

Rating: Buy
 S&P 500: 1263

Royal Dutch Shell plc

Share Buyback Enhances Return

<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>	4
<i>Price (US\$/sh)</i>	73.52	<i>Natural Gas and Oil Production/Ebitda (%)</i>	66
<i>Pricing Date (intraday)</i>	7/27/06	<i>Adjusted Reserves/Production NTM</i>	7.4
<i>Shares (mm)</i>	3242	<i>EV/Ebitda</i>	4.8
<i>Market Capitalization (US\$mm)</i>	238,300	<i>PV/Ebitda</i>	5.4
<i>Debt (US\$mm)</i>	30,700	<i>Undeveloped Reserves (%)</i>	43
<i>Enterprise Value (EV) (US\$mm)</i>	269,000	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	29.20
<i>Present Value (PV) (US\$mm)</i>	303,000	<i>Present Value Proven Reserves(US\$/boe)</i>	40.80
<i>Net Present Value (US\$/share)</i>	84.00	<i>Present Value Proven Reserves(US\$/mcf)</i>	6.80
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.57
<i>McDep Ratio - EV/PV</i>	0.89	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	3.4	<i>Indicated Annual Dividend (US\$/sh)</i>	2.53

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

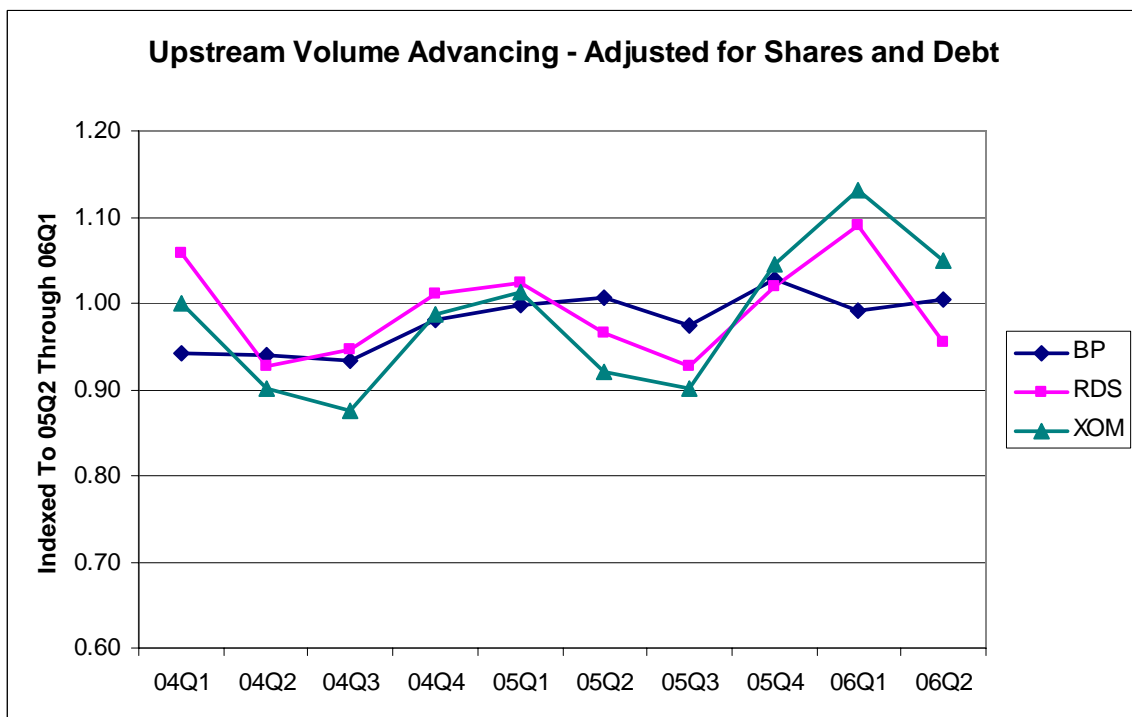
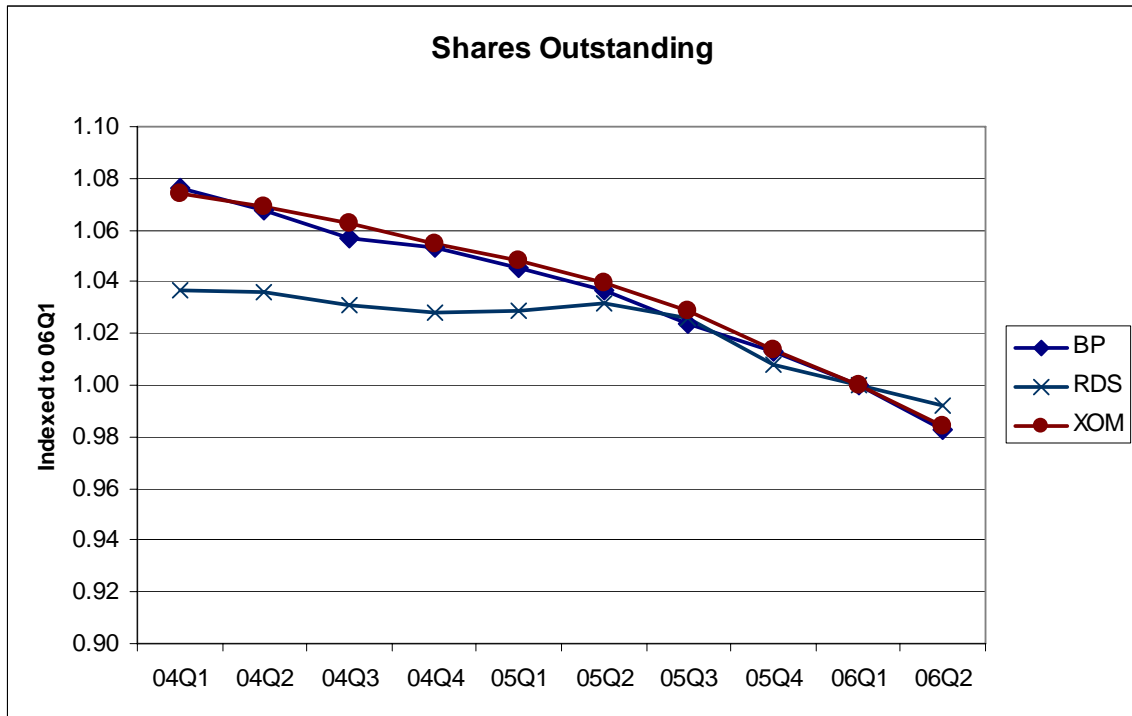
Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

