

RAYMOND JAMES®

September 11, 2012

The Honorable Fred Upton
Chairman
Committee on Energy and Commerce
2125 Rayburn HOB
Washington, D.C. 20515

The Honorable Henry Waxman
Ranking Member
Committee on Energy and Commerce
2204 Rayburn HOB
Washington, D.C. 20515

The Honorable Ed Whitfield
Chairman
Subcommittee on Energy and Power
2368 Rayburn HOB
Washington, D.C. 20515

The Honorable Bobby L. Rush
Ranking Member
Subcommittee on Energy and Power
2268 Rayburn HOB
Washington, D.C. 20515

Re: The American Energy Initiative: A Focus on the Outlook for Achieving North
American Energy Independence Within the Decade

Dear Chairmen Upton, Whitfield and Ranking Members Waxman and Rush:

On behalf of Raymond James & Associates, Inc., I would like to take this opportunity to thank all the Members of the Committee including Chairman Upton and Ranking Member Waxman for their important work on this Committee. Additionally, I would like to specifically thank Subcommittee Chairman Whitfield and Ranking Member Rush for holding this hearing and inviting me to testify on this very important topic of energy independence.

Respectfully yours,



John Freeman, CFA
Managing Director, Equity Research
Raymond James & Associates, Inc.

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Before the Committee on Energy and Commerce, Subcommittee on Energy and Power

September 13, 2012

Testimony of John Freeman, Energy Research Group, Raymond James & Associates

I would like to take this opportunity to thank all the Members of the Committee including Chairman Upton and Ranking Member Waxman for their important work on this Committee. Additionally, I would like to specifically thank Subcommittee Chairman Whitfield and Ranking Member Rush for holding this hearing and inviting me to testify on behalf of Raymond James & Associates, Inc.

My name is John Freeman, and I have worked as part of the Energy Research Group at Raymond James & Associates, Inc. since 2000. Together with my colleague Pavel Molchanov, who joins me in the room, I welcome the opportunity to appear before the committee and share our team's perspectives on the progress the nation is making towards energy independence. America is already a major exporter of coal, and together with Canada, is self-sufficient when it comes to natural gas. And for the first time in over 50 years, there is clear visibility on how oil independence can be achieved within a foreseeable period of time. Many of the themes I will describe today are sustainable trends, driven by the private sector, and they can continue for a long time even without additional policy steps. However, Congress can play a constructive role in accelerating these trends and supporting industry efforts along the way.

A summary of my comments are attached hereto as Exhibit A. My comments will be based on research reports that our team has published this year on the topic of energy independence, attached hereto as Exhibits B, C, and D. I will start by talking about oil supply, and then demand. The nation's all-time peak for net petroleum imports was in 2005, when 13.5 million barrels per day (MMbpd), or 65% of what is consumed, had to be purchased from abroad. By 2011, imports were down to 9.7 MMbpd, or 52% of

consumption. In other words, over a six-year period, 3.8 MMbpd of imports disappeared. That reduction in imports was almost evenly balanced between rising domestic production and declining consumption.

Let me share a statistic that would surprise most Americans. Between 2008 and 2011, the U.S. added more barrels to global oil supply than any other country. What's especially impressive is that this happened in spite of the deepwater drilling moratorium in 2010 and 2011, which of course had the effect of lowering production from the Gulf of Mexico. In other words, all of the production increase – a total of 1.6 MMbpd over three years – came entirely from onshore fields.

All of you are aware of the unprecedented boom in unconventional drilling activity across the continental United States. This game-changing trend first materialized in the natural gas industry, with the resulting collapse in North American natural gas prices. In the oil industry, the unconventional boom began a bit later, but we think the real inflection point is now upon us. This year alone, we project a supply increase of nearly 1 MMbpd, about as much as the prior two years put together. We project a similar increase in 2013, with sustained growth thereafter towards the end of the decade, though at a somewhat slower pace. In fact, we forecast the U.S. will become the largest oil producer in the world before the end of this decade.

Our forecasts are based on a detailed, basin-by-basin, well-by-well production model that our team built that covers all the major oil producing basins in the country. However, there are three primary areas that comprise the main building blocks of this surge in domestic production. They are the Bakken formation of North Dakota, the Eagle Ford Shale of South Texas, and the Permian Basin of West Texas. We project that the Bakken, Eagle Ford and Permian will comprise more than 80% of the nation's total production growth through at least 2015.

Despite the impressive production growth the industry is accomplishing, it has not come without its share of challenges. So, what are some of the constraints the industry faces? One of these will be difficult for this committee to do anything about, and that is what we refer to as the “graying of the oil patch”. The average U.S. petroleum engineer is close to 50 years old, and the number of students in these programs at universities is insufficient to fully compensate for the workers who are retiring. To make a broader point, some of the most active drilling areas have widespread labor shortages across the spectrum. North Dakota, for example, has the lowest unemployment rate of any state.

The other two constraints are issues that Congress and the executive branch have more influence over. One is the development of pipeline infrastructure to take oil from the high-growth production areas to the refining and distribution hubs, such as the Gulf Coast. While very few pipeline projects achieve the political notoriety of the Keystone XL pipeline, permitting bottlenecks can still slow down the process, especially as it pertains to federal lands. The second point is similar. The growth in drilling activity in recent years has been much more visible on private and state lands rather than federal lands, which reflects the more stringent regulatory scrutiny associated with federal lands. The challenge here is to balance prudent environmental protection with the industry’s needs.

Let me turn to demand. As I noted at the beginning, both rising supply and declining demand have been just about equally important drivers behind the reduction in U.S. oil imports since 2005. Of course, part of this fall in consumption has been purely cyclical: a direct result of the Great Recession and the slow recovery since then. But the nation’s oil demand began to fall well before the onset of the financial crisis. Between 1992 and 2005, demand was up every year but one. Since 2005, demand has fallen every year but one.

There are four long-term drivers that, in our view, will result in a sustained decline in U.S. oil demand at an average rate of around 1% per year. This is much slower than the rate of decline since 2005, because of course we are not assuming a repeat of the Great Recession, but it still accounts for 28% of the projected reduction in oil imports for the period 2011 through 2020. Alongside the supply surge, lower demand is accelerating the path towards oil independence. If demand does not decline as we project, oil independence will take longer to achieve. Assuming flat demand, for example, would mean an incremental 1.4 MMbpd of imports in 2020.

The first driver is the ongoing improvement in fuel economy. The committee is, of course, familiar with the CAFE standards mandating rising fuel economy, for which the Department of Transportation and EPA issued their final rule just two weeks ago. But consumer preferences have also undergone a remarkable shift over the past five years. Between 2006 and 2011, the increase in the average fuel economy of actual passenger car sales improved more in absolute terms than it had in the 15 years prior to 2006. Quite simply, high fuel prices provide a clear incentive to purchase vehicles that get better mileage.

Second, there is an ongoing decline in what the Bureau of Transportation Statistics calls vehicle-miles traveled. In parallel with changes in the vehicles that consumers buy, driving habits are changing as well. Anecdotally, reduced driving patterns can reflect things like shorter vacations. The use of public transport is on the rise, as consumers try to cut their own fuel costs. Other factors include greater reliance on Internet commerce relative to traditional shopping, growing popularity of higher-density urban living, and the fact that the number of automobiles per household peaked in 2007 due in part to demographics, namely the aging of the “baby boomer” generation.

The final two reasons involve a shift from oil to natural gas: in the petrochemical industry, as well as in transportation. This is not a matter of statutory mandates but rather the economic benefits from using cheap North American natural gas as compared to oil. The cost advantage of the U.S. chemical industry compared to its overseas competitors helps explain why many new chemical plants are in development. And in transportation, an emerging arena for natural gas usage, a gallon of fuel made from natural gas at today's prices costs less than half of conventional gasoline.

In conclusion, America is blessed with an abundance of natural resources. We are the largest producer of natural gas in the world, the second largest producer of coal, and in the next several years we'll become the largest oil producer in the world. The future has never been brighter for achieving energy independence.

Thank you very much, and I look forward to your questions.

Exhibits

EXHIBIT A

Before the Committee on Energy and Commerce, Subcommittee on Energy and Power

September 13, 2012

Summary of Testimony - John Freeman, Energy Research Group, Raymond James & Associates, Inc.

Supply:

- U.S. can become energy independent by 2020
- Before the end of this decade the U.S. will become the largest oil producer in the world
- Three areas (Bakken, Eagle Ford, Permian) will drive 80% of the production growth
- We added more barrels to global oil supply from 2008-2011 than any other country despite the deepwater drilling moratorium in 2010 and 2011

Demand:

- Net petroleum imports peaked in 2005 at 13.5 million barrels per day
- Since 2005, petroleum imports have declined 3.8 million barrels per day
- Since 2005, U.S. oil demand has fallen every year, but one (2010 rebound following 2009 recession)
- U.S. oil demand is forecasted to decline an average of 1% per year through 2020
- Main factors that are driving this decline in demand include fuel economy improvements (CAFE standards, changing consumer preferences) and decline in vehicle-miles traveled (demographics, internet commerce)

EXHIBIT B

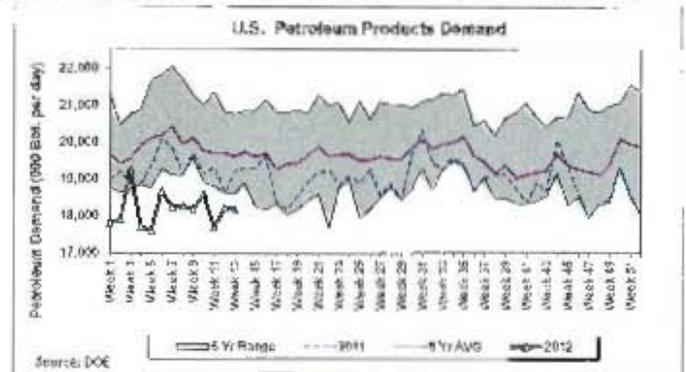
Energy

J. Marshall Adkins, (713) 789-3551, Marshall.Adkins@RaymondJames.com
 Pavel Molchanov, (713) 278-5270, Pavel.Molchanov@RaymondJames.com

Energy: Stat of the Week

Why is U.S. Oil Demand Falling, and Will It Ever Grow Again?

Last week, we detailed why growing U.S. oil supply will likely drive the U.S. to oil import independence during this decade. While rising U.S. oil supply is clearly the lead actor, falling U.S. oil demand is starring as the best supporting actor. In fact, U.S. oil demand is on track for its steepest decline since 2009 despite improving unemployment and rising consumer confidence. According to the DOE's weekly data, U.S. oil demand (total of all petroleum products) is down 5.6% y/y so far this year. While roughly 1.5% of this decline reflects a statistical fluke after the DOE changed how it accounts for gasoline exports, the fact remains that even the "clean" DOE number is a hefty 4%. Perhaps more importantly, the petroleum product demand decline seems to be broad-based with gasoline, distillates, and other major categories all down over 5%. While some of our refiners have suggested that demand is not actually falling this fast, recent MasterCard gasoline consumption data confirms a 5.6% annual decline so far this year. Regardless of whether the real decline this year is 3% or 6%, it is clear that U.S. oil demand is falling, and falling fast. Today, we attempt to explain what is behind this decline and address the sustainability of this trend. To begin with, there is no one simple answer. Instead, we think there are numerous trends that are helping to push U.S. oil demand lower. This Stat focuses on the following four key drivers of falling U.S. oil demand: (1) rising fuel economy, (2) changing driving habits, (3) more natural gas vehicles, and (4) shift to more natural gas in petrochemicals. For all these reasons, we conservatively project that U.S. oil demand will be down 2.5% in 2012 and an average of 1.5% per year through 2020. Reality suggests that U.S. oil demand will be down much more than 2.5% this year. Longer term, the U.S. could be using less oil by 2020 than at any point since the mid-1980s.



Trend #1: More Priuses and no more Hummers – fuel economy is on the rise.

To state the obvious: when prices at the pump rise towards \$4/gal, most consumers feel the pain acutely in their pocketbook. In the short run, there is not much they can do other than, well, drive less (i.e., fewer trips or more public transportation). Over time, as households make their next vehicle purchase decision, they naturally place a greater weight on fuel economy than they would have five or ten years ago. While increasing Corporate Average Fuel Economy (CAFE) standards and the government takeover of several U.S. auto companies has helped to facilitate this shift, the reality is that higher gasoline prices are the main driver of improving fuel efficiencies.



