PEABODY ENERGY CORP
Form 10-Q
November 07, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2012

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 (X) 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 (X) 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 (X)	Accelerated filer ( )
Non-accelerated filer ( ) (Do not check if a smaller reporting company)	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 (X)

There were 268,385,935 shares of the registrant's common stock (par value of $0.01 per share) outstanding at November 2, 2012.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements.
PEABODY ENERGY CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in millions, except per share data)			
Revenues				
Sales	$1,797.2	$1,682.2	$5,282.0	$5,029.4
Other revenues	261.6	298.4	778.6	636.7
Total revenues	2,058.8	1,980.6	6,060.6	5,666.1
Costs and expenses				
Operating costs and expenses	1,509.0	1,399.4	4,396.8	3,958.7
Depreciation, depletion and amortization	172.5	108.4	470.7	317.6
Asset retirement obligation expenses	21.1	14.6	53.3	43.3
Selling and administrative expenses	68.7	71.2	202.4	191.4
Other operating (income) loss:				
Net gain on disposal or exchange of assets	(0.2)	(1.7)	(7.6)	(31.4)
Loss from equity affiliates	21.2	3.2	50.5	9.0
Operating profit	266.5	385.5	894.5	1,177.5
Interest expense	99.4	59.2	308.3	159.1
Interest income	(5.1)	(4.1)	(19.7)	(11.7)
Income from continuing operations before income taxes	172.2	330.4	605.9	1,030.1
Income tax provision	49.3	39.2	85.5	238.8
Income from continuing operations, net of income taxes	122.9	291.2	520.4	791.3
Loss from discontinued operations, net of income taxes	(81.3)	(9.7)	(92.7)	(38.9)
Net income	41.6	281.5	427.7	752.4
Less: Net (loss) income attributable to noncontrolling interests	(1.3)	7.4	7.4	17.0
Net income attributable to common stockholders	$42.9	$274.1	$420.3	$735.4
Income From Continuing Operations				
Basic earnings per share	$0.46	$1.05	$1.89	$2.86
Diluted earnings per share	$0.46	$1.04	$1.89	$2.84
Net Income Attributable to Common Stockholders				
Basic earnings per share	$0.16	$1.01	$1.55	$2.72
Diluted earnings per share	$0.16	$1.00	$1.55	$2.71
Dividends declared per share	$0.085	$0.085	$0.255	$0.255

See accompanying notes to unaudited condensed consolidated financial statements.

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PEABODY ENERGY CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in millions)			
Net income	$41.6	$281.5	$427.7	$752.4
Other comprehensive income, net of income taxes:				
Net unrealized holding losses on available-for-sale securities (net of respective tax benefits of $3.0, $2.0, $11.2 and $2.3)				
Unrealized holding losses on available-for-sale securities	(5.1)	(4.4)	(19.2)	(4.2)
Less: Reclassification for realized gains included in net income	—	(0.1)	—	(0.1)
Net unrealized holding losses on available-for-sale securities	(5.1)	(4.5)	(19.2)	(4.3)
Net unrealized gains (losses) on cash flow hedges (net of respective tax provision (benefit) of $36.8, ($140.3), $39.7 and ($66.7))				
Increase (decrease) in fair value of cash flow hedges	111.5	(135.9)	302.0	79.7
Less: Reclassification for realized gains included in net income	(57.7)	(61.5)	(179.2)	(180.3)
Net unrealized gains (losses) on cash flow hedges	53.8	(197.4)	122.8	(100.6)
Postretirement plans and workers' compensation obligations (net of respective tax provisions of $8.1, $6.3, $24.2 and $12.8)				
Net actuarial loss for the period	—	—	—	3.5
Amortization of actuarial loss and prior service cost	13.9	10.2	41.6	30.2
Postretirement plan and workers' compensation obligations	13.9	10.2	41.6	33.7
Foreign currency translation adjustment	13.8	—	20.4	—
Other comprehensive income (loss)	76.4	(191.7)	165.6	(71.2)
Comprehensive income	118.0	89.8	593.3	681.2
Less: Comprehensive (loss) income attributable to noncontrolling interests	(1.3)	7.4	7.4	17.0
Comprehensive income attributable to common stockholders	$119.3	$82.4	$585.9	$664.2

See accompanying notes to unaudited condensed consolidated financial statements.

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PEABODY ENERGY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2012	December 31, 2011
	(Amounts in millions, except per share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$648.0	$799.1
Accounts receivable, net of allowance for doubtful accounts of $15.2 at September 30, 2012 and $17.0 at December 31, 2011	682.2	922.5
Inventories	554.9	444.4
Assets from coal trading activities, net	56.2	44.6
Deferred income taxes	15.8	27.3
Other current assets	697.6	768.0
Total current assets	2,654.7	3,005.9
Property, plant, equipment and mine development		
Land and coal interests	11,875.2	10,630.5
Buildings and improvements	1,268.3	1,084.2
Machinery and equipment	3,175.8	2,857.3
Less: accumulated depreciation, depletion and amortization	(3,808.2)	(3,320.4)
Property, plant, equipment and mine development, net	12,511.1	11,251.6
Investments and other assets	1,684.6	2,475.5
Total assets	$16,850.4	$16,733.0
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt	$124.8	$101.1
Liabilities from coal trading activities, net	19.9	10.3
Accounts payable and accrued expenses	1,645.1	1,712.3
Total current liabilities	1,789.8	1,823.7
Long-term debt, less current maturities	6,238.3	6,556.4
Deferred income taxes	385.0	523.2
Asset retirement obligations	662.4	615.2
Accrued postretirement benefit costs	1,054.3	1,053.1
Other noncurrent liabilities	743.6	645.6
Total liabilities	10,873.4	11,217.2
Stockholders' equity		
Preferred Stock — $0.01 per share par value; 10.0 shares authorized; no shares issued or outstanding as of September 30, 2012 or December 31, 2011	—	—
Series A Junior Participating Preferred Stock — $0.01 per share par value; no shares authorized as of September 30, 2012 and 1.5 shares authorized as of December 31, 2011; no shares issued or outstanding as of September 30, 2012 or December 31, 2011	n.a.	—
Perpetual Preferred Stock — 0.8 shares authorized, no shares issued or outstanding	—	—

as of September 30, 2012 or December 31, 2011		
Series Common Stock — $0.01 per share par value; 40.0 shares authorized, no shares issued or outstanding as of September 30, 2012 or December 31, 2011	—	—
Common Stock — $0.01 per share par value; 800.0 shares authorized, 282.0 shares issued and 268.3 shares outstanding as of September 30, 2012 and 280.3 shares issued and 271.1 shares outstanding as of December 31, 2011	2.8	2.8
Additional paid-in capital	2,284.9	2,234.0
Retained earnings	4,095.2	3,744.0
Accumulated other comprehensive income (loss)	23.2	(142.4)
Treasury shares, at cost: 13.7 shares as of September 30, 2012 and 9.2 shares as of December 31, 2011	(461.5)	(353.3)
Peabody Energy Corporation's stockholders' equity	5,944.6	5,485.1
Noncontrolling interests	32.4	30.7
Total stockholders' equity	5,977.0	5,515.8
Total liabilities and stockholders' equity	$16,850.4	$16,733.0

See accompanying notes to unaudited condensed consolidated financial statements.

