

PEABODY ENERGY CORP  
Form 10-Q  
May 06, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-16463

---

PEABODY ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

13-4004153

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

701 Market Street, St. Louis, Missouri 63101-1826

(Address of principal executive offices) (Zip Code)

(314) 342-3400

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

There were 18.5 million shares of the registrant's common stock (par value of \$0.01 per share) outstanding at May 2, 2016.

TABLE OF CONTENTS

	Page
<b><u>PART I — FINANCIAL INFORMATION</u></b>	
<b><u>Item 1. Financial Statements</u></b>	<b><u>1</u></b>
Unaudited Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2016 and 2015	<u>1</u>
Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2016 and 2015	<u>2</u>
Condensed Consolidated Balance Sheets as of March 31, 2016 (Unaudited) and December 31, 2015	<u>3</u>
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2016 and 2015</u>	<u>4</u>
<u>Unaudited Condensed Consolidated Statement of Changes in Stockholders' Equity for the Three Months Ended March 31, 2016</u>	<u>5</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>45</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>64</u>
<u>Item 4. Controls and Procedures</u>	<u>65</u>
<b><u>PART II — OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	<u>65</u>
<u>Item 1A. Risk Factors</u>	<u>65</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>69</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>69</u>
<u>Item 6. Exhibits</u>	<u>69</u>
<b><u>SIGNATURE</u></b>	<b><u>70</u></b>
<b><u>EXHIBIT INDEX</u></b>	<b><u>71</u></b>
EX-31.1	
EX-31.2	
EX-32.1	
EX-32.2	
EX-95	
EX-101 INSTANCE DOCUMENT	
EX-101 SCHEMA DOCUMENT	
EX-101 CALCULATION LINKBASE DOCUMENT	
EX-101 LABELS LINKBASE DOCUMENT	
EX-101 PRESENTATION LINKBASE DOCUMENT	
EX-101 DEFINITION LINKBASE DOCUMENT	

Table of Contents

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements.

## PEABODY ENERGY CORPORATION

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31, 2016      2015 (Dollars in millions, except per share data)	
Revenues		
Sales	\$879.8	\$1,418.7
Other revenues	147.4	119.2
Total revenues	1,027.2	1,537.9
Costs and expenses		
Operating costs and expenses (exclusive of items shown separately below)	920.2	1,321.6
Depreciation, depletion and amortization	111.8	147.5
Asset retirement obligation expenses	13.1	14.2
Selling and administrative expenses	48.3	49.4
Restructuring charges	12.1	—
Other operating (income) loss:		
Net gain on disposal of assets	(1.8 )	(0.1 )
Asset impairment	17.2	—
Loss from equity affiliates	9.0	3.1
Operating (loss) profit	(102.7 )	2.2
Interest expense	126.2	106.6
Loss on early debt extinguishment	—	59.5
Interest income	(1.4 )	(2.5 )
Loss from continuing operations before income taxes	(227.5 )	(161.4 )
Income tax (benefit) provision	(65.8 )	3.0
Loss from continuing operations, net of income taxes	(161.7 )	(164.4 )
Loss from discontinued operations, net of income taxes	(3.4 )	(8.9 )
Net loss	(165.1 )	(173.3 )
Less: Net income attributable to noncontrolling interests	—	3.3
Net loss attributable to common stockholders	\$(165.1)	\$(176.6 )
Loss from continuing operations:		
Basic loss per share	\$(8.85 )	\$(9.31 )
Diluted loss per share	\$(8.85 )	\$(9.31 )
Net loss attributable to common stockholders:		
Basic loss per share	\$(9.03 )	\$(9.81 )
Diluted loss per share	\$(9.03 )	\$(9.81 )
Dividends declared per share	\$—	\$0.0375

See accompanying notes to unaudited condensed consolidated financial statements.



Table of ContentsPEABODY ENERGY CORPORATION  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31, 2016    2015 (Dollars in millions)	
Net loss	\$(165.1)	\$(173.3)
Other comprehensive income (loss), net of income taxes:		
Net change in unrealized losses on available-for-sale securities (net of respective net tax benefits of \$0.0 and \$0.1)	—	(0.2 )
Net unrealized gains (losses) on cash flow hedges (net of respective net tax provision (benefit) of \$29.2 and (\$1.2))		
Decrease in fair value of cash flow hedges	—	(149.7 )
Reclassification for realized losses included in net loss	49.7	94.0
Net unrealized gains (losses) on cash flow hedges	49.7	(55.7 )
Postretirement plans and workers' compensation obligations (net of respective net tax provision (benefit) of \$2.1 and (\$0.0))	3.6	12.6
Foreign currency translation adjustment	2.7	(27.4 )
Other comprehensive income (loss), net of income taxes	56.0	(70.7 )
Comprehensive loss	(109.1 )	(244.0 )
Less: Comprehensive income attributable to noncontrolling interests	—	3.3
Comprehensive loss attributable to common stockholders	\$(109.1)	\$(247.3)
See accompanying notes to unaudited condensed consolidated financial statements.		

Table of ContentsPEABODY ENERGY CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
	March 31, 2016	December 31, 2015
	(Amounts in millions, except per share data)	
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$745.6	\$ 261.3
Restricted cash	84.9	—
Accounts receivable, net of allowance for doubtful accounts of \$12.0 at March 31, 2016 and \$6.6 at December 31, 2015	263.7	228.8
Inventories	315.8	307.8
Assets from coal trading activities, net	21.2	23.5
Deferred income taxes	53.5	53.5
Other current assets	467.4	447.6
Total current assets	1,952.1	1,322.5
Property, plant, equipment and mine development, net	9,162.8	9,258.5
Deferred income taxes	2.3	2.2
Investments and other assets	377.8	363.7
Total assets	\$11,495.0	\$ 10,946.9
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Current portion of long-term debt	\$6,820.2	\$ 5,874.9
Liabilities from coal trading activities, net	19.3	15.6
Accounts payable and accrued expenses	1,284.9	1,446.3
Total current liabilities	8,124.4	7,336.8
Long-term debt, less current portion	367.0	366.3
Deferred income taxes	51.1	69.1
Asset retirement obligations	698.0	686.6
Accrued postretirement benefit costs	720.5	722.9
Other noncurrent liabilities	722.7	846.7
Total liabilities	10,683.7	10,028.4
Stockholders' equity		
Preferred Stock — \$0.01 per share par value; 10.0 shares authorized, no shares issued or outstanding as of March 31, 2016 or December 31, 2015	—	—
Perpetual Preferred Stock — 0.8 shares authorized, no shares issued or outstanding as of March 31, 2016 or December 31, 2015	—	—
Series Common Stock — \$0.01 per share par value; 40.0 shares authorized, no shares issued or outstanding as of March 31, 2016 or December 31, 2015	—	—
Common Stock — \$0.01 per share par value; 53.3 shares authorized, 19.3 shares issued and 18.5 shares outstanding as of March 31, 2016 and December 31, 2015	0.2	0.2
Additional paid-in capital	2,412.7	2,410.7
Treasury stock, at cost — 0.8 shares as of March 31, 2016 and December 31, 2015	(371.8)	(371.7)
Accumulated deficit	(668.5)	(503.4)
Accumulated other comprehensive loss	(562.9)	(618.9)
Peabody Energy Corporation stockholders' equity	809.7	916.9
Noncontrolling interests	1.6	1.6

Total stockholders' equity	811.3	918.5
Total liabilities and stockholders' equity	\$11,495.0	\$ 10,946.9
See accompanying notes to unaudited condensed consolidated financial statements.		

Table of ContentsPEABODY ENERGY CORPORATION  
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2016    2015 (Dollars in millions)	
Cash Flows From Operating Activities		
Net loss	\$(165.1)	\$(173.3)
Loss from discontinued operations, net of income taxes	3.4	8.9
Loss from continuing operations, net of income taxes	(161.7 )	(164.4 )
Adjustments to reconcile loss from continuing operations, net of income taxes to net cash (used in) provided by operating activities:		
Depreciation, depletion and amortization	111.8	147.5
Noncash interest expense	6.9	7.3
Deferred income taxes	(49.4 )	(3.6 )
Noncash share-based compensation	2.4	9.6
Asset impairment	17.2	—
Net gain on disposal of assets	(1.8 )	(0.1 )
Loss from equity affiliates	9.0	3.1
Gain on VEBA settlement	(68.1 )	—
Monetization of hedge positions	(17.8 )	—
Unrealized gains on non-coal trading derivative contracts	(25.0 )	—
Gain on previously monetized foreign currency hedge positions	—	(10.7 )
Restricted cash	(100.2 )	—
Changes in current assets and liabilities:		
Accounts receivable	125.8	116.1
Change in receivable from accounts receivable securitization program	(168.5 )	15.0
Inventories	(8.0 )	37.5
Net assets from coal trading activities	6.0	(3.8 )
Other current assets	(36.0 )	0.1
Accounts payable and accrued expenses	(71.1 )	(178.9 )
Asset retirement obligations	9.0	11.3
Accrued postretirement benefit costs	(0.2 )	5.3
Accrued pension costs	5.4	7.6
Take-or-pay obligation settlement	(15.5 )	—
Other, net	(9.1 )	6.3
Net cash (used in) provided by continuing operations	(438.9 )	5.2
Net cash used in discontinued operations	(0.1 )	(1.8 )
Net cash (used in) provided by operating activities	(439.0 )	3.4
Cash Flows From Investing Activities		
Additions to property, plant, equipment and mine development	(13.3 )	(25.1 )
Changes in accrued expenses related to capital expenditures	(3.4 )	(11.3 )
Proceeds from disposal of assets, net of notes receivable	2.1	2.1
Purchases of debt and equity securities	—	(7.3 )
Proceeds from sales and maturities of debt and equity securities	—	10.1
Contributions to joint ventures	(81.7 )	(114.6 )
Distributions from joint ventures	87.4	113.6
Other, net	(4.0 )	(3.2 )



Edgar Filing: PEABODY ENERGY CORP - Form 10-Q

Net cash used in investing activities	(12.9 )	(35.7 )
Cash Flows From Financing Activities		
Proceeds from long-term debt	947.0	975.7
Repayments of long-term debt	(6.2 )	(572.2 )
Payment of deferred financing costs	(2.8 )	(28.4 )
Dividends paid	—	(0.7 )
Other, net	(1.8 )	(3.0 )
Net cash provided by financing activities	936.2	371.4
Net change in cash and cash equivalents	484.3	339.1
Cash and cash equivalents at beginning of period	261.3	298.0
Cash and cash equivalents at end of period	\$745.6	\$637.1
See accompanying notes to unaudited condensed consolidated financial statements.		

Table of Contents

PEABODY ENERGY CORPORATION  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Peabody Energy Corporation Stockholders' Equity						
	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Stockholders' Equity
	(Dollars in millions)						
December 31, 2015	\$0.2	\$2,410.7	\$(371.7)	\$ (503.4 )	\$ (618.9 )	\$ 1.6	\$ 918.5
Net loss	—	—	—	(165.1 )	—	—	(165.1 )
Net realized gains on cash flow hedges (net of \$29.2 net tax provision)	—	—	—	—	49.7	—	49.7
Postretirement plans and workers' compensation obligations (net of \$2.1 net tax provision)	—	—	—	—	3.6	—	3.6
Foreign currency translation adjustment	—	—	—	—	2.7	—	2.7
Share-based compensation for equity-classified awards	—	2.0	—	—	—	—	2.0
Repurchase of employee common stock relinquished for tax withholding	—	—	(0.1 )	—	—	—	(0.1 )
March 31, 2016	\$0.2	\$2,412.7	\$(371.8)	\$ (668.5 )	\$ (562.9 )	\$ 1.6	\$ 811.3
See accompanying notes to unaudited condensed consolidated financial statements.							

Table of Contents

PEABODY ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The condensed consolidated financial statements include the accounts of Peabody Energy Corporation (the Company) and its affiliates. Interests in subsidiaries controlled by the Company are consolidated with any outside shareholder interests reflected as noncontrolling interests, except when the Company has an undivided interest in an unincorporated joint venture. In those cases, the Company includes its proportionate share in the assets, liabilities, revenues and expenses of the jointly controlled entities within each applicable line item of the unaudited condensed consolidated financial statements. All intercompany transactions, profits and balances have been eliminated in consolidation. As discussed below in Note 2. "Newly Adopted Accounting Standards and Accounting Standards Not Yet Implemented," prior year amounts of deferred financing costs have been reclassified to conform with the 2016 presentation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. In the opinion of management, these financial statements reflect all normal, recurring adjustments necessary for a fair presentation. Balance sheet information presented herein as of December 31, 2015 has been derived from the Company's audited consolidated balance sheet at that date. The Company's results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for future quarters or for the year ending December 31, 2016.

Pursuant to the authorization provided at a special meeting of the Company's stockholders held on September 16, 2015, the Company completed a 1-for-15 reverse stock split of the shares of the Company's common stock on September 30, 2015 (the Reverse Stock Split). As a result of the Reverse Stock Split, every 15 shares of issued and outstanding common stock were combined into one issued and outstanding share of Common Stock, without any change in the par value per share. No fractional shares were issued as a result of the Reverse Stock Split and any fractional shares that would otherwise have resulted from the Reverse Stock Split were paid in cash. The Reverse Stock Split reduced the number of shares of common stock outstanding from approximately 278 million shares to approximately 19 million shares. The number of authorized shares of common stock was also decreased from 800 million shares to 53.3 million shares. The Company's common stock began trading on a reverse stock split-adjusted basis on the New York Stock Exchange (NYSE) on October 1, 2015. All share and per share data included in this report has been retroactively restated to reflect the Reverse Stock Split. Since the par value of the common stock remained at \$0.01 per share, the value for "Common stock" recorded to the Company's condensed consolidated balance sheets has been retroactively reduced to reflect the par value of restated outstanding shares, with a corresponding increase to "Additional paid-in capital."

The Company has classified items within discontinued operations in the unaudited condensed consolidated financial statements for disposals (by sale or otherwise) that have occurred prior to January 1, 2015 when the operations and cash flows of a disposed component of the Company were eliminated from the ongoing operations of the Company as a result of the disposal and the Company no longer had any significant continuing involvement in the operation of that component.

Filing Under Chapter 11 of the United States Bankruptcy Code

On April 13, 2016 (the Petition Date), Peabody and a majority of its wholly owned domestic subsidiaries as well as one international subsidiary in Gibraltar (the Filing Subsidiaries and together with Peabody, the Debtors) filed voluntary petitions for reorganization (the petitions collectively, the Bankruptcy Petitions) under Chapter 11 of Title 11 of the U.S. Code (the Bankruptcy Code) in the United States Bankruptcy Court for the Eastern District of Missouri (the Bankruptcy Court). The Company's Australian Operations and other international subsidiaries are not included in the filings. The Debtors' Chapter 11 cases (collectively, the Chapter 11 Cases) are being jointly administered under the caption In re Peabody Energy Corporation, et al., Case No. 16-42529 (Bankr. E.D. Mo.). The Debtors will continue to

operate their businesses as “debtors-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court.

6

---

Table of Contents

PEABODY ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The filings of the Bankruptcy Petitions constituted an event of default under the Company's credit agreement as well as the indentures governing certain of the Company's debt instruments, as further described in Note 11. "Current and Long-term Debt" to the condensed consolidated financial statements, and all unpaid principal and accrued and unpaid interest due thereunder became immediately due and payable. Any efforts to enforce such payment obligations are automatically stayed as a result of the Bankruptcy Petitions and the creditors' rights of enforcement are subject to the applicable provisions of the Bankruptcy Code. Aside from disclosures describing the bankruptcy process and some of its prospective impacts, the Company's condensed consolidated financial statements as of and for the period ended March 31, 2016 do not reflect any impact of the bankruptcy.

