Comparative Operational & Financial Analysis

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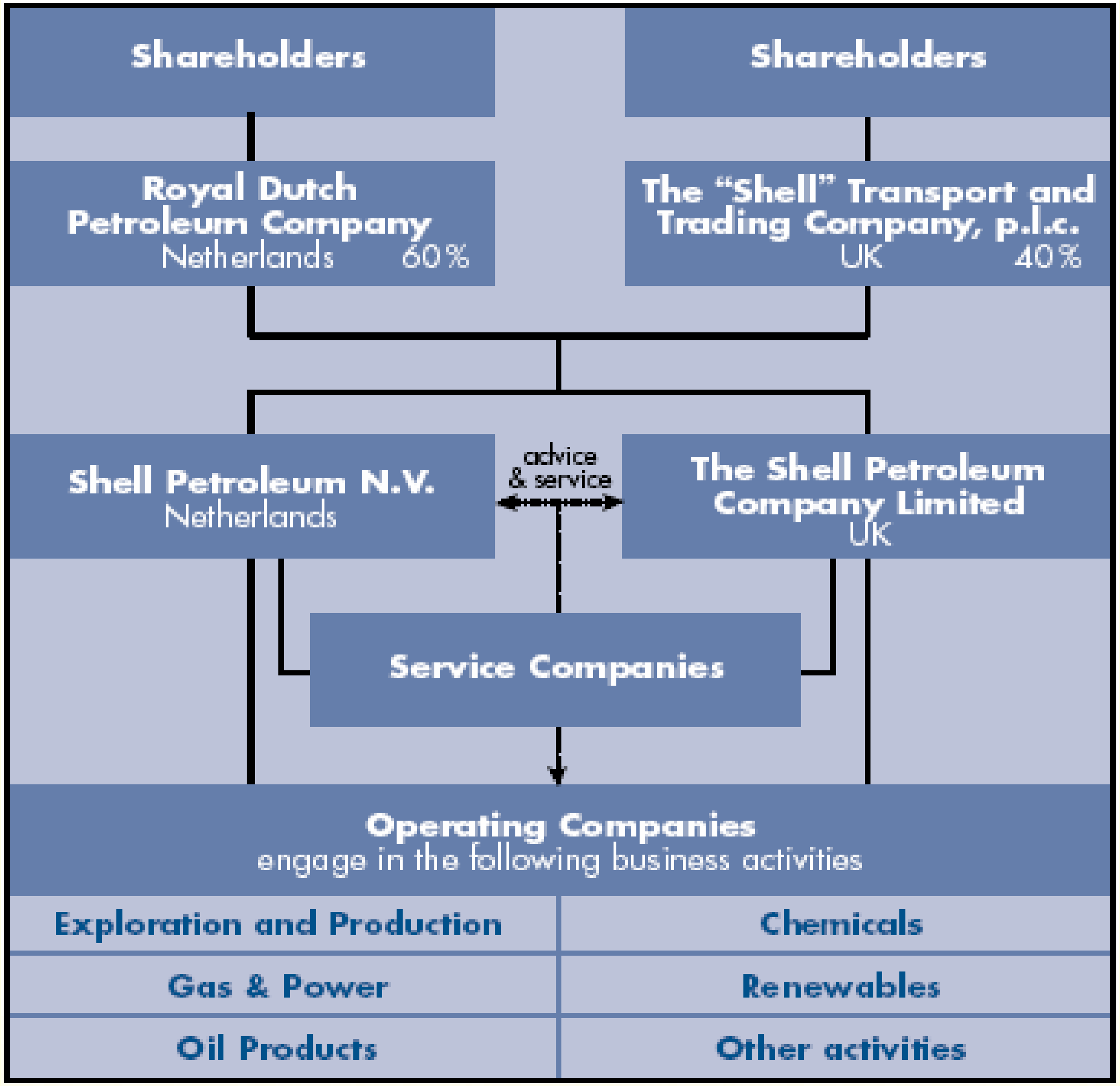
DISCUSSION TOPICS

- Peer Group Introduction (RD/Shell, BP, and Chevron Texaco)
- Overview of Shell
- Operational Analysis
- Shell’s Recent Reserve Reclassification
- Financial Analysis
- Opportunities and Challenges Ahead

