

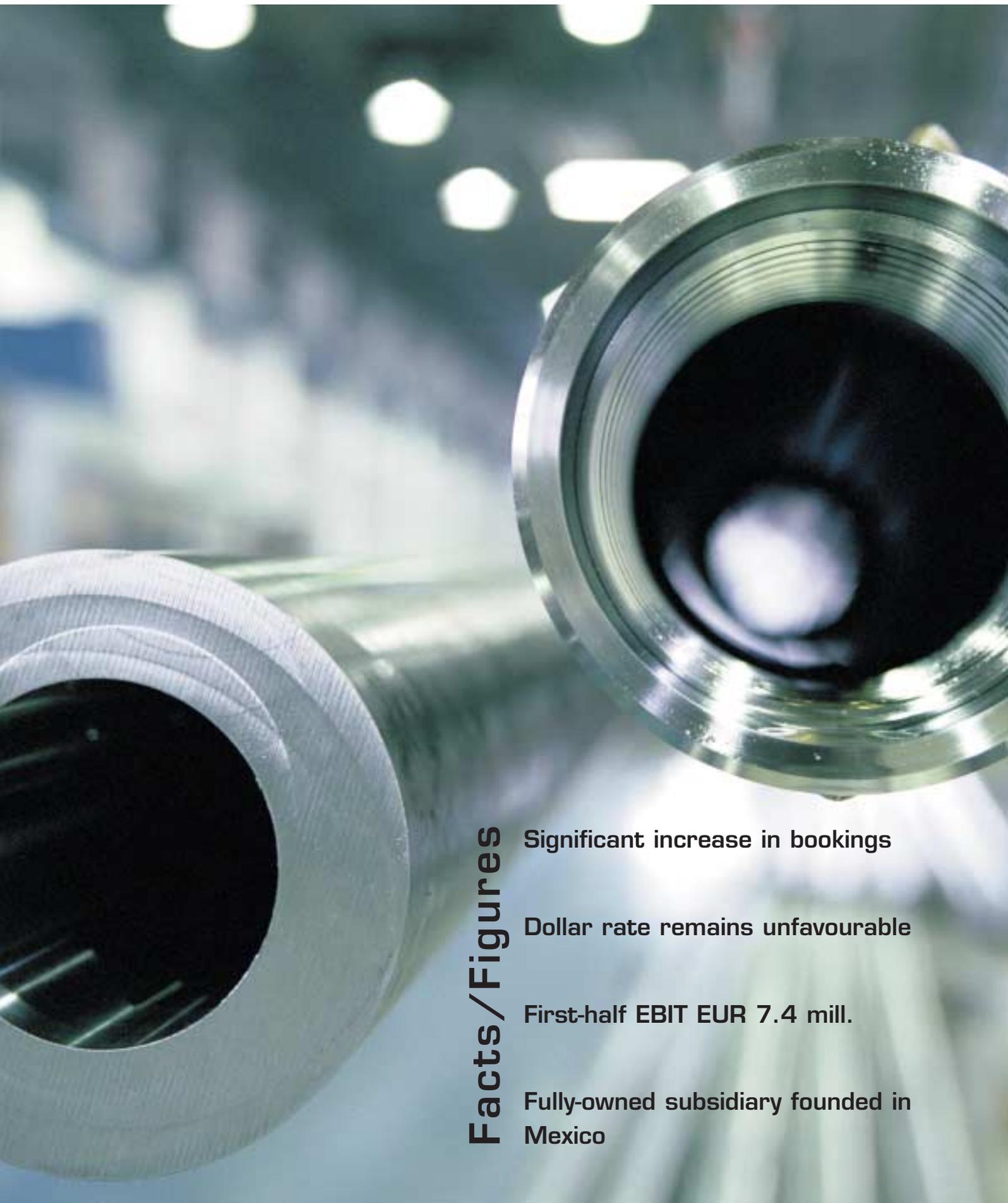
**LETTER**

2-2004

**to our shareholders**



**SCHOELLER-BLECKMANN  
OILFIELD EQUIPMENT AG**



**Facts / Figures**

Significant increase in bookings

Dollar rate remains unfavourable

First-half EBIT EUR 7.4 mill.

Fully-owned subsidiary founded in Mexico

**Dear shareholders,**

the first half of 2004 generated a satisfying result for SBO. The favourable development of the economies in Asia and the US and the resulting increased demand for oil had a positive effect on the oilfield service industry. Bookings received by SBO in the first half of 2004 were worth EUR 85.2 mill., which is 35.7% above the figures of the same period last year (EUR 62.8 mill.). The market upswing made itself felt in all divisions of our company and was particularly marked in the second quarter. The growing number of bookings is not yet fully reflected in the sales figures, as the more adverse euro-dollar exchange rate over 2003 caused a slight decline of sales to EUR 72.0 mill. (following EUR 73.9 mill.). Adjusted for currency effects, however, the sales volume generated in the first half of 2004 was already 6.0% above the level achieved last year.

