ATTOCK PETROLEUM LIMITED

DIRECTORS' REPORT

The Board of Directors of Attock Petroleum Limited (APL) is pleased to present its Annual Report together with the audited accounts of the Company for the year ended June 30, 2007.

In 2007 the industry witnessed volumetric growth of around 12% from last year mainly due to increase in demand of Furnace fuel oil due to scarcity of hydel power and gas. On the other hand, reduction in OMC's margins due to change in pricing formula of regulated products in 2006 affected profitability of the whole industry. APL mitigated such negative impact through improved product mix and effective inventory management that led to marked increase in the revenues of the Company. The Company also managed to retain its market share around 7 %.

Government of Pakistan continued to subsidize the oil prices during the year on the backdrop of steeply rising international oil prices. Several countries which had subsidized the critical fuels such as diesel and gasoline were forced to either reduce or completely withdraw the fuel subsidies during the year. The subsidies had become too expensive in an environment of rapidly rising international oil prices. OMCs are carrying the burden of diesel subsidy through Price Differential Claim (PDC). The companies are facing liquidity problems due to piling up its working capital on account of PDC. APL has a receivable of Rs 289 million from the Government against PDC at the year end. Further, Inland Freight Equalization Margin (IFEM) which is self managed by the industry is being proposed to be handed over to OGRA.

FINANCIAL REVIEW.

Your Company crossed a milestone by achieving net sales revenue of Rs 44,131 million, showing an increase of Rs 3,291 million (8 %) from the last year. This increase in sales has supported in achieving gross profit of Rs 2,045 million showing an increase of Rs 233 million and profit after tax of Rs 1,729 million reflecting an increase of Rs 336 million. This improved performance is attributable to an increase in sales volume and improved product mix.

Other operating income increased from Rs 323 million to Rs 406 million, mainly due to the increase in the commission and handling of export related services. Income on bank deposits and investments increased by Rs 234 million representing higher yield through better fund management and increase in average bank balances. The tax charge and workers' profit participation fund have increased in line with increase in profitability. Consequently, earnings per share increased from Rs 34.82 to Rs 43.22 because of the afore mentioned reasons.

The cash generated from operations during the year was Rs 2,097 million (2006: Rs 1,725 million) against which cash used in various capital projects and payment of dividend amounts to Rs 144 million and Rs 319 million respectively.

Financial results and appropriations for the year ended June 30, 2007 have been summarized below:

	Rupees in Million
Profit before taxation	2,435.606
Less: Provision for taxation	707.000
Profit after taxation	1,728.606
Add: un-appropriated profit brought forward	1,312.609
Profit available for appropriation	3,041.215
Appropriations:	
Transfer to special reserve by associated Company	4.922
Final cash dividend @ 140% (Rs 14/- per share of Rs 10/- each)	560.000
Transfer to reserve for issue of bonus shares in the proportion of one share for every five shares held i.e. 20%	80.000
	644.922
Un-appropriated profit carried forward	**2,396.293**

DIVIDEND

The directors have recommended a final cash dividend @ 140 % (Rs 14/- per share of Rs 10/- each) and bonus issue of 20% i.e. one share for every five shares held.

MARKETING & OPERATIONS

In order to meet efficiently the demand of the customers, the Company took a quantum leap in 2006 by setting up a terminal at Karachi with the total cost of over Rs 100 million. It played a vital role in making prompt and regular supplies of POL products to our valued customers in southern area of the country. The Terminal has been specifically designed to meet the existing & future requirements of the Company equipped with most modern facilities.

The Bulk oil terminal Rawalpindi has a storage facility for High Speed Diesel, Premier Motor Gasoline, Kerosene Oil, and Furnace oil. In order to enhance the storage facility, a new storage tank of capacity 2,700 M.Tons for HSD has been commissioned during the year. By this, storage capacity of terminal has increased to 7,461 M.Tons which represents an increase of 57 % over last year.

