



SCHOELLER  
BLECKMANN  
OILFIELD  
EQUIPMENT

# LETTER TO OUR SHAREHOLDERS 1-9 2017

## HIGHLIGHTS

- SBO benefits in its strong position from the North American growth, while upswing has not yet arrived internationally
- Operating result continues to improve
- Well Completion business success requires expense posting for the shares of minority shareholders

# MANAGEMENT REPORT

"NORTH AMERICA REMAINS STRONG"

## MARKET ENVIRONMENT

The market environment in the oilfield service industry continued its strong development in North America throughout the third quarter of 2017. The impact of hurricane Harvey on the oil and gas industry was minor, affecting mainly refinery capacities that had to be curbed temporarily. Nevertheless, the momentum seen in the US rig count has slowed down slightly. Internationally, markets remained stable, but still in stagnation. All in all, this development underpins the previous assessment that the full year 2017 will be marked by a phase of transition for the industry that will - outside mainland North America ("internationally") - continue into the year 2018.

In the third quarter of 2017 demand in the global crude oil market was somewhat higher than supply. Demand arrived at 98.0 million barrels per day (mb/d), thus exceeding demand in the second quarter of 2017 by 0.2 mb/d (Q2 2017: 97.8 mb/d). Year-on-year, demand went up by 1.3 mb/d (Q3 2016: 96.7 mb/d).

Global supply came to 97.8 mb/d, therefore demand exceeded supply by 0.2 mb/d. OPEC's total supply in the third quarter was 39.7 mb/d, following 39.2 mb/d in the second quarter of 2017. Compliance with the production limit of 32.5 mb/d (crude oil without natural gas liquids / NGLs), as agreed until end of March 2018, continued to be fulfilled above the agreed level by Saudi Arabia, the largest producer, as well as Angola and Qatar. Iran further stepped up its production to 3.8 mb/d, that is by 0.1 mb/d and still in line with the production cut agreement. All in all, the OPEC countries complied very disciplined with the agreed upon production limit. Non-OPEC supply increased compared to the second quarter of 2017, by 0.3 mb/d to 58.1 mb/d. In the United States, it arrived at 13.1 mb/d in the third quarter of 2017 (Q2 2017: 13.0 mb/d).

OECD crude inventories continued to decline in the third quarter of 2017, standing at 1,166 million barrels (mb) at the end of the third quarter of 2017, following 1,211 mb in the second quarter.<sup>1</sup>

Prices of crudes WTI and Brent picked up significantly in the third quarter of 2017. In the second quarter of 2017, the higher than expected rapid ramp-up of crude supply in the United States had caused uncertainties in the oil market. In the third quarter, signs of decelerating activities in the exploration of oil reserves in North America throughout the second half of the year had a positive effect on the development of the oil price and eased fears that the market could be oversupplied with oil. In the course of the quarter, the price per barrel of crude WTI climbed by 9.8 %, from USD 47.07 (3 July 2017) to USD 51.67 (29 September 2017). The price per barrel of European crude Brent rose

<sup>1</sup> International Energy Agency (IEA), Oil Market Report, November 2017.

# MANAGEMENT REPORT

## "SBO EXPLOITS MARKET OPPORTUNITIES AND POSTS STRONG OPERATING RESULT"

by 15.8 % in the third quarter, from USD 49.68 to USD 57.54. As a result, the oil price arrived clearly above the level seen in the same period of last year. Year-on-year, the price of crude WTI went up by 7.1 % (30 September 2016: USD 48.24), of crude Brent by 17.3 % (30 September 2016: USD 49.06).<sup>2</sup>

The number of globally active drilling rigs (rig count) had risen by 8.5 %, or 163 rigs (January 2017: 1,918 rigs) since the beginning of the year. Following a strong increase of the US rig count in the first half of the year, nearly all regions experienced sideways movement setting in over the summer. In the third quarter of 2017, the global rig count climbed from 2,041 rigs at the end of the previous quarter, by 2.0 % or 40 rigs, to 2,081 rigs in September, while activity in Canada due to seasonal activity losses in the wake of the spring break-up had not been entirely restored at the beginning of the quarter. Flattening activity levels were even more distinct in the US, where the rig count, since the end of the second quarter of 2017, went up by 1.0 %, from 931 to 940 rigs in September, but only after it had already come to 953 rigs in July.<sup>3</sup>

## BUSINESS DEVELOPMENT

Schoeller-Bleckmann Oilfield Equipment AG (SBO) had positioned itself excellently with its high-efficiency products in the North American market and is now benefiting from strong demand. The company improved sales figures again, by 21.7 % in the third quarter of 2017 (following 25.6 % in the second quarter). For the first time following two years of crisis, the EBITDA margin of 28.7 % arrived above its long-term average of 24.1 % (financial years 2001-16).