The numbers speak for themselves. In 2011, the average miles per gallon (mpg) rating of new passenger car sales was 33.8, up by 3.7 mpg since 2006. Remarkably, this five-year improvement is greater than it had been over the previous 15 years (1990-2006) combined. It is not an accident that sharply higher oil prices over the last five years have driven most of this shift in consumer preferences. For light trucks the story is similar as mileage ratings have increased nearly 3.5 mpg to nearly 25 mpg over the past five years. Keep in mind that for both cars and trucks, the normal replacement cycle means that less efficient (pre-2006) vehicles are

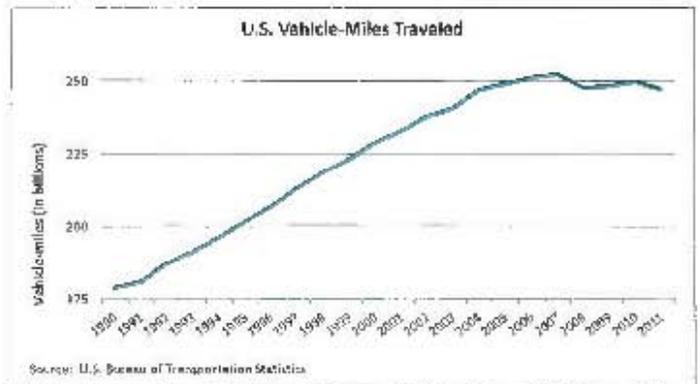
Please read domestic and foreign disclosure/risk information beginning on page 7 and Analyst Certification on page 7.

increasingly being taken off the market. Going forward, under the federal CAFE standards, overall fuel economy of new vehicles must improve by 5% per year through 2016.

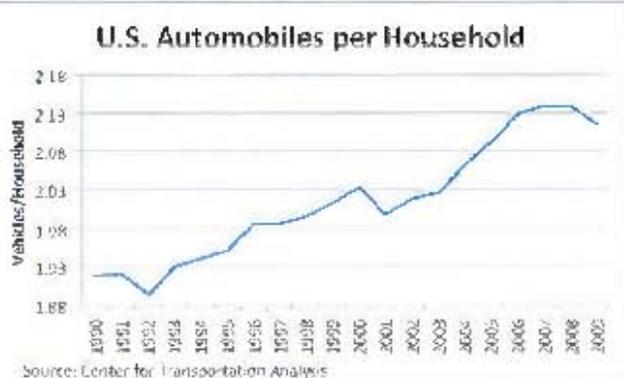
While the growing adoption of hybrids is certainly capturing political headlines, it remains a relatively small percentage (~2%) of U.S. auto sales. That said, Toyota sold nearly three times as many Priuses in 2011 as it did in 2004. And it's not just Priuses. Every major carmaker, including luxury brands, is selling hybrid models in the U.S. market. Plug-in hybrids, such as the Chevy Volt, are also gaining adoption, albeit from a tiny base... and, to be sure, the news stories about batteries on fire don't exactly help. Sales of true electric vehicles – which theoretically have infinite mpg ratings – are barely measurable for the time being, though you'll be hearing a lot more about them (mainly from politicians) in the coming years.

Trend #2: Decline in vehicle-miles traveled reflects more cautious driving habits.

As mentioned above, people are not just driving more fuel-efficient cars; they are also driving less. As shown in the adjacent chart, U.S. vehicle-miles traveled have clearly stagnated since 2004. Miles driven are even lower today than in the nightmarish recession plagued days of 2008-2009. Reduced driving patterns reflect many different things. The monthly data, for example, suggests that the summer driving season isn't giving as much of a boost as it used to, with many families choosing to drive shorter distances for summer vacations – or opt for a "staycation" altogether. Use of less fuel-intensive public transit is also on the rise. Amtrak ridership rose 4.5% in 2011 to a new high. (Keep in mind, the bulk of the Amtrak trains, especially in the heavily traveled Northeast Corridor, are electric – not diesel-powered.)



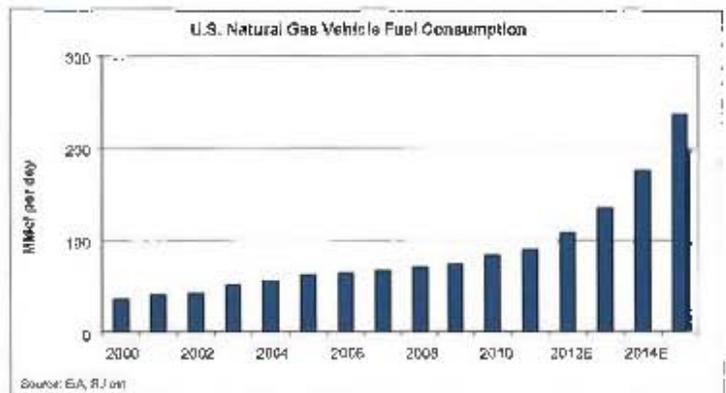
More cautious driving habits can also manifest themselves in the decisions of households with several vehicles over which one to use more. Imagine a two-car household that plans a camping trip. In years past, they would take the larger, roomier SUV. But now they want to save on fuel, so they opt to take the compact car instead. Decisions like this are not captured in vehicle-miles data, or new car sales data, but the effect on fuel consumption is real nonetheless.



Finally, demographics seems to be playing an important role in the fewer miles driven trend. As shown in the adjacent graph, the number of automobiles per household seems to have stagnated along with miles driven (yes, it would be nice to have the data through 2011). Is this because the baby boomers are retiring, or the recession has inspired more frugality, or households have finally realized they simply don't need more than two cars per family? We don't know exactly why, but it seems clear that the average U.S. family has finally reached an automobile saturation point over the past five years.

Trend #3: Even without the NAT GAS Act, fleet adoption of natural gas vehicles is starting to gain traction.

With the price spread between crude oil and natural gas currently above 40:1 in North America, it's no secret that the economics of natural gas fuels – compressed natural gas (CNG) and liquefied natural gas (LNG) – are exceptionally appealing. Let's be clear: the natural gas transportation market in the U.S. remains very marginal in the context of overall transportation fuel demand. DOE data states that only 90 MMcf/d of gas was used as vehicle fuel in 2011. This equates to ~300 million gallons of fuel, less than 1% of what we think of as the "addressable market" (buses,



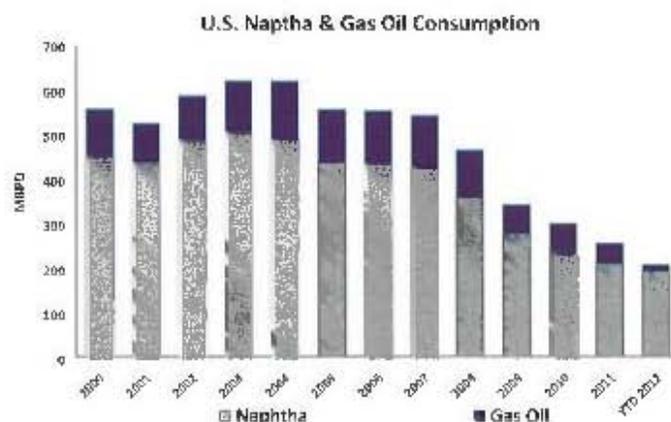
commercial light trucks, and freight trucks – fuel demand of ~40 billion gallons). Our channel checks indicate that actual usage of natural gas fuels is probably somewhat higher, but regardless, the natural gas transportation market is still in its infancy. The infant is beginning to teethe, however. In 2011, against the backdrop of a 1.8% decline in U.S. oil demand, DOE data shows consumption of natural gas fuels up 7.1%. As shown in the preceding chart, we project accelerating growth in the coming years, reflecting aggressive expansion in both fueling infrastructure and the availability of natural gas vehicles (NGVs).

So far, NGVs are overwhelmingly a commercial vehicle market. The newsflow you've probably seen about fleet adoption of NGVs certainly reflects that. Fleet operators (either governmental or private-sector) tend to think more strategically about the economics of vehicle options than ordinary consumers. And because fleet vehicles tend to drive a fixed route, a single fuel station at a central location is often all they need. Also important is the fact that the economics of natural gas fuel are intrinsically better for commercial vehicles. The reason is simple: The more miles a vehicle drives per year, the more it saves due to cheaper CNG/LNG pricing relative to gasoline/diesel. The end users for whom CNG/LNG makes the most economic sense include transit buses and waste trucks, both of which have massive mileage (and hence fuel) requirements. Next to them would be light commercial trucks and taxis. At the bottom of the list would be the typical consumer.

What encourages fleets to switch to NGVs? Quite simply, it is the fact that it's materially cheaper to produce a gallon of CNG than a gallon of gasoline. Since one Mcf of natural gas yields eight gallons of CNG, a \$2.50/Mcf gas price (our 2012 forecast) implies a feedstock cost of only \$0.31/gal. By comparison, \$100/Bbl oil (with a barrel equating to about 42 gallons of refined product) equates to a feedstock cost of \$2.38/gal. Of course, higher processing costs of CNG (approximately \$1.00/gal, vs. \$0.20/gal for conventional petroleum refining) offset some of that price differential. Adjusting the costs appropriately, CNG still comes out ahead with an all-in, pre-tax, "leaving the refinery" cost of \$1.31/gal, vs. gasoline at \$2.58/gal. (As a side note: The cost comparison is not exact because a barrel of crude oil produces a mix of various refined products, not all of which compete directly with CNG. In addition, government incentives, taxes, distribution costs, and profit margins are not taken into account here.)

Trend #4: Petrochemical producers are shifting from oil to NGLs.

Truckers aren't the only commercial users of oil that see the obvious benefits of switching to cheap natural gas. The U.S. petrochemical industry has been undergoing a major shift in its feedstock mix, away from oil and towards gas. As shown in the adjacent chart, the use of oil-based feedstocks (naphtha and gas oil) has been cut by more than half since 2005, with clear substitution in favor of gas-based feedstocks (ethane, propane, and butane). Between 2005 and 2011, the implied reduction in oil demand was ~300 Mbpd, which alone accounts for one-sixth of the total decline in domestic oil demand over this timeframe. Hypothetically, if the remaining use of naphtha and gas oil were to disappear completely, that would shave off another ~250 Mbpd (nearly 1.5%) from domestic oil demand. Given that we envision a continually wide disconnect between oil and gas prices as far as the eye can see, such a scenario is not an impossible one.



Conclusion: U.S. oil intensity is set to keep falling.

While growing U.S. oil supply is clearly driving the U.S. toward energy independence, falling U.S. oil demand is providing a tailwind. We have noted in the past that, as economies become more developed, oil intensity peaks and begins to decline. In China, where oil intensity has begun to fall in recent years, absolute GDP growth rates remain high enough for oil demand to still move up. In the U.S. and other industrialized countries, however, it is now very difficult to achieve the level of GDP growth that's needed for oil demand to increase. In this Stat, we have detailed four of the key factors behind the recent sharp decrease (down roughly 5% YTD) in U.S. oil demand as well as why we expect these trends to continue. While there are numerous reasons for declining U.S. oil consumption, we have focused on the following four key drivers: (1) rising fuel economy, (2) changing driving habits, (3) more natural gas vehicles, and (4) shift to more natural gas in petrochemicals. All of these are secular themes; in other words, they are likely to persist for the next several years. Keep in mind, the U.S. continues to use more oil per capita than any other major economy, but the historical trend would suggest that oil intensity among various countries tends to converge over time.

U.S. Rig Count Breakdown

	4/6/2012	3/30/2012	W/W Δ	YTD Δ	YTD % Δ	Y/Y Δ	Y/Y % Δ
Total Count							
U.S. Rig Count	1979	1979	0	(28)	-1%	197	11%
By Basin*							
Permian	481	476	5	26	6%	97	25%
Eagle Ford	260	257	3	24	10%	91	54%
Bakken	215	217	(2)	23	13%	47	28%
Marcellus	126	125	(5)	(38)	-13%	1	1%
Granite Wash	77	73	4	6	8%	(5)	(54%)
Haynesville	73	74	(1)	(41)	-36%	(86)	0%
Mississippi Lime	60	60	0	12	25%	37	161%
Cana Woodford	57	55	2	(1)	(2)%	2	4%
Barnett	52	55	(3)	(7)	(12)%	(26)	(33)%
Di Basin	37	38	(1)	(5)	(12)%	(1)	(3)%
San Joaquin Basin	35	35	0	3	9%	8	30%
Uinta	33	34	(1)	3	10%	8	17%
Piceance Basin	21	21	0	(5)	(22)%	(9)	(40)%
Fayetteville	20	20	0	(6)	(23)%	(8)	(29)%
Pinedale	20	20	0	(9)	(31)%	(7)	(26)%
Powder River Basin	17	17	0	(4)	(19)%	10	143%
Arkoma Woodford	14	13	1	(5)	(30)%	(3)	(18)%
Utica	12	11	1	(4)	(25)%	3	33%
Other	375	378	(3)	(18)	(5)%	38	11%
Drill For							
Dil	1325	1318	13	136	11%	443	50%
Dry Gas	227	231	(4)	(80)	(26)%	(128)	(36)%
Wet Gas	420	427	(7)	(82)	(16)%	(114)	(21)%
Thermal	3	3	0	(2)	(60)%	(4)	(57)%
Trajectory							
Horizontal Oil	731	733	(2)	103	16%	340	87%
Horizontal Gas	434	447	(13)	(105)	(19)%	(183)	(30)%
Horizontal	1165	1180	(15)	(2)	0%	156	15%
% Horizontal	59%	60%	(1)%	1%		2%	

Source: Baker Hughes, Inc, Raymond James Estimates

*includes all trajectories

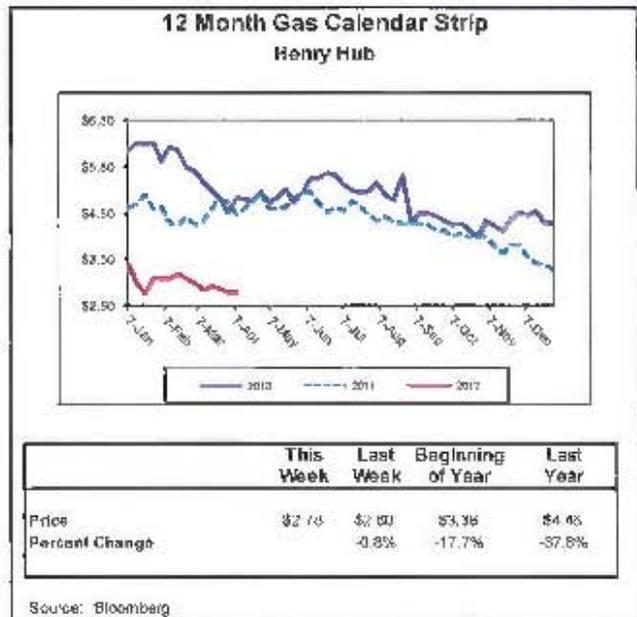
Company Citations

Company Name	Ticker	Exchange	Currency	Closing Price	RJ Rating	RJ Entity
Baker Hughes, Inc.	BHI	NYSE	\$	41.00	3	RJ & Associates
MasterCard, Inc.	MA	NYSE	\$	439.85	2	RJ & Associates

Notes: Prices are as of the most recent close on the indicated exchange and may not be in US\$. See Disclosure section for rating definitions. Stocks that do not trade on a U.S. national exchange may not be approved for sale in all U.S. states. NC=not covered.

