

Rating: Buy  
S&P 500: 1312

## **Royal Dutch Shell plc** **Tighter Markets and Cost Pressures**

<i>Symbol</i>	RDS-B	<i>Ebitda Next Twelve Months ending 3/31/07 (US\$mm)</i>	56,400
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	3
<i>Price (US\$/sh)</i>	72.37	<i>Natural Gas and Oil Production/Ebitda (%)</i>	63
<i>Pricing Date (intraday)</i>	5/4/06	<i>Adjusted Reserves/Production NTM</i>	7.4
<i>Shares (mm)</i>	3268	<i>EV/Ebitda</i>	4.7
<i>Market Capitalization (US\$mm)</i>	236,500	<i>PV/Ebitda</i>	5.2
<i>Debt (US\$mm)</i>	29,300	<i>Undeveloped Reserves (%)</i>	43
<i>Enterprise Value (EV) (US\$mm)</i>	265,800	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	28.10
<i>Present Value (PV) (US\$mm)</i>	290,700	<i>Present Value Proven Reserves(US\$/boe)</i>	37.60
<i>Net Present Value (US\$/share)</i>	80.00	<i>Present Value Proven Reserves(US\$/mcf)</i>	6.27
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.66
<i>McDep Ratio - EV/PV</i>	0.91	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	3.5	<i>Indicated Annual Dividend (US\$/sh)</i>	2.54

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**

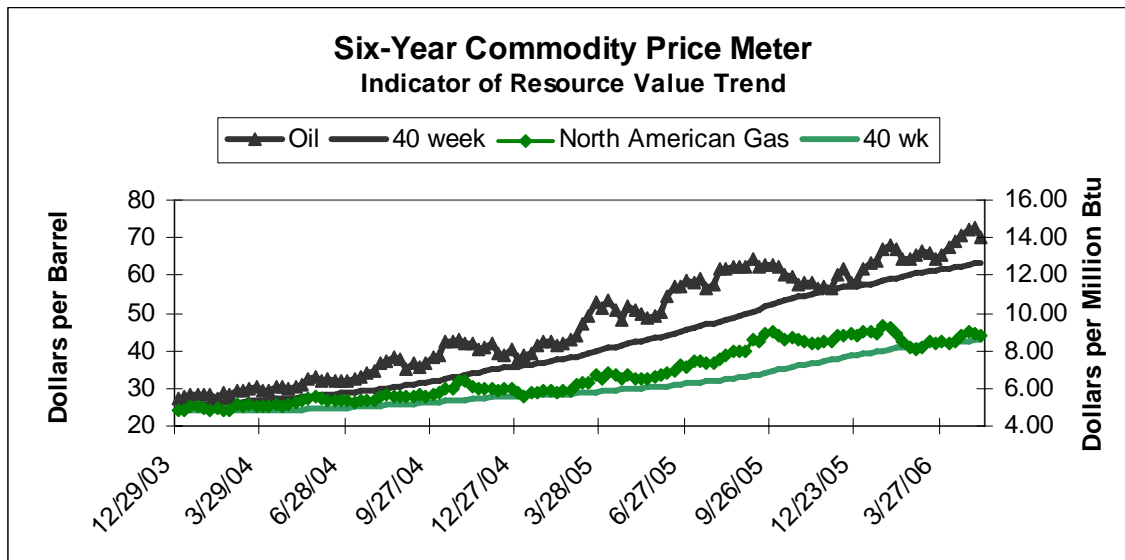
The stock of buy-recommended **Royal Dutch Shell plc (RDS-B)** offers 11% appreciation potential to estimated net present value of \$80 a share presuming a long-term oil price of \$50 a barrel. Tighter energy markets imply rising value for the 55% of present value that is concentrated on natural gas and oil production. In its quarterly earnings conference, management called attention to rampant cost inflation that may cause some expansion projects to be delayed. Escalating cost of new supply is a normal consequence of the commodity business cycle, in our opinion, that adds further robustness to prolong the rise in six-year oil and natural gas futures. Meanwhile, Shell's resilient downstream businesses delivered higher profits in the first quarter of 2006 despite a dip in the refinery crack, or margin. Traditional strength in oil products, low debt at 0.10 times present value and a new streamlined single company structure are among the factors contributing to positive investment performance.