Additionally, on the Petition Date, the NYSE determined that Peabody's common stock was no longer suitable for listing pursuant to Section 8.02.01D of the NYSE's Listed Company Manual, and trading in the Company's common stock was suspended. The Company's common stock began trading on the OTC Pink Sheets marketplace under the symbol BTUUQ on April 14, 2016.

On the Petition Date, the Debtors filed a number of motions with the Bankruptcy Court generally designed to stabilize their operations and facilitate the Debtors' transition into Chapter 11. Certain of these motions sought authority from the Bankruptcy Court for the Debtors to make payments upon, or otherwise honor, certain prepetition obligations (e.g., obligations related to certain employee wages, salaries and benefits and certain vendors and other providers essential to the Debtors' businesses). The Bankruptcy Court has entered orders approving the relief sought in these motions.

Pursuant to Section 362 of the Bankruptcy Code, the filing of the Bankruptcy Petitions automatically stayed most actions against the Debtors, including actions to collect indebtedness incurred prior to the Petition Date or to exercise control over the Debtors' property. Subject to certain exceptions under the Bankruptcy Code, the filing of the Debtors' Chapter 11 Cases also automatically stayed the continuation of most legal proceedings, including certain of the third party litigation matters described under "Legal Proceedings," set forth in Part II Item I of this report or the filing of other actions against or on behalf of the Debtors or their property to recover on, collect or secure a claim arising prior to the Petition Date or to exercise control over property of the Debtors' bankruptcy estates, unless and until the Bankruptcy Court modifies or lifts the automatic stay as to any such claim. Notwithstanding the general application of the automatic stay described above, governmental authorities may determine to continue actions brought under their police and regulatory powers.

The U.S. Trustee for the Eastern District of Missouri filed a notice appointing an official committee of unsecured creditors (the Creditors' Committee) on April 29, 2016. The Creditors' Committee represents all unsecured creditors of the Debtors and has a right to be heard on all matters that come before the Bankruptcy Court.

As a result of the Bankruptcy Petitions, the realization of the Debtors' assets and the satisfaction of liabilities are subject to significant uncertainty. For the Debtors to emerge successfully from Chapter 11, they must obtain the Bankruptcy Court's approval of a plan of reorganization, which will enable them to transition from Chapter 11 into ordinary course operations as reorganized entities outside of bankruptcy. A plan of reorganization determines the rights and treatment of claims of various creditors and equity security holders, and is subject to the ultimate outcome of negotiations and Bankruptcy Court decisions ongoing through the date on which the plan of reorganization is confirmed.

The Debtors intend to propose a plan of reorganization on or prior to the applicable date required under the Bankruptcy Code and in accordance with milestones set forth in the DIP Credit Agreement (as defined below), as the same may be extended with approval of the Bankruptcy Court. The Debtors presently expect that any proposed plan of reorganization will provide, among other things, for mechanisms for the settlement of claims against the Debtors' estates, treatment of the Debtors' existing equity and debt holders, and certain corporate governance and administrative matters pertaining to the reorganized Debtors. A proposed plan of reorganization filed with the

Bankruptcy Court likely will incorporate provisions arising out of the Debtors' discussions with their creditors and other interested parties, and likely will be further revised thereafter. There can be no assurance that the Debtors will be able to secure approval for their proposed plan of reorganization from the Bankruptcy Court. Further, a Chapter 11 plan is likely to materially change the amounts and classifications of assets and liabilities reported in the Company's condensed consolidated financial statements.

As a result of challenging market conditions, Peabody believes it will require a significant restructuring of its balance sheet in order to continue as a going concern in the long term. The Company's ability to continue as a going concern is dependent upon, among other things, its ability to become profitable and maintain profitability, its ability to access sufficient liquidity and its ability to successfully implement its Chapter 11 plan strategy. The accompanying condensed consolidated financial statements are prepared on a going concern basis and do not include any adjustments that might be required if the Company were unable to continue as a going concern, other than the reclassification of certain long-term debt net of the related debt issuance costs to current liabilities.

Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

On the Petition Date, the Debtors also filed a motion (the DIP Motion) seeking authorization to use cash collateral and to approve financing (the DIP Financing) under that certain Superpriority Secured Debtor-In-Possession Credit Agreement (the DIP Credit Agreement) by and among the Company as borrower, Global Center for Energy and Human Development, LLC (Global Center) and certain Debtors party thereto as guarantors (the Guarantors and together with the Company, the Loan Parties), the lenders party thereto (the DIP Lenders) and Citibank, N.A. as Administrative Agent (in such capacity, the DIP Agent) and L/C Issuer. The DIP Credit Agreement provides for (i) a term loan not to exceed \$500 million (the DIP Term Loan Facility), of which \$200 million is available until the entry of the final order approving the DIP Credit Agreement (the Final Order), secured by substantially all of the assets of the Loan Parties, subject to certain excluded assets and carve outs and guaranteed by the Loan Parties (other than the Company), which would be used for working capital and general corporate purposes, to cash collateralize letters of credit and to pay fees and expenses, (ii) a cash collateralized letter of credit facility in an amount up to \$100 million (the L/C Facility), and (iii) a bonding accommodation facility in an amount up to \$200 million consisting of (x) a carve-out from the collateral with superpriority claim status, subject only to the fees carve-out, entitling the authority making any bonding request to receive proceeds of collateral first in priority before distribution to any DIP Lender or other prepetition secured creditor, except for letters of credit issued under the DIP Credit Agreement and/or (y) a letter of credit facility (the Bonding L/C Facility). The aggregate face amount of all letters of credit issued under the L/C Facility and the Bonding L/C Facility shall not at any time exceed \$50 million without DIP Lender consent.

The DIP Credit Agreement includes covenants that, subject to certain exceptions, require the Company to maintain certain minimum thresholds of liquidity and consolidated EBITDA and to not exceed a certain maximum capital spend, and limit the ability of the Company and the Guarantors to, among other things: (i) make dispositions of material leases and contracts, (ii) make acquisitions, loans or investments, (iii) create liens on their property, (iv) dispose of assets, (v) incur indebtedness, (vi) merge or consolidate with third parties, (vii) enter into transactions with affiliated entities, and (viii) make material changes to their business activities.

In addition to customary events of default, the DIP Credit Agreement contains the following milestones relating to the Chapter 11 Cases, the failure of which, if not cured, amended or waived, would result in an event of default:

- not later than 120 days following the Petition Date, delivery of the U.S. Business Plan and the Australian Business Plan;

- not later than 30 days following the Petition Date, a declaratory judgment action shall be commenced by the Company (without prejudice to the rights of any party-in-interest to commence such a declaratory judgment action or any other proceeding) seeking a determination of the Principal Property Cap (including the amount thereof) and which of the U.S. Mine complexes are Principal Properties (the CNTA Issues), and not later than 180 days following the petition date of the Chapter 11 Cases, the Bankruptcy Court shall have entered an order determining the CNTA Issues;

- not later than 210 days following the Petition Date, the filing of an Acceptable Reorganization Plan (as defined below) and related disclosure statement;

- not later than 270 days following the Petition Date, entry of an order approving a disclosure statement for an Acceptable Reorganization Plan; and

- not later than 330 days following the Petition Date, the entry of an order confirming an Acceptable Reorganization Plan; not later than 360 days following the Petition Date, effectiveness of an Acceptable Reorganization Plan.

“Acceptable Reorganization Plan” means a reorganization plan that (i) provides for the termination of the commitments and the payment in full in cash of the obligations under the DIP Credit Agreement (other than contingent indemnification obligations for which no claims have been asserted) on the consummation date of such reorganization plan and (ii) provides for customary releases of the DIP Agent, the DIP Lenders and the L/C Issuer and each of their respective representatives, from any and all claims against the DIP Agent, the DIP Lenders and the DIP L/C Issuer in connection with the DIP Credit Agreement or the cases to the fullest extent permitted by the Bankruptcy Code and

applicable law.

On April 15, 2016, the Bankruptcy Court issued an order approving the DIP Motion on an interim basis and authorizing the Loan Parties to, among other things, (i) enter into the DIP Credit Agreement and initially borrow up to \$200 million, (ii) obtain a cash collateralized letter of credit facility in the aggregate amount of up to \$100 million, and (iii) an accommodation facility for bonding requests in an aggregate stated amount of up to \$200 million. On April 18, 2016, the Company entered into the DIP Credit Agreement with the DIP Lenders and borrowed \$200 million under the DIP Term Loan Facility. The Bankruptcy Court will consider final approval of the DIP Financing at a hearing currently scheduled for May 17, 2016.



Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Subsequent to March 31, 2016, the Company executed two amendments to its accounts receivable securitization program (securitization program). These amendments permit the continuation of the securitization program through the Company's Chapter 11 cases. On April 12, 2016, the Company entered into an amendment to its securitization program to state that the filing of the Bankruptcy Petitions would not result in an automatic termination of the securitization program that would result in the acceleration of the obligations thereunder. On April 18, 2016, the Company entered into an additional amendment to its securitization program to (i) change the maturity date to the earlier of March 23, 2018 and the emergence of the Company from the Chapter 11 Cases, (ii) enact a revised schedule of fees and (iii) enter into an additional performance guarantee by the Company's subsidiaries that are contributors under the securitization facility promising to fulfill obligations of the other contributors. If a final order approving the securitization program is not entered by the Bankruptcy Court on or prior to May 28, 2016, the administrative agent will have the option to terminate the securitization program. A hearing to consider a final order on the securitization program is currently scheduled for May 17, 2016.

For periods subsequent to filing the Bankruptcy Petitions, the Company will apply the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 852, Reorganizations, in preparing its condensed consolidated financial statements. ASC 852 requires that the financial statements distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain revenues, expenses, realized gains and losses and provisions for losses that are realized or incurred in the bankruptcy proceedings will be recorded in a reorganization line item on the consolidated statements of operations. In addition, the pre-petition obligations that may be impacted by the bankruptcy reorganization process will be classified on the consolidated balance sheet as liabilities subject to compromise. These liabilities are reported at the amounts expected to be allowed by the Bankruptcy Court, which may differ from the ultimate settlement amounts.

## (2) Newly Adopted Accounting Standards and Accounting Standards Not Yet Implemented

## Newly Adopted Accounting Standards

**Going Concern.** In August 2014, the FASB issued disclosure guidance that requires management to evaluate, at each annual and interim reporting period, whether substantial doubt exists about an entity's ability to continue as a going concern and, if applicable, to provide related disclosures. As outlined by that guidance, substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that an entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or are available to be issued). The new guidance is effective for annual reporting periods ending after December 15, 2016 (the year ending December 31, 2016 for the Company) and interim periods thereafter, with early adoption permitted.

**Deferred Financing Costs.** On April 7, 2015, the FASB issued accounting guidance that requires deferred financing costs to be presented as a direct reduction from the related debt liability in the financial statements rather than as a separately recognized asset. Under the new guidance, amortization of such costs will continue to be reported as interest expense. In August 2015, an update was issued that clarified that debt issuance costs associated with line-of-credit arrangements may continue to be reported as an asset. The new guidance became effective retrospectively for interim and annual periods beginning after December 15, 2015 (January 1, 2016 for the Company). There was no material impact to the Company's results of operations or cash flows in connection with the adoption of the guidance.

The impact to the Company's condensed consolidated balance sheets as of December 31, 2015 was as follows:

	Before	Adjustment	After
	Application		Application
	of		of
	Accounting		Accounting

Edgar Filing: PEABODY ENERGY CORP - Form 10-Q

	Guidance	Guidance
	(Dollars in millions)	
Other current assets	\$503.1	\$ 447.6
Investments and other assets	382.6 (18.9 )	363.7
Total assets	11,021.3	10,946.9
Current portion of long-term debt	5,930.4 (55.5 )	5,874.9
Long-term debt, less current portion	385.2 (18.9 )	366.3
Total liabilities	10,102.8	10,028.4

9

---

Table of Contents

PEABODY ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Accounting Standards Not Yet Implemented

Revenue Recognition. In May 2014, the FASB issued a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The new standard provides a single principles-based, five-step model to be applied to all contracts with customers, which steps are to (1) identify the contract(s) with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when each performance obligation is satisfied. More specifically, revenue will be recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services. The standard also requires entities to disclose sufficient qualitative and quantitative information to enable financial statement users to understand the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers.

Under the originally issued standard, the new guidance would have been effective for interim and annual periods beginning after December 15, 2016 (January 1, 2017 for the Company). On July 9, 2015, the FASB decided to delay the effective date of the new revenue recognition standard by one year with early adoption permitted, but not before the original effective date. The standard allows for either a full retrospective adoption or a modified retrospective adoption. The Company is in the process of evaluating the impact that the adoption of this guidance will have on its results of operations, financial condition, cash flows and financial statement presentation.

Inventory. In July 2015, the FASB issued guidance which requires entities to measure most inventory "at the lower of cost and net realizable value", thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market (market in this context is defined as one of three different measures, one of which is net realizable value). The guidance does not apply to inventories that are measured by using either the last-in, first-out method or the retail inventory method. The new guidance will be effective prospectively for annual periods beginning after December 15, 2016 (January 1, 2017 for the Company), and interim periods therein, with early adoption permitted. The Company is in the process of evaluating the impact that the adoption of this guidance will have on its results of operations, financial condition, cash flows and financial statement presentation.

Income Taxes. In November 2015, the FASB issued accounting guidance that requires entities to classify all deferred tax assets and liabilities, along with any related valuation allowance as noncurrent on the balance sheet. Under the new guidance, each jurisdiction will now only have one net noncurrent deferred tax asset or liability. The new guidance does not change the existing requirement that only permits offsetting within a jurisdiction. The new guidance will be effective prospectively or retrospectively for annual periods beginning after December 15, 2016 and interim periods therein, with early adoption permitted. While the Company does not anticipate an impact to its results of operations or cash flows in connection with the adoption of this guidance, there will be an impact on the presentation of the Company's condensed consolidated balance sheets. The impact to the condensed consolidated balance sheets will depend upon the facts and circumstances at the time of adoption.

Lease accounting. In February 2016, the FASB issued accounting guidance that will require a lessee to recognize in its balance sheet a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term for leases with lease terms of more than 12 months. Consistent with current U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. Additional qualitative disclosures along with specific quantitative disclosures will also be required. The new guidance will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 (January 1, 2019 for the Company), with early adoption permitted. Upon adoption, the Company will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The Company is in the process of evaluating the impact that the adoption of this guidance will have on its results of operations, financial condition, cash

flows and financial statement presentation.

Compensation - Stock Compensation. In March 2016, the FASB issued accounting guidance which identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. The new guidance will be effective prospectively for annual periods beginning after December 15, 2016 and interim periods therein, with early adoption permitted. The Company is in the process of evaluating the impact that the adoption of this guidance will have on its results of operations, financial condition, cash flows and financial statement presentation.

Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## (3) Asset Realization

The Company's mining and exploration assets and mining-related investments may be adversely affected by numerous uncertain factors that may cause the Company to be unable to recover all or a portion of the carrying value of those assets. As a result of various unfavorable conditions, including but not limited to sustained trends of weakness in U.S. and international seaborne coal market pricing and certain asset-specific factors, the Company recognized aggregate impairment charges of \$1,277.8 million, \$154.4 million and \$528.3 million during the years ended December 31, 2015, 2014 and 2013, respectively. For additional information surrounding those charges, refer to Note 2. "Asset Impairment" to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

The Company generally does not view short-term declines subsequent to previous impairment assessments in thermal and metallurgical coal prices in the markets in which it sells its products as an indicator of impairment. However, the Company generally views a sustained trend (for example, over periods exceeding one year) of adverse coal market pricing or unfavorable changes thereto as a potential indicator of impairment. Because of the volatile and cyclical nature of U.S. and international seaborne coal markets, it is reasonably possible that prices in those market segments may decrease and/or fail to improve in the near term, which, absent sufficient mitigation such as an offsetting reduction in the Company's operating costs, may result in the need for future adjustments to the carrying value of the Company's long-lived mining assets and mining-related investments.