Raymond James Weekly Oilfield Review

For Week Ending: 4/5/2012

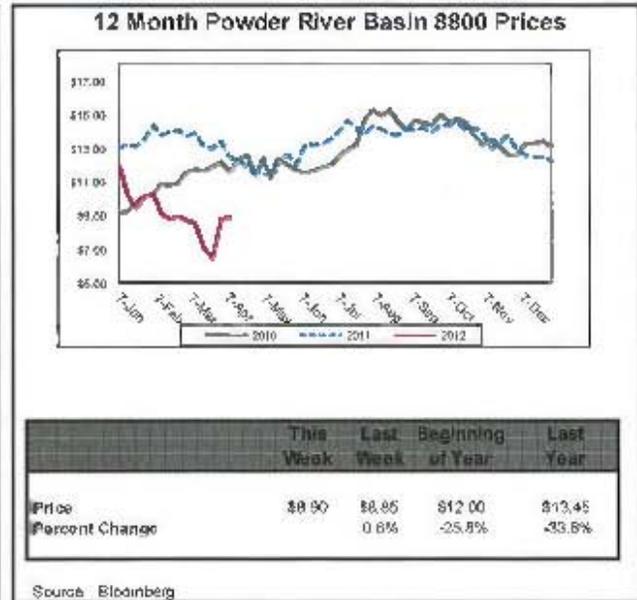
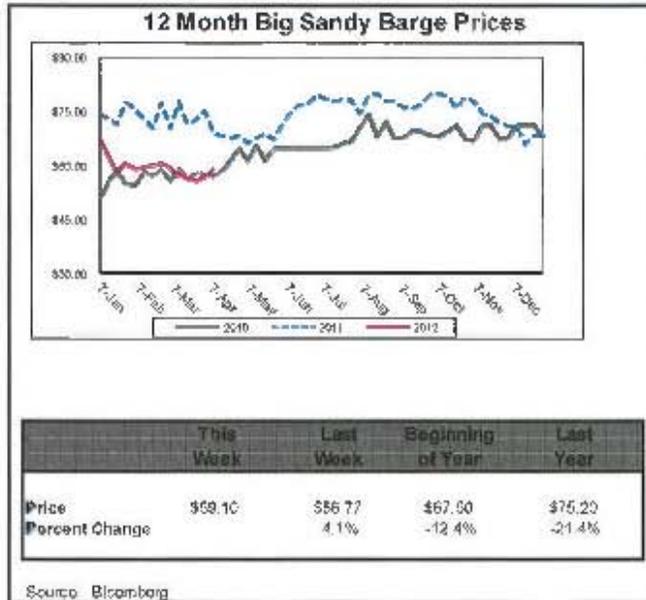


	5-Apr-12	29-Mar-12	7-Apr-11	Change From:	
	This Week	Last Week	Last Year	Last Week	Last Year
1. U.S. Rig Activity					
U.S. Oil	1,329	1,318	868	0.8%	50.0%
U.S. Gas	647	668	889	-1.7%	-27.2%
U.S. Miscellaneous	3	3	7		
U.S. Total	1,979	1,979	1,762	0.0%	11.1%
U.S. Horizontal	1,165	1,180	1,008	-1.3%	15.5%
U.S. Directional	231	233	230	-0.9%	0.4%
U.S. Offshore	44	46	28	-4.3%	57.1%
U.S. Offshore Gulf of Mexico					
Fleet Size	118	113	125	0.0%	-8.6%
# Contracted	72	72	72	0.0%	0.0%
Utilization	63.7%	63.7%	57.6%	0.0%	10.6%
U.S. Weekly Rig Permits *	1,393	1,240	1,454	12.5%	-4.2%
2. Canadian Activity					
Rig Count	187	256	191	-27.0%	-2.1%
3. Stock Prices (4/5/12)					
OSX	234.5	238.2	292.1	-1.5%	-19.7%
S&P 500	1,388.1	1,408.5	1,328.2	-0.7%	5.3%
DJA	12,980.0	13,212.0	12,360.1	-1.0%	4.9%
S&P 1500 E&P Index	570.2	581.2	692.8	-1.9%	-17.7%
Asian MLP Index	397.8	391.9	281.5	1.5%	4.3%
4. Inventories					
U.S. Gas Storage (Bcf)	2,470	2,437	1,570	1.7%	57.0%
Canadian Gas Storage (Bcf)	493	490	195	0.5%	152.2%
Total Petroleum Inventories ('000 bbls)	879,893	870,958	889,393	1.0%	-1.1%
5. Spot Prices (US\$)					
Oil (W.T.I. Cushing)	\$103.31	\$103.02	\$112.79	0.3%	-8.4%
Oil (Brent)	\$123.95	\$123.88	\$128.85	0.4%	-2.6%
Gas (Henry Hub)	\$1.91	\$2.00	\$4.05	-4.0%	-52.9%
Residual Fuel Oil (New York)	\$18.16	\$18.24	\$17.36	-0.4%	4.6%
Gas (AECO)	\$1.75	\$1.70	\$3.81	2.9%	-54.1%
UK Gas (ICE)	\$9.73	\$8.85	\$9.63	12.5%	1.0%

Sources: Baker Hughes, ODS-Petrodata, API, EIA, Oil Week, Bloomberg
 * Note: Weekly rig permits reflect a 1 week lag

Raymond James Weekly Coal Review

For Week Ending: 4/6/2012



- Coal Prices
 - Eastern U.S. OSX 1%
 - Western U.S. Powder River 8800

	5-Apr-12	16-Mar-12	6-Apr-11
	This Week	Last Week	Last Year
Price	\$59.10	\$56.77	\$75.20
Price	\$8.90	\$8.85	\$13.45
Production	23-Mar-12	16-Mar-12	26-Mar-11
Eastern U.S.	8,255	8,153	9,042
Western U.S.	10,125	10,645	11,855
Total	18,418	18,798	20,827

Change From	
Last Week	Last Year
4.1%	-21.4%
0.6%	-33.6%
1.7%	-6.2%
-4.9%	-14.6%
-2.0%	-12.0%

Source: Bloomberg

Important Investor Disclosures

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Market Perform (MP3) The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.

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Market Perform (MP3) Expected to perform in line with the underlying country index.

Underperform (MU4) Expected to underperform the underlying country index.

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	Coverage Universe Rating Distribution			Investment Banking Distribution		
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Update Date	Closing Price	Target Price	Rating
2/27/12	51.96	NM	3
1/25/12	47.44	60.00	2
1/17/12	48.02	68.00	2
11/2/11	57.99	72.00	2
10/13/11	53.48	77.00	2
7/26/11	79.94	100.00	2
4/28/11	77.28	90.00	2
4/8/11	71.22	85.00	2
1/26/11	62.32	75.00	2
1/14/11	58.46	70.00	2
11/2/10	46.37	60.00	1
8/4/10	43.66	50.00	2
7/26/10	49.07	60.00	1
4/5/10	48.33	NM	3
1/19/10	47.28	60.00	2
11/5/09	40.89	50.00	2
10/15/09	46.21	UR	2
4/30/09	36.95	45.00	2



Update Date	Closing Price	Target Price	Rating
2/2/12	381.57	400.00	2
8/3/11	330.46	380.00	2
5/4/10	250.83	275.00	2
2/4/10	222.11	233.00	2
11/3/09	219.20	230.00	2
7/30/09	197.62	218.00	2
5/13/09	170.76	180.00	2
5/1/09	170.03	177.00	2
4/9/09	167.33	175.00	2

Valuation Methodology: We value shares of MasterCard on a relative P/E basis to the transaction processing industry. Historically, the transaction processing universe has traded within 15-25x current year's EPS P/E envelope for 15% EPS growth and 10% revenue expansion.

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Specific Investment Risks Related to the Industry or Issuer

Company-Specific Risks for MasterCard, Inc.

Interchange Fees

Interchange fees are subject to increasing regulatory scrutiny worldwide, and retailers are seeking to reduce interchange through litigation. If issuers collect lower interchange fees, they may be less willing to participate in the MasterCard network or may charge higher fees to consumers to recoup the cost. Either scenario could lead to lower transaction volume and financial results for MasterCard.

Litigation

MasterCard is currently the defendant in several lawsuits, including antitrust damage claims from American Express and Discover and relating to MasterCard's currency conversion practices. An adverse judgment in either of these or other lawsuits could negatively affect MasterCard's financial results and position.

Government Regulation

MasterCard is subject to increasing global regulation, including anti-money laundering requirements by the USA PATRIOT Act and the Office of Foreign Assets Control (OFAC) and prohibition on certain types of Internet gambling payments. These regulations may make MasterCard's business more difficult and/or less profitable.

Competitive Pressure

MasterCard faces competitors that are larger and may have access to greater financial resources, primarily Visa. In order to remain competitive, MasterCard may be required to increase its incentives and discounts to retailers and issuers, lowering financial results.

Consolidation

Over the past several years, financial institutions and, to a lesser extent, retailers have experienced consolidation. In the case of financial institutions, this could lead to a MasterCard client being purchased by a Visa client, with MasterCard losing card accounts and revenue. For both financial institutions and retailers, consolidation means greater scale and potentially greater pricing power, which could harm MasterCard's financial results.

Customer Concentration

MasterCard's five largest clients account over 30% of revenue. No single client accounts for more than 10% of total revenue.

Cross-Border Commerce

MasterCard processes virtually all cross-border transactions using the MasterCard, Maestro, or Cirrus brand names. Any decline in cross-border business or leisure travel could adversely affect MasterCard's financial results.

Dependence on Third Parties

With the exception of the United States and select other countries, most intra-country transactions on MasterCard-branded cards are processed by MasterCard issuers or other third-party processors. Failure of any of these third parties could result in damage to MasterCard's reputations and/or lower financial results.

Debit Guarantor

If a MasterCard issuer or acquirer fails to fund its debit obligations due to technical difficulties, liquidity problems, or insolvency, MasterCard steps in as a guarantor. MasterCard has estimated its potential aggregate gross legal settlement exposure at \$24 billion as of December 31, 2008. The company's revolving credit line of \$2.5 billion could be used to cover such shortfalls, and MasterCard estimates it could cover the failure of any of its largest customers on a peak day, but concurrent failures could exceed the company's available resources.

Visa By-Laws

In June 2003, Visa enacted a bylaw on its 100 largest debit issuers, levying a fine if those issuers reduced their debit volume by more than 10%. While this rule has since been repealed, it may be reinstated, which could limit MasterCard's ability to gain new business from current Visa clients.

Foreign Currency

MasterCard generates roughly half of its revenue outside the United States. Adverse currency fluctuations could negatively impact the company's financial results.

