	Repayment
EUR	2,000	3.80	2003 – 2010	2010
EUR	6,154	4.75–4.80	2002 – 2009	half-yearly
EUR	812	2.95	2002 – 2008	half-yearly
EUR	2,000	3.65	2003 – 2007	yearly
EUR	365	2.99	2001 – 2006	half-yearly
EUR	726	4.70	2001 – 2006	quarterly
EUR	279	3.50	1998 – 2006	half-yearly
USD	1,505	6.35	2003 – 2016	monthly
USD	7,778	4.12	2003 – 2010	2010
Total	**21,619**			

As of December 31, 2004 long-term bank loans amounted to TEUR 26,202.
Borrowings in the amount of TEUR 2,317 were collateralized by particular fixed assets.
Regarding the hedging against interest rate risks see note 29.

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Note 15

RETIREMENT BENEFIT OBLIGATIONS

in TEUR	**December 31, 2005**	December 31, 2004
Termination indemnities	**2,443**	2,008
Employees' long service premium	**651**	548
Pension provision	**11**	15
Total	**3,105**	2,571

The actuarial assumptions for the provisions for termination indemnities and long-service premiums were as follows:

	2005	2004
Interest rate	**4.5%**	5.5%
Salary increases	**3.0%**	3.0%
Fluctuation rate	**0.0–16.0%**	0.0–16.0%

Actuarial gains or losses are expensed in the profit and loss statement as incurred.

Termination indemnities

The status of the accrual for termination indemnities in the Austrian companies as of year-end was as follows:

in TEUR	**2005**	2004
Present value of the termination benefits as of January 1	**2,008**	1,956
Current service cost	**118**	121
Interest cost	**107**	104
Actual benefit payments	**-161**	-147
Actuarial gain/loss during the year	**371**	-26
Present value of the termination benefits as of December 31	**2,443**	2,008

Defined contribution plans

Payments made under the defined contribution plans (pensions and other providence funds) were expensed and amounted to TEUR 305 in 2005.

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Note 16

NEGATIVE GOODWILL

Pursuant to IFRS 3 the remaining balance of the negative goodwill was no longer considered in 2005.

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Note 17

COMMON STOCK

The share capital of the Company on December 31, 2004 was EUR 13 million (13 million shares at EUR 1.00).

The Ordinary Shareholders' Meeting on March 8, 2005 authorized the Management Board to raise the share capital by an amount of not exceeding EUR 3 million by issuing new shares. The issuance of 3 million new shares at par value EUR 1.00 was executed on April 1, 2005.

The share capital of the Company on December 31, 2005 was EUR 16 million (16 million shares at EUR 1.00).

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Note 18

LEGAL RESERVE – NON-DISTRIBUTABLE

Austrian law requires the setting up of a legal reserve in the amount of one-tenth of the nominal value of the Company's share capital. Until the legal reserve and other restricted capital reserves reach such an amount, the Company is required to allocate five percent of its annual net profits (net of amounts allocated to make up losses carried forward from prior years) to such reserves.

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Note 19

OTHER RESERVES

The untaxed reserves as shown in the balance sheet result from accelerated depreciations: These are untaxed profit allocations due to tax incentives for specific fixed asset investments which may be transferred finally to retained earnings if specific requirements are fulfilled.

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Note 20

MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES

The minority interests in consolidated subsidiaries were composed as follows:

in TEUR	**December 31, 2005**	December 31, 2004
Schoeller-Bleckmann Energy Services L.L.C.	**427**	316

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Note 21

NON-RECURRING WRITE-OFFS AND PROVISIONS RELATED TO RESTRUCTURING

In the year 2004 expenses in the amount of TEUR 851 were incurred for the restructuring of BICO Drilling Tools Inc., Darron Tool & Engineering Limited and Schoeller-Bleckmann Darron Limited.

An additional provision in the amount of TEUR 800 was made for further restructuring measures at these and other companies.

In the year 2005 an amount of TEUR 182 was used from this provision in association with the sale of the US-subsidiary Bafco Inc.