SBO's sales in the first three quarters stood at MEUR 227.6, a significant increase of 71.0 % compared to the 2016 crisis year (1-9/2016: MEUR 133.1). Bookings even more than doubled in the first three quarters of 2017, to MEUR 241.5, following MEUR 116.5 in the first three quarters of 2016. As a result, the book-to-bill ratio, which measures the number of orders coming in compared to sales and serves as an indicator of medium-term development, was greater than 1. At the end of the third quarter of 2017, the order backlog totalled MEUR 33.4 (30 September 2016: MEUR 17.4).

<sup>2</sup> Bloomberg: CO1 Brent Crude (ICE) and CL1 WTI Crude (Nymex).

<sup>3</sup> Baker Hughes Rig Count.

## MANAGEMENT REPORT

The marked rise in sales is reflected in the business results of the company. Earnings before interest, taxes, depreciation, and amortisation (EBITDA) returned to clearly positive territory, from MEUR minus 7.2 in the first three quarters of 2016 to MEUR 48.5, including one-off income from completed restructuring measures of MEUR 2.0. The operating result (EBIT) was MEUR 11.0 in the first three quarters of 2017, following MEUR minus 50.9 in the first three quarters of 2016. The EBITDA margin came to 21.3 % (1-9/2016: minus 5.4 %), and the EBIT margin to 4.8 % (1-9/2016: minus 38.2 %).

The expansion of the Well Completion business, resulting in a further diversification of the company, has turned out to be a milestone of the past years. Downhole Technology LLC (Downhole Technology) has already significantly exceeded the high expectations in terms of sales and result in the first 1.5 years since its acquisition. Growth expectations for Downhole Technology over the quarters ahead have led to a higher-than-anticipated company value as at 1 April 2019, the earliest possible date for exercising the option regarding the purchase of shares of minority shareholders. As a result, the option valuation had to be adjusted in the balance sheet according to the applicable accounting principles. In course of the acquisition, SBO took over 68 % of the shares in Downhole Technology. The remaining 32 % of the shares may be acquired by SBO, or sold by minority shareholders to SBO, by drawing a put/call option. As result expectations of the fully consolidated company had increased, a one-off expense with effect on the result, but not on cash, had to be included in the income statement of SBO in the third quarter of 2017, posted with MEUR 91.3 in the financial result. In the first three quarters of 2017, the financial result therefore arrived at MEUR minus 95.5 (1-9/2016: MEUR 14.6). In the same period of last year, one-off income from the revaluation of option commitments amounting to MEUR 16.9 were included. Profit before tax stood at MEUR minus 84.5 (1-9/2016: MEUR minus 36.2), and profit after tax at MEUR minus 86.2 (1-9/2016: MEUR minus 22.9). Before revaluation of option commitments, profit before tax came to MEUR 5.0 (1-9/2016: MEUR minus 53.2). Earnings per share were EUR minus 5.41 (1-9/2016: EUR minus 1.43).

The above option commitment is reflected in the balance sheet of SBO accordingly. Nevertheless, the company has preserved its sound balance sheet structure: As at 30 September 2017, SBO's equity ratio was 39.3 % (30 September 2016: 54.8 %), and net debt MEUR 62.8 (30 September 2016: MEUR 56.1). Liquid funds at the end of the third quarter amounted to MEUR 177.9 (30 September 2016: MEUR 141.6). The operating cashflow arrived at MEUR 23.0 (1-9/2016: MEUR 28.9). Spending for property, plant and equipment and for intangible assets (CAPEX) including expenditure for the expansion of production capacities increased to MEUR 25.3 (1-9/2016: MEUR 9.4). Purchase commitments for expenditure in property, plant and equipment as at 30 September 2017 were MEUR 1.5 (30 September 2016: MEUR 0.2).

# MANAGEMENT REPORT

## DEVELOPMENT OF THE SEGMENTS

As of the first quarter of 2017, SBO reorganised its segment reporting. According to the new organisational structure, SBO's business operations are subdivided into two reportable segments - "Advanced Manufacturing & Services" (AMS) and "Oilfield Equipment" (OE):

- › The "Advanced Manufacturing & Services" (AMS) segment comprises high-precision machining and repair of drill collars and complex MWD (Measurement While Drilling) / LWD (Logging While Drilling) components made of non-magnetic corrosion-resistant stainless steel, which form the housing for sensitive measuring instruments used for the precise measurement of inclination and azimuth of the drillstring as well as petrophysical parameters.
- › The "Oilfield Equipment" (OE) segment comprises a wide range of highly specialised solutions for the oil and gas industry: High-performance drilling motors and tools for directional drillstring drive, downhole circulation tools as well as products for efficient and resource-conscious completion of unconventional wells in the two dominating technologies "sliding sleeve" and "plug-n-perf".

