Royal Dutch Shell
Financial Statement Analysis

Subject: Accounting

Class of International Business School of UTM

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EXECUTIVE SUMMARY

Shell as major integrated oil and gas company has been listed in different stock market. For reviewing, price calculated will be based on New York market using USD as currency. Starting 2004, for its financial statement, the company has used IFRS format that is adopted by Europe Union. Before US GAAP was used. However in the annual report, some information has been put to reconcile back IFRS format to US GAAP format even though some data are eliminated during reconciliation.

After getting US GAAP format, ratio analysis must be done in Malaysia Ringgit currency. To get the rate, Asian Development Bank has records for the exchange rate on average based or end of year period based. For balance sheet, because it is a snap shot of financial position at the end of the year, the rate is based at the end of the year as well. Since Shell has quarterly report for income statement and pay dividend quarterly, exchange rate between USD and MYR is on average. Benchmarking is done using industry peer, Exxon, as comparison. Sometimes the general rules of ratios don't apply for oil industry, but benchmarking can give better perspective for analyzing.

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1. INTRODUCTION

1.1. Overview of Accounting Course

The accounting course is taught in class of International Business School of UTM. The topics covered are: Introduction, Basic Accounting and Costing, Project Evaluation and Analysis, Project Planning and Budgeting, Costing for Decision and Control, Costing for Special Decision, Costing and Performance Measurement, Performance Monitoring and Detection of Distress Signal, Corporate Governance and Value Based Management, and Recent Development in Accounting, Costing and Finance.

1.2. Lesson from the Course

Lesson from the Course are:

- Many things have to be considered in Accounting side from starting up a business, business planning, monitoring, evaluation, controlling and forecasting.
- Using different kind of perspective like variable costing, the impact will be huge on the business side.

1.3. Lesson from the Project

Lesson from the Project are:

- From financial statements, much things and information can be extracted out of them.
- Comparing ratio could be done overtime, inter company or using industry average, if the information is available. Sometimes information of industry average is hard to retrieve since some of them are classified.

1.4. Comment on the Course

Comment on the Course:

- Some materials of the course are not clear enough.
- Additional books, information must be searched to complement what have been taught in the class.
- Dateline of the project should be given in more advances. The students predicted that the dateline was in Exam week while actually it wasn’t.

2. COMPANY BACKGROUND

2.1. VISION

Vision of the Shell Group is:

The objectives of the Shell Group are to engage efficiently, responsibly and profitably in oil, oil products, gas, chemicals and other selected businesses and to participate in the search for and development of other sources of energy to meet evolving customer needs and the world's growing demand for energy.

2.2. MISSION

The missions of Shell Group are:

- *We believe that oil and gas will be integral to the global energy needs for economic development for many decades to come. Our role is to ensure that we extract and deliver them profitably and in environmentally and socially responsible ways.*

- *We seek a high standard of performance, maintaining a strong long-term and growing position in the competitive environments in which we choose to operate.*

- *We aim to work closely with our customers, partners and policymakers to advance more efficient and sustainable use of energy and natural resources.*

2.3. BOARD OF DIRECTORS

Royal Dutch Shell has a single tier Board of Directors chaired by a Non-executive Chairman, Aad Jacobs. The executive management is led by, the Chief Executive, Jeroen van der Veer. The members of the Board of Royal Dutch Shell plc meet regularly to discuss reviews and reports on the business and plans of Royal Dutch Shell.

1 Aad Jacobs, Non-executive Chairman

2 Lord Kerr of Kinlochard GCMG, Deputy Chairman and Senior Independent Non-executive Director

3 Jeroen van der Veer, Chief Executive

4 Peter Voser, Chief Financial Officer

5 Malcolm Brinded CBE FREng, Executive Director, Exploration & Production

6 Linda Cook, Executive Director, Gas & Power

7 Rob Routs, Executive Director, Oil Products and Chemicals

8 Maarten van den Bergh, Non-executive Director

9 Sir Peter Burt FRSE, Non-executive Director

10 Mary R. (Nina) Henderson, Non-executive Director

11 Sir Peter Job KBE, Non-executive Director

12 Wim Kok, Non-executive Director

13 Jonkheer Aarnout Loudon, Non-executive Director

14 Christine Morin-Postel, Non-executive Director

15 Lawrence Ricciardi, Non-executive Director

Beat Hess, Group Legal Director

Michiel Brandjes, Company Secretary

2.4. ROYAL DUTCH SHELL BUSINESS AND STRATEGY

2.4.1. Business overview

Royal Dutch Shell business consists of:

- Exploration & Production
- Gas & Power
- Oil Products
- Chemicals
- Renewables and Hydrogen.

Inside the Group, higher earnings and returns on investment in the upstream has been achieved compared with the other businesses. In the mean time, demand for natural gas has significant growth potential. The downstream businesses continue to offer attractive returns, cash flow and growth potential in Asia Pacific and Middle East. The business portfolio is being restructured to capture that growth market potential.

The Group's core strengths include:

- Application of technology;
- Financial and project management skills to develop large oil and gas projects;
- Ability to develop and manage a diverse and international business portfolio;
- Development of customer-focused businesses built around the strength of the Shell brand.

Shell Group strategy is:

Our strategy of more upstream and profitable downstream aims to reinforce our position as a leader in the industry, which aims to provide investors with a competitive and sustained total shareholder return.

An increase in capital investment to support that strategy has been announced and in 2006 the Group plan to spend a total of $19 billion (excluding capital contribution of minority shareholders in Sakhalin), of which around $15 billion will be invested in upstream projects.

This increased investment will be used to:

- Grow and mature hydrocarbons resource base;
- Increase production;
- Build on the Group strong position in integrated gas and unconventional energy;
- Enhance Shell competitive leadership in the downstream.

2.4.2. More upstream

Increased capital investment will enable more upstream oil and gas development. This will include a sustained high exploration activity level and significant projects such as Salym, Bonga, Erha, Kashagan, Sakhalin, Qatargas 4, Pearl GTL and Ormen Lange. Further work will continue to develop unconventional oil projects including the expansion of the Athabasca Oil Sands project and also to prolong profitable production from existing producing areas.

Included in the planned upstream investment are projects in Gas & Power, predominantly in liquefied natural gas (LNG) such as Sakhalin II, Qatargas 4 and expansions of LNG projects in Nigeria and Australia. These projects are part of the continued development of integrated gas business through selective investment in opportunities across the value chain. That strength along the whole gas value chain from exploration to marketing will continue to be a key factor in Shell ability to maintain global leadership in natural gas. At the same time, the Group will continue to promote interests in Gas to Liquids (GTL), coal gasification and new opportunities in carbon management.

2.4.3. Profitable downstream

The downstream strategy focuses on sustaining strong cash delivery while building profitable new positions in higher-growth markets, especially in Asia Pacific, and maintaining and strengthening established positions in attractive markets.

Shell continues to reshape the portfolio and, in 2005, generated proceeds from divestments from various markets of over $3 billion. Focus will be continued on differentiating business through the provision of premium fuels such as Optimax and V-Power as well as working to make cleaner fuels such as Biofuels more widely and competitively available. Capital investment in downstream in 2006 will be over $4 billion and $1.7 billion of investment will include areas of strong growth potential to deliver competitive returns.

Meeting growing global demand for energy in ways that minimize the effect on the environment is a key challenge for Shell future business and the Group is pursuing a range of opportunities to develop alternative energy that will both complement today's core businesses and establish major new income streams over the long term.

2.4.4. Reshaping the portfolio

The target of raising $12–15 billion in divestment proceeds for the period 2004–06 has been achieved one year ahead of schedule. The investment program is based on strategy of more upstream and profitable downstream and is intended to position the Group competitively in a future environment.

2.4.5. Operational excellence

Improving operational performance across all of activities is a priority. This means operating in a safe, reliable and cost competitive way and ensuring that high standards of environmental and social performance are met. Performance is measured through comprehensive internal and external benchmarking to establish a measure of performance relative to competitors. The aim is to achieve top quartile performance across all of activities when measured against competitors.

Effective project delivery has become increasingly important, as project get larger and more complex. More resources have been allocated to improving project planning and delivery including setting up a Project Academy. The Project Academy will provide focused training and development on all aspects of project management to those working on projects across businesses.

2.4.6. Technology and innovation

Developing and implementing new technology is important to Shell business activities and to be competitive in securing new business opportunities.

Technology plays a particularly important role in helping to access new resources, maximize the recovery of oil and gas from existing resources, develop the potential of unconventional hydrocarbons and alternative energy and find ways of reducing and managing the CO2 emissions related to energy production and use.

2.4.7. Creating the culture and organization to deliver

Significant progress has been made in changing organization and shaping Shell culture to deliver its strategy and competitive returns to shareholders over time. The Unification Transaction of the former parent companies under Royal Dutch Shell in 2005 has provided a clearer, simpler, more efficient and accountable form of governance. The integration of the Oil Products and Chemicals businesses into one downstream organization has been successful in creating a more dynamic, responsive and competitive downstream organization.

2.5. RECENT MERGER

In 2005, Royal Dutch Shell became the single 100% parent company of Royal Dutch Petroleum Company (*Royal Dutch*) and of Shell Transport and Trading Company Limited (*Shell Transport*) the two former public parent companies of the Group. These transactions include:

- the scheme of arrangement of Shell Transport under the applicable laws of England and Wales ("the Scheme") on July 20, 2005, pursuant to which Royal Dutch Shell acquired all the outstanding capital stock of Shell Transport;
- the exchange offer for all of the ordinary shares of Royal Dutch, commenced on May 19, 2005, which became unconditional on July 20, 2005, and, including the subsequent offer acceptance period which expired on August 9,

2005, through which Royal Dutch Shell acquired a total of 98.49% of the outstanding capital stock of Royal Dutch; and

- the series of restructuring transactions of the Group, which included the merger under Dutch law of Royal Dutch with its wholly-owned subsidiary, Shell Petroleum N.V, which became effective on December 21, 2005. As a result of the Merger, Royal Dutch and the Royal Dutch shares have ceased to exist and Shell Petroleum, the surviving company in the Merger, became a 100% owned subsidiary of Royal Dutch Shell.

The diagram at the bottom of this page illustrates the structure of the Group following completion of the Unification. Operating and service company subsidiaries are not shown.

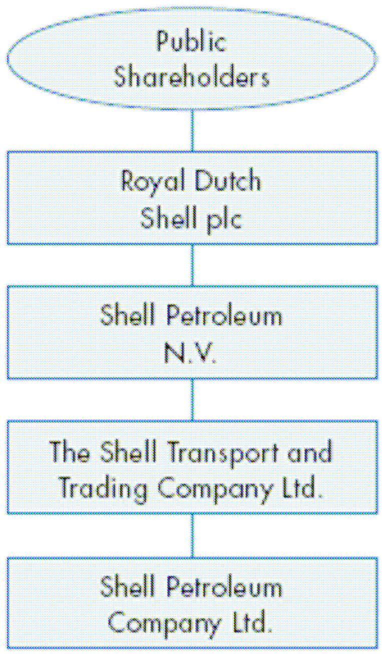

Figure 1: Structure of the Group

Royal Dutch Shell Class A ordinary shares ("Class A shares") and Royal Dutch Shell Class B ordinary shares ("Class B shares") have identical rights as set out in the Royal Dutch Shell Articles, except in relation to the dividend access mechanism applicable to the Royal Dutch Shell Class B ordinary shares.

The Unification Transaction did not result in the formation of a new reporting entity. Accordingly, the Unification Transaction has been accounted for using a carry-over basis of the historical costs of the assets and liabilities of Royal Dutch, Shell Transport and the other companies comprising the Group.

Royal Dutch and Shell Transport entered into a scheme of amalgamation dated September 12, 1906 and agreements from 1907 by which the scheme of amalgamation was implemented. From that time until the Restructuring, Royal Dutch owned 60% of the other companies comprising the Group and Shell Transport owned 40% of the other companies comprising the Group. All operating activities have been conducted through the subsidiaries of Royal Dutch and Shell Transport that have operated as a single economic enterprise. Prior to the consummation of the Unification Transaction, economic interests of the Royal Dutch and Shell Transport shareholders in the other companies comprising the Group reflected the 60:40 economic interests of Royal Dutch and Shell Transport in these companies.

2.6. INDUSTRY OUTLOOK

2.6.1. Market overview

Global economic output expanded by around 4.5% in 2005, supported by strong activity in the US and Asia, down from 5.1% in 2004. The two key drivers underpinning this growth were US consumer resilience to higher energy prices and interest rates, and generally moderate inflationary pressures in key industrialized economies. Economic expansion is expected to stay broadly on track for 2006, despite prospects of continued higher oil prices, monetary tightening and further easing of investment growth in China.

In the US, business investment, residential sector spending and robust manufacturing output all contributed to high economic growth levels in 2005. For 2006, the expected moderate slow down in personal consumption and easing of the housing market would bring GDP growth largely in line with potential output growth of around 3.4%. In Europe, economic growth in 2005 came from export growth, partially fuelled by a weaker than expected euro, and a moderate increase in personal consumption, leading to an expansion of roughly 1.4%. Assuming moderate monetary tightening, and a more substantial recovery in personal consumption, this could increase to 1.8% in 2006. The Japanese economy is continuing on a path of gradual recovery with both private consumption and non-residential business investments generating substantial momentum during the first half of 2005. Whether such momentum can be maintained over the next year remains uncertain, but the structural factors are in place for the economy to grow at around 2% in 2006. In China, 2005 was characterized by a change in the structure of growth, with the economy relying increasingly on exports, and to a lesser extent on domestic demand. For 2006, domestic demand growth is expected to slow and net exports to make a smaller contribution. GDP growth is expected to reduce moderately to around 8% in 2006.

Risks are slanted to the downside with sustained higher energy prices, uncertainty linked to the US consumer, possible dollar depreciation, unusual trends in the bond markets, and the expected cooling of the housing market. Given the present forward momentum of the global economy, the probability of a severe slowdown in 2006 seems low.

2.6.2. Oil and natural gas prices

Brent crude oil prices averaged \$54.55 per barrel in 2005 compared with \$38.30 in 2004, while West Texas Intermediate (WTI) averaged \$56.60 per barrel compared with \$41.50 a year earlier. 2005 saw a steady increase in crude oil prices mainly driven by limited spare OPEC crude oil production capacity, weather related demand and supply effects and geopolitical tensions in the Middle East. WTI reached a new record high of just under $70 per barrel at hurricane Rita's landfall at the end of August 2005, but prices were subsequently reduced by the International Energy Agency's decision to release emergency stocks. Brent and WTI crude oil prices ended 2005 at $58 and $61 per barrel respectively.

Based on Shell Group analysis, oil prices are expected to remain strong in 2006 against ongoing supply concerns, the projection of low OPEC spare capacity and projected strong world economic growth, in particular the US and China. In the medium to longer term, the Group anticipates prices to moderate from present levels, as both supply and demand are expected to respond to the present higher price environment and stocks and OPEC spare capacity is being rebuilt.