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Note 22

INCOME TAXES

The components of income tax were as follows:

in TEUR	**2005**	2004
Current		
Austria	**-2,539**	-1,437
U.S.	**-2,907**	-1,468
Other	**-551**	-112
Deferred		
Austria	**-619**	-1,325
U.S.	**-964**	-361
Other	**598**	-29
Total	**-6,982**	-4,732

A reconciliation of income taxes using the Austrian statutory tax rate to actual income taxes provided for is as follows:

in TEUR	**2005**	2004
Income tax expense at a tax rate of 25% (2005)	**-6,088**	
Income tax expense at a tax rate of 34% (2004)		-5,277
Tax attributable to partners	**20**	10
Foreign differential	**-874**	131
Goodwill amortization	**0**	-260
Investment valuation	**248**	274
Tax loss not utilized	**-137**	242
Other differences	**-151**	148
Group income tax expense	**-6,982**	-4,732
Group tax rate	**28.7%**	30.5%

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Note 23

EARNINGS PER SHARE

Earnings per share are calculated in line with IAS 33 by dividing the net income for the period by the average number of ordinary shares outstanding during the period.

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Note 24

ADDITIONAL BREAKDOWN OF REVENUES AND EXPENSES

Net sales consist of:

in TEUR	**2005**	2004
Sale of goods and services	**159,227**	142,841
Operating lease revenue	**13,520**	9,321
Total net sales	**172,747**	152,162

As the Company classifies its expenses by function, the following additional information is given as required by IAS 1 (revised 2005):

in TEUR	**2005**	2004
Material expenses	**87,236**	69,999
Personnel expenses	**47,318**	43,112
Depreciation tangible assets	**10,929**	10,290
Amortization goodwill	**0**	3,939
Amortization other intangibles	**221**	230

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Note 25

SEGMENT INFORMATION

The Company operates worldwide mainly in one industry segment, the designing and manufacturing of drilling equipment for the oil and gas industry. For this reason the primary segment information is displayed by geographical regions.

As the figures stated represent a summary of the single balance sheets and income statements of the consolidated companies, consolidation adjustments have to be allowed for in order to arrive at the consolidated figures shown.

Inter-segment sales are carried out in accordance with the “at arm’s length” principle.

As shown in the following schedule the Company’s operations are concentrated in North America and Europe.

Primary segment information by region

2005 in TEUR	Europe	North America	Other regions	SBO-Holding & consolid.-adjustments	SBO-Cons.
Sales by origin					
External sales	**29,137**	**132,938**	**10,672**	**0**	**172,747**
Intercompany sales	**49,294**	**9,155**	**901**	**-59,350**	**0**
Total sales	**78,431**	**142,093**	**11,573**	**-59,350**	**172,747**
Operating income	**8,995**	**16,311**	**1,248**	**-1,091**	**25,463**
Assets	**67,471**	**145,132**	**9,593**	**20,651**	**242,847**
Liabilities	**51,848**	**91,515**	**3,311**	**-58,984**	**87,690**
Capital expenditure	**8,596**	**12,733**	**259**	**1,346**	**22,934**
Depreciation & amortization	**3,609**	**6,914**	**459**	**168**	**11,150**
of which non-recurring write-offs	**0**	**0**	**0**	**0**	**0**
Head count (average)	**344**	**435**	**60**	**14**	**853**

2004 in TEUR	Europe	North America	Other regions	SBO-Holding & consolid.-adjustments	SBO-Cons.
Sales by origin					
External sales	26,252	116,221	9,689	0	152,162
Intercompany sales	39,365	9,850	687	-49,902	0
Total sales	65,617	126,071	10,376	-49,902	152,162
Operating income	7,712	10,909	815	-584	18,852
Assets	52,791	109,042	6,757	4,744	173,334
Liabilities	39,281	73,028	2,311	-19,637	94,983
Capital expenditure	1,985	7,446	532	1	9,964
Depreciation & amortization	3,850	9,575	506	528	14,459
of which non-recurring write-offs	0	97	0	0	97
Head count (average)	340	413	48	12	813

The secondary segment information by product is classified by the intended purpose of the goods and services. The following categories are used:

1. High-precision components

For applications in the MWD/LWD-Technology collars and internals made of highly alloyed steel and other non-magnetic metals are requested. 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. All those components need utmost high dimensional accuracy in intricate machining.