The "Advanced Manufacturing & Services" (AMS) segment - traditionally a late-cycle business - generated sales of MEUR 72.6 in the first three quarters of 2017 (1-9/2016: MEUR 68.3), whereas the operating result (EBIT) before one-off effects came to MEUR minus 14.5 (1-9/2016: MEUR minus 23.4).

In the "Oilfield Equipment" (OE) segment sales arrived at MEUR 155.0 (1-9/2016: MEUR 64.8), and the operating result (EBIT) before one-off effects at MEUR 30.0 (1-9/2016: MEUR minus 15.5).



# MANAGEMENT REPORT

"SBO EXPANDS UNITED STATES CAPACITIES AND IS WELL PREPARED FOR INTERNATIONAL RECOVERY"

## RISK REPORT

The business risks of SBO did not change substantially in the first three quarters of 2017 over the risks described in the 2016 annual financial statements. The entire oilfield service industry still is confronted with curtailed capital expenditure following the crisis in the sector. Regardless of the corrective measures described in the previous quarterly reports and already initiated, this has a significant influence on the assets and financial position of SBO. Additionally, we refer to all risks described in the Annual Report 2016. We recommend to read this report on the first three quarters of 2017 in conjunction with the risk report contained in the Annual Report 2016.

## SBO SHARE

The share of SBO started into the third quarter at a price of EUR 56.62 on 3 July 2017 and closed at EUR 67.71 on 29 September 2017, representing a share price rise of 19.6 % in the third quarter. This was a much better performance than that of the prices of both crudes WTI and Brent. WTI went up by 9.8 % and Brent by 15.8 %. Since the decline started in 2014, the share price has dropped by 29.9 %, therefore showed a much smoother development than the oil price (WTI minus 52.0 %, and Brent minus 50.3 %).

## OUTLOOK

The International Monetary Fund (IMF) expects global economic growth for 2017 to arrive at 3.6 %, and 3.7 % for 2018, following 3.2 % in 2016 and 3.4 % in 2015. This increase in growth is based on a broad foundation, as the economy in the Eurozone, Japan, the US and Canada is set to improve. In the industrialised countries, economic growth is projected to come to 2.2 % in 2017, and 2.0 % in 2018, following a rise of 1.7 % in 2016 and 2.2 % in 2015. According to the IMF, the economies of the emerging and developing countries should grow by 4.6 % in 2017 and 4.9 % in 2018, following 4.3 % both in 2016 and 2015. This development, as the IMF believes, will be mainly driven by Asian

# MANAGEMENT REPORT

countries, specifically China and India<sup>4</sup>. This should keep demand in the oil markets growing at a stable rate in the years ahead.

Market recovery in the North American oil market remains strong, albeit with a flattening of the US rig count seen in the third quarter of 2017. Interest in efficient solutions is high. The IEA expects to see a rise in crude production of 0.8 mb/d in North America for 2017, and 1.3 mb/d for 2018. For non-OPEC countries (including North America) growth is expected to come to 0.7 mb/d and 1.4 mb/d, respectively.<sup>5</sup> The production limit introduced by OPEC will remain effective until the end of March 2018. Negotiations on whether or not to extend the limit are currently underway.

Spending for exploration and production (E&P spending) has increased again substantially in 2017 for the first time since 2014, above all in North America. Internationally, the situation started to stabilise at the very low levels of the 2016 crisis year, and therefore no impulses from those markets have been observed yet. However, the market has learned that efficiency increases in North American shale oil production have almost reached their limits.<sup>6</sup> High activity levels in the more productive regions on mainland North America, the so-called sweet spots, together with an expansion of production in less productive regions, have led to supply bottlenecks in some areas associated with price inflation, which mainly benefits equipment providers. At the same time, the growth seen in North American shale oil production has slowed down somewhat, creating incentives for new exploration projects reaching beyond mainland North America. The fact that a limited number of drilling projects were started in Asia and Africa serves as an indication of this development. However, a clear commitment of major oil and gas companies to larger spending (capex) will be required for the oilfield service industry to see business revival. All in all, we expect that, in the international business, the phase of transition will continue into the year 2018.

SBO's decision to invest strategically in the well completion has turned out to be right, as North America will continue on the path of strong growth. With its expansion of production capacities at Downhole Technology by relocation to a new site, which will be completed at the end of the current year as planned, SBO is fully prepared for further growth.

SBO is well positioned to participate fully in any form of upswing. With its high-quality offering of tools and equipment for directional drilling and well completion applications, the company takes a positive look ahead to the year 2018.

