

Rating: Buy
 S&P 500: 1483

Royal Dutch Shell plc Downstream Benefit

<i>Symbol</i>	RDS-A	<i>Ebitda Next Twelve Months ending 3/31/08 (US\$mm)</i>	58,500
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	3
<i>Price (US\$/sh)</i>	79.47	<i>Natural Gas and Oil Production/Ebitda (%)</i>	61
<i>Pricing Date</i>	7/26/07	<i>Adjusted Reserves/Production NTM</i>	8.1
<i>Shares (mm)</i>	3152	<i>EV/Ebitda</i>	4.8
<i>Market Capitalization (US\$mm)</i>	250,000	<i>PV/Ebitda</i>	5.6
<i>Debt (US\$mm)</i>	33,000	<i>Undeveloped Reserves (%)</i>	50
<i>Enterprise Value (EV) (US\$mm)</i>	284,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	30.50
<i>Present Value (PV) (US\$mm)</i>	330,000	<i>Present Value Proven Reserves(US\$/boe)</i>	15.80
<i>Net Present Value (US\$/share)</i>	94	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.63
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.92
<i>McDep Ratio - EV/PV</i>	0.86	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	3.6	<i>Indicated Annual Dividend (US\$/sh)</i>	2.88

Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Estimated present value presumes a long-term price for oil of US\$66 a barrel and natural gas, \$11 a million btu.

For historical analysis of RDS since 2004 see www.mcdep.com/lrd.htm

Summary and Recommendation

Buy-recommended **Royal Dutch Shell plc (RDS-A)** offers unlevered appreciation potential of 16% to estimated net present value (NPV) of \$94 a share revised up from \$84 a share on May 29 when we raised long-term oil price to \$66 a barrel from \$60. Second quarter results reported on July 26 benefited from record downstream unlevered cash flow (Ebitda) along with record refining margin (NY Harbor 3-2-1) (see table [Next Twelve Months Operating and Financial Estimates](#)). NPV for the mega cap stock looks low compared to our estimates for some thirty other producers (see table [Functional Cash Flow and Present Value](#)). At the same time, Chief Executive Jeroen van der Veer is seeing success in his effort to restore Shell's luster after a tarnishing in the past few years. Regardless, the trend in long-term oil price appears to be up despite volatility of short-term quotes (see chart [Six-Year Commodity Price Meter](#)). Finally, RDS stock also has positive momentum as it trades above its 200-day average.

Kurt H. Wulff, CFA

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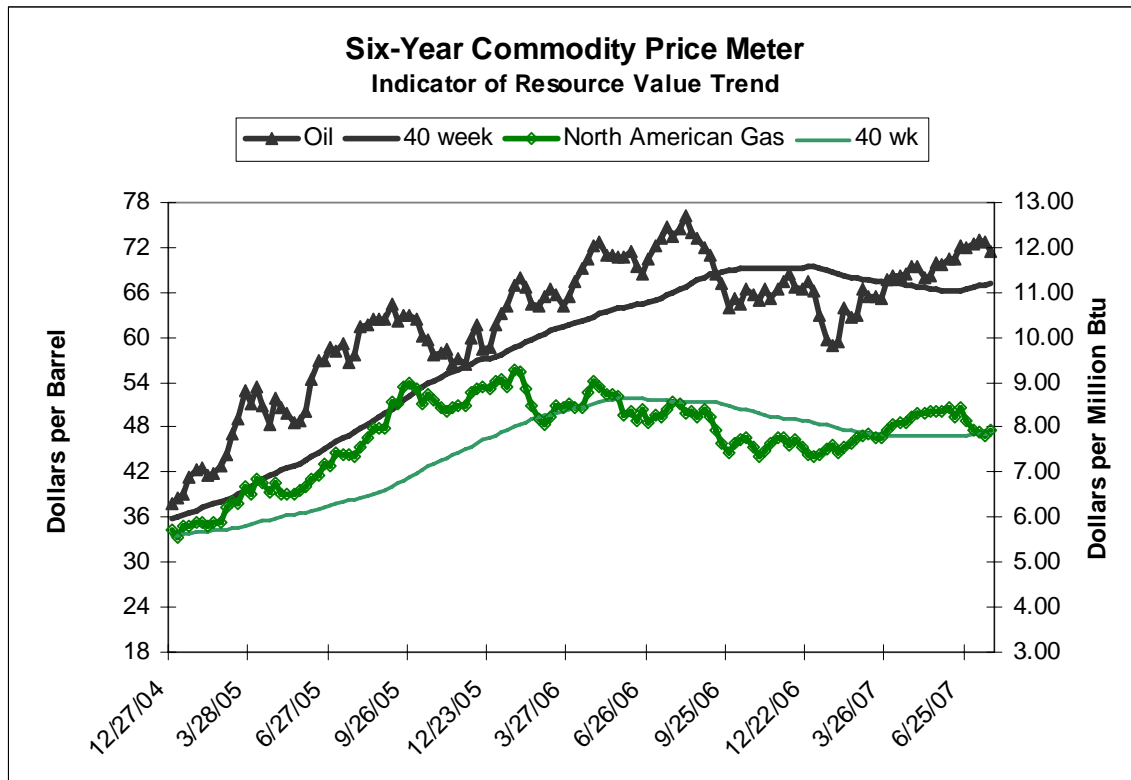
Royal Dutch/Shell
Next Twelve Months Operating and Financial Estimates