2. Oilfield supplies and service

This group comprises the following products:

– Non-Magnetic-Drill-Collars (NMDC), steelbars which are used to reduce magnetic interferences with MWD operations.
– Drilling motors, which drive the bit for directional drilling operations. They are also used for other applications such as river and road crossing for utility services, telephone cables and pipelines.
– Various other tools for the oilfield such as stabilizers, reamers, hole openers, drilling jars and shock tools.

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, shotpeened, etc. as quickly as possible and with the highest standard in workmanship.

3. Other Sales

The Company is, to a limited extent, active in other areas, too.

Secondary segment information by product

2005 in TEUR	High-precision components	Oilfield supplies & service	Other sales	SBO Holding & cons. adjustments	SBO Cons.
External sales	**107,494**	**64,031**	**1,222**	**0**	**172,747**
Assets	**132,816**	**89,379**	**1**	**20,651**	**242,847**
Capital expenditure	**9,767**	**11,821**	**0**	**1,346**	**22,934**
2004 in TEUR					
External sales	95,122	51,208	5,832	0	152,162
Assets	104,451	61,970	2,169	4,744	173,334
Capital expenditure	4,272	5,691	0	1	9,964

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Note 26

TOTAL REMUNERATION FOR THE MANAGEMENT

The total remuneration including bonuses for 2004 paid in 2005 for the Executive Board and the Managing Directors/General Managers of its subsidiaries amounted to TEUR 2,333 (December 31, 2004: TEUR 2,127). These amounts include the increase in provisions for retirement benefits amounting to TEUR 78 in 2005 and TEUR 5 in 2004.

The total remuneration for the Supervisory Board amounted to TEUR 26, which refers to a flat rate payment.

No loans were granted to the members of the Executive Board or to the Supervisory Board, respectively.

The existing contracts for the members of the Executive Board have an expiring date of December 31, 2008.

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Note 27

TRANSACTIONS WITH RELATED PARTIES

The following transactions with related parties outside the scope of consolidated companies of the SBO-group were carried out in 2005:

C und P Consulting

This company rendered various consulting services. Gerd Klaus Gregor, a member of the Supervisory Board until May 12, 2005 is managing director of this company. The consulting fees paid in 2005 amounted to TEUR 63 (of which outstanding as of December 31, 2005 TEUR 0).

Schleinzer & Partner, attorneys-at-law

This lawfirm is the legal consultant to the Company. A partner of this law firm, Dr. Karl Schleinzer, is a member of the Supervisory Board. The total charges for 2005 amounted to TEUR 36 (of which outstanding as of December 31, 2005 TEUR 0).

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Note 28

LEASE BUSINESS ACTIVITIES

The Company's leasing operations consist of leasing drilling motors under sales-type and operating leases, expiring in various years through 2006.

Sales type lease

Below is a summary of the components of net investment in sales-type leases:

in TEUR	**December 31, 2005**	December 31, 2004
Total minimum lease payments to be received	**397**	415
Unearned income	**-20**	-25
Net investment	**377**	390
Thereof long-term portion	**37**	89

Interest on capitalized leases was calculated using an interest rate of 10%.

Operating lease income

The Company is also the lessor of drilling tools under operating leases with initial lease terms of less than one year. Revenues from these short term operating leases were TEUR 13,520 and TEUR 9,321 for the years ended December 31, 2005 and 2004.

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Note 29

FINANCIAL INSTRUMENTS

A distinction is made between primary and derivative financial instruments by IFRS.

Primary Financial Instruments

Primary Financial Instruments held by the Company are shown in the balance sheet. The amounts stated under assets represent the maximum credit risk and risk of loss.

With regard to long-term investments please see notes 4 and 9.

Derivative Financial Instruments

1. Foreign currency receivables

The Austrian company hedges its US-Dollar-accounts receivable balances on an ongoing basis by entering into forward exchange contracts. All transactions have short-term durations (3–8 months).