<sup>4</sup> IMF World Economic Outlook (WEO), October 2017.

<sup>5</sup> International Energy Agency (IEA), Oil Market Report, November 2017.

<sup>6</sup> Evercore ISI Research, The Shale Oil Revolution In Pictures (And Charts) – Can This Continue?, August 2017.

# FINANCIAL INFORMATION

## CONSOLIDATED BALANCE SHEET

| ASSETS in TEUR                                 | 30.09.2017     | 31.12.2016     |
|------------------------------------------------|----------------|----------------|
| <b>Current assets</b>                          |                |                |
| Cash and cash equivalents                      | 177,863        | 193,453        |
| Trade accounts receivable                      | 86,895         | 49,526         |
| Other accounts receivable and prepaid expenses | 12,289         | 14,270         |
| Assets held for sale                           | 533            | 5,068          |
| Inventories                                    | 94,307         | 105,653        |
| <b>TOTAL CURRENT ASSETS</b>                    | <b>371,887</b> | <b>367,970</b> |
| <b>Non-current assets</b>                      |                |                |
| Property, plant & equipment                    | 148,702        | 165,344        |
| Goodwill                                       | 158,839        | 174,716        |
| Other intangible assets                        | 54,057         | 69,904         |
| Long-term receivables and assets               | 11,120         | 12,483         |
| Deferred tax assets                            | 13,967         | 11,639         |
| <b>TOTAL NON-CURRENT ASSETS</b>                | <b>386,685</b> | <b>434,086</b> |
| <b>TOTAL ASSETS</b>                            | <b>758,572</b> | <b>802,056</b> |



## FINANCIAL INFORMATION

### CONSOLIDATED BALANCE SHEET

| LIABILITIES AND SHAREHOLDERS' EQUITY in TEUR      | 30.09.2017     | 31.12.2016     |
|---------------------------------------------------|----------------|----------------|
| <b>Current liabilities</b>                        |                |                |
| Bank loans and overdrafts                         | 32,520         | 32,499         |
| Current portion of long-term loans                | 44,933         | 37,233         |
| Finance lease obligations                         | 43             | 28             |
| Trade accounts payable                            | 16,390         | 11,929         |
| Government grants                                 | 96             | 97             |
| Income taxes payable                              | 5,293          | 2,010          |
| Other payables                                    | 27,496         | 19,979         |
| Other provisions                                  | 2,530          | 4,206          |
| <b>TOTAL CURRENT LIABILITIES</b>                  | <b>129,301</b> | <b>107,981</b> |
| <b>Non-current liabilities</b>                    |                |                |
| Long-term loans                                   | 163,098        | 174,691        |
| Finance lease obligations                         | 55             |                |
| Government grants                                 | 57             | 57             |
| Employee benefit obligations                      | 5,440          | 5,296          |
| Other payables                                    | 155,002        | 78,260         |
| Deferred tax liabilities                          | 7,180          | 10,038         |
| <b>TOTAL NON-CURRENT LIABILITIES</b>              | <b>330,832</b> | <b>268,342</b> |
| <b>Shareholders' equity</b>                       |                |                |
| Share capital                                     | 15,953         | 15,947         |
| Contributed capital                               | 67,161         | 66,812         |
| Legal reserve                                     | 785            | 785            |
| Other reserves                                    | 19             | 19             |
| Currency translation reserve                      | 19,682         | 61,109         |
| Retained earnings                                 | 194,839        | 281,061        |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                 | <b>298,439</b> | <b>425,733</b> |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>758,572</b> | <b>802,056</b> |

