ANTON 安東

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Anton Oilfield Services Group

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3337)

Announcement

Operational Update on the Second Quarter of 2018 and Outlook for the Third Quarter of 2018

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 April to 30 June 2018 (the "**Quarter**").

OPERATIONAL OVERVIEW OF THE SECOND QUARTER OF 2018

During this Quarter, new orders of the Group maintained to grow at a strong pace. In Iraq, the Group won the bid for an "Integrated Field Management Service (IFMS)" project in a large oilfield with abundant reserves in South Iraq, achieved a breakthrough on this new business model. In this project, the Group replaced the role of a leading international oil company to become the "Contractor" to provide integrated management of the oilfield for the customer. This is a brand new breakthrough of the Group on the "asset-light" and "integrated operation and management model" that the Group has been pursuing for years. It is also a new attempt by the Iraqi government in operating its oilfields. The Group foresees large extending business opportunities under such business model in the following years as well as large potential of further growth in Iraq. In other overseas markets, apart from the continued order growth in existing Ethiopian market, the Group also entered drilling markets in Pakistan under the "asset-light" model, and was actively exploring the new "Belt and Road" market opportunities. In the domestic market, oil and gas development kept active in all regions, particularly in Xinjiang markets. The Group continued to win bids for drilling, coiled tubing and pressure pumping services. In terms of operations, the Group maintained active across all markets during the Quarter. Domestically, the Group actively pushed forward shale gas projects. In Iraq, the large integrated drilling project, workover and completion project and production operation management project are all under stable progress. The takeover of the newly won large oilfield integrated management project in South Iraq has been successfully completed, and will be managed by the Group commencing from 1 July 2018. In other overseas markets, the Group continued smooth operations in drilling fluid and workover projects in Ethiopia. In Pakistan, the first drilling rig managed by the Group has officially commenced operation. The overall project implementation volume ramped up in the first half of the year, and the business performance improved significantly.

During the Quarter, the managing principle of "Cashflow as the Core" was fully implemented, with healthy operating cashflow recorded in all markets and capital expenditure well under control. Despite a lack of positive free cash flow for the first half of 2018 as affected by seasonal issues in the last quarter, a healthy growing trend has already emerged.

ORDERS IN THE SECOND QUARTER OF 2018

During this Quarter, the Group was awarded new orders worth approximately RMB1,765.9 million, of which approximately RMB310.5 million from new domestic orders, approximately RMB1,297.7 million from new orders in Iraq, and approximately RMB157.7 million from new overseas emerging markets.

Domestically, the Group won bids for directional drilling, coiled tubing and pressure pumping service projects in the southwest shale gas region, totaling about RMB82.14 million. In the Tarim basin of Xinjiang, the Group won bids for drilling tools rental and technological services, oil casing technology, anti-corrosion and drilling fluid services, totaling about RMB127.2 million.

In Iraq, the Group won the bid for the integrated oilfield management service project in a large oilfield with ample reserves in South Iraq, with a "2+1" model (contract lasts for 2 years since official commencing of operation, and 1-year optional extension depending on execution of the contract), with an annual service fee of about USD100.0 million. The Group currently records a 2-year fixed-term order of about RMB1,260.0 million. Besides, the Group won the bid for a coiled tubing project from an international oil company customer with order value of about RMB21.0 million.

In other overseas markets, the Group continued to win bids for directional drilling, completion and drilling rig management orders in markets including Ethiopia and Pakistan, with new orders totaling about RMB157.7 million.

The Group had started to fully execute its management principle of "Cashflow as the Core" since the beginning of 2018, and kept the cashflow status under a close watch during the overall order execution process. During the Quarter, the Group had chosen to give up certain projects upon friendly negotiations with its customers, due to its planned changes in payment terms by certain local state-owned enterprise customers, national service companies and independent oil companies, and has subsequently reduced orders on hand in Guizhou and Chongqing areas totaled about RMB213.8 million in domestic markets, and about RMB56.3 million in Kazakhstan.

