

Royal Dutch/Shell Group
All Seasons Investment for Growth, Inflation and Deflation

<i>Symbol</i>	<i>Price</i>		<i>Market</i>	<i>Net</i>		<i>McDep</i>	<i>EV/</i>		<i>P/E</i>	<i>Div'd</i>	<i>PV/</i>
	<i>21-Sep</i>	<i>Shares</i>		<i>Present</i>	<i>Debt/</i>		<i>Sales</i>	<i>Ebitda</i>			
	<i>2001</i>	<i>(mm)</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>Ratio</i>	<i>NTM</i>	<i>NTM</i>	<i>NTM</i>	<i>(%)</i>	<i>NTM</i>
RD	44.00	3,544	155,900	51.50	0.06	0.86	0.9	6.9	14.2	3.2	8.0

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

EV = Enterprise Value = Market Cap and Debt:

US\$mm 167,700

Ebitda = Earnings before interest, tax, depreciation and amortization:

US\$mm 24,300

NTM = Next Twelve Months Ended September 30, 2002; P/E = Stock Price to Earnings

PV = Present Value of energy businesses:

US\$mm 194,200

Summary and Recommendation

At a time of high economic and stock market uncertainty, we recommend that investors buy shares of Royal Dutch/Shell Group to participate in the strength and profitability of a Mega Cap energy company at an unusually low stock price. The third largest publicly traded energy stock in the world, RD is one of five companies with more than \$100 billion in market cap (now \$80 billion) that account for some 60% of the industry. Only last month the stock was trading at a McDep Ratio of 1.0. Now it trades at 0.86, opening a gap with peers. Meanwhile, the energy industry's investment prospects seem especially favorable to us because growing world demand creates the need for expanded supply. Understandably investors fear a temporary slowing or contracting of demand. In the event of distress, Shell with its large diversified operations and strong financial position will be among those most able to withstand difficult times.

Futures Prices Imply Strong Cash Flow

Despite all the uncertainty about future economic progress magnified by the Attack on America, the numbers still point to strong cash flow to be generated from Shell's businesses in the next twelve months. For relative valuation purposes we project a continuation of business along the lines of the most recently reported quarter adjusted for commodity prices as determined in the futures market. That means the trend in North American natural gas profits depends on the Henry Hub quotes. The trend in overseas natural gas and worldwide oil production profits depends on West Texas Intermediate quotes (see Table).

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Historical energy analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.

McDep Associates

Stock Idea

September 24, 2001

As a proxy for trends in Shell's refined products and chemicals business we look at the New York Harbor 3-2-1 crack spread. Refineries crack the heavier molecules of crude oil to yield the lighter molecules of gasoline and heating oil. The spread is the difference in the futures price for 2 barrels of gasoline and 1 barrel of heating oil and the futures price for 3 barrels of crude oil.

The measure is too narrow to explain actual recent results. Shell's worldwide business did not register anything near the record margins of the New York Harbor crack spread in the second quarter of this year. Yet the futures market smoothes out unusual moves in forward months. Moreover the refined product outlook reflects embedded economic expectations that affect all of us.

While our projections are tied to the futures market, we don't necessarily agree with the futures market. What the futures market gives us that we did not have years ago is a common basis from which we can depart if we wish. We think the futures market is often biased to the low side. Thus if a stock looks good on futures prices, its true attractiveness may be even greater. Stated another way, if we can buy a global franchise at 7 times cash flow (EV/Ebitda) expected under adverse conditions, we are getting a bargain.

Dividends and Stock Repurchase Return Capital to Investors

Cash flow has no real value to investors unless it is returned or reinvested in creating more cash flow that could be returned in income or capital gain. Shell returns cash dividends at the current annual yield of 3.2% of recent stock price.

In addition Shell has implemented a long awaited stock repurchase program. The rate of repurchase apparently will reduce shares outstanding by about 3% per year. The combination of dividends and share repurchase imply a return of 6% per year that we believe could be sustained indefinitely.

Volume Trends Imply Growth

Meanwhile, reinvested cash flow is creating further value. Management projects crude oil and natural gas production growth of 3% per year, down from an earlier 5% per year. If present value remained constant per unit of annual production, present value would increase each year by the growth rate of production. Dividends, stock repurchase and growth add to 9% per year.

Energy Resources Protect Against Inflation

The oft-repeated economic opinion is "There is no sign of inflation". We suggest that investors be a bit skeptical of conventional wisdom. "No inflation" was some 3% in the Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Historical energy analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.