## FINANCIAL INFORMATION

### CONSOLIDATED PROFIT AND LOSS STATEMENT

| in TEUR                                                                     | 9 months period ended |                | 3 months period ended |                |
|-----------------------------------------------------------------------------|-----------------------|----------------|-----------------------|----------------|
|                                                                             | 30.09.2017            | 30.09.2016     | 30.09.2017            | 30.09.2016     |
| <b>Sales</b>                                                                | <b>227,596</b>        | <b>133,070</b> | <b>91,917</b>         | <b>45,059</b>  |
| Cost of goods sold                                                          | -167,890              | -135,706       | -63,247               | -45,359        |
| <b>Gross profit</b>                                                         | <b>59,706</b>         | <b>-2,636</b>  | <b>28,670</b>         | <b>-300</b>    |
| Selling expenses                                                            | -16,500               | -14,123        | -4,850                | -4,895         |
| General and administrative expenses                                         | -25,295               | -25,937        | -8,410                | -8,688         |
| Other operating expenses                                                    | -12,684               | -7,552         | -4,348                | -1,686         |
| Other operating income                                                      | 3,824                 | 3,960          | 1,583                 | 515            |
| <b>Profit from operations before impairments and restructuring measures</b> | <b>9,051</b>          | <b>-46,288</b> | <b>12,645</b>         | <b>-15,054</b> |
| Restructuring income                                                        | 1,966                 | 2,475          | 1,966                 | 850            |
| Restructuring expenses                                                      | 0                     | -2,027         | 0                     | -451           |
| Impairment on tangible assets                                               | 0                     | -1,737         | 0                     | 1              |
| Impairment on goodwill                                                      | 0                     | -3,295         | 0                     | -22            |
| <b>Profit from operations after impairments and restructuring measures</b>  | <b>11,017</b>         | <b>-50,872</b> | <b>14,611</b>         | <b>-14,676</b> |
| Interest income                                                             | 1,348                 | 2,530          | 288                   | 869            |
| Interest expenses                                                           | -5,941                | -4,839         | -2,206                | -2,031         |
| Other financial income                                                      | 3                     | 50             | 3                     | 0              |
| Other financial expenses                                                    | -1,393                | -31            | 38                    | -30            |
| Expenses /income from revaluation of option commitments                     | -89,510               | 16,914         | -89,215               | 6,395          |
| <b>Financial result</b>                                                     | <b>-95,493</b>        | <b>14,624</b>  | <b>-91,092</b>        | <b>5,203</b>   |
| <b>Profit/loss before tax</b>                                               | <b>-84,476</b>        | <b>-36,248</b> | <b>-76,481</b>        | <b>-9,473</b>  |
| Income taxes                                                                | -1,746                | 13,368         | -3,558                | 3,492          |
| <b>Profit/loss after tax</b>                                                | <b>-86,222</b>        | <b>-22,880</b> | <b>-80,039</b>        | <b>-5,981</b>  |
| Average number of shares outstanding                                        | 15,951,447            | 15,974,635     | 15,953,403            | 15,954,064     |
| <b>Earnings per share in EUR (basic = diluted)</b>                          | <b>-5.41</b>          | <b>-1.43</b>   | <b>-5.02</b>          | <b>-0.37</b>   |

## FINANCIAL INFORMATION

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| in TEUR                                                                                      | 9 months period ended |                | 3 months period ended |               |
|----------------------------------------------------------------------------------------------|-----------------------|----------------|-----------------------|---------------|
|                                                                                              | 30.09.2017            | 30.09.2016     | 30.09.2017            | 30.09.2016    |
| <b>Profit/loss after tax</b>                                                                 | <b>-86,222</b>        | <b>-22,880</b> | <b>-80,039</b>        | <b>-5,981</b> |
| <b>Other comprehensive income to be reclassified to profit or loss in subsequent periods</b> |                       |                |                       |               |
| Foreign exchange adjustment - subsidiaries                                                   | -37,856               | -11,666        | -6,731                | -3,824        |
| Foreign exchange adjustment - other items                                                    | -4,761                | -699           | -1,329                | -225          |
| Income tax effect                                                                            | 1,190                 | 175            | 332                   | 57            |
| <b>Other comprehensive income, net of tax</b>                                                | <b>-41,427</b>        | <b>-12,190</b> | <b>-7,728</b>         | <b>-3,992</b> |
| <b>Total comprehensive income, net of tax</b>                                                | <b>-127,649</b>       | <b>-35,070</b> | <b>-87,767</b>        | <b>-9,973</b> |

## FINANCIAL INFORMATION

### CONSOLIDATED CASHFLOW STATEMENT

| in TEUR                                                             | 9 months period ended | 30.09.2017 | 30.09.2016 |
|---------------------------------------------------------------------|-----------------------|------------|------------|
| OPERATING ACTIVITIES                                                |                       |            |            |
| Profit/loss after tax                                               | -86,222               | -22,880    |            |
| Depreciation, amortization and impairments                          | 37,437                | 43,718     |            |
| Other non-cash expenses and revenues                                | 1,596                 | -18,179    |            |
| Cashflow from profit                                                | -47,189               | 2,659      |            |
| Change in working capital (excl. option commitments)                | -19,328               | 43,115     |            |
| Change in option commitments                                        | 89,510                | -16,914    |            |
| Cashflow from operating activities                                  | 22,993                | 28,860     |            |
| INVESTING ACTIVITIES                                                |                       |            |            |
| Expenditures for property, plant & equipment and intangible assets  | -25,306               | -9,401     |            |
| Expenditures for the acquisition of subsidiaries less cash acquired | 0                     | -90,028    |            |
| Other activities                                                    | 3,339                 | 1,745      |            |
| Cashflow from investing activities                                  | -21,967               | -97,684    |            |
| Free Cashflow                                                       | 1,026                 | -68,824    |            |
| FINANCING ACTIVITIES                                                |                       |            |            |
| Dividend payment                                                    | 0                     | -7,994     |            |
| Acquisition of own shares                                           | 0                     | -2,167     |            |
| Change in bank loans and overdrafts & finance lease                 | -4,875                | 26,818     |            |
| Cashflow from financing activities                                  | -4,875                | 16,657     |            |
| Change in cash and cash equivalents                                 | -3,849                | -52,167    |            |
| Cash and cash equivalents at the beginning of the period            | 193,453               | 196,278    |            |
| Effects of exchange rate changes on cash and cash equivalents       | -11,741               | -2,531     |            |
| Cash and cash equivalents at the end of the period                  | 177,863               | 141,580    |            |

