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# 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 on the First Quarter of 2020 and Outlook for the Second 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 January to 31 March 2019 (the “**Quarter**”).

#### OPERATIONAL OVERVIEW OF THE FIRST QUARTER OF 2020

The outbreak of the COVID-19 coronavirus in January 2020 had expanded to be a global pandemic by the end of the Quarter, which greatly impacted global economic growth and demand for crude oil, coupled with the fail of reaching a timely effective production cut agreements by major oil-producing countries, resulted in an extreme imbalance between crude oil supply and demand, and a crash of international oil prices, posing great challenges to the global oil and gas industry.

In the domestic market, during the Quarter, due to the epidemic, some project bidding plans had been delayed in certain markets, and some heavy asset projects suffered delays in mobilization and commencing operation. The affected projects started to resume in late February and had basically returned to normal operation levels by the end of the Quarter. In the international market, since March, due to the intensified spread of the epidemic, strict control measures were taken by some key market countries such as Iraq, where airports were closed, and flights cancelled, the mobilization of personnel and equipment had been significantly affected, resulted in a huge lowering of operational efficiency of projects.

In the face of the extremely challenging market and operating environment, the Group, on one hand, proactively carried out epidemic prevention and control work in strict compliance with the requirements of national and local governments. At the initial stage of the epidemic, the Group had actively procured epidemic prevention materials through the global logistics supply chain, not only providing strong protective support to the Group’s employees and their families, but also actively helping communities and people around, to donate materials and provide active support for social epidemic prevention. On the other hand, the Group fully evaluated the market situation, made timely management adjustments, formulated and launched a number of measures to control costs and accelerate working capital turnover to cope with the depressed oil price.

## **ORDERS IN THE FIRST QUARTER OF 2020**

During the Quarter, the Group's new orders were approximately RMB1,218.3 million, a decrease of 19.8% compared to the same period last year. Among them, new orders in the Chinese market were approximately RMB715.0 million, a decrease of 17.3% compared to the same period last year; new orders in the Iraq market were approximately RMB410.0 million, a decrease of 10.4% compared to the same period last year; new orders in other overseas markets were approximately RMB93.3 million, a decrease of 52.7% compared to the same period last year.

In the Chinese market, the natural gas development project planning and execution remained stable during the Quarter, and the Group's orders from the northwest Xinjiang market continued to grow strongly. Among them, the Group won a large order of RMB224.6 million for a drilling pipe leasing project which would be used for new well construction, also a reflecting of the oil companies' continued investment in natural gas development in Xinjiang; in the southwest market, the Group won the bid for sweet spot consulting services by virtue of its reservoir geological capabilities, which will provide customers with shale gas well implementation plan optimization, real-time tracking, and effect evaluation services in the southwest shale gas block, enabling accurate targeting of reservoir sweet spots and help customers increase single well production and block recovery rate to achieve efficient development. In addition, the Group has continued to win tenders for technical services such as coiled tubing based on its technological advantages.

In the Iraqi market, the Group got written confirmation from the customer for the renewal of the integrated oilfield management project in advance, the project will be automatically renewed for one year upon the expiry of the two-year fixed service term of the contract on 1 July. In view of the current global epidemic and the severe impact of the plunge in oil prices on the Iraqi economy, the Group prudently evaluated the order backlog of the renewed project and confirmed the order value of approximately RMB400.0 million. The bidding for new projects in other markets was delayed due to the impact of the epidemic and low oil prices, thus no new large orders had been won in the first quarter. New orders confirmed in Iraq during the Quarter totaled approximately RMB410.0 million.

In other overseas markets, the Group continues to select high-quality projects based on the principle of prudence. In Pakistan, the Group obtained drilling rig management services contract during the Quarter, won tenders for asset-light oilfield operations and maintenance projects in Chad and completion tool services in the Kazakhstan market.

## **REDUCTION IN ORDER BACKLOG**

During the Quarter, due to the drastic changes in the macro market, the Group's management exercised prudence and conducted a comprehensive review of the Group's order backlog in order to fully assess the risk of market changes on the execution of order backlog. After a full assessment, the management considers that due to the dual impact of the pandemic and the continued low oil price, although customers have not signed any written document with the Group regarding the delay or cancellation of the project, the Group has decided, in accordance with the principle of prudence, to take the initiative to reduce some of the order backlog for projects with potential execution risk. The total reduction of orders is approximately RMB1,551.9 million.

The Group's order backlog reductions are mainly concentrated in the Iraqi market. As the impact of the epidemic on the mobilization of personnel and transportation in Iraq will inevitably affect the progress and efficiency of the project implementation, and as the Iraqi market will be under high pressure due to the continued low oil prices, some of the Group's oil company clients have received requests from the Iraqi government to take measures in response to the changes in oil prices, and the Group expects that the impact will be transmitted to the service companies to varying degrees at a later stage. While oilfield management projects related to customer operating expenses are relatively stable, the execution of operations such as drilling, workover and well completion from customer capital expenditures will face greater uncertainty. Although those contracts are within the service period and are still valid, the Group wishes to reflect such risks in a timely manner due to prudent consideration, and therefore has voluntarily reduced the order backlog for some drilling, workover and well completion services by approximately RMB1,201.9 million. Since these contracts are effective and valid, if the market situation improves significantly later, which can remove the execution risk of the orders, the Group will add back the order quantity according to the actual situation to reflect the business changes in a timely manner.

In the Chinese market, based on the preliminary market research and initial communication with customers, the Group believes that the workload of natural gas projects will remain stable and will continue to pursue orders and execution of related projects. However, in order to protect the free cash flow, the Group considers that under the current environment, it should voluntarily discontinue some projects with long working capital turnover due to the long project operating cycle, especially the drilling rig service projects in certain markets, and after communicating with customers, the Group reduced the order backlog by RMB350.0 million accordingly.