McDep Associates

Stock Idea

September 24, 2001

past year. Military buildups such as the one we may be embarking on are often accompanied by inflation. The Federal Reserve has apparently opened the spigot wide to boost the money supply. Such expansions have generally been accompanied by inflation.

New fears of recession since the Attack on America are turning the attention of Washington to boosting government spending to stimulate the economy. The surplus is shrinking and we may see a government deficit again, another factor that may lead to inflation.

Energy investments are a natural hedge against inflation. At the minimum we might adjust the 9% return from dividends, stock repurchase and growth to 11% for the approximate inflation rate implied by Treasury securities. In our bullish case for oil and gas production, resource values might double or triple.

Balance Sheet Protects Against Deflation

The main case against inflation is that the entire government stimulus doesn't work, as has been the case in Japan. In that case, economic activity stagnates and profits disappear. The best protection against deflation would be government bonds. As interest rates decline, credit worthy bonds increase in value. Leveraged borrowers default.

With a low ratio of debt to present value of only 0.06, and a product that is still required for daily living, Shell would still be a strong company in a deflationary environment.

Investor Disenchantment Appears Overdone

When we saw RD stock drop to \$40 on the morning after President Bush's speech to rally the world against terrorism, we immediately started work on this recommendation. Ironically we were disappointed to see the stock recover to \$44 by the end of the day because it meant the \$40 opportunity was fleeting.

We can only guess as to the source of weakness. We note that all European stocks were weak at the same time a bomb scare caused the evacuation of the London Stock Exchange.

TotalFinaElf, another of the five Mega Cap energy stocks was also weak as was **ENI**, the Italian energy giant that we classify as a Large Cap. The three companies have investments in Iraq and Iran and other parts of the Middle East where U.S. companies may be prohibited from operating.

Shell also gave a presentation to investors in the past few days where it lowered its growth rate in production from 5% per year to 3% per year. Some of the reason given was delay in implementing some new projects.

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Historical energy analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.

McDep Associates

Stock Idea

September 24, 2001

We chose not to travel to attend the recent presentation. Earlier this year we had the privilege of visiting Shell's state-of-the-art gas to liquids plant in Sarawak, Malaysia and the neighboring LNG plant, one of the world's largest. Shell has such widespread operations that we are confident the recent steep drop in stock price is an opportunity for levelheaded investors.

Kurt H. Wulff, CFA

Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 21-Sep 2001</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
Mega Cap							
Exxon Mobil Corporation	XOM	35.83	6,963	250,000	36.00	0.04	1.00
Chevron (incl. Texaco)	CHV	84.01	1,063	89,300	87.70	0.17	0.96
BP PLC	BP	44.25	3,744	166,000	47.80	0.15	0.94
Royal Dutch/Shell	RD	44.00	3,544	156,000	51.50	0.06	0.86
TOTAL Fina Elf S.A.	TOT	61.75	1,406	87,000	75.60	0.16	0.85
	<i>Total or Median</i>			<i>748,000</i>		<i>0.15</i>	<i>0.94</i>

Buy/Sell rating after symbol: 1 - Strong Buy, 2 - Buy, 4 - Sell

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses

Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	<i>Symbol</i>	<i>Price (\$/sh) 21-Sep 2001</i>	<i>EV/ Sales 2001E</i>	<i>EV/ Ebitda NTM</i>	<i>P/E NTM</i>	<i>Dividend or Distribution NTM (%)</i>	<i>PV/ Ebitda NTM</i>
Mega Cap							
Exxon Mobil Corporation	XOM	35.83	1.2	8.0	16	2.6	8.0
Chevron (incl. Texaco)	CHV	84.01	1.1	7.7	17	3.1	8.0
BP PLC	BP	44.25	1.0	7.5	16	3.0	8.0
Royal Dutch/Shell	RD	44.00	0.9	6.9	14	3.2	8.0
TOTAL Fina Elf S.A.	TOT	61.75	1.2	6.8	13	3.0	8.0
	<i>Median</i>		<i>1.1</i>	<i>7.5</i>	<i>16</i>	<i>3.0</i>	<i>8.0</i>

EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended March 31, 2002; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Historical energy analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.

