ANTON 安東

安東油田服務集團
Anton Oilfield Services Group
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3337)

Announcement

Operational Update for the Fourth Quarter of 2019 and Outlook for the First Quarter of 2020

The board of directors (the "**Board**") of Anton Oilfield Services Group (the "**Company**", together with its subsidiaries, collectively the "**Group**") is pleased to announce the operational update and order backlog for the three months from 1 October to 31 December 2019 (the "**Quarter**").

OPERATIONAL OVERVIEW OF THE FOURTH QUARTER OF 2019

During the Quarter, international crude oil prices remained relatively stable. The Group's major upstream customers in the domestic and international markets all maintained their active investments in capacity building and continued to promote their oil and gas development projects. In China, the three major oil companies acted in full strength in an active response to the central government's call on energy security, and accelerated their paces of capacity building. In the Iraqi market, the Iraqi government continued to actively promote its capacity building efforts as well as the development of its major oilfield projects. In other overseas markets, the oil and gas development activities remained active.

ORDERS IN THE FOURTH QUARTER OF 2019

In the fourth quarter, the Group's new orders rendered strong performance.

The Group's new orders for the Quarter were approximately RMB2,005.7 million, representing a significant increase of 370.5% compared with the same period last year. Of which, new orders in the Chinese market were approximately RMB609.3 million, representing an increase of 176.1% compared with the same period last year; new orders in the Iraqi market were approximately RMB1,248.3 million, representing a significant increase of RMB 1,234.0 million compared with the same period last year; and new orders in other overseas markets were approximately RMB148.1 million, representing a decrease of 22.6% compared with the same period last year.

In the Chinese market, the growth momentum of the Group's orders remained strong as its customers maintained their aggressive capacity building efforts. The Group continued to win high-quality projects such as drilling tool leasing, oil-based drilling fluid, and inspection services in the Xinjiang market. In the Southwest market, the Group secured a new order for the rotary steering technology services, and continued to win new orders for directional drilling, coiled tubing, and gas seal inspection services leveraging its outstanding technologies.

In the Iraqi market, the Group completed the contract signing and order confirmation process during the Quarter for the large-scale projects it had previously tendered for, such as the integrated workover and completion general contracting project, the drilling general contracting project and the directional drilling project, which amounted to approximately RMB1,100.0 million. In addition, the Group continued to win new orders for coiled tubing and oilfield operation and maintenance services in Iraq, which amounted to approximately RMB1,248.3 million during the quarter.

In other overseas markets, the Group maintained strict control over the risks and advanced its market expansion accordingly. During the quarter, the Group won new orders for oil production, workover and supervision services in the Chad market in Africa, as well as a new order for directional drilling technical services in the Kazakhstan market in Central Asia.

ADJUSTMENTS TO THE ORDER BACKLOG

During the quarter, in line with the execution of the order backlog, the management of the Group made adjustments to some of the orders that had expired with the contract amounts not yet fully executed as well as those subject to risk control and operational adjustments, with a total reduction amount of approximately RMB830.0 million.

In the Iraqi market, due to the adjustment of oilfield development plan and technology designing of a large workover and completion project in the south of Iraq, the order execution would have to span beyond the contract term. The current contract had expired, therefore, the Group reduced the portion of the order backlog yet fully executed, with an amount of approximately RMB560.0 million. During the quarter, the Group renewed the contract with the customer, and confirmed the new order valued at approximately RMB641.4 million according to the newly signed workload.

In other overseas markets, due to the liquidity problems of certain customers, the Group suspended the operation of their projects in line with its operating principle with cash flow at the supreme priority, and reduced the order backlog by approximately RMB150.0 million in consideration of risk management. If the Group, upon re-evaluation, considered it workable to resume their operation, the orders will be reconfirmed.

In the Chinese market, with the full evaluation of return on net assets and free cash flow, for certain heavy asset projects with lower returns, the Group underwent friendly negotiations with its customers and transferred these projects to third parties for execution, for which the Group reduced the order backlog by approximately RMB120.0 million.

ORDER FULFILLMENT IN THE FOURTH QUARTER OF 2019

In terms of order fulfillment, the Group reached the peak for the year in the fourth quarter with all the projects in the markets progressing with high efficiency. In the Chinese market, the Group comprehensively advanced the construction process of the projects in line with the customers' oil and gas development progress. In the Southwest market, the integrated drilling and completion and other projects undertaken by the Group were all proceeding with prominent efficiency and stability. In the Xinjiang market, the Group continued to make full use of its technical edges in helping its customers overcome technical obstacles so as to ensure smooth project development. In the Iraqi market, the Majnoon Oilfield, where the Group acted as an integrated manager, continued to operate smoothly with high quality; in Halfaya oilfield market, the Group successfully implemented a pilot test of low modulus carbonate staged sand fracturing, the daily output reached 5-10 times that of the vertical well in the same block after fractured, thus providing an ideal solution for the development of this kind of low-efficient reservoir in this oilfield, which is expected to be further promoted in Iraqi market in the future. In other overseas markets, the Group's integrated oilfield management service project, which was won in the Chad market in Africa in the third quarter, has entered the stage of construction at the end of the Quarter, while other projects were progressing smoothly as usual.

As of 31 December 2019, the order backlog of the Group was approximately RMB5,794.4 million, of which approximately RMB1,972.9 million, approximately RMB3,275.5 million and approximately RMB546.0 million was in China, Iraq and other markets respectively, representing approximately 34.1%, approximately 56.5% and 9.4% of the total order backlog of the Group.

