

Rating: Buy
 S&P 500: 1179

Royal Dutch Shell plc Downstream Gains

<i>Symbol</i>	RDS-A	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$m)</i>	56,200
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	6
<i>Price (US\$/sh)</i>	60.65	<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>	4.2
<i>Market Capitalization (US\$m)</i>	203,300	<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>	234,900	<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>	15.10
<i>Net Present Value (US\$/share)</i>	84	<i>Present Value Proven Reserves(US\$/mcf)</i>	2.52
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.22
<i>McDep Ratio - EV/PV</i>	0.75	<i>Price/Earnings Next Twelve Months</i>	7
<i>Dividend Yield (%/year)</i>	3.7	<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-A)** offers 38% 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>
Crude Oil	\$/barrel	58.13	62.00	50
Natural Gas	\$/million btu	8.65	11.96	10
Oil Refining	\$/barrel		12.41	10
	<i>Stocks</i>			<i>Median</i>
	Mega Cap			0.76
	RDS			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</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>Twelve</i>
											<i>Months</i>
											<i>9/30/06</i>
Volume											
Natural Gas (mmcf/d)											
U.S.	1,302	1,335	1,385	1,357	948	1,300	1,246	1,300	1,300	1,300	1,300
Overseas (or Int'l)	8,408	7,528	8,490	6,518	5,603	7,844	7,108	8,529	6,255	5,686	7,073
Total	9,710	8,864	9,875	7,875	6,551	9,144	8,354	9,829	7,555	6,986	8,373
Oil (mbd)	2,163	2,261	2,144	2,168	2,077	2,077	2,116	2,077	2,077	2,077	2,077
Total gas & oil (mmb)	348	1,365	341	317	292	331	1,281	334	304	298	1,267
Price											
Natural gas (\$/mcf)											
Henry Hub (\$/mmbtu)	7.10	6.15	6.27	6.76	8.56	13.83	8.85	13.80	10.66	10.64	12.23
U.S.	7.27	6.33	6.83	7.31	8.35	13.69	9.05	13.66	10.56	10.53	12.11
Overseas (or Int'l)	3.32	3.08	3.92	3.78	3.95	4.15	3.96	4.36	4.58	4.81	4.44
Total	3.85	3.57	4.33	4.39	4.59	5.51	4.72	5.59	5.61	5.87	5.63
Oil (\$/bbl)											
WTI Cushing	48.31	41.44	49.65	53.05	62.52	61.68	56.73	62.03	62.24	62.20	62.03
Worldwide	40.17	35.56	43.84	48.05	56.83	56.06	51.15	56.38	56.57	56.54	56.39
Total gas & oil (\$/bbl)	32.86	29.98	36.08	39.86	46.74	46.32	42.09	46.31	47.92	48.88	47.30
NY Harbor 3-2-1 (\$/bbl)	5.72	7.74	6.17	10.59	16.70	11.73	11.30	12.23	13.62	12.83	12.60
Revenue (\$mm)											
Natural Gas											
U.S.	871	3,084	851	903	728	1,637	4,119	1,598	1,249	1,260	5,744
Overseas (or Int'l)	2,568	8,471	2,997	2,243	2,038	2,996	10,274	3,346	2,605	2,514	11,462
Total	3,439	11,555	3,848	3,146	2,766	4,633	14,394	4,944	3,854	3,774	17,206
Oil	7,994	29,357	8,459	9,480	10,859	10,713	39,511	10,539	10,693	10,803	42,748
Other	64,991	227,152	59,848	70,018	62,809	62,809	255,485	62,809	62,809	62,809	251,237
Total	76,424	268,064	72,156	82,644	76,435	78,155	309,390	78,293	77,356	77,387	311,191
Expense (\$mm)											
Production	4,466	15,888	5,292	5,959	6,026	6,886	24,163	6,955	6,486	6,501	26,828
Other	59,488	209,644	54,834	66,067	58,026	57,034	235,962	57,034	57,034	57,034	228,136
Ebitda (\$mm)											
Exploration and Production	6,967	25,024	7,016	6,666	7,600	8,460	29,742	8,529	8,061	8,076	33,125
Other	5,503	17,508	5,014	3,951	4,783	5,775	19,524	5,775	5,775	5,775	23,102
Total Ebitda	12,470	42,532	12,030	10,617	12,383	14,236	49,266	14,305	13,836	13,851	56,227
Exploration	519	1,828	261	248	275	275	1,059	275	275	275	1,100
Deprec., Deplet., & Amort.	3,545	11,897	3,155	3,136	2,903	2,903	12,097	2,903	2,903	2,903	11,612
Other non cash	161	554	-	-	-	-	-	-	-	-	-
Ebit	8,245	28,253	8,614	7,233	9,205	11,058	36,110	11,127	10,658	10,673	43,515
Interest	336	1,259	78	74	284	284	720	284	284	284	1,136
Ebt	7,909	26,994	8,536	7,159	8,921	10,774	35,390	10,843	10,374	10,389	42,379
Income Tax	2,768	9,448	2,987	2,506	3,123	3,771	12,386	3,795	3,631	3,636	14,833
Net Income (\$mm)											
Exploration and Production	2,578	9,664	2,955	2,745	3,212						
Other	3,036	9,436	2,797	2,290	2,723						
Unallocated	(473)	(1,554)	(204)	(382)	(136)						
Total	5,141	17,546	5,548	4,653	5,799	7,003	23,003	7,048	6,743	6,753	27,547
Shares (millions)	3,360	3,374	3,363	3,372	3,352	3,352	3,359	3,352	3,352	3,352	3,352
Per share (\$)	1.53	5.20	1.65	1.38	1.73	2.09	6.85	2.10	2.01	2.01	8.22
Ebitda Margin (E&P)	61%	61%	57%	53%	56%	55%	55%	55%	55%	55%	55%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

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/</i>	<i>Rating</i>	<i>Price</i> <i>(\$/sh)</i> <i>27-Oct</i> <i>2005</i>	<i>Shares</i> <i>(mm)</i>	<i>Market</i> <i>Cap</i> <i>(\$mm)</i>	<i>Net</i> <i>Present</i> <i>Value</i> <i>(\$/sh)</i>	<i>Debt/</i> <i>Present</i> <i>Value</i>	<i>McDep</i> <i>Ratio</i>
Mega Cap								
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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