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EXHIBIT C

Energy

April 2, 2012

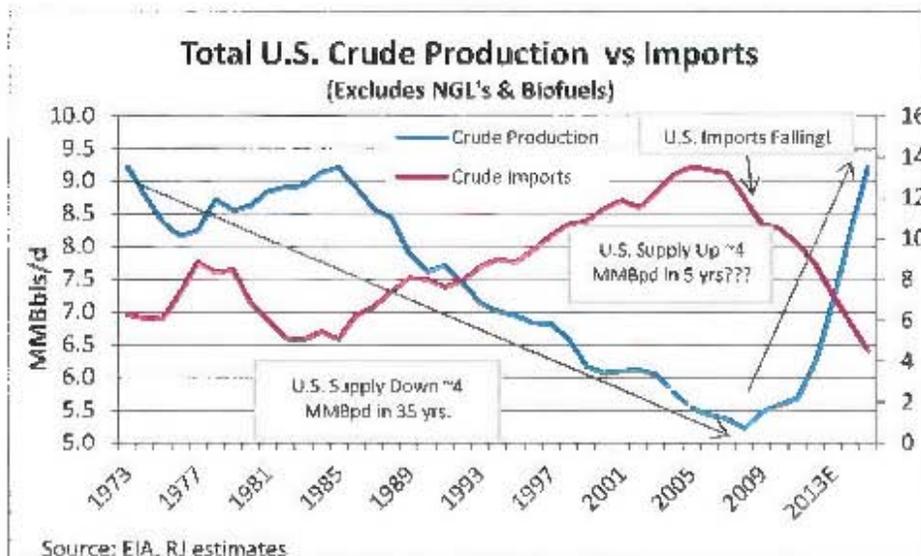
Industry Brief

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Energy: Stat of the Week

Yes, Mr. President, We Believe We Can Drill Our Way Out of This Problem

Last week, President Obama once again blamed U.S. oil and gas producers in an effort to deflect public discontent over high gasoline prices. For now, let's ignore the economic assumption that higher taxes on the companies that produce energy will never lower the price of energy. Instead, let's focus on President Obama's "all of the above" plan for energy independence, where he confidently claims that "we cannot drill our way out of this problem." Of course, every president from Nixon to Obama has made these types of high-profile energy independence speeches. Over the past four decades, all of those speeches have long been forgotten and the targets contained within them quietly shelved. Like others before it, this recent speech will ultimately be proven off-base (in a good way) since our math says the U.S. is already beginning to drill our way out of the problem. The fact is that U.S. oil and gas companies have already overcome government road blocks (i.e., the EPA) and geological challenges to reverse a nearly four-decade-long decline in oil supply (as shown below).

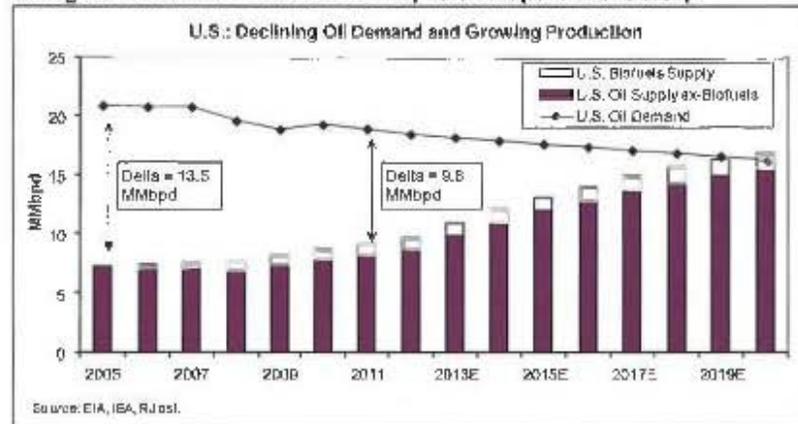


Couple increasing oil supply with declining U.S. oil demand (for which the government can claim some credit), and the result is a sharp reduction in the nation's oil imports (as shown above). Building on the foundational analysis from our U.S. oil supply model, today we discuss the major implications of increasing U.S. oil supply and falling U.S. oil demand for the broader economy and most notably the U.S. trade deficit.

Surging U.S. oil supply has changed the game. Just as U.S. oil demand was peaking in the middle of the past decade, domestic supply (oil plus other liquids) was bottoming, at ~7.0 MMBpd in each of 2005–2008. This followed three and a half decades of nearly continual declines in the lower 48 states. Well, not any more. Over the three-year period 2009–2011, the U.S. contributed more incremental oil supply than any other country (OPEC or non-OPEC), reaching 8.1 MMBpd last year. Think about that for a minute. Throughout most of our lifetimes, we have taken it for granted that the U.S. was in the global oil market's "over the hill" club (along with the U.K., Mexico, etc.). That this has changed so quickly – and so dramatically – is a tribute to the ingenuity and skill of the oil industry, both operators and service providers. By opening the door to vast resources of unconventional liquids (and, of course, natural gas too), the industry has radically reshaped the trajectory of U.S. oil production. As we detailed in our Stat on February 13, Please read domestic and foreign disclosure/risk information beginning on page 7 and Analyst Certification on page 7.

after a 3.8% increase in 2011 (which would have been a lot more had it not been for the Gulf of Mexico drilling moratorium), we project growth of 6% in 2012 and an average of 11% per year in the 2013-2015 time frame. This is overwhelmingly driven by the ongoing surge in onshore volumes but also reflects in the recent Gulf declines. Our assumptions for 2016-2020 assume slowing growth as the decade progresses and equate to a 5% annualized rate, which is certainly conservative compared to the next several years. For biofuels, a much smaller variable overall, growth slowed in recent years, reflecting the transition from corn ethanol to advanced biofuels. We project acceleration of growth to 5% annual growth in 2015 and beyond. This is the only element of domestic supply growth that has been spurred to a substantial extent by policy.

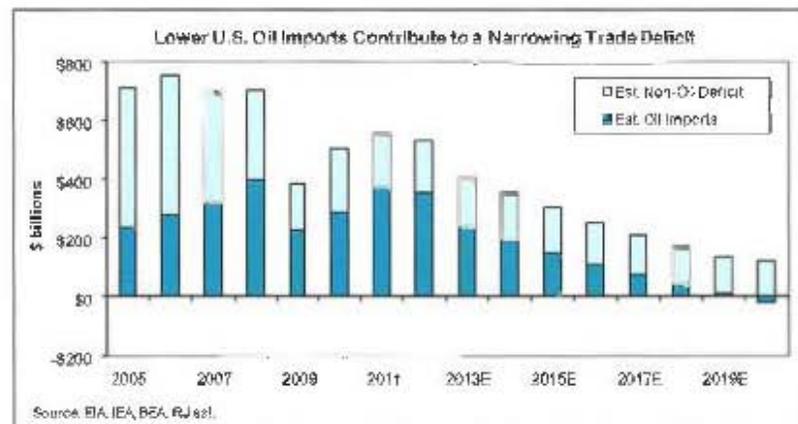
Falling oil demand is a smaller but very relevant part of the story.



Half a century ago, Asian economies like Singapore pioneered the concept of "import substitution" (though, in their case, it didn't involve oil). The recipe is simple: boost domestic production, cut domestic demand, and – voila – imports fall. The U.S. road to oil independence has the same underlying trends. Let's look at demand first. Domestic oil demand peaked in 2005 at 20.8 MMbpd, having grown in every year but one since 1992. Since then, however, demand has fallen in every year but one – not just in the post-meltdown era, but even in the ostensibly good economic years of 2006-2007. U.S. oil demand has fallen largely because of higher energy prices driving better vehicle efficiency and reduced travel patterns. So, what will U.S. oil demand do over the next decade? After an estimated 2.5% decline this year (2012), we project a base decline of 1.5% each year through 2020. To put our 2.5% decline assumption in context, Energy Information Administration (EIA) data year-to-date 2012 shows demand down a staggering 6% relative to a year ago. We have our doubts about these numbers since it appears about one-third of that fall appears to be the result of a change in how gasoline exports are estimated. Recent MasterCard gasoline sales data, however, confirms a YTD decline in the 4-5% range – still way above our 2.5% estimate for full-year 2012.

So, what's the bottom line? The U.S. net oil import requirement reached an all-time high in 2005, 13.5 MMbpd (65% of demand). The net import requirement has dropped every year since then, reaching ~9.8 MMbpd (52%) in 2011. We project further declines to 8.8 MMbpd (48%) in 2012 and 4.5 MMbpd (26%) in 2015. By 2020 – based on the assumptions we previously outlined for domestic oil production, growth in biofuels, and declines in demand – we expect net imports to reach essentially zero. That's right – oil independence. (On a technical note: the net import requirement calculated in our analysis is for crude oil. As a practical matter, some imports have historically come in the form of refined products, though the bulk has been crude. Given the weak domestic demand and excess refining capacity, the U.S. is currently a net exporter of refined products.)

What does all this do to the U.S. trade deficit?



Americans like shopping, and they do it a lot – and it clearly shows in the nation's trade deficit. In addition to the obvious suspects – cheap overseas-made laptops and T-shirts – oil imports play a huge role in the trade deficit. As shown in the adjacent chart, oil imports generated over half of the total deficit every year since 2007. Note that the "non-oil deficit" (i.e., what the deficit would theoretically have been had net oil imports been zero) has dropped precipitously in the aftermath of the recession, but the oil deficit in 2011 was about as wide as in 2008. Put simply, the decline in oil imports (in barrel terms) over the past three years was essentially offset by the higher price per Bbl. (Remember, the price of imported crude is heavily linked to Brent, which had its best year ever in 2011.) Nonetheless, the lower import requirement still "saved" America a lot of money: at ~\$100/Bbl Brent, the ~2.2 MMbpd reduction in imports since 2008 equates to ~\$80 billion annually – not a trivial sum. As

we look ahead to 2020, the price of crude becomes less and less relevant to the trade deficit given our assumption that U.S. net imports will drop to zero by 2020. According to our forecast, the U.S. oil import price tag would fall from ~\$371 billion in 2011 to a “goose egg” before the end of the decade.

In addition to lower oil import costs, we think the cheaper domestic natural gas prices should stimulate a resurgence in U.S. manufacturing, especially in energy-intensive sectors such as fertilizer and petrochemicals. Our expectations for low natural gas prices and increased natural gas liquids (NGLs) supply mean that energy-intensive industries in the U.S. should have a substantial cost advantage over just about anyone in the world (especially those using oil-based feedstock). With this in mind, we think it's reasonable to assume a modest decline in the non-oil deficit (at a rate of 5% per year), despite our expectations for a rising dollar. In our model, this decreasing non-oil related trade deficit equates to additional savings of \$69 billion by 2020. Altogether, these trends point to a reduction in the total U.S. trade deficit of a whopping 82% by 2020. (On a side note: This analysis does not ascribe any credit for the prospect of the U.S. becoming a significant liquefied natural gas (LNG) exporter. While the structural divergence between domestic and overseas gas prices makes LNG exports a lucrative proposition, there is slim visibility on the timetable for developing the infrastructure for these exports to materialize.)

Where could we be proven wrong?

For both of the variables we analyzed – domestic oil demand and domestic oil supply – there are both upside and downside risks, especially looking as far out as 2020. For demand, our bias is to the **downside**. Our long-term assumption of 1.5% annualized declines may well end up being too conservative (in other words, U.S. oil demand will likely fall faster than we are modeling) if alternative energy sources (especially natural gas) end up displacing even more oil consumption than we are expecting. For U.S. oil supply, our bias is to the **upside** relative to our model. Our 2015-2020 assumption of 5% annualized growth in U.S. oil production represents a sharp slowdown from what we anticipate over the next several years. While there is no doubt that field decline rates in most of the new supply sources – deepwater and shale plays – are quite steep, the ongoing trend of (1) increasing drilling activity and (2) improving well productivity suggests that higher growth should be sustainable for more than a decade. Additionally, we are not factoring in any significant new shale plays (such as the Utica) in the model. Other than a sudden collapse in WTI oil prices, the only scenario we can envision where domestic oil volumes would stop growing in the foreseeable future is a federal ban on hydraulic fracturing, massive government-driven infrastructure delays, or other drastic regulatory changes. When it comes to biofuels, our long-term assumption of 5% annualized growth is also likely to be conservative. Given the amount of capital that is being invested in low-cost cellulosic biofuels and other emerging technologies (algae, etc.), alongside the requirements of the federal Renewable Fuels Standard, we think actual growth will be faster. And lastly, we would note that our analysis does not take into account the disconnect between U.S. oil production growth (predominantly light/sweet) and the domestic refining appetite (half of which is geared toward heavy barrels). Thus, domestic production growth would not technically be able to completely displace imports.

Conclusion

After more than three decades of falling oil production in the lower 48 states, the U.S. is now poised to sharply increase domestic oil production and sharply decrease its dependence on imported oil. The consequences of this massive, structural U.S. energy supply shift echo well beyond oil and gas stocks. It means the U.S. is poised to become meaningfully less dependent upon the rest of the world to satisfy our rather large driving appetite. In addition to rising U.S. oil supply, U.S. oil demand now appears to be falling at an unprecedented rate as high prices have encouraged less driving, rising vehicle efficiency, and more natural gas vehicles that reduce demand for imported oil. Combining rising supply and declining demand equates to a substantial ongoing reduction in the U.S. net oil import requirement. Specifically, we are looking for net U.S. oil imports to fall from 13.5 MMbpd (65% of demand) in 2005 and ~9.8 MMbpd (52% of demand) in 2011, to an estimated 4.5 MMbpd (26% of demand) by 2015 and actual oil independence by 2020. The resulting savings from the standpoint of the trade deficit are highly meaningful, especially when the benefits of cheaper energy for domestic manufacturing are taken into account. Maybe the real question is: when will Washington apply to join OPEC?