The Company's assets whose recoverability and values are most sensitive to near-term pricing include certain Australian metallurgical and thermal assets for which impairment charges were recorded in 2015 and certain U.S. coal properties being leased to unrelated mining companies under agreements that require royalties to be paid as the coal is mined. Such assets had an aggregate carrying value of \$181.1 million as of March 31, 2016. The Company conducted a review of those assets for recoverability as of March 31, 2016 and determined that no impairment charge was necessary as of that date.

The Company also reviewed its portfolio of mining tenements and surface lands that were classified as held-for-sale. As a result of that review, the Company recognized an aggregate impairment charge of \$17.2 million to write down certain targeted divestiture assets from their carrying value to their estimated fair value.

## (4) Discontinued Operations

Discontinued operations include certain former Australian Thermal Mining and Midwestern U.S. Mining segment assets that have ceased production and other previously divested legacy operations, including Patriot Coal Corporation and certain of its wholly-owned subsidiaries (Patriot).

## Summarized Results of Discontinued Operations

Results from discontinued operations were as follows during the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31, 2016 2015 (Dollars in millions)	
Loss from discontinued operations, net of income taxes	\$(3.4)	\$(8.9)

Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## Assets and Liabilities of Discontinued Operations

Assets and liabilities classified as discontinued operations included in the Company's condensed consolidated balance sheets were as follows:

	March 31,	December 31,
	2016	2015
	(Dollars in millions)	
Assets:		
Other current assets	\$3.1	\$ 3.1
Investments and other assets	13.2	13.2
Total assets classified as discontinued operations	\$16.3	\$ 16.3
Liabilities:		
Accounts payable and accrued expenses	\$58.9	\$ 60.0
Other noncurrent liabilities	208.2	203.7
Total liabilities classified as discontinued operations	\$267.1	\$ 263.7

Patriot-Related Matters. Refer to Note 18. "Matters Related to the Bankruptcy of Patriot Coal Corporation" for information surrounding charges recorded during the three months ended March 31, 2016 and 2015 associated with the bankruptcy of Patriot.

Wilkie Creek Mine. In December 2013, the Company ceased production and started reclamation of the Wilkie Creek Mine in Queensland, Australia. On June 30, 2014, Queensland Bulk Handling Pty Ltd (QBH) commenced litigation against Peabody (Wilkie Creek) Pty Limited, the indirect wholly-owned subsidiary of the Company that owns the Wilkie Creek Mine, alleging breach of a Coal Port Services Agreement (CPSA) between the parties. Included in "Loss from discontinued operations, net of income taxes" for the year ended December 31, 2015 is a charge of \$9.7 million related to that litigation, of which \$7.6 million was recorded in the three months ended March 31, 2015. Refer to Note 17. "Commitments and Contingencies" for additional information surrounding the QBH matter.

In June 2015, the Company entered into an agreement to sell the Wilkie Creek Mine. That agreement was subsequently terminated in October 2015 in conjunction with entering into a new agreement with similar terms. The second agreement was terminated in March 2016.

## (5) Inventories

Inventories as of March 31, 2016 and December 31, 2015 consisted of the following:

	March 31,	December 31,
	2016	2015
	(Dollars in millions)	
Materials and supplies	\$115.4	\$ 115.9
Raw coal	56.1	75.9
Saleable coal	144.3	116.0
Total	\$315.8	\$ 307.8

Materials and supplies inventories presented above have been shown net of reserves of \$4.7 million as of March 31, 2016 and December 31, 2015, respectively.

Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## (6) Derivatives and Fair Value Measurements

## Risk Management — Non-Coal Trading Activities

The Company is exposed to several risks in the normal course of business, including (1) foreign currency exchange rate risk for non-U.S. dollar expenditures and balances, (2) price risk on coal produced by and diesel fuel utilized in the Company's mining operations and (3) interest rate risk that has been partially mitigated by fixed rates on long-term debt. The Company manages a portion of its price risk related to the sale of coal (excluding coal trading activities) using long-term coal supply agreements (those with terms longer than one year), rather than using derivative instruments. Derivative financial instruments have historically been used to manage the Company's risk exposure to foreign currency exchange rate risk, primarily on Australian dollar expenditures made in its Australian mining platform. This risk has historically been managed using forward contracts and options designated as cash flow hedges, with the objective of reducing the variability of cash flows associated with forecasted foreign currency expenditures. The Company has also used derivative instruments to manage its exposure to the variability of prices of fuel used in production in the U.S. and Australia with swaps or options, which it has also designated as cash flow hedges, with the objective of reducing the variability of cash flows associated with forecasted diesel fuel purchases. These risk management activities are collectively referred to as "Corporate Hedging" and are actively monitored for compliance with the Company's risk management policies.

During the fourth quarter of 2015, the Company performed an assessment of its risk of nonperformance with respect to derivative financial instruments designated as cash flow hedges in light of three rating agencies downgrading the Company's corporate credit rating during 2015 and declining financial results. The Company determined its hedging relationships were expected to be "highly effective" throughout 2015 based on its quarterly assessments. However, as a result of a deterioration in the Company's credit profile, the Company could no longer conclude, as of December 31, 2015, that its hedging relationships were expected to be "highly effective" at offsetting the changes in the anticipated exposure of the hedged item. Therefore, the Company discontinued the application of cash flow hedge accounting subsequent to December 31, 2015 and changes in the fair value of derivative instruments have been recorded as operating costs and expenses in the accompanying unaudited condensed consolidated statements of operations. Previous fair value adjustments recorded in Accumulated Other Comprehensive Loss will be frozen until the underlying transactions impact the Company's earnings.

The Company's Bankruptcy Petitions constituted an event of default under the Company's derivative financial instrument contracts and the counterparties terminated the agreements shortly thereafter in accordance with contractual terms. The terminated positions are first-lien obligations secured by the collateral and all of the property that is subject to liens under the Company's secured credit agreement dated September 24, 2013 (as amended, the 2013 Credit Facility). An estimate of the net settlement liability resulting from the terminations has not yet been finalized. The net settlement liability will be accounted for as a pre-petition liability subject to compromise without credit valuation adjustments.

Notional Amounts and Fair Value. The following summarizes the Company's foreign currency and commodity positions at March 31, 2016:

	Total	2016	2017
Foreign Currency			
A\$:US\$ hedge contracts (A\$ millions)	\$1,178.0	\$665.0	\$513.0
Diesel Contracts			
Diesel fuel hedge contracts (million gallons)	113.4	54.7	58.7
	Instrument		
	Classification by		

	Cash Flow Hedge	Fair Value Hedge	Economic Hedge	Fair Value of Net Liability (Dollars in millions)
Foreign Currency				
A\$:US\$ hedge contracts (A\$ millions)	\$-\$		-\$ 1,178.0	\$(112.8 )
Diesel Contracts				
Diesel fuel hedge contracts (million gallons)	—		113.4	(91.6 )



Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Based on the previous fair value adjustments of the Company's foreign currency hedge contract portfolio recorded in "Accumulated other comprehensive loss", the net loss expected to be reclassified from comprehensive income to earnings over the next 12 months associated with that hedge program is approximately \$108 million. Based on the previous fair value adjustments of the Company's diesel fuel hedge contract portfolio recorded in "Accumulated other comprehensive loss", the net loss expected to be reclassified from comprehensive income to earnings over the next 12 months associated with that hedge program is approximately \$72 million.

The tables below show the classification and amounts of pre-tax gains and losses related to the Company's Corporate Hedging derivatives during the three months ended March 31, 2016 and 2015:

Financial Instrument	Income Statement Classification of (Losses) Gains	Three Months Ended March 31, 2016			
		Total realized loss recognized in income	Loss reclassified from other comprehensive income into income	Loss recognized in income on derivatives	Unrealized (loss) gain recognized in income on non- designated derivatives
Commodity swap contracts	Operating costs and expenses	\$ (34.9 )	\$ (24.8 )	\$ (10.1 )	\$ (5.4 )
Foreign currency forward contracts	Operating costs and expenses	(76.1 )	(53.9 )	(22.2 )	30.4
Total		\$ (111.0)	\$ (78.7 )	\$ (32.3 )	\$ 25.0

Financial Instrument	Income Statement Classification of (Losses) Gains	Three Months Ended March 31, 2015			
		Total Loss recognized in income on non-designated derivatives	Loss reclassified from other comprehensive income into income (effective portion) <sup>(1)</sup>	Loss reclassified from other comprehensive income into income	Gain reclassified from other comprehensive income into income (ineffective portion)
Commodity swap contracts	Operating costs and expenses	\$- (18.3 )	\$ (31.7 )	\$ 1.5	
Foreign currency forward contracts	Operating costs and expenses	—(136.1 )	(73.6 )	—	
Total		\$- (154.4 )	\$ (105.3 )	\$ 1.5	

<sup>(1)</sup> Includes the reclassification from "Accumulated other comprehensive loss" into earnings of \$10.7 million of previously unrecognized gains on foreign currency cash flow hedge contracts monetized in the fourth quarter of 2012.

Cash Flow Presentation. The Company classifies the cash effects of its Corporate Hedging derivatives within the "Cash Flows From Operating Activities" section of the unaudited condensed consolidated statements of cash flows. Offsetting and Balance Sheet Presentation

The Company's Corporate Hedging derivative financial instruments were transacted in over-the-counter (OTC) markets with financial institutions under International Swaps and Derivatives Association (ISDA) Master Agreements. Those agreements contain symmetrical default provisions which allow for the net settlement of amounts owed by either counterparty in the event of default or contract termination. The Company offsets its Corporate Hedging asset and liability derivative positions on a counterparty-by-counterparty basis in the condensed consolidated balance sheets, with the fair values of those respective derivatives reflected in "Other current assets," "Investments and other assets," "Accounts payable and accrued expenses" and "Other noncurrent liabilities." Though the symmetrical default provisions associated with the Company's Corporate Hedging derivatives exist at the overall counterparty level across its foreign currency and diesel fuel hedging strategy derivative contract portfolios, the Company's accounting policy is to apply counterparty offsetting separately within those derivative contract portfolios for presentation in the condensed consolidated balance sheets because that application is more consistent with the fact that the Company generally net settles its Corporate Hedging derivatives with each counterparty by derivative contract portfolio on a routine basis.

Table of Contents

PEABODY ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The classification and amount of Corporate Hedging derivative financial instruments presented on a gross and net basis as of March 31, 2016 and December 31, 2015 are presented in the tables that follow.

Financial Instrument	Fair Value of Liabilities Presented in the Condensed Consolidated Balance Sheet as of March 31, 2016 <sup>(1)</sup>	Fair Value of Liabilities Presented in the Condensed Consolidated Balance Sheet as of December 31, 2015 <sup>(1)</sup>
----------------------	---	--

(Dollars in millions)

Current Liabilities:		
Commodity swap contracts	\$63.3	\$ 86.1
Foreign currency forward contracts	83.8	145.6
Total	\$147.1	\$ 231.7

Noncurrent Liabilities:		
Commodity swap contracts	\$28.3	\$ 37.6
Foreign currency forward contracts	29.0	55.1
Total	\$57.3	\$ 92.7

<sup>(1)</sup> All commodity swap contracts and foreign currency forward contracts were in a liability position as of March 31, 2016 and December 31, 2015.

See Note 7. "Coal Trading" for information on balance sheet offsetting related to the Company's coal trading activities.

Fair Value Measurements

The Company uses a three-level fair value hierarchy that categorizes assets and liabilities measured at fair value based on the observability of the inputs utilized in the valuation. These levels include: Level 1 - inputs are quoted prices in active markets for the identical assets or liabilities; Level 2 - inputs are other than quoted prices included in Level 1 that are directly or indirectly observable through market-corroborated inputs; and Level 3 - inputs are unobservable, or observable but cannot be market-corroborated, requiring the Company to make assumptions about pricing by market participants.

Financial Instruments Measured on a Recurring Basis. The following tables set forth the hierarchy of the Company's net financial liability positions for which fair value is measured on a recurring basis:

	March 31, 2016		
	Level 1	Level 2	Level 3
	Total		
Commodity swap contracts	—	(91.6 )	(91.6 )

(Dollars in millions)

Foreign currency contracts — (112.8 ) (112.8 )  
 Total net financial liabilities \$-\$ —\$(204.4) \$(204.4)

December 31, 2015

Level  
 1 2 Level 3 Total

(Dollars in millions)

Commodity swap contracts — (123.7 ) (123.7 )  
 Foreign currency contracts — (200.7 ) (200.7 )  
 Total net financial liabilities \$-\$ —\$(324.4) \$(324.4)

Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For Level 1 and 2 financial assets and liabilities, the Company utilizes both direct and indirect observable price quotes, including interest rate yield curves, exchange indices, broker/dealer quotes, published indices, issuer spreads, benchmark securities and other market quotes. In the case of certain debt securities, fair value is provided by a third-party pricing service. Below is a summary of the Company's valuation techniques for Level 1 and 2 financial assets and liabilities:

Commodity swap contracts — diesel fuel and explosives: valued based on a valuation that is corroborated by the use of market-based pricing (Level 2) except when credit and non-performance risk is considered to be a significant input, then the Company classifies such contracts as Level 3.

Foreign currency forward and option contracts: valued utilizing inputs obtained in quoted public markets (Level 2) except when credit and non-performance risk is considered to be a significant input, then the Company classifies such contracts as Level 3.

Foreign currency and commodity purchase/sale contracts include a credit valuation adjustment based on credit and non-performance risk (Level 3). The credit valuation adjustment has not historically had a material impact on the valuation of the contracts resulting in Level 2 classification. However, due to the Company's corporate credit rating downgrades in 2015, the credit valuation adjustments as of December 31, 2015 and March 31, 2016 are considered to be significant unobservable inputs in the valuation of the contracts resulting in Level 3 classification.

The following table summarizes the quantitative unobservable input utilized in the Company's internally-developed valuation models for foreign currency and commodity purchase/sale contracts classified as Level 3 as of March 31, 2016:

Input	Range		Weighted
	Low	High	Average
Credit and non-performance risk	26%	36%	30%

Significant increases or decreases in the credit and non-performance risk adjustment could result in a significantly higher or lower fair value measurement.

The following table summarizes the changes related to the Company's Corporate Hedging derivative financial instruments recurring Level 3 financial liabilities:

	Three Months Ended		
	March 31, 2016		
	Commodity Contracts	Foreign Currency Contracts	Total
Beginning of period	\$123.7	\$200.7	\$324.4
Total net losses realized/unrealized:			
Included in earnings	(24.8 )	(53.9 )	(78.7 )
Included in mark-to-market	5.4	(30.4 )	(25.0 )
Settlements	(12.7 )	(3.6 )	(16.3 )
End of period	\$91.6	\$112.8	\$204.4

The Company had no transfers between Levels 1, 2 and 3 during the three months ended March 31, 2016 or 2015. Transfers into Level 3 of liabilities previously classified in Level 2 during the year ended December 31, 2015 were due to the relative value of unobservable inputs to the total fair value measurement of certain derivative contracts rising above the 10% threshold. The Company's policy is to value all transfers between levels using the beginning of period valuation.



Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The following table summarizes the changes in net unrealized (losses) gains relating to Level 3 financial liabilities held both as of the beginning and the end of the period:

	Three Months Ended March 31, 2016		
	Commodity Contracts	Foreign Currency Contracts	Total
	(Dollars in millions)		
Changes in net unrealized (losses) gains <sup>(1)</sup>	\$ (5.4)	\$ 30.4	\$ 25.0

Within the unaudited condensed consolidated statements of operations and unaudited condensed consolidated <sup>(1)</sup> statements of comprehensive income for the periods presented, unrealized (losses) gains from Level 3 items are combined with unrealized gains and losses on positions classified in Level 1 or 2, as well as other positions that have been realized during the applicable periods.