Forward exchange transactions at December 31, 2005	Nominal value in TEUR	Market value in TEUR
USD	**23,818**	**24,376**

The forward exchange transactions are measured at fair value and recognized in the P & L account, since the requirements under IAS 39 for hedge accounting are not fully met.

2. SWAP-Transaction

The Company has entered into a foreign currency and interest swap for the hedging of a net investment into a foreign business, relating to long-term borrowings with a maturity in 2010, for which an amount of TEUR 8,000 was exchanged with an amount of TUSD 9,176, associated with a fixed interest rate of 4.12%.

The market value at December 31, 2005 was TEUR 7,778, the difference of TEUR 222 (2004: TEUR 1,259) was booked directly into the equity (translation component), without any impact on the net income.

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Note 30

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.

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 Schoeller-Bleckmann Oilfield Equipment highly depends on cycles, in particular on the cyclical development of oil and gas drilling activities performed by the international oil companies. In order to minimize the risks of order fluctuations involved in the process, the manufacturing companies of the group have been adjusted to ensure maximum flexibility.

▲ Sales and procurement risks

The market for products and services of the SBO group is to a great extent determined by the continuous development and application of new technologies.

Therefore, securing and maintaining the group's customer stock depends on the ability to offer new products and services tailored to the customers' needs.

Of all sales worldwide, 63% in 2004 and 62% in 2005 were generated for the three dominant service companies in the market for directional drilling (Schlumberger, Halliburton, Baker Hughes).

SBO tries to limit the risk of a potential decline in sales involved in losing a customer by continuous innovation, quality assurance measures and maintaining close relations with customers.

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

Due to the strong global demand for raw materials, SBO in 2005 was faced with the risk of delivery problems due to the lack of certain semi-finished products. As a result of the new purchasing policy, of stockpiling certain specialty alloys in the US and intensified cooperation with a major supplier, those risks were identified and minimized early on.

▲ Foreign currency risk

Foreign risks arise in the SBO group where balance sheet items as well as income and expenses are generated or incur 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 around 80 percent of its sales volume in US dollars. Also on a long-term basis, approximately 60 percent of costs are incurred in US dollars. In order to minimize the currency exposure involved, orders are hedged between the time of order acceptance and invoicing. However, for reasons of costs and expedience, SBO does not hedge the entire net dollar exposure. In any case, the profit generated by SBO is contingent on the dollar-euro exchange rate.

▲ Substitution risk

SBO is subject to the risk of substitution of its products and technologies, which may result in the emergence of new competitors. SBO tries to counteract that risk through continuous market observation, maintaining strong ties with customers and proprietary innovations.

▲ **Interest rate risk**

The majority of the long-term bank borrowings (approximately 90% as of December 31, 2005) have fixed interest rates, therefore they are without any interest rate risk. However, the fair value of these credit facilities is subject to fluctuations.

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Note 31

CONTINGENCIES

Guarantees were issued by various banks as of the balance sheet dates, amounting to TEUR 210 at December 31, 2005 (2004: TEUR 234).

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Note 32

CASH FLOW STATEMENT

The cash flow statement of the Company and its subsidiaries displays the change of cash and cash equivalents in the reporting year as a result of inflows and outflows of resources.

The liquid fund only includes cash on hand and bank balances.

In the cash flow statement, cash flows are classified into cash flow from operating activities, cash flow from investing activities and cash flow from financing activities.

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

The cash flow 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 cash flow 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 cash flow from financing activities.

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Note 33

PERSONNEL

The total average number of employees was as follows:

	2005	2004
Blue collar	**676**	637
White collar	**177**	176
	853	813

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Note 34

EVENTS AFTER THE BALANCE SHEET DATE

After the balance-sheet date no events of particular significance have occurred, which would have changed the presentation of the net worth, financial position and earnings situation of the Company.

MANAGEMENT INFORMATION

Executive Board

Gerald Grohmann
President and CEO

Franz Gritsch
Executive Vice-president amd CFO

Statement by the Executive Board regarding compliance of the consolidated financial statements with IFRS rules

The Executive Board hereby declares that the consolidated financial statements present fairly, in all material respects, the consolidated financial position of SCHOELLER-BLECKMANN OILFIELD EQUIPMENT Aktiengesellschaft at December 31, 2005 and that International Financial Reporting Standards (IFRSs) as adopted by the EU were complied with in full.