The business upswing was also mirrored in SBO's half-year operating result: Adjusted for the euro-dollar exchange rate, the EBIT was EUR 9.6 mill., that is 18.6% above last year (EUR 8.1 mill.).

The net half-year result of EUR 4.4 mill. was 13% up over the first half of 2003.

In the first half of the year, SBO further invested in expanding their market position and streamlining cost structures. Apart from founding a fully-owned subsidiary in Mexico, the company is establishing a new customer service centre in the Rocky Mountains. This is due to the positive sales development of downhole motors triggered by growing numbers of gas drilling projects in the North West of the US.

With the high order backlog of around EUR 45 mill. (compared with approx. EUR 33 mill. at mid-2003) business development for the second half of 2004 rests on a solid foundation. However, the most recent oil price hike driven by the political crisis and speculations does not allow any precise forecast. Business development at SBO in the second half of 2004 will considerably depend both on the economic and demand assessment of oil companies for 2005 and the dollar-euro exchange rate. At the moment, the high oil price has a stimulating effect on the oilfield service industry, but excessive oil and energy prices might have negative repercussions on the "economic engines" of Asia and the US and, therefore, also on the oil industry's willingness to make further investments.

Ternitz, August 2004



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



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

**Notes on the half-year statement**

In the first half of 2004, SBO generated consolidated group sales of EUR 72.0 mill. (following EUR 73.9 mill. last year). The half-year EBIT was EUR 7.4 mill. and, therefore, slightly below the first half of last year (EUR 8.1 mill.). The EBIT margin of 10.3% again achieved a satisfying level compared with the margin of 11.0% of the first half of 2003. The most recent price increases for stainless steel had only a minor effect on SBO's margin development and could partly be passed on to customers.

Adjusted for the continued adverse currency effects of the dollar exchange rate on SBO, both the consolidated group sales of EUR 78.3 mill. and the half-year EBIT of EUR 9.6 mill. would have considerably surpassed last year's figures.

The net group profit generated in the first half of 2004 was EUR 4.4 mill. (following EUR 3.9 mill.). This improvement is a result of the 100% take-over of Knust-SBO/Houston in the second half of 2003 due to which no more profits had to be allocated to the minority shareholder.

Sales in Q2/04 amounted to EUR 36.7 mill. (following EUR 34.6 mill. in Q2/ 03) and reflect the trend reversal in the oilfield service industry. The operating result achieved in the second quarter (EBIT) was EUR 3.9 mill. (following EUR 3.1 mill. in Q2/03).

The high level of bookings obtained in the first half of 2004 required a higher commitment of funds in the working capital. This was due mainly to larger stocks of semi-finished products to work off orders. Nonetheless, the operating cash-flow in the first half of 2004 was EUR 10.5 mill.

**Wholly-owned subsidiary founded in Mexico**

Around one year ago, SBO initiated a manufacturing cooperation with a partner company in Mexico and started to gain on-the-spot experience there. As the capacities of that partner are limited, additionally the newly founded wholly-owned subsidiary Schoeller-Bleckmann de Mexico is now taking up its operating business. For the time being, the Mexican production site of the SBO group will make deliveries to the American SBO subsidiaries Knust SBO Ltd. and Godwin-SBO L.P. in Houston, Texas.

## Interim Profit and Loss Account

	UNAUDITED 6 months period ended		UNAUDITED 3 months period ended		AUDITED Year ended
	30.06.2004 TEUR	30.06.2003 TEUR	30.06.2004 TEUR	30.06.2003 TEUR	31.12.2003 TEUR
<b>Sales</b>	<b>71,951</b>	<b>73,888</b>	<b>36,680</b>	<b>34,582</b>	<b>134,157</b>
Cost of Sales	-55,583	-56,093	-28,487	-26,638	-102,222
<b>Gross profit</b>	<b>16,368</b>	<b>17,795</b>	<b>8,193</b>	<b>7,944</b>	<b>31,935</b>
Selling, general & administrative expenses	-8,668	-9,470	-4,191	-4,779	-18,068
Research & development expenses	-263	-197	-144	-92	-774
<b>Income from operations</b>	<b>7,437</b>	<b>8,128</b>	<b>3,858</b>	<b>3,073</b>	<b>13,093</b>
Non-recurring expenses for restructuring	0	0	0	0	-4,648
Other income/expenses	455	959	267	375	3,081
Foreign exchange gain/loss	33	-796	48	-311	76
Interest income/expenses	-1,251	-1,151	-613	-611	-2,203
Total other income	-763	-988	-298	-547	-3,694
<b>Income on ordinary activities before taxation</b>	<b>6,674</b>	<b>7,140</b>	<b>3,560</b>	<b>2,526</b>	<b>9,399</b>
Income taxes	-2,271	-2,025	-1,215	-719	-3,316
<b>Income after taxation</b>	<b>4,403</b>	<b>5,115</b>	<b>2,345</b>	<b>1,807</b>	<b>6,083</b>
Minority interests	-13	-1,221	-5	-427	13
<b>Net income</b>	<b>4,390</b>	<b>3,894</b>	<b>2,340</b>	<b>1,380</b>	<b>6,096</b>
Earnings per share (in EURO)	0.34	0.30	0.18	0.11	0.47
Number of shares outstanding	13,000,000	13,000,000	13,000,000	13,000,000	13,000,000