SHELL OVERVIEW

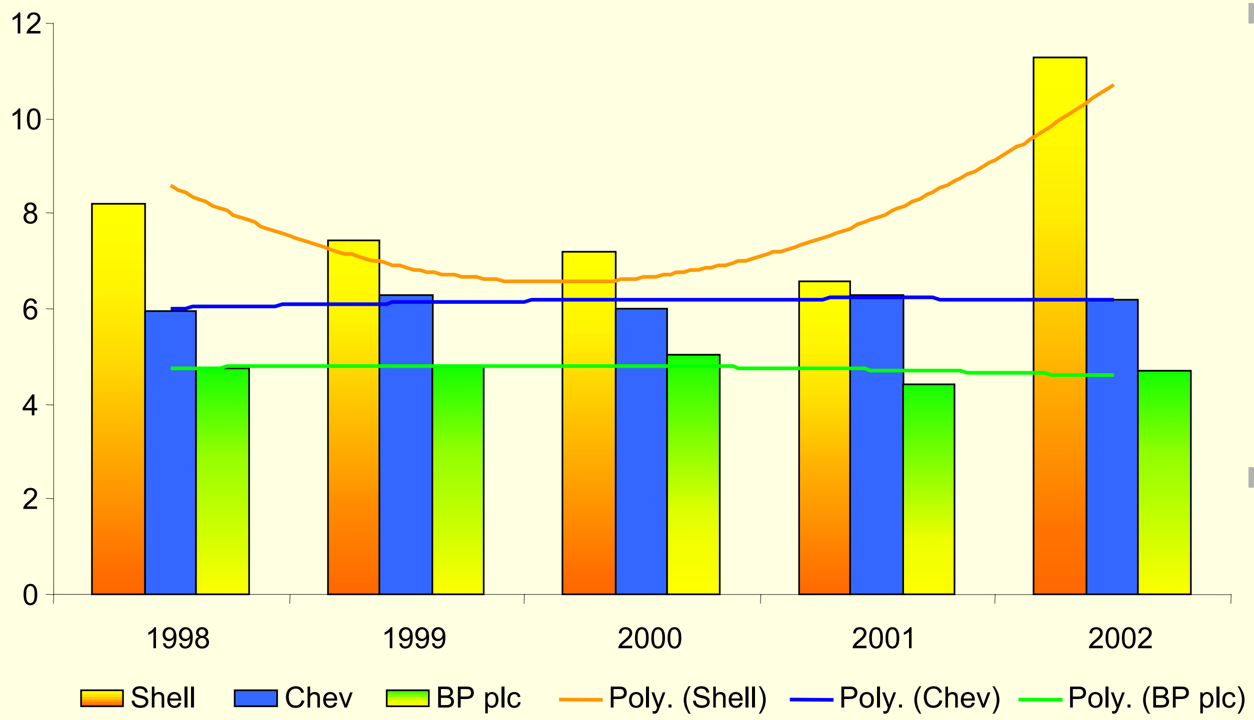
OVERVIEW OF SHELL

STRUCTURE OF ROYAL DUTCH/SHELL



OPERATIONAL ANALYSIS

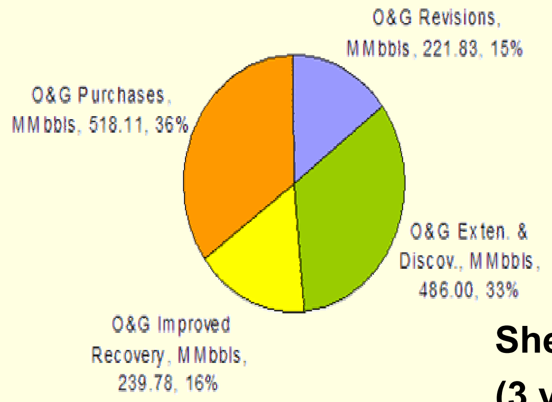
FINDING & DEVELOPMENT COSTS – W/O PURCHASES & REVISIONS



1998- 2002 Results of Finding Costs : 3 yr. Wt. Avg. ($/Boe)					
Companies	**1998**	**1999**	**2000**	**2001**	**2002**
Shell	8.19	7.46	7.22	6.58	11.29
Chevron	5.97	6.28	6.01	6.31	6.18
BP	4.73	4.79	5.04	4.42	4.70

- Shell incurred the highest F&D costs, due to poor reserve additions from E&D. Shell's main reserve additions were from acquisition of Enterprise in 2002 for $5.3 Billion cash and increased stake in the Norwegian Draugen field.
- BP spent the maximum amount of capital on an average basis for years ending 2002 among the three firms and succeeded in having the lowest Finding Cost because of highest reserve additions especially Gas, in areas classified as "Rest of the World" in its 20-F.
- BP derives more reserve additions from Improved Recovery than the other two.

FINDING & DEVELOPMENT COSTS – W/ PURCHASES & REVISIONS

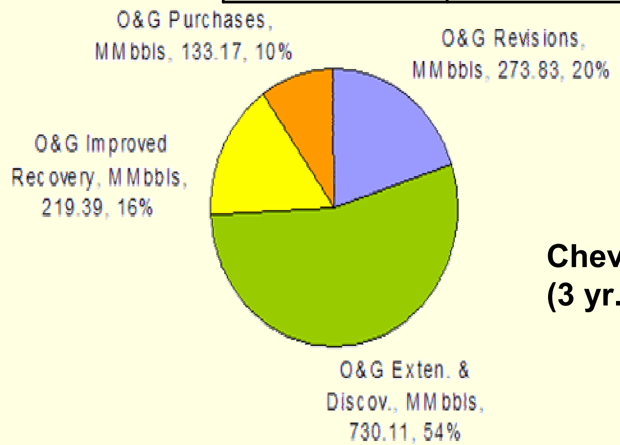


Shell Reserve add (3 yr. avg.)

- F&D costs decreased for all three companies when purchases and revisions are included.
- Shell has 51% of its reserve additions from purchases and positive revisions with purchases of reserves playing a bigger role.
- Shell has been successful in purchasing reserves. F&D costs are substantially lower when purchases are included.
- BP's ratios have slightly decreased, but have not been affected much with this variation.

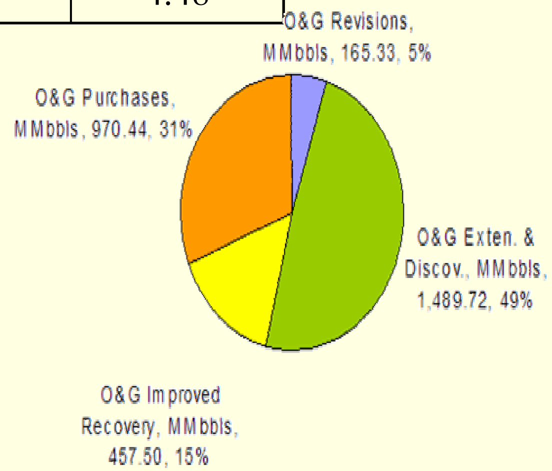
1998- 2002 Results of Finding Costs : 3 yr. Wt. Avg. ($/Boe)

Companies	1998	1999	2000	2001	2002
Shell	2.75	3.04	3.13	4.34	7.19
Chevron	3.94	4.23	4.17	4.67	4.56
BP	3.70	3.53	4.89	4.57	4.48