As a result of these reductions, the Group's order backlog tending to be more asset-light and those from customers' operations and maintenance expenses. As at 31 March 2020, the Group had order backlog of approximately RMB4,794.8 million. Among them, order backlog in Chinese market was approximately RMB2,044.1 million, accounting for approximately 42.6% of the Group's total order backlog. Order backlog in Iraq was approximately RMB2,210.3 million, accounting for approximately 46.1% of the Group's total order backlog, and order backlog in other markets was approximately RMB540.4 million, accounting for 11.3% of the Group's total order backlog.

*Notes:*

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

## **ORDER FULFILLMENT IN THE FIRST QUARTER OF 2020**

In the domestic market, in response to the epidemic prevention requirements of the local governments, project executions in Kramayi, northwest Xinjiang and Erdos region were slightly delayed compared to the same period last year, while work resumed gradually at the end of February, and basically returned to a normal level by the end of the Quarter. In other project areas, the Group has carried out various operations in an orderly manner while strictly implementing the requirements of national and local governments for epidemic prevention and actively promoting the prevention and ensuring safety. In the Iraqi market, due to the epidemic, the mobilization of the Group's personnel and equipment has been restricted, and while projects already commenced operation before the new year were carrying out normally, new projects commencement were affected due to personnel from China not able to be replenished in time. In other overseas markets, the Group's integrated oilfield management service project in the Chad market in Africa won in the third quarter last year formally commenced operation and received the first batch of payment from the client during the Quarter.

## **MANAGEMENT UPDATE IN THE FIRST QUARTER OF 2020**

Under the epidemic, the Group established a special leadership team, established relevant working mechanisms, formulated corresponding epidemic prevention systems, coordinated the company's resources and fully implemented the epidemic prevention work. At the same time, the Group gave full play to the advantages of global supply chain and service network, actively procured protective materials, protecting employees and their families, and donated to partners as well as communities. Since the end of February, with the epidemic improving domestically, the Group have actively promoted the resumption of work and production, set up a system for all employees to follow up on the prevention of epidemic, raised the awareness of employees to ensure that the prevention work and the work resumption were carried out in an orderly manner.

In the face of market risks, the Group has made active management adjustments and promoted "digital" transformation, while promoting a "decentralized" management model to enhance management vitality and reduce management costs. In the face of great market uncertainty, the Group paid more attention to the comprehensive control of "cash flow", which is the only consideration for the acquisition of new projects and for the comprehensive review of old projects. At the same time, the Group increased the recovery of accounts receivable to fully accelerate working capital turnover in general.

In terms of debt management, an offer to repurchase a portion of the US\$ notes due 2020 was initiated by the Group in late February and redeemed in advance US\$102.7 million of notes at the price of US\$1,018.75 per US\$1,000 of principal amount in order to reduce the interest cost on this portion of the notes.

## **OUTLOOK FOR OPERATIONS IN THE SECOND QUARTER OF 2020**

In terms of market, the Group will continue to leverage its technical advantages and actively seek project orders centered around technology in the premium natural gas market in Xinjiang, China. In the Southwest market, the Group will focus on the implementation of sweet spot consulting services projects and use this as an opportunity to obtain more orders with high technology needs. Overseas, in the Iraqi market, the Group will actively seek more projects related to customers' operating expenses with its excellent oilfield management experience. At the same time, the Group will further reduce its costs and endeavor to take over the market share of international service companies in Iraq and other overseas markets with a more prominent cost advantage to create better value for its customers. In terms of operations, with the improvement of the novel coronavirus epidemic situation and the resumption of the Group's projects in various regions, the domestic market will see a significant increase in operations in the second quarter. The Group will continue to pay close attention to the quality of projects while attaching great importance to the prevention of epidemic and carry out projects in an orderly and safe manner.

In terms of management, in the face of market challenges, the Group continues to firmly implement the operating principle of "free cash flow and return on equity" and strictly examines the impact of the current environment on the cash flow of each project, and on the one hand, makes greater efforts to recover receivables and, on the other hand, helps suppliers to connect with financial institutions so that they can obtain funds while at the same time giving the Group more preferable payment terms. The Group will focus more on asset-light projects with greater technical and managerial requirements, fundamentally divorce itself from the need for capital expenditure. At the same time, the Group will ask all staff to carry forward the spirit of strive under difficulties, not only to strive for quality projects and increase project revenue, but also to save every penny and reduce costs at every place under rigorous approach.

While protecting cash flow internally, the Group actively maintains close communication with external financial institutions to ensure that bank credit is readily available and actively seeks to increase new credit and expand cooperation, to ensure full liquidity coverage of the obligations due in the next twelve months to ensure the financial security of the Group.

In terms of Environmental, Social and Governance (ESG), the Group plans to issue its 2019 ESG report in the second quarter to summarize the Group's ESG-related work. The Group adheres to the corporate vision of "becoming a model for the efficient and harmonious development of people and environment", building an advanced governance structure with employee shareholding, and will continuously benchmarking with the best practices in the world, to enhance its ESG management, create an environment-friendly business model, help talents to grow, promote the development of stakeholders, community progress and achieve long-term harmonious development.

**The above statements are based on the current operations of the Group and current market conditions, and not a guarantee of the performance of the Group. The performance of the Group is mainly determined by 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, which due to various uncertainties arising during the contract signing process, execution 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.*
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By order of the Board  
**Anton Oilfield Services Group**  
**LUO Lin**  
*Chairman*

Hong Kong, 22 April 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 Yiau Hin.*