U.S. Rig Count Breakdown

	3/30/2012	3/23/2012	W/W Δ	YTD Δ	YTD % Δ	Y/Y Δ	Y/Y % Δ
Total Count							
U.S. Rig Count	1979	1968	11	(28)	-1%	203	11%
By Basin*							
Permian	476	469	7	21	5%	96	25%
Eagle Ford	257	258	(1)	21	9%	101	65%
Bakken	217	212	5	25	13%	49	29%
Marcellus	125	123	2	15	-9%	8	7%
Haynesville	74	75	(1)	-40	-35%	-82	-53%
Granite Wash	73	66	7	2	3%	-7	-9%
Mississippi Lime	60	62	(2)	12	25%	35	140%
Cana Woodford	55	59	(6)	-3	-5%	-4	-7%
Barnett	55	54	1	-4	-7%	-25	-31%
DJ Basin	38	39	(1)	4	-17%	3	0%
San Joaquin Basin	35	35	0	3	9%	8	30%
Uinta	34	33	1	4	13%	9	36%
Piceance Basin	21	22	(1)	6	-22%	9	-30%
Fayetteville	20	21	(1)	-6	-73%	8	-29%
Pinedale	20	19	1	9	-31%	7	-26%
Powder River Basin	17	17	0	4	-19%	10	143%
Arkoma Woodford	13	13	0	-7	-35%	-6	-32%
Utica	11	11	0	5	-31%	3	35%
Other	378	380	(3)	-15	-4%	32	9%
Drill For							
Oil	1318	1313	5	125	10%	441	50%
Dry Gas	235	233	2	(34)	-19%	(84)	-26%
Wet Gas	423	419	4	(37)	-19%	(150)	-26%
Thermal	3	3	0	(2)	-40%	(5)	-63%
Trajectory							
Horizontal Oil	733	732	1	105	17%	335	84%
Horizontal Gas	447	442	5	(92)	-17%	(171)	-28%
Horizontal	1180	1174	6	13	1%	163	16%
% Horizontal	60%	60%	0%	1%		2%	

Source: Baker Hughes, Inc., Raymond James Estimates

*Includes all trajectories

Company Citations

Company Name	Ticker	Exchange	Currency	Closing Price	RJ Rating	RJ Entity
MasterCard, Inc.	MA	NYSE	\$	420.54	2	RJ & Associates

Notes: Prices are as of the most recent close on the indicated exchange and may not be in US\$. See Disclosure section for rating definitions. Stocks that do not trade on a U.S. national exchange may not be approved for sale in all U.S. states. NC=not covered.

Raymond James Weekly Coal Review

For Week Ending: 3/30/2012



- Coal Prices
 - Eastern U.S. CBX 1%: \$55.50
 - Western U.S. Powder River 8800: \$6.85

	30-Mar-12	23-Mar-12	1-Apr-11
	This Week	Last Week	Last Year
Eastern U.S. CBX 1%	\$55.50	\$55.00	\$72.75
Western U.S. Powder River 8800	\$6.85	\$6.80	\$12.95

	Change From:	
	Last Week	Last Year
Eastern U.S. CBX 1%	0.9%	-23.7%
Western U.S. Powder River 8800	38.2%	-31.7%

- Production
 - Eastern U.S.: 8,295
 - Western U.S.: 10,123
 - Total: 18,418

	23-Mar-12	16-Mar-12	26-Mar-11
Eastern U.S.	8,295	8,153	9,042
Western U.S.	10,123	10,645	11,885
Total	18,418	18,798	20,927

	Change From:	
	Last Week	Last Year
Eastern U.S.	1.7%	-6.6%
Western U.S.	-4.8%	-14.8%
Total	-2.0%	-12.0%

Source: Bloomberg

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Outperform (MO2) Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months.

Market Perform (MP3) Expected to perform generally in line with the S&P 500 over the next 12 months.

Underperform (MU4) Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

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Market Perform (MP3) The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.

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Market Perform (MP3) Expected to perform in line with the underlying country index.

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	Coverage Universe Rating Distribution			Investment Banking Distribution		
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Underperform (Sell)	7%	1%	10%	2%	0%	0%

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Target Prices: The information below indicates target price and rating changes for the subject companies included in this research.



Valuation Methodology: We value shares of MasterCard on a relative P/E basis to the transaction processing industry. Historically, the transaction processing universe has traded within 15-25x current year's EPS P/E envelope for 15% EPS growth and 10% revenue expansion.

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Specific Investment Risks Related to the Industry or Issuer

Company-Specific Risks for MasterCard, Inc.

Interchange Fees

Interchange fees are subject to increasing regulatory scrutiny worldwide, and retailers are seeking to reduce interchange through litigation. If issuers collect lower interchange fees, they may be less willing to participate in the MasterCard network or may charge higher fees to consumers to recoup the cost. Either scenario could lead to lower transaction volume and financial results for MasterCard.

Litigation

MasterCard is currently the defendant in several lawsuits, including antitrust damage claims from American Express and Discover and relating to MasterCard's currency conversion practices. An adverse judgment in either of these or other lawsuits could negatively affect MasterCard's financial results and position.

Government Regulation

MasterCard is subject to increasing global regulation, including anti-money laundering requirements by the USA PATRIOT Act and the Office of Foreign Assets Control (OFAC) and prohibition on certain types of Internet gambling payments. These regulations may make MasterCard's business more difficult and/or less profitable.

Competitive Pressure

MasterCard faces competitors that are larger and may have access to greater financial resources, primarily Visa. In order to remain competitive, MasterCard may be required to increase its incentives and discounts to retailers and issuers, lowering financial results.

Consolidation

Over the past several years, financial institutions and, to a lesser extent, retailers have experienced consolidation. In the case of financial institutions, this could lead to a MasterCard client being purchased by a Visa client, with MasterCard losing card accounts and revenue. For both financial institutions and retailers, consolidation means greater scale and potentially greater pricing power, which could harm MasterCard's financial results.

Customer Concentration

MasterCard's five largest clients account over 30% of revenue. No single client accounts for more than 10% of total revenue.

Cross-Border Commerce

MasterCard processes virtually all cross-border transactions using the MasterCard, Maestro, or Cirrus brand names. Any decline in cross-border business or leisure travel could adversely affect MasterCard's financial results.

Dependence on Third Parties

With the exception of the United States and select other countries, most intra-country transactions on MasterCard-branded cards are processed by MasterCard issuers or other third-party processors. Failure of any of these third parties could result in damage to MasterCard's reputations and/or lower financial results.

Debit Guarantor

If a MasterCard issuer or acquirer fails to fund its debit obligations due to technical difficulties, liquidity problems, or insolvency, MasterCard steps in as a guarantor. MasterCard has estimated its potential aggregate gross legal settlement exposure at \$24 billion as of December 31, 2008. The company's revolving credit line of \$2.5 billion could be used to cover such shortfalls, and MasterCard estimates it could cover the failure of any of its largest customers on a peak day, but concurrent failures could exceed the company's available resources.

Visa By-Laws

In June 2003, Visa enacted a bylaw on its 100 largest debit issuers, levying a fine if those issuers reduced their debit volume by more than 10%. While this rule has since been repealed, it may be reinstated, which could limit MasterCard's ability to gain new business from current Visa clients.

Foreign Currency

MasterCard generates roughly half of its revenue outside the United States. Adverse currency fluctuations could negatively impact the company's financial results.

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EXHIBIT D

Energy

Industry Brief

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Energy: Stat of the Week

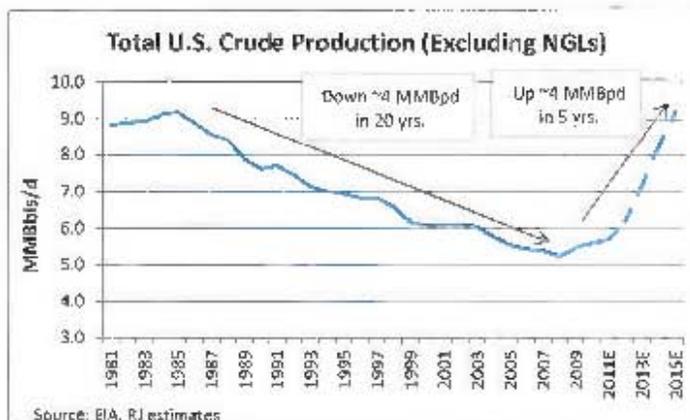
U.S. Oil Production Catapulting Up and to the Right; Chopping 2013+ Oil Deck

Just a few short years ago, everyone was looking to big deepwater plays in Brazil and West Africa for non-OPEC oil supply growth. Well, leave the row-boat in the shed because the true near-term driver for non-OPEC oil supply is now right in your back yard. After decades of steady declines, U.S. oil production has made an abrupt about-face that is driving the resurgence in non-OPEC supply. After conducting a detailed, proprietary, bottoms-up analysis on play-by-play oil production from the major onshore U.S. liquids plays, we now expect the current growth trend in U.S. oil supply to accelerate sharply in the coming years. The numbers are crazy. We're now forecasting that U.S. oil production (excluding NGLs) will grow from 5.6 MMBpd in 2010 to a whopping 9.1 MMBpd in 2015. Including natural gas liquids, total U.S. petroleum liquid production grows 60% from 7.7 MMBpd in 2010 to 12.2 MMBpd in 2015.

Anyone familiar with our research knows that we have long been bullish on oil prices based largely on the perception that non-OPEC supply has been in the process of flat lining and that OPEC producers have minimal excess production capacity. We still believe OPEC's excess capacity is well below the cartel's official estimates, but our outlook for U.S. oil supply growth (as detailed in this Stat) has forced us to completely change our tune about non-OPEC supply. Although geopolitical events and potential supply disruptions would provide upside to our oil price estimates, our global oil supply-demand model is simply too loose to support our current rising oil price deck of \$105/Bbl WTI in 2013 and \$125/Bbl WTI under our long-term (five-year) forecast. Thus, we are lowering our 2013 WTI forecast 14% from \$105/Bbl WTI to \$90/Bbl WTI (and our Brent forecast falls from \$110/Bbl to \$95/Bbl). We are also lowering our long-term oil forecast from \$125/Bbl for both crude benchmarks to \$90/Bbl WTI and \$95/Bbl Brent. We are also modestly raising our forecasts for 1Q12 and 2Q12 for Brent and WTI by \$5/Bbl to more closely align with the current pricing environment.

BLSA Oil Price Estimates (as of February 2012)					
2011 Actual	Q1	Q2	Q3	Q4	2011E
WTI	\$93.47	\$103.88	\$91.89	\$89.87	\$94.01
Brent	\$97.27	\$115.24	\$114.98	\$114.14	\$113.40
2012 Estimates					
	Q1 12E	Q2 12E	Q3 12E	Q4 12E	2012E
WTI Bloomberg Consensus	\$95.00	\$98.00	\$100.50	\$105.00	\$98.00
WTI Futures	\$93.24	\$95.79	\$101.25	\$98.46	\$98.04
Oil RJ Oil Est.	\$93.00	\$90.00	\$85.00	\$85.00	\$92.50
WTI Current RJ Oil	\$95.00	\$95.00	\$95.00	\$95.00	\$95.00
Brent Bloomberg Consensus	\$107.00	\$106.70	\$102.00	\$115.00	\$108.50
Brent Futures	\$111.91	\$116.89	\$115.45	\$113.00	\$114.34
Oil RJ Oil Est.	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00
Brent Current RJ Oil	\$98.00	\$95.00	\$100.00	\$100.00	\$102.50
2013 Estimates					
	Q1 13E	Q2 13E	Q3 13E	Q4 13E	2013E
WTI Bloomberg Consensus					\$115.00
WTI Futures	\$102.18	\$101.49	\$100.47	\$99.94	\$100.94
Oil RJ Oil Est.	\$105.00	\$105.00	\$105.00	\$105.00	\$105.00
WTI Current RJ Oil	\$90.00	\$90.00	\$90.00	\$90.00	\$90.00
Brent Bloomberg Consensus					\$115.00
Brent Futures	\$112.24	\$110.84	\$108.24	\$107.63	\$110.06
Oil RJ Oil Est.	\$110.00	\$110.00	\$110.00	\$110.00	\$110.00
Brent Current RJ Oil	\$95.00	\$95.00	\$95.00	\$95.00	\$95.00

Source: Bloomberg, Thomson Reuters, RJ Est.