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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	1,840	5.3	5.4	10,000	3%
Rest of World Natural Gas	8,120	10.7	7.4	60,000	21%
Oil	25,670	5.7	3.5	91,000	31%
Downstream	20,800		6.3	130,000	45%
	56,430	7.4	5.2	291,000	100%
Debt (US\$mm)					30,000
Net Present Value (US\$mm)					261,000
Shares (mm)					3,268
Net Present Value - Standard Estimate (US\$/sh)					80
Net Present Value - Approximation by Correlation (US\$/sh)					77

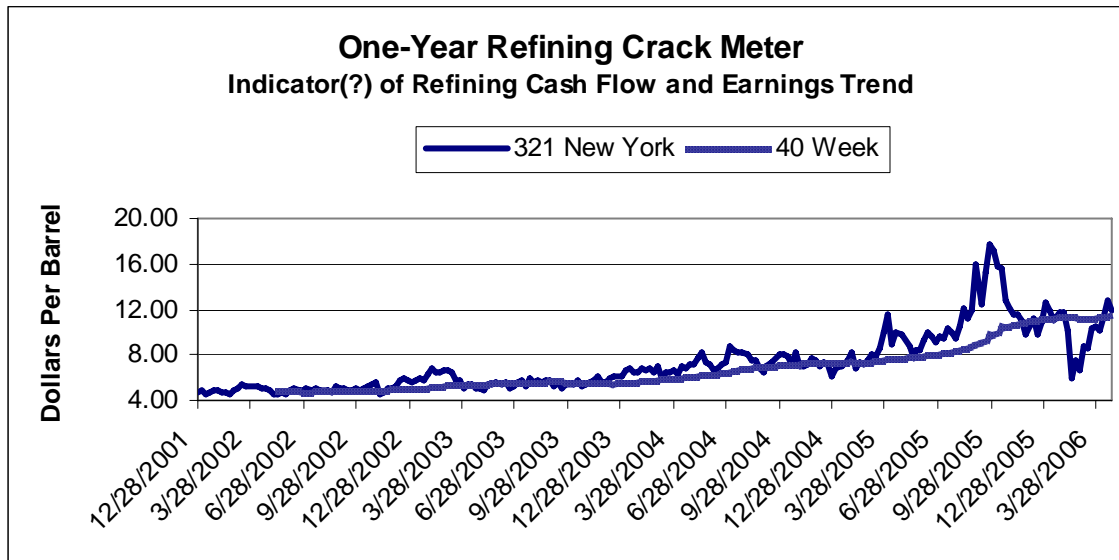


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**Royal Dutch/Shell**  
**Next Twelve Months Operating and Financial Estimates**