	Q2	Q3	Year	Q1	Q2	Q3E	Q4E	Year	Next Twelve Months
	6/30/06	9/30/06	2006	3/31/07	6/30/07	9/30/07	12/31/07	2007E	6/30/08
Volume									
Natural Gas (mmcf)									
U.S.	1,175	1,186	1,163	1,162	1,091	1,091	1,091	1,109	1,091
Overseas (or Int'l)	6,690	5,756	7,205	7,819	6,276	5,756	7,204	6,759	6,759
Total	7,865	6,942	8,368	8,981	7,367	6,847	8,295	7,868	7,850
Oil (mbd)	1,897	2,054	2,030	1,961	1,908	1,908	1,908	1,921	1,908
Total gas & oil (mbd)	3,208	3,211	3,425	3,458	3,136	3,049	3,291	3,232	3,216
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.81	6.58	7.23	6.81	7.56	6.36	7.22	6.99	7.49
U.S.	7.36	7.31	7.74	7.20	7.78	6.55	7.43	7.24	7.70
Overseas (or Int'l)	4.37	4.25	4.70	4.91	4.21	4.25	4.77	4.57	4.57
Total	4.82	4.77	5.12	5.21	4.74	4.61	5.12	4.94	5.00
Oil (\$/bbl)									
WTI Cushing	70.47	70.42	66.05	58.08	64.91	74.48	74.58	68.01	74.07
Worldwide	63.95	65.13	60.14	54.45	63.92	73.34	73.45	66.28	72.95
Total gas & oil (\$/bbl)	49.64	51.97	48.16	44.41	50.03	56.26	55.49	51.43	55.49
NY Harbor 3-2-1 (\$/bbl)	15.39	11.67	10.50	11.68	24.96	14.68	10.24	15.39	13.10
Revenue (\$mm)									
Natural Gas									
U.S.	787	798	3,287	753	772	657	746	2,929	3,066
Overseas (or Int'l)	2,663	2,249	12,349	3,458	2,405	2,249	3,158	11,271	11,271
Total	3,450	3,046	15,636	4,211	3,178	2,906	3,904	14,200	14,337
Oil	11,039	12,307	44,568	9,610	11,098	12,875	12,893	46,476	50,802
Other	68,638	68,900	258,641	59,659	70,620	70,620	70,620	271,519	282,480
Total	83,127	84,254	318,845	73,480	84,896	86,401	87,418	332,194	347,619
Expense	70,049	69,566	264,980	59,831	70,063	71,606	73,515	275,014	289,118
Production	7,010	6,781	27,041	5,433	6,076	6,829	7,337	25,675	28,323
Other	63,040	62,784	237,939	54,398	63,987	64,504	65,956	248,845	259,806
Ebitda (\$mm)									
Exploration and Production	7,479	8,573	33,164	8,388	8,200	8,679	9,239	34,506	35,826
Other	5,598	6,116	20,702	5,261	6,633	6,116	4,664	22,674	22,674
Total Ebitda	13,078	14,688	53,865	13,649	14,833	14,795	13,903	57,180	58,500
Exploration	250	401	1,562	272	450	450	450	1,622	1,750
Deprec., Deplet., & Amort.	3,132	3,365	12,615	3,260	3,238	3,238	3,238	12,974	12,952
Other non cash			-	(622)	(622)			(1,243)	-
Ebit	9,696	10,922	39,688	10,739	11,766	11,107	10,215	43,827	43,798
Interest	21	190	662	66	130	130	130	456	570
Ebt	9,675	10,732	39,026	10,673	11,636	10,977	10,085	43,371	43,228
Income Tax	3,386	3,756	13,659	3,735	4,073	3,842	3,530	15,180	15,130
Net Income (\$mm)									
Exploration and Production	3,695	3,743	14,504	3,508	3,148				
Other	3,024	3,282	10,867	2,771	3,757				
Unallocated	(430)	(49)	(4)	658	659				
Total	6,289	6,976	25,367	6,937	7,564	7,135	6,555	28,191	28,098
Shares (millions)	3,242	3,200	3,219	3,153	3,152	3,152	3,152	3,152	3,152
Per share (\$)	1.94	2.18	7.88	2.20	2.40	2.26	2.08	8.94	8.92
Ebitda Margin (E&P)	52%	56%	55%	61%	57%	55%	55%	57%	55%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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Royal Dutch Shell plc
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i> <i>(US\$mm)</i>	<i>Adjusted</i> <i>R/P</i>	<i>PV/</i> <i>Ebitda</i>	<i>Present</i> <i>Value</i> <i>(US\$mm)</i>	
North American Natural Gas	1,690	5.2	5.3	9,000	3%
Rest of World Natural Gas	6,200	12.1	6.9	43,000	13%
Oil	27,940	6.1	5.7	158,000	48%
Downstream	22,670		5.3	120,000	36%
	58,500	8.1	5.6	330,000	100%
Debt (US\$mm)					34,000
Net Present Value (US\$mm)					296,000
Shares (mm)					3,152
Net Present Value - Standard Estimate (US\$/sh)					94
Net Present Value - Approximation by Correlation (US\$/sh)					98



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