Summary and Recommendation

In the year since its historic conversion from a two-headed group to a streamlined single company, buy-recommended **Royal Dutch Shell plc (RDS-B)** joined its peers in reducing shares outstanding and enhancing value for remaining shareholders (see chart). Presuming a long-term oil price of \$60 a barrel, our estimate of net present value (NPV) of \$84 a share is 14% higher than the current stock price. The estimate was revised from \$80 a share on June 6 when we revised our oil price from \$50 a barrel. The current quote for six-year oil futures is \$74. Our vision for oil price in 2010 is \$150. Our caution in raising NPV less than oil price reflected concern that the company would report lower volume in overseas production sharing contracts for accounting reasons. Yet through the second quarter of 2006 reported on July 27, net barrels are about flat adjusted for shares and debt (see chart). The company is currently losing about 5% of volume because of “security” reasons in Nigeria. An investment in Royal Dutch Shell stock offers participation in the outlook for oil price, natural gas price and refining margin on terms that seem favorable to us.

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Royal Dutch/Shell
Next Twelve Months Operating and Financial Estimates

	<i>Q2</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next</i>
	<i>6/30/05</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>3/31/07</i>	<i>Twelve</i>
									<i>Months</i>
									<i>6/30/07</i>
Volume									
Natural Gas (mmcf)									
U.S.	1,357	1,150	1,117	1,175	1,175	1,175	1,161	1,175	1,175
Overseas (or Int'l)	6,518	7,113	9,207	6,690	5,603	7,865	7,333	9,207	7,333
Total	7,875	8,264	10,324	7,865	6,778	9,040	8,494	10,382	8,508
Oil (mbd)	2,168	2,093	1,966	1,897	2,050	2,050	1,991	2,050	2,050
Total gas & oil (mbd)	3,481	3,471	3,687	3,208	3,180	3,557	3,407	3,780	3,468
Price									
Natural gas (\$/mcf)									
Henry Hub (\$/mmbtu)	6.76	8.65	8.97	6.81	6.41	8.47	7.67	10.62	8.50
U.S.	7.31	8.41	9.56	7.36	6.92	9.16	8.23	11.48	9.17
Overseas (or Int'l)	3.78	4.20	5.16	4.37	4.59	4.82	4.78	5.06	4.97
Total	4.39	4.78	5.64	4.82	5.00	5.39	5.25	5.79	5.55
Oil (\$/bbl)									
WTI Cushing	53.05	56.31	63.33	70.47	74.90	76.58	71.32	77.63	76.73
Worldwide	48.05	50.31	57.39	63.95	67.97	69.50	64.84	70.45	69.63
Total gas & oil (\$/bbl)	39.86	41.74	46.40	49.64	54.48	53.75	50.99	54.10	54.76
NY Harbor 3-2-1 (\$/bbl)	10.59	10.63	7.40	15.39	16.36	11.35	12.62	12.25	14.60
Revenue (\$mm)									
Natural Gas									
U.S.	903	3,531	961	787	748	990	3,486	1,214	3,932
Overseas (or Int'l)	2,243	10,901	4,279	2,663	2,367	3,489	12,799	4,196	13,289
Total	3,146	14,432	5,240	3,450	3,116	4,479	16,285	5,410	17,221
Oil	9,480	38,440	10,155	11,039	12,820	13,108	47,122	12,998	52,097
Other	70,018	253,859	60,569	68,638	68,638	68,638	266,482	68,638	274,551
Total	82,644	306,731	75,964	83,127	84,573	86,225	329,889	87,045	343,869
Expense									
Production	5,959	23,990	7,395	6,665	7,388	8,214	29,662	8,624	32,341
Other	66,067	235,803	55,999	63,384	63,794	63,794	246,971	63,794	255,175
Ebitda (\$mm)									
Exploration and Production	6,666	28,882	8,000	7,824	8,547	9,373	33,745	9,783	36,978
Other	3,951	18,057	4,570	5,253	4,844	4,844	19,512	4,844	19,376
Total Ebitda	10,617	46,939	12,570	13,078	13,391	14,217	53,256	14,627	56,354
Exploration	248	1,286	281	250	250	250	1,031	250	1,000
Deprec., Deplet., & Amort.	3,136	11,981	2,812	3,132	3,132	3,132	12,208	3,132	12,528
Other non cash	-	-	-	-	-	-	-	-	-
Ebit	7,233	33,672	9,477	9,696	10,009	10,835	40,017	11,245	42,826
Interest	74	747	127	21	21	21	190	21	84
Ebt	7,159	32,925	9,350	9,675	9,988	10,814	39,827	11,224	42,742
Income Tax	2,506	11,524	3,273	3,386	3,496	3,785	13,939	3,929	14,960
Net Income (\$mm)									
Exploration and Production	2,745	12,473	3,743	3,695					
Other	2,290	10,090	2,237	3,024					
Unallocated	(382)	(1,162)	98	(430)					
Total	4,653	21,401	6,078	6,289	6,492	7,029	25,888	7,296	27,782
Shares (millions)	3,372	3,344	3,268	3,242	3,242	3,242	3,248	3,242	3,242
Per share (\$)	1.38	6.40	1.86	1.94	2.00	2.17	7.97	2.25	8.57
Ebitda Margin (E&P)	53%	55%	52%	54%	54%	53%	53%	53%	53%
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>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
North American Natural Gas	2,100	5.0	4.8	10,000	3%
Rest of World Natural Gas	7,090	10.7	7.8	55,000	18%
Oil	27,780	5.7	4.2	118,000	39%
Downstream	19,380		6.2	120,000	40%
	56,350	7.4	5.4	303,000	100%
Debt (US\$mm)					31,000
Net Present Value (US\$mm)					272,000
Shares (mm)					3,242
Net Present Value - Standard Estimate (US\$/sh)					84
Net Present Value - Approximation by Correlation (US\$/sh)					84

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