Other Financial Instruments. The Company used the following methods and assumptions in estimating fair values for other financial instruments as of March 31, 2016 and December 31, 2015:

Cash and cash equivalents, restricted cash, accounts receivable, including those within the Company's accounts receivable securitization program, notes receivable and accounts payable have carrying values which approximate fair value due to the short maturity or the liquid nature of these instruments.

Long-term debt fair value estimates are based on observed prices for securities with an active trading market when available (Level 2), and otherwise on estimated borrowing rates to discount the cash flows to their present value (Level 3).

The carrying amounts and estimated fair values of the Company's current and long-term debt are summarized as follows:

	March 31, 2016		December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Dollars in millions)			
Current and Long-term debt	\$ 7,187.2	\$ 1,702.6	\$ 6,241.2	\$ 1,372.7

## (7) Coal Trading

The Company engages in the direct and brokered trading of coal and freight-related contracts (coal trading). Except those for which the Company has elected to apply a normal purchases and normal sales exception, all derivative coal trading contracts are accounted for at fair value.

The Company includes instruments associated with coal trading transactions as a part of its trading book. Trading revenues from such transactions are recorded in "Other revenues" in the unaudited condensed consolidated statements of operations and include realized and unrealized gains and losses on derivative instruments, including those that arise from coal deliveries related to contracts accounted for on an accrual basis under the normal purchases and normal sales exception. Therefore, the Company has elected the trading exemption surrounding disclosure of its coal trading activities.

Trading (losses) revenues recognized during the three months ended March 31, 2016 and 2015 were as follows:

	Three Months Ended March 31,	
Trading Revenues by Type of Instrument	2016	2015

	(Dollars in millions)
Futures, swaps and options	\$(4.0) \$38.6
Physical purchase/sale contracts	(4.8 ) (21.9 )
Total trading (losses) revenues	\$(8.8) \$16.7

17

---



Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## Risk Management

Hedge Ineffectiveness. In some instances, the Company has designated an existing coal trading derivative as a hedge and, thus, the derivative has a non-zero fair value at hedge inception. The “off-market” nature of these derivatives, which is best described as an embedded financing element within the derivative, is a source of ineffectiveness. In other instances, the Company uses a coal trading derivative that settles at a different time, has different quality specifications or has a different location basis than the occurrence of the cash flow being hedged. These collectively yield ineffectiveness to the extent that the derivative hedge contract does not exactly offset changes in the fair value or expected cash flows of the hedged item.

The Company had no coal trading positions designated as cash flow hedges as of March 31, 2016 and December 31, 2015.

## Offsetting and Balance Sheet Presentation

The Company's coal trading assets and liabilities include financial instruments, such as swaps, futures and options, cleared through various exchanges, which involve the daily net settlement of closed positions. The Company must post cash collateral, known as variation margin, on exchange-cleared positions that are in a net liability position and receives variation margin when in a net asset position. The Company also transacts in coal trading financial swaps and options through OTC markets with financial institutions and other non-financial trading entities under ISDA Master Agreements, which contain symmetrical default provisions. Certain of the Company's coal trading agreements with OTC counterparties also contain credit support provisions that may periodically require the Company to post, or entitle the Company to receive, initial and variation margin. Physical coal and freight-related purchase and sale contracts included in the Company's coal trading assets and liabilities are executed pursuant to master purchase and sale agreements that also contain symmetrical default provisions and allow for the netting and setoff of receivables and payables that arise during the same time period. The Company offsets its coal trading asset and liability derivative positions, and variation margin related to those positions, on a counterparty-by-counterparty basis in the condensed consolidated balance sheets, with the fair values of those respective derivatives reflected in “Assets from coal trading activities, net” and “Liabilities from coal trading activities, net.”

The fair value of assets and liabilities from coal trading activities presented on a gross and net basis as of March 31, 2016 and December 31, 2015 is set forth below:

Affected line item in the condensed consolidated balance sheets	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Variation margin (held) posted <sup>(1)</sup>	Net Amounts of Assets (Liabilities) Presented in the Condensed Consolidated Balance Sheets
	(Dollars in millions)			
	Fair Value as of March 31, 2016			
Assets from coal trading activities, net	\$60.2	\$ (41.0 )	\$ 2.0	\$ 21.2
Liabilities from coal trading activities, net	(60.3 )	41.0	—	(19.3 )
Total, net	\$(0.1 )	\$ —	\$ 2.0	\$ 1.9
	Fair Value as of December 31, 2015			
Assets from coal trading activities, net	\$128.6	\$ (87.3 )	\$ (17.8 )	\$ 23.5

Edgar Filing: PEABODY ENERGY CORP - Form 10-Q

Liabilities from coal trading activities, net	(110.0 )	87.3	7.1	(15.6 )
Total, net	\$18.6	\$ —	\$(10.7 )	\$ 7.9

(1) None of the net variation margin held at March 31, 2016 and December 31, 2015, respectively, related to cash flow hedges.

See Note 6. "Derivatives and Fair Value Measurements" for information on balance sheet offsetting related to the Company's Corporate Hedging activities.

Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## Fair Value Measurements

The following tables set forth the hierarchy of the Company's net financial asset (liability) coal trading positions for which fair value is measured on a recurring basis as of March 31, 2016 and December 31, 2015:

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
	1	2	3	
	(Dollars in millions)			
Futures, swaps and options	\$1.3	\$—	\$—	\$1.3
Physical purchase/sale contracts	—	4.5	(3.9)	0.6
Total net financial (liabilities) assets	\$1.3	\$4.5	\$(3.9)	\$1.9
	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	1	2		
	(Dollars in millions)			
Futures, swaps and options	\$3.3	\$—	\$—	\$3.3
Physical purchase/sale contracts	—	20.2	(15.6)	4.6
Total net financial (liabilities) assets	\$3.3	\$20.2	\$(15.6)	\$7.9

For Level 1 and 2 financial assets and liabilities, the Company utilizes both direct and indirect observable price quotes, including U.S. interest rate curves; LIBOR yield curves; Chicago Mercantile Exchange (CME) Group, Intercontinental Exchange (ICE), LCH.Clearnet (formerly known as the London Clearing House), NOS Clearing ASA and Singapore Exchange (SGX) contract prices; broker quotes; published indices and other market quotes. Below is a summary of the Company's valuation techniques for Level 1 and 2 financial assets and liabilities:

Futures, swaps and options: generally valued based on unadjusted quoted prices in active markets (Level 1) or a valuation that is corroborated by the use of market-based pricing (Level 2).

Physical purchase/sale contracts: purchases and sales at locations with significant market activity corroborated by market-based information (Level 2) except when credit and non-performance risk is considered to be a significant input (greater than 10% of fair value), then the company classifies as Level 3.

Physical purchase/sale contracts include a credit valuation adjustment based on credit and non-performance risk (Level 3). The credit valuation adjustment has not historically had a material impact on the valuation of the contracts resulting in Level 2 classification. However, due to the Company's corporate credit rating downgrades in 2015, the credit valuation adjustments as of March 31, 2016 and December 31, 2015 are considered to be significant unobservable inputs in the valuation of the contracts resulting in Level 3 classification.

The Company's risk management function, which is independent of the Company's commercial trading function, is responsible for valuation policies and procedures, with oversight from executive management. Generally, the Company's Level 3 instruments or contracts are valued using bid/ask price quotations and other market assessments obtained from multiple, independent third-party brokers or other transactional data incorporated into internally-generated discounted cash flow models. Decreases in the number of third-party brokers or market liquidity could erode the quality of market information and therefore the valuation of the Company's market positions. The Company's valuation techniques include basis adjustments to the foregoing price inputs for quality, such as heat rate and sulfur and ash content, location differentials, expressed as port and freight costs, and credit risk. The Company's risk management function independently validates the Company's valuation inputs, including unobservable inputs, with third-party information and settlement prices from other sources where available. A daily process is performed to analyze market price changes and changes to the portfolio. Further periodic validation occurs at the time contracts are settled with the counterparty. These valuation techniques have been consistently applied in all periods presented, and

the Company believes it has obtained the most accurate information available for the types of derivative contracts held.

19

---

Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The following table summarizes the quantitative unobservable inputs utilized in the Company's internally-developed valuation models for physical commodity purchase/sale contracts classified as Level 3 as of March 31, 2016:

Input	Range		Weighted
	Low	High	Average
Quality adjustments	2 %	5 %	4 %
Location differentials	10%	10%	10 %
Credit and non-performance risk	26%	26%	26 %

Significant increases or decreases in the inputs in isolation could result in a significantly higher or lower fair value measurement. The unobservable inputs do not have a direct interrelationship; therefore, a change in one unobservable input would not necessarily correspond with a change in another unobservable input.

The following table summarizes the changes in the Company's recurring Level 3 net financial assets:

	Three Months Ended March 31,	
	2016	2015
	(Dollars in millions)	
Beginning of period	\$(15.6)	\$2.1
Transfers out of Level 3	10.7	—
Total gains realized/unrealized:		
Included in earnings	(0.1 )	0.5
Sales	(0.1 )	—
Settlements	1.2	(0.4 )
End of period	\$(3.9 )	\$2.2

The Company had no transfers between Levels 1 and 2 during the three months ended March 31, 2016 and 2015, nor were there transfers into Level 3 for the three months ended March 31, 2016 and 2015. Transfers of liabilities out of Level 3 to Level 2 during the three months ended March 31, 2016 were due to the relative value of unobservable inputs to the total fair value measurement of certain derivative contracts falling below the 10% threshold. There were no transfers of liabilities out of Level 3 during the three months ended March 31, 2015. The Company's policy is to value all transfers between levels using the beginning of period valuation.

The following table summarizes the changes in net unrealized (losses) gains relating to Level 3 net financial assets held both as of the beginning and the end of the period:

	Three Months Ended March 31,	
	2016	2015
	(Dollars in millions)	
Changes in unrealized (losses) gains <sup>(1)</sup>	\$(0.1)	\$0.5

(1) Within the unaudited condensed consolidated statements of operations and unaudited condensed consolidated statements of comprehensive income for the periods presented, unrealized gains and losses from Level 3 items are combined with unrealized gains and losses on positions classified in Level 1 or 2, as well as other positions that have been realized during the applicable periods.

As of March 31, 2016, the Company's trading portfolio was expected to have positive net cash realizations in 2016, reaching substantial maturity in 2016 on a fair value basis.

20

---

Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

As of March 31, 2016, the timing of the estimated future realization of the value of the Company's trading portfolio, on a cumulative cash basis, was as follows:

Year of Expiration	Percentage of Portfolio Total
2016	130 %
2017	(32 )%
2018	2 %
	100 %

**Credit and Nonperformance Risk.** The fair value of the Company's coal derivative assets and liabilities reflects adjustments for credit risk. The Company's exposure is substantially with electric utilities, energy marketers, steel producers and nonfinancial trading houses. The Company's policy is to independently evaluate each customer's creditworthiness prior to entering into transactions and to regularly monitor the credit extended. If the Company engages in a transaction with a counterparty that does not meet its credit standards, the Company seeks to protect its position by requiring the counterparty to provide an appropriate credit enhancement. Also, when appropriate (as determined by its credit management function), the Company has taken steps to reduce its exposure to customers or counterparties whose credit has deteriorated and who may pose a higher risk of failure to perform under their contractual obligations. These steps include obtaining letters of credit or cash collateral (margin), requiring prepayments for shipments or the creation of customer trust accounts held for the Company's benefit to serve as collateral in the event of a failure to pay or perform. To reduce its credit exposure related to trading and brokerage activities, the Company seeks to enter into netting agreements with counterparties that permit the Company to offset asset and liability positions with such counterparties and, to the extent required, the Company will post or receive margin amounts associated with exchange-cleared and certain OTC positions. The Company also continually monitors counterparty and contract nonperformance risk, if present, on a case-by-case basis.

At March 31, 2016, 90% of the Company's credit exposure related to coal trading activities with investment grade counterparties, while 5% was with non-investment grade counterparties and 5% was with counterparties that are not rated.

**Performance Assurances and Collateral**

Certain of the Company's derivative trading instruments require the parties to provide additional performance assurances whenever a material adverse event jeopardizes one party's ability to perform under the instrument. If the Company was to sustain a material adverse event (using commercially reasonable standards), its counterparties could request collateralization on derivative trading instruments in net liability positions which, based on an aggregate fair value at March 31, 2016 and December 31, 2015, would have amounted to collateral postings to counterparties of approximately \$13 million and \$21 million, respectively. As of March 31, 2016, the Company was required to post approximately \$9 million in collateral to counterparties for such positions. No collateral was required to be posted to counterparties as of December 31, 2015.

Certain of the Company's other derivative trading instruments require the parties to provide additional performance assurances whenever a credit downgrade occurs below a certain level, as specified in each underlying contract. The terms of such derivative trading instruments typically require additional collateralization, which is commensurate with the severity of the credit downgrade. During the first quarter of 2016, each of the three agencies downgraded the Company's corporate credit rating. The credit downgrades were, in part, due to continued weakness in seaborne coal prices. Despite the rating agencies downgrades, the Company's additional collateral requirement owed to its

counterparties for these ratings based derivative trading instruments would have been zero at March 31, 2016 and December 31, 2015 based on the aggregate fair value of all derivative trading instruments with such features. As of March 31, 2016 and December 31, 2015, no collateral was posted to counterparties to support such derivative trading instruments.

The Company is required to post variation margin on positions that are in a net liability position and is entitled to receive and hold variation margin on positions that are in a net asset position with an exchange and certain of its OTC derivative contract counterparties. At March 31, 2016 and December 31, 2015, the Company posted a net variation margin of \$2.0 million and held a net variation margin \$10.7 million, respectively.



Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

In addition to the requirements surrounding variation margin, the Company is required by the exchanges upon which it transacts and by certain of its OTC arrangements to post certain additional collateral, known as initial margin, which represents an estimate of potential future adverse price movements across the Company's portfolio under normal market conditions. During the first quarter of 2016, the Company was required to increase this collateral position, which resulted in a doubling of this initial margin requirement. As of March 31, 2016 and December 31, 2015, the Company had posted initial margin of \$16.2 million and \$9.2 million, respectively, which is reflected in "Other current assets" in the condensed consolidated balance sheets. The Company had posted \$2.9 million of excess margin as of March 31, 2016, while it was in receipt of \$0.7 million of margin in excess of the required variation and initial margin as of December 31, 2015.

## (8) Financing Receivables

The Company's total financing receivables as of March 31, 2016 and December 31, 2015 consisted of the following:

Balance Sheet Classification	March 31, 2016	December 31, 2015
	(Dollars in millions)	
Other current assets	\$13.7	\$ 20.0
Investments and other assets	60.1	65.2
Total financing receivables	\$73.8	\$ 85.2

The Company periodically assesses the collectability of accounts and loans receivable by considering factors such as specific evaluation of collectability, historical collection experience, the age of the receivable and other available evidence. Below is a description of the Company's financing receivables outstanding as of March 31, 2016.

**Codrilla Mine Project.** In 2011, a wholly-owned subsidiary of PEA-PCI, then Macarthur Coal Limited, completed the sale of a portion of its 85% interest in the Codrilla Mine Project to the other participants of the Coppabella Moorvale Joint Venture, afterward retaining 73.3% ownership. The final outstanding installment payment of 40% of the sale price is due upon the earlier of the mine's first coal shipment or a specified date. The sales agreement was amended in the second quarter of 2013 to delay the specified date from March 31, 2015 to June 30, 2016. The remaining balance associated with these receivables was recorded in "Other current assets" in the condensed consolidated balance sheets, which totaled \$13.7 million and \$20.0 million at March 31, 2016 and December 31, 2015, respectively. There are currently no indications of impairment on the remaining installment as early payment negotiations resulted in receipt of approximately \$13 million in April 2016 and the Company expects to receive full payment by June 30, 2016.