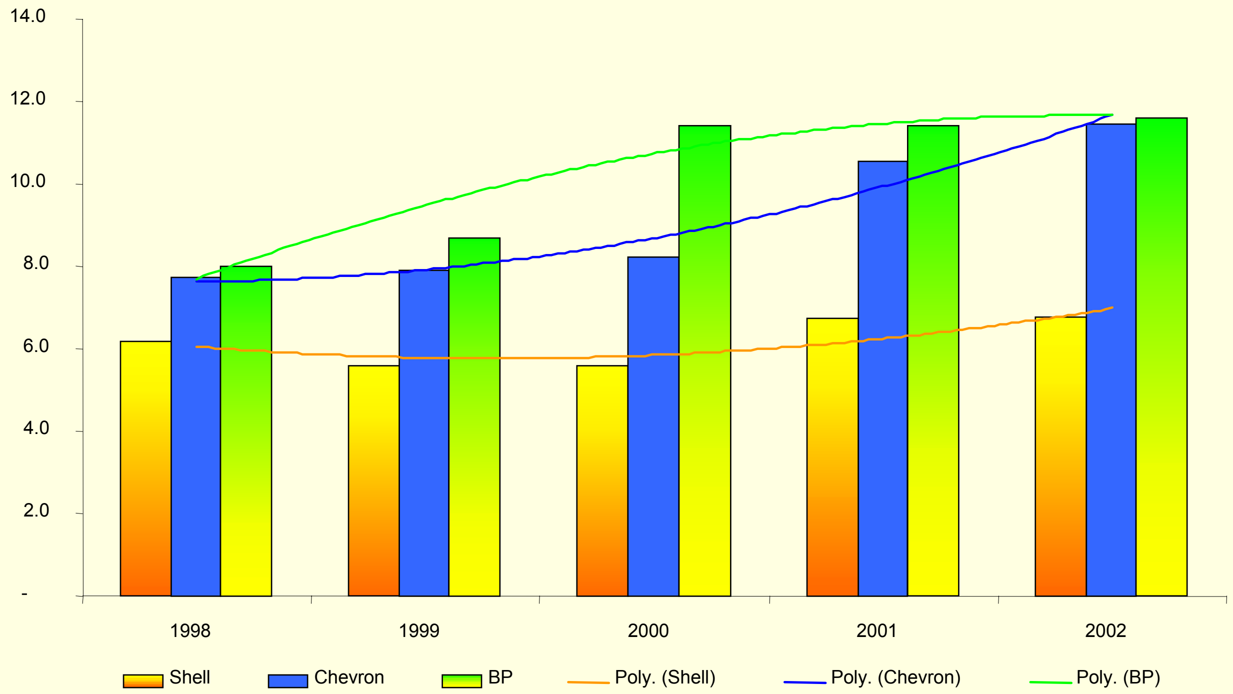


Chevron Reserve add (3 yr. avg.)

BP Reserve add (3 yr. avg.)



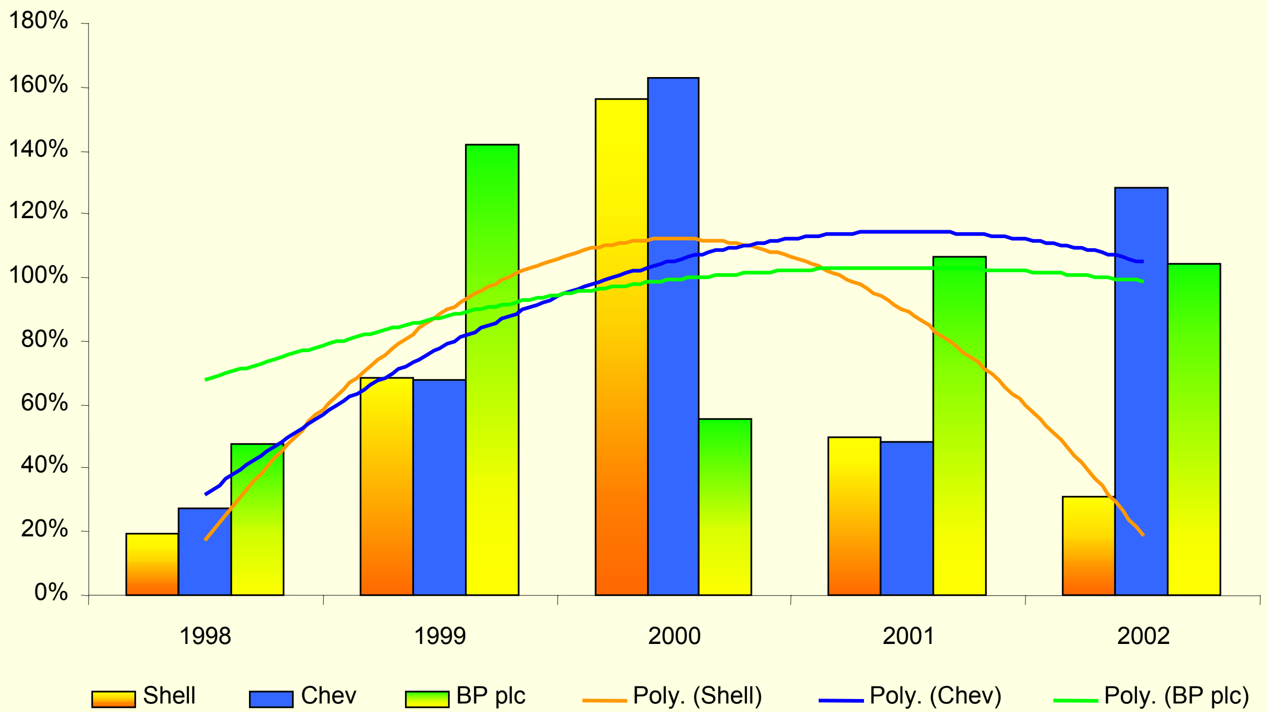
LIFTING COST



1998- 2002 Lifting Costs ($/BOE)					
Companies	**1998**	**1999**	**2000**	**2001**	**2002**
Shell	6.18	5.60	5.61	6.74	6.77
Chevron	7.72	7.89	8.25	10.56	11.44
BP	8.00	8.66	11.39	11.43	11.57

- F&D costs do not take into account the quality of the reserve additions. Low F&D Cost is meaningless if the newly developed or purchased reserves require high Lifting Costs. Lifting Costs can be viewed as a measure for the quality of reserve additions.
- Shell's Lifting Costs are significantly lower than its competition every year in the past five years.
- This is a result of Shell's operational efficiency and disciplined approach towards divestments.
- While BP is much more aggressive in acquisitions, Shell is more focused on increasing profitability through divesting low-return assets. The results are evident in this ratio.
- Shell much larger Production Per Well (308 BOE/day in 2002, compared to Chevron's 52 BOE/day and BP's 152 BOE/day) also contributed to its lower Lifting Costs.

RESERVE VALUE ADDED TO SPENDING



- Shell's Reserve Value Added to Spending Ratio declined rapidly in 2001 and 2002.
- However, this is a very volatile statistic, and may not be a good indication of future trends.
- Shell's poor performance was mainly due to huge costs incurred on exploration and development, and not so successful reserve additions due to discoveries.
- Shell's performance improves if acquisitions are included in the calculation.

- Chevron has been quite successful with its E&D program, and added 600 MM Boe through discoveries and extensions in Africa, Australia, Europe, and China and 500 MM Bbls through improved recovery and expansion projects, primarily in Africa, Eurasia, and California.
- BP incurred huge costs on acquisitions, and has been very successful in adding reserves.

SHELL RECENT RESERVE RECATEGORIZATION

FACTS AND ANALYSIS

- Over 95% of the recategorization of the proved reserves is a reduction in the proved undeveloped category; the remainder is a reduction in the proved developed category. The recategorization of proved developed reserves resulted in an increased after tax depreciation charge in Quarter 4 2003 earnings of $86 million. The restatement has little impact on Shell's historical financial statements or near term cash flows.