Vienna, February 20, 2006

Gerald Grohmann　　　　　　　　Franz Gritsch

Members of the Executive Board

Supervisory Board

Mag. Norbert Zimmermann (Chairman)

First nomination: 1995

End of current appointment: 2007

Dr. Peter Pichler (Deputy Chairman)

First nomination: 1995

End of current appointment: 2007

Ing. Gerd Klaus Gregor

First nomination: 2001

Resignation: 2005

Mag. Dipl.-Ing. Helmut Langanger

First nomination: 2003

End of current appointment: 2007

Karl Samstag

First nomination: 2005

End of current appointment: 2007

Dr. Karl Schleinzer

First nomination: 1995

End of current appointment: 2007

Committees of the Supervisory Board

Remuneration Committee:

Mag. Norbert Zimmermann

Dr. Karl Schleinzer

Audit Committee:

Mag. Norbert Zimmermann

Dr. Peter Pichler

AUDITOR´S REPORT

“We have audited the consolidated financial statements of SCHOELLER-BLECKMANN Oilfield Equipment AG, Ternitz for the fiscal year from January 1, 2005 to December 31, 2005. The Company’s management is responsible for the preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and for the preparation of the management report for the group in accordance with Austrian regulations. Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to state whether the management report for the group is in accordance with the consolidated financial statements.

We conducted our audit in accordance with laws and regulations applicable in Austria and International Standards on Auditing (ISAs) issued by the International Federation of Accountants (IFAC). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement and whether we can state that the management report for the group is in accordance with the consolidated financial statements. In determining the audit procedures we considered our knowledge of the business, the economic and legal environment of the group as well as the expected occurrence of errors. An audit involves procedures to obtain evidence about amounts and other disclosures in the consolidated financial statements predominantly on a sample basis. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements are in accordance with legal requirements and present fairly, in all material respects, the financial position of the group as of December 31, 2005 and of the results of its operations and its cash flows for the fiscal year from January 1 to December 31, 2005 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The management report for the group is in accordance with the consolidated financial statements."

Vienna, February 20, 2006

ERNST&YOUNG
WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT m.b.H.

Karl Rab Gerhard Schwartz
(Certified Austrian Public Accountant)

REPORT OF THE SUPERVISORY BOARD OF SBO AG TO THE ANNUAL GENERAL MEETING CONCERNING THE 2005 BUSINESS YEAR

During the 2005 business year, the Supervisory Board carried out the duties allocated to it by law and the articles of association and held 5 meetings to this end. The management provided the Board with regular written and verbal reports concerning business developments and the company's status, including the situation of the Group companies. An Audit Committee for handling questions of the Financial Statements and a Remuneration Committee for handling questions regarding the reimbursement of the Executive Board were installed.

The Annual Accounts for the 2005 business year and the Status Report of SBO AG were examined by SST SCHWARZ & SCHMID Wirtschaftsprüfungsgesellschaft m.b.H., Vienna. The Consolidated Financial Statements and the Consolidated Status Report for the SBO Group as at December 31, 2005 were examined by ERNST & YOUNG Wirtschaftsprüfungsgesellschaft m.b.H., Vienna. According to their unqualified audit certification, the accounts, the Annual Accounts for the 2005 business year and the 2005 Consolidated Financial Statements meet the statutory requirements, present a true and fair view of the assets, financial position and profitability of the company and the Group in accordance with generally accepted accounting principles. The Annual Accounts of SBO AG have been prepared in accordance with the Austrian Commercial Code and Austrian Generally Accepted Accounting Principles; the Consolidated Financial Statements of the SBO Group have been prepared in accordance with the International Financial Reporting Standards (IFRS).

At its meeting on March 1, 2006, the Supervisory Board approved the Annual Accounts for the 2005 business year, the Consolidated Financial Statements as at December 31, 2005, the proposal for the distribution of profits and the Status Report combined with the Consolidated Status Report presented by the Managing Board.

Ternitz, March 1, 2006

Norbert Zimmermann
Chairman of the Supervisory Board

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