



ATTOCK PETROLEUM LIMITED

DIRECTORS' REPORT

The Board of Directors of Attock Petroleum Limited (APL) is pleased to present the Annual Report and the audited accounts of the Company for the year ended June 30, 2008.

2007-08 was a tough year for the industry due to the fact that international crude oil prices rose from USD 67/bbl in June 2007 to USD 128/bbl in June 2008 while the Government continued to subsidize the oil prices during the year. The Oil Marketing Companies (OMCs) carried the burden of diesel subsidy through Price Differential Claim (PDC) on High Speed Diesel which increased from Rs 5.21 per liter in June 2007 to Rs 35.03 per liter in June 2008. As a consequence, the companies faced liquidity problems due to piling up of its working capital on account of PDC receivable from the Government of Pakistan (GoP).

The year under review witnessed volumetric growth of around 7% from last year in total industrial trade mainly on account of increase in consumption of white oil. Despite stiff competition your Company managed to increase its market share in white oil from 2.11% during last year to 2.57% during the year and resultantly the year ended with best ever financial results.

Subsequent to the year end, the Government has squeezed OMC's margin on regulated products which will affect the profitability of the OMCs and investment plans. Further Inland Freight Equalization Margin, which used to be self managed by the industry, has been handed over to Oil and Gas Regulatory Authority (OGRA) with depots reduced from 29 to 13.

FINANCIAL REVIEW.

During the year 2007-08, the net sales revenue jumped to Rs 53,242 million compared to Rs 44,131 million in the previous year reflecting an increase of Rs 9,111 million (21 %). The increase in sales revenue has supported in achieving profit after tax of Rs 2,642 million showing an increase of Rs 913 million. This improved performance is attributable to higher international oil prices, improved product mix and effective inventory management. Consequently, earnings per share increased from Rs 36.01 to Rs 55.03.

The cash generated from operations during the year was Rs 2,989 million (2007: Rs 2,097 million) against which net cash used in various investing and financing activities amounted to Rs 386 million and Rs 552 million respectively.

Financial results and appropriations for the year ended June 30, 2008 have been summarized below:

	Rupees in Million
Profit before taxation	3,529.552
Less: Provision for taxation	880.000
Profit after taxation	2,641.552
Add: un-appropriated profit brought forward	2,396.293
Profit available for appropriation	5,037.845
Appropriations:	
Transfer to special reserve by associated Companies	35.268
Final cash dividend @ 200% (Rs 20/- per share of Rs 10/- each)	960.000
Transfer to reserve for issue of bonus shares in the proportion of one share for every five shares held i.e. 20%	96.000
	1091.268
Un-appropriated profit carried forward	<u>3,946.577</u>

DIVIDEND

The directors have recommended a final cash dividend @ 200% (Rs 20/- per share of Rs 10/- each) and bonus issue of 20% i.e. one share for every five shares held.

MARKETING & OPERATIONS

Actively pursuing a policy to develop the regional infrastructure and supply chain to cater our customers' needs across the country and abroad, we are contributing to the development and expansion of the petroleum sector of Pakistan in a significant way. Our storage terminals have been specifically designed to meet the existing and future requirements of the Company. The terminals are equipped with most modern facilities like modern computerized metering, international level safety and fire fighting system, certified facility for the calibration of road oil tankers etc. The terminals are directly linked with Refineries through piping network, ensuring unadulterated product supplies. The terminals have a storage facility for High Speed Diesel, Premier Motor Gasoline, Kerosene Oil and Furnace oil.

In order to enhance the filling capacity at Rawalpindi Bulk Oil Terminal (RBT), two new bays with three additional filling points for HSD, PMG, and Naphtha have been added during the year, thus increasing the total filling capacity by around 40%. Capacity of firewater storage has also been increased by 200 kiloliters. 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.

We remain focused on expanding the retail infrastructure across the Country and to strengthen existing network of retail outlets. 32 pumps were commissioned during the year bringing the total number of operational petrol pumps to 209 as on June 30, 2008. The Company's investment in these pumps stands at Rs. 283 million. In addition to this, 54 retail outlets are currently under construction and an additional 164 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.