**Middlemount.** The Company periodically makes loans (Priority Loans) to Middlemount, in which the Company owns a 50.0003% equity interest, pursuant to the related shareholders' agreement for purposes of funding capital expenditures and working capital requirements. The Priority Loans bear interest at a rate equal to the monthly average 30-day Australian Bank Bill Swap Reference Rate plus 3.5% and expire on December 31, 2016. Based on the existence of letters of support from related entities of the shareholders, the expected timing of repayment of these loans is projected to extend beyond the stated expiration date and so the Company considers these loans to be of a long-term nature. As a result, (i) the foreign currency impact related to the shareholder loans is included in foreign currency translation adjustment in the condensed consolidated balance sheets and the unaudited condensed consolidated statements of comprehensive income and (ii) interest income on the Priority Loans is recognized when cash is received. Refer to Note 2. "Asset Impairment" to the consolidated financial statements included in the Company's Annual Report on form 10-K for the year ended December 31, 2015 for background surrounding the impairment charge recognized in 2015 related to Middlemount. The carrying value of the loans of \$60.1 million and \$65.2 million was reflected in "Investments and other assets" in the condensed consolidated balance sheets as of March 31, 2016 and December 31, 2015, respectively.



Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## (9) Property, Plant, Equipment and Mine Development

Property, plant, equipment and mine development, net, as of March 31, 2016 and December 31, 2015 consisted of the following:

	March 31, 2016	December 31, 2015
	(Dollars in millions)	
Land and coal interests	\$ 10,507.2	\$ 10,503.7
Buildings and improvements	1,533.0	1,506.0
Machinery and equipment	2,263.0	2,280.4
Less: Accumulated depreciation, depletion and amortization	(5,140.4 )	(5,031.6 )
Total, net	\$ 9,162.8	\$ 9,258.5

## (10) Income Taxes

The Company's income tax benefit of \$65.8 million and income tax provision of \$3.0 million for the three months ended March 31, 2016 and 2015, respectively, included a tax benefit related to the remeasurement of foreign income tax accounts of \$0.1 million and \$0.2 million, respectively. The Company's effective tax rate before remeasurement for the three months ended March 31, 2016 is based on the Company's estimated full year effective tax rate, comprised of expected statutory tax benefit, offset by foreign rate differential and changes in valuation allowance, plus tax benefits for expected refunds for U.S. net operating loss carrybacks and a tax allocation to results from continuing operations related to the tax effects of items credited directly to "Other comprehensive income".

## (11) Current and Long-term Debt

The Company's total indebtedness as of March 31, 2016 and December 31, 2015 consisted of the following:

	March 31, 2016	December 31, 2015
	(Dollars in millions)	
2013 Revolver	\$ 947.0	\$ —
2013 Term Loan Facility due September 2020	1,154.5	1,156.3
6.00% Senior Notes due November 2018	1,509.8	1,508.9
6.50% Senior Notes due September 2020	645.7	645.5
6.25% Senior Notes due November 2021	1,327.6	1,327.0
10.00% Senior Secured Second Lien Notes due March 2022	962.1	960.4
7.875% Senior Notes due November 2026	245.9	245.8
Convertible Junior Subordinated Debentures due December 2066	367.0	366.2
Capital lease obligations	27.2	30.3
Other	0.4	0.8
	7,187.2	6,241.2
Less current portion of long-term debt	6,820.2	5,874.9
Long-term debt	\$ 367.0	\$ 366.3

The carrying amounts of the 2013 Term Loan Facility due September 2020, the 6.00% Senior Notes due November 2018, the 6.50% Senior Notes due September 2020, the 6.25% Senior Notes due November 2021, the 10.00% Senior Secured Second Lien Notes due March 2022 (the Senior Secured Second Lien Notes), the 7.875% Senior Notes due November 2026 and the Convertible Junior Subordinated Debentures due December 2066 (the Debentures) have been presented above net of the respective unamortized debt issuance costs and original issue discounts.

The Company's condensed consolidated financial statements were prepared under a going concern opinion, and as such, all of its long-term debt with the exception of the Debentures are classified as current as of December 31, 2015.

As the event of default for the Debentures was the filing of the Bankruptcy Petitions, which occurred after the balance sheet date, the Debentures were classified as non-current as of March 31, 2016.

During the first quarter of 2016, the Company borrowed \$947.0 million under the \$1.65 billion revolving credit facility (as amended, the 2013 Revolver) for general corporate purposes. As a result of filing the Bankruptcy Petitions on April 13, 2016,

Table of Contents

PEABODY ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

as discussed in Note 1. "Basis of Presentation", the Company is in default under the 2013 Credit Facility and as such the 2013 Revolver can no longer be utilized.

Additional information regarding the Company's current and long-term debt is outlined in Note 12 to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

The filing of the Bankruptcy Petitions constituted an event of default that accelerated Peabody's obligations under the following debt instruments (collectively, the "Debt Instruments"):

Indenture governing \$1,000.0 million outstanding aggregate principal amount of the Company's 10.00% Senior Secured Second Lien Notes due 2022, dated as of March 16, 2015, among the Company, U.S. Bank National Association ("U.S. Bank"), as trustee and collateral agent, and the guarantors named therein;

Indenture governing \$650.0 million outstanding aggregate principal amount of the Company's 6.50% Senior Notes due 2020, dated as of March 19, 2004, among the Company, U.S. Bank and the guarantors named therein, as supplemented;

Indenture governing \$1,518.8 million outstanding aggregate principal amount of the Company's 6.00% Senior Notes due 2018, dated as of November 15, 2011, among the Company, U.S. Bank and the guarantors named therein;

Indenture governing \$1,339.6 million outstanding aggregate principal amount of the Company's 6.25% Senior Notes due 2021, dated as of November 15, 2011, by and among the Company, U.S. Bank and the guarantors named therein;

Indenture governing \$250.0 million outstanding aggregate principal amount of the Company's 7.875% Senior Notes due 2026, dated as of March 19, 2004, among the Company, U.S. Bank and the guarantors named therein, as supplemented;

Subordinated Indenture governing \$733.0 million outstanding aggregate principal amount of the Company's Convertible Junior Subordinated Debentures due 2066, dated as of December 20, 2006, among the Company and U.S. Bank, as supplemented; and

Amended and Restated Credit Agreement, as amended and restated as of September 24, 2013, related to \$1,165.1 million outstanding aggregate principal amount of Term Loans and \$1,650.0 million in Revolving Credit Facility which includes approximately \$674.0 million of posted but undrawn letters of credit and approximately \$947.0 million in outstanding borrowings, by and among the Company, Citibank, N.A., as administrative agent, swing line lender and L/C issuer, Citigroup Global Markets, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, BNP Paribas Securities Corp., Crédit Agricole Corporate and Investment Bank, HSBC Securities (USA) Inc., Morgan Stanley Senior Funding, Inc., PNC Capital Markets LLC and RBS Securities Inc., as joint lead arrangers and joint book managers, and the lender parties thereto, as amended by that certain Omnibus Credit Agreement, dated as of February 5, 2015.

During the three months ended March 31, 2016, the Company elected to exercise the 30-day grace period with respect to a \$21.1 million semi-annual interest payment due March 15, 2016 on the 6.50% Senior notes due September 2020 and a \$50.0 million semi-annual interest payment due March 15, 2016 on the 10.00% Senior Secured Second Lien Notes due March 2022. The Company elected to allow the grace period to lapse without making the interest payments. The Debt Instruments provide that as a result of the filing of the Bankruptcy Petitions, all unpaid principal and accrued and unpaid interest due thereunder became immediately due and payable. Any efforts to enforce such payment obligations under the Debt Instruments are automatically stayed as a result of the Bankruptcy Petitions, and the creditors' rights of enforcement in respect of the Debt Instruments are subject to the applicable provisions of the Bankruptcy Code.

2016 Senior Notes Tender Offer and Redemption

Concurrently with the offering of the Senior Secured Second Lien Notes, the Company commenced a tender offer to repurchase the \$650.0 million aggregate principal amount then outstanding of the 7.375% Senior Notes due November 2016 (the 2016 Senior Notes). Consequently, the Company repurchased \$566.9 million aggregate principal amount of

the notes that were validly tendered and not validly withdrawn during the three months ended March 31, 2015. In connection with those repurchases, the Company recognized an aggregate loss on early debt extinguishment of \$59.5 million in the unaudited condensed consolidated statement of operations for the three months ended March 31, 2015. That charge was comprised of tender offer premiums paid of \$58.2 million and the write-off of associated unamortized debt issuance costs of \$1.3 million.

On March 16, 2015, the Company issued a notice of redemption with respect to any notes not tendered in the tender offer and subsequently redeemed the \$83.1 million aggregate principal amount of the 2016 Senior Notes that remained outstanding as of March 31, 2015 on the redemption date of April 15, 2016. The Company recognized a loss on debt extinguishment of \$8.3 million in April 2015 related to the redemption, comprised of aggregate make-whole premiums paid of \$8.2 million and the write-off of associated unamortized debt issuance costs of \$0.1 million.

Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## (12) Pension and Postretirement Benefit Costs

Net periodic pension cost included the following components:

	Three Months Ended March 31, 2016	2015
	(Dollars in millions)	
Service cost for benefits earned	\$0.6	\$0.6
Interest cost on projected benefit obligation	10.4	10.1
Expected return on plan assets	(11.3)	(12.0)
Amortization of prior service cost and net actuarial loss	6.2	10.2
Net periodic pension cost	\$5.9	\$8.9

Annual contributions to the qualified plans are made in accordance with minimum funding standards and the Company's agreement with the Pension Benefit Guaranty Corporation (PBGC). Funding decisions also consider certain funded status thresholds defined by the Pension Protection Act of 2006 (generally 80%). As of March 31, 2016, the Company's qualified plans were expected to be at or above the Pension Protection Act thresholds and will therefore avoid benefit restrictions and at-risk penalties for 2016. During the three months ended March 31, 2016, the Company contributed \$0.1 million and \$ 0.4 million respectively, to its qualified and non-qualified pension plans. On November 2, 2015, the Bipartisan Budget Act of 2015 (BBA15) was signed into law, which extends pension funding stabilization provisions that were part of the Highway and Transportation Funding Act of 2014 (HATFA) and the Moving Ahead for Progress in the 21st Century Act of 2012 (MAP-21). Under BBA15, the pension funding stabilization provisions temporarily increased the interest rates used to determine pension liabilities for purposes of minimum funding requirements through 2020. Similar to MAP-21, BBA15 is not expected to change the Company's total required cash contributions over the long term, but is expected to reduce the Company's required cash contributions through 2020 if current interest rate levels persist. Based upon minimum funding requirements in accordance with HATFA and BBA15, the Company expects to contribute approximately \$1.1 million to its pension plans to meet minimum funding requirements for its qualified plans and benefit payments for its non-qualified plans in 2016. Contributions to non-qualified pension plans will no longer occur subsequent to April 12, 2016 as a result of our bankruptcy filing.

Net periodic postretirement benefit cost included the following components:

	Three Months Ended March 31, 2016	2015
	(Dollars in millions)	
Service cost for benefits earned	\$2.6	\$2.8
Interest cost on accumulated postretirement benefit obligation	8.5	8.5
Amortization of prior service cost and net actuarial loss	2.4	4.5
Net periodic postretirement benefit cost	\$13.5	\$15.8





Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## (13) Accumulated Other Comprehensive Loss

The following table sets forth the after-tax components of accumulated other comprehensive loss and changes thereto recorded during the three months ended March 31, 2016:

	Foreign Currency Translation Adjustment	Net Actuarial Loss Associated with Postretirement Plans and Workers' Compensation Obligations	Prior Service Cost Associated with Postretirement Plans	Cash Flow Hedges	Total Accumulated Other Comprehensive Loss
December 31, 2015	\$(146.4)	\$ (263.8 )	\$ 31.8	\$(240.5)	\$ (618.9 )
Reclassification from other comprehensive income to earnings	—	5.2	(1.6 )	49.7	53.3
Current period change	2.7	—	—	—	2.7
March 31, 2016	\$(143.7)	\$ (258.6 )	\$ 30.2	\$(190.8)	\$ (562.9 )

Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The following table provides additional information regarding items reclassified out of "Accumulated other comprehensive loss" into earnings during the three months ended March 31, 2016 and 2015:

Details about accumulated other comprehensive loss components	Amount reclassified from accumulated other comprehensive loss <sup>(1)</sup>		Affected line item in the unaudited condensed consolidated statement of operations
	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	
	(Dollars in millions)		
Net actuarial loss associated with postretirement plans and workers' compensation obligations:			
Postretirement health care and life insurance benefits	\$ (5.1 )	\$ (6.2 )	Operating costs and expenses
Defined benefit pension plans	(5.1 )	(8.3 )	Operating costs and expenses
Defined benefit pension plans	(1.0 )	(1.7 )	Selling and administrative expenses
Insignificant items	2.9	2.1	
	(8.3 )	(14.1 )	Total before income taxes
	3.1	—	Income tax benefit
	\$ (5.2 )	\$ (14.1 )	Total after income taxes
Prior service credit associated with postretirement plans:			
Postretirement health care and life insurance benefits	\$ 2.7	\$ 1.7	Operating costs and expenses
Defined benefit pension plans	(0.1 )	(0.2 )	Operating costs and expenses
	2.6	1.5	Total before income taxes
	(1.0 )	—	Income tax provision
	\$ 1.6	\$ 1.5	Total after income taxes
Cash flow hedges:			
Foreign currency cash flow hedge contracts	\$ (53.9 )	\$ (73.6 )	Operating costs and expenses
Fuel and explosives commodity swaps	(24.8 )	(30.2 )	Operating costs and expenses
Coal trading commodity futures, swaps and options	—	13.3	Other revenues
Insignificant items	(0.2 )	(0.2 )	
	(78.9 )	(90.7 )	Total before income taxes
	29.2	(3.3 )	Income tax benefit (provision)

\$(49.7) \$(94.0) Total after income taxes

(1) Presented as gains (losses) in the unaudited condensed consolidated statements of operations.

27

---

Table of Contents

PEABODY ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(14) Other Events

Organizational Realignment

From time to time, the Company initiates restructuring activities in connection with its repositioning efforts to appropriately align its cost structure or optimize its coal production relative to prevailing global coal industry conditions. Costs associated with restructuring actions can include early mine closures, voluntary and involuntary workforce reductions, office closures and other related activities. Costs associated with restructuring activities are recognized in the period incurred.

In 2016, the Company eliminated corporate and regional staff positions in the U.S. and Australia and implemented workforce reductions of employee and contractor positions at four mines in the U.S. Included in the Company's unaudited condensed consolidated statements of operations for the three months ended March 31, 2016 were aggregate restructuring charges of \$12.1 million, primarily comprised of cash severance costs. Of that amount, \$7.2 million remained accrued as of March 31, 2016, substantially all of which was paid prior to the Petition Date.

Restricted Cash

As of March 31, 2016 the Company had restricted cash of \$15.3 million included in "Investments and other assets". The restricted cash represents collateral for financial assurances associated with reclamation obligations. Refer to Note 16. "Financial Instruments, Guarantees with Off-Balance Sheet Risk and Other Guarantees" for details regarding the remaining \$84.9 million in restricted cash.

Take-or-pay Obligations

During the three months ended March 31, 2016, the Company amended contracts to reduce certain U.S. transportation and logistics costs. In connection with these amendments, the Company will realize a net reduction of approximately \$45 million in estimated liquidated damage payments that otherwise would have become due with respect to these take-or-pay obligations in 2017. In connection with these amendments, the Company paid liquidated damages of \$15.5 million during the three months ended March 31, 2016.

(15) Earnings per Share (EPS)

Basic and diluted EPS are computed using the two-class method, which is an earnings allocation that determines EPS for each class of common stock and participating securities according to dividends declared and participation rights in undistributed earnings. The Company's restricted stock awards are considered participating securities because holders are entitled to receive non-forfeitable dividends during the vesting term. Diluted EPS includes securities that could potentially dilute basic EPS during a reporting period, for which the Company includes the Debentures and share-based compensation awards. Dilutive securities are not included in the computation of loss per share when a company reports a net loss from continuing operations as the impact would be anti-dilutive.