McDep Associates
Stock Idea
September 24, 2001

Royal Dutch/Shell
Next Twelve Months Operating and Financial Estimates

	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>3/31/01</i>	<i>6/30/01</i>	<i>9/30/01</i>	<i>12/31/01</i>	<i>2001E</i>	<i>3/31/02</i>	<i>6/30/02</i>	<i>9/30/02</i>	<i>9/30/02</i>
Volume									
Natural Gas (mmcf)									
U.S. (or North America)	1,589	1,604	1,604	1,604	1,600	1,604	1,604	1,604	1,604
Overseas (or Int'l)	8,327	6,557	6,557	6,557	6,993	6,557	6,557	6,557	6,557
Total	9,916	8,161	8,161	8,161	8,594	8,161	8,161	8,161	8,161
Oil (mbd)	2,248	2,177	2,177	2,177	19,160	2,177	2,177	2,177	2,177
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.31	4.36	2.76	2.47	3.97	2.98	2.89	3.00	2.84
U.S. (or North America)	6.31	4.36	2.76	2.47	3.95	2.98	2.89	3.00	2.83
Overseas (or Int'l)	4.24	2.88	2.78	2.67	3.21	2.68	2.61	2.53	2.62
Total	4.57	3.17	2.78	2.63	3.35	2.74	2.67	2.62	2.67
Oil (\$/bbl)									
WTI Cushing	28.81	27.90	26.96	25.90	27.39	26.00	25.29	24.51	25.43
Worldwide	25.81	24.90	24.06	23.12	24.47	23.20	22.57	21.87	22.69
NY Harbor 3-2-1 (\$/bbl)	6.02	11.14	4.13	4.16	12.39	4.19	6.06	5.69	5.03
Revenue (\$mm)									
Natural Gas									
U.S. (or North America)	902	636	407	364	2,310	430	422	443	1,660
Overseas (or Int'l)	3,175	1,718	1,679	1,613	8,186	1,584	1,558	1,526	6,282
Total	4,077	2,355	2,087	1,977	10,496	2,014	1,980	1,970	7,941
Oil	5,222	4,932	4,820	4,630	19,603	4,546	4,471	4,381	18,029
Other	38,528	38,694	38,694	38,694	154,611	38,694	38,694	38,694	154,776
Total	47,827	45,981	45,600	45,302	184,710	45,255	45,145	45,045	180,746
Expense									
Fixed	2,026	1,510	1,510	1,510	6,556	1,510	1,510	1,510	6,041
Variable	2,026	1,510	1,431	1,369	6,337	1,360	1,337	1,316	5,382
Other	36,075	35,650	36,694	36,680	145,099	36,669	35,761	35,941	145,051
Ebitda (\$mm)									
Exploration and Production	5,247	4,267	3,965	3,728	17,206	3,691	3,604	3,524	14,547
Other	2,453	3,044	2,000	2,014	9,511	2,025	2,933	2,754	9,725
Total Ebitda	7,700	7,310	5,965	5,742	26,718	5,716	6,537	6,278	24,272
Exploration	162	171	171	171	675	171	171	171	684
Deprec., Deplet., & Amort.	1,410	1,468	1,468	1,468	5,814	1,468	1,468	1,468	5,872
Other non cash	55	72	72	72	271	72	72	72	288
Ebit	6,073	5,599	4,254	4,031	19,958	4,005	4,826	4,567	17,428
Interest	147	147	147	147	588	147	147	147	588
Ebt	5,926	5,452	4,107	3,884	19,369	3,857	4,679	4,420	16,840
Income Tax	2,074	1,908	1,437	1,359	6,779	1,350	1,638	1,547	5,894
Net Income (\$mm)									
Exploration and Production	2,847	2,185	1,989	1,835	8,856	1,811	1,754	1,703	7,103
Other	1,366	1,552	873	883	4,674	890	1,480	1,363	4,615
Unallocated	(361)	(193)	(193)	(193)	(940)	(193)	(193)	(193)	(772)
Total	3,852	3,544	2,669	2,525	12,590	2,507	3,041	2,873	10,946
Shares (millions)	3,567	3,544	3,544	3,544	3,551	3,544	3,544	3,544	3,544
Per share (\$)	1.08	1.00	0.75	0.71	3.55	0.71	0.86	0.81	3.09
Ebitda Margin	16%	16%	13%	13%	14%	13%	14%	14%	13%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

Analyses are prepared from original sources and data believed to be reliable, but no representation is made as to their accuracy or completeness. Historical energy analysis by Kurt Wulff doing business as McDep Associates is posted at www.mcdep.com. Owning shares in energy stocks, neither Mr. Wulff nor his spouse act contrary to a buy or sell rating. Mr. Wulff is not paid by covered companies.