

Rating: Buy  
 S&P 500: 1483

## Royal Dutch Shell plc Downstream Benefit

<i>Symbol</i>	RDS-B	<i>Ebitda Next Twelve Months ending 6/30/08 (US\$mm)</i>	58,500
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	3
<i>Price (US\$/sh)</i>	80.92	<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>	4.9
<i>Market Capitalization (US\$mm)</i>	255,000	<i>PV/Ebitda</i>	5.6
<i>Debt (US\$mm)</i>	33,300	<i>Undeveloped Reserves (%)</i>	50
<i>Enterprise Value (EV) (US\$mm)</i>	288,300	<i>Natural Gas and Oil Ebitda (US\$/boe)</i>	30.50
<i>Present Value (PV) (US\$mm)</i>	329,500	<i>Present Value Proven Reserves(US\$/boe)</i>	39.30
<i>Net Present Value (US\$/share)</i>	94.00	<i>Present Value Proven Reserves(US\$/mcf)</i>	6.55
<i>Debt/Present Value</i>	0.10	<i>Earnings Next Twelve Months (US\$/sh)</i>	8.92
<i>McDep Ratio - EV/PV</i>	0.87	<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/1sc.htm](http://www.mcdep.com/1sc.htm)

### Summary and Recommendation

Buy-recommended **Royal Dutch Shell plc (RDS-B)** offers unlevered appreciation potential of 14% 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.

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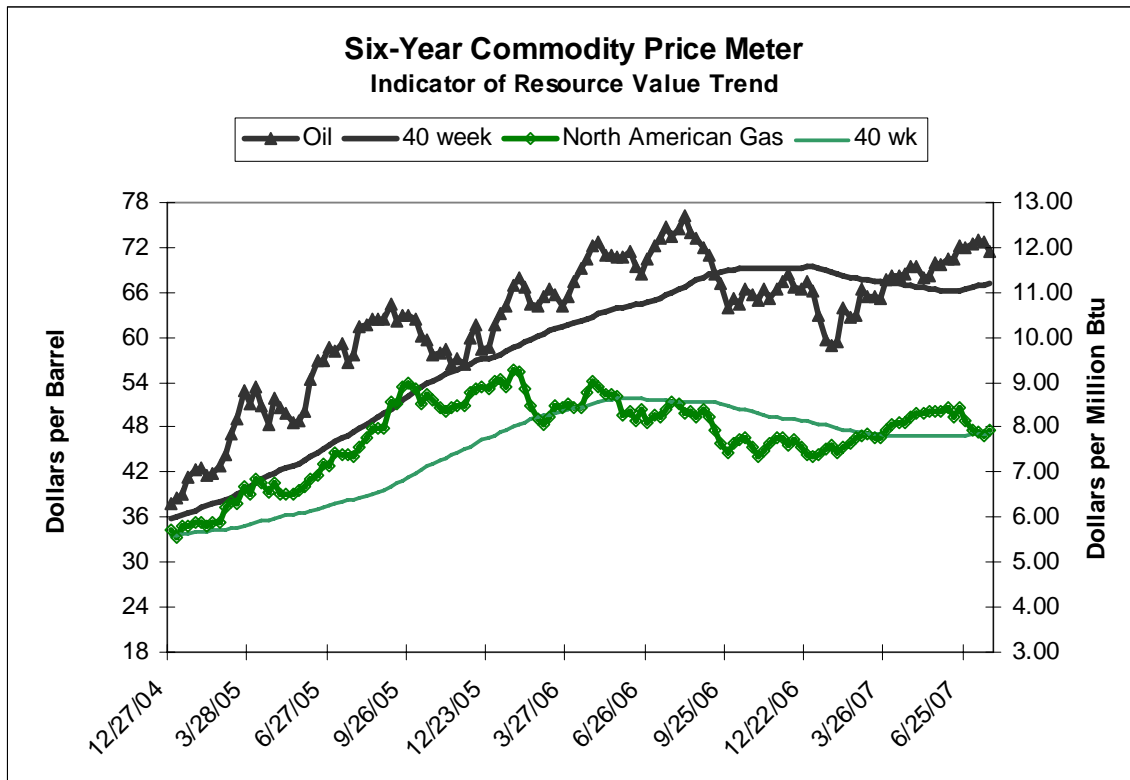
**Royal Dutch/Shell**  
**Next Twelve Months Operating and Financial Estimates**

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

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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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