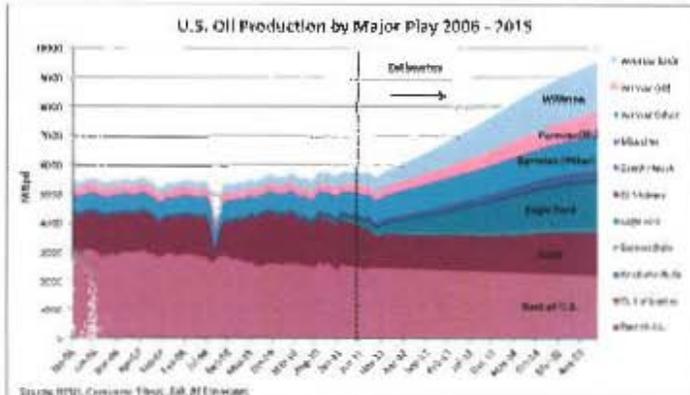
Source: EIA, RJ estimates

As detailed in our Stat of the Week from two weeks ago, "Lowering 2012 Rig Count Forecast to Reflect a More Modest Rate of Growth," the oil rig count has been on a tear for the past two years, growing by 360 (75%) in 2010 and 415 (55%) in 2011. Combining current rig counts with our projections for future growth, we have modeled onshore oil production by play for what we perceive to be the most prominent growth drivers in U.S. oil production – the Eagle Ford, Williston, Permian (horizontal and vertical), DJ Basin Niobrara, Cana Woodford, Granite Wash, Mississippi Lime, and the Barnett. We now see mind-boggling growth from these plays through 2015. Coupling onshore oil growth with rising NGL production and a gradual recovery in the Gulf of Mexico, we expect total U.S. petroleum liquid production to grow 60% from 7.7 MMBpd in 2010 to 12.2 MMBpd in 2015. Please read domestic and foreign disclosure/risk information beginning on page 7 and Analyst Certification on page 7.

Mexico, the outlook for U.S. oil production is nothing short of staggering, painting a more bearish picture for our long-term outlook for both WTI and Brent.

In the driver's seat: Williston, Permian, and Eagle Ford.

The primary drivers behind the growth in U.S. onshore crude production are the Williston, Permian (horizontal and vertical) and Eagle Ford plays. Currently, these three plays account for roughly 40% of U.S. onshore oil production. By 2015, however, we estimate they will account for almost two-thirds of total U.S. onshore output. As we noted a few weeks ago, half of the 55% growth (+ 415 rigs) in the U.S. oil rig count in 2011 came from the Eagle Ford and Permian alone. We continue to believe a hefty portion of the ~200 incremental oil rigs we're modeling for 2012 will be allocated to these two Texas plays. The Williston basin also stands to see substantial growth as pipeline and rail capacity comes online this year and alleviates infrastructure constraints.



The Eagle Ford has developed seemingly overnight into the single most important driver for U.S. oil production growth over the next 5-10 years. The potential of the play is probably best evidenced by its skyrocketing rig count, which grew from 63 rigs in January 2010 to 233 rigs at year-end 2011 (vs. 195 in the Williston). We expect to see rapid production growth as these new rigs translate into producing wells. Already, Eagle Ford crude output has grown exponentially from a measly 8,000 Bpd in January 2010 to well over 200,000 Bpd in August 2011 (including condensate). This growth rate would have been even greater if the oil and gas production wasn't restricted by infrastructure constraints. That said, we expect

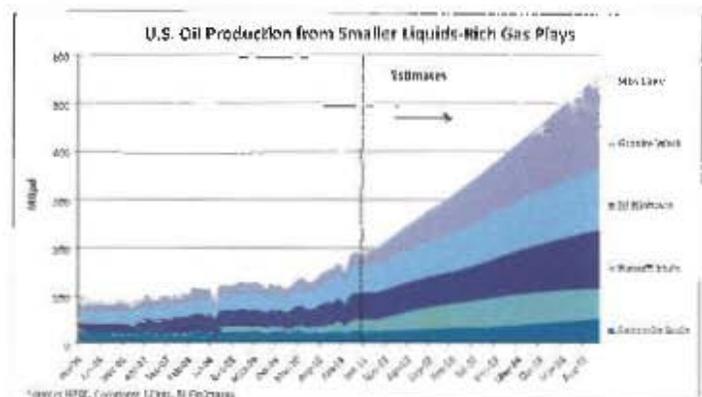
transport issues to slowly fade as Eagle Ford crude pipeline capacity increases from 220 MBpd in 1Q12 to 830 MBpd by the end of 2Q12 and 1,100 MBpd by the end of 2012. Note that we don't expect monthly Eagle Ford production to reach 1,000 MBpd until November 2013 but by the end of 2015, we expect Eagle Ford production alone to exceed 1,600 MBpd.

When it comes to oil production, the Permian is the gift that keeps on giving. Unlike the Eagle Ford, which has only been around for a few years, the Permian has been producing for decades. In fact, the Permian played a significant role in U.S. oil production growth fifty years ago. In the following decades, the Permian experienced years of declines until it recently reinvented itself – attracting fresh investment and new rigs. The horizontal rig count has ballooned to 104 rigs in December 2011 – a 7-fold increase from January 2010. Over the same time frame, the vertical rig count has nearly doubled to 352 rigs. Since there are so many oil producing zones, many of these vertical wells are completed as if they were horizontal wells. Going forward, rig additions should be biased towards horizontal opportunities like the Wolfcamp, Avalon, and Bone Spring, though vertical rigs should pick up as well.

After a brutally cold winter and spring flooding hampered Williston production in the first half of 2011, the basin rebounded nicely in 2H11. While weather issues put a damper on production growth in 2011, our overall outlook for the Williston remains robust. We anticipate production growing from an estimated 541 MBpd in December 2011 to 808 MBpd in December 2012 and passing the 1,000 MBpd mark by mid-2013. Increased export capacity and debottlenecking will be imperative for this growth to become reality. According to the North Dakota Pipeline Authority, pipeline and rail export capacity from the Williston should exceed 1,000 MBpd around mid-2012 and exceed 1,600 MBpd in 2015. This foots with our projection that Williston production will exit 2015 near 1,700 MBpd.

Other liquids-rich plays provide growth but take a backseat.

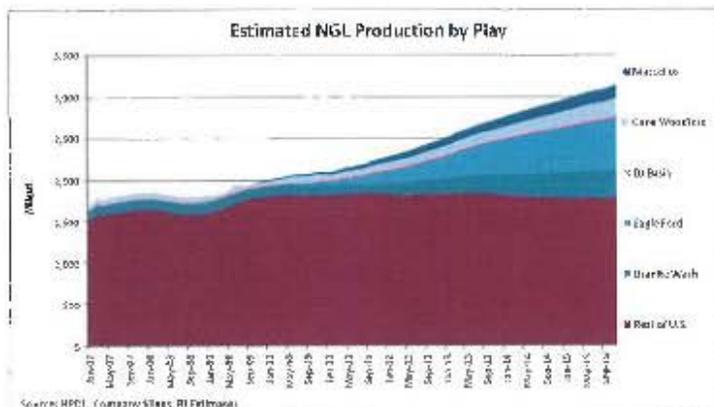
The growth contribution from onshore liquids-rich plays outside of the Eagle Ford, Permian, and the Williston will be comparatively small. Combined, the crude production (i.e. not including natural gas liquids – see the next page for more on NGLs) from the Cana Woodford, Barnett, DJ Basin Niobrara, Granite Wash, and Mississippi Lime made up 3.6% (141 MBpd) of total onshore crude production in 2010. Over time, we expect that percentage to increase modestly as these plays are developed and other onshore production areas decline. In fact, production from these plays should more than offset onshore declines in Alaska and California from 2012 through 2015. In 2015, we expect production from these five minor plays to represent 7% (517 MBpd) of total annual onshore production. While the crude production from the Cana Woodford and



Granite Wash will be muted, these plays will be more prominent contributors to NGL production.

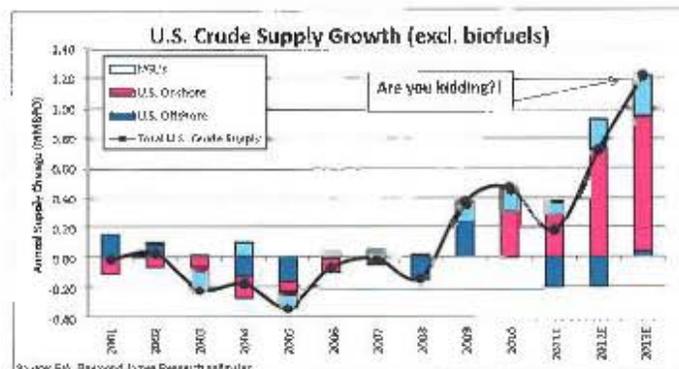
Don't forget about natural gas liquids.

Natural gas liquids, such as ethane, butane, and propane have a number of applications, particularly as feedstocks for refineries and petrochemical plants. NGLs comprise about a quarter of the total U.S. oil supply and have been a meaningful contributing factor in the turnaround of domestic oil production in recent years, growing from 1.8 MMBpd in 2007 to an estimated 2.2 MMBpd in 2011. We expect NGL volumes to continue to grow over the next four years as operators increasingly direct rigs and capital towards liquids-rich opportunities and away from dry gas. As depicted in the adjacent graph, NGL production from the Cana Woodford, DJ Basin Niobrara, Eagle Ford, Granite Wash, and the Marcellus is expected to drive much of the overall growth in output, with the Eagle Ford and Granite Wash leading the way.



Specifically, we are projecting that NGL production will be up over 200 MBpd annually through 2015. All in, we expect that 2015 NGL production will be up over 40% from 2011 to just over 3.0 MMBpd in 2015. To accommodate this growth, NGL pipeline capacity is set to increase from 2.2 MMBpd currently to just under 3.4 MMBpd by mid-2014.

Gulf of Mexico bottoming this year; future growth still up in the air.



In the wake of Macondo, the drilling moratorium, and the current "permitium," the Gulf of Mexico should drag down overall U.S. production growth in 2012, similar to the negative impact that we saw in 2011 (see adjacent chart). We estimate that Gulf of Mexico oil production was down ~200 MBpd in 2011 resulting in full-year offshore oil production of 1.357 MMBpd. A number of mostly small projects (10,000 bpd of oil or less) came online in 2011, making the December start-up of LLOG's 20-MBpd "Who Dat" development, which will eventually ramp to 60 MBpd of oil production, one of the more notable projects to start up during the year.

Looking to 2012, we expect a few large oil projects to gradually come online – namely, Noble Energy's Galapagos development (34.5 MBpd), Anadarko's Caesar/Tonga project (45 MBpd), and the Petrobras-operated Cascade-Chinook Floating Production, Storage, and Offloading facility (80 MBpd of capacity). Despite these new projects, we expect 2012 Gulf of Mexico volumes to be down ~200 MBpd as the gradual ramp from these projects is unable to offset declines. Beyond 2012, we're projecting a modest recovery in Gulf of Mexico volumes in 2013-2015, as additional projects are brought online.

But wait, there's more – we're not even modeling Utica production or accounting for imports from Canada.

In case our production estimates for the eight plays described above weren't enough to dampen your outlook for U.S. oil prices over the next few years, let us point out that we aren't including the Utica, Tuscaloosa, or the expected growth in Canadian oil sands production. Given the early stage of activity in these newer plays, there simply isn't enough data for us to even attempt modeling production growth. That said, if the Utica lives up to the hype of being an "Eagle Ford lookalike," the Utica could become a major driver of onshore U.S. oil production, thus providing hefty upside to our current onshore forecast.

Growth in Canadian oil production also stands to have a profound impact on the crude supply available in the U.S., as growing production from the oil sands will likely find its way south via Keystone XL or alternative transportation solutions into Chicago at the very least. The Canadian Association of Petroleum Producers (CAPP) projects that oil sands production will grow from 1.5 MMBpd in 2010 to 2.2 MMBpd in 2015, ramping to over 3.7 MMBpd by 2025. Clearly, as the largest importer of Canadian crude, the U.S. is highly leveraged to the growth in Canadian supply. While some of the oil sands output may eventually be shipped to Asian markets, the U.S. is a fitting destination for heavy oil production out of Canada, given its current (and growing) coking capacity of 2.5 MMBpd. Cokers are the refining units necessary for processing heavy oil. Heavy oil refinery expansion projects in the Midwest have been commissioned specifically to take advantage of rising output from the Canadian oil sands. Of course, the obvious destination for

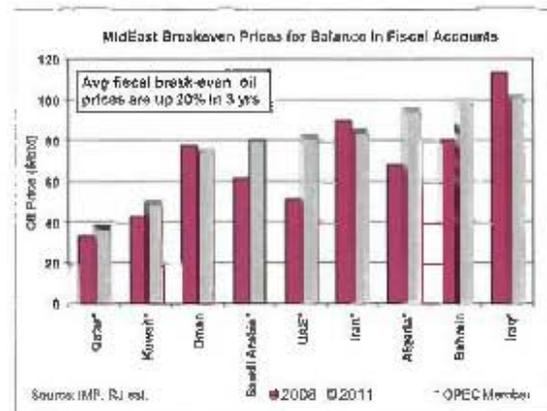
Canadian heavies is the high complexity refineries on the Gulf Coast, where Canadian barrels could replace imports from the Middle East or South America.

