

Rating: Buy  
 S&P 500: 1179

## Royal Dutch Shell plc Downstream Gains

<i>Symbol</i>	RDS-B	<i>Ebitda Next Twelve Months ending 9/30/06 (US\$m)</i>	56,200
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	6
<i>Price (US\$/sh)</i>	63.84	<i>Natural Gas and Oil Production/Ebitda (%)</i>	59
<i>Pricing Date (intraday)</i>	10/27/05	<i>Adjusted Reserves/Production NTM</i>	7.5
<i>Shares (mm)</i>	3352	<i>EV/Ebitda</i>	4.4
<i>Market Capitalization (US\$m)</i>	214,000	<i>PV/Ebitda</i>	5.6
<i>Debt (US\$m)</i>	31,600	<i>Undeveloped Reserves (%)</i>	44
<i>Enterprise Value (EV) (US\$m)</i>	245,600	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	26.10
<i>Present Value (PV) (US\$m)</i>	313,200	<i>Present Value Proven Reserves(US\$/boe)</i>	37.70
<i>Net Present Value (US\$/share)</i>	84.00	<i>Present Value Proven Reserves(US\$/mcf)</i>	6.28
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.22
<i>McDep Ratio - EV/PV</i>	0.78	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	3.5	<i>Indicated Annual Dividend (US\$/sh)</i>	2.23

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.

### Summary and Recommendation

Buy-recommended **Royal Dutch Shell plc (RDS-B)** offers 32% appreciation potential to estimated net present value of \$84 a share. Taking account of latest quarterly results, our correlation of 30 companies indicates net present value about \$4 a share lower than estimated. The impact of hurricane activity shows up in a 30% decline in U.S. natural gas volume for the third quarter. Otherwise the global upstream and downstream businesses appear to be performing normally in a profitable environment.

### Cash Flow and Reserve Life Point to Present Value

McDep analysis presumes that fundamental value is measured by the projection of cash flows far into the future and discounting them to the present at a rate of return, currently 7% a year before inflation. Next Twelve Months (NTM) cash flow represents the volumes and costs that form the base for future projections. Reserve life index tells how long cash flow will last. NTM cash flow and reserve life are the two main variables in our correlation by function for about 30 companies. Net present value indicated by the current combined correlation is about \$4 a share lower than our ongoing standard estimate for RDS (see table Functional Cash Flow and Present Value).

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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	3,170	5.0	3.5	11,000	4%
Rest of World Natural Gas	6,330	11.1	9.5	60,000	19%
Oil	23,630	5.7	4.3	102,000	33%
Downstream	23,100		6.1	140,000	45%
	56,230	7.5	5.6	313,000	100%
Debt (US\$mm)					31,000
Net Present Value (US\$mm)					282,000
Shares (mm)					3,352
Net Present Value (US\$/sh)					84
Over (-)/ Under (+) Correlation (US\$/sh)					(4)

**Cash Flow by Quarter Depends on Latest Results and Futures Prices**

Cash flow for the next year is projected from a base through the latest reported quarter (see table Next Twelve Months Operating and Financial Estimates). Company disclosures provide the clues for future volumes and costs as well as geographic and quality differences in price. Futures prices from the New York Mercantile Exchange determine industry benchmarks for the next year.

**Industry Conditions Support Long-Term Price Expectation**

Present value estimates that form the denominator of the McDep Ratio and change only occasionally for all companies, most recently in early August, are tied to expected constant real long-term prices. Recent futures price for oil delivered over the next six years at \$58 a barrel exceeds our long-term expectation of \$50. One-year futures for natural gas exceed our long-term expectation while six-year futures for natural gas also have appreciation potential, in our opinion.