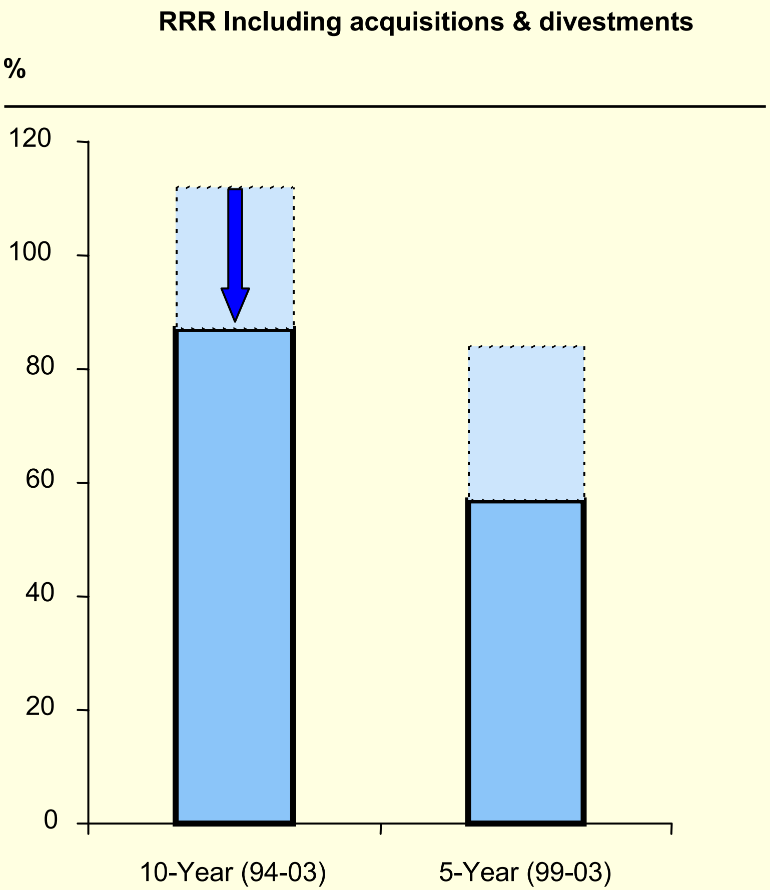
- Most of the recategorized reserves will be rebooked over time as developments move forward. Over 85% of the recategorized resources are expected to mature within the next decade.

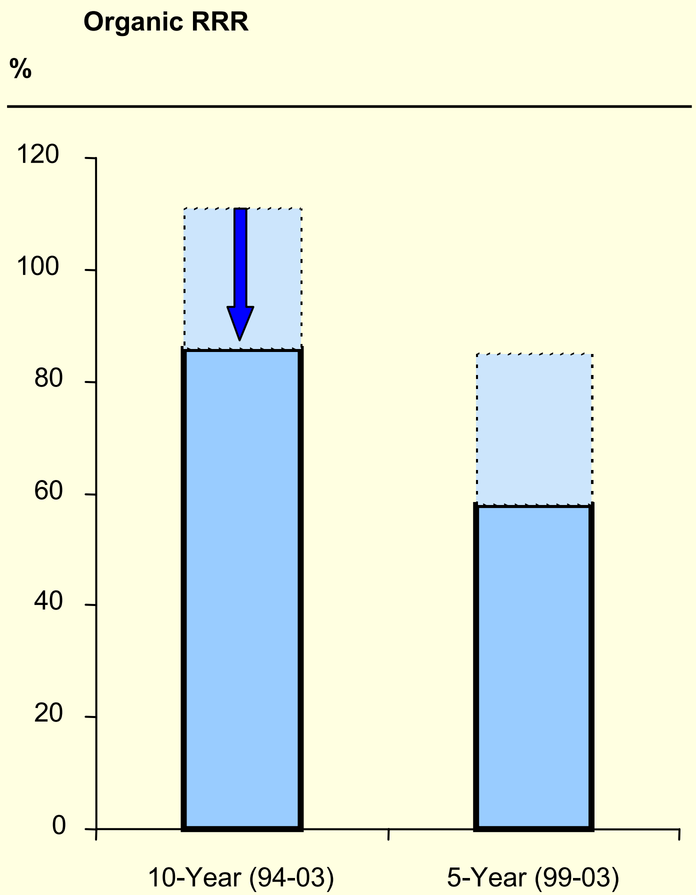
- As a result of the recategorization, historic reserve replacement ratios are decreased by between 20 and 30% depending on which period of analysis is chosen.

- Shell still delivers industry-leading profitability and will be able to generate competitive earnings and cash flows whether or not today's $30+/BOE oil price would last.

- However, the recategorization could potentially affect reserve based leverage and asset protection metrics, and calls into question long-term profitability if RRR does not improve. A possible credit rating downgrade could increase future borrowing cost.