Product Sales

A substantial portion of our sales revenue is generated through the marketing of petroleum products. These include Furnace Oil, Asphalt, Lube Base Oil, Light Diesel Oil, Solvent Oil, Mineral Turpentine Tar and Jute Batching Oil. These products are marketed throughout Pakistan by selling both to the end-users and through a vast network of distributors.

During the year the Company has entered into an arrangement in collaboration with another OMC for supply of Low Sulphur Furnace Oil to KAPCO and also supplied POL products to other OMCs under sale/purchase agreements.

Retail Outlets

Focusing on tapping the prime locations and in order to strengthen existing network of retail outlets, the Company extended its operations towards Karachi and the rest of the Sindh. In this regard, 32 pumps were commissioned during the year all over Pakistan bringing the total number of operational petrol pumps to 177 as on June 30, 2007. The Company's investment in these pumps stands at Rs. 224 million. In addition to this, 62 retail outlets are currently under construction, and an additional 137 are at different stages of securing the necessary licenses. The Company's outlets are fully equipped with modern hardware and best service techniques to provide efficient service to the customers. Other facilities, such as highly accurate electronic dispensing units, service stations, tyre shop, tuck shop, mosques and rest areas are also on sight for customers convenience and satisfaction.

Further, GoP has decided to allow the OMCs having valid oil marketing licenses to set up LPG dispensing stations at the retail outlets for refueling auto vehicles.

Exports & Related Services

The Company has been able to maintain its upward thrust in export of petroleum products despite several strikes and hostile environment. Apart from export of petroleum products to Afghanistan, the Company is also facilitating export of Naphtha to the Middle East, Far East and South Asia.

Lubricants

The Company has taken initiative to focus on its lubricants by further improving its quality to target various industries. In this regard Franchise Arrangement Offers have been floated across the globe to Wartsila recommended lubricant suppliers.

CONTRIBUTION TOWARDS THE ECONOMY

The Company contributed Rs 8,849 million towards national ex-chequer in the form of taxes and levies and earned precious foreign exchange of US$ 97.92 million through export of products and commission on related services. The Company is providing premier quality petroleum products even in remote areas particularly the northern areas and interior sindh through its network of retail outlets and distributors contributing for the development of the local labor force thus promoting employment, technical know-how and improving the earning capacities of the residents.

BUSINESS RISKS & CHALLENGES

Regulatory Risk

Imposition / enhancement of duties, taxes, other levies and revision in pricing formula of regulated products remain a possibility. The Company continues to focus on a product mix of deregulated products generating growth and higher margins. GoP has demonstrated a strong commitment and taken a number of steps to deregulate the Oil & Gas sector in keeping with the overall vision of a liberalized economy.

Volatility in International Oil Prices

POL prices are the key drivers of an OMC's performance. Higher prices translate into increased revenues. If POL prices decline then the downward movement is going to hit the top line growth. The persistent strong though moderating demand together with the perception of tighter supply and rising cost have contributed to the higher oil prices. Since the domestic POL prices are linked to international markets where the oil price is currently firm the risk of any significant negative impact in the near future is minimal.

Geo-political Risk

The operations of the Company are dependent on timely availability of the POL products provided by refineries. Refineries, in turn, are dependent upon the availability of crude oil from the gulf region, except for ARL, which uses indigenous crude oil. There is a risk that due to political instability in the region, there may be a disruption in the supply, thereby affecting negatively the operations of the Company.

However, acquisition of NRL by Attock Group and due to recent thawing of relations between Pakistan and India the risk of political instability in the region has been reduced. Furthermore, the Company enjoys the support of refineries under proper agreements thereby ensuring smooth supply of POL products for the Company.

Intense Competition

Lately, the oil sector has been the focus of deregulatory reforms that have been undertaken by the GoP which have paved the way for fierce competition, compelling OMCs to adopt better marketing practices so as to retain market share. In the long term, market based mechanism is likely to intensify the competition among the existing & upcoming OMCs which may have an adverse impact on the Company.