Where could we be wrong?

If the Utica is the upside to our estimates, the downside would be unforeseen complications associated with type curve changes, execution risk, and infrastructure delays. The type curve assumptions in our play-by-play models are intentionally biased to the conservative side but there's always the potential for actual production to fall short. Risk to our estimates could come from the legal or regulatory front, though we see little reason to worry about permitting in energy-friendly Texas or North Dakota. Unforeseen setbacks for producers, whether company-specific or structural (such as weather issues), could also temporarily hamper our production estimates. Finally, though our growth projections for the Eagle Ford and Bakken align well with the takeaway capacity slated to come online this year and beyond, delays for pipelines or Bakken rail projects could negatively impact the growth curve.

Why is \$90 the magic number for WTI?

We believe long-term WTI oil prices will be largely range bound between \$80 and \$100/Bbl. In our view, the floor of around \$80 represents a "breaking point" for OPEC to really start cutting production. The adjacent graph shows an updated estimate of these breakeven points. Check out where Iraq needs prices, and even Saudi's breakeven is closer to \$80 these days. Additionally, marginal North American oil projects face tougher economics at \$80/oil and some may be cut or reduced. The ceiling of around \$100 seems appropriate, considering price moves above \$100 tend to raise concerns for demand destruction and even more supply growth. Additionally, Saudi Arabia's oil minister blatantly said in January that he hopes to stabilize oil prices around \$100 – the first time Saudi has explicitly targeted that high of a price.



Of course, oil prices could be much higher if geopolitical tensions erupt into war, but aside from a geopolitical risk, we see only two real drivers for higher oil prices in 2014-2016 including: (1) China and India's economic growth accelerates to drive hefty increases in oil demand, and (2) the global printing press is forced to work overtime.

Brent-WTI: baking in a \$5/Bbl long-term spread.

For much of the past 12 months, forecasting the Brent-WTI crude spread has felt like juggling a stick of dynamite. After the spread peaked near \$30 in summer of 2011, the Seaway reversal announcement in mid-November served to "normalize" the spread down to the \$10-12/Bbl rail transportation arb cost to get crude to the Gulf Coast. For 2012, our price deck assumes a \$10/Bbl Brent-WTI spread in the first half of 2012. By mid-2012, the actual reversal of the Seaway pipeline (150 MBpd, from Cushing to the Gulf Coast) should be able to effectively "clear the glut" and bring the WTI-Brent spread closer to \$4-5/Bbl (the pipeline normalized arb level). Seaway's entire capacity of 400 MBpd should be online by early 2013, enabling growing production from the Bakken and other onshore plays to be transported to the Gulf Coast. While Keystone XL has been effectively tabled until after the election, there are other long-haul pipeline projects to the Gulf Coast currently in the works to handle the growth from Canada and the Rockies. Meanwhile, production from the Eagle Ford will bypass Cushing altogether and flow directly to local Gulf Coast refineries in cities like Corpus Christi. Against the backdrop of this relentless wave of U.S. oil production for years to come, we believe it is unlikely WTI will return to parity with Brent. As such, a longer-term transportation differential of \$5/Bbl is warranted between Brent and WTI prices, although recognizing that this Brent-WTI spread will undoubtedly remain lumpy.

Conclusion: Robust U.S. oil production puts a damper on our long-term oil price deck.

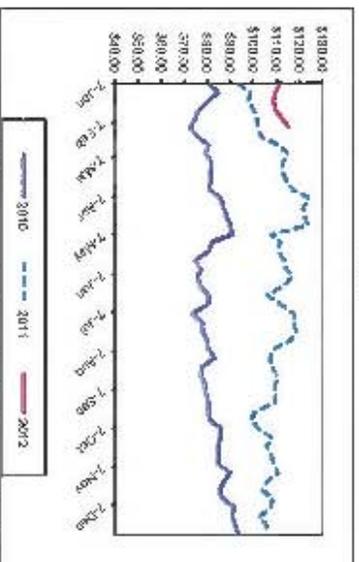
Not exactly known for being ahead of the curve, the Energy Information Administration (EIA) recently projected that U.S. crude production (excluding NGLs) will grow 20% to 6.7 MMBpd by 2020. In stark contrast, we now think full-year U.S. crude production will grow 20% by the end of 2012 – a full seven years ahead of EIA projections! Our bottom-up analysis of U.S. liquids plays points to significant growth in U.S. oil supply over the next five to ten years. Including natural gas liquids, we're projecting that total U.S. oil production will grow about 55% (or 4.3 MMBpd) from 7.9 MMBpd last year to 12.2 MMBpd in 2015. This does not account for potential production from the Utica or growing Canadian oil sands supply, which would only provide upside to the readily available crude supply in the U.S. Coupling all of these factors, U.S. imports will continue to decline and OPEC spare capacity will drift bearishly higher in coming years. Thus, we are lowering our 2013 WTI forecast from \$105/Bbl to \$90/Bbl. For Brent we are lowering next year's forecast from \$110/Bbl to \$95/Bbl Brent. We are also lowering our long-term oil forecast from \$125/Bbl to \$90/Bbl WTI and \$95/Bbl Brent. We should also note that barring significant supply interruptions in the Middle East, we think there is more downside to our long-term forecast than upside.

Raymond James Weekly Oilfield Review

For Week Ending: 2/10/2012

12 Month Oil Calendar Strip

Event

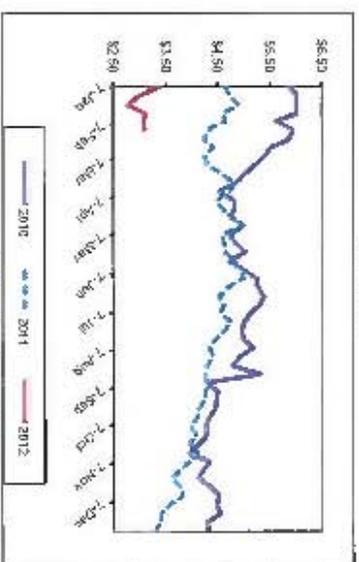


	This Week	Last Week	Beginning of Year	Last Year
Price	\$115.14	\$112.57	\$65.70	\$701.82
Percent Change		2.3%	22.9%	13.1%

Source: Bloomberg

12 Month Gas Calendar Strip

Henry Hub



	This Week	Last Week	Beginning of Year	Last Year
Price	\$3.09	\$3.07	\$4.63	\$4.31
Percent Change		0.4%	-33.4%	-28.5%

Source: Bloomberg

F. U.S. Rig Activity

- U.S. Oil
- U.S. Gas
- U.S. Miscellaneous
- U.S. Total
- U.S. Horizontal
- U.S. Directional
- U.S. Offshore
- U.S. Offshore Gulf of Mexico
- Fleet Size
- # Completed
- Utilization
- U.S. Weekly Rig Permit -
- Canadian Activity
- Rig Count

	10-Feb-12 This Week	3-Feb-12 Last Week	11-Feb-11 Last Year
U.S. Oil	1,283	1,245	805
U.S. Gas	720	745	1,008
U.S. Miscellaneous	6	7	10
U.S. Total	1,989	1,997	1,721

	Last Week	Last Year
U.S. Oil	1.4%	96.0%
U.S. Gas	-3.4%	22.5%
U.S. Miscellaneous	-0.4%	15.8%
U.S. Total	-0.3%	18.6%
U.S. Horizontal	-0.8%	-4.4%
U.S. Directional	-4.8%	53.9%
U.S. Offshore	0.0%	12.4%
U.S. Offshore Gulf of Mexico	0.0%	18.0%
Fleet Size	0.0%	37.4%
# Completed	-0.1%	38.6%
Utilization	-0.1%	12.8%

3. Stock Prices (2/10/12)

- SPX
- S&P 600
- DJA
- S&P 1500 Cap Index
- Altona MLP Index
- 4. Inventories
- U.S. Gas Storage (Bcf)
- Canadian Gas Storage (Bcf)
- Total Petroleum Inventories (000 bbls)

	2/8/12	2/8/12	2/8/12
SPX	2,818.0	2,843.3	2,593.7
S&P 600	1,342.6	1,344.9	1,229.2
DJA	12,801.2	12,882.2	12,275.8
S&P 1500 Cap Index	988.8	993.7	836.8
Altona MLP Index	357.7	368.8	299.8
U.S. Gas Storage (Bcf)	2,888	2,988	2,144
Canadian Gas Storage (Bcf)	553	595	532
Total Petroleum Inventories (000 bbls)	674,453	678,035	674,900

	Last Week	Last Year
SPX	-0.1%	-4.1%
S&P 600	-0.2%	-1.0%
DJA	-0.5%	4.3%
S&P 1500 Cap Index	2.7%	-6.2%
Altona MLP Index	0.2%	7.6%
U.S. Gas Storage (Bcf)	-2.6%	34.7%
Canadian Gas Storage (Bcf)	-2.3%	67.8%
Total Petroleum Inventories (000 bbls)	0.7%	-4.4%

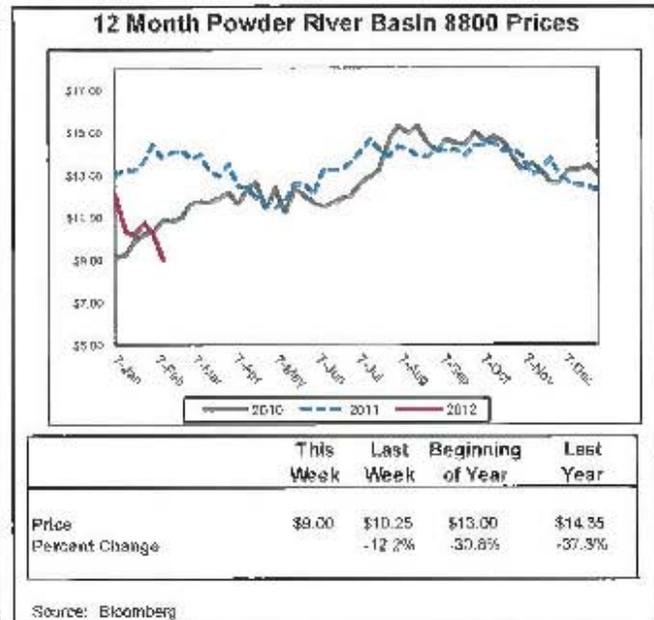
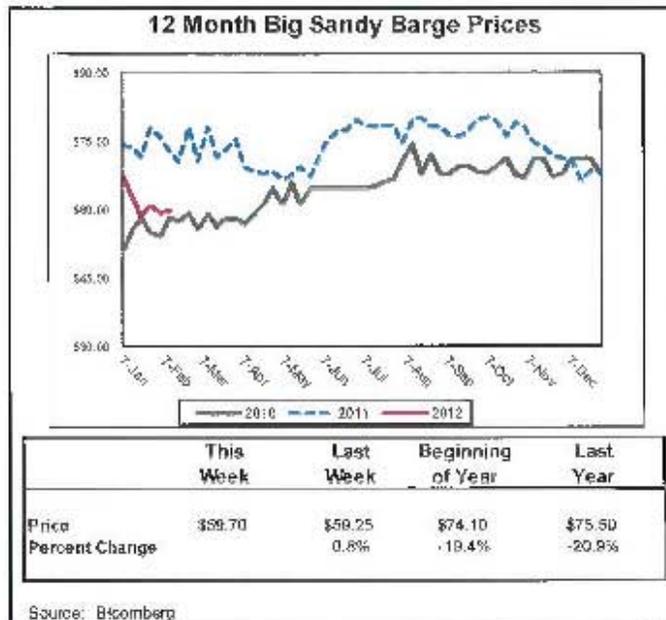
- 5. Spot Prices (US\$)
- Oil (WTI, Cushing)
- Oil (Brent)
- Gas (Henry Hub)
- Residual Fuel Oil (New York)
- Gas (ARCO)
- UK Gas (ICE)

	2/8/12	2/8/12	2/8/12
Oil (WTI, Cushing)	\$88.67	\$87.64	\$85.56
Oil (Brent)	\$117.87	\$114.85	\$101.43
Gas (Henry Hub)	\$2.51	\$2.41	\$3.96
Residual Fuel Oil (New York)	\$113.13	\$108.38	\$14.06
Gas (ARCO)	\$2.32	\$2.18	\$3.41
UK Gas (ICE)	\$11.26	\$11.63	\$9.51

Sources: Baker Hughes, ODS-Petroleum API, EIA, OilWeek, Bloomberg
* More Weekly rig permits needed in 1 week lag

Raymond James Weekly Coal Review

For Week Ending: 2/10/2012



1. Coal Prices
 Eastern U.S.
 CSX 1%
 Western U.S.
 Powder River 8800

	10-Feb-12 This Week	3-Feb-12 Last Week	11-Feb-11 Last Year
Eastern U.S. CSX 1%	\$89.70	\$89.25	\$75.50
Western U.S. Powder River 8800	\$9.00	\$10.25	\$14.55

Change From:	
Last Week	Last Year
0.6%	-20.8%
-12.2%	-37.3%

2. Production
 Eastern U.S.
 Western U.S.
 Total

	3-Feb-12	27-Jan-12	4-Feb-11
Eastern U.S.	8,489	8,560	9,089
Western U.S.	11,306	11,527	11,368
Total	19,795	20,087	20,457

Change From:	
Last Week	Last Year
-0.8%	-6.8%
-1.9%	-0.5%
-1.6%	3.2%

Source: Bloomberg

Company Citations

Company Name	Ticker	Exchange	Currency	Closing Price	RJ Rating	RJ Entity
Anadarko Petroleum Corp.	APC	NYSE	\$	87.04	1	RJ & Associates
ConocoPhillips	CPD	NYSE	\$	72.25	3	RJ & Associates
Noble Energy, Inc.	NBL	NYSE	\$	101.15	3	RJ & Associates
Petróleo Brasileiro S.A.	PBR	NYSE	US\$	29.57	S	RJ Latin America

Notes: Prices are as of the most recent close on the indicated exchange and may not be in US\$. See Disclosure section for rating definitions. Stocks that do not trade on a U.S. national exchange may not be approved for sale in all U.S. states. NC=not covered.