The drivers of natural gas prices are more regionalized than the relatively global nature of crude oil pricing. While the Henry Hub price is a recognized price benchmark in North America, the Group also produces and sells natural gas in other areas that have significantly different supply, demand, regulatory circumstances and therefore pricing structure. Natural gas prices in continental Europe and Asia Pacific are predominantly indexed to oil prices. In Europe prices have also risen reflecting higher oil prices and strong demand. In the UK prices at the National Balancing Point averaged $6.39 per million Btu versus $4.72 in 2004 and Germany border prices averaged around $5.81 per million Btu versus $4.30 in 2004.

2.6.3. Oil and natural gas prices for investment evaluation

The range of possible future crude oil and natural gas prices to be used in project and portfolio evaluations within the Group are determined after assessment of short, medium and long-term price drivers under different sets of assumptions.

Historical analysis, trends and statistical volatility are part of this assessment, as well as analysis of global and regional economic conditions, geopolitics, OPEC actions, cost of future supply and the balance of supply and demand. Sensitivity analyses are used to test the impact of low price drivers, like economic weakness and high investment levels in new production, and high price drivers, like strong economic growth, and low investment levels in new production. Short-term events, such as relatively warm winters or cool summers, weather and (geo)-political related supply disruptions and the resulting effects on demand and inventory levels, contribute to price volatility.

During 2005, the Group used prices ranging from around $20 to the mid $30s per barrel to test the economic performance of long-term projects at different prices or margin levels. As part of normal business practice, the range of prices used for this purpose continues to be under review and may change.

3. FINANCIAL INFORMATION

In 2005, as a result of the Unification Transaction, Royal Dutch Shell became the single 100% parent company of Royal Dutch Petroleum Company (*Royal Dutch*) and of Shell Transport and Trading Company Limited (previously known as The *Shell* Transport and Trading Company, plc (*Shell Transport*). Royal Dutch and Shell Transport are the two former public parent companies of the Group.

The Unification Transaction did not result in the formation of a new reporting entity. Immediately after the Unification Transaction each former Royal Dutch and Shell Transport shareholder who participated in the Unification Transaction held the same economic interest in Royal Dutch Shell as the shareholder held in the Group immediately prior to implementation of the Unification Transaction. Accordingly, the Unification Transaction has been accounted for using the carry-over basis of the historical costs of the assets and liabilities of Royal Dutch, Shell Transport and the other companies comprising the Group.

3.1. Financial Statements

The Consolidated Financial Statements include the accounts of Royal Dutch Shell and of those companies in which it, either directly or indirectly, has control either through a majority of the voting rights or the right to exercise a controlling influence or to obtain the majority of the benefits and be exposed to the majority of the risks. Investments in companies over which Shell Group companies have significant influence but not control are classified as associated companies and are accounted for on the equity basis. Interests in jointly controlled entities are also recognized on the equity basis. Interests in jointly controlled assets are recognized by including the Shell Group share of assets, liabilities, income and expenses on a line-by-line basis.

The Consolidated Financial Statements have been prepared using the carryover basis to account for the Unification and on the basis that the resulting structure was in place throughout the periods presented. The 2005 and 2004 Financial Statements have been prepared in accordance with applicable laws in England and Wales and with International Financial Reporting Standards (IFRS) as adopted by the European Union. As applied to Royal Dutch Shell, there are no material differences with IFRS as issued by the International Accounting Standards Board. The 2003, 2002, 2001 and other years Financial Statements have been prepared in accordance with US Generally Accepted Accounting Principles (US GAAP), applied by the Group prior to its transition date to IFRS.

3.2. Reconciliation from previous GAAP to IFRS

The Group adopted IFRS in 2005, which varies from US GAAP in certain respects, with a date of transition of January 1, 2004. The differences between IFRS and US GAAP are described below.

3.2.1. Discontinued operations

The definition of activities classified as discontinued operations differs from that under US GAAP. Under IFRS the activity must be a separate major line of business or geographical area of operations. Equity accounted and other investments are included in this classification. Under US GAAP this definition is broadened to include a component of an entity (rather than as a separate major line of business or geographical area of operations) but equity accounted and other investments are excluded. As a result, all of the items presented as discontinued operations in 2004 under US GAAP are included within continuing operations under IFRS. In 2004 the Shell Group's equity accounted investment in Basell was classified under IFRS as a discontinued operation.

3.2.2. Reclassifications

Reclassifications are differences in line item allocation under IFRS that do not affect equity or income compared with that previously shown under US GAAP. They mainly comprise:

- Incorporated joint ventures, in which the Group has a liability proportionate to its interest, are presented as equity accounted investments. For US GAAP purposes, the Shell Group proportionally consolidated these joint ventures until December 31, 2004.
- The Group share of profit of equity accounted investments is reported on a single line (net of net finance costs and tax), which differs from the presentation under US GAAP until December 31, 2004.
- There is separate reporting of provisions under IFRS, which differs from the presentation under US GAAP until December 31, 2004.
- Certain loans to equity accounted investments are classified as other non-current assets under IFRS and were reported under US GAAP until December 31, 2004 as equity accounted investments.
- Research and development costs are included in cost of sales while these are separately disclosed under US GAAP.
- Accretion expense for asset retirement obligations is reported as interest expense under IFRS and as cost of sales under US GAAP.

3.2.3. Retirement benefits

Under IFRS, all gains and losses related to defined benefit pension arrangements and other post retirement benefits at the date of transition to IFRS have been recognized in the 2004 opening balance sheet, with a corresponding reduction in equity of $4,938 million. Under IFRS, the use of the fair value of pension plan assets (rather than market-related value under US GAAP) to calculate annual expected investment returns and the changed approach to amortization of investment gains/losses can be expected to increase volatility in income going forward as compared to past IFRS and US GAAP results.

3.2.4. Share-based compensation

Under IFRS, share-based compensation awarded after November 7, 2002 and not vested at January 1, 2005 are recognized as an expense based on their fair value rather than recognizing the expense based on the intrinsic value method. This intrinsic value method was used by the Group until December 31, 2004, on a US GAAP basis and required no recognition of compensation expense for plans where the exercise price is not at a discount to the market value at the date of the grant, and the number of options is fixed on the grant date.

3.2.5. Cumulative currency translation differences

Under IFRS at January 1, 2004, the balance of cumulative currency translation differences of $1,208 million was eliminated to increase retained earnings. There is no change under US GAAP. Equity in total under both IFRS and US GAAP was not impacted. Upon divestment or liquidation of an entity, cumulative currency translation differences related to that entity are taken to income under both IFRS and US GAAP. Due to the elimination of the opening balance as at January 1, 2004, the amounts of cumulative currency translation differences that are taken to income may differ between IFRS and US GAAP.

3.3. Auditors

On May 12, 2005, PricewaterhouseCoopers LLP and KPMG were appointed as the auditors of Royal Dutch Shell. KPMG resigned from the position of joint auditors to Royal Dutch Shell on November 7, 2005, as a result of the Unification. PricewaterhouseCoopers LLP have signified their willingness to continue in office, and a resolution for their reappointment will be submitted to the AGM.

Prior to the Unification PricewaterhouseCoopers LLP acted as auditor to Shell Transport and KPMG acted as auditor for Royal Dutch.

3.4. *Currency translation*

Assets and liabilities of non-US dollar Group companies are translated to US dollars at year-end rates of exchange, whilst their statements of income and cash flows are translated at quarterly average rates. Translation differences arising on consolidation are taken directly to a currency translation differences account within equity. Upon divestment or liquidation of an entity, cumulative currency translation differences related to that entity are taken to income.

3.5. *Directors' Interest*

Directors' Name	Royal Dutch	Shell Transport
Maarten van den Berghd	4,000	–
Malcolm Brinded	–	77,948
Sir Peter Burt	–	10,000
Linda Cook	3,702	–
Nina Henderson	–	9,000
Aad Jacobs	–	–
Sir Peter Job	–	3,570
Lord Kerr of Kinlochard	–	10,000
Wim Kok	–	–
Aarnout Loudon	75,000	–
Christine Morin-Postel	–	–
Lawrence Ricciardi	10,000	–
Rob Routs	–	–
Jeroen van der Veer	10,512	–
Peter Voser	–	–

Figure 2: Director's Interest

3.6. *Substantial shareholdings*

As at March 1, 2006, Royal Dutch Shell's register of substantial shareholdings showed the following interests in 3% or more of Royal Dutch Shell's shares:

Investor	Class A shares	Class B shares
Barclays PLC	4.28%	4.13%
Legal and General Group Plc	3.08%	3.94%
The Capital Group Companies Inc	7.50%	4.45%
UBS AG	3.16%	–

Figure 3: Major Shareholders

3.7. Compensation structure

The Executive Directors' compensation package is made up of:

> base pay;

> annual bonus;

> long-term incentives:

> Long-Term Incentive Plan;

> Deferred Bonus Plan;

> pension; and

> other benefits.

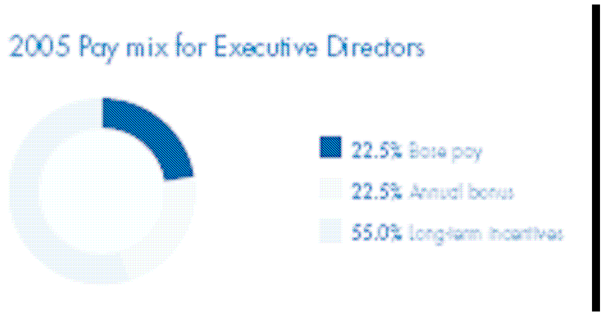

Figure 4: 2005 Pay Mix for Executive Directors

3.8. Base pay

Base pay is set at a competitive level, appropriate to the scope and complexity of the roles of Chief Executive and Executive Director, and reflecting the reporting structure in the Executive Committee. Base pay levels are set by reference to appropriate market levels benchmarked against four comparator groups:

> the major integrated oil companies (industry peers); and
> the FTSE 20, the AEX 10 and the top 20 continental European companies in the FTSE Eurotop 100, based on market capitalization, (home market peers).

Major integrated oil companies (industry peers) are: BP, Chevron, Exxon Mobil and TOTAL.

3.9. Consolidated Income of Statement

	IFRS	
	$ million	
	2005	**2004**
Revenue		
Exploration & Production	23,970	18,400
Gas & Power	13,766	9,625
Oil Products	237,210	210,424
Chemicals	31,018	26,877
Other industry segments and Corporate	767	1,060
Revenue*	**306,731**	**266,386**
Cost of sales	252,622	223,259
Gross profit	**54,109**	**43,127**
Selling, distribution and administrative expenses	15,482	15,098
Exploration	1,286	1,809
Share of profit of equity accounted investments	7,123	5,015
Interest and other income	1,171	1,483
Interest expense	1,068	1,059
Income before taxation	**44,567**	**31,659**
Taxation	17,999	12,168
Income from continuing operations	**26,568**	**19,491**
Income/(loss) from discontinued operations	-307	-234
Income for the period	**26,261**	**19,257**
Income attributable to minority interest	950	717
Income attributable to shareholders of Royal Dutch Shell plc	**25,311**	**18,540**
Research and development expenditure included in cost of sales	588	553
Depreciation, depletion and amortization are included within the following expense headings as follows:		
Cost of sales	10,384	10,569
Selling, distribution and administrative expenses	1,472	1,593
Exploration	125	683
	11,981	**12,845**

Revenue is stated after deducting sales taxes, excise duties and similar levies of $72,277 million in 2005 and $72,370 million in 2004.

Figure 5: Income Statement 2004-2005

3.10. Income Statement US GAAP format with MYR currency

Below is Consolidated Income of Statement for year 2005 and 2004. It was converted to US GAAP from IFRS format reporting based on information from 2005 Shell annual report. For income statement, average exchange rate is going to be used. Rate for 2005 1 USD = 3.79 MYR and for 2004 1 USD = 3.80. The rates were taken from Asian Development Bank site http://www.adb.org. The formatting of the statement is made for comparison over time and trend analysis because before 2005 backward, the main reporting is in US GAAP format.

	US GAAP			
		$ million		MYR million
	2005	**2004**	**2005**	**2004**
Revenue*	306,111	264,281	1,160,161	1,004,268
Cost of sales	252,682	221,009	957,665	839,834
Gross profit	53,429	43,272	202,496	164,434
Selling, distribution and administrative expenses	15,407	14,775	58,393	56,145
Exploration	1,286	1,823	4,874	6,927
R&D	585	553	2,217	2,101
Operating profit of Shell Group companies	36,151	26,121	137,012	99,260
Share of operating profit of associated companies	7,018	5,653	26,598	21,481
Operating profit	43,169	31,774	163,611	120,741
Interest and other income	1,188	1,691	4,503	6,426
Interest expense	748	1,215	2,835	4,617
Currency exchange gains/(losses)				
Income before taxation	43,609	32,250	165,278	122,550
Taxation	17,843	15,088	67,625	57,334
Income after taxation	25,766	17,162	97,653	65,216
Income applicable to minority interests	1,010	626	3,828	2,379
Income from continuing operations	24,756	16,536	93,825	62,837
Income/(loss) from discontinued operations, net of tax	378	1,646	1,433	6,255
Cumulative effect of a change in accounting principle, net of tax	554		2,100	
Income for the period	**25,688**	**18,182**	**97,358**	**69,092**
Income attributable to minority interest				
Income attributable to shareholders of Royal Dutch Shell plc	**25,688**	**18,182**	**97,358**	**69,092**

Figure 6: Income Statement in MYR currency

3.11. *Additional reporting*

Internal income segment reporting is on a global basis. For the main segments an analysis of certain data is provided between the USA and the world outside the USA.

3.11.1. Business Segment Reporting

							$ million
							Total
	1	**2**	**3**	**4**	**5**	**6**	**2005**
Revenue							
Third party	23,970	13,766	237,210	31,018	767	–	306,731
Intersegment	21,704	1,858	16,643	3,978	–	-44,183	–
Total	**45,674**	**15,624**	**253,853**	**34,996**	**767**	**-44,183**	**306,731**
Segment result	25,268	392	11,608	1,219	-1,146	–	37,341
Share of profit of equity accounted investments	4,112	999	1,713	423	-124	–	7,123
Interest and other income							1,171
Interest expense							1,068
Taxation							17,999
Income from continuing operations							26,568
Income/(loss) from discontinued operations	–	–	–	-307	–		-307
Income for the period							**26,261**

							Dec 31, 2005
Segment assets	59,351	43,631	67,253	12,087	2,325		184,647
Equity accounted investments	5,152	2,947	6,173	2,330	303		16,905
Taxation, cash and financial asset investments							17,964
Total assets							**219,516**
Segment liabilities	14,280	34,333	36,298	4,997	2,406		92,314
Debt and taxation							29,278
Total liabilities							**121,592**

							2005
Capital expenditure	10,858	1,568	2,810	387	293		15,916
New equity accounted investments	372	34	34	212	53		705
Depreciation, depletion and amortization charge							
Impairment losses	130	–	85	20	70		305
Impairment reversals	–	–	5	4	–		9

Other	8,147	290	2,532	575	123		11,667

1 = Exploration & Production

2 = Gas & Power

3 = Oil Products

4 = Chemicals

5= Corporate and Other

6 = Eliminators

Figure 7: Business Segment Reporting of Income Statement

3.11.2. Geographical area Segment Reporting

					$ million
					2005
	Europe	Other Eastern Hemisphere	USA	Other Western Hemisphere	Total
Third party revenue	122,684	61,388	101,308	21,351	306,731
Segment assets at December 31:					
Property, plant and equipment and intangible assets	26,558	34,003	19,767	11,580	91,908
Other	30,802	15,054	35,270	11,613	92,739
Total	**57,360**	**49,057**	**55,037**	**23,193**	**184,647**
Capital expenditure	3,358	8,876	1,948	1,734	15,916

Figure 8: Geographical Segment Reporting

3.12. Earning per Share

	$	
Earnings per share		
Basic earnings per €0.07 ordinary share (*,**)	3.79	2.74
Continuing operations	3.84	2.77
Discontinued operations	-0.05	-0.03
Diluted earnings per €0.07 ordinary share (*,**)	3.78	2.74
Continuing operations	3.83	2.77
Discontinued operations	-0.05	-0.03

* Earnings per Royal Dutch Shell Class A ordinary and Class B ordinary shares are identical.