The Company is a member of the only fully integrated group in Pakistan with upstream and downstream operations. With aggressive retail outlets rollout plan and increased marketing efforts, the Company's management is well placed to compete effectively in this increasingly competitive industry.

Environment regulations

The Company is subject to various laws and regulations relating to health, safety and the environment. Changes to these laws and regulations could result in increased costs of compliance as well as penalties for non-compliance.

A comprehensive Health, Safety & Environment policy and related practices ensure 100% commitment from all employees and contractual workers towards the preservation of environment and propagation of health and safety procedures which is further strengthened by Company's accreditation to ISO – 9001 and ISO – 14001.

INVESTMENT IN HUMAN CAPITAL:

The key resource of your company is the employees. Being aware of the increased significance and importance of human resources for the growth and development of the organization your company has created a favorable work environment that encourages innovation and meritocracy. An efficient recruitment and human resource management process has been put in place to attract and retain high caliber employees. The company deputes its management staff for training, seminars, conferences and exhibitions both within the country and abroad. The Company continues to motivate its employees through competitive benefits, pension plans rewards and recognition programs.

CORPORATE CITIZENSHIP:

The Company is committed to contribute towards social welfare, development of human capital and upliftment of the people. Donations, scholarships, and regular sponsorships ensure that the welfare of our local communities are looked after and encouraged at all levels within the organization.

The Company remains steadfast in its role to promote education within Pakistan. Through the Employee Welfare Trust, the Company regularly awards Educational scholarships to employees' children based on financial need and academic excellence. The Trust has also made significant contributions in meeting the medical, housing and wedding expenses of the needy staff members and their families.

HEALTH, SAFETY AND ENVIRONMENT CONSCIOUSNESS:

Health, safety and well-being of our staff members and other stakeholders associated with the Company's activities remained APL's top priority. The Company seeks to identify and eliminate occupational health hazards and strives for zero lost time injuries.

Our continued commitment to Health & Safety, Environment & Quality Management has been recognized by completing a successful surveillance audit of the Company's Integrated Management System which maintains accreditation to:

- ISO – 9001 Quality Management Systems
- ISO – 14001 Environmental Management Systems

A comprehensive Quality Policy ensures 100% commitment from all the Company employees and contractual workers towards the preservation and propagation of high quality standards and safety procedures. In this respect, regular fire drills, briefing sessions, defensive driving courses and mock emergencies are routine and contribute towards the promotion of a 'safety first' culture at APL.

INFORMATION TECHNOLOGY

In line with the Company's vision to become a proactive and forward thinking Company, marked efforts have been made to introduce a streamlined and integrated IT infrastructure. The Company utilizes the latest ERP system with enhanced features to maintain improved invoicing for customers, accurate product stock statements, improved credit control management and early closing of financial accounts.

CORPORATE GOVERNANCE:

The Board considers that maintaining high standard of Corporate Governance is central to achieving the Company's objective of maximising shareholders' value. The Company is fully compliant with the code of corporate governance as per the requirements of the Listing Regulations. Specific statements are being given hereunder:

1) The financial statements, prepared by the management, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
2) Proper books of account of the Company have been maintained.
3) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgement.
4) International Financial Reporting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements.
5) The system of internal control is sound in design and has been effectively implemented and monitored.
6) There are no doubts upon the Company's ability to continue as a going concern.
7) There has been no material departure from the best practices of corporate governance as detailed in the listing regulations.
8) Significant deviations from the last year's operating results have been disclosed in the Directors' Report.
9) The Company does not envisage corporate restructuring or discontinuation of its operations in the foreseeable future.
10) Key operating and financial data of the last 6 years in summarised form is annexed with the report.
11) All major Government levies in the normal course of business, payable as at June 30, 2007, have been cleared subsequent to the year-end.
12) The value of investments in employee retirement funds based on the latest audited accounts as of June 30, 2006 are as follows:

Employees' pension fund	Rs. 8.994 million
Employees' provident fund	Rs. 6.104 million

A separate statement of compliance signed by the Chief Executive Officer is included in this Annual Report.