Notes:

– Order backlog is the estimated work volume available for future execution as at a certain date, based on the calculation and judgment by the management with reference to the contracts and agreements entered into between the clients and the Group. Order backlog is reduced when orders are fulfilled, and may be adjusted by the management should an unexpected change in market conditions arises.

MANAGEMENT UPDATE IN THE FOURTH QUARTER OF 2019

In the fourth quarter, the Group continued to uphold its business model which centers on cash flow, and actively promoted the execution of high-quality projects and accelerated the turnover of liquidity, while controlling the capital expenditure. As a result, the Group's cash flow achieved a significant growth, with the free cash flow achieved throughout the year far beyond expectation, turning out to be the Group's best ever performance.

During the quarter, the Group completed the issuance of a US$300 million bond with a coupon rate of 7.50% due in 2022, which had a substantially lower coupon rate as compared with the US$300 million bond with a coupon rate of 9.75% due in 2020, which will help significantly reduce the financial expenses of the Group in the following years. The proceeds from this issuance will only be used as provision for repayment of the bond due at the end of 2020, and the Group will continue to maintain a reasonable debt scale.

The Group plans to continuously improve its governance structure by building a stock ownership platform for its employees, which encourages its employees to hold its shares under multiple stock ownership schemes, so that they can participate in the Company's operation and management as a family. This will achieve the greatest degree of interest consistency between the Company and its employees and encourage them to make contribution to the long-term development of the Company. The Group adopted a restricted stock incentive scheme on 30 December 2019, under which it will evaluate annually the industry situation and its operating performance etc., and appropriate a certain amount from the overall staff compensation budget to engage a trust to purchase shares from the secondary market and distribute them to the employees via the stock ownership platform, with the aim of achieving a longer and more effective incentive effect than cash rewards and promoting the mutual development of the Company and its employees.

OUTLOOK FOR OPERATIONS IN THE FIRST QUARTER OF 2020

In terms of domestic market, as the Chinese government places greater emphasis on energy security, the Group's major customers will all act in full strength to increase their investments in exploration and development as well as their reserves and production capacity, which will create more opportunities for the private oil service companies. As a result, the Group will continue to give full play to its brand advantages and technological strength in seizing the opportunities in the southwest and Xinjiang markets and striving for high-quality project orders. In the southwest shale gas market, the Group will continue to advance the in-depth cooperation with its customers and actively strive for high-quality technical service orders in addition to the large-scale integrated projects while promoting the implementation of sweet-spot services. In the Xinjiang market, the Group has been nurturing numerous project opportunities in the businesses in which it has technological superiority, such as oil-based drilling fluid, coiled tubing as well as asset leasing businesses, which will help it open up a whole new landscape in 2020. Overseas, in the Iraqi market, the Group has participated in the bidding for multiple projects and is poised for a spectacular launch. At the same time, the Group will remain vigilant against the market risks and strive to replicate its successful oilfield management service models to secure more high-quality operation and maintenance projects. In the emerging markets, the Group will continue to deeply cultivate the African market by providing comprehensive services in an attempt to seize the opportunities for key projects such as the workover project in the Chad market and drilling project in the Kazakhstan market, as well as the conventional projects in other markets, aiming to achieve a great leap in its business development in 2020. In January 2020, due to the impact of the US-Iran conflict, the situation in the Middle East was at a high tension. However, as at the date of this announcement, the Group's operations in Iraq's oilfields were carried on normally, and the Group didn't see any material impact on its operations in Iraq. In the future, the Group will pay close attention to the changes in the situation while increasing its efforts in developing the Chinese market, so as to balance the political risks in major markets.

In terms of operating management, the Company will further stick to the operating principal with "free cash flow and net return on investment" as the core, strictly control the investment in low-efficiency projects, and actively seek project investment opportunities with high returns in its major markets with risks under control in the meantime, so as to achieve healthy and stable development in the long run through the improvement of business quality, eventually pass through any cycle.

In terms of environment, society and governance (ESG), under the corporate vision of "to be a model of efficient and harmonious development of human and environment", combining the policy of "QHSE is the first priority in Anton", the Company will continuously benchmark the international best practices in global oil industry and promote a sustained improvements.

The above statements are based on the current operations of the Group and the current market conditions, and not a guarantee of the performance of the Group. The performance of the Group mainly depends on the market and financial environment.

Disclaimer:

- *The above-mentioned information on operational updates is unaudited and is based on preliminary internal information of the Group. Due to various uncertainties arising from the contract signing, construction progress and client plan etc., the above-mentioned quarterly operational updates may differ from the Group's periodic financial disclosures. Therefore, the quarterly operational updates in this announcement only serve the purpose of periodic reference.*

- *The above-mentioned quarterly operational updates do not constitute nor should they be construed as invitations or offers to buy or sell any securities or financial instruments of the Group. Nor are they intended as the offer of any investment services or advices. Investors are advised to exercise caution and not to place undue reliance on such information when dealing in the securities of the Company. When in doubt, investors are advised to seek professional advice from professional or financial advisers.*

By order of the Board
Anton Oilfield Services Group
LUO Lin
Chairman

Hong Kong, 20 January 2020

As at the date of this announcement, the executive Directors are Mr. LUO Lin, Mr. PI Zhifeng and Mr. FAN Yonghong, the non-executive Director is Mr. John William CHISHOLM and the independent non-executive Directors are Mr. ZHANG Yongyi, Mr. ZHU Xiaoping and Dato WEE Yiaw Hin.