** The basic earnings per share number have been restated to exclude shares held by Share-Ownership Trusts for share-based compensation plans. The diluted earnings per share are based on the same income figures. The difference between the basic and diluted number of shares relates to share-based compensation plans.

Figure 9: Earning per Share in USD

3.13. Consolidated Balance Sheet

	IFRS $ million 2005	2004
Assets		
Non-current assets		
Intangible assets	4,350	4,528
Property plant and equipment	87,558	87,918
Exploration & Production	51,275	50,889
Gas & Power	7,256	6,251
Oil Products	22,263	23,622
Chemicals	5,945	6,348
Other industry segments and Corporate	819	808
Investments:		
Equity accounted investments	16,905	19,190
Financial assets	3,672	2,700
Deferred tax	2,562	2,789
Prepaid pension costs	2,486	2,479
Other	4,091	5,793
	121,624	125,397
Current assets		
Inventories	19,776	15,375
Accounts receivable	66,386	37,473
Cash and cash equivalents	11,730	9,201
	97,892	62,049
Total assets	**219,516**	**187,446**
Liabilities		
Non-current liabilities		
Debt	7,578	8,858
Deferred tax	10,763	12,930
Retirement benefit obligations	5,807	6,795
Other provisions	7,385	6,828
Other	5,095	5,800
	36,628	41,211
Current liabilities		
Debt	5,338	5,734
Accounts payable and accrued liabilities	69,013	37,909
Taxes payable	8,782	9,058
Retirement benefit obligations	282	339

Other provisions	1,549	1,812
	84,964	54,852
Total liabilities	**121,592**	**96,063**
Equity		
Ordinary share capital	571	584
Preference share capital	–	20
Treasury shares	-3,809	-4,187
Other reserves	3,584	8,865
Retained earnings	90,578	80,788
Equity attributable to shareholders of Royal Dutch Shell plc	90,924	86,070
Minority interest	7,000	5,313
Total equity	**97,924**	**91,383**
Total liabilities and equity	**219,516**	**187,446**
Capital employed*	110,840	105,975

Capital employed is total assets minus total liabilities before deduction of minority interests plus short-term and long-term debt.

Figure 10: Balance Sheet of 2004-2005

3.14. Additional Reporting of Balance Sheet

3.14.1. Intangible Assets

			$ million
			2005
	Goodwill	**Other**	**Total**
Cost			
At January 1, 2005	4,032	3,093	7,125
Capital expenditure	12	267	279
Sales, retirements and other movements	-148	-79	-227
Currency translation differences	-80	-136	-216
At December 31, 2005	**3,816**	**3,145**	**6,961**
Depreciation, depletion and amortization			
At January 1, 2005	1,344	1,253	2,597
Charge for the year	14	308	322
Sales, retirements and other movements	-175	-9	-184
Currency translation differences	-51	-73	-124
At December 31, 2005	**1,132**	**1,479**	**2,611**
Net book amount at December 31, 2005	**2,684**	**1,666**	**4,350**

Figure 11: Intangible Assets

Goodwill relates primarily to the acquisition in 2002 of Pennzoil-Quaker State, which is in the Oil Products segment. In 2005, this goodwill was tested for impairment on a value in use basis utilizing a 6% nominal discount rate, a 2% inflation rate and a 20 year forecast of cash flows based on business projections.

3.14.2. Balance Sheet US GAAP Format with MYR currency

	US GAAP $ million		MYR million	
	2005	2004	2005	2004
Assets				
Non-current assets				
Intangible assets	4,644	4,890	17,601	18,582
Property plant and equipment	88,007	88,940	333,547	337,972
Investments:				
Equity accounted investments	16,685	19,743	63,236	75,023
Financial assets	2,934	2,748	11,120	10,442
Deferred tax	1,759	1,995	6,667	7,581
Prepaid pension costs				
Other	11,756	12,647	44,555	48,059
	125,785	130,963	476,725	497,659
Current assets				
Inventories	19,776	15,391	74,951	58,486
Accounts receivable	66,355	38,063	251,485	144,639
Cash and cash equivalents	11,730	9,208	44,457	34,990
	97,861	62,662	370,893	238,116
Total assets	**223,646**	**193,625**	**847,618**	**735,775**
Liabilities				
Non-current liabilities				
Debt	7,368	8,600	27,925	32,680
Deferred tax	12,093	14,844	45,832	56,407
Retirement benefit obligations				
Other provisions	12,851	10,753	48,705	40,861
Other	5,346	8,065	20,261	30,647
	37,658	42,262	142,724	160,596
Current liabilities				
Debt	5,328	5,762	20,193	21,896
Accounts payable and accrued liabilities	70,763	39,862	268,192	151,476
Taxes payable	8,788	9,885	33,307	37,563
Retirement benefit obligations				
Other provisions				
	84,879	55,509	321,691	210,934
Total liabilities	**122,537**	**97,771**	**464,415**	**371,530**
Minority interest	7,006	5,309	26,553	20,174
Equity				
Ordinary share capital	571	584	2,164	2,219

Preference share capital		20		76
Treasury shares	3,637	5,371	13,784	20,410
Other reserves	-3,809	-4,187	-14,436	-15,911
Retained earnings	95,965	85,791	363,707	326,006
Accumulated other comprehensive income/(loss)	-2,261	2,966	-8,569	11,271
Equity attributable to shareholders of Royal Dutch Shell plc	94,103	90,545	356,650	344,071
Minority interest				
Total equity	**94,103**	**90,545**	**356,650**	**344,071**
Total liabilities and equity	**223,646**	**193,625**	**847,618**	**735,775**
Capital employed*	113,805	110,216	431,321	418,821

Figure 12: Balance Sheet in MYR currency

3.15. Consolidated Cash Flow

		IFRS $ million
	2,005	2,004
Cash flow from operating activities:		
Income for the period	26,261	19,257
Adjustment for:		
Current taxation	19,435	13,081
Interest (income)/expense	632	803
Depreciation depletion and amortization	11,981	12,845
(Profit)/loss on sale of assets	-1,313	-3,087
Decrease/(increase) in net working capital	-5,664	-4,062
Share of profit of equity accounted investments	-7,123	-5,015
Dividends received from equity accounted investments	6,709	4,190
Deferred taxation and other provisions	-1,515	-1,007
Other	-47	292
Cash flow from operating activities (pre-tax)	49,356	37,297
Taxation paid	-19,243	-10,760
Cash flow from operating activities	30,113	26,537
Cash flow from investing activities:		
Capital expenditure	-15,904	-13,566
Investments in equity accounted investments	-705	-1,058
Proceeds from sale of assets	2,310	5,142
Proceeds from sale of equity accounted investments	4,313	1,316
Proceeds from sale of/Additions to financial assets	362	1,739
Interest received	863	463
Cash flow from investing activities	-8,761	-5,964
Cash flow from financing activities:		
Net increase/(decrease) in debt with maturity period within three months	-956	8
Other debt:		

New borrowings	2,057	2,044
Repayments	-2,656	-6,380
Interest paid	-1,124	-962
Change in minority interest	1,143	812
Net issue/(repurchase) of shares	-4,988	-698
Dividends paid to:		
Shareholders of Royal Dutch Shell plc	-10,556	-7,391
Minority interest	-293	-264
Payments to former Royal Dutch shareholders	-1,651 –	
Treasury shares: net sales/(purchases) and dividends received	451	-761
Cash flow from financing activities	-18,573	-13,592
Currency translation differences relating to cash and cash equivalents	-250	113
Increase/(decrease) in cash and cash equivalents	2,529	7,094
Cash and cash equivalents at January 1	9,201	2,107
Cash and cash equivalents at December 31	11,730	9,201

Figure 13: Cash Flow of 2004-2005

3.16. Operating Review

Oil and gas reserves can't be measured precisely since estimation of reserves involves subjective judgment. The estimation remains subject to revision. Totals are influenced by acquisition and divestment activities. Proved reserves are shown net of any quantities of crude oil or natural gas that expected to be taken. Proved reserves include certain quantities of crude oil or natural gas that will be produced under an arrangement that involves Group companies in upstream risks and rewards but do not transfer title of the product to those companies. Table below shows proved developed and undeveloped reserves in 2005. Reserves that don't have producing activities are excluded. For this purpose natural gas has been converted to crude oil equivalent using a factor of 5,800 standard cubic feet per barrel.

							million barrels of oil equivalent
							2005
				Eastern Hemisphere	Western Hemisphere		
	Europe	Africa	Asia Pacific	Middle East, Russia, CIS	USA	Other	Total
Proved developed and undeveloped reserves							

Group companies							
At January 1	1,981	1,582	1,418	1,726	945	412	8,064
At December 31	1,848	1,257	1,169	2,213	878	396	7,761
Group share of equity accounted investments							
At January 1	2,175	–	791	457	395	–	3,818
At December 31	2,078	–	709	490	428	–	3,705
Proved developed reserves							
Group companies							
At January 1	1,302	775	600	504	565	301	4,047
At December 31	1,270	667	496	461	507	242	3,643
Group share of equity accounted investments							
At January 1	1,693	–	464	360	352	–	2,869
At December 31	1,755	–	412	360	348	–	2,875
							million barrels
Oil sands							
Group companies							
At January 1	–	–	–	–	–	615	615
At December 31	–	–	–	–	–	746	746

* Africa territory excludes Egypt.

* Russia excludes Sakhalin.

* CIS is former Soviet Union (Commonwealth of Independent States), which includes Caspian region, Egypt and Sakhalin.

Figure 14: Proved Developed and Undeveloped Reserves

Below table shows capital expenditure and exploration expense by geographical area.

			$ million
	2005	2004	2003
Europe	1,991	1,625	2,185
Africa	1,937	1,982	1,861
Asia Pacific	1,070	536	579
Middle East, Russia, CIS	3,841	3,199	2,155
USA	1,486	1,282	1,652
Other Western Hemisphere	1,074	588	686
	11,399	9,212	9,118

Figure 15: Capex and Exploration Expense by Geographical Ares

Crude oil and natural gas liquids production are attached below.

	thousand barrels/day		
	2005	**2004**	**2003**
UK	250	275	354
Norway	107	129	143
Denmark	143	142	141
Italy	30	21	19
Netherlands	7	8	8
Germany	4	5	5
Others	**	**	1
Total Europe	541	580	671
Nigeria	324	349	314
Gabon	36	35	35
Cameroon	13	15	16
Others	–	–	–
Total Africa	373	399	365
Brunei	95	98	103
Australia	53	60	73
Malaysia	41	47	51
China	20	20	22
New Zealand	15	15	19
Thailand	–	–	14
Others	4	3	3
Total Asia Pacific	228	243	285
Oman	214	246	269
Abu Dhabi	134	133	126
Syria	36	35	44
Russia	35	32	30
Egypt	14	10	11
Others	10	15	17
Total Middle East	443	471	497
Total Other Eastern Hemisphere	**1,585**	**1,113**	**1,147**
USA	333	375	414
Other Western Hemisphere			
Canada	39	40	44
Venezuela	14	22	46
Brazil	26	43	11
Others	1	**	**
Total Other Western Hemisphere	**80**	**105**	**101**
Grand total	**1,998**	**2,173**	**2,333**
	million tones a year		
Metric equivalent	100	109	117

** Less than one thousand barrels daily.

Figure 16: Crude Oil and Natural Gas Production

4. PERFORMANCE MEASUREMENT

Financial measures will be taken mainly on Income Statement and Balance Sheet of recent years. Later, for trend analysis, because the financial statements are available until 1993, the measures can be done until 1994. It is because for some ratios that involve income statement and balance sheet, the balance item must be averaged first between current year and past year before used as fraction or denominator. Except for earning per share (EPS) ratio, all ratios use MYR million as their component. The balance sheet and income statement have been converted to MYR for the year 1993-2005 based on rate on http://www.adb.org (Asian Development Bank). Because balance is stated at the end of the year, the rate give is on that date also. For income statement, rate used is on average since Shell Group has issued the statement quarterly basis. The rates are attached in the Appendix. For calculation of ratios, all $ million has been converted to $ MYR. All of the ratios use MYR as base for calculation except EPS and P/E use MYR instead.

To measure Shell financial statements here, kind of ratios to be used are:

- Profitability Ratios
- Liquidity Ratios
- Efficiency Ratios
- Leverage Ratios
- Market Ratios
- Dupont de-Composition Ratios
- Altman Z-score

4.1. *Profitability Ratios*

This familiar dimension of a company's financial structure concerns management's ability to control expenses and to earn a return on committed funds. Ratios that measure profitability usually consist of a profit element and one that represents the amount of funds invested in aspect of the firm in the view of user's interest.

4.1.1. Profit Margin on Sales ratio

This ratio measures profit per dollar or ringgit of sales. The profit margin on sales is computed by dividing net income after taxes by sales.

= profit after tax / net sales

= 97,357.52 /1,160,160.69

= 8.39%

4.1.2. Basic Earning Power ratio

The basic earning power ratio is calculated by dividing the earnings before interests and taxes by total assets. It measures operating income per asset.

= operating income / total assets

= 163,610.51 / ((845,381.88 + 735,775) / 2)

= 20.70%

4.1.3. Return on Sales ratio

This ratio is calculated by dividing operating income by net sales. It measures profit outcome per dollar of sales.

= operating income / net sales

= 163,610.51 / 1,160,160.69

= 14.10%

4.1.4. Return on Assets (ROA) ratio

ROA is measurement to calculate profit by total assets. The ratio return on assets is calculated by dividing net income by total assets.

= income before taxes / total assets

= 165,278.11 / ((845,381.88 + 735,775)/2)

= 20.91%

4.1.5. Return on Investment (ROI) ratio

Shell group management has replaced investment replaced by capital employed term because the management thinks it is better representation of Group investment. Capital employed is Group total assets minus total liabilities before deduction of minority interests, plus short-term and long-term debt.