	<i>Q1</i>	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Next</i>
	<i>3/31/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006E</i>	<i>Twelve</i>
									<i>Months</i>
									<i>3/31/07</i>
<b>Volume</b>									
Natural Gas (mmcf)									
U.S.	1,385	919	<b>1,150</b>	1,117	1,117	1,117	1,117	<b>1,117</b>	<b>1,117</b>
Overseas (or Int'l)	8,490	7,865	<b>7,113</b>	9,207	6,518	5,603	7,865	<b>7,290</b>	<b>7,290</b>
Total	9,875	8,784	<b>8,264</b>	10,324	7,635	6,720	8,982	<b>8,407</b>	<b>8,407</b>
Oil (mbd)	2,144	1,986	<b>2,093</b>	1,966	1,966	2,100	2,100	<b>2,034</b>	<b>2,067</b>
Total gas & oil (mmb)	341	317	<b>1,267</b>	332	295	296	331	<b>1,254</b>	<b>1,266</b>
Total gas & oil (mmb)	3,790	3,450	<b>3,471</b>	3,687	3,239	3,220	3,597	<b>3,435</b>	<b>3,468</b>
<b>Price</b>									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.27	13.00	<b>8.65</b>	8.97	7.13	7.40	9.38	<b>8.22</b>	<b>8.81</b>
U.S.	6.83	12.40	<b>8.41</b>	9.56	7.06	7.33	9.28	<b>8.30</b>	<b>8.71</b>
Overseas (or Int'l)	3.92	5.01	<b>4.20</b>	5.16	5.42	5.69	5.98	<b>5.55</b>	<b>5.89</b>
Total	4.33	5.78	<b>4.78</b>	5.64	5.66	5.96	6.39	<b>5.91</b>	<b>6.27</b>
Oil (\$/bbl)									
WTI Cushing	49.65	60.02	<b>56.31</b>	63.33	69.81	72.44	73.80	<b>69.84</b>	<b>72.53</b>
Worldwide	43.84	52.77	<b>50.31</b>	57.39	63.26	65.64	66.88	<b>63.42</b>	<b>65.76</b>
Total gas & oil (\$/bbl)	36.08	45.09	<b>41.74</b>	46.40	51.75	55.26	55.00	<b>52.02</b>	<b>54.38</b>
NY Harbor 3-2-1 (\$/bbl)	6.17	9.06	<b>10.63</b>	7.40	15.12	11.39	7.69	<b>10.40</b>	<b>10.17</b>
<b>Revenue (\$mm)</b>									
Natural Gas									
U.S.	851	1,048	<b>3,531</b>	961	717	753	954	<b>3,385</b>	<b>3,552</b>
Overseas (or Int'l)	2,997	3,623	<b>10,901</b>	4,279	3,216	2,935	4,326	<b>14,757</b>	<b>15,679</b>
Total	3,848	4,671	<b>14,432</b>	5,240	3,934	3,688	5,280	<b>18,142</b>	<b>19,231</b>
Oil	8,459	9,642	<b>38,440</b>	10,155	11,317	12,682	12,921	<b>47,075</b>	<b>49,605</b>
Other	59,848	61,183	<b>253,859</b>	60,569	60,569	60,569	60,569	<b>242,276</b>	<b>242,276</b>
Total	72,156	75,496	<b>306,731</b>	75,964	75,820	76,939	78,770	<b>307,493</b>	<b>311,112</b>
<b>Expense</b>									
Production	5,292	6,713	<b>23,990</b>	7,395	7,323	7,882	8,798	<b>31,399</b>	<b>33,208</b>
Other	54,834	56,875	<b>235,803</b>	55,999	55,369	55,369	55,369	<b>222,106</b>	<b>221,476</b>
<b>Ebitda (\$mm)</b>									
Exploration and Production	7,016	7,600	<b>28,882</b>	8,000	7,928	8,487	9,403	<b>33,818</b>	<b>35,628</b>
Other	5,014	4,308	<b>18,057</b>	4,570	5,200	5,200	5,200	<b>20,170</b>	<b>20,800</b>
Total Ebitda	12,030	11,908	<b>46,939</b>	12,570	13,128	13,687	14,603	<b>53,988</b>	<b>56,428</b>
Exploration	261	502	<b>1,286</b>	281	281	281	281	<b>1,124</b>	<b>1,124</b>
Deprec., Deplet., & Amort.	3,155	2,787	<b>11,981</b>	2,812	2,812	2,812	2,812	<b>11,248</b>	<b>11,248</b>
Other non cash			-					-	-
<b>Ebit</b>	8,614	8,619	<b>33,672</b>	9,477	10,035	10,594	11,510	<b>41,616</b>	<b>44,056</b>
Interest	78	311	<b>747</b>	127	127	127	127	<b>508</b>	<b>508</b>
<b>Ebt</b>	8,536	8,308	<b>32,925</b>	9,350	9,908	10,467	11,383	<b>41,108</b>	<b>43,548</b>
Income Tax	2,987	2,908	<b>11,524</b>	3,273	3,468	3,664	3,984	<b>14,388</b>	<b>15,242</b>
<b>Net Income (\$mm)</b>									
Exploration and Production	2,955	3,561	<b>12,473</b>	3,743					
Other	2,797	2,280	<b>10,090</b>	2,237					
Unallocated	(204)	(440)	<b>(1,162)</b>	98					
Total	5,548	5,401	<b>21,401</b>	6,078	6,440	6,804	7,399	<b>26,720</b>	<b>28,306</b>
<b>Shares (millions)</b>	3,363	3,293	<b>3,344</b>	3,268	3,268	3,268	3,268	<b>3,268</b>	<b>3,268</b>
Per share (\$)	1.65	1.64	<b>6.40</b>	1.86	1.97	2.08	2.26	<b>8.18</b>	<b>8.66</b>
Ebitda Margin (E&P)	57%	53%	<b>55%</b>	52%	52%	52%	52%	<b>52%</b>	<b>52%</b>
Tax Rate	35%	35%	<b>35%</b>	35%	35%	35%	35%	<b>35%</b>	<b>35%</b>

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