## FINANCIAL INFORMATION

### CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| 1-9/2017<br>in TEUR                    | Share<br>capital | Contributed<br>capital | Legal<br>reserve | Other<br>reserves | Currency<br>translation<br>reserve | Retained<br>earnings | Total    |
|----------------------------------------|------------------|------------------------|------------------|-------------------|------------------------------------|----------------------|----------|
| <b>01.01.2017</b>                      | 15,947           | 66,812                 | 785              | 19                | 61,109                             | 281,061              | 425,733  |
| Profit/loss after tax                  |                  |                        |                  |                   |                                    | -86,222              | -86,222  |
| Other comprehensive income, net of tax |                  |                        |                  |                   | -41,427                            |                      | -41,427  |
| Total comprehensive income, net of tax | 0                | 0                      | 0                | 0                 | -41,427                            | -86,222              | -127,649 |
| Share based payment                    | 6                | 349                    |                  |                   |                                    |                      | 355      |
| <b>30.09.2017</b>                      | 15,953           | 67,161                 | 785              | 19                | 19,682                             | 194,839              | 298,439  |

| 1-9/2016<br>in TEUR                                                | Share<br>capital | Contributed<br>capital | Legal<br>reserve | Other<br>reserves | Currency<br>translation<br>reserve | Retained<br>earnings | Total   |
|--------------------------------------------------------------------|------------------|------------------------|------------------|-------------------|------------------------------------|----------------------|---------|
| <b>01.01.2016</b>                                                  | 15,982           | 68,357                 | 785              | 19                | 50,166                             | 315,051              | 450,360 |
| Profit/loss after tax                                              |                  |                        |                  |                   |                                    | -22,880              | -22,880 |
| Other comprehensive income, net of tax                             |                  |                        |                  |                   | -12,190                            |                      | -12,190 |
| Total comprehensive income, net of tax                             | 0                | 0                      | 0                | 0                 | -12,190                            | -22,880              | -35,070 |
| Dividend payment                                                   |                  |                        |                  |                   |                                    | -7,994               | -7,994  |
| Acquisition of own shares                                          | -41              | -2,126                 |                  |                   |                                    |                      | -2,167  |
| Share based payment                                                | 6                | 471                    |                  |                   |                                    |                      | 477     |
| Option commitment relating to cancelable non-controlling interests |                  |                        |                  |                   |                                    | 1,910                | 1,910   |
| Change in reserves                                                 |                  |                        |                  | -3                |                                    | 3                    | 0       |
| <b>30.09.2016</b>                                                  | 15,947           | 66,702                 | 785              | 16                | 37,976                             | 286,090              | 407,516 |

# FINANCIAL INFORMATION

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1

#### BASIS OF PREPARATION

The interim report as at 30 September 2017 has been prepared in accordance with the principles of the International Financial Reporting Standards (IFRS), rules for interim financial reporting (IAS 34), to be applied in the European Union.

This report on the third quarter of 2017 of the SBO group has neither been audited nor reviewed by independent accountants.

### NOTE 2

#### ACCOUNTING POLICIES

The accounting and valuation methods of 31 December 2016 have been applied basically unchanged, with the exception of the standards which came into force in 2017. The new regulations do not have a significant implication on the consolidated financial statements. In this context, we refer to the consolidated financial statements for the year ended 31 December 2016.

### NOTE 3

#### SCOPE OF CONSOLIDATION

During the first nine months of 2017 no changes occurred in the scope of consolidation.

### NOTE 4

#### SEASONALITY

Business development of SBO is not subject to significant seasonal influences.