= net income / capital employed

= 97,357.52 / ((430,182.9 + 418,820.8)/2)

= 22.93%

4.1.6. Return on Equity (ROE) ratio

ROE ratio is the ratio of net income available to common stockholders to common equity.

= net income available for stockholders / equity

= 97,357.52 / ((355,709.34 + 344,071) / 2)

= 27.83%

4.2. Liquidity Ratios

The liquidity of a firm is its ability to pay current liabilities as they come due (current liabilities are debts due within one year). The only funds available for payment of short-term debt are either cash or other current assets readily convertible to cash.

4.2.1. Current ratio

Measuring firm's ability to meet its current debt, current ratio is computed by dividing current assets by current liabilities.

= current assets / current liabilities

= 238,115.6 / 210,934.2

= 1.13 times

4.2.2. Quick ratio

Quick ratio is the same with current ratio except that it eliminated inventory. It is calculated by deducting inventories from current assets and dividing the result by current liabilities.

= (current assets - inventories) / current liabilities

= (369,914.58 – 74,753.28) / 210,934.2

= 92.00%

4.3. Efficiency Ratios

Efficiency ratios, also called *activity* or *turnover* ratios, measure how efficient a firm's assets are managed.

4.3.1. Accounts Receivable Turnover

This ratio measures the number of times trade receivables turn over during the year. It is calculated by dividing net sales by accounts receivable

= net sales / accounts receivable

= 1,160,160.69 / ((250,821.9 + 144,639.4) / 2)

= 5.87 times

4.3.2. Accounts Receivable Collection

It is an indicator of how quickly the firm is collecting from its credit sales. This calculation is 365 days divided by accounts receivable turnover.

= 365 / accounts receivable turnover

= 365 / 5.87

= 62 days

4.3.3. Inventory Turnover

It indicates the liquidity of the inventory. This is calculated by dividing the Cost of Goods Sold by the Average Inventory.

= cost of goods sold / average inventory

= 957,664.78 / ((74,753.28 + 58,485.8) / 2)

= 14.38 times

4.3.4. Days Inventory

To get days inventory, 365 days is divided by inventory turnover.

= 365 / inventory turnover

= 365 / 14.38

= 25 days

4.3.5. Accounts Payable Turnover

This ratio measures times of accounts payable turnover during a year. The cost of goods sold is divided by accounts payable.

= cost of goods sold / accounts payable

= 957,664.78 / ((267,484.14 + 151,475.6) / 2)

= 4.57 times

4.3.6. Days Payable

To get days payable, 365 days is divided by accounts payable turnover.

= 365 / accounts payable turnover

= 365 / 6.98

= 79 days

4.3.7. Cash Flow Cycles

To calculate cash flow cycles of the firm, days inventory is added by accounts payable collection and reduced by days payable.

= Days Inventory + Accounts Receivable Collection – Days Payable

= 25 + 62 – 79

= 8 days

4.4. Leverage Ratios

The extent to which the firm relies on debt as opposed to owner's capital (net worth) is its leverage position. A highly leveraged firm is one with a high proportion of debt relative to owner's investment.

4.4.1. Long-term Debt ratio

The ratio is computed by dividing long-term debt with capital employed less short-term debt. This ratio measures proportion of capital employed is financed by long-term debt.

= long-term debt / (capital employed – short-term debt)

= 27,851.04 / (430,182.9 – 20,139.84)

= 6.79%

4.4.2. Total Debt ratio

The total debt ratio is calculated by dividing total debt by total assets. It measures proportion of capital employed is financed by debt.

= (long-term debt + short-term debt) / capital employed

= (27,851.04 + 20,139.84) / 430,182.9

= 11.16%

4.4.3. Debt to Equity ratio

This ratio expresses the relationship between capital contributed by creditors and that contributed by owners. The debt to equity ratio is calculated by dividing total debt by owner's equity.

= total debt / equity

= (27,851.04 + 20,139.84) / 355,709.34

= 13.49%

4.5. Market ratios

Market ratios relate a market value, the stock price, to values from the company's financial statements.

4.5.1. Earning Per Share

The earning per share ratio is calculated by dividing net income by the number of shares outstanding.

= net income / shares outstanding

= 97,357.52 million/ 6,674,179,767

= 14.59

4.5.2. Price Earning ratio (P/E)

This ratio indicates how much investors are willing to pay per dollar of current earnings. It is computed by dividing market price per share by EPS. Price per share is in dollar before converted to MYR. Because Shell group shares are sold in two stock name, Royal Dutch Shell A and Royal Dutch Shell B, there will be two different share price and two different price earning ratio.

= price per share / EPS

= 233.05 / 14.59

= 15.98 (RDS A)

= 244.57 / 14.59

= 16.77 (RDS B)

4.6. Dupont de-Composition of ROE

To monitor and analyze ratios, Dupont system can be implemented. The system shows relationship of ROE between profit margin, assets turnover and capital multiplier. Based on Shell management's view, capital employed is replacing equity or investment to make better perspective of investment have been made by the Group.

ROE = net income / net sales x net sales / total asset x total assets / capital employed

= profit margin x assets turnover x capital multiplier

profit margin = net income / net sales

= (net sales - costs + profit from associated companies + interest and other income - interest expense - taxation – income applicable to minority interest + income/loss from non-operations) / net sales

= 97,357.52 / 1,160,160.69

= 8.39%

assets turnover = net sales / total assets

= 1,160,160.69 / ((845381.88 + 735775) / 2)

= 1.47 times

capital multiplier = total assets / capital employed

= total assets / (total assets - total liabilities + short-term debt + long-term debt)

= ((845381.88 + 735775)/2) / / ((845381.88 + 735775)/2 – (463189.86 + 371529.8)/2 + (20139.84 + 21895.6)/2 + (27851.04 + 32680)/2)

= 1.86 times

ROE = profit margin x assets turnover x capital multiplier

= 8.39% x 1.47 x 1.86

= 22.93%

4.7. Altman Z-score / Distress Signal

Distress signal is sign of troubles before or after company's bankruptcy or liquidation. Altman Z-score can be used for detect the signal. The score index can be different for different industry. For Shell financial statement analysis, the computation uses general rule even though possibly the result is not representing the real case in the real world.

Z-score = 0.012 X1 + 0.014 X2 + 0.033 X3 + 0.006 X4 + 0.935X5

X1 = Net working capital / Total assets

= ((369,914.58 + 238,115.6)/2 – (320,842.62 + 210,934.2)/2) / ((845,381.88 + 735,775) /2)

= 0.05

X2 = Retained earnings / Total Assets

= ((362,747.7 + 326,005.8)/2) / ((845,381.88 + 735,775) /2)

= 0.44

X3 = Earning Before Tax and Interest / Total Assets

= 163610.51 / ((845,381.88 + 735,775) /2)

= 0.21

X4 = Market value of Equity / Book Value of Total Liabilities

<=> X4 = P/E * Equity Book value / Total Liabilities Book Value

= 15.98 * (355,709.34 + 344,071)/2 /

((463,189.86 + 371,529.8)/2)

= 13.39

X5 = Sales / Total Assets

= 1,160,160.69 / / ((845,381.88 + 735,775) /2)

= 1.47

Z-Score = 0.012*0.05 + 0.014*0.44 + 0.033*0.21 + 0.006*13.39 + 0.935*1.47

= 1.466

4.8. Benchmarking

Benchmarking will be done by comparing Shell financial ratios with Exxon Mobile ratios. Exxon is chosen because it is the biggest oil company in terms of assets and revenue. Tables below are comparing oil reserves, capital expenditure and oil production of both companies.

4.8.1. Operation Review

Operation review data tables include oil and gas reserves, capital expenditure and crude oil production.

	million barrels of oil equivalent						2005
	Europe	Africab	Asia Pacific Russia, CIS Caspian Middle East	Canada	USA	Other	Total
Shell	1,848	1,257	3,382		878	396	7,761
Exxon	886	2,527	3,706	1,701	2,424	451	11,695

Figure 17: Proved Developed and Undeveloped Reserves

	2005	2004	thousand barrels/day 2003
Shell			
Non-US	1,665	1,798	1,919
USA	333	375	414
Grand total	1,998	2,173	2,333
Exxon			
Non-US	2,046	2,014	1,906
USA	477	557	610
Grand total	2,523	2,571	2,516

Figure 18: Crude Oil and Natural Gas Liquids Production

			$ million
	2005	2004	2003
Shell			
USA	1,486	1,282	1,652
Other	9,913	7,930	7,466
	11,399	9,212	9,118
Exxon			
US	2,142	1,922	2,125
Other	12,328	9,793	9,863
	14,470	11,715	11,988

Figure 19: Capital Expenditure and Exploration Expense Geographical Area

4.8.2. Financial Statement of Exxon Mobil

US GAAP

MYR million

	2005
Average of USD - MYR rate	**3.79**
Revenue	
Gross sales	
Sales taxes, excise duties and similar levies	116,512
Net sales	**1,360,439**
Cost of sales	803,624
Gross profit	**556,815**
Selling, distribution and administrative expenses	54,584
Exploration	3,654
Depreciation and depletion	38,859
Operating profit of Shell Group companies	459,719
Share of operating profit of associated companies	28,740
Operating profit	488,459
Interest and other income	15,698

Interest expense	275,882
Currency exchange gains/(losses)	
Income before taxation	**228,275**
Taxation	88,315
Income after taxation	**139,961**
Income applicable to minority interests	3,028
Income from continuing operations	**136,933**
Income/(loss) from discontinued operations, net of tax	
Cumulative effect of a change in accounting principle, net of tax	
Income for the period	**136,933**
Income attributable to shareholders	**136,933**

Figure 20: Income Statement of Exxon Mobil Year 2005

	US GAAP	
	MYR million	
	2005	**2004**
USD-MYR rate at the end of the year	3.78	3.8
Assets		
Non-current assets		
Intangible assets	27,938	29,777
Property plant and equipment	404,498	412,828
Investments:		
Equity accounted investments	77,838	69,935
Financial assets		
Total fixed assets	**510,274**	**512,540**
Other		
Total non-current assets	**510,274**	**512,540**
Current assets		
Inventories	47,564	45,155
Accounts receivable	103,890	96,364
Short-term securities	17,403	17,495
Cash and cash equivalents	108,376	70,418
Total current assets	**277,233**	**229,433**
Total assets	**787,506**	**741,973**
Liabilities		
Non-current liabilities		
Debt	23,512	19,049
Deferred tax	78,919	80,150
Retirement benefit obligations	13,468	12,665
Other provisions	62,952	65,090
Total non-current liabilities	**178,851**	**176,955**
Current liabilities		
Debt	6,694	12,464
Accounts payable and accrued liabilities	136,534	120,699
Taxes payable	31,812	30,164
Total current liabilities	**175,040**	**163,328**
Total liabilities	**353,891**	**340,282**
Minority interest	13,332	15,018

Equity		
Retained earnings	617,406	510,682
Equity attributable to shareholders	**420,283**	**386,673**
Total equity	**420,283**	**386,673**
Total liabilities and equity	**787,506**	**741,973**
Capital employed*	**463,821**	**433,204**

Figure 21: Balance Sheet of Exxon Mobil Year 2004-2005

To compare ratios between Shell and Exxon, income statement and balance sheet of Exxon Mobil have been attached here.

5. INTERPRETATION AND INFERENCES

5.1. Interpretation

5.1.1. Profit Margin on Sales ratio

This ratio gives the profit per dollar of sales. The higher the ratio the better as higher profits generated by any means is positive. Shell group get 8.39% for this ratio means its profit margin quite thin. Many expenses and cost have been incurred and deducted from net income. Compare to Exxon, it gets slightly more, about 10% margin ratio. So most likely integrated major oil companies get the ratio around this number.

5.1.2. Basic Earning Power

This ratio is useful for comparing firms in different tax conditions and different degrees of leverage. This ratio give the Group 20.70% while Exxon gets 63.87%. The gap can be caused by big gap of different amount of total assets or cost incurred in Exxon is much higher considering the profit margin ratio is not as wide as this ratio.

5.1.3. Return on Sales

It indicates how well operating expenses have been managed or business is generating enough sales to cover overhead cost. Low ratio or high ratio doesn’t mean much to company even though high ratio usually is better. Shell get 14.10% and Exxon has 35.90%

5.1.4. Return on Assets

The ratio is useful for comparing prior years' rate of return with the current year's; anyway, it is not very useful for making inter-firm comparisons because it is sensitive to differences in capital structure. This ratio expresses the return on total assets and measures the effectiveness of management in employing the resources available to it. A heavily depreciated plant and a large amount of intangible assets or unusual income or expense items will cause distortions of this ratio. The Group gets 12.31%, slightly lower than Exxon that gets 17.91%.

5.1.5. Return on Investment

For this ratio, Shell management use capital employed instead of plain investment. The ratio for Exxon has been proportioned to get same formula of this ratio. While Shell gets 22.93%, Exxon has 30.53%.

5.1.6. Return on Equity

This ratio measures the rate of return on the common stockholders' investment. The ratio is useful for both intra-company and inter-firm comparisons. Ratio with 15% is generally considered to fund future growth without depending on long-term debt. The company can produce income from its operation. Shell ratio is slightly lower from Exxon. 27.83% compared to 33.94%. Anyway, they are more than 15% so the growth can be finance from within.

5.1.7. Current ratio

This ratio is a rough indication of a firm's ability to service its current obligations. Generally, the higher the current ratio, the greater the "cushion" between current obligations and a firm's ability to pay them. The stronger ratio reflects a numerical superiority of current assets over current liabilities. However, the composition and quality of current assets is a critical factor in the analysis of an individual firm's liquidity. Generally the assets should be 2 times of the liabilities. Shell gets 115% and Exxon gets 158.38%. Oil industry can have different standard because usually the assets go to fixed assets or non-current assets.

5.1.8. Quick ratio

It can be called acid ratio, it is a refinement of the current ratio and is a more conservative measure of liquidity. The ratio expresses the degree to which a company's liabilities are covered by the most liquid current assets. Inventories are excluded from the current assets. Generally, any value of less than 1:1 implies a dependency on inventory to liquidate short-term debt. The ratio values are always positive. While Shell has 92.00%, Exxon is much higher, 131.21%.

5.1.9. Accounts Receivable Turnover and Collection

This ratio measures the number of times trade receivables turn over during the year. The higher the turnover of receivables, the shorter the time between sale and cash collection. If a company's receivables appear to be turning slower than the rest of the industry, further research is needed and the quality of the receivables should be examined closely. A problem with this ratio is that it compares one day's receivables, shown at statement date, to total annual sales and does not take into consideration seasonal fluctuations. Exxon has about a half portion from Shell receivables collection days. Quite long for Shell to receive payment from its customer: 62 days, while Exxon can get that in 26 days.