As of 30 June 2018, the order backlog of the Group was worth approximately RMB5,062.5 million, of which approximately RMB1,212.6 million in domestic market, approximately RMB3,654.2 million in Iraq, and approximately RMB195.7 million in other emerging markets.

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 SECOND QUARTER OF 2018

In terms of order fulfillment, the Group has maintained active operations in all markets during the Quarter. Domestically, key projects including the Southwest China integrated shale gas drilling project and ultra-long horizontal well project are under implementation, and workflow is stable in Erdos area regarding drilling and pressure pumping. In Iraq, large scale projects including the integrated drilling project, workover and completion project and production operation management project are under stable operation, while the preparation of the pre-takeover process of the newly-won southern oilfield large project is going on smoothly. In other overseas markets, drilling fluid and workover projects in Ethiopia are in smooth progressing, and the drilling and workover project in Pakistan has successfully commenced operation. The Group continued to maintain high-quality operational management during operations to ensure safe and efficient operations of all projects.

MANAGEMENT UPDATE IN THE SECOND QUARTER OF 2018

Regarding the transaction to buy back the equity interest in Anton Oilfield Services DMCC ("DMCC") as further detailed in the Company's circular dated 29 June 2018, the Company held an extraordinary general meeting on 20 July 2018, pursuant to which the Group's acquisition of the 40% interest in DMCC (which was originally sold by the Group to Hong Kong Huihua Global Technology Limited in 2016) was approved by the shareholders of the Company.

In terms of human resources, the Group continued to push forward internationalization of its workforce and strengthened international capacity training to project managers. On the South Iraq large-scale management project, the original operator — the international oil company, provided high-standard management training for the 300-plus new personnel dispatched from the Group according to the handover plan, further improved operation management capability of the Group in Iraq.

In terms of cash flow management, the Group further strengthened recovery of accounts receivable, turnover of inventory and obtained supports from strategic suppliers on payment terms, leading to a notable improvement on operating cashflow. For incremental conventional equipment needs, the Group chose to solve by way of rental or subcontracting, capital expenditure was under efficient control. Despite a lack of positive free cash flow for the first half of 2018 due to seasonal affections in the first quarter, the cash flow status has already seen a significant improvement and a healthy growing trend has already emerged.

OUTLOOK FOR OPERATIONS IN THE THIRD QUARTER OF 2018

In terms of market, the Group will continue to comprehensively push forward global development and strive for large-order opportunities from national and international oil company customers in Iraq, and actively explore new “Belt and Road” markets, push forward the “integration of projects and financing”, and further deepen cooperation with national policy financial institutions and endeavor for official confirmation of several cooperation projects. Domestically, the Group will continue to play its advantages in natural gas and unconventional projects, capture opportunities in the southwest shale gas market as well as additional large scale capacity building opportunities in the Tarim basin of Xinjiang for high-quality project orders.

In terms of operations, the Group will continuously stress the management of operation quality and safety, and improve operation efficiency to safeguard a preferable margin and cashflow for projects. On key projects, the Group has completed the official takeover of the large oilfield project in South Iraq on 1 July 2018, and will provide high quality oilfield management services for customer.

In terms of talents, the Group will focus on increasing international management level and localization level of overseas business. It will continue to optimize management and promote performance-related remuneration and incentive culture to fully motivate and utilize efficiency of its existing workforce, and promote the fast growth of the Group’s international business.

The Group will focus on rebuilding an asset-light business model and construct a high-efficient operation system. It will promote technology building to propel revenue growth from "asset-light" technical services, as well as accelerate asset turnover and reduce working capital occupation under high-efficient operation requirements. The Group will also keep a strict control on capital expenditure by subcontracting investment requirement to industrial partners or by leasing from financial institutions to reduce the needs for investment in fixed asset, while actively work with financial institutions, further reduce occupation of funds across the chains of sales and procurement, to achieve an overall improvement of the Group's return on capital.

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.*

- *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, 23 July 2018

As at the date of this announcement, the executive Directors are Mr. LUO Lin, Mr. WU Di and Mr. PI Zhifeng, 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.