

Directors' Review

For the Quarter ended September 30, 2006

The Directors of Shell Pakistan Limited present their review of the quarter ended September 30, 2006. As compared to a profit of Rs 982 million in the corresponding quarter last year, this quarter saw a loss after tax of Rs 217 million. This is mainly due to declining international oil prices witnessed during the quarter. The company not only incurred inventory losses during the quarter but also had to write down its inventory by Rs. 685 million to Net Realizable Value as explained in Note 5 to the annexed financial statements. Volumes also saw an industry wide decline mainly as a result of heavy rains in the country during the current quarter. Additionally, the Government's decision to subsidize oil prices and calling upon Oil Marketing Companies to finance the subsidy has resulted in further strain on our profitability and cash flows. The receivable from the Government on this account amounted to Rs 4.2 billion at the end of September 06.

Apart from the impact of declining international prices, your company continues to demonstrate robust performance and achieve high levels of operational excellence. A number of new initiatives have been launched to reinforce our leadership in the industry, which include new product launches such as Diesel Fuel Economy, improvements in product quality control and cost efficiencies. As in the past, Shell continues to enjoy the highest brand share of preference and leadership in product quality.

A significant highlight of this quarter was the launch of Diesel Fuel Economy in August 2006. This initiative reaffirms Shell's commitment of continuously improving its product offerings to its customers whilst ensuring world-class quality, quantity and service. The new Shell Diesel contains an exclusive Diesel formula developed and tested in Shell Global Solutions Laboratories, which is designed to provide fuel economy. In the Shell world, Pakistan is one of the selected countries where this premium product has been introduced.

CNG is fast becoming an integral part of the fuels offered on our forecourts and is testament to our responsiveness to changing customer preferences. In this evolving market scenario, Shell is well placed to harness the existing opportunities in the market, thereby yielding positive returns for our shareholders.

The Lubricants business continues its strong performance on the back of significantly large customer acquisitions coupled with big wins in the gas engine power sector. The business continues to expand the coverage across geographies with priority in low penetration areas.

In line with Shell's focus on Health, Safety, Security and Environment (HSSE), safety awareness continues as the dominant theme for our internal and external engagements. In the past quarter, we assisted various Shell companies overseas in the implementation of Road Transport Management systems. At the local level, we shared our expertise on HSSE management systems with various Government Agencies.

We thank our customers and employees for their sustained support in ensuring continued success for the company and for making Shell their brand of first choice.

October 19, 2006

Zaiviji Ismail bin Abdullah
Chairman & Chief Executive