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PEABODY ENERGY CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2012	2011
	(Dollars in millions)	
Cash Flows From Operating Activities		
Net income	$427.7	$752.4
Loss from discontinued operations, net of income taxes	92.7	38.9
Income from continuing operations, net of income taxes	520.4	791.3
Adjustments to reconcile income from continuing operations, net of income taxes to net cash provided by operating activities:		
Depreciation, depletion and amortization	470.7	317.6
Deferred income taxes	(162.6)	48.2
Share-based compensation	34.9	32.4
Net gain on disposal or exchange of assets	(7.6)	(31.4)
Loss from equity affiliates	50.5	9.0
Changes in current assets and liabilities:		
Accounts receivable	259.0	(11.8)
Change in receivable from accounts receivable securitization program	(50.0)	—
Inventories	(117.4)	(12.3)
Net assets from coal trading activities	145.6	71.7
Other current assets	42.7	(42.3)
Accounts payable and accrued expenses	84.6	(15.6)
Asset retirement obligations	55.6	27.2
Accrued postretirement benefit costs	27.7	26.6
Pension costs	26.0	25.5
Contributions to pension plans	(1.3)	(1.3)
Other, net	(5.1)	(18.1)
Net cash provided by continuing operations	1,373.7	1,216.7
Net cash used in discontinued operations	(82.2)	(26.2)
Net cash provided by operating activities	1,291.5	1,190.5
Cash Flows From Investing Activities		
Additions to property, plant, equipment and mine development	(732.1)	(553.4)
Federal coal lease expenditures	(247.9)	(42.4)
Investment in Prairie State Energy Campus	(9.4)	(29.8)
Proceeds from disposal of assets	93.5	12.1
Investments in equity affiliates and joint ventures	—	(39.8)
Proceeds from sales and maturities of debt and equity securities	39.0	53.3
Purchases of debt and equity securities	(23.8)	(44.1)
Purchases of short-term investments	—	(100.0)
Proceeds from sale of short term investments	—	100.0
Investment in shares of Macarthur Coal Limited	—	(45.5)
Contributions to joint ventures	(531.2)	—
Distributions from joint ventures	527.7	—
Repayment of loans from related parties	720.2	—
Advances to related parties	(743.4)	—
Other, net	(3.2)	(4.4)
Net cash used in continuing operations	(910.6)	(694.0)

Net cash used in discontinued operations	(11.2)	(62.8)
Net cash used in investing activities	(921.8)	(756.8)
Cash Flows From Financing Activities		
Payments of long-term debt	(305.7)	(248.4)
Common stock repurchase	(99.9)	—
Acquisition of MCG Coal Holdings Pty Ltd noncontrolling interests	(49.8)	—
Dividends paid	(69.1)	(69.1)
Repurchase of employee common stock relinquished for tax withholding	(8.3)	(16.1)
Excess tax benefits related to share-based compensation	3.6	6.1
Other, net	8.4	0.2
Net cash used in financing activities	(520.8)	(327.3)
Net change in cash and cash equivalents	(151.1)	106.4
Cash and cash equivalents at beginning of period	799.1	1,295.2
Cash and cash equivalents at end of period	$648.0	$1,401.6

See accompanying notes to unaudited condensed consolidated financial statements.

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PEABODY ENERGY CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Peabody Energy Corporation's Stockholders' Equity						
	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total Stockholders' Equity
	(Dollars in millions)						
December 31, 2011	$2.8	$2,234.0	$(353.3)	$3,744.0	$ (142.4)	$ 30.7	$ 5,515.8
Net income	—	—	—	420.3	—	7.4	427.7
Net unrealized losses on available-for-sale securities (net of $11.2 tax benefit)	—	—	—	—	(19.2)	—	(19.2)
Increase in fair value of cash flow hedges (net of $39.7 tax provision)	—	—	—	—	122.8	—	122.8
Postretirement plans and workers' compensation obligations (net of $24.2 tax provision)	—	—	—	—	41.6	—	41.6
Foreign currency translation adjustment	—	—	—	—	20.4	—	20.4
Dividends paid	—	—	—	(69.1)	—	—	(69.1)
Share-based compensation	—	34.9	—	—	—	—	34.9
Excess tax benefits related to share-based compensation	—	3.6	—	—	—	—	3.6
Stock options exercised	—	1.7	—	—	—	—	1.7
Employee stock purchases	—	7.1	—	—	—	—	7.1
Repurchase of employee common stock relinquished for tax withholding	—	—	(8.3)	—	—	—	(8.3)
Common stock repurchase	—	—	(99.9)	—	—	—	(99.9)
MCG Coal Holdings Pty Ltd noncontrolling interests at conversion	—	—	—	—	—	53.4	53.4
Acquisition of MCG Coal Holdings Pty Ltd	—	3.6	—	—	—	(53.4)	(49.8)

noncontrolling interests							
Distributions to noncontrolling interests	—	—	—	—	—	(5.7)	(5.7)
September 30, 2012	$2.8	$2,284.9	$(461.5)	$4,095.2	$ 23.2	$ 32.4	$ 5,977.0

See accompanying notes to unaudited condensed consolidated financial statements.

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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. All intercompany transactions, profits and balances have been eliminated in consolidation.

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 2011 Annual Report on Form 10-K. 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, 2011 has been derived from the Company’s audited consolidated balance sheet at that date. The results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for future quarters or for the year ending December 31, 2012.

The Company classifies items within discontinued operations in the unaudited condensed consolidated financial statements when the operations and cash flows of a particular component of the Company have been (or will be) eliminated from the ongoing operations of the Company as a result of a disposal (by sale or otherwise) and the Company will no longer have any significant continuing involvement in the operation of that component.

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

In December 2011, the Financial Accounting Standards Board (FASB) issued accounting guidance requiring additional information intended to help reconcile existing differences in balance sheet offsetting requirements under U.S. GAAP and International Financial Reporting Standards (IFRS). While this standard leaves existing guidance surrounding the offsetting of financial assets and liabilities unchanged, it requires several additional disclosures, including gross and net information about instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to a master netting arrangement or similar agreement. The guidance will become effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods (January 1, 2013 for the Company). While the adoption of this guidance will impact the Company's disclosures, it will not affect the Company's results of operations, financial condition or cash flows.

In January 2010, the FASB issued accounting guidance that required new fair value disclosures, including disclosures about significant transfers into and out of Level 1 and Level 2 categories of the fair value hierarchy and a description of the reasons for the transfers. In addition, the guidance required new disclosures regarding activity in Level 3 fair value measurements, including a gross basis reconciliation. The Company began complying with the new fair value disclosure requirements beginning January 1, 2010, except for the disclosure of activity within Level 3 fair value measurements, which became effective January 1, 2011. In May 2011, the FASB issued additional fair value measurement disclosure requirements intended to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and IFRS. That update required fair value hierarchy categorization for financial instruments not measured at fair value but for which disclosure of fair value is required, disclosure of all transfers between Level 1 and Level 2 categories and additional disclosures for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. The guidance became effective for interim and annual periods beginning after December 15, 2011 (January 1, 2012 for the Company). While the adoption of this guidance impacted the Company's disclosures, it did not affect the Company's results of operations, financial condition or cash flows.

(3) Acquisition of Macarthur Coal Limited

On October 23, 2011, PEAMCoal Pty Ltd (PEAMCoal), an Australian company that was then indirectly owned 60% by the Company and 40% by ArcelorMittal, acquired a majority interest in Macarthur Coal Limited (PEA-PCI or the acquiree) through an all cash off-market takeover offer. On October 26, 2011 (the acquisition and control date), the Company appointed its nominees to the acquiree's Board of Directors and executive management team. The acquisition was completed on December 20, 2011 as PEAMCoal acquired all of the acquirees's remaining outstanding shares of common stock for $4.8 billion, net of $261.2 million of acquired cash, of which the Company's share was $2.8 billion (PEA-PCI acquisition). PEAMCoal accounted for share acceptances under the takeover process as a single transaction occurring on October 26, 2011. On December 21, 2011, the Company acquired ArcelorMittal Mining Australasia B.V., an indirect subsidiary of ArcelorMittal that indirectly owned 40% of PEAMCoal, for $2.0 billion resulting in the Company's 100% ownership of PEA-PCI.