## Statement of Shareholders' Equity (TEUR)

Equity as of December 31, 2003	77,023
Net income	4,390
Dividend	-3,900
Currency translation adjustments	3,105
<b>Equity as of June 30, 2004</b>	<b>80,618</b>

Equity as of December 31, 2002	91,142
Net income	3,894
Dividend	6,500
Currency translation adjustments	-6,769
<b>Equity as of June 30, 2003</b>	<b>81,767</b>

### SALES BY REGION

in MEUR	1-6/2004	1-6/2003
North America	59.8	58.7
Europe	32.5	34.4
Other	5.0	4.2
- Intercompany sales	-25.3	-23.4
<b>Total Sales</b>	<b>72.0</b>	<b>73.9</b>

### EBIT-MARGIN



— **Schoeller-Bleckmann Oilfield Equipment AG** is the global market leader for **high-precision components** for the **oilfield service industry**.

— The business focus is on non-magnetic drill string components for directional drilling.

— Worldwide, the company currently employs a **workforce of 811** (end of 2003: 800), 206 in Ternitz, Lower Austria and 411 in North America.

— The majority shareholder of the company is **Berndorf Group** (approx. 64%).

# LETTER to our shareholders

2-2004

## Interim Balance Sheet

ASSETS	UNAUDITED	AUDITED
	30.06.2004	31.12.2003
	TEUR	TEUR
Cash and cash equivalents	15,665	9,966
Trade accounts receivable	22,747	18,410
Other accounts receivable and prepaid expenses	6,185	7,952
Inventories	37,867	34,799
<b>Total current assets</b>	<b>82,464</b>	<b>71,127</b>
Property, plant & equipment	58,384	57,893
Goodwill	41,193	42,026
Other intangible assets	780	865
Long-term investments	1,272	1,272
Long-term receivables	111	98
<b>Total non-current assets</b>	<b>101,740</b>	<b>102,154</b>
Deferred tax assets	3,376	3,557
<b>TOTAL ASSETS</b>	<b>187,580</b>	<b>176,838</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
	TEUR	TEUR
Bank loans and overdrafts	36,525	30,244
Current portion of loans	5,855	5,946
Finance lease obligations	203	186
Accounts payable trade	10,939	9,403
Other payables and accrued expenses	12,055	10,830
<b>Total current liabilities</b>	<b>65,577</b>	<b>56,609</b>
<b>Subsidies received</b>	<b>874</b>	<b>461</b>
Loans not due within one year	33,725	35,916
Finance lease obligations, long-term	668	734
Retirement benefits obligations	2,538	2,517
<b>Total non-current liabilities</b>	<b>36,931</b>	<b>39,167</b>
Deferred tax payables	3,022	2,999
Minority interests in consolidated companies	340	315
Negative goodwill	218	264
Common stock	13,000	13,000
Contributed capital	16,996	16,996
Other reserves and translation component	-10,804	-13,904
Retained earnings	61,426	60,931
<b>Total shareholders' equity</b>	<b>80,618</b>	<b>77,023</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>187,580</b>	<b>176,838</b>

## Interim Cash Flow Statement

	UNAUDITED	
	6 months period ended	
	30.06.2004	30.06.2003
	TEUR	TEUR
<b>OPERATING ACTIVITIES</b>		
Income after taxation	4,403	5,115
Depreciation and amortisation	7,407	7,350
Other	61	-1,501
<b>Cash earnings</b>	<b>11,871</b>	<b>10,964</b>
Change in working capital	-1,354	5,003
<b>Net cash provided by operating activities</b>	<b>10,517</b>	<b>15,967</b>
<b>INVESTING ACTIVITIES</b>		
Expenditures for fixed assets	-4,754	-7,726
Other activities	773	303
<b>Net cash used in/provided by investing activities</b>	<b>-3,981</b>	<b>-7,423</b>
<b>FINANCING ACTIVITIES</b>		
Payment of dividends	-3,900	-6,500
Minority shareholders' contribution/distribution	0	-1,085
Change in bank liabilities and other financing	3,234	809
<b>Net cash used in/provided by financing activities</b>	<b>-666</b>	<b>-6,776</b>
Translation adjustments	-512	1,682
<b>Change in cash and cash equivalents</b>	<b>5,358</b>	<b>3,450</b>
Cash and cash equivalents at beginning of year	9,966	16,625
Change in consolidated entities/ Exchange rate effects	341	-1,208
Cash and cash equivalents at end of period	15,665	18,867



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