*Impact on past Reserves Replacement Ratios (RRR)**



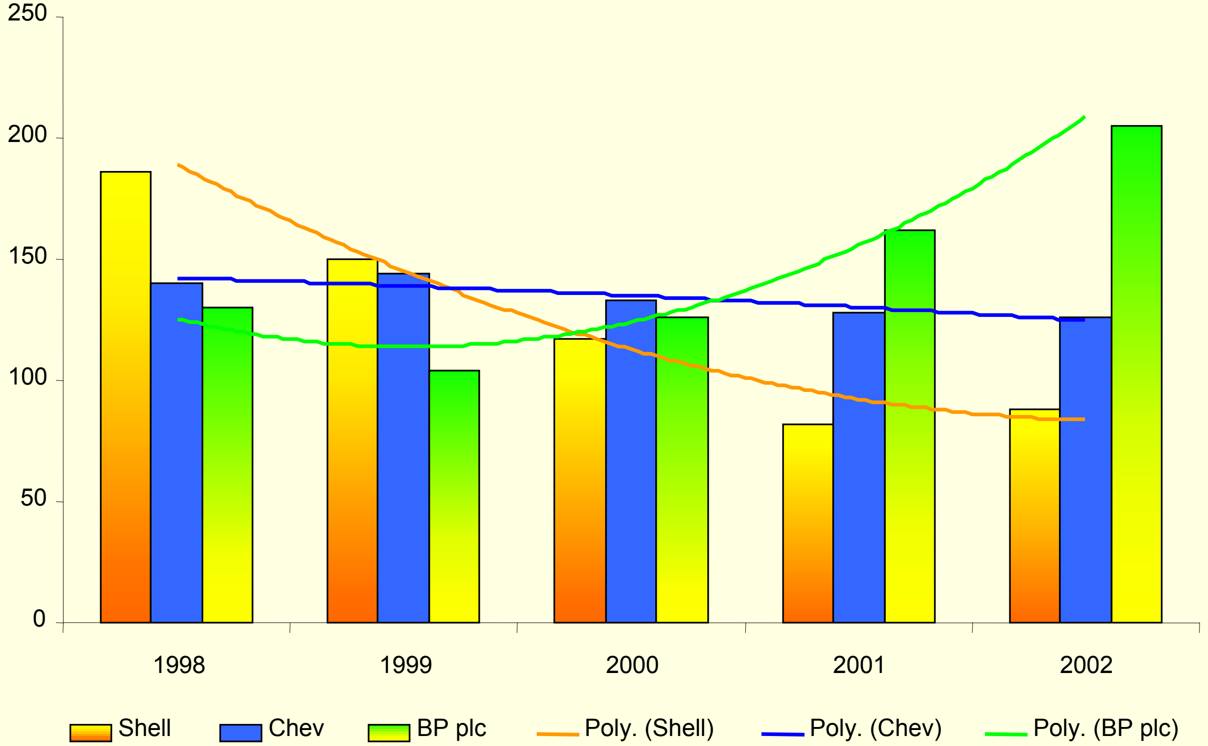


2003 Reserve Replacement Ratio: 98%
117% excluding acquisitions and divestments

Includes Minority Interest, excludes Oil Sands

* Taken directly from Shell's website

RESERVE REPLACEMENT RATIO

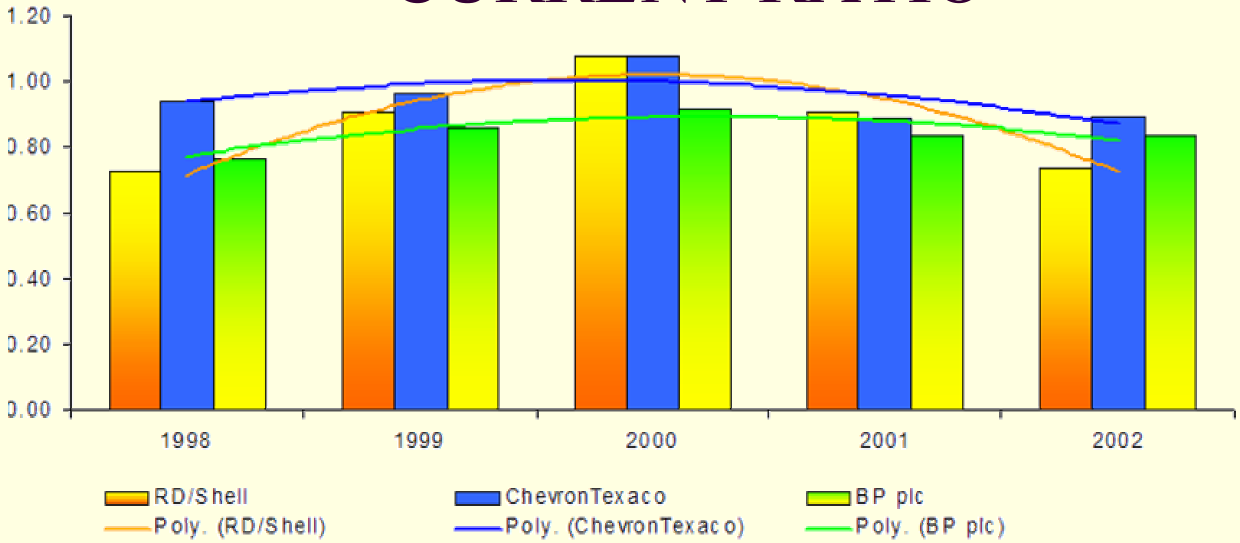


1998- 2002 Results of Reserve Replacement ratios : 3 yr. Avg.					
Companies	**1998**	**1999**	**2000**	**2001**	**2002**
Shell	186%	150%	117%	82%	88%
Chevron	140%	144%	133%	128%	126%
BP	130%	104%	126%	162%	205%

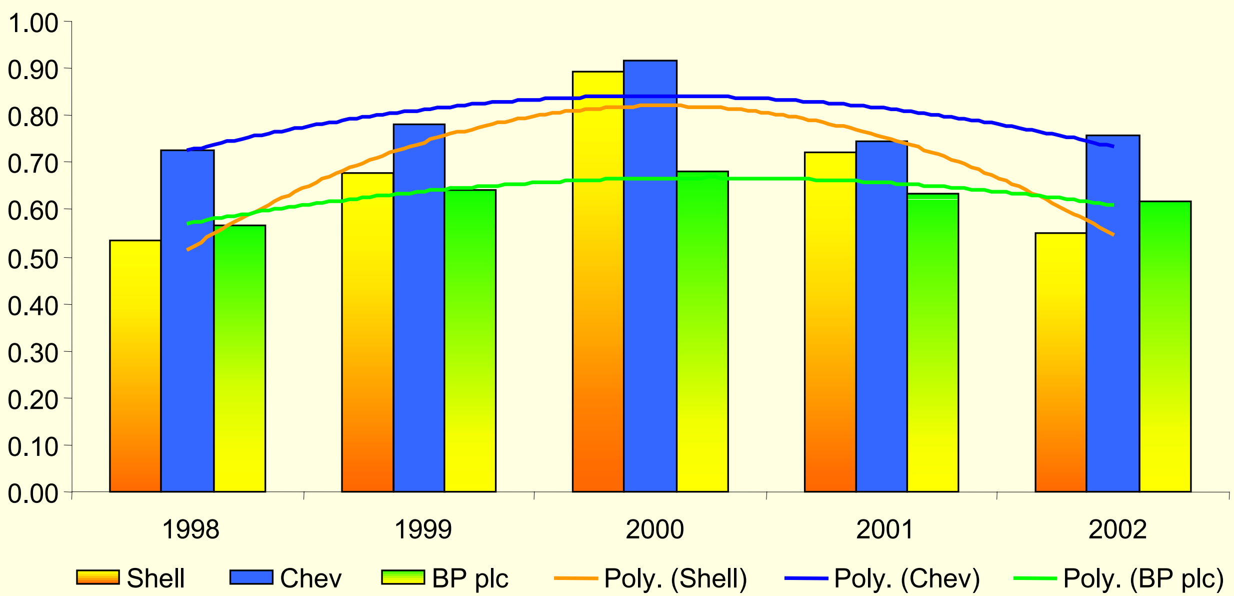
- Shell was not able to increase its total proved reserve base in 2002 and 2001 as compared to the other two firms.
- Shell had lowest proved reserves added with maximum production, explaining the lowest reserve replacement ratio.
- BP had the maximum positive change in the total proved reserve quantities.