**Oil and Gas Commodity and Stock Price**  
**Thursday, October 27, 2005**

	<i>Units</i>	<i>Futures Price</i>		<i>McDep Ratio</i>
		<i>Six-Year</i>	<i>One-Year</i>	<i>Denominator</i>
<b>Crude Oil</b>	\$/barrel	58.13	62.00	50
<b>Natural Gas</b>	\$/million btu	8.65	11.96	10
<b>Oil Refining</b>	\$/barrel		12.41	10
	<i>Stocks</i>			<i>Median</i>
	<b>Mega Cap</b>			0.76
	<b>RDS</b>			0.75

Source: McDep Associates, Bloomberg, New York Mercantile Exchange, Yahoo and company disclosures

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**Royal Dutch/Shell**  
**Next Twelve Months Operating and Financial Estimates**

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>9/30/06</i>
<b>Volume</b>											
Natural Gas (mmcf)											
U.S.	1,302	<b>1,335</b>	1,385	1,357	948	1,300	<b>1,246</b>	1,300	1,300	1,300	<b>1,300</b>
Overseas (or Int'l)	8,408	<b>7,528</b>	8,490	6,518	5,603	7,844	<b>7,108</b>	8,529	6,255	5,686	<b>7,073</b>
Total	9,710	<b>8,864</b>	9,875	7,875	6,551	9,144	<b>8,354</b>	9,829	7,555	6,986	<b>8,373</b>
Oil (mbd)	2,163	<b>2,261</b>	2,144	2,168	2,077	2,077	<b>2,116</b>	2,077	2,077	2,077	<b>2,077</b>
Total gas & oil (mmb)	348	<b>1,365</b>	341	317	292	331	<b>1,281</b>	334	304	298	<b>1,267</b>
<b>Price</b>											
Natural gas (\$/mcf)											
Henry Hub (\$/mmbtu)	7.10	<b>6.15</b>	6.27	6.76	8.56	13.83	<b>8.85</b>	13.80	10.66	10.64	<b>12.23</b>
U.S.	7.27	<b>6.33</b>	6.83	7.31	8.35	13.69	<b>9.05</b>	13.66	10.56	10.53	<b>12.11</b>
Overseas (or Int'l)	3.32	<b>3.08</b>	3.92	3.78	3.95	4.15	<b>3.96</b>	4.36	4.58	4.81	<b>4.44</b>
Total	3.85	<b>3.57</b>	4.33	4.39	4.59	5.51	<b>4.72</b>	5.59	5.61	5.87	<b>5.63</b>
Oil (\$/bbl)											
WTI Cushing	48.31	<b>41.44</b>	49.65	53.05	62.52	61.68	<b>56.73</b>	62.03	62.24	62.20	<b>62.03</b>
Worldwide	40.17	<b>35.56</b>	43.84	48.05	56.83	56.06	<b>51.15</b>	56.38	56.57	56.54	<b>56.39</b>
Total gas & oil (\$/bbl)	32.86	<b>29.98</b>	36.08	39.86	46.74	46.32	<b>42.09</b>	46.31	47.92	48.88	<b>47.30</b>
NY Harbor 3-2-1 (\$/bbl)	5.72	<b>7.74</b>	6.17	10.59	16.70	11.73	<b>11.30</b>	12.23	13.62	12.83	<b>12.60</b>
<b>Revenue (\$mm)</b>											
Natural Gas											
U.S.	871	<b>3,084</b>	851	903	728	1,637	<b>4,119</b>	1,598	1,249	1,260	<b>5,744</b>
Overseas (or Int'l)	2,568	<b>8,471</b>	2,997	2,243	2,038	2,996	<b>10,274</b>	3,346	2,605	2,514	<b>11,462</b>
Total	3,439	<b>11,555</b>	3,848	3,146	2,766	4,633	<b>14,394</b>	4,944	3,854	3,774	<b>17,206</b>
Oil	7,994	<b>29,357</b>	8,459	9,480	10,859	10,713	<b>39,511</b>	10,539	10,693	10,803	<b>42,748</b>
Other	64,991	<b>227,152</b>	59,848	70,018	62,809	62,809	<b>255,485</b>	62,809	62,809	62,809	<b>251,237</b>
Total	76,424	<b>268,064</b>	72,156	82,644	76,435	78,155	<b>309,390</b>	78,293	77,356	77,387	<b>311,191</b>
<b>Expense (\$mm)</b>											
Production	4,466	<b>15,888</b>	5,292	5,959	6,026	6,886	<b>24,163</b>	6,955	6,486	6,501	<b>26,828</b>
Other	59,488	<b>209,644</b>	54,834	66,067	58,026	57,034	<b>235,962</b>	57,034	57,034	57,034	<b>228,136</b>
<b>Ebitda (\$mm)</b>											
Exploration and Production	6,967	<b>25,024</b>	7,016	6,666	7,600	8,460	<b>29,742</b>	8,529	8,061	8,076	<b>33,125</b>
Other	5,503	<b>17,508</b>	5,014	3,951	4,783	5,775	<b>19,524</b>	5,775	5,775	5,775	<b>23,102</b>
Total Ebitda	12,470	<b>42,532</b>	12,030	10,617	12,383	14,236	<b>49,266</b>	14,305	13,836	13,851	<b>56,227</b>
Exploration	519	<b>1,828</b>	261	248	275	275	<b>1,059</b>	275	275	275	<b>1,100</b>
Deprec., Deplet., & Amort.	3,545	<b>11,897</b>	3,155	3,136	2,903	2,903	<b>12,097</b>	2,903	2,903	2,903	<b>11,612</b>
Other non cash	161	<b>554</b>	-	-	-	-	<b>-</b>	-	-	-	<b>-</b>
<b>Ebit</b>	8,245	<b>28,253</b>	8,614	7,233	9,205	11,058	<b>36,110</b>	11,127	10,658	10,673	<b>43,515</b>
Interest	336	<b>1,259</b>	78	74	284	284	<b>720</b>	284	284	284	<b>1,136</b>
<b>Ebt</b>	7,909	<b>26,994</b>	8,536	7,159	8,921	10,774	<b>35,390</b>	10,843	10,374	10,389	<b>42,379</b>
Income Tax	2,768	<b>9,448</b>	2,987	2,506	3,123	3,771	<b>12,386</b>	3,795	3,631	3,636	<b>14,833</b>
<b>Net Income (\$mm)</b>											
Exploration and Production	2,578	<b>9,664</b>	2,955	2,745	3,212						
Other	3,036	<b>9,436</b>	2,797	2,290	2,723						
Unallocated	(473)	<b>(1,554)</b>	(204)	(382)	(136)						
Total	5,141	<b>17,546</b>	5,548	4,653	5,799	7,003	<b>23,003</b>	7,048	6,743	6,753	<b>27,547</b>
<b>Shares (millions)</b>	3,360	<b>3,374</b>	3,363	3,372	3,352	3,352	<b>3,359</b>	3,352	3,352	3,352	<b>3,352</b>
Per share (\$)	1.53	<b>5.20</b>	1.65	1.38	1.73	2.09	<b>6.85</b>	2.10	2.01	2.01	<b>8.22</b>
Ebitda Margin (E&P)	61%	<b>61%</b>	57%	53%	56%	55%	<b>55%</b>	55%	55%	55%	<b>55%</b>
Tax Rate	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>	35%	35%	35%	<b>35%</b>

