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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 Third Quarter of 2019 and Outlook for the Fourth Quarter of 2019

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 July to 30 September 2019 (the “**Quarter**”).

OPERATIONAL OVERVIEW OF THE THIRD QUARTER OF 2019

During the Quarter, international crude oil prices experienced sharp fluctuations, but the overall upward cycle of the oil and gas industry was not affected. In the Group’s two key markets, the domestic market and the Iraqi market, oil and gas development continued to be active, and other emerging markets earnestly developed by the Group also presented numerous project opportunities. Domestically, under the vigorous promotion of national policies, the three major oil companies were making every effort to accelerate resource development and fulfill their main responsibilities of increasing reserves and boost production. In the northwest Xinjiang market, the southwest shale gas market, and the Erdos tight oil and gas market, projects were all pushed forward resolutely, and there were continued breakthrough discoveries of new major reserves and development progress. In the Iraqi market, the Iraqi government continued to actively promote the building of national oil and gas production capacity, and all major oilfield projects were carrying out smoothly. In other emerging markets, oil and gas development in the Group’s key markets progressed smoothly during the period.

ORDERS IN THE THIRD QUARTER OF 2019

In the third quarter, the Group continued to execute high-quality business growth management focusing on the “lifting of return on assets and growing of free cash flow” and made further breakthrough on high-quality new orders winning.

The Group's new orders for the Quarter were approximately RMB1,164.4 million, a significant increase of 85.7% from the same period last year. Of which, new orders in the Chinese market were approximately RMB505.5 million, an increase of 96.8% over the same period last year; new orders in the Iraqi market were approximately RMB148.8 million, a decrease of 24.7% compared with the same period last year; and new orders in other overseas markets were approximately RMB510.1 million, a substantial increase of 195.7% compared with the same period last year.

In the Chinese market, the Group maintained a substantial growth in quality orders in the northwest Xinjiang market, continuing to win bids for drilling pipes rental, oil-based drilling fluid, coiled tubing and other projects. The Group's new orders in the region increased significantly by 151.6% compared with the same period last year; in the southwest market, basing on resources integration via the "equipment alliance" strategy, project execution and new project preparation were actively promoted according to development plans of oil company customers. Meanwhile, the Group continued to promote the strategic cooperation with state-owned drilling company, and won bids of side drilling projects etc. under the cooperation model. Workload under this model is expected to increase further. In Erdos market, under the resource integration model, the Group won projects such as side-drilling and fracturing services contracts.

In the Iraqi market, the Group continued to obtain service projects such as acid-fracturing and old well workover in mature markets, while affected by the bid evaluation schedule of oil company customers, the Group hasn't complete the confirmation of new orders in the third quarter for some large-scale projects such as the large-scale workover and completion general contracting project in a southern oilfield of Iraq. It has already reached the final stage of bidding evaluation process while still need to wait for final official project awarding. Bidding process of another drilling general contracting project of the Group was not completed in the third quarter as well, while to the date of this announcement, the Group had received the letter of award of this drilling services project, with a term of 2 years and project value of about USD48.0 million. Besides, the Group also had received the letter of awarding for projects like directional drilling services, for an amount of around USD23.0 million. These orders will be recorded in the new orders of Q4, and it is expected that more orders would be recorded in the fourth quarter along with the completion of evaluation process of more projects.

In other overseas markets, the asset-light oilfield management model of the Group obtained a new breakthrough. The Group won the bid for the integrated oilfield management service project in southern Chad. The Group will provide integrated management of the oilfield for the client, including reservoir services, production planning, oilfield operation maintenance management, etc. for a period of two years and three months with a project amount of about USD53.0 million. The project model is a successful replication of the Group's large-scale integrated oilfield management project in Iraq, and it fully demonstrated the Group's competitive advantage and service strength in this type of business model in emerging markets around the world. The Group will continue to seek further expansion of such project models in overseas emerging markets. In addition, the Group won the bid for drilling and completion fluid technical services in this market, and won the bid for drilling and fracturing services in the Pakistani market. The overall order volume increased significantly compared to the same period last year.