FINANCIAL ANALYSIS

CURRENT RATIO

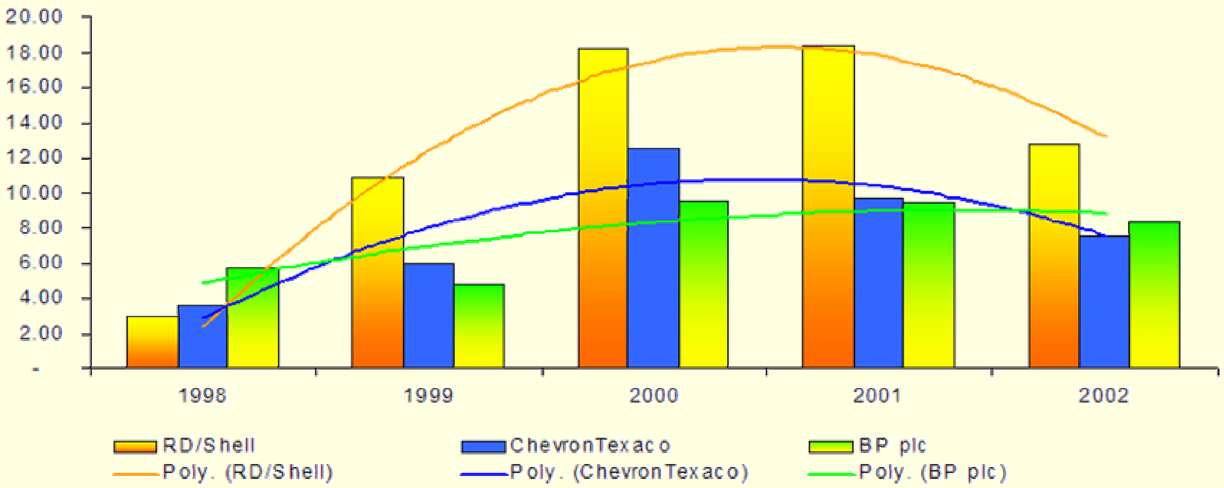


QUICK RATIO

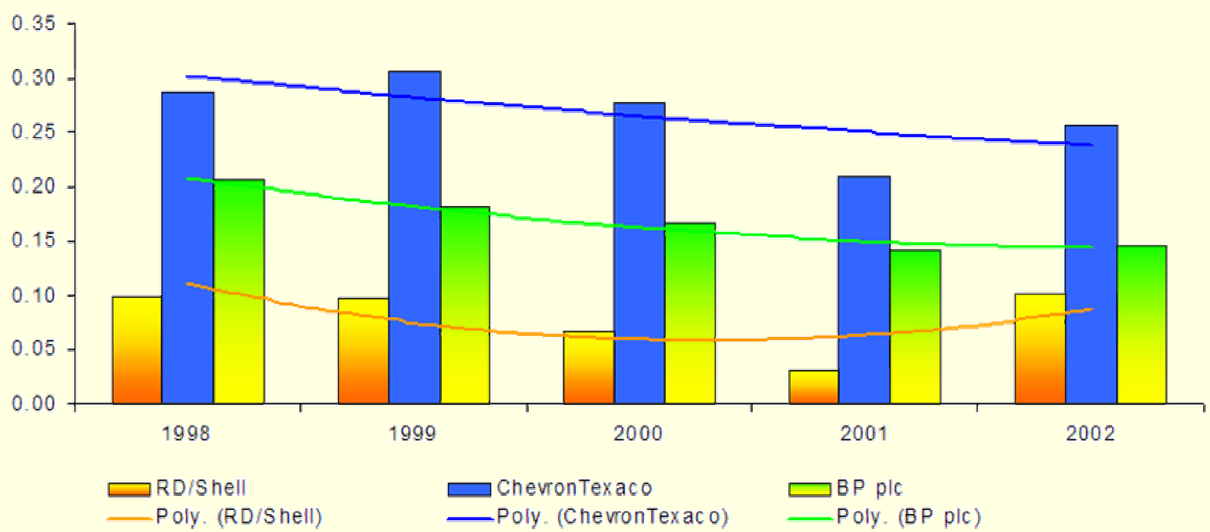


- Current Ratio was less than 100% for all 3 firms in this study, except in Year 2000.
- Liquidity ratios don't take credit worthiness and borrowing capacity into consideration.
- All 3 firms are integrated oil and gas companies with strong earnings, diversified portfolios and as a result, low cost of borrowing and substantial amounts of undrawn borrowing facilities available, therefore contrary to what liquidity ratios might suggest, they all have sufficient working capital for foreseeable requirements.
- Current ratio is affected by the inventory method used. Quick Ratio presents a more comparable picture by excluding inventory. (At the end of 2002, Chevron's inventory value is lower than replacement cost by $1.6 billion, due to the use of LIFO accounting.