# FINANCIAL INFORMATION

## NOTE 5

### SEGMENT INFORMATION

During the first quarter of 2017, SBO introduced changes to its internal steering and the internal reporting structure resulting thereof. In the past years, subsidiaries under the former segment "High Precision Components" were increasingly overlapping with those subsidiaries offering service and repair within the segment "Oilfield Equipment". Moreover, both businesses have a similar customer structure, and the reorganisation of segments allows for a more transparent presentation of the procurement behaviour of SBO's customers. Under the new structure, SBO's business operations are subdivided into two reportable segments - "Advanced Manufacturing & Services" (AMS) and "Oilfield Equipment" (OE):

The "Advanced Manufacturing & Services" (AMS) segment comprises high-precision machining and repair of drill collars and complex MWD (Measurement While Drilling) / LWD (Logging While Drilling) components made of non-magnetic corrosion-resistant stainless steel, which form the housing for sensitive measuring instruments used for the precise measurement of inclination and azimuth of the drillstring as well as petrophysical parameters.

The "Oilfield Equipment" (OE) segment comprises a wide range of highly specialised solutions for the oil and gas industry: High-performance drilling motors and tools for directional drillstring drive, downhole circulation tools as well as products for efficient and resource-conscious completion of unconventional wells in the two dominating technologies "sliding sleeve" and "plug-n-perf".

Internal management of the group as well as the allocation of resources is based on the financial performance of these segments. Prior year figures were adjusted accordingly.

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

## FINANCIAL INFORMATION

| 1-9/2017<br>in TEUR                                                        | Advanced<br>Manufacturing &<br>Services | Oilfield<br>Equipment | SBO-Holding &<br>Consolidation | Group   |
|----------------------------------------------------------------------------|-----------------------------------------|-----------------------|--------------------------------|---------|
| External sales                                                             | 72,586                                  | 155,010               | 0                              | 227,596 |
| Intercompany sales                                                         | 29,307                                  | 11,318                | -40,625                        | 0       |
| Total sales                                                                | 101,893                                 | 166,328               | -40,625                        | 227,596 |
| Profit from operations before<br>impairments and<br>restructuring measures | -14,550                                 | 30,026                | -6,425                         | 9,051   |
| Profit/loss before tax                                                     | -12,055                                 | -63,434               | -8,987                         | -84,476 |

  

| 1-9/2016<br>in TEUR                                                        | Advanced<br>Manufacturing &<br>Services | Oilfield<br>Equipment | SBO-Holding &<br>Consolidation | Group   |
|----------------------------------------------------------------------------|-----------------------------------------|-----------------------|--------------------------------|---------|
| External sales                                                             | 68,328                                  | 64,742                | 0                              | 133,070 |
| Intercompany sales                                                         | 18,699                                  | 6,873                 | -25,572                        | 0       |
| Total sales                                                                | 87,027                                  | 71,615                | -25,572                        | 133,070 |
| Profit from operations before<br>impairments and<br>restructuring measures | -23,403                                 | -15,494               | -7,391                         | -46,288 |
| Profit/loss before tax                                                     | -24,436                                 | 679                   | -12,491                        | -36,248 |

## NOTE 6

### TANGIBLE AND INTANGIBLE FIXED ASSETS

Information on capital expenditures for tangible and intangible fixed assets as well as purchase commitments for expenditure in property, plant and equipment is included in the management report.

## NOTE 7

### RESTRUCTURING INCOME

Restructuring income of MEUR 2.0 refers to income from the sale of property in the US which was already classified as held for sale in the consolidated financial statements as of 31 December 2016.

# FINANCIAL INFORMATION

## NOTE 8

### OWN SHARES

During the reporting period 2017 the company transferred 6,000 SBO shares based on the share based payment program introduced in 2014.

## NOTE 9

### RELATED PARTY TRANSACTIONS

With respect to business transactions with related parties there were no substantial changes compared to 31 December 2016. All transactions with related parties are carried out at generally acceptable market conditions. For further information on individual business relations please refer to the consolidated financial statements of SBO AG for the year ended 31 December 2016.

## NOTE 10

### FINANCIAL INSTRUMENTS

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2:** other techniques for which all inputs which have significant effects on the recorded fair value are observable, either directly or indirectly;
- Level 3:** techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

## FINANCIAL INFORMATION

As at balance sheet date, the Group held the following classes of financial instruments measured at fair value:

| in TEUR            | Balance sheet item | 30.09.2017 | Level 2 | Level 3  |
|--------------------|--------------------|------------|---------|----------|
| <b>Liabilities</b> |                    |            |         |          |
| Derivatives        | Other liabilities  | -139,485   | -47     | -139,438 |

| in TEUR            | Balance sheet item | 31.12.2016 | Level 2 | Level 3 |
|--------------------|--------------------|------------|---------|---------|
| <b>Liabilities</b> |                    |            |         |         |
| Derivatives        | Other liabilities  | -58,673    | -124    | -58,549 |

During the reporting period 2017 there were no transfers between the levels of fair value measurements. In general, if required, transfers are carried out at the end of each reporting period.