The preliminary purchase accounting allocations were recorded in the accompanying unaudited condensed consolidated financial statements as of, and for the periods subsequent to, the acquisition and control date. The Company has not yet finalized the fair value determination of the assets acquired and liabilities assumed, which is expected once third-party valuation appraisals are completed. The Company is evaluating mine lives and reviewing coal reserve studies on the acquired properties, the outcome of which will determine the final fair value allocated to coal reserve assets. The following table summarizes the preliminary estimated fair values of assets acquired and liabilities assumed that were recognized at the acquisition and control date, as well as provisional fair value adjustments made during the first nine months of 2012:

	Preliminary Allocations	Adjustments	Updated Allocations
	(Dollars in millions)		
Accounts receivable, net	$106.6	$8.8	$115.4
Inventories	67.1	(10.5)	56.6
Other current assets	137.5	(3.9)	133.6
Property, plant, equipment and mine development	3,457.0	258.6	3,715.6
Investments and other assets	1,275.1	(184.3)	1,090.8
Current maturities of long-term debt	(11.0)	—	(11.0)
Accounts payable and accrued expenses	(133.8)	(26.1)	(159.9)
Long-term debt, less current maturities	(59.2)	—	(59.2)
Asset retirement obligations	(39.3)	(15.2)	(54.5)
Other noncurrent liabilities	(31.4)	(27.4)	(58.8)
Noncontrolling interests	(2,011.9)	—	(2,011.9)
Total purchase price, net of cash acquired of $261.2	$2,756.7	$—	$2,756.7

The adjustments to the provisional fair values result from additional information obtained about facts in existence at the acquisition and control date. Cumulative adjustments to provisional fair values recorded in the current period are assumed to have been made as of the acquisition and control date. Prior financial statements have not been retroactively adjusted due to immateriality. Accordingly, "Depreciation, depletion and amortization" was decreased by $4.7 million and $12.2 million for the three and nine months ended September 30, 2012, respectively. "Asset retirement obligation expenses" were increased by $3.7 million for the three and nine months ended September 30, 2012. "Operating costs and expenses" were decreased by $10.1 million for the nine months ended September 30, 2012, with the entire impact recognized during the first quarter of 2012.

In connection with the PEA-PCI acquisition, the Company acquired contract-based obligations consisting of port, rail and water take-or-pay obligations and recorded a liability for unutilized capacity of $58.5 million, net of tax, which is being amortized based on that unutilized capacity over the terms of the applicable agreements which extend to 2018. As of September 30, 2012, the carrying value of the liability was $47.4 million and the associated amortization (which is classified as a reduction to “Operating costs and expenses” in the unaudited condensed consolidated statements of income) recorded during the three and nine months ended September 30, 2012 was $3.8 million and $11.1 million, respectively. Estimated future amortization of the remaining carrying value of the liability as of September 30, 2012 is expected to be $3.7 million, $18.1 million, $15.6 million and $10.0 million for the years ending December 31, 2012, 2013, 2014 and 2015, respectively. Unutilized capacity is not expected in years 2016 through 2018.

During the three and nine months ended September 30, 2012, PEA-PCI contributed revenues of $182.5 million and $479.5 million, respectively, and income before income taxes of $4.4 million and loss before income taxes of $98.7 million, respectively, which includes results from our equity affiliate investment in the Middlemount Mine. Due to the restructuring of the Company's Australian tax entities during the second quarter of 2012 described in Note 10, it is no longer practicable to calculate the net income of PEA-PCI on a standalone basis. The results of PEA-PCI for the three and nine months ended September 30, 2012 are included in the unaudited condensed consolidated statements of income and are reported in the Australian Mining segment, except for the activity associated with certain equity affiliates which is reflected in the Corporate and Other segment.

The following unaudited pro forma financial information presents the combined results of operations of the Company and PEA-PCI, on a pro forma basis, as though the companies had been combined as of January 1, 2010. The unaudited pro forma financial information does not necessarily reflect the results of operations that would have occurred had the Company and PEA-PCI constituted a single entity during those periods or that may be attained in the future.

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
	(Dollars in millions, except per share amounts)	
Revenue	$2,194.1	$6,154.7
Income from continuing operations, net of income taxes	256.0	727.6
Basic earnings per share	$0.88	$2.48
Diluted earnings per share	0.87	2.48

Pro forma income from continuing operations, net of income taxes, includes adjustments to operating costs and depreciation, depletion and amortization to reflect the additional expense for the estimated impact of fair value adjustments to coal inventory and property, plant and equipment (including mineral rights), respectively, as well as additional expense associated with the estimated impact of reflecting the equity affiliate interest at fair value.

As disclosed in Note 23 to the Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011, a then-outstanding loan receivable balance of $384.6 million was converted to a 90% equity interest in MCG Coal Holdings Pty Ltd. (MCGH) in January 2012, resulting in consolidation of MCGH and recognition of noncontrolling interests of $53.4 million at conversion. In June 2012, the Company acquired the remaining noncontrolling interest in MCGH for total consideration of $49.8 million. This acquisition was accounted for as an equity transaction as the Company previously maintained control of MCGH. Accordingly, the Company recorded an increase to additional paid-in capital of $3.6 million in the second quarter 2012 related to this transaction,

representing the difference in the price paid and the carrying value.

(4) Discontinued Operations

Discontinued operations include certain non-strategic Midwestern U.S. and Australian Mining segment assets held for sale which the Company has committed to divest, Midwestern U.S. Mining segment assets that have ceased production and other previously divested operations.

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PEABODY ENERGY CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

In September 2012, the Company announced it had permanently ceased production at its Air Quality Mine in Indiana due to uneconomic market conditions for the type of coal product previously produced at the site. The results of the mine, which were previously included within the Midwestern U.S. Mining reportable segment, have been reported as a discontinued operation for all periods presented because the operations and cash flows of the mine and related coal product have been eliminated from the ongoing operations of the Company as a result of the mine closure. Loss from discontinued operations for the three and nine months ended September 30, 2012 includes before- and after-tax charges of $116.7 million and $75.0 million, respectively, including a before- and after-tax impairment charge of $108.9 million and $68.8 million, respectively, recognized in connection with the shutdown of this mine.
Results from discontinued operations were as follows during the three and nine months ended September 30, 2012 and 2011:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in millions)			
Total revenues	$41.5	$55.3	$171.5	$122.7
Loss from discontinued operations before income taxes	$127.6	$12.1	$146.6	$53.9
Income tax benefit	46.3	2.4	53.9	15.0
Loss from discontinued operations, net of income taxes	$81.3	$9.7	$92.7	$38.9

Assets and liabilities classified as discontinued operations included in our condensed consolidated balance sheets were as follows:

	(Unaudited) September 30, 2012	December 31, 2011
	(Dollars in millions)	
Assets:		
Other current assets	$48.4	$24.6
Investments and other assets	135.2	232.2
Total assets classified as discontinued operations	$183.6	$256.8
Liabilities:		
Accounts payable and accrued expenses	$33.4	$63.9
Other noncurrent liabilities	59.8	59.6
Total liabilities classified as discontinued operations	$93.2	$123.5

(5) Investments

The Company’s short-term investments are defined as those investments with original maturities of greater than three months and up to one year included in "Other current assets" in the condensed consolidated balance sheets. Long-term investments are defined as those investments with original maturities greater than one year included in "Investments and other assets" in the condensed consolidated balance sheets.
The Company classifies its investments in debt securities as either held-to-maturity or available-for-sale at the time of purchase and reevaluates such designation periodically. Such investments are classified as held-to-maturity when the Company has the intent and ability to hold the securities to maturity.