ORDER FULFILLMENT IN THE THIRD QUARTER OF 2019

In terms of order fulfillment, the third quarter was the peak season of the Group's operations each year. In the Chinese market, the Group strictly maintained operational safety and kept an active growth in operations. In the southwest market, a drilling team of the Group broke through the 10,000-meter footage at the beginning of the third quarter, and was the first privately-owned service team in the shale gas region to reach 10,000 meters in 2019. The under-balanced drilling technology used by the Group successfully helped customers achieve "double-increase" in operational efficiency and drilling rate as well as "double-reduce" in time of complex conditions and malfunction. One of the Group's drilling team in the southwest region became the first private company team who entered the top ten outstanding teams for drilling in the Sichuan-Chongqing shale gas market, thanks to its outstanding quality of operations. In the Xinjiang market, the Group's oil-based drilling fluid, drilling and workover projects were all under high-quality execution. During the period, the Group's main customer, CNPC, set a new record with its "Luntan 1" well and achieved a drilling depth of 8,882 meters, making it the deepest onshore well in Asia. The Group provided wellbore drilling technology services for this well. In the Iraqi market, the Majnoon oilfield, where the Group acts as an integrated manager, continued to operate smoothly with high quality. The quality of work in the traditional market of Halfaya oilfield was further improved, with increased production time, but affected by the completion of the preliminary project for a customer in the south oilfield without a constant kickoff of new order, the overall market workload reduced. In other overseas markets, the Group's drilling project in Pakistan has been operating smoothly under high-quality operating standards for a whole year, which was highly recognized by the customer, and directional drilling services have successfully entered the Chad market to provide customers with high-quality technical services.

As of 30 September 2019, the order backlog of the Group was worth approximately RMB5,790.2 million, of which approximately RMB2,071.3 million in domestic market, or about 35.8% of total backlog of the Group, approximately RMB2,984.0 million in Iraq, or about 51.5% of total backlog of the Group, and approximately RMB734.9 million in other markets, or about 12.7% of total backlog of the Group.

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.

MANAGEMENT UPDATE IN THE THIRD QUARTER OF 2019

In the third quarter, the Group conducted whole-process operation management around policies with the core of "free cash flow and return on equity". The Group continued to explore the "asset-light" business model, strengthen strategic cooperation with financial institutions and partners, sign strategic agreements with customers, further develop asset leasing business, and mobilize external resources to support the Group's business development.

In terms of financial management, the Group fully promoted the collection of accounts receivable, further improved inventory turnover and working capital turnover efficiency, and continuously improved cash flow levels. At the same time, the Group further strengthened strategic cooperation with domestic banks to further increase the credit line and ensure the security of funds on the basis of maintaining reasonable debt level.

OUTLOOK FOR OPERATIONS IN THE FOURTH QUARTER OF 2019

In terms of market, domestically, the Group will seize the development opportunities in the Southwest and Xinjiang markets, and continue to pursue quality orders. In the southwest shale gas project market, oil company customers will fully promote the oil and gas development process. The Group will push forward new integrated drilling orders' winning basing on the rig resources prepared through equipment alliance, and other quality technical services orders such as directional drilling services according to customers' development plan. In the Xinjiang market, the Group's oil-based drilling services, coiled tubing services and asset leasing services, of which the Group enjoys a competitive technological edge, are expected to continue to grow rapidly. Overseas, in the Iraqi market, the Group will continue to promote the order's winning of integrated workover and completion general contracting projects from a southern oilfield customer, and actively participate in the bidding of more quality projects, including well completion, directional drilling services as well as an operation maintenance project from a new customer. In emerging markets, the Group will continue to participate in and strive for key project opportunities such as workover projects in Chad, drilling projects in Kazakhstan and conventional projects in other markets, to lay a solid foundation for the leaping growth of business in 2020.

In terms of operations, the Group will further improve the efficiency and quality of operations under the premise of safety, and accelerate the efficient commencing of key projects in domestic and overseas markets.

In terms of human resources, the Group will continue to promote the internationalization of its talents, improve the overall quality of employees and their global business support capabilities, and reserve talents for the Group's major 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 October 2019

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.