Derivatives shown under level 3 consist only of contingent liabilities for purchase price payments and the option commitments relating to cancelable non-controlling interests to purchase the offered shares from the minority shareholders. The development in the reporting period 2017 was as follows:

| in TEUR                         | Contingent purchase price payments | Option commitments                       |                             |
|---------------------------------|------------------------------------|------------------------------------------|-----------------------------|
|                                 |                                    | Business Combination Downhole Technology | Other Business Combinations |
| Balance as of 01.01.2017        | -17                                | -51,007                                  | -7,525                      |
| Addition of accrued interest    | -1                                 | -1,615                                   | -754                        |
| Gains from revaluation          | 3                                  | 0                                        | 1,883                       |
| Losses from revaluation         | 0                                  | -91,277                                  | -116                        |
| Currency adjustment             | 1                                  | 10,768                                   | 221                         |
| <b>Balance as of 30.09.2017</b> | <b>-14</b>                         | <b>-133,131</b>                          | <b>-6,292</b>               |

## FINANCIAL INFORMATION

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

The contingent purchase price payments from business combinations and the option commitments relating to cancelable non-controlling interests are measured at balance sheet date according to the underlying agreements based on the expected discounted payments using the most recent sales forecast. The liabilities are discounted using a risk adequate discount rate for the duration of each liability.

The contingent purchase price payments determined as a certain percentage of achieved sales are to be paid on a yearly basis. The liabilities for contingent purchase price payments have a residual term of further two years. Gains from revaluation refer to unrealized profits and are reported in the income statement within "other financial income".

The exercise price of the option commitments relating to cancelable non-controlling interests is based on the achieved financial results of the acquired entities. Gains and losses from revaluation refer to unrealized gains and losses and are reported in the income statement within "income/expense from revaluation of option commitments". The increase of liabilities for option commitments in the third quarter relating to the business combination Downhole Technology refers to increased earnings expectations of the company and therefore an increase in the expected strike price for related shares in the company.

The sensitivity analysis for significant, non-observable input factors is as follows:

| in TEUR                                                                   | Assumption                                       | Change in assumption                                 | If assumption increases, liability changes by | If assumption decreases, liability changes by |
|---------------------------------------------------------------------------|--------------------------------------------------|------------------------------------------------------|-----------------------------------------------|-----------------------------------------------|
| <b>Option commitment relating to cancelable non-controlling interests</b> | Net results                                      | +/-10 %                                              | +24,879                                       | -22,258                                       |
|                                                                           | Interest rate 20 %<br>resp. 2.5 %<br>resp. 1.6 % | +/-2.5 resp.<br>+/-1 resp.<br>+/-1 percentage points | -2,294                                        | +2,193                                        |
|                                                                           |                                                  |                                                      |                                               |                                               |

## FINANCIAL INFORMATION

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

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

| in TEUR                                                          | Level | 30.09.2017     |            | 31.12.2016     |            |
|------------------------------------------------------------------|-------|----------------|------------|----------------|------------|
|                                                                  |       | Carrying value | Fair value | Carrying value | Fair value |
| <b>Liabilities</b>                                               |       |                |            |                |            |
| Borrowings from banks, finance lease obligations and other loans | 2     | -240,649       | -244,738   | -244,451       | -249,329   |

For assessing the fair value of long-term loans and leasing obligations with a fixed interest rate, the expected cashflows have been discounted using market interest rates. Regarding lendings, bank and other long-term loans with variable interest, the interest rates charged are current market rates, resulting in the fact that the carrying values equal the fair values to a large extent. Cash and cash equivalents, trade receivables and payables and all other items have mostly short residual lives. Therefore, the carrying values equal the fair values at the balance sheet date.

## NOTE 11

### EVENTS AFTER THE BALANCE SHEET DATE

At the end of 2015 a competitor claimed patent infringements by a subsidiary of SBO. In the beginning of November 2017 the trial court ruled that the asserted claims of the patent were not valid and as a result the claimed patent infringement is unfounded. This is consistent with SBO Management's expectations. Apart from legal cost no further provisions for potential financial risks were recorded in the consolidated financial statements for the year ended 31 December 2016.

After the balance sheet date another competitor claimed patent infringements by a subsidiary of SBO. Management evaluates this claim to be entirely unfounded and vigorously rejects any allegations. Based on the current circumstances a reliable estimate on the amount of potential obligation can not yet be made and is evaluated to be not probable.

No other important events have occurred after the balance sheet date.

## FINANCIAL INFORMATION

### STATEMENT OF ALL LEGAL REPRESENTATIVES

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

Ternitz, 22 November 2017



Gerald Grohmann



Klaus Mader

Executive Board