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Investments in debt securities not classified as held-to-maturity and investments in marketable equity securities are classified as available-for-sale. Available-for-sale securities are carried at fair value, with unrealized gains and losses, net of income taxes, reported in “Accumulated other comprehensive income (loss)” in the condensed consolidated balance sheets. Realized gains and losses, determined on a specific identification method, are included in “Interest income” in the condensed consolidated statements of income.

The Company did not have any held-to-maturity securities as of September 30, 2012 or December 31, 2011.

Investments in available-for-sale securities at September 30, 2012 were as follows:

Available-for-sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in millions)			
Current:				
Federal government securities	$0.8	$—	$—	$0.8
U.S. corporate bonds	3.4	—	—	3.4
Noncurrent:				
Marketable equity securities	66.5	—	(40.0)	26.5
Federal government securities	23.2	0.3	—	23.5
U.S. corporate bonds	12.9	0.2	—	13.1
Total	$106.8	$0.5	$(40.0)	$67.3

Investments in available-for-sale securities at December 31, 2011 were as follows:

Available-for-sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in millions)		
Current:				
Federal government securities	$3.3	$—	$—	$3.3
U.S. corporate bonds	3.9	—	—	3.9
Noncurrent:				
Marketable equity securities	66.5	—	(9.5)	57.0
Federal government securities	11.3	0.2	—	11.5
U.S. corporate bonds	7.7	0.1	—	7.8
Total	$92.7	$0.3	$(9.5)	$83.5

Contractual maturities for available-for-sale investments in debt securities at September 30, 2012 were as shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Contractual maturities for available-for-sale securities	Cost	Fair Value
	(Dollars in millions)	
Due in one year or less	$4.2	$4.2
Due in one to five years	36.1	36.6
Total	$40.3	$40.8

The Company's investments in marketable equity securities consist of an investment in Winsway Coking Coal Holdings Limited (Winsway).

Proceeds from sales and maturities of securities amounted to zero and $9.8 million for the three and nine months ended September 30, 2012, respectively. The Company realized net gains of less than $0.1 million during the nine months ended September 30, 2012 associated with those sales and maturities.

In addition to the securities described above, the Company previously held an investment in debt securities related to the Company's pro-rata share of funding in the Newcastle Coal Infrastructure Group (NCIG), which was included in "Investments and other assets" in the condensed consolidated balance sheets. These debt securities were recorded at cost, which approximated fair value, and denominated in U.S. dollars. The Company sold $11.4 million and $29.2 million of debt securities related to NCIG during the three and nine months ended September 30, 2012, respectively. The Company recognized no loss on the sale during the three months ended September 30, 2012 and a loss of $0.2 million on the sale for the nine months ended September 30, 2012. There were no NCIG securities held at September 30, 2012.

At each reporting date, the Company performs separate evaluations of debt and equity securities to determine if any unrealized losses are other-than-temporary. After evaluating the length of time the market value has been less than cost and the financial condition and near-term prospects of Winsway, the Company deemed the impairment associated with its Winsway equity securities to be temporary as of September 30, 2012. The Company has the ability to hold the securities until recovery and has no current intention to divest the securities. Accordingly, the Company did not recognize other-than-temporary losses on its investments during the three or nine months ended September 30, 2012.

(6) Inventories

Inventories consisted of the following:

	September 30, 2012	December 31, 2011
	(Dollars in millions)	
Materials and supplies	$157.0	$123.7
Raw coal	162.2	108.1
Saleable coal	235.7	212.6
Total	$554.9	$444.4

(7) Derivatives and Fair Value Measurements

Risk Management — Non-Coal Trading Activities

The Company is exposed to various types of risk in the normal course of business, including price risk on commodities utilized in the Company's mining operations, interest rate risk on long-term debt and foreign currency exchange rate risk for non-U.S. dollar expenditures. In most cases, commodity price risk (excluding coal trading activities) related to the sale of coal is mitigated through the use of long-term, fixed-price contracts, with a small percentage mitigated through the use of financial instruments. In order to manage our exposure related to price risk on certain commodities used in production, as well as for interest rate and foreign currency exchange rate risk, the Company utilizes derivative financial instruments. These risks are actively monitored in an effort to ensure compliance with the risk management policies of the Company.

Foreign Currency Hedges. The Company is exposed to foreign currency exchange rate risk, primarily on Australian dollar expenditures made in its Australian Mining segment. This risk is managed through the use of forward contracts and options that the Company designates as cash flow hedges, with the objective of reducing the variability of cash flows associated with forecasted foreign currency expenditures.

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Diesel Fuel and Explosives Hedges. The Company is exposed to commodity price risk associated with diesel fuel and explosives utilized in production in the U.S. and Australia. This risk is managed through the use of cost pass-through contracts and derivatives, primarily swaps. The Company generally designates the swap contracts as cash flow hedges, with the objective of reducing the variability of cash flows associated with forecasted diesel fuel and explosives purchases.

Interest Rate Swaps. The Company is exposed to interest rate risk on its fixed rate and variable rate long-term debt. From time to time, the Company manages the interest rate risk associated with the fair value of its fixed rate borrowings using fixed-to-floating interest rate swaps to effectively convert a portion of the underlying cash flows on the debt into variable rate cash flows. The Company designates these swaps as fair value hedges, with the objective of hedging against adverse changes in the fair value of the fixed rate debt that results from market interest rate changes. In addition, from time to time, interest rate risk associated with the Company’s variable rate borrowings is managed using floating-to-fixed interest rate swaps. The Company designates these swaps as cash flow hedges, with the objective of reducing the variability of cash flows associated with market interest rate changes. As of September 30, 2012, the Company had no interest rate swaps in place.

Notional Amounts and Fair Value. The following summarizes the Company’s foreign currency and commodity positions at September 30, 2012:

	Notional Amount by Year of Maturity				
	Total	2012	2013	2014	2015
Foreign Currency					
A$:US$ hedge contracts (A$ millions)	$4,832.3	$566.1	$2,173.6	$1,513.5	$579.1
Commodity Contracts					
Diesel fuel hedge contracts (million gallons)	215.4	27.0	102.1	63.6	22.7
U.S. explosives hedge contracts (million MMBtu)	4.6	0.8	2.6	1.2	—

	Account Classification by			
	Cash Flow Hedge	Fair Value Hedge	Economic Hedge	Fair Value Asset (Liability) (Dollars in millions)
Foreign Currency				
A$:US$ hedge contracts (A$ millions)	$4,832.3	$—	$—	$511.7
Commodity Contracts				
Diesel fuel hedge contracts (million gallons)	215.4	—	—	30.9
U.S. explosives hedge contracts (million MMBtu)	4.6	—	—	(5.9)

Hedge Ineffectiveness. The Company assesses, both at inception and at least quarterly thereafter, whether the derivatives used in hedging activities are highly effective at offsetting the changes in the anticipated cash flows of the hedged item. The effective portion of the change in the fair value is recorded in “Accumulated other comprehensive income (loss)” until the hedged transaction impacts reported earnings, at which time any gain or loss is reclassified to earnings. To the extent that periodic changes in the fair value of derivatives deemed highly effective exceeds such changes in the hedged item, the ineffective portion of the periodic non-cash changes are recorded in earnings in the period of the change. If the hedge ceases to qualify for hedge accounting, the Company prospectively recognizes changes in the fair value of the instrument in earnings in the period of the change.

A measure of ineffectiveness is inherent in hedging future diesel fuel purchases with derivative positions based on refined petroleum products as a result of location and product differences.

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The Company's derivative positions for the hedging of future explosives purchases are based on natural gas, which is the primary price component of explosives. However, a small measure of ineffectiveness exists as the contractual purchase price includes manufacturing fees that are subject to periodic adjustments. In addition, other fees, such as transportation surcharges, can result in ineffectiveness, but have historically changed infrequently and comprise a small portion of the total explosives cost.