INTEREST COVERAGE

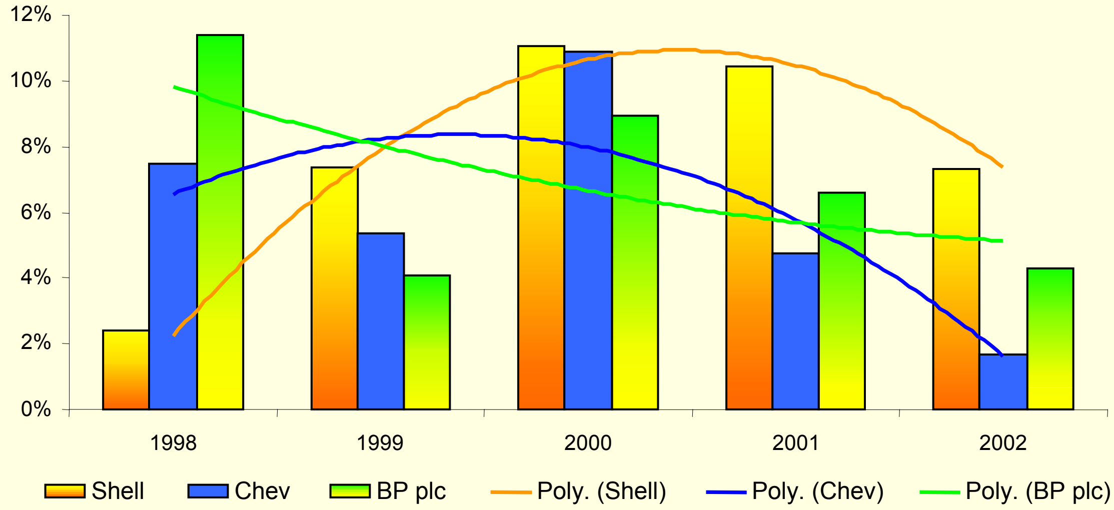


LT DEBT TO EQUITY

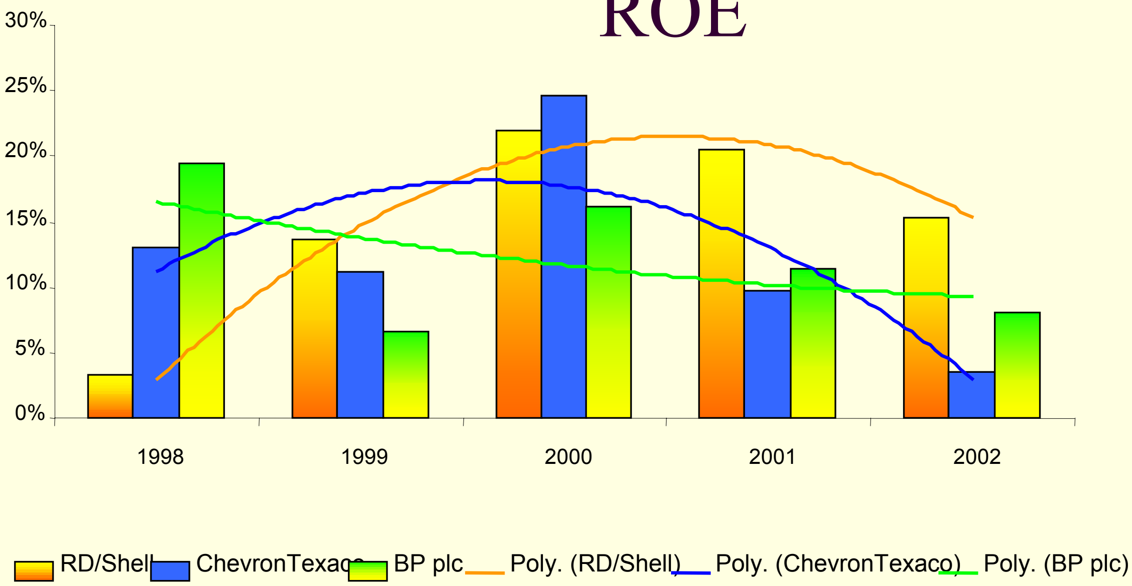


- Overall low debt leverage for all three companies – no liquidity concerns!
- Shell's debt is substantially lower than its competitors due to its less ambitious M&A activities, and its focus on maintaining AAA credit rating.
- Shell was criticized for missing the opportunity to acquire asset cheaply in 1999, but Shell also has the strongest balance sheet and the largest borrowing capacity due to its low debt level.
- In 2002, we witnessed an increase in Shell's borrowing mainly due to the acquisition of Enterprise Oil in the UK and Pennzoil-Quaker in the US. This reflected a shift in Shell’s Treasury focus to target a gearing ratio in the 20 – 30% region.
- This could herald an era of heavy E&P investment for Shell.
- Off-balance sheet items. (SFAS 47 and FIN 46)

PROFITABILITY - ROA

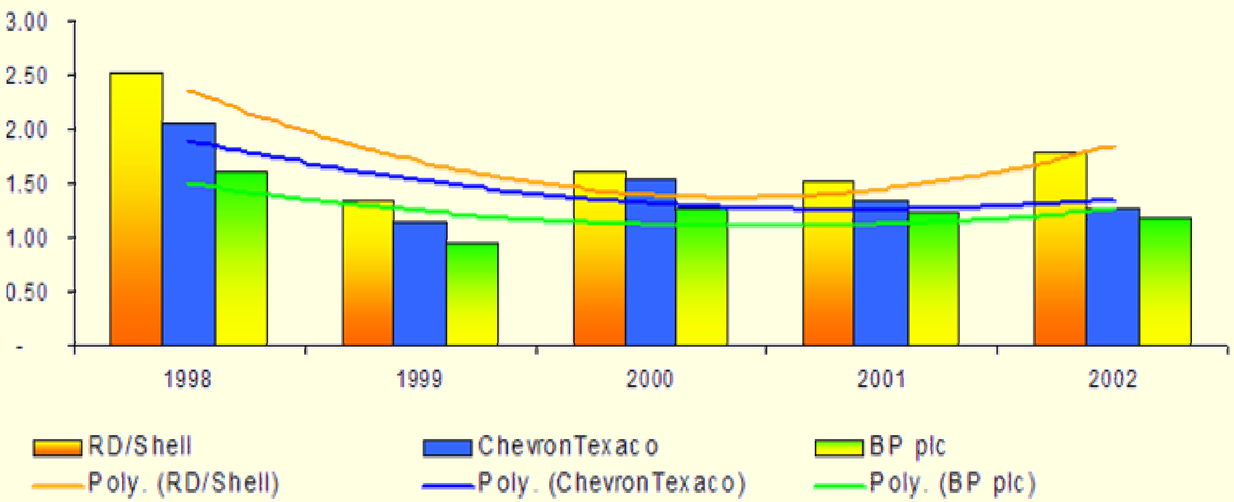


ROE

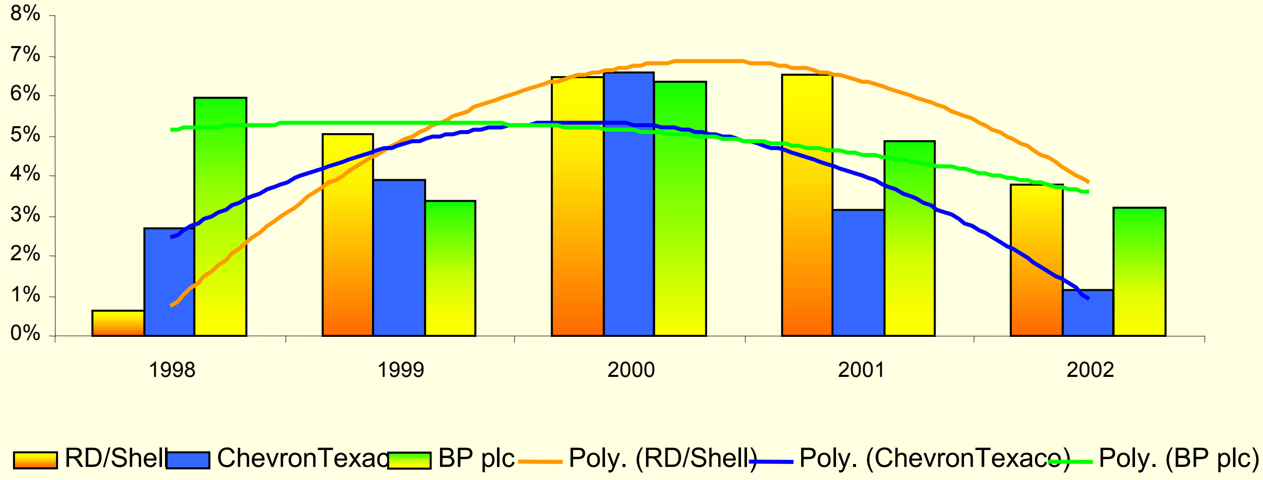


- Net income aligns closely with industry price levels for crude oil and natural gas, due to the focus on E&P by all three firms.
- Shell's higher profitability is a reflection of its management philosophy to aggressively divest low-return assets in order to better compete in a low-price environment. Its lowest Unit Operating Cost in the industry also contributes to its profitability.
- It's worth noting that Shell delivers higher ROE despite its lower debt-to-equity ratios, which means Shell's profitability comes from its operational efficiency more than financial leverage.
- BP's aggressive M&A program enabled it to deliver strong RRR & earnings growth in a high-oil-price environment, but also diluted its profitability. The problem was further highlighted by the use of purchase method of accounting.
- In 1998 Shell's earnings suffered due to impairment write-downs in the US assets, including Altura, and Aera.
- Chevron's earnings took a nosedive in 2001 and 2002 due to the booking of special-item charges (asset impairment in 2001 and loss on equity investment in Dynegy in 2002).