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Strong Buy (SB1) Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.

Outperform (MO2) Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months.

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Underperform (MU4) Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

Suspended (S) The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

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Market Perform (MP3) The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.

Underperform (MU4) The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

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Outperform (MO2) Expected to appreciate and produce a total return of between 15.0% and 25.0% over the next twelve months.

Market Perform (MP3) Expected to perform in line with the underlying country index.

Underperform (MU4) Expected to underperform the underlying country index.

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Outperform (2) Expected to appreciate and outperform the Stoxx 600 over the next 12 months.

Market Perform (3) Expected to perform generally in line with the Stoxx 600 over the next 12 months.

Underperform (4) Expected to underperform the Stoxx 600 or its sector over the next 6 to 12 months.

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	Coverage Universe Rating Distribution			Investment Banking Distribution		
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Strong Buy and Outperform (Buy)	57%	71%	39%	14%	42%	14%
Market Perform (Hold)	37%	28%	54%	5%	30%	3%
Underperform (Sell)	6%	0%	7%	6%	0%	0%

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Aggressive Growth (AG) Medium or higher risk equities of companies in fast growing and competitive industries, with less predictable earnings and acceptable, but possibly more leveraged balance sheets.

High Risk (HR) Companies with less predictable earnings (or losses), rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and risk of principal.

Venture Risk (VR) Companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, and a substantial risk of principal.

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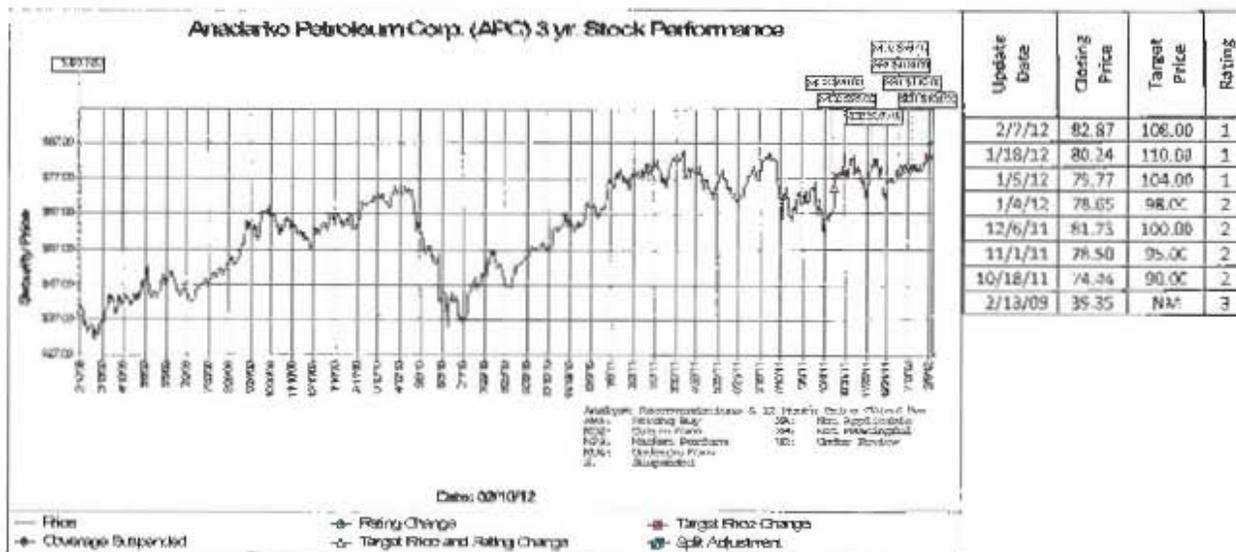
Raymond James expects to receive or intends to seek compensation for investment banking services from the subject companies in the next three months.

Company Name	Disclosure
Anadarko Petroleum Corp.	Raymond James & Associates received non-investment banking securities-related compensation from APC within the past 12 months.

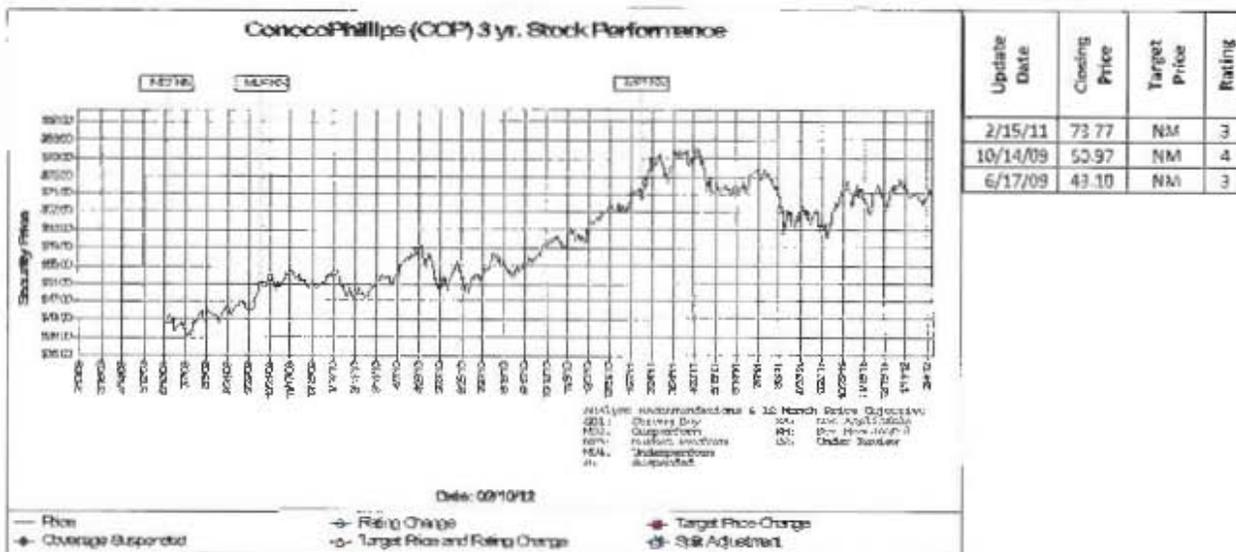
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Valuation Methodology: The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences. Only stocks rated Strong Buy (SB1) or Outperform (MO2) have target prices and thus valuation methodologies.

Target Prices: The information below indicates target price and rating changes for the subject companies included in this research.



Valuation Methodology: For Anadarko Petroleum Corp., our price target is based on total company NAV. We also consider EV/EBITDA multiples.





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Specific Investment Risks Related to the Industry or Issuer

Coal Industry Risks

Oil and Gas Price Volatility

Profitability of companies producing crude oil and natural gas is directly affected by changes in oil and gas prices. These prices are influenced by a multitude of regional, national and global factors, many of which are outside the control of companies in the industry. Supply-related factors include industrywide levels of capital spending and production decisions by OPEC. Demand-related factors include macroeconomic conditions.

International Risk

Essentially all integrated majors have significant upstream operations in developing countries. This may result in elevated levels of political and currency risks. Political risks include adverse changes in laws and policies governing operations of foreign-based companies and/or increases in royalty and tax rates. Some operations may be especially vulnerable to political and social instability. Currency risks include the possibility of legal restrictions on currency transfers and exchange rate fluctuations. International operations may also be adversely affected by laws and policies of a company's home country regarding foreign trade and taxation.

Commodity Price Volatility Could Cause Significant Fluctuations in Earnings

Over the past couple of years, thermal coal prices have been strong by historical standards. Strength in the global steel market has pushed metallurgical coal prices to the high-double-digit to low-triple-digit range. The domestic weather and economic health, as well as the state of the global economy, are important factors with regard to industry earnings. While we anticipate thermal and metallurgical coal prices to remain strong over the next several years, should coal prices retreat for whatever reason (supply growth, demand reduction, etc.), earnings would likely react negatively.

Heavy Governmental Regulation Poses Financial Risk to Coal Producers

The coal industry is heavily regulated by federal, state, and local government organizations for a number of different matters, including: 1) employee health, retirement and safety protection, 2) permitting and licensing requirements, 3) air quality standards, 4) water pollution, 5) plant & wildlife protection, and 6) reclamation and restoration of mining properties after operations are completed, among others. Such regulations can cause mining companies to incur substantial costs, which could be detrimental to the financial health of the company.

Exploration Risk

All exploration activities involve inherent risks, including the risk that no commercially viable oil and gas reserves will be discovered. In addition, companies may often be uncertain as to the future cost or timing of drilling, completing and producing wells. Drilling operations may be curtailed, delayed or canceled as a result of the additional exploration time and expense associated with many factors, including unexpected drilling conditions, equipment failures or accidents, adverse weather conditions, or delays in the availability of drilling rigs or equipment.

Joint Venture Risk

Most integrated majors conduct some of their operations through joint ventures in which they may share control with other participants. There is a risk that other participants may have interests that are inconsistent with the company's. Also, if other participants are unable to meet their economic or other obligations, the company may be required to fulfill those obligations alone.

Transportation Disruptions Could Lead to Quarterly Shipment Volatility

Aside from actual production problems at individual mines, transportation disruptions can also lead to volatility when it comes to quarterly shipment volumes. Over the past several years, there have been a number of instances where transportation has not kept pace with expectations, either due to weather issues, accidents, or simply insufficient capacity to meet new volumes. This has been a particularly acute problem with rail transportation in both the East and the West.

The Mining Industry Is Subject to Inherent Choppiness for a Variety of Potential Reasons

Mining is an inherently choppy business from one quarter to the next for a number of reasons such as: 1) weather-related interruptions, 2) periodic equipment or geological problems, 3) the potential for activity disrupting accidents, 4) transportation disruptions or unavailability, 5) seasonal factors such as holidays, and 6) productivity issues such as long-wall moves. These factors make predicting earnings from one quarter to the next almost impossible with any accuracy, and the flare up of one or more of these issues can negatively impact results.

Oil and Gas Price Volatility

Profitability of companies producing crude oil and natural gas is directly affected by changes in oil and gas prices. These prices are influenced by a multitude of regional, national and global factors, many of which are outside the control of companies in the industry. Supply-related factors include industrywide levels of capital spending and production decisions by OPEC. Demand-related factors include macroeconomic conditions.

Company-Specific Risks for Anadarko Petroleum Corp.

Exploration Focus Increases the Company's Relative Risk Profile

Anadarko's focus on cutting-edge exploration exposes shareholders to higher capital reinvestment risks than other companies in the sector that focus proportionately more on lower risk exploitation and development projects. Given the company's sheer size, it may increasingly need to focus on high-impact projects to achieve its growth objectives that may also carry higher risks.

Oil and Natural Gas Price Volatility

Prices for oil and natural gas fluctuate widely, and Anadarko's revenues, profitability, and future growth depend substantially on prevailing prices for oil and gas. Also, lower oil and gas prices can influence the company's cash flow and capital available to reinvest in drilling projects, which could impact Anadarko's ability to grow its operations. To manage commodity price volatility, in the normal course of its business, Anadarko typically enters into hedging transactions on a portion of its expected production.

Potential Increases in Service Costs

Future increases in drilling and other service costs could affect Anadarko's profitability. As industry participants accelerate drilling activity in response to the high commodity prices, costs will likely rise. However, attractive rates of return may continue to be achievable, depending on the level of future commodity prices and Anadarko's hedging program.

International Expansion

As the company expands its operations internationally, Anadarko will become increasingly more exposed to various risks inherent in foreign operations. These risks may include, among other things, loss of revenue, property, and equipment as a result of hazards such as expropriation, war, insurrection, and other political risks, increases in taxes and governmental royalties, renegotiation of contracts with governmental entities, changes in laws and policies governing operations of foreign-based companies, currency restrictions and exchange rate fluctuations, and other uncertainties arising out of foreign government sovereignty over the company's international operations. The company's international operations may also be adversely affected by laws and policies of the United States affecting foreign trade and taxation.

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