5.1.10. Inventory Turnover and Days Inventory

This ratio measures the number of times inventory is turned over during the year. High inventory turnover can indicate better liquidity or superior merchandising. Conversely, it can indicate a shortage of needed inventory for sales. Low inventory turnover can indicate poor liquidity, possible overstocking, obsolescence, or in contrast to these negative interpretations a planned inventory buildup in the case of material shortages. This ratio does not take seasonal fluctuations into account. Shell and Exxon gap for this ratio is close. 25 days for the former and 21 days for the later.

5.1.11. Accounts Payable Turnover and Days Payable

This ratio measures the number of times trade payables turn over during the year. The higher the turnover, the shorter the time between purchases and payments. If a company's payables appear to be turning more slowly than the industry, then the company may be experiencing cash shortages, disputing invoices with suppliers, enjoying extended terms, or deliberately expanding its trade credit. This ratio does not take seasonal fluctuations into account.

5.1.12. Cash Flow Cycles

Cash flow cycles determine the cycles of cash within company. Shorter cycles is better because company will get paid faster, high turnover inventory and good relationship with vendor. Exxon is leading with –11 days (minus eleven days) while Shell group gets 8 days.

5.1.13. Long-term Debt ratio

This ratio is measuring firm's ability to meet interest and principal payment on long-term debt. The proportion of long-term debt of capital employed less short-term debt for Shell group is 6.79% while Exxon gets 5.14%. Lower ratio is better since the risk to be defaulted is lower. Capital employed can be expected to support payment of interest and principal on long-term debt.

5.1.14. Total Debt ratio

This ratio is computing debt proportion with capital employed. Lower or higher value can have positive and negative views. Higher value means company can utilize capital to raise fund while the risk is higher also. Lower ratio value is a contradiction of pros and cons of higher one. In this ratio, Exxon has 6.51% and Shell 11.16%.

5.1.15. Debt to Equity ratio

Debt to equity ratio quantifies relationship between capital invested and funds from creditor. The higher the ratio, the greater the risk. Extreme low ratio is not good also because the firm might do not realize the business potential. For this ratio, Exxon gets 7.19% and Shell has 13.49%.

5.1.16. Earnings Per Share (EPS)

Common shareholders consider decreasing EPS is unfavorable. A decline of it indicates a decline in profitability. It is much dependent on industry and industry peers. EPS for Shell is MYR 14.59 and Exxon's EPS is MYR 21.85.

5.1.17. Price Per Earning (P/E)

This ratio is measuring market expectation. Outlook of future earning is major factor influencing the ratio. Investor will see this ratio before invest in company. Higher ratio means higher future growth of the company. Shell's P/E (RDSA) is 15.98 times while Exxon's is 9.72 times.

5.1.18. Dupont ROE

Using Dupont ROE, component of relationship can be analyzed further. From this systemic approach, ROE can be tracked down to profit margin, assets turnover and capital multiplier. Shell has profit margin 8.39%, assets turnover 1.47 times and capital multiplier 1.86 times. Meanwhile, Exxon gets 10.07%, 1.78 times and 1.71 times. Viewing this, Shell has advantage on capital multiplier while for the rest Exxon gets the excellence.

5.1.19. Altman Z-score

Altman Z-score has general rule:

- If the Z-score > 2.99, the firm is not going to fail within the next 12 months.

- If the Z-score is between 1.81–2.99, rather difficult to determine the prospect
- If the Z-score < 1.81, the company is sure to fail within the next 12 months.

Even though Shell gets 1.466 and Exxon gets 1.760, they have strong financial position. Probably oil industry should get its own rule for this scoring instead of using general one.

5.2. The Trend Analysis

Trend analysis will be based on ratios:

1. Profitability ratios
2. Liquidity ratios
3. Efficiency ratios
4. Leverage ratios
5. Market ratios
6. Dupont system
7. Altman Z-score

5.2.1. Profitability ratios

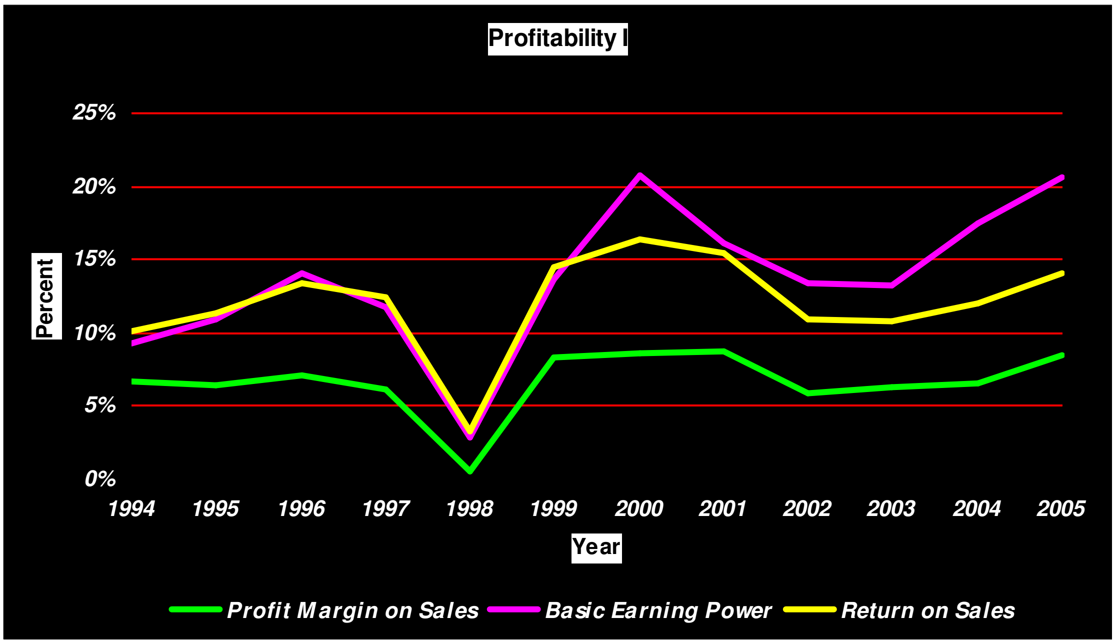

Figure 22: Graphics of Profitability Ratios I

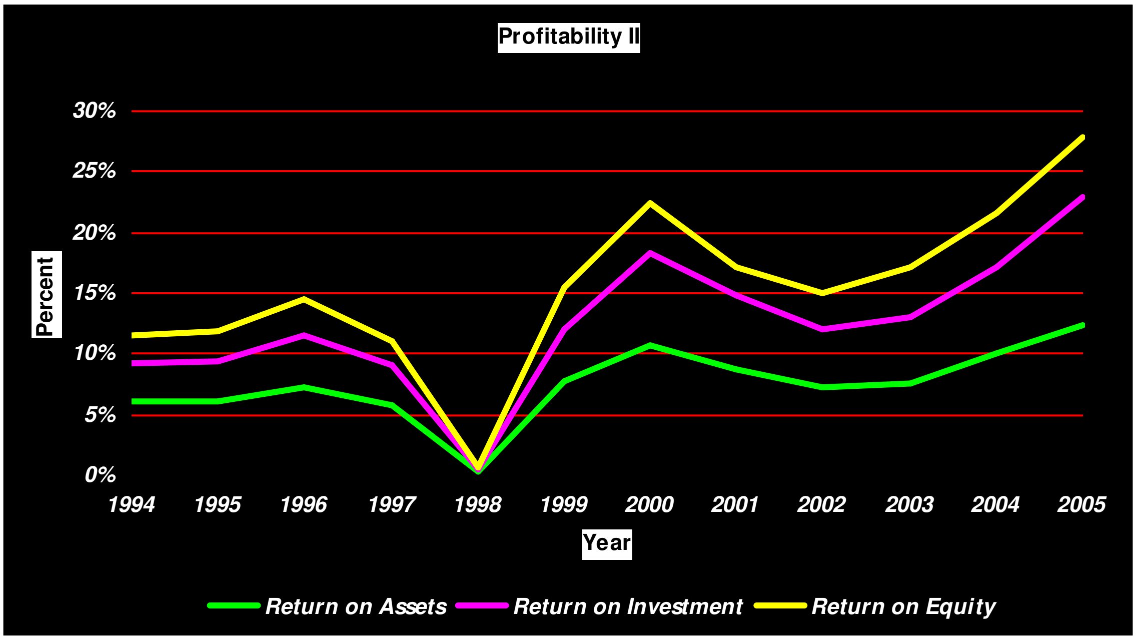

Figure 23: Graphics of Profitability Ratios II

To see clearly, the profitability ratios that contain 6 ratios have been split into 2 graphics. From those graphics, there was downturn in 1998. They are dropped and recover back in the following year.

5.2.2. Liquidity ratios

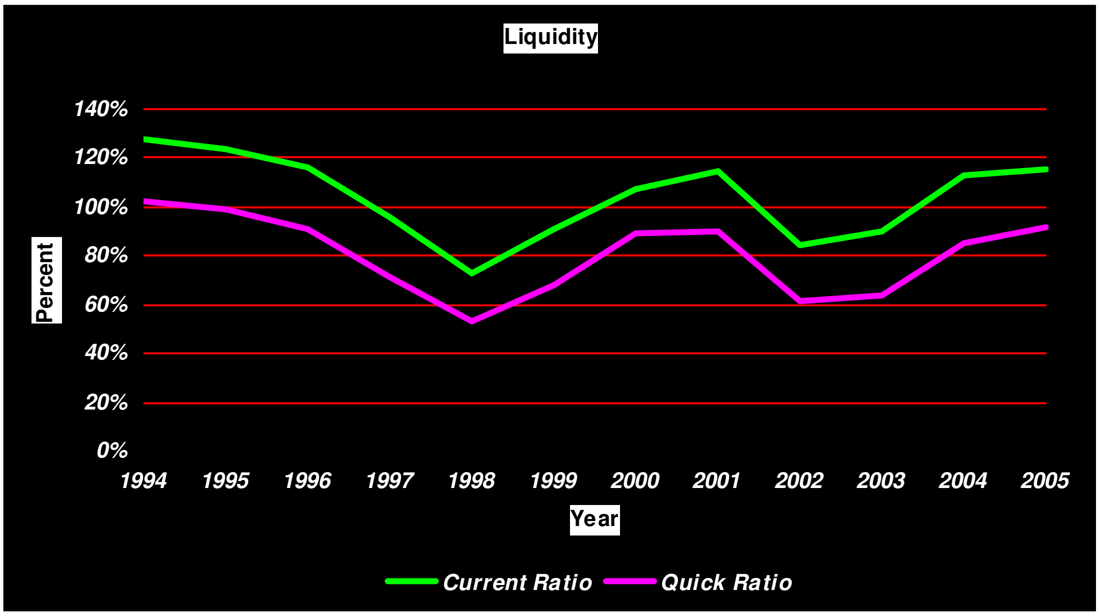

Figure 24: Graphics of Liquidity Ratios

The trend says that the liquidity is stable even though in recent year, the trend cannot reach like in 1994. In 1998, there was slight downturn. Possibly the liquidity was affected by decrement of net income on that year. Quick ratio is following Current ratio. It means inventories can be maintained constantly.

5.2.3. Efficiency ratios

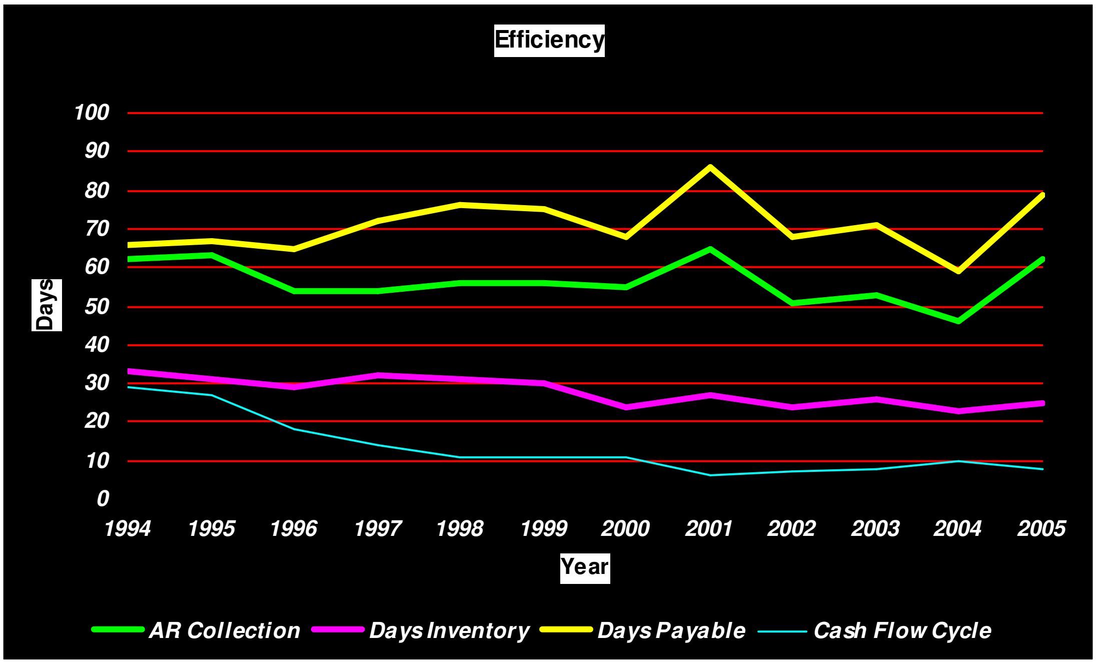

Figure 25: Graphics of Efficiency Ratios

Days Payable and AR collection have some spikes in 2001. Possibly some financial transactions with outside parties took longer day to complete. They are complement each other and make cash flow cycle stable. In recent years, the collection days and payable days are increasing while days inventory remains constant.

5.2.4. Leverage ratios

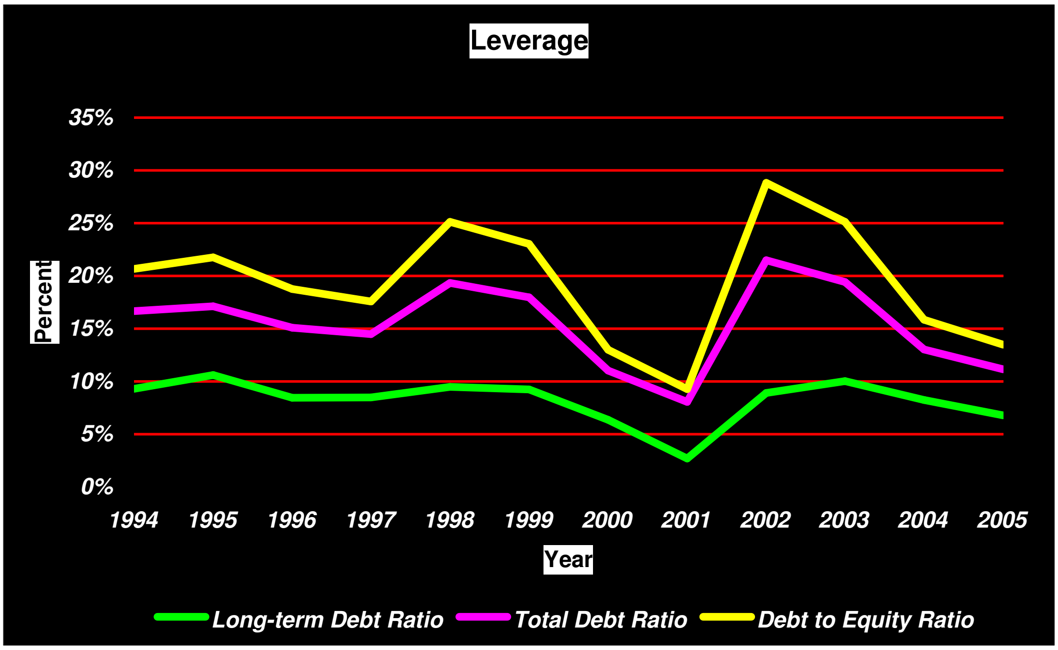

Figure 26: Graphics of Leverage Ratios

There is major downturn in 2001. And rise tremendously in the following year. Possibly there was new debt agreed in 2002 so Debt to Equity ratio get a spike on that year. After that the trend for all ratios are decreasing in recent years.