A substantial portion of our sales revenue is generated through the marketing of petroleum products to industrial consumers. These include Furnace Oil, Asphalt, 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.

On export side, the successful launch of the new arrangements for exports to Afghanistan has improved profitability of the Company despite major logistic difficulties. Further, another milestone was achieved by commissioning first international retail outlet at Jalalabad, Afghanistan in November 2007. The Company is also facilitating export of Naphtha to the Middle East, Far East and South Asia.

CONTRIBUTION TOWARDS THE ECONOMY

The Company contributed Rs 8,406 million towards national ex-chequer in the form of taxes and levies and earned precious foreign exchange of US\$ 122 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

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 bottom 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.

Geo-political Risk

The operations of the Company are dependent on timely availability of the POL products provided by the 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.

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 line with the overall vision of a liberalized economy.

Intense Competition

Lately, the oil sector has been the focus of deregulatory reforms that have been undertaken by the GoP which in turn 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 Company has various programs for human resource development with the intention of developing creative employees that are eager to take on challenges and training professionals with early tracking into specialized fields.

The Company approaches the development of these employees with the philosophy that people grow through their work and that the source of growth is one's own drive. Based on this belief, the Company supports its employees to grow and improve their skills by providing them with an environment in which new abilities are constantly required. The Company also gives employees opportunities to rise to challenges by relying on their own determination and hard work.

For this reason, our system of human resource is rooted in skills improvement through actual work or on-the-job training, seminars, conferences and exhibitions.

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 seeks to contribute to society by contributing towards social welfare. It pursues social contribution initiatives as environmental conservation to protect the planet and all life on it, education to foster the next generation of future leaders, study and research that contribute to the sustainability of society and community activities befitting a responsible member of each local neighborhood.

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:

The Company is dedicated to building an environment that ensures employees can work with peace of mind. The Company strives to maintain and enhance employees health and to prevent occupational injuries and eliminate any chance of recurrence if one does occur.

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 – 9001:2000 Quality Management Systems
- ISO – 14001:2004 Environmental Management Systems

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.

AWARDS AND ACHIEVEMENTS

It is a matter of honour that the Company secured 4th and 1st position for presenting the Best Annual Report 2006 and 2007 respectively in the Energy and Fuel sector. This competition was jointly organised by the Institute of Chartered Accountants of Pakistan and Institute of Cost and Management Accountants of Pakistan. The Company was also selected amongst the "Top Twenty Five Companies" by Karachi Stock Exchange for the year 2007 in recognition of Company's policy and practice of transparency, disclosure of required information and compliance with financial reporting standards, provisions of Companies Ordinance 1984 and listing regulations.

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, 2008, 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, 2008 are as follows:

Employees' pension fund	Rs 19.054 million
Employees' provident fund	Rs.12.116 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	5
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 2007-08. 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:

- To meet industry challenges in this competitive market, we intend to launch capital re-injection process in the form of NEW VISION in the retail network. In this regard core network has been identified and we plan to re-inject approximately Rs. 70-100 million so as to launch our new vision in the market.
- In order to meet the mid country fuel demands, a terminal is under construction at Machike and is likely to be commissioned during calendar year 2008 at a total cost of Rs. 300 million. The terminal will have a storage facility for 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, Karachi is in designing phase. Material procurement is in process and terminal will be commissioned by 2010 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.
- A fuel supply agreement has been signed with Attock Gen Limited for supplying Furnace Fuel Oil (FFO) to their upcoming 150MW FFO based power plant at Morgah, Rawalpindi. For this purpose necessary arrangements including the installation of piping system are being made.
- The Company is also working to re-launch its lubricants brand with new vision and it is expected to be launched in the first half of the financial year 2008-09.

SHAREHOLDING:

The total number of Company's shareholders as at June 30, 2008 was 2,094. The pattern of shareholding as at June 30, 2008 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.
October 08, 2008**

S/d-
Chief Executive