For all but the performance units, the potentially dilutive impact of the Company's share-based compensation awards is determined using the treasury stock method. Under the treasury stock method, awards are treated as if they had been exercised with any proceeds used to repurchase common stock at the average market price during the period. Any incremental difference between the assumed number of shares issued and purchased is included in the diluted share computation. For the Company's performance units, their contingent features result in an assessment for any potentially dilutive common stock by using the end of the reporting period as if it were the end of the contingency period for all units granted. For further discussion of the Company's share-based compensation awards, see Note 18. "Share-Based Compensation" to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

A conversion of the Debentures may result in payment for any conversion value in excess of the principal amount of the Debentures in the Company's common stock. For diluted EPS purposes, potential common stock is calculated based on whether the market price of the Company's common stock at the end of each reporting period is in excess of the conversion price of the Debentures. For a full discussion of the conditions under which the Debentures may be

converted, the conversion rate to common stock and the conversion price, see Note 12. "Long-term Debt" to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The effect of the Debentures was excluded from the calculation of diluted EPS for all periods presented herein because to do so would have been anti-dilutive for those periods.

Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The computation of diluted EPS also excluded aggregate share-based compensation awards of approximately 0.5 million and 0.6 million for the three months ended March 31, 2016 and 2015, respectively, because to do so would have been anti-dilutive for those periods. Because the potential dilutive impact of such share-based compensation awards is calculated under the treasury stock method, anti-dilution generally occurs when the exercise prices or unrecognized compensation cost per share of such awards are higher than the Company's average stock price during the applicable period.

The following illustrates the earnings allocation method utilized in the calculation of basic and diluted EPS. The number of shares and per share amounts for all periods presented below have been retroactively restated to reflect the Reverse Stock Split discussed in Note 1. "Basis of Presentation."

	Three Months Ended March 31, 2016    2015 (In millions, except per share data)	
EPS numerator:		
Loss from continuing operations, net of income taxes	\$(161.7)	\$(164.4)
Less: Net income attributable to noncontrolling interests	—	3.3
Loss from continuing operations attributable to common stockholders, after allocation of earnings to participating securities	(161.7 )	(167.7 )
Loss from discontinued operations attributable to common stockholders, after allocation of earnings to participating securities	(3.4 )	(8.9 )
Net loss attributable to common stockholders, after earnings allocated to participating securities	\$(165.1)	\$(176.6)
EPS denominator:		
Weighted average shares outstanding — basic and diluted	18.3	18.0
Basic and diluted EPS attributable to common stockholders:		
Loss from continuing operations	\$(8.85 )	\$(9.31 )
Loss from discontinued operations	(0.18 )	(0.50 )
Net loss attributable to common stockholders	\$(9.03 )	\$(9.81 )

## (16) Financial Instruments, Guarantees with Off-Balance Sheet Risk and Other Guarantees

In the normal course of business, the Company is a party to guarantees and financial instruments with off-balance-sheet risk, most of which are not reflected in the accompanying condensed consolidated balance sheets. Such financial instruments are valued based on the amount of exposure under the instrument and the likelihood of required performance.

Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## Financial Instruments with Off-Balance Sheet Risk

As of March 31, 2016, the Company had the following financial instruments with off-balance sheet risk:

	Reclamation Obligations	Base Obligations	Workers' Compensation Obligations	Other (1)	Total	Letters of Credit in Support of Financial Instruments
	(Dollars in millions)					
Self-bonding (2)	\$ 1,272.6	\$ —	\$ —	\$ —	\$ 1,272.6	\$ —
Surety bonds (3)	293.1	107.6	19.1	15.1	434.9	104.0
Bank guarantees	277.3	—	—	106.4	383.7	355.3
Other letters of credit	—	—	55.2	204.7	259.9	—
Total	\$ 1,843.0	\$ 107.6	\$ 74.3	\$ 326.2	\$ 2,351.1	\$ 459.3

Other includes the \$79.7 million in letters of credit related to Dominion Terminal Associates and TXU Europe

(1) Limited described below and an additional \$246.5 million in bank guarantees, letters of credit and surety bonds related to collateral for road maintenance, performance guarantees and other operations.

(2) Self-bonding reclamation obligations decreased to \$1,145.9 million as of April 13, 2016.

A total of \$128.4 million of letters of credit issued as collateral to support surety bonds related to Patriot have been

(3) excluded from above as they no longer represent off-balance sheet obligations as discussed in Note 18. "Matters Related to the Bankruptcy of Patriot Coal Corporation".

The Company owns a 37.5% interest in Dominion Terminal Associates, a partnership that operates a coal export terminal in Newport News, Virginia under a 30-year lease that permits the partnership to purchase the terminal at the end of the lease term for a nominal amount. The partners have severally (but not jointly) agreed to make payments under various agreements which, in the aggregate, provide the partnership with sufficient funds to pay rents and to cover the principal and interest payments on the floating-rate industrial revenue bonds issued by the Peninsula Ports Authority, and which are supported by letters of credit from a commercial bank. As of March 31, 2016, the Company's maximum reimbursement obligation to the commercial bank was in turn supported by letters of credit totaling \$42.7 million.

The Company is party to an agreement with the PBGC and TXU Europe Limited, an affiliate of the Company's former parent corporation, under which the Company is required to make special contributions to two of the Company's defined benefit pension plans and to maintain a \$37.0 million letter of credit in favor of the PBGC. If the Company or the PBGC gives notice of an intent to terminate one or more of the covered pension plans in which liabilities are not fully funded, or if the Company fails to maintain the letter of credit, the PBGC may draw down on the letter of credit and use the proceeds to satisfy liabilities under the Employee Retirement Income Security Act of 1974, as amended. The PBGC, however, is required to first apply amounts received from a \$110.0 million guarantee in place from TXU Europe Limited in favor of the PBGC before it draws on the Company's letter of credit. On November 19, 2002, TXU Europe Limited was placed under the administration process in the U.K. (a process similar to bankruptcy proceedings in the U.S.) and continues under this process as of March 31, 2016. As a result of these proceedings, TXU Europe Limited may be liquidated or otherwise reorganized in such a way as to relieve it of its obligations under its guarantee.

**Self-Bonding**

The Company's ability to self-bond reduces our costs of securing reclamation obligations. To the extent the Company is unable to maintain its current level of self-bonding due to legislative or regulatory changes, changes in our financial condition or for any other reason, the Company would be required to obtain replacement financial assurances or security. Further, self-bonding is permitted at the discretion of each state. Just prior to the Petition Date, the Company

was self-bonded in Illinois, Indiana, New Mexico and Wyoming. On April 29, 2016, Peabody received a letter from the Illinois Department of Natural Resources that requires the Company to replace a total of approximately \$92 million of self-bonding with alternative forms of assurance for reclamation obligations in the state of Illinois within 90 days. The Company and the state of Illinois have agreed to extend the 90 day time frame by 30 days. The Company is in discussions with these states regarding the usage of the \$200 million bonding accommodation facility provided for in the DIP Credit Agreement as an alternative to self-bonding during the bankruptcy reorganization process.



Table of Contents

PEABODY ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Accounts Receivable Securitization

On March 25, 2016, the Company amended and restated its accounts receivable securitization program (securitization program) to, among other things, extend the term of the program by two years to March 23, 2018 and reduce the maximum availability under the facility from \$275.0 million to \$180.0 million. The accessible capacity of the program varies daily, dependent upon the actual amount of receivables available for contribution and various reserves and limits. As of March 31, 2016, \$84.9 million was deposited in a collateral account to secure letters of credit.

Under the securitization program, the Company contributes the trade receivables of most of its U.S. subsidiaries on a revolving basis to its wholly-owned, bankruptcy-remote subsidiary (Seller), which then sells the receivables in their entirety to unaffiliated asset-backed commercial paper conduits and banks (the Conduits). After the sale, the Company, as servicer of the assets, collects the receivables on behalf of the Conduits for a nominal servicing fee. The Seller is a separate legal entity whose assets are available first and foremost to satisfy the claims of its creditors.

Of the receivables sold to the Conduits, a portion of the amount due to the Seller is deferred until the ultimate collection of the underlying receivables. During the three months ended March 31, 2016, the Company received total consideration of \$679.4 million related to accounts receivable sold under the securitization program, including \$295.0 million of cash up front from the sale of the receivables, an additional \$257.4 million of cash upon the collection of the underlying receivables and \$127.0 million that had not been collected at March 31, 2016 and was recorded at carrying value, which approximates fair value. The reduction in accounts receivable as a result of securitization activity with the Conduits was zero and \$168.5 million at March 31, 2016 and December 31, 2015, respectively.

The securitization activity has been reflected in the unaudited condensed consolidated statements of cash flows as an operating activity because both the cash received from the Conduits upon sale of the receivables as well as the cash received from the Conduits upon the ultimate collection of the receivables are not subject to significantly different risks given the short-term nature of the Company's trade receivables. The Company recorded expense associated with securitization transactions of \$0.8 million and \$0.4 million for the three months ended March 31, 2016 and 2015, respectively.

Subsequent to March 31, 2016, the Company executed two additional amendments to the March 25, 2016 agreement. These amendments permit the continuation of the securitization program through the Company's Chapter 11 Cases. On April 12, 2016, the Company entered into an amendment to its securitization program to state that the filing of the Bankruptcy Petitions would not result in an automatic termination of the securitization program that would result in the acceleration of the obligations thereunder. On April 18, 2016, the Company entered into an additional amendment to its securitization program to (i) change the maturity date to the earlier of March 23, 2018 and the emergence of the Company from the Chapter 11 Cases, (ii) enact a revised schedule of fees and (iii) enter into an additional performance guarantee by the Company's subsidiaries that are contributors under the securitization facility promising to fulfill obligations of the other contributors. If a final order approving the securitization program is not entered by the Bankruptcy Court on or prior to May 28, 2016, the administrative agent will have the option to terminate the securitization program. The Bankruptcy Court will consider final approval of the securitization program at a hearing currently scheduled for May 17, 2016.

Other

Included in "Other noncurrent liabilities" in the Company's condensed consolidated balance sheets as of March 31, 2016 and December 31, 2015 is a liability of \$38.4 million, respectively, related to reclamation, bonding and mine closure commitments provided on behalf of a third-party coal producer associated with a 2007 purchase of coal reserves and surface lands in the Illinois Basin.

The Company is the lessee under numerous equipment and property leases. It is common in such commercial lease transactions for the Company, as the lessee, to agree to indemnify the lessor for the value of the property or equipment leased, should the property be damaged or lost during the course of the Company's operations. The Company expects

that losses with respect to leased property, if any, would be covered by insurance (subject to deductibles). The Company and certain of its subsidiaries have guaranteed other subsidiaries' performance under various lease obligations. Aside from indemnification of the lessor for the value of the property leased, the Company's maximum potential obligations under its leases are equal to the respective future minimum lease payments, and the Company assumes that no amounts could be recovered from third parties.

The Company has provided financial guarantees under certain long-term debt agreements entered into by its subsidiaries and substantially all of the Company's U.S. subsidiaries provide financial guarantees under long-term debt agreements entered into by the Company. The maximum amounts payable under the Company's debt agreements are equal to the respective principal and interest payments.

Table of Contents

PEABODY ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(17) Commitments and Contingencies

Commitments

Unconditional Purchase Obligations

As of March 31, 2016, purchase commitments for capital expenditures were \$17.7 million, all of which is obligated within the next 12 months.

There were no other material changes to the Company's commitments from the information provided in Note 24 to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Contingencies

From time to time, the Company or its subsidiaries are involved in legal proceedings arising in the ordinary course of business or related to indemnities or historical operations. The Company believes it has recorded adequate reserves for these liabilities. The Company discusses its significant legal proceedings below, including ongoing proceedings and those that impacted the Company's results of operations for the periods presented.

**Effect of Automatic Stay.** The Debtors filed voluntary petitions for relief under the Bankruptcy Code on the Petition Date in the Bankruptcy Court. Each of the Debtors continues to operate its business and manage its property as a debtor-in-possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code. Subject to certain exceptions under the Bankruptcy Code, the filing of the Debtors' Chapter 11 Cases, pursuant to Section 362(a) of the Bankruptcy Code, automatically enjoined, or stayed, among other things, the continuation of most judicial or administrative proceedings or the filing of other actions against or on behalf of the Debtors or their property to recover on, collect or secure a claim arising prior to the Petition Date or to exercise control over property of the Debtors' bankruptcy estates, unless and until the Bankruptcy Court modifies or lifts the automatic stay as to any such claim. Notwithstanding the general application of the automatic stay described above, governmental authorities may determine to continue actions brought under their police and regulatory powers.

The Debtors have filed notices of the bankruptcy filings and suggestions of stay in the applicable domestic matters involving one or more of the Debtors as discussed below and in Note 18. "Matters Related to the Bankruptcy of Patriot Coal Corporation".

**Litigation Relating to Continuing Operations**

Peabody Monto Coal Pty Ltd, Monto Coal 2 Pty Ltd and Peabody Energy Australia PCI Pty Ltd (PEA-PCI). In October 2007, a statement of claim was delivered to Peabody Monto Coal Pty Ltd, a wholly-owned subsidiary of PEA-PCI, then Macarthur Coal Limited, and Monto Coal 2 Pty Ltd, an equity accounted investee, from the minority interest holders in the Monto Coal Joint Venture, alleging that Monto Coal 2 Pty Ltd breached the Monto Coal Joint Venture Agreement and Peabody Monto Coal Pty Ltd breached the Monto Coal Management Agreement. Peabody Monto Coal Pty Ltd is the manager of the Monto Coal Joint Venture pursuant to the Management Agreement. Monto Coal 2 Pty Ltd holds a 51% interest in the Monto Coal Joint Venture. The plaintiffs are Sanrus Pty Ltd, Edge Developments Pty Ltd and H&J Enterprises (Qld) Pty Ltd. An additional statement of claim was delivered to PEA-PCI in November 2010 from the same minority interest holders in the Monto Coal Joint Venture, alleging that PEA-PCI induced Monto Coal 2 Pty Ltd and Peabody Monto Coal Pty Ltd to breach the Monto Coal Joint Venture Agreement and the Monto Coal Management Agreement, respectively. The plaintiffs later amended their claim to allege damages for lost opportunities to sell their joint venture interest. These actions, which are pending before the Supreme Court of Queensland, Australia, seek damages from the three defendants collectively of amounts ranging from \$15.6 million Australian dollars to \$1.8 billion Australian dollars, plus interest and costs. The defendants dispute the claims and are vigorously defending their positions. Based on the Company's evaluation of the issues and their potential impact, the amount of any future loss cannot be reasonably estimated.

Queensland Bulk Handling Pty Ltd. On June 30, 2014, QBH filed a statement of claim with the Supreme Court of Queensland, Australia, against Peabody (Wilkie Creek) Pty Limited, an indirect wholly-owned subsidiary of the Company, alleging breach of a CPSA between the parties. QBH originally sought damages of \$113.1 million Australian dollars, plus interest and costs. However, it later altered its claim to seek a declaration that the Company subsidiary had exercised an option to renew the contract for a further term, and withdrew its claim for money damages.

Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

On February 27, 2015, the Supreme Court of Queensland, Australia ruled that QBH and the Company subsidiary were bound to enter into a new CPSA upon substantially the same terms as the 2009 CPSA between them. Under the 2009 CPSA, QBH provided services to Peabody (Wilkie Creek) Pty Limited for operations at the Wilkie Creek Mine, which was closed in 2013. The term of the potential new CPSA would commence January 1, 2015 and expire on December 31, 2026 and, assuming substantially the same contractual terms, would require annual minimum payments of approximately \$11.8 million Australian dollars. The Company subsidiary appealed this ruling, which was heard by the Court of Appeal on July 30, 2015. On October 23, 2015, the appellate court upheld this ruling and dismissed the appeal. The Company subsidiary was ordered to pay QBH's costs of the appeal. In February 2016, QBH served costs statements on the Company subsidiary for attorneys' fees for the appeal and trial and the Company subsidiary is in the process of objecting to the amount of those costs.

On December 8, 2015, QBH filed a claim in the Supreme Court of Queensland, Australia seeking specific performance of the Company subsidiary's obligation to enter into a new CPSA as described above and payment of \$11.8 million Australian dollars representing amounts invoiced by QBH from January through November 2015, plus additional amounts for interest and attorney fees. On January 29, 2016, the Company subsidiary filed a defense to these claims. On February 15, 2016, QBH filed an application for summary judgment, which QBH subsequently agreed to adjourn to a date to be fixed, seeking an order requiring the Company subsidiary to execute a new CPSA and seeking additional amounts invoiced by QBH through February 2016, plus additional interest on these amounts and attorney fees. On February 29, 2016 QBH filed an amended statement of claim. The Company subsidiary filed a defense to the amended statement of claim on March 22, 2016. QBH filed an amended Statement of Claim in answer to the Company's amended defense on April 12, 2016. The only change by QBH was to plead that if the Company is correct in its claim that the CPSA was repudiated by the Company and validly terminated by QBH's acceptance of that repudiation, then QBH claims damages in the alternative. The Company filed an amended defense on May 3, 2016. While the ultimate impact of the litigation is subject to a wide range of uncertainty, the Company recognized a charge of \$9.7 million to discontinued operations during 2015, of which \$7.6 million was recorded in the three months ended March 31, 2015. It is reasonably possible that additional exposure may exist up to and including the aggregate annual minimum payments under the potential new CPSA noted above.

Lori J. Lynn Class Action. On June 11, 2015, a former Peabody Investments Corp. (PIC) employee filed a putative class action lawsuit in the United States District Court, Eastern District of Missouri on behalf of three of the Company's or its subsidiaries' 401(k) retirement plans and certain participants and beneficiaries of the plans. The lawsuit, which was brought against the Company, Peabody Holding Company, LLC (PHC), PIC and a number of the Company's and PIC's current and former executives and employees, alleges breach of fiduciary duties and seeking monetary damages under the Employee Retirement Income Security Act of 1974 (ERISA) relating to the offering of the Peabody Energy Stock Fund as an investment option in the 401(k) retirement plans.

On September 8, 2015, the plaintiffs filed an amended complaint which, among other things, named a new plaintiff and named all of the current members and two former members of the board as defendants. The class period (December 2012 to present) remains unchanged. On November 9, 2015, the defendants filed a motion seeking dismissal of all claims.

On January 14, 2016, the plaintiffs filed a motion requesting leave to file a second amended complaint, which seeks to name the boards of directors of PIC and PHC as defendants and include new allegations against the Company related to the Company's disclosure to investors of risks associated with climate change and related legislation and regulations. The defendants dispute the allegations of the lawsuit and plan to vigorously defend their positions. Based on current information the Company believes these claims are likely to be resolved without a material adverse effect of its financial condition, results of operations or cash flows.

Claims, Litigation and Settlements Relating to Indemnities or Historical Operations

Environmental Claims and Litigation Arising From Historical, Non-Coal Producing Operations. Gold Fields Mining, LLC (Gold Fields) is a dormant, non-coal producing entity that was previously managed and owned by Hanson plc, the Company's predecessor owner. In a February 1997 spin-off, Hanson plc transferred ownership of Gold Fields to the Company despite the fact that Gold Fields had no ongoing operations and the Company had no prior involvement in its past operations. Gold Fields is currently one of the Company's subsidiaries. The Company indemnified TXU Group (Blue Tee) with respect to certain claims relating to the historical operations of a former affiliate of Gold Fields.

Table of Contents

PEABODY ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Environmental claims for remediation, past costs, future costs, and/or natural resource damages have been asserted against Gold Fields related to historical activities of Gold Fields or a former affiliate. Gold Fields or the former affiliate has been named a potentially responsible party (PRP) at six national priority list sites based on the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). In December 2015, Gold Fields was named a PRP by the Environmental Protection Agency (U.S. EPA) at a site near Galena, Illinois and in March 2016, Blue Tee was notified by the U.S. EPA for possible off-site additional liabilities at the existing Caney, Kansas site. CERCLA and state claims were asserted at 13 additional sites, bringing the total to 19, which have since been reduced to eight active sites by completion of work, settlement, transfer or regulatory inactivity. The number of CERCLA sites alone is not a relevant measure of liability because the nature and extent of environmental concerns and costs varies by site, as does the estimated share of responsibility relative to other PRPs for Gold Fields or the former affiliate.

Undiscounted liabilities for environmental cleanup-related costs for all of the sites noted above were \$63.8 million as of March 31, 2016 and \$66.9 million as of December 31, 2015, of which \$20.8 million and \$23.9 million was reflected as a current liability, respectively, in the condensed consolidated balance sheets as of those dates.

Significant uncertainty exists as to whether claims will be pursued against Gold Fields or the former affiliate in all cases, and where they are pursued, the amount and timing of the eventual costs and liabilities, which could be greater or less than the liabilities recorded in the condensed consolidated balance sheets. Changes to cost estimates associated with a particular site can occur for many reasons, including, but not limited to, the gathering of additional information at the site, the completion of the remedial design phase of the CERCLA remediation process, changes in anticipated remediation standards or labor and material costs or the reaching of a settlement agreement or consent order by the parties at the site. Based on the Company's evaluation of the issues and their potential impact, the total amount of any future loss cannot be reasonably estimated. However, based on current information, the Company believes these claims are likely to be resolved without a material adverse effect on its financial condition, results of operations or cash flows.

**Other**

At times the Company becomes a party to other disputes, including those related to contract miner performance, claims, lawsuits, arbitration proceedings, regulatory investigations and administrative procedures in the ordinary course of business in the U.S., Australia and other countries where the Company does business. Based on current information, the Company believes that such other pending or threatened proceedings are likely to be resolved without a material adverse effect on its financial condition, results of operations or cash flows.

**(18) Matters Related to the Bankruptcy of Patriot Coal Corporation**

In 2012, Patriot filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. In 2013, the Company entered into a definitive settlement agreement (2013 Agreement) with Patriot and the United Mine Workers of America (UMWA), on behalf of itself, its represented Patriot employees and its represented Patriot retirees, to resolve all then disputed issues related to Patriot's bankruptcy. In May 2015, Patriot again filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the Eastern District of Virginia and subsequently initiated a process to sell some or all of its assets to qualified bidders. On October 9, 2015, Patriot's bankruptcy court entered an order confirming Patriot's plan of reorganization, which provided, among other things, for the sale of substantially all of Patriot's assets to two different buyers.

**Credit Support**

As part of the 2013 Agreement, the Company has provided certain credit support to Patriot. In connection with Patriot's filing in May 2015, the Company has assumed all credit support provided to Patriot as a liability on our condensed consolidated balance sheet, of which \$38.7 million remained accrued as of March 31, 2016.

Due to Patriot's May 2015 bankruptcy filing, the Company recorded a net charge of \$34.7 million to increase its liability related to the credit support to the estimated fair value of the portion of the credit support exposed to nonperformance by Patriot. That net charge included a \$16.6 million correction of an error reflected in the year ended December 31, 2015 to derecognize a liability that had been previously recorded to the Company's historical financial statements in 2014 and 2013. The Company reflected the correction as an out-of-period adjustment because it considers the impact of the error to be quantitatively and qualitatively immaterial to the total mix of information available in the Company's 2015 and historical financial statements.



Table of Contents

PEABODY ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

**Black Lung Occupational Disease Liabilities**

Patriot has federal and state black lung occupational disease liabilities related to workers employed in periods prior to Patriot's spin-off from the Company in 2007. Upon spin-off, Patriot indemnified the Company against any claim relating to these liabilities, which amounted to approximately \$150 million at that time. The indemnification included any claim made by the U.S. Department of Labor (DOL) against the Company with respect to these obligations as a potentially liable operator under the Federal Coal Mine Health and Safety Act of 1969. The definitive settlement agreement reached in 2013 included Patriot's affirmance of all indemnities provided in the spin-off agreements, including the indemnity relating to such black lung liabilities.

By statute, the Company remains secondarily liable for the black lung liabilities related to Patriot's workers employed by former subsidiaries of the Company. Whether the Company will ultimately be required to fund certain of those obligations in the future as a result of Patriot's May 2015 bankruptcy remains uncertain. The amount of the liability at March 31, 2016 was \$130.6 million. While the Company has recorded a liability, it intends to review each claim on a case by case basis and contest liability as appropriate. The amount of the Company's recorded liability reflects only Patriot workers employed by former subsidiaries of the Company that are presently retired, disabled or otherwise not actively employed. The Company cannot reliably estimate the potential liabilities for Patriot's workers employed by former subsidiaries of the Company that are presently active in the workforce because of the potential for such workers to continue to work for another coal operator that is a going concern. The Company estimates that the annual cash cost to fund these potential Black Lung liabilities will range between \$10 million and \$15 million.

**UMWA VEBA Payments**

In connection with the 2013 definitive settlement agreement, the Company was required to provide total payments of \$310.0 million, payable over four years through 2017, to partially fund the newly established voluntary employee beneficiary association (VEBA) and settle all Patriot and UMWA claims involving the Patriot bankruptcy. Those payments included an initial payment of \$90.0 million made in January 2014, comprised of \$70.0 million paid to Patriot and \$20.0 million paid to the VEBA, and a payment of \$75.0 million made in January 2015 to the VEBA. The settlement agreement also contemplates subsequent payments to be made to the VEBA of \$75.0 million in 2016 and \$70.0 million in 2017.

The parties agreed to a settlement of the Company's obligations for payment of the remaining VEBA payments, which was approved by the Missouri Bankruptcy Court on January 5, 2016 and the Virginia Bankruptcy Court on January 6, 2016. Under this settlement, the Company agreed to pay \$75 million to the VEBA, payable in equal monthly installments of \$7.5 million beginning on January 4, 2016. The remaining monthly installments are due at the beginning of each successive month ending October 2016, and the obligations are supported in full by a letter of credit. These monthly VEBA payments will terminate early if VEBA participants can receive healthcare benefits that are reasonably similar to or greater than healthcare benefits provided under VEBA as a result of new legislation. As part of the settlement, the Company recognized a gain of \$68.1 million during the three months ended March 31, 2016, which was classified in "other operating costs and expenses" in the unaudited condensed consolidated statement of operations and is included in the Company's Corporate and Other segment results.

**UMWA 1974 Pension Plan (Plan) Litigation**

On July 16, 2015, a lawsuit was filed by the Plan, the UMWA 1974 Pension Trust (Trust) and the Trustees of the Plan and Trust (Trustees) in the United States District Court for the District of Columbia, against the Company, PHC, a subsidiary of the Company, and Arch Coal, Inc. (Arch). The plaintiffs are seeking, pursuant to ERISA and the Multiemployer Pension Plan Amendments Act of 1980 (MPPAA), a declaratory judgment that the defendants are obligated to arbitrate any opposition to the Trustees' determination that the defendants have statutory withdrawal liability as a result of the 2015 Patriot bankruptcy. The plaintiffs' July lawsuit claimed that the defendants' withdrawal liability will result in at least \$767 million owed to the Plan. On October 29, 2015, the plaintiffs filed an amended

complaint, alleging that the plaintiffs had determined that Peabody has \$644.2 million and Arch has \$299.8 million in withdrawal liabilities to the 1974 Pension Plan.

Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Also on October 29, 2015, the Trustees issued a withdrawal liability assessment against the Company in the amount of \$644.2 million (October 29 Assessment). The Trustees claim that a principal purpose of the Company's 2007 spin-off of Patriot was to "evade or avoid" withdrawal liability to the Plan, and they assert that the Company is therefore liable for Patriot's withdrawal from the Plan due to Patriot terminating certain collective bargaining agreements with the UMWA eight years later, during Patriot's bankruptcy proceeding. The October 29 Assessment does not contain the payment schedule required by ERISA. Instead, the Trustees assert that the Company was in default on the \$644.2 million liability assessment as of the moment it was assessed. The Company and PHC dispute this withdrawal liability claim, including the assertion that the Company could be in default on the withdrawal liability assessment prior to being given an opportunity to make any payments on the assessment.

ERISA provides a process to adjudicate withdrawal liability disputes, which consists of administrative review by the Plan followed by arbitration, after which either side can appeal to the appropriate United States district court. The Company and PHC have been dismissed from the lawsuit and have agreed with the plaintiffs to arbitrate the dispute pursuant to the arbitration process. Because more than five years have elapsed since the spin-off, the Company is exempt from making any payments toward the October 29 Assessment unless and until an arbitrator issues a final decision in favor of the Trustees on the "evade or avoid" theory of liability. The Company also anticipates that during arbitration it will receive a decision on the legality of the Fund's determination that the Company was in default. The Company anticipates that as a consequence of such decision, the Fund will be required to issue a payment schedule setting forth the annual payments required to pay the alleged withdrawal liability over time. On January 26, 2016, the Company took the first step of the adjudication process by requesting administrative review of the October 29 Assessment. If the Fund fails to respond to the Company's request for review within 120 days, or if the Company disagrees with the results of the Fund's review, then the Company will initiate arbitration. If the proceeding is ongoing in January 2017, the Company will be required to post a bond or an escrow of approximately \$18.8 million until the decision is final. The bond would remain in place until an arbitration decision is reached on the underlying withdrawal liability issue. If it is decided in the Company's favor, the Company will not owe any amounts to the Plan. A notice of automatic stay was delivered to the plaintiffs on April 13, 2016.

## (19) Segment Information

The Company reports its results of operations primarily through the following reportable segments: "Powder River Basin Mining," "Midwestern U.S. Mining," "Western U.S. Mining," "Australian Metallurgical Mining," "Australian Thermal Mining," "Trading and Brokerage" and "Corporate and Other." The Company's chief operating decision maker uses Adjusted EBITDA as the primary metric to measure the segments' operating performance. Beginning with this report, the Company has modified the definition of Adjusted EBITDA to also exclude certain discrete items because the Company believes that doing so is useful for management and investors who use Adjusted EBITDA to measure its operating performance and lenders who assess its ability to incur and service debt. Our Adjusted (Loss) Income from Continuing Operations and Adjusted Diluted EPS measures were not modified.

Adjusted EBITDA is defined as (loss) income from continuing operations before deducting net interest expense, income taxes, asset retirement obligation expense, and depreciation, depletion. Adjusted EBITDA is also adjusted for the discrete items, reflected in the reconciliation below, that management has excluded in analyzing the segment's operating performance. Adjusted EBITDA is not intended to serve as an alternative to U.S. GAAP measures of performance and may not be comparable to similarly-titled measures presented by other companies.



Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Reportable segment results were as follows:

	Three Months Ended	
	March 31,	
	2016	2015
	(Dollars in millions)	
Revenues:		
Powder River Basin Mining	\$336.0	\$508.9
Midwestern U.S. Mining	199.6	275.7
Western U.S. Mining	112.5	180.4
Australian Metallurgical Mining	205.1	333.3
Australian Thermal Mining	176.7	214.9
Trading and Brokerage	(8.8 )	16.7
Corporate and Other	6.1	8.0
Total	\$1,027.2	\$1,537.9

Adjusted EBITDA:

Powder River Basin Mining	\$73.8	\$140.0
Midwestern U.S. Mining	60.6	79.0
Western U.S. Mining	20.1	52.5
Australian Metallurgical Mining	(37.3 )	13.6
Australian Thermal Mining	42.9	48.3
Trading and Brokerage	(18.8 )	3.8
Corporate and Other <sup>(1)</sup>	(111.2 )	(171.6 )
Total	\$30.1	\$165.6

<sup>(1)</sup> Includes a gain of \$68.1 million during the three months ended March 31, 2016 related to the UMWA VEBA settlement was described in Note 18 "Matters related to the Bankruptcy of Patriot Coal Corporation"

A reconciliation of Adjusted EBITDA to consolidated loss from continuing operations, net of income taxes follows:

	Three Months Ended	
	March 31,	
	2016	2015
	(Dollars in millions)	
Total Adjusted EBITDA	\$30.1	\$165.6
Depreciation, depletion and amortization	(111.8 )	(147.5 )
Asset impairment	(17.2 )	—
Asset retirement obligation expenses	(13.1 )	(14.2 )
Selling and administrative expenses related to debt restructuring	(14.3 )	—
Change in deferred tax asset valuation allowance related to equity affiliates	(1.4 )	(0.3 )
Amortization of basis difference related to equity affiliates	—	(1.4 )
Interest expense	(126.2 )	(106.6 )
Loss on early debt extinguishment	—	(59.5 )
Unrealized gains on non-coal trading derivative contracts	25.0	—
Interest income	1.4	2.5

Edgar Filing: PEABODY ENERGY CORP - Form 10-Q

Income tax benefit (provision)	65.8	(3.0 )
Loss from continuing operations, net of income taxes	\$(161.7)	\$(164.4)

37

---

Table of Contents

PEABODY ENERGY CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(20) Supplemental Guarantor/Non-Guarantor Financial Information

In accordance with the indentures governing the Senior Notes, certain 100% owned U.S. subsidiaries of the Company (each, a Guarantor Subsidiary) have fully and unconditionally guaranteed the Senior Notes, on a joint and several basis. The indentures governing the Senior Notes contain customary exceptions under which a guarantee of a Guarantor Subsidiary will terminate, including (a) the release or discharge of the guarantee of the Company's 2013 Credit Facility by such Guarantor Subsidiary, except a discharge or release by or as a result of payment under such guarantee, (b) a sale or other disposition, by way of merger, consolidation or otherwise, of all of the capital stock of such Guarantor Subsidiary, and (c) the legal defeasance or discharge of the indentures. Separate financial statements and other disclosures concerning the Guarantor Subsidiaries are not presented because management believes that such information is not material to the holders of the Senior Notes. The following historical financial statement information is provided for the Guarantor/Non-Guarantor Subsidiaries.

38

---

Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## Unaudited Supplemental Condensed Consolidating Statements of Operations

	Three Months Ended March 31, 2016				Consolidated
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
	(Dollars in millions)				
Total revenues	\$—	\$ 663.9	\$ 441.1	\$ (77.8 )	\$ 1,027.2
Costs and expenses					
Operating costs and expenses (exclusive of items shown separately below)	17.9	522.3	457.8	(77.8 )	920.2
Depreciation, depletion and amortization	—	51.1	60.7	—	111.8
Asset retirement obligation expenses	—	6.5	6.6	—	13.1
Selling and administrative expenses	2.4	42.2	3.7	—	48.3
Restructuring charges	—	11.4	0.7	—	12.1
Other operating (income) loss:					
Net gain on disposal of assets	—	(1.8 )	—	—	(1.8 )
Asset impairment	—	—	17.2	—	17.2
Loss from equity affiliates and investment in subsidiaries	53.3	1.2	7.8	(53.3 )	9.0
Interest expense	122.6	5.8	6.2	(8.4 )	126.2
Interest income	—	(1.0 )	(8.8 )	8.4	(1.4 )
(Loss) income from continuing operations before income taxes	(196.2 )	26.2	(110.8 )	53.3	(227.5 )
Income tax benefit	(33.1 )	(18.5 )	(14.2 )	—	(65.8 )
(Loss) income from continuing operations, net of income taxes	(163.1 )	44.7	(96.6 )	53.3	(161.7 )
Loss from discontinued operations, net of income taxes	(2.0 )	(0.5 )	(0.9 )	—	(3.4 )
Net (loss) income attributable to common stockholders	\$(165.1)	\$ 44.2	\$ (97.5 )	\$ 53.3	\$ (165.1 )

## Unaudited Supplemental Condensed Consolidating Statements of Comprehensive Income

	Three Months Ended March 31, 2016				Consolidated
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	
	(Dollars in millions)				
Net (loss) income	\$(165.1)	\$ 44.2	\$ (97.5 )	\$ 53.3	\$ (165.1 )
Other comprehensive income, net of income taxes	56.0	5.1	2.7	(7.8 )	56.0
Comprehensive (loss) income attributable to common stockholders	\$(109.1)	\$ 49.3	\$ (94.8 )	\$ 45.5	\$ (109.1 )



Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## Unaudited Supplemental Condensed Consolidating Statements of Operations

	Three Months Ended March 31, 2015				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in millions)				
Total revenues	\$—	\$ 971.0	\$ 691.7	\$ (124.8 )	\$ 1,537.9
Costs and expenses					
Operating costs and expenses (exclusive of items shown separately below)	104.2	739.2	603.0	(124.8 )	1,321.6
Depreciation, depletion and amortization	—	67.9	79.6	—	147.5
Asset retirement obligation expenses	—	5.3	8.9	—	14.2
Selling and administrative expenses	9.7	37.1	2.6	—	49.4
Other operating (income) loss:					
Net (gain) loss on disposal of assets	—	(1.0 )	0.9	—	(0.1 )
(Income) loss from equity affiliates and investment in subsidiaries	(104.4 )	1.3	1.8	104.4	3.1
Interest expense	108.0	4.7	2.6	(8.7 )	106.6
Loss on early debt extinguishment	59.5	—	—	—	59.5
Interest income	(0.1 )	(0.6 )	(10.5 )	8.7	(2.5 )
(Loss) income from continuing operations before income taxes	(176.9 )	117.1	2.8	(104.4 )	(161.4 )
Income tax provision	—	0.1	2.9	—	3.0
(Loss) income from continuing operations, net of income taxes	(176.9 )	117.0	(0.1 )	(104.4 )	(164.4 )
Income (loss) from discontinued operations, net of income taxes	0.3	(1.1 )	(8.1 )	—	(8.9 )
Net (loss) income	(176.6 )	115.9	(8.2 )	(104.4 )	(173.3 )
Less: Net income attributable to noncontrolling interests	—	0.8	2.5	—	3.3
Net (loss) income attributable to common stockholders	\$(176.6)	\$ 115.1	\$ (10.7 )	\$ (104.4 )	\$(176.6 )

## Unaudited Supplemental Condensed Consolidating Statements of Comprehensive Income

	Three Months Ended March 31, 2015				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in millions)				
Net (loss) income	\$(176.6)	\$ 115.9	\$ (8.2 )	\$ (104.4 )	\$(173.3 )
Other comprehensive (loss) income, net of income taxes	(70.7 )	15.1	(33.4 )	18.3	(70.7 )
Comprehensive (loss) income	(247.3 )	131.0	(41.6 )	(86.1 )	(244.0 )
Less: Comprehensive income attributable to noncontrolling interests	—	0.8	2.5	—	3.3
Comprehensive (loss) income attributable to common stockholders	\$(247.3)	\$ 130.2	\$ (44.1 )	\$ (86.1 )	\$(247.3 )



Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## Unaudited Supplemental Condensed Consolidating Balance Sheets

March 31, 2016

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications/ Eliminations	Consolidated
--	-------------------	---------------------------	-------------------------------	------------------------------------	--------------

(Dollars in millions)

Assets					
Current assets					
Cash and cash equivalents	\$ 636.9	\$ 8.4	\$ 100.3	\$ —	\$ 745.6
Restricted cash	—	—	84.9	—	84.9
Accounts receivable, net	—	10.7	253.0	—	263.7
Receivables from affiliates, net	543.7	—	977.0	(1,520.7)	—
Inventories	—	112.6	203.2	—	315.8
Assets from coal trading activities, net	—	2.7	18.5	—	21.2
Deferred income taxes	—	65.3	—	(11.8)	53.5
Other current assets	20.8	144.9	301.7	—	467.4
Total current assets	1,201.4	344.6	1,938.6	(1,532.5)	1,952.1
Property, plant, equipment and mine development, net	—	4,258.0	4,904.8	—	9,162.8
Deferred income taxes	—	79.6	—	(77.3)	2.3
Investments and other assets	8,640.8	3.7	195.4	(8,462.1)	377.8
Notes receivable from affiliates, net	—	584.0	448.6	(1,032.6)	—
Total assets	\$ 9,842.2	\$ 5,269.9	\$ 7,487.4	\$ (11,104.5)	\$ 11,495.0
Liabilities and Stockholders' Equity					
Current liabilities					
Current portion of long-term debt	\$ 6,792.5	\$ 22.7	\$ 5.0	\$ —	\$ 6,820.2
Payables to affiliates, net	—	1,520.7	—	(1,520.7)	—
Deferred income taxes	11.8	—	4.0	(11.8)	4.0
Liabilities from coal trading activities, net	—	3.5	15.8	—	19.3
Accounts payable and accrued expenses	482.5	403.9	394.5	—	1,280.9
Total current liabilities	7,286.8	1,950.8	419.3	(1,532.5)	8,124.4
Long-term debt, less current portion	367.0	—	—	—	367.0
Deferred income taxes	126.9	—	1.5	(77.3)	51.1
Notes payable to affiliates, net	1,032.6	—	—	(1,032.6)	—
Other noncurrent liabilities	219.2	1,421.4	500.6	—	2,141.2
Total liabilities	9,032.5	3,372.2	921.4	(2,642.4)	10,683.7
Peabody Energy Corporation stockholders' equity	809.7	1,897.7	6,564.4	(8,462.1)	809.7
Noncontrolling interests	—	—	1.6	—	1.6
Total stockholders' equity	809.7	1,897.7	6,566.0	(8,462.1)	811.3
Total liabilities and stockholders' equity	\$ 9,842.2	\$ 5,269.9	\$ 7,487.4	\$ (11,104.5)	\$ 11,495.0



Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## Supplemental Condensed Consolidating Balance Sheets

December 31, 2015

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications/ Eliminations	Consolidated
(Dollars in millions)					
Assets					
Current assets					
Cash and cash equivalents	\$7.2	\$ 4.7	\$ 249.4	\$ —	\$ 261.3
Accounts receivable, net	—	12.1	216.7	—	228.8
Receivables from affiliates, net	582.1	—	948.1	(1,530.2)	) —
Inventories	—	109.4	198.4	—	307.8
Assets from coal trading activities, net	—	3.2	20.3	—	23.5
Deferred income taxes	—	65.3	—	(11.8)	) 53.5
Other current assets	23.1	128.1	296.4	—	447.6
Total current assets	612.4	322.8	1,929.3	(1,542.0)	) 1,322.5
Property, plant, equipment and mine development, net	—	4,304.8	4,953.7	—	9,258.5
Deferred income taxes	—	33.1	—	(30.9)	) 2.2
Investments and other assets	8,476.2	3.6	185.5	(8,301.6)	) 363.7
Notes receivable from affiliates, net	—	632.7	399.9	(1,032.6)	) —
Total assets	\$9,088.6	\$ 5,297.0	\$ 7,468.4	\$ (10,907.1)	) \$ 10,946.9
Liabilities and Stockholders' Equity					
Current liabilities					
Current portion of long-term debt	\$5,844.0	\$ 23.8	\$ 7.1	\$ —	\$ 5,874.9
Payables to affiliates, net	—	1,530.2	—	(1,530.2)	) —
Deferred income taxes	11.8	—	3.8	(11.8)	) 3.8
Liabilities from coal trading activities, net	—	4.8	10.8	—	15.6
Accounts payable and accrued expenses	494.8	479.8	467.9	—	1,442.5
Total current liabilities	6,350.6	2,038.6	489.6	(1,542.0)	) 7,336.8
Long-term debt, less current portion	366.3	—	—	—	366.3
Deferred income taxes	98.6	—	1.4	(30.9)	) 69.1
Notes payable to affiliates, net	1,032.6	—	—	(1,032.6)	) —
Other noncurrent liabilities	323.6	1,454.9	477.7	—	2,256.2
Total liabilities	8,171.7	3,493.5	968.7	(2,605.5)	) 10,028.4
Peabody Energy Corporation stockholders' equity	916.9	1,803.5	6,498.1	(8,301.6)	) 916.9
Noncontrolling interests	—	—	1.6	—	1.6
Total stockholders' equity	916.9	1,803.5	6,499.7	(8,301.6)	) 918.5
Total liabilities and stockholders' equity	\$9,088.6	\$ 5,297.0	\$ 7,468.4	\$ (10,907.1)	) \$ 10,946.9



Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## Unaudited Supplemental Condensed Consolidating Statements of Cash Flows

Three Months Ended March 31, 2016

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
--	-------------------	---------------------------	-------------------------------	--------------

(Dollars in millions)

<b>Cash Flows From Operating Activities</b>				
Net cash used in continuing operations	\$ (331.7)	\$ (21.3 )	\$ (85.9 )	\$ (438.9 )
Net cash (used in) provided by discontinued operations	(1.4 )	1.9	(0.6 )	(0.1 )
Net cash used in operating activities	(333.1 )	(19.4 )	(86.5 )	(439.0 )
<b>Cash Flows From Investing Activities</b>				
Additions to property, plant, equipment and mine development	—	(4.3 )	(9.0 )	(13.3 )
Changes in accrued expenses related to capital expenditures	—	(1.6 )	(1.8 )	(3.4 )
Proceeds from disposal of assets, net of notes receivable	—	2.0	0.1	2.1
Contributions to joint ventures	—	—	(81.7 )	(81.7 )
Distributions from joint ventures	—	—	87.4	87.4
Other, net	—	(4.1 )	0.1	(4.0 )
Net cash used in investing activities	—	(8.0 )	(4.9 )	(12.9 )
<b>Cash Flows From Financing Activities</b>				
Proceeds from long-term debt	947.0	—	—	947.0
Repayments of long-term debt	(3.0 )	(1.1 )	(2.1 )	(6.2 )
Payment of deferred financing costs	(2.8 )	—	—	(2.8 )
Other, net	(0.1 )	(1.6 )	(0.1 )	(1.8 )
Transactions with affiliates, net	21.7	33.8	(55.5 )	—
Net cash provided by financing activities	962.8	31.1	(57.7 )	936.2
Net change in cash and cash equivalents	629.7	3.7	(149.1 )	484.3
Cash and cash equivalents at beginning of period	7.2	4.7	249.4	261.3
Cash and cash equivalents at end of period	\$ 636.9	\$ 8.4	\$ 100.3	\$ 745.6

Table of Contents

## PEABODY ENERGY CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

## Unaudited Supplemental Condensed Consolidating Statements of Cash Flows

Three Months Ended March 31, 2015

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
--	-------------------	---------------------------	-------------------------------	--------------

	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
(Dollars in millions)				
<b>Cash Flows From Operating Activities</b>				
Net cash (used in) provided by continuing operations	\$ (205.0)	\$ 116.4	\$ 93.8	\$ 5.2
Net cash used in discontinued operations	(0.3 )	(0.4 )	(1.1 )	(1.8 )
Net cash (used in) provided by operating activities	(205.3 )	116.0	92.7	3.4
<b>Cash Flows From Investing Activities</b>				
Additions to property, plant, equipment and mine development	—	(14.0 )	(11.1 )	(25.1 )
Changes in accrued expenses related to capital expenditures	—	(3.0 )	(8.3 )	(11.3 )
Proceeds from disposal of assets, net of notes receivable	—	2.1	—	2.1
Purchases of debt and equity securities	—	—	(7.3 )	(7.3 )
Proceeds from sales and maturities of debt and equity securities	—	—	10.1	10.1
Contributions to joint ventures	—	—	(114.6 )	(114.6 )
Distributions from joint ventures	—	—	113.6	113.6
Other, net	—	(0.5 )	(2.7 )	(3.2 )
Net cash used in investing activities	—	(15.4 )	(20.3 )	(35.7 )
<b>Cash Flows From Financing Activities</b>				
Proceeds from long-term debt	975.7	—	—	975.7
Repayments of long-term debt	(569.9 )			