The Company's derivative positions for the hedging of forecasted foreign currency expenditures contain a small measure of ineffectiveness due to timing differences between the hedge settlement and the purchase transaction, which could differ by less than a day and up to a maximum of 30 days.

The tables below show the classification and amounts of pre-tax gains and losses related to the Company's non-coal trading hedges during the three and nine months ended September 30, 2012 and 2011:

		Three Months Ended September 30, 2012			
Financial Instrument	Income Statement Classification Gains (Losses) - Realized	Gain recognized in income on non-designated derivatives	Gain recognized in other comprehensive income on derivatives (effective portion)	Gain reclassified from other comprehensive income into income (effective portion)	Gain reclassified from other comprehensive income into income (ineffective portion)
		(Dollars in millions)			
Commodity swap contracts	Operating costs and expenses	$—	$ 49.6	$ 11.2	$ 2.2
Foreign currency forward and option contracts	Operating costs and expenses	—	169.2	82.0	—
Total		$—	$ 218.8	$ 93.2	$ 2.2

		Three Months Ended September 30, 2011			
Financial Instrument	Income Statement Classification Gains (Losses) - Realized	Gain recognized in income on non-designated derivatives	Loss recognized in other comprehensive income on derivatives (effective portion)	Gain reclassified from other comprehensive income into income (effective portion)	Loss reclassified from other comprehensive income into income (ineffective portion)
		(Dollars in millions)			
Commodity swap contracts	Operating costs and expenses	$—	$ (51.2)	$ 8.5	$ (1.2)
Foreign currency forward and option contracts:					
— Operating costs	Operating costs and expenses	—	(269.1)	92.2	—

— Capital expenditures	Depreciation, depletion and amortization	—	(0.5)	—	—
Total		$—	$ (320.8)	$ 100.7	$ (1.2)

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Financial Instrument	Income Statement Classification Gains (Losses) - Realized	Nine Months Ended September 30, 2012 Gain recognized in income on non-designated derivatives	Gain recognized in other comprehensive income on derivatives (effective portion)	Gain reclassified from other comprehensive income into income (effective portion)	Loss reclassified from other comprehensive income into income (ineffective portion)
		(Dollars in millions)			
Commodity swap contracts	Operating costs and expenses	$—	$ 28.7	$ 39.0	$ (2.3)
Foreign currency forward and option contracts	Operating costs and expenses	—	297.5	276.6	—
Total		$—	$ 326.2	$ 315.6	$ (2.3)

Financial Instrument	Income Statement Classification Gains (Losses) - Realized	Nine Months Ended September 30, 2011 Gain recognized in income on non-designated derivatives	Gain (loss) recognized in other comprehensive income on derivatives (effective portion)	Gain reclassified from other comprehensive income into income (effective portion)	Gain reclassified from other comprehensive income into income (ineffective portion)
		(Dollars in millions)			
Commodity swap contracts	Operating costs and expenses	$—	$ 20.9	$ 28.4	$ 0.4
Foreign currency forward and option contracts:					
— Operating costs	Operating costs and expenses	—	33.8	261.1	—
— Capital expenditures	Depreciation, depletion and amortization	—	(0.7)	—	—
Total		$—	$ 54.0	$ 289.5	$ 0.4

Based on the net fair value of the Company's non-coal trading positions held in "Accumulated other comprehensive income (loss)" at September 30, 2012, unrealized gains to be reclassified from comprehensive income to earnings over the next 12 months associated with the Company's foreign currency and diesel fuel hedge programs are expected to be approximately $287 million and $30 million, respectively, while the unrealized losses to be realized under the explosives hedge program are expected to be approximately $4 million. As these unrealized gains are associated with derivative instruments that represent hedges of forecasted transactions, the amounts reclassified to earnings will partially offset the realized transactions, while the unrealized losses will add incremental expense to the unaudited

condensed consolidated statements of income.

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The classification and amount of derivatives presented on a gross basis as of September 30, 2012 and December 31, 2011 were as follows:

Financial Instrument	Fair Value as of September 30, 2012			
	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities
	(Dollars in millions)			
Commodity swap contracts	$32.8	$5.2	$6.1	$6.9
Foreign currency forward and option contracts	286.7	225.0	—	—
Total	$319.5	$230.2	$6.1	$6.9

Financial Instrument	Fair Value as of December 31, 2011			
	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities
	(Dollars in millions)			
Commodity swap contracts	$43.4	$11.7	$7.1	$15.0
Foreign currency forward and option contracts	270.4	229.0	4.3	4.5
Total	$313.8	$240.7	$11.4	$19.5

After netting by counterparty where permitted, the fair values of the respective derivatives are reflected in “Other current assets,” “Investments and other assets,” “Accounts payable and accrued expenses” and “Other noncurrent liabilities” in the condensed consolidated balance sheets.

See Note 8 for information 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.

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

	September 30, 2012			
	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Investments in debt and equity securities	$67.3	$—	$—	$67.3
Commodity swap contracts	—	25.0	—	25.0
Foreign currency forward and option contracts	—	511.7	—	511.7
Total net financial assets	$67.3	$536.7	$—	$604.0

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Investments in debt and equity securities	$83.5	$—	$—	$83.5
Commodity swap contracts	—	33.0	—	33.0
Foreign currency forward and option contracts	—	490.6	—	490.6
Total net financial assets	$83.5	$523.6	$—	$607.1

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 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:

- Investments in debt and equity securities: valued based on quoted prices in active markets (Level 1).
- Commodity swap contracts — diesel fuel and explosives: valued based on a valuation that is corroborated by the use of market-based pricing (Level 2).
- Foreign currency forward and option contracts: valued utilizing inputs obtained in quoted public markets (Level 2).

The Company did not have any transfers between levels during the three or nine months ended September 30, 2012 or 2011 for its non-coal trading positions. The Company's policy is to value transfers between levels using the beginning of period valuation.

Other Financial Instruments. The following methods and assumptions were used by the Company in estimating fair values for other financial instruments as of September 30, 2012 and December 31, 2011:

- Cash and cash equivalents, accounts receivable, including those within the Company's accounts receivable securitization program, and accounts payable and accrued expenses have carrying values which approximate fair value due to the short maturity or the liquid nature of these instruments.
- The Company's investment in debt securities related to its pro-rata share of funding in NCIG were included in "Investments and other assets" in the condensed consolidated balance sheets as of December 31, 2011, at which time the debt securities were recorded at cost, which approximated fair value. The Company disposed of its remaining investment in debt securities related to NCIG during the nine months ended September 30, 2012.
- 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 of the 7.875% Senior Notes due December 2026 and the Convertible Junior Subordinated Debentures due 2066 (the Debentures) are net of the respective unamortized note discounts.

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

	September 30, 2012		December 31, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Dollars in millions)			
Long-term debt	$6,363.1	$6,393.0	$6,657.5	$6,922.7

Nonperformance and Credit Risk

The fair value of the Company's non-coal trading derivative assets and liabilities reflects adjustments for nonperformance and credit risk. The Company manages its counterparty risk through established credit standards, diversification of counterparties, utilization of investment grade commercial banks and continuous monitoring of counterparty creditworthiness. To reduce its credit exposure for these hedging activities, the Company seeks to enter into netting agreements with counterparties that permit the Company to offset asset and liability positions with such counterparties in the event of default.

(8) Coal Trading

The Company engages in direct and brokered trading of coal, ocean freight and fuel-related commodities in over-the-counter markets (coal trading), some of which is subsequently exchange-cleared and some of which is bilaterally settled. 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's policy is to include 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 income and include realized and unrealized gains and losses on derivative instruments, including coal deliveries related to contracts accounted for under the normal purchases and normal sales exception. Therefore, the Company has elected the trading exemption surrounding disclosures related to its coal trading activities.