ASSET TURNOVER



ROS



- Shell delivers the highest Asset Turnover, an indication of its efficiency at using assets.
- Normally, the companies' pricing strategy has a big impact on Asset Turnover -- those with low profit margins (or ROS) tend to have high asset turnover, and those with high profit margins have low asset turnover.
- However, Shell delivers the strongest ROS and Asset Turnover among the three companies in most years -- ***a rare combination.***

COMMON SIZE STATEMENTS

Statement of Income	1998 - 2002 Five Year Average			Common Size Statements		
	RD/Shell	BP plc	Chevron	RD/Shell	BP plc	Chevron
Total Sales & Oper. Revenues	178,474	130,574	95,227	98.36%	98.17%	98.50%
Total Non-Operating Revenues	2,978	2,433	1,452	1.64%	1.83%	1.50%
Gross Revenues: Op. & Non-Op.	**181,452**	**133,008**	**96,679**	**100.00%**	**100.00%**	**100.00%**
Operating Expense	100,825	109,508	61,943	55.57%	82.33%	64.07%
Research & Development Expenses	510	385	0	0.28%	0.29%	0.00%
S. G. & A. Expenses, net	9,902	1,372	3,834	5.46%	1.03%	3.97%
Taxes Other Than on Income	45,905	1,329	15,704	25.30%	1.00%	16.24%
Total Exploration Expense	1,063	638	924	0.59%	0.48%	0.96%
Depr., Depl., & Amort. Expense	5,308	7,044	5,407	2.93%	5.30%	5.59%
Writedown/Impairment of Assets and Investments	1,171	332	386	0.65%	0.25%	0.40%
Restructuring and Merger Related Expenses	0	428	428	0.00%	0.32%	0.44%
Total Net Interest Expense	1,281	1,442	939	0.71%	1.08%	0.97%
Total Costs and Expenses	**165,966**	**122,478**	**89,566**	**91.47%**	**92.08%**	**92.64%**
Minority Interest Expense/(Inc.)	**187**	**81**	**84**	**0.10%**	**0.06%**	**0.09%**
Earnings before income tax	**15,299**	**10,449**	**7,029**	**8.43%**	**7.86%**	**7.27%**
Total Income Tax /(Benefit), Net $MM	**7,039**	**4,355**	**3,438**	**3.88%**	**3.27%**	**3.56%**
Net Income from Operations	**8,260**	**6,094**	**3,591**	**4.55%**	**4.58%**	**3.71%**
After-Tax Extraord. Gains/(Chrg)			**-643**	**0.00%**	**0.00%**	**-0.67%**
Net Income (as reported)	**8,260**	**6,094**	**3,462**	**4.55%**	**4.58%**	**3.58%**

COMMON SIZE STATEMENTS

Balance Sheet	1998 - 2002 Five Year Average			Common Size Statements		
	RD/Shell	BP plc	Chevron	RD/Shell	BP plc	Chevron
Total Cash, Equivs. & Mark. Secur.	5,291	1,560	3,116	4.33%	1.26%	4.12%
Accounts & Notes Receivable	21,051	23,550	9,052	17.24%	19.04%	11.97%
Inventories	7,647	7,162	2,958	6.26%	5.79%	3.91%
All Other Current Assets	0	127	1,917	0.00%	0.10%	2.54%
Total Current Assets	**33,989**	**32,399**	**17,043**	**27.83%**	**26.20%**	**22.54%**
Total Net Book Value of PP&E	61,468	74,016	44,341	50.33%	59.86%	58.64%
Total Investments	20,375	10,898	10,416	16.68%	8.81%	13.78%
Other Long-Term Assets	6,305	0	3,810	5.16%	0.00%	5.04%
Goodwill & Similar Intangibles		6,343		0.00%	5.13%	0.00%
Total Non-Current Assets	**88,148**	**91,257**	**58,568**	**72.17%**	**73.80%**	**77.46%**
Total Assets	**122,137**	**123,656**	**75,611**	**100.00%**	**100.00%**	**100.00%**
Total Short-Term Debt	6,984	6,666	5,705	5.72%	5.39%	7.54%
Accounts Payable and Accrued Liabilities	27,265	25,573	12,282	22.32%	20.68%	16.24%
Dividends Payable	4,928	1,344	0	4.03%	1.09%	0.00%
Total Current Liabilities	**39,177**	**32,777**	**17,987**	**32.08%**	**26.51%**	**23.79%**
Total Long-Term Debt	4,952	11,917	11,508	4.05%	9.64%	15.22%
Total Non-Debt Long-Term Liab.	9,860	13,633	7,910	8.07%	11.03%	10.46%
Deferred Income Tax Liabilities	8,167	4,081	6,129	6.69%	3.30%	8.11%
Total Non-Current Liabilities	**22,979**	**29,631**	**25,548**	**18.81%**	**23.96%**	**33.79%**
Total Liabilities	**62,155**	**62,408**	**43,535**	**50.89%**	**50.47%**	**57.58%**
Minority Interest	**3,093**	**797**	**559**	**2.53%**	**0.64%**	**0.74%**
Total Shareholders' Equity	**56,889**	**60,452**	**31,518**	**46.58%**	**48.89%**	**41.68%**
Total Liabs & Shareholder Equity	**122,137**	**123,656**	**75,611**	**100.00%**	**100.00%**	**100.00%**

OPPORTUNITITES & CHALLENGES AHEAD

THE WAY FORWARD

A mixed picture with both challenges and opportunities for Royal Dutch Shell.

- **Reserve Recategorization**
  - Loss of credibility
  - Complicated corporate structure
- **Operations**
  - Maintained its unit operating cost leadership through a period of mergers and consolidation.
  - Less competitive RRR
  - Reserve recategorization: challenge and opportunity.
  - Canada and the Middle East
- **Finance/Accounting**
  - Low leverage and high profitability.
  - New leverage target: 20 – 30%.
  - IAS and reserve reporting.