5.2.5. Market ratios

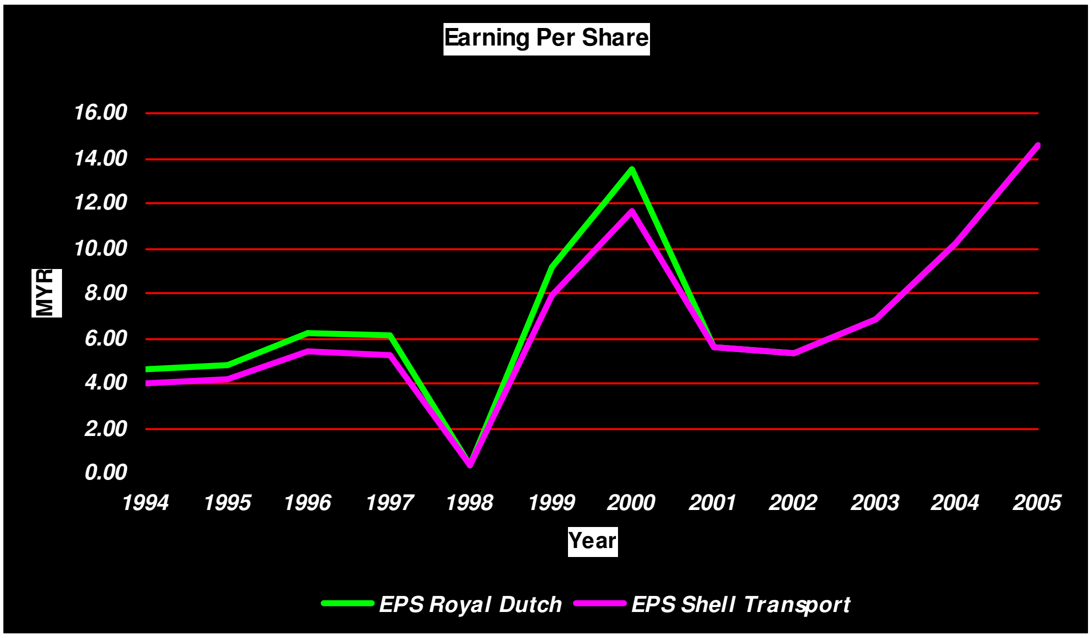

Figure 27: Graphics of Earning Per Share

Before 2001, share Royal Dutch was not identical with Shell Transport. The price can be different. The earning split are 60% for Royal Dutch and 40% for Shell Transport. So the EPS before 2001 was different between those two. In 2001, they are identical.

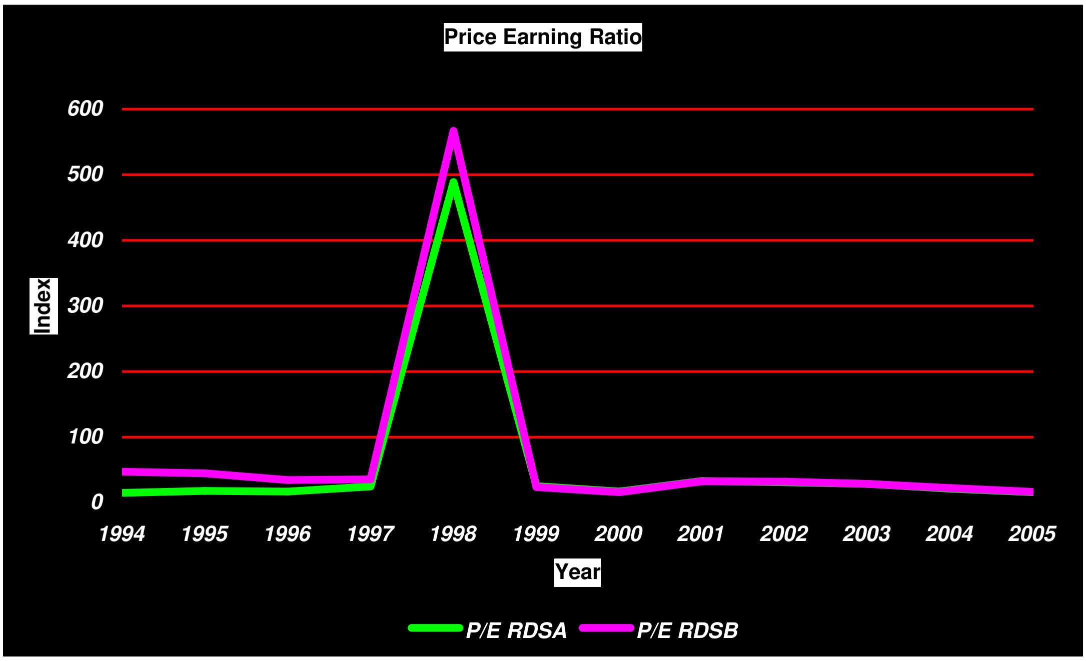

Figure 28: P/E Ratio

Both of shares get same trend, same spike and same float. Starting 1999, P/E of them is close to each other. RDSA dividend is paid in Euro and subject to Dutch withholding tax. Meanwhile RDSB dividend is paid pound sterling and not subject to tax in Netherlands. Fluctuation rate between GBP and EUR can influence this P/E.

5.2.6. Dupont system on ROE

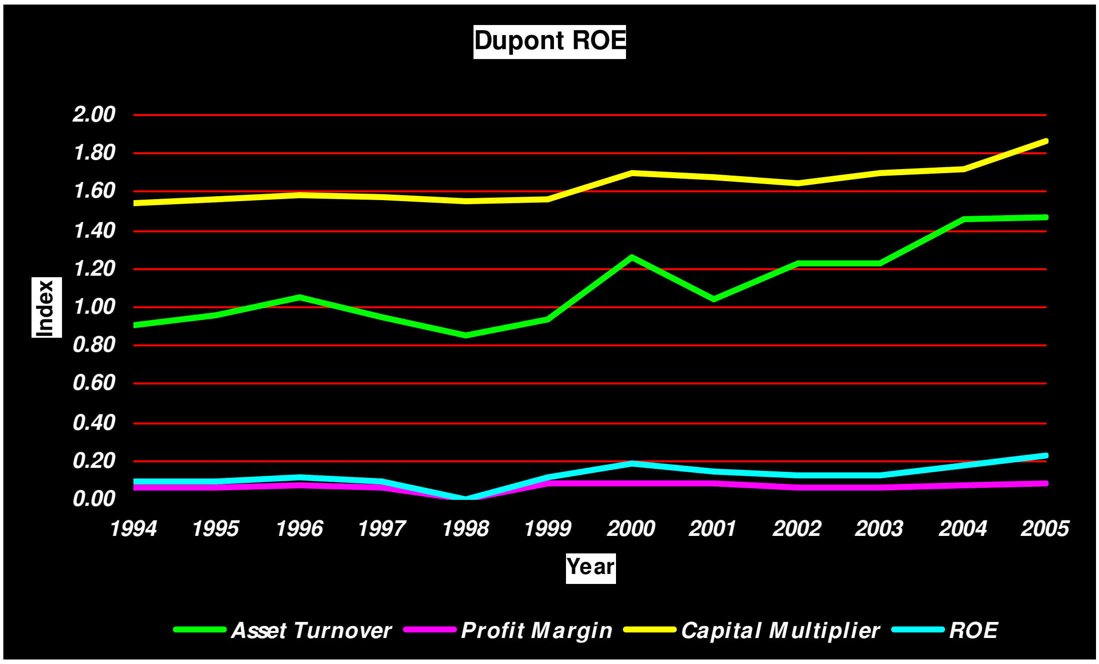

Figure 29: Graphics of Dupont ROE

The capital multiplier is increasing over time. It means the utilization of capital employed is going better and better. Anyway ROE seems to follow profit margin line ratio. So to make better ROE, profit margin should be increased, then ROE will follow.

5.2.7. Altman Z-score

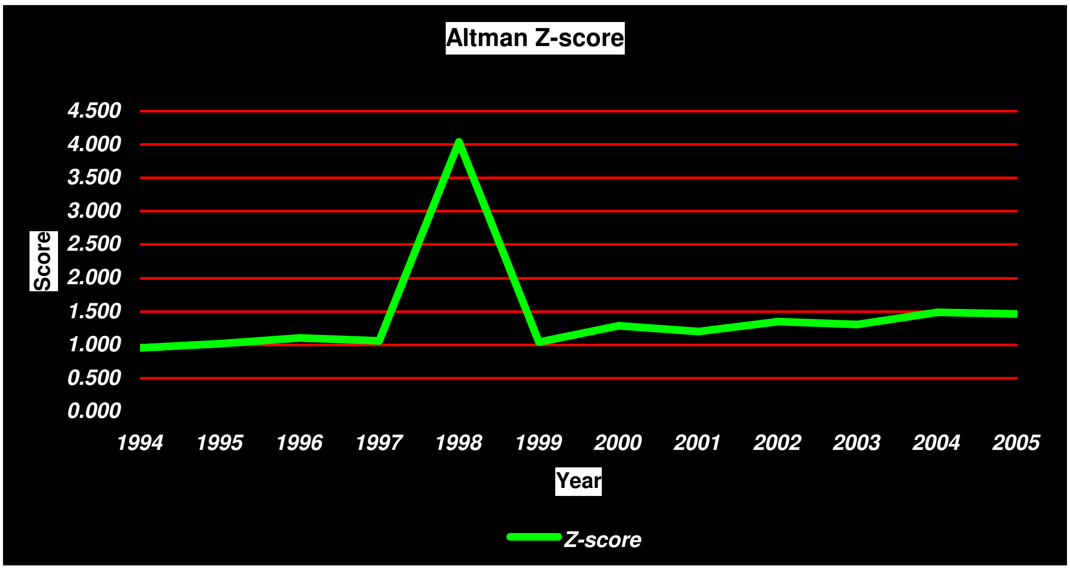

Figure 30: Graphics of Altman Z-score

From the general rule, if the score is 1.81, in 12 months the company is sure to fail in 12 months. Possibly for oil and gas industry, the rule can be improved. There was a spike in 1998 that the score reach index 4. It was caused by market price of share that much higher than total liabilities book value. Customer expectation was very high even though book value was not very encouraging. In recent years, the score is constantly increasing. The big factor is ratio between sales and total asset (assets turn over). If the group can increase this ratio, Z-score will be improved.

5.3. Inferences

Reading and evaluate ratios must be handled carefully. Comparing with other industry peer will make evaluation better. In large companies, it is hard to develop a meaningful set of industry averages for benchmarking purposes. Some distortion can happen to disturb firm's balance sheet. Things like inflation and seasonal Factors are major contributor to this distortion.

It is hard to generalize whether a ratio is good or bad. Every thing has two sides of coin. Bad in one side can be good in other side.

Reading trend analysis will be good if some statistics disciplines are implemented.

Based on ratios and trend analysis, Shell financial position is strong. It is profitable and liquid. The industry will still remain strong even now with oil current market price. Even though China has been slow down a bit and oil price get lowered recently, energy still prime factor for other industry.

5.4. *Conclusions*

Benchmarking with the best company in the industry will make Shell knows what to do next. Meanwhile some ratios, the Group gets better value than the leader. Anyway, Shell has in right track for building stronger financial position.

5.5. *Recommendation*

To increase utilization of capital employed will make return on investment be better. More upstream and profitable downstream is the right strategy since more reserves will make higher revenue and higher margin will make better return on sales. Some improvement should be made in costs and expenses category.

To correct the weaknesses and deficiencies of measures some standard can be introduced. For instance, income can get from income attribute to shareholders, or operating profit or gross profit. It should be stated in the front.

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7. APPENDIX

7.1. Reconciliation of Income Statement 2005 from IFRS to US GAAP

Reconciliation of Consolidated Statement of Income from IFRS to US GAAP for the year ended December 31, 2005

$ million

	IFRS	Discontinued operations	Reclassifications	Retirement benefits	Share-based compensation	Cumulative translation differences	Impairments	Reversals of impairments	Major inspection costs	Other	US GAAP
Revenue	306,731	(648)	–	–	–	–	–	–	–	28	306,111
Cost of sales	252,622	(85)	(275)	316	31	31	42	(51)	–	51	252,682
Gross profit	54,109	(563)	275	(316)	(31)	(31)	(42)	51	–	(23)	53,429
Selling, distribution and administrative expenses	15,482	(64)	–	65	7	–	–	–	–	(83)	15,407
Exploration	1,286	–	–	–	–	–	–	–	–	–	1,286
Research and development	–	–	588	–	–	–	–	–	–	(3)	585
Share of profit of equity accounted investments	7,123	(222)	–	(3)	–	(112)	212	37	–	(17)	7,018
Interest and other income	1,171	1	–	–	–	–	–	–	–	16	1,188
Interest expense	1,068	–	(313)	–	–	–	–	–	–	(7)	748
Income before taxation	44,567	(720)	–	(384)	(38)	(143)	170	88	–	69	43,609
Taxation	17,999	(35)	–	(143)	(3)	–	(68)	(2)	–	95	17,843
Income attributable to minority interest										1,010	1,010
Income from continuing operations	26,568	(685)	–	(241)	(35)	(143)	238	90	–	(1,036)	24,756
Income/(loss) from discontinued operations	(307)	685	–	–	–	–	–	–	–	–	378
Cumulative effect of change in accounting policy	–	–	–	–	–	–	–	–	554	–	554
Income for the period	26,261	–	–	(241)	(35)	(143)	238	90	554	(1,036)	25,688
Attributable to minority interest	950	–	–	(5)	–	–	60	–	–	(1,005)	
Income attributable to shareholders of Royal Dutch Shell plc	25,311	–	–	(236)	(35)	(143)	178	90	554	(31)	25,688

7.2. Reconciliation of Income Statement 2004 from IFRS to US GAAP

Reconciliation of Consolidated Statement of Income from IFRS to US GAAP for the year ended December 31, 2004

$ million

	IFRS	Discontinued operations	Reclassifications	Retirement benefits	Share-based compensation	Cumulative translation differences	Impairments	Reversals of impairments	Major inspection costs	Other	US GAAP
Revenue	266,386	(4,416)	2,304	–	–	–	–	–	–	7	264,281
Cost of sales	223,259	(1,810)	134	(306)	(128)	102	(730)	211	223	54	221,009
Gross profit	43,127	(2,606)	2,170	306	128	(102)	730	(211)	(223)	(47)	43,272
Selling, distribution and administrative expenses	15,098	(476)	3	50	(14)	28		–	–	86	14,775
Exploration	1,809	(5)	19	–	–	–	–	–	–	–	1,823
Research and development	–	–	553	–	–	–	–	–	–	–	553
Share of profit of equity accounted investments	5,015	(252)	1,420	(6)	–	–	(212)	(258)	(50)	(4)	5,653
Interest and other income	1,483	(28)	193	–	–	–	–	–	–	43	1,691
Interest expense	1,059	(56)	314	–	–	–	–	–	–	(102)	1,215
Income before taxation	31,659	(2,349)	2,894	250	142	(130)	518	(469)	(273)	8	32,250
Taxation	12,168	(381)	2,894	77	27	–	258	–	(75)	120	15,088
Income attributable to minority interest										626	626
Income from continuing operations	19,491	(1,968)	–	173	115	(130)	260	(469)	(198)	(738)	16,536
Income/(loss) from discontinued operations	(234)	1,880	–	–	–	–	–	–	–	–	1,646
Income for the period	19,257	(88)	–	173	115	(130)	260	(469)	(198)	(738)	18,182
Attributable to minority interest	717	(88)	–	(3)	–	–	–	–	(2)	(624)	
Income attributable to shareholders of Royal Dutch Shell plc	18,540	–	–	176	115	(130)	260	(469)	(196)	(114)	18,182

7.3. EPS under US GAAP

Earnings per share under US GAAP

	2005	2004
		$
Basic earnings per share	3.85	2.68
Continuing operations	3.71	2.44
Discontinuing operations	0.06	0.24
Cumulative effect of change in accounting policy	0.08	–
Diluted earnings per share	3.84	2.68
Continuing operations	3.70	2.44
Discontinuing operations	0.06	0.24
Cumulative effect of change in accounting policy	0.08	–

Further details regarding these calculations are contained in Note 36.

7.4. Reconciliation of Balance Sheet 2005 from IFRS to US GAAP

Reconciliation of Consolidated Balance sheet from IFRS to US GAAP as at December 31, 2005

	IFRS	Retirement benefits	Impairments	Reversals of impairments	Investments	Other	US GAAP
							$ million
Assets							
Non-current assets							
Intangible assets							
cost	6,961	304	–	–	–	(12)	7,253
accumulated depreciation	(2,611)	–	–	–	–	2	(2,609)
	4,350	304	–	–	–	(10)	4,644
Property, plant and equipment							
cost	190,809	–	–	–	–	(127)	190,682
accumulated depreciation	(103,251)	–	663	(148)	–	61	(102,675)
	87,558	–	663	(148)	–	(66)	88,007
Investments:							
equity accounted investments	16,905	97	–	(352)	–	35	16,685
financial assets	3,672	–	–	–	(780)	42	2,934
Deferred tax	2,562	(779)	(3)	–	–	(21)	1,759
Other	6,577	5,455	–	–	–	(276)	11,756
	121,624	5,077	660	(500)	(780)	(296)	125,785
Current assets							
Inventories	19,776	–	–	–	–	–	19,776
Accounts receivable	66,386	–	–	–	–	(31)	66,355
Cash and cash equivalents	11,730	–	–	–	–	–	11,730
	97,892	–	–	–	–	(31)	97,861
Total assets	219,516	5,077	660	(500)	(780)	(327)	223,646
Liabilities							
Non-current liabilities							
Debt	7,578	–	–	–	–	(210)	7,368
Deferred tax	10,763	1,240	217	(121)	–	(6)	12,093
Provisions	13,192	(181)	–	–	–	(160)	12,851
Other	5,095	–	–	–	–	251	5,346
	36,628	1,059	217	(121)	–	(125)	37,658
Current liabilities							
Debt	5,338	–	–	–	–	(10)	5,328
Accounts payable, accrued liabilities and provisions	70,844	(47)	–	–	–	(34)	70,763
Taxes payable	8,782	–	–	–	–	6	8,788
	84,964	(47)	–	–	–	(38)	84,879
Total liabilities	121,592	1,012	217	(121)	–	(163)	122,537
Minority interest						7,006	7,006
Equity attributable to shareholders of Royal Dutch Shell plc	90,924	4,050	443	(379)	(780)	(155)	94,103
Minority interest	7,000	15	–	–	–	(7,015)	
Total equity	97,924	4,065	443	(379)	(780)	(7,170)	94,103
Total liabilities and equity	219,516	5,077	660	(500)	(780)	(327)	223,646

7.5. Reconciliation of Balance Sheet 2004 from IFRS to US GAAP

Reconciliation of Consolidated Balance sheet from IFRS to US GAAP as at December 31, 2004

$ million

	IFRS	Reclassi-fication	Retirement benefits	Impairments	Reversals of impairments	Major inspection costs	Other	US GAAP
Assets								
Non-current assets								
Intangible assets								
cost	7,125	21	349	–	–	–	9	7,504
accumulated depreciation	(2,597)	(2)	–	–	–	–	(15)	(2,614)
	4,528	19	349	–	–	–	(6)	4,890
Property, plant and equipment								
cost	189,447	5,005	–	–	–	(1,169)	(121)	193,162
accumulated depreciation	(101,529)	(3,696)	–	730	(211)	509	(25)	(104,222)
	87,918	1,309	–	730	(211)	(660)	(146)	88,940
Investments:								
equity accounted investments	19,190	1,081	99	(212)	(397)	(170)	152	19,743
financial assets	2,700	–	–	–	–	–	48	2,748
Deferred tax	2,789	(6)	(980)	(12)	–	31	173	1,995
Other	8,272	(1,295)	5,279	–	–	–	391	12,647
	125,397	1,108	4,747	506	(608)	(799)	612	130,963
Current assets								
Inventories	15,375	16	–	–	–	–	–	15,391
Accounts receivable	37,473	575	–	–	–	–	15	38,063
Cash and cash equivalents	9,201	6	–	–	–	–	1	9,208
	62,049	597	–	–	–	–	16	62,662
Total assets	187,446	1,705	4,747	506	(608)	(799)	628	193,625
Liabilities								
Non-current liabilities								
Debt	8,858	(26)	–	–	–	–	(232)	8,600
Deferred tax	12,930	206	1,541	246	(139)	(220)	280	14,844
Provisions	13,623	(1,206)	(1,711)	–	–	–	47	10,753
Other	5,800	2,014	–	–	–	–	251	8,065
	41,211	988	(170)	246	(139)	(220)	346	42,262
Current liabilities								
Debt	5,734	–	–	–	–	–	28	5,762
Accounts payable, accrued liabilities and provisions	40,060	(112)	(57)	–	–	–	(29)	39,862
Taxes payable	9,058	829	–	–	–	–	(2)	9,885
	54,852	717	(57)	–	–	–	(3)	55,509
Total liabilities	96,063	1,705	(227)	246	(139)	(220)	343	97,771
Minority interest							5,309	5,309
Equity attributable to shareholders of Royal Dutch Shell plc	86,070	–	4,954	260	(469)	(564)	294	90,545
Minority interest	5,313	–	20	–	–	(15)	(5,318)	
Total equity	91,383	–	4,974	260	(469)	(579)	(5,024)	90,545
Total liabilities and equity	187,446	1,705	4,747	506	(608)	(799)	628	193,625

7.6. Shell Subsidiary included in Consolidated Financial Statement

Subsidiary undertaking	%	Country of incorporation	Principal activities	Class of shares held
Shell Compania Argentina de Petroleo S.A.	100	Argentina	E&P	Nominative
Shell Energy Holdings Australia Limited	100	Australia	E&P	Ordinary, Redeemable
Shell Australia Natural Gas Shipping Limited	100	Bermuda	E&P	Preference
Shell Oman Trading Limited	100	Bermuda	E&P	Ordinary
Tacoma Company Limited	100	Bermuda	E&P	Common
Shell Brasil Ltda	100	Brazil	E&P	Ordinary
Shell Canada Limited	78	Canada	E&P, Oil Products	Quotas Common, Preference
Shell Olie-OG Gasundvindning Danmark Pipelines ApS	100	Denmark	E&P	Ordinary
Shell Gabon	75	Gabon	E&P	Ordinary

Shell Italia Exploration & Production S.p.A.	100	Italy	E&P	Ordinary
Shell Abu Dhabi B.V.	100	The Netherlands	E&P	Common
Shell Egypt N.V.	100	The Netherlands	E&P	Ordinary
Shell International Exploration and Production B.V.	100	The Netherlands	E&P	Ordinary
Shell Philippines Exploration B.V.	100	The Netherlands	E&P	Non-Redeemable
Syria Shell Petroleum Development B.V.	100	The Netherlands	E&P	Non-Redeemable,
Shell Nigeria Exploration and Production Company Limited	100	Nigeria	E&P	Redeemable
Shell Nigeria Exploration Properties Alpha Limited	100	Nigeria	E&P	Ordinary
Shell Nigeria Exploration Properties Beta Limited	100	Nigeria	E&P	Ordinary
Shell Nigeria Offshore Prospecting Limited	100	Nigeria	E&P	Ordinary
Shell Nigeria Ultra Deep Limited	100	Nigeria	E&P	Ordinary
Shell Nigeria Upstream Ventures	100	Nigeria	E&P	Ordinary
The Shell Petroleum Development Company of Nigeria Limited	100	Nigeria	E&P	Ordinary
A/S Norske Shell	100	Norway	E&P	Ordinary
Enterprise Oil Norge AS	100	Norway	E&P	Ordinary
Private Oil Holdings Oman Limited	85	UK	E&P	Ordinary
Pecten Cameroon Company LLC	80	USA	E&P	Ordinary
Pecten Victoria Company	100	USA	E&P	Ordinary
Shell Exploration & Production Company	100	USA	E&P	Common
Shell International Pipelines Inc	100	USA	E&P	Ordinary
Shell Offshore Company	100	USA	E&P	Ordinary
Shell Oil Company	100	USA	E&P	Ordinary, Preferred A
Shell Rocky Mountain Production LLC	100	USA	E&P	Common
SWEPI LP	100	USA	E&P	Equity
Shell Venezuela S.A.	100	Venezuela	E&P	Equity
Shell U.K. Limited	100	UK	E&P,	Ordinary
			Chemicals, Oil Products	Ordinary
Shell Development (Australia) PTY Limited	100	Australia	E&P,	Ordinary
			Oil Products	Ordinary
Shell Western LNG Limited	100	Barbados	Gas & Power	Ordinary
Qatar Shell GTL Limited	100	Bermuda	Gas & Power	Preference, Common
Coral Energy Canada Inc	100	Canada	Gas & Power	Equity
Shell Energy Deutschland GmbH	100	Germany	Gas & Power	Equity
Hazira Gas Private Limited	74	India	Gas & Power	Equity
Hazira LNG Private Limited	74	India	Gas & Power	Equity
Hazira Port Private Limited	74	India	Gas & Power	Ordinary, Redeemable
Shell MDS Sendirian Berhad	72	Malaysia	Gas & Power	Preference
Shell Energy Europe B.V.	100	The	Gas & Power	Ordinary

		Netherlands		
Shell Nigeria Gas Ltd (Sng)	100	Nigeria	Gas & Power	Ordinary
Coral Energy Holding, LP	100	USA	Gas & Power	Partnership Capital
Coral Energy Resources, LP	100	USA	Gas & Power	Partnership Capital
Coral Power LLC	100	USA	Gas & Power	Equity
Sakhalin Energy Investment Company Limited	55	Bermuda	Gas & Power, E&P	Ordinary, Phase I Preference, General Preference
Shell Direct GmbH	100	Germany	Oil Products	Ordinary
Shell Nederland Raffinaderij B.V.	100	The Netherlands	Oil Products	Ordinary
Shell South Africa Marketing (PTY) Limited	75	South Africa	Oil Products	Ordinary
Shell Energy Trading Limited	100	UK	Oil Products	Ordinary
Shell Trading International Limited	100	UK	Oil Products	Ordinary
Shell Trading (US) Company	100	USA	Oil Products	Common
Equilon Enterprises LLC	100	USA	Oil Products	Equity
Jiffy Lube International of Maryland Inc	100	USA	Oil Products	Common
Jiffy Lube International Inc	100	USA	Oil Products	Common
Pecten Trading Company	100	USA	Oil Products	Ordinary
Pennzoil-Quaker State Company	100	USA	Oil Products	Ordinary
Shell Oil Products Company LLC	100	USA	Oil Products	Ordinary
Shell Pipeline Company LP	100	USA	Oil Products	Equity
Shell RSC Company	100	USA	Oil Products	Common
SOPC Holdings East LLC	100	USA	Oil Products	Equity
SOPC Holdings West LLC	100	USA	Oil Products	Common
TMR Company	100	USA	Oil Products	Ordinary
Shell Eastern Petroleum (PTE) Limited	100	Singapore	Oil Products, Gas & Power, Chemicals	Ordinary, Redeemable Preference
CRI Catalyst Co Belgium N.V.	100	Belgium	Chemicals	Ordinary
Shell Trading (M.E.) Private Limited	100	Bermuda	Chemicals	Ordinary
Shell Chemicals Americas Inc	100	Canada	Chemicals	Common
Shell Chemicals Canada Limited	100	Canada	Chemicals	Common, Preferred A
Shell Petrochimie Mediterranee S.A.S.	100	France	Chemicals	Ordinary
Shell Deutschland Oil GmbH	100	Germany	Chemicals	Ordinary
Shell Chemicals Europe B.V.	100	The Netherlands	Chemicals	Ordinary
Shell Nederland Chemie B.V.	100	The Netherlands	Chemicals	Ordinary, Redeemable
Shell Chemical Yabucoa Inc	100	Puerto Rico	Chemicals	Ordinary
Ethylene Glycols (Singapore) Private Limited	70	Singapore	Chemicals	Ordinary
Seraya Chemicals Singapore PTE Limited	100	Singapore	Chemicals	Ordinary
Shell Chemical LP	100	USA	Chemicals	Ordinary
Shell Petroleum N.V.*	100	The Netherlands	Holding Company	Ordinary
The Shell Petroleum Company Limited	100	UK	Holding Company	Ordinary

The Shell Transport and Trading Company Limited	100 UK	Holding Company	Ordinary
Solen Insurance Limited	100 Bermuda	Insurance	Ordinary
Shell Treasury Luxembourg SARL	100 Luxembourg	Treasury	Ordinary
Shell Treasury Centre East (PTE) Limited	100 Singapore	Treasury	Ordinary
Shell Treasury Centre Limited	100 UK	Treasury	Ordinary
Shell Treasury Center (West) Inc	100 USA	Treasury	Ordinary
Shell International Finance B.V.*	100 The Netherlands	Debt Issuer	Ordinary

7.7. USD – MYR Exchange Rate of 1993-2005

Year	USD-MYR rate at the end of the year	Average of USD - MYR rate
1993	2.70	2.57
1994	2.56	2.62
1995	2.54	2.50
1996	2.53	2.52
1997	3.89	2.81
1999	3.80	3.80
1998	3.80	3.92
2000	3.80	3.80
2001	3.80	3.80
2002	3.80	3.80
2003	3.80	3.80
2004	3.80	3.80
2005	3.78	3.79

7.8. Consolidated Income Statement 1993-2005 US GAAP format MYR currency

Consolidated Income of Statement

US GAAP
MYR million

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Average of USD - MYR rate	**3.79**	**3.80**	**3.80**	**3.80**	**3.80**	**3.80**	**3.80**	**3.92**	**2.81**	**2.52**	**2.50**	**2.62**	**2.57**
Revenue													
Exploration & Production			46,451	44,232	44,870	84,067	38,372	35,108	32,877	30,316			
Gas & Power			28,033	16,165	22,599	61,868	37,772	31,321	3,057	2,628			
Oil Products			604,485	504,188	345,276	520,478	438,649	422,443	402,420	361,542			
Chemicals			71,603	53,675	50,388	59,500	50,950	50,156	41,650	36,815			
Other			3,203	2,861	2,189	1,828	3,139	3,007	2,352	2,049			
Gross sales	1,434,091	1,279,274	1,002,778	829,491	620,772	727,742	568,883	542,034	482,356	433,349	376,725	338,266	323,342
Sales taxes, excise duties and similar levies	273,930	275,006	249,003	208,369	155,450	160,987	168,492	174,761	122,241	110,001	102,045	89,811	78,747
Net sales	**1,160,161**	**1,004,268**	**753,776**	**621,121**	**465,321**	**566,755**	**400,391**	**367,273**	**360,116**	**323,349**	**274,680**	**248,455**	**244,595**
Cost of sales	957,665	839,834	627,559	515,500	365,146	449,646	310,988	300,562	282,107	250,617	213,798	194,957	193,508
Gross profit	**202,496**	**164,434**	**126,217**	**105,621**	**100,176**	**117,108**	**89,403**	**66,711**	**78,008**	**72,732**	**60,883**	**53,498**	**51,086**
Selling, distribution and administrative expenses	58,393	56,145	50,525	42,617	33,615	34,325	34,295	42,164	34,040	29,716	30,040	28,003	27,006
Exploration	4,874	6,927	5,605	3,998	3,203	2,869	4,127	6,284	3,296	2,943	2,388	2,738	3,143
Research and development	2,217	2,101	2,219	1,794	1,471	1,478	1,919	3,132	1,860	1,767	1,910	1,750	2,038
Operating profit of Shell Group companies	137,012	99,260	67,868	57,213	61,887	78,436	49,062	15,131	38,812	38,307	26,545	21,007	18,900
Share of operating profit of associated companies	26,598	21,481	13,095	10,610	9,937	14,664	8,820	-2,964	5,985	4,859	4,745	4,189	4,032
Operating profit	163,611	120,741	80,963	67,822	71,824	93,100	57,882	12,168	44,797	43,165	31,290	25,197	22,932
Interest and other income	4,503	6,426	7,585	2,972	4,165	3,701	2,056	2,466	2,563	2,339	2,693	4,168	3,007
Interest expense	2,835	4,617	5,031	4,906	3,887	5,031	4,761	5,225	3,288	2,628	3,075	2,832	3,207
Currency exchange			-878	-95	-118	-433	4	20	-1,307	-106	645	81	-406

gains/(losses)													
Income before taxation	**165,278**	**122,550**	**82,639**	**65,793**	**71,983**	**91,337**	**55,180**	**9,428**	**42,765**	**42,769**	**31,553**	**26,614**	**22,326**
Taxation	67,625	57,334	35,538	29,089	31,536	42,837	21,645	7,499	20,856	19,704	13,793	9,888	10,730
Income after taxation	**97,653**	**65,216**	**47,101**	**36,704**	**40,447**	**48,499**	**33,535**	**1,929**	**21,910**	**23,066**	**17,760**	**16,726**	**11,596**
Income applicable to minority interests	3,828	2,379	1,341	665	1,368	167	916	557	124	673	463	307	39
Income from continuing operations	**93,825**	**62,837**	**45,760**	**36,039**	**39,079**	**48,332**	**32,619**	**1,372**	**21,786**	**22,393**	**17,298**	**16,420**	**11,557**
Income/(loss) from discntind oprtns, net of tax	1,433	6,255	95	711	141								
Cum effect of chng in accntng prnciple, net of tax	2,100		969										
Income for the period	**97,358**	**69,092**	**46,824**	**36,750**	**39,220**	**48,332**	**32,619**	**1,372**	**21,786**	**22,393**	**17,298**	**16,420**	**11,557**
Income attributable to shareholders of RDS (or the former parent co)	**97,358**	**69,092**	**46,824**	**36,750**	**39,220**	**48,332**	**32,619**	**1,372**	**21,786**	**22,393**	**17,298**	**16,420**	**11,557**
Depreciation, depletion and amortization are included within the following expense headings as follows:													
Cost of Sales	39,355	40,162	37,479	28,382	19,627	25,418	19,536	31,238	16,228	15,730	16,595	14,625	12,608
Selling, distribution and administrative expenses	5,579	6,053	5,354	4,397	4,028	4,347	4,989	5,331	4,193	3,563	3,320	3,113	2,940
Exploration	474	2,595	1,562	304	160	38	46	39	37	40	75	13	41
R&D			106	125	106	160	205	329	267	239	278	288	303
	45,408	48,811	44,502	33,208	23,921	29,963	24,776	36,938	20,724	19,573	20,268	18,039	15,893
MYR													
EPS (Royal Dutch Shell / Royal Dutch Petroleum)	14.59	10.18	6.88	5.36	5.51	13.53	9.16	0.51	6.46	6.70	5.10	4.82	3.44
EPS 2 (Shell Transport)						11.67	7.87	0.20	4.92	5.01	3.80	3.62	2.54

*From year 2000 backward, there were stock split between Royal Dutch Petroleum and Shell Transport

7.9. Consolidated Balance Sheet 1993-2005 US GAAP format MYR currency

Consolidated Balance Sheet

US GAAP
MYR million

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
USD-MYR rate at the end of the year	3.78	3.80	3.80	3.80	3.80	3.80	3.80	3.80	3.89	2.53	2.54	2.56	2.70
Assets													
Non-current assets													
Intangible assets	17,554	18,582	17,993	17,845	3,568	9,439	16,842	15,926	9,655	2,758			
Property plant and eqpmnt	332,666	337,972	330,934	297,779	192,740	174,173	208,267	224,941	245,405	177,689	175,857	161,608	162,127
Investments:													
Equity accounted invmnt	63,069	75,023	73,610	68,191	69,658	70,862	63,407	63,407	50,702	22,375	21,107	20,155	20,968
Financial assets	11,091	10,442	12,931	11,928	11,484	10,499	9,895	10,207	9,744	2,115	2,817	2,460	1,604
Total fixed assets	**424,381**	**442,020**	**435,469**	**395,743**	**277,449**	**264,974**	**298,410**	**314,480**	**315,506**	**204,938**	**199,781**	**184,223**	**184,699**
Deferred tax	6,649	7,581											
Other	44,438	48,059	43,126	27,865	29,321	25,984	18,856	17,902	18,933	11,962			
Total non-current assets	**475,467**	**497,659**	**478,595**	**423,609**	**306,770**	**290,958**	**317,266**	**332,382**	**334,439**	**216,899**	**199,781**	**184,223**	**184,699**
Current assets													
Inventories	74,753	58,486	48,222	43,084	25,004	29,959	29,404	22,709	29,210	20,792	19,200	18,002	17,893
Accounts receivable	250,822	144,639	110,249	109,429	66,451	101,122	70,691	52,771	61,820	45,161	50,884	44,178	41,059
Short-term securities						15	30	72	3,380	11,790	11,730	11,274	10,306
Cash and cash equivalents	44,339	34,990	8,045	6,494	27,565	43,438	15,363	10,325	16,750	19,433	17,115	18,424	15,584
Total current assets	**369,915**	**238,116**	**166,516**	**159,007**	**119,020**	**174,534**	**115,490**	**85,876**	**111,161**	**97,175**	**98,928**	**91,878**	**84,842**
Total assets	**845,382**	**735,775**	**645,111**	**582,616**	**425,790**	**465,492**	**432,755**	**418,258**	**445,600**	**314,074**	**298,709**	**276,101**	**269,541**
Liabilities													
Non-current liabilities													
Debt	27,851	32,680	34,580	25,905	6,962	15,466	22,834	22,922	22,609	15,499	18,666	15,237	16,540
Deferred tax	45,712	56,407	57,703	47,694	26,896	26,630	26,801	27,189	34,543	22,492	20,307	19,553	24,527
Retirement benefit obligtns			18,723	19,061	8,858	8,504	9,739	10,754	11,020	10,828	10,927	10,511	9,593
Other provisions	48,577	40,861	15,029	13,406	9,937	9,553	9,648	9,884	9,040	6,039	5,342	4,301	3,515

Other	20,208	30,647	23,005	23,461	17,157	15,211	12,323	10,059	9,188	7,448	6,114	6,016	5,241
Total non-current liabilities	**142,347**	**160,596**	**149,040**	**129,527**	**69,810**	**75,365**	**81,347**	**80,807**	**86,401**	**62,306**	**61,356**	**55,619**	**59,416**
Current liabilities													
Debt	20,140	21,896	40,162	46,607	15,154	12,757	26,304	29,556	18,653	14,396	13,800	14,484	14,621
Accounts payable and accrued liabilities	267,484	151,476	123,055	122,440	71,854	101,129	68,810	60,325	65,126	46,585	42,738	36,283	35,049
Taxes payable	33,219	37,563	22,523	18,943	17,077	23,241	19,350	15,401	18,454	15,190	16,170	15,073	11,594
Other provisions						25,126	12,696	13,049	13,444	7,552	7,452	6,106	5,346
Total current liabilities	**320,843**	**210,934**	**185,740**	**187,990**	**104,086**	**162,252**	**127,159**	**118,332**	**115,677**	**83,723**	**80,160**	**71,946**	**66,609**
Total liabilities	**463,190**	**371,530**	**334,780**	**317,517**	**173,896**	**237,618**	**208,506**	**199,139**	**202,078**	**146,029**	**141,516**	**127,565**	**126,025**
Minority interest	26,483	20,174	12,977	13,558	13,171	10,948	10,800	10,264	8,620	8,640	7,889	4,813	4,220
Equity													
Ordinary share capital	2,158	2,219	2,231	2,242	2,265								
Preference share capital		76	76	76									
Additional paid in capital	13,748	20,410	20,414	20,425	20,463								
Treasury shares	-14,398	-15,911	-13,026	-10,629	-7,345								
Other reserves	-8,547	11,271	-296	-26,490	-31,935								
Retained earnings	362,748	326,006	287,956	265,916	255,276								
Equity attributable to shareholders of RDS plc	**355,709**	**344,071**	**297,354**	**251,541**	**238,724**	**216,927**	**213,450**	**208,856**	**234,902**	**159,405**	**149,304**	**143,724**	**139,296**
Total equity	**355,709**	**344,071**	**297,354**	**251,541**	**238,724**	**216,927**	**213,450**	**208,856**	**234,902**	**159,405**	**149,304**	**143,724**	**139,296**
Total liabilities and equity	**845,382**	**735,775**	**645,111**	**569,058**	**412,619**	**465,492**	**432,755**	**418,258**	**445,600**	**314,074**	**298,709**	**276,101**	**269,541**
Capital employed	**430,183**	**418,821**	**385,073**	**337,611**	**274,010**	**256,097**	**273,387**	**271,597**	**284,783**	**197,940**	**189,659**	**178,258**	**174,677**

7.10. Share and Earning Price 1993-2005 in MYR currencies

	2005	2004	2003	2002	2001	2000	1999
Earning (MYR)	97,358	69,092	46,824	36,750	39,220	48,332	32,619
Share amount	3,965,748,481	4,046,424,252	4,073,375,510	4,115,315,474	4,191,462,522	2,144,296,352	2,144,296,352
	2,708,431,286	2,724,034,671	2,737,938,665	2,760,872,739	2,803,961,113	1,657,251,621	1,657,251,621
	6,674,179,767	6,770,458,923	6,811,314,175	6,876,188,213	6,995,423,635	3,801,547,973	3,801,547,973
Royal Dutch portion						60%	60%
Shell Transport portion						40%	40%
Share price (MYR)	233.05	218.04	199.08	167.28	186.28	230.13	230.13
	244.57	226.59	198.51	171.57	182.74	187.64	186.20

	1998	1997	1996	1995	1994	1993
Earning (MYR)	1,372	21,786	22,393	17,298	16,420	11,557
Share amount	2,144,296,352	2,144,296,352	2,144,296,352	2,144,296,352	2,144,296,352	2,144,296,352
	1,657,251,621	1,657,251,621	1,657,251,621	1,657,251,621	1,657,251,621	1,657,251,621
	3,801,547,973	3,801,547,973	3,801,547,973	3,801,547,973	3,801,547,973	3,801,547,973
Royal Dutch portion	60%	60%	60%	60%	60%	60%
Shell Transport portion	40%	40%	40%	40%	40%	40%
Share price (MYR)	187.69	152.27	107.58	88.20	70.43	67.08
	145.78	122.94	86.01	67.83	57.09	55.46

7.11. Benchmarking Shell with Exxon

		Shell	Exxon
		2005	2005
- Profitability ratios			
Profit Margin on Sales		8.42%	10.29%
Basic Earning Power		20.70%	63.87%
Return on Sales		14.10%	35.90%
Return on Assets		12.31%	17.91%
Return on Investment		22.93%	30.53%
Return on Equity		27.83%	33.94%
Liquidity ratios			
Current Ratio		115.29%	158.38%
Quick Ratio		92.00%	131.21%
Efficiency ratios			
AR Turnover	times	5.87	13.59
AR Collection Period	days	62	26
Inventory Turnover	times	14.38	17.33
Days Inventory	days	25	21
AP Turnover	times	4.57	6.25
Days Payable	days	79	58
Cash Flow Cycles	days	8	-11
Leverage ratios			
Long-term debt ratio		6.79%	5.14%
Total debt ratio		11.16%	6.51%
Debt to Equity Ratio		13.49%	7.19%
Market Ratios			
Earning per Share	MYR	14.59	21.85
	MYR	14.59	
Price Earning Ratio	times	15.98	9.72
	times	16.77	
Sophisticated Ratios			
extended Dupont ROE			
Asset turnover	times	1.47	1.78
Profit margin		8.39%	10.07%
Capital multiplier	times	1.86	1.71
ROE		22.93%	30.53%
Abstract Measures			
Altman Z-score			
Z-score		1.466	1.760