Trading revenues recognized during the three and nine months ended September 30, 2012 and 2011 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Trading Revenues by Type of Instrument	2012	2011	2012	2011
	(Dollars in millions)			
Commodity swaps and options	$60.3	$(0.6)	$110.9	$(26.6)
Physical commodity purchase/sale contracts	(20.0)	29.6	21.9	60.9
Total trading revenues	$40.3	$29.0	$132.8	$34.3

Risk Management

Hedge Ineffectiveness. The Company assesses, both at inception and at least quarterly thereafter, whether the derivatives used in hedging activities are highly effective at offsetting the changes in the anticipated cash flows of the hedged item. The effective portion of the change in the fair value is recorded in "Accumulated other comprehensive income" until the hedged transaction impacts reported earnings, at which time gains and losses are also reclassified to earnings. To the extent that periodic changes in the fair value of a derivative exceeds the changes in the hedged item to which it has been designated, the ineffective portion is recorded in earnings in the period of the change. If the hedge ceases to qualify for hedge accounting, the Company prospectively recognizes the changes in fair value of the instrument in earnings in the period of the change.

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.

Forecasted Transactions No Longer Probable. During the nine months ended September 30, 2012, the Company reclassified net gains of $7.1 million out of "Accumulated other comprehensive income (loss)" to earnings as the underlying forecasted transactions were deemed no longer probable of occurring. Approximately $4.5 million of this amount relates to disruptions to forecasted transactions due to the bankruptcy declaration of a counterparty to certain of our physical purchase contracts during the third quarter of 2012.

Fair Value Measurements

The fair value of assets and liabilities from coal trading activities is set forth below:

	September 30, 2012		December 31, 2011	
	Gross Basis	Net Basis	Gross Basis	Net Basis
	(Dollars in millions)			
Assets from coal trading activities	$444.8	$56.2	$170.4	$44.6
Liabilities from coal trading activities	(216.6)	(19.9)	(84.0)	(10.3)
Subtotal	228.2	36.3	86.4	34.3
Net margin held [1]	(191.9)	—	(52.1)	—
Net value of coal trading positions	$36.3	$36.3	$34.3	$34.3

(1) Represents margin held from exchanges of $191.9 million and $52.1 million at September 30, 2012 and December 31, 2011, respectively. Approximately $100 million and $23 million of the margin held at September 30, 2012 and December 31, 2011, respectively, related to cash flow hedges.

The Company's trading assets and liabilities are generally comprised of forward contracts, financial swaps and margin. The gross fair value of coal trading positions designated as cash flow hedges of forecasted sales was an asset of $185.1 million and $22.4 million as of September 30, 2012 and December 31, 2011, respectively. The increase in the fair value of coal trading positions designated as cash flow hedges of forecasted sales was predominantly driven by a decrease in the associated price levels in international thermal coal markets during the period.

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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:

	September 30, 2012			
	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Commodity swaps and options	$2.0	$31.9	$—	$33.9
Physical commodity purchase/sale contracts	—	1.5	0.9	2.4
Total net financial assets	$2.0	$33.4	$0.9	$36.3

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Commodity swaps and options	$21.2	$(1.9)	$—	$19.3
Physical commodity purchase/sale contracts	—	6.3	8.7	15.0
Total net financial assets	$21.2	$4.4	$8.7	$34.3

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), Intercontinental Exchange indices (ICE), NOS Clearing ASA, LCH.Clearnet (formerly known as the London Clearing House), Singapore Exchange (SGX), 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:

- Commodity 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 commodity purchase/sale contracts: purchases and sales at locations with significant market activity corroborated by market-based information (Level 2).

Physical commodity purchase/sale contracts transacted in less liquid markets or contracts, such as long-term arrangements with limited price availability, are classified in Level 3. Indicators of less liquid markets are those with periods of low trade activity or wide pricing spreads between broker quotes.

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. While the Company does not anticipate any decrease in the number of third-party brokers or market liquidity, the occurrence of such events could erode the quality of market information and therefore the valuation of its market positions. The Company's valuation techniques include basis adjustments to the foregoing price inputs for quality, such as heat rate, sulfur content and ash content; location differentials, expressed as port and freight costs, and credit and nonperformance 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.

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The following table summarizes the quantitative unobservable inputs utilized by the Company's internally-developed valuation models for physical commodity purchase/sale contracts classified as Level 3 as of September 30, 2012:

	Range		Weighted
	Low	High	Average
Quality adjustments	2 %	22 %	14 %
Location differentials	6 %	40 %	25 %
Non-performance adjustments	4 %	4 %	4 %

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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in millions)			
Beginning of period	$2.9	$9.9	$8.7	$18.6
Total net gains (losses) realized/unrealized:				
Included in earnings	2.4	(1.4)	12.8	10.7
Settlements	(4.4)	(1.3)	(20.6)	(3.1)
Transfers out	—	1.0	—	(18.0)
End of period	$0.9	$8.2	$0.9	$8.2

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in millions)			
Changes in net unrealized gains [1]	$0.2	$(1.1)	$(3.5)	$8.7

(1) Within the unaudited condensed consolidated statements of income 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.

The Company did not have any significant transfers in its coal trading positions between Level 1 and Level 2 during the nine months ended September 30, 2012 or 2011. There were no transfers in or out of Level 3 during the three and nine months ended September 30, 2012. During the three and nine months ended September 30, 2011, certain of the Company's physical commodity purchase/sale contracts were transferred from Level 3 to Level 2 as the settlement dates entered a more liquid market. The Company’s policy is to value transfers between levels using the beginning of period valuation.

Based on the net fair value of the Company’s coal trading positions held in “Accumulated other comprehensive income (loss)” at September 30, 2012, unrealized gains to be reclassified from comprehensive income to earnings over the next 12 months are expected to be approximately $137 million. As these unrealized gains are associated with derivative instruments that represent hedges of forecasted transactions, the amounts reclassified to earnings may partially offset the realized transactions in the unaudited condensed consolidated statements of income.

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As of September 30, 2012, the timing of the estimated future realization of the value of the Company's trading portfolio was as follows:

Year of Expiration	Percentage of Portfolio Total	
2012	28	%
2013	61	%
2014	10	%
2015	1	%
	100	%

Nonperformance and Credit Risk. The fair value of the Company's coal derivative assets and liabilities reflects adjustments for nonperformance and credit risk. The Company's exposure is substantially with electric utilities, steel producers, energy marketers and energy producers. 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, will post or receive margin amounts associated with exchange-cleared positions.

At September 30, 2012, 88% of the Company's credit exposure related to coal trading activities was with investment grade counterparties while 9% was with non-investment grade counterparties and 3% 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), the counterparties could request collateralization on derivative trading instruments in net liability positions which, based on an aggregate fair value at September 30, 2012 and December 31, 2011, would have amounted to collateral postings to counterparties of approximately $11 million as of both dates. As of September 30, 2012 and December 31, 2011, no collateral was posted to counterparties for such positions.

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. If a credit downgrade were to have occurred below contractually specified levels, the Company's additional collateral requirement owed to its counterparties would have been less than $1 million at September 30, 2012 and December 31, 2011 based on the aggregate fair value of all derivative trading instruments with such features that were in a net liability position. No affiliated margin was posted for these transactions as of September 30, 2012 and December 31, 2011.

The Company is required to post collateral on positions that are in a net liability position with an exchange and is entitled to receive collateral on positions that are in a net asset position. This collateral is known as variation margin.

At September 30, 2012 and December 31, 2011, the Company was in a net asset position of $191.9 million and $52.1 million, respectively (reflected in “Assets from coal trading activities, net”).