**Buy Mega Cap Energy Stocks**

Energy is necessary for world economic growth and clean energy provides a better quality of life. Mega Cap major oil companies are among the leading global suppliers of clean energy. Headquartered in the U.K., France and the U.S., buy recommendations also offer political diversification. McDep Ratios that compare Enterprise Value with Present Value of energy and other businesses imply that the stock market undervalues the fundamental prospects. Stocks are ranked in descending order of McDep Ratio connoting "buy low, sell high" (see table Rank by McDep Ratio).

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**Oil and Gas Producers**  
**Rank by McDep Ratio: Market Cap and Debt to Present Value**

	<i>Symbol/ Rating</i>		<i>Price (\$/sh) 27-Oct 2005</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>
<b>Mega Cap</b>								
BP plc	BP	B	65.15	3,501	228,000	77.00	0.11	0.86
Total S.A.	TOT	B	122.00	1,182	144,000	160.00	0.12	0.79
Exxon Mobil Corporation	XOM	B	55.60	6,303	350,000	74.00	0.04	0.76
Royal Dutch Shell plc	RDS-A	B	60.65	3,352	203,000	84.00	0.10	0.75
Chevron Corporation	CVX	B	56.50	2,256	128,000	90.00	0.12	0.67
	<i>Total or Median</i>				<i>1,053,000</i>		<i>0.11</i>	<i>0.76</i>

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