DIRECTORS AND BOARD MEETINGS:

During the year, the Board of Directors met five times. The number of meetings attended by each director during the year is shown below:

SR. NO.	NAME	NUMBER OF MEETINGS ATTENDED
1	Dr. Ghaith R. Pharaon *	5
2	Mr. Laith Ghaith Pharaon *	5
3	Mr. Wael Ghaith Pharaon *	5
4	Mr. Shuaib A. Malik	5
5	Mr. M. Adil Khattak	5
6	Mr. Babar Bashir Nawaz	4
7	Mr. Munaf Ibrahim	4

* Overseas directors attended the meetings either in person or through alternate directors.

AUDIT COMMITTEE:

The management of your Company believes in Good Corporate Governance, implemented through a well-defined and efficiently applied system of checks and balances, and the provision of transparent, accurate and timely financial information. Towards this end, an independent Internal Audit Division has been established. The Head of Internal Audit Division reports directly to the Audit Committee of the Board and the committee comprises of three non-executive directors who ensure that the internal control system is efficiently maintained, including financial and operational controls, accounting system and reporting structures. Terms of reference of the committee which is in line with the code of Corporate Governance has been presented and approved by the Board of Directors.

The audit committee held four meetings in 2006-07. The Chief financial officer, internal auditor as well as external auditors were invited to the meeting.

AUDITORS

The auditors Messrs A. F. Ferguson & Co., Chartered Accountants, retire and offer themselves for re-appointment. The audit committee of the Board has recommended for the re-appointment of the retiring auditors.

FUTURE PLANS & PROJECTS:

To dominate the down stream petroleum sector and to continue the Company's track record of building state of the art infrastructure following projects have been planned to be undertaken:

- In order to meet the mid country fuel demands a terminal is under construction at Machike and is likely to be commissioned by mid 2008 at a total cost of Rs. 300 million. The terminal will have a storage facility of HSD, PMG & SKO. This facility will further increase the Company's market share and will be a step towards Company's prosperous future.
- Another terminal at Port Qasim is in designing phase. Material procurement is in process and terminal is expected to be commissioned by end 2009 subject to approvals from relevant regulatory authorities. This Terminal has been estimated to be constructed at a total cost of Rs. 600 million and will help the Company to import/export petroleum products at its ease and also to meet the demand of southern region of the country.
- In addition to the above, the Company is actively considering installing storage terminals at other strategic locations of the country like Mehmood Kot (Multan) and Tarru jabba (Peshawar).
- Followed by significant enhancement of HSD storage at Rawalpindi Bulk Oil Terminal in the last two years, enhancement of storage of other products has been planned in the ensuing year. Further, building of road network inside terminal and gantry expansion are also being carried out to ensure safe movement of POL products and handling the additional volume to meet the growing demand of feeding products to the upcoming retail outlets. Fire fighting network is also being upgraded to pledge safety measures.
- A fuel supply agreement has been signed with Attock Gen Limited for supplying FO to upcoming 150MW FFO based power plant at Morgah, Rawalpindi. For this purpose necessary arrangements including the installation of piping system are being made.
- In order to cater the growing demand of Furnace Oil in the country the Company is planning to import Furnace oil.

SHAREHOLDING:

The total number of Company's shareholders as at June 30, 2007 was 1,772. The pattern of shareholding as at June 30, 2007 along with necessary disclosures as required under the Code of Corporate Governances is annexed.

ACKNOWLEDGEMENT:

We would like to take this opportunity to thank our employees, customers and strategic partners for their hard work and commitment towards helping us achieve new heights of success and commendable results. The Board also thanks and appreciates the continued interest and support of the esteemed shareholders, Government of Pakistan and regulatory bodies.

On Behalf of the Board

Damascus, Syria.
August 17, 2007

_____S/d-_____
Chief Executive