In addition, the Company is required by an exchange to post certain collateral, known as initial margin, which represents an estimate of potential future adverse price movements across the Company’s portfolio under normal market conditions. As of September 30, 2012 and December 31, 2011, the Company had posted initial margin of $26.6 million and $34.0 million, respectively (reflected in “Other current assets”). In addition, the Company had posted $1.7 million of margin in excess of the exchange-required variation (discussed above) and initial margin as of September 30, 2012 (also reflected in “Other current assets”).

MF Global UK Limited

In October 2011, MF Global UK Limited (MF Global UK), a United Kingdom (U.K.) based broker-dealer, was placed into the U.K.'s administration process (a process similar to bankruptcy proceedings in the U.S.) by the Financial Services Authority following the Chapter 11 bankruptcy filing of its U.S. parent, MF Global Holdings Ltd. The Company had used MF Global UK to broker certain of its coal trading transactions. The interruption of the Company's trading operations was limited as the Company opened new accounts with different brokerage firms and transferred its open trading positions formerly held with MF Global UK to those new accounts. While the open trading positions were transferred from MF Global UK successfully, the related margin posted by the Company was retained by MF Global UK pending resolution of the Company's claims with the special administrators.

Through August 2012, the Company had received $20.0 million of the initial outstanding amount of $52.1 million that was held with MF Global UK when it was placed into the U.K.'s administration process. In September 2012, the Company sold its remaining claim with the special administrators to a third party on a discounted basis for $28.0 million. As a result, the Company recognized a loss of $4.1 million on the sale of its claim during the three and nine months ended September 30, 2012.

(9) Financing Receivables

The Company had total financing receivables of $385.1 million and $376.1 million at September 30, 2012 and December 31, 2011, respectively, which consisted of the following:

Balance Sheet Classification	September 30, 2012	December 31, 2011
	(Dollars in millions)	
Accounts receivable, net	$9.8	$51.3
Other current assets	—	65.0
Investments and other assets	375.3	259.8
Total financing receivables	$385.1	$376.1

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 at September 30, 2012.

Codrilla Mine Project. In 2011, a wholly owned subsidiary of PEA-PCI, then Macarthur Coal Limited, completed the sale of its 85% interest in the Codrilla Mine Project to participants of the Coppabella Moorvale Joint Venture (CMJV) where PEA-PCI sold down its interest in the Codrilla project to the CMJV (Codrilla sell down) so that, following completion of the sale, ownership of the Codrilla Mine Project reflected the existing ownership of the Coppabella and Moorvale mines with PEA-PCI retaining a 73.3% ownership. Prior to the acquisition of PEA-PCI by the Company, consideration of $15.0 million Australian dollars was received by PEA-PCI upon completion of the Codrilla sell down, representing 20% of the agreed price. Two installments, for which the Company holds non-interest-bearing receivables, are due upon the completion of certain milestones. The first installment, with 40% due on the granting of the related mining lease, was received during the three months ended September 30, 2012. The final 40% is due upon the mine's first coal shipment. At December 31, 2011, the first installment of $34.2 million was included in "Accounts

receivable, net" in the condensed consolidated balance sheet which was collected from CMJV participants in the third quarter 2012 when the mining lease was granted and is reflected in "Proceeds from disposal of assets" in the condensed consolidated statements of cash flows for the nine months ended September 30, 2012. There are currently no indications of impairment on the remaining installment and the Company expects to receive full payment upon the mine's first shipment. The remaining balance associated with these receivables is recorded in "Investments and other assets" which was $36.2 million and $35.6 million at September 30, 2012 and December 31, 2011, respectively, in the condensed consolidated balance sheets.

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Middlemount Mine. The Company periodically makes loans to the Middlemount Mine joint venture (Middlemount) for the purposes of funding capital expenditures and working capital requirements, in line with the related shareholders’ agreement. Middlemount intends to pay down the loans as excess cash is generated as required by the shareholders’ agreement. The loans bear interest at a rate equal to the monthly average 30-day Australian Bank Bill Swap Reference Rate plus 3.5%. There are currently no indications of impairment and the Company expects to receive full payment of amounts due. "Other current assets" included $65.0 million at December 31, 2011, which was reclassified to "Investments and other assets" during the nine months ended September 30, 2012. "Investments and other assets" included $339.1 million and $224.2 million at September 30, 2012 and December 31, 2011, respectively, in the condensed consolidated balance sheets related to these loans.

Other Financing Receivables. From time to time, the Company may enter into transactions resulting in accounts or notes receivable held by the Company. These notes are generally short term in nature with positive historical collection experience and do not represent a material credit risk to the Company.

(10) Income Taxes
The following is a reconciliation of the expected statutory federal income tax provision to the Company’s actual income tax provision:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in millions)			
Expected income tax provision at federal statutory rate	$60.2	$115.6	$212.1	$360.6
Excess depletion	(16.7)	(17.0)	(58.8)	(53.0)
Foreign earnings provision differential	(17.5)	(23.8)	(72.0)	(74.3)
Remeasurement of foreign income tax accounts	13.6	(38.7)	8.7	(16.9)
State income taxes, net of U.S. federal tax benefit	4.4	2.9	15.5	9.2
General business tax credits	(13.5)	(4.4)	(47.6)	(12.7)
Changes in valuation allowance	4.1	2.5	(30.9)	7.0
Changes in tax reserves	8.6	6.0	21.9	10.8
Other, net	6.1	(3.9)	36.6	8.1
Total provision	$49.3	$39.2	$85.5	$238.8

The Company reduced its prior years' net unrecognized tax benefits by $13.5 million during the nine months ended September 30, 2012. The reduction is based upon the successful completion of the 2007-2008 Internal Revenue Service (IRS) audit and the effective settlement of the 1999-2006 tax years due to favorable resolution of the 2006 IRS appeals decision, offset by the reassessment of current and prior year foreign tax positions associated with certain intercompany financing transactions due to a formal position paper received from the Australian Tax Office (ATO) challenging those positions. The Company also recognized additional interest and penalties related to unrecognized tax benefits of $2.2 million and $19.4 million for the three and nine months ended September 30, 2012, respectively.
On March 29, 2012, Australia passed legislation creating a minerals resource rent tax (the MRRT) effective from July 1, 2012. The MRRT is a profits-based tax of the Company's existing and future Australian coal projects at an effective tax rate of 22.5%. Under the MRRT, taxpayers are able to elect a market value asset starting base for existing projects which allows for the fair market value of the tenements to be deducted over the life of the mine as an allowance against MRRT. The market value allowance, and ultimately any future benefit, is subject to numerous uncertainties including review and approval by the ATO, realization only after other MRRT allowances provided under the law and

estimates of long-term pricing and cost data necessary to estimate the future benefit and any MRRT liability. The Company evaluated the provisions of the new tax and assessed recoverability of deferred tax assets and the valuation of liabilities associated with the implementation of the MRRT. For the nine months ended September 30, 2012, the Company believes there is no net deferred tax asset to be recorded for the market value starting base.

During the second quarter of 2012, the Company realized a net tax benefit of $59.7 million due to an acquisition restructuring of PEA-PCI whereby certain PEA-PCI tax entities joined the Peabody legacy Australian tax group. The benefit resulted from a $14.6 million reduction in deferred tax liabilities and a $45.1 million net reduction in valuation allowance on certain deferred tax assets and net operating losses due to the tax basis reset of PEA-PCI assets required upon joining the Company's Australian consolidated tax group.

(11) Debt

The Company’s total indebtedness as of September 30, 2012 and December 31, 2011 consisted of the following:

	September 30, 2012	December 31, 2011
	(Dollars in millions)	
Term Loan	$450.0	$468.8
2011 Term Loan Facility	975.0	1,000.0
7.375% Senior Notes due November 2016	650.0	650.0
6.00% Senior Notes due November 2018	1,518.8	1,600.0
6.50% Senior Notes due September 2020	650.0	650.0
6.25% Senior Notes due November 2021	1,339.6	1,500.0
7.875% Senior Notes due November 2026	247.4	247.3
Convertible Junior Subordinated Debentures due December 2066	376.8	375.2
Capital lease obligations	111.6	122.8
Other	43.9	43.4
Total Debt	$6,363.1	$6,657.5

6.00% and 6.25% Senior Notes

During the second quarter of 2012, the Company repurchased $81.2 million and $160.4 million in aggregate principal amount of its 6.00% and 6.25% Senior Notes due 2018 and 2021 (the Notes), respectively, with existing cash on hand. The Company recognized a loss on debt extinguishment of $2.8 million associated with these repurchases, which was comprised of $3.4 million of expense related to the write-off of deferred financing costs and a gain of $0.6 million as the repurchases were made below par value. The loss is classified in "Interest expense" in the unaudited condensed consolidated statement of operations for the nine months ended September 30, 2012.

During the third quarter of 2012, the Company commenced an offer to exchange any and all of the Notes outstanding for substantially identical freely tradable debt securities registered under the Securities Act of 1933. The exchange offer was completed in October 2012 and did not affect the Company's indebtedness outstanding.

Other Long-Term Debt

Other than the foregoing, there were no significant changes to the Company's long-term debt subsequent to December 31, 2011. Information regarding the Company's debt is outlined in Note 11 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

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(12) Pension and Postretirement Benefit Costs

Net periodic pension costs included the following components:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in millions)			
Service cost for benefits earned	$0.5	$0.4	$1.5	$1.3
Interest cost on projected benefit obligation	11.7	12.4	35.1	37.3
Expected return on plan assets	(15.9)	(16.1)	(47.8)	(48.3)
Amortization of prior service cost	0.3	0.3	0.8	0.8
Amortization of actuarial loss	12.1	7.5	36.4	22.5
Net periodic pension costs	$8.7	$4.5	$26.0	$13.6

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 January 1, 2012, the Company's qualified plans were above the Pension Protection Act thresholds and will therefore avoid benefit restrictions and at-risk penalties for 2012. On July 6, 2012, the Moving Ahead for Progress in the 21st Century Act (MAP-21), a highway reauthorization and student loan bill that includes both pension funding stabilization provisions and PBGC premium increases, was signed into law. The pension funding stabilization provisions temporarily increased the interest rates used to determine pension liabilities for purposes of minimum funding requirements. MAP-21 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 2015 relative to prior law if current interest rate levels persist. Based upon revised minimum funding requirements in accordance with MAP-21, the Company has no further funding requirements to its qualified plans for the remainder of 2012. Prior to the enactment of MAP-21, the Company intended to contribute $5.0 million in 2012 to meet minimum contribution requirements for its qualified plans. The Company expects to make contributions to its non-qualified plans during 2012 totaling less than $2.0 million.

Net periodic postretirement benefit costs included the following components:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in millions)			
Service cost for benefits earned	$3.6	$3.5	$10.9	$9.8
Interest cost on accumulated postretirement benefit obligation	13.7	14.5	41.2	43.4
Amortization of prior service cost	0.7	0.8	1.7	1.6
Amortization of actuarial loss	8.1	6.7	24.5	20.2
Net periodic postretirement benefit costs	$26.1	$25.5	$78.3	$75.0

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(13) Other Commercial Events

Prairie State Energy Campus (Prairie State)

A subsidiary of the Company owns a 5.06% undivided interest in Prairie State, a 1,600 megawatt coal-fueled electricity generation project under construction in Washington, St. Clair and Randolph counties in Illinois. On June 6, 2012, the first of two 800 megawatt electricity generation units (Unit 1) commenced commercial operations. Accordingly, the Company reclassified $156.6 million from "Investments and other assets" to operating assets and liabilities in the condensed consolidated balance sheet as follows (in millions):

Inventories	$ 3.6	
Property, plant, equipment and mine development	153.8	
Accounts payable and accrued expenses	(0.8	)
Total, net	$ 156.6	

Subsequent to June 6, 2012, the 5.06% share of the results of operations of Unit 1 have been included in the Company's condensed consolidated statements of income.

Included in "Investments and other assets" in the condensed consolidated balance sheet as of September 30, 2012 are costs of $88.1 million related to the Company's investment in the second of two 800 megawatt electricity generation units (Unit 2).

In June 2011, the Company recognized income associated with the receipt of a $14.6 million project development fee associated with Prairie State, classified in "Other revenues" in the unaudited condensed consolidated statement of operations for the nine months ended September 30, 2011.

Coal Reserves

In June 2011, the Company exchanged coal reserves in Kentucky and coal reserves and surface lands in Illinois for coal reserves in West Virginia in a nonmonetary exchange with a third party. Based on the fair value of the coal reserves received, the Company recognized a gain of $23.5 million on the exchange. Fair value was determined using a discounted cash flow model that included assumptions surrounding future coal sales prices, operating costs and discount rate. Based on the non-cash nature of the transaction, there was no impact to the investing section of the Company's unaudited condensed consolidated statement of cash flows.

(14) 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.

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 11 to the Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011.

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 a full discussion of the Company's share-based compensation awards, see Note 17 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

The computation of diluted EPS excludes anti-dilutive shares of approximately 0.1 million for each of the periods presented. These anti-dilutive shares were due to certain share-based compensation awards calculated under the treasury stock method. Anti-dilution generally occurs where the exercise prices are higher than the average market value of the Company's stock price during the applicable period.

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The following illustrates the earnings allocation method utilized in the calculation of basic and diluted EPS:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In millions, except per share amounts)			
EPS numerator:				
Income from continuing operations, net of income taxes	$122.9	$291.2	$520.4	$791.3
Less: Net (loss) income attributable to noncontrolling interests	(1.3)	7.4	7.4	17.0
Income from continuing operations attributable to common stockholders, before allocation of earnings to participating securities	124.2	283.8	513.0	774.3
Less: Earnings from continuing operations allocated to participating securities	0.8	1.6	3.8	4.4
Income from continuing operations attributable to common stockholders, after allocation of earnings to participating securities [(1)]	123.4	282.2	509.2	769.9
Loss from discontinued operations, net of income taxes	(81.3)	(9.7)	(92.7)	(38.9)
Less: Loss from discontinued operations allocated to participating securities	$(0.6)	$—	$(0.8)	$(0.2)
Loss from discontinued operations attributable to common stockholders, after allocation of earnings to participating securities [(1)]	$(80.7)	$(9.7)	$(91.9)	$(38.7)
Net income attributable to common stockholders, after allocation of earnings to participating securities [(1)]	$42.7	$272.5	$417.3	$731.2
EPS denominator:				
Weighted average shares outstanding — basic	266.2	269.2	268.5	269.0
Impact of dilutive securities	0.6	1.4	0.7	1.5
Weighted average shares outstanding — diluted	266.8	270.6	269.2	270.5
Basic EPS attributable to common stockholders:				
Income from continuing operations	$0.46	$1.05	$1.89	$2.86
Loss from discontinued operations	(0.30)	(0.04)	(0.34)	(0.14)
Net income	$0.16	$1.01	$1.55	$2.72
Diluted EPS attributable to common stockholders:				
Income from continuing operations	$0.46	$1.04	$1.89	$2.84
Loss from discontinued operations	(0.30)	(0.04)	(0.34)	(0.13)
Net income	$0.16	$1.00	$1.55	$2.71

(1) The reallocation adjustment for participating securities to arrive at the numerator used to calculate diluted EPS was less than $0.1 million for the periods presented.

(15) Financial Instruments and Guarantees with Off-Balance Sheet Risk

In the normal course of business, the Company is a party to guarantees and financial instruments with off-balance-sheet risk, 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. In the Company's past experience, virtually no claims have been made against these financial instruments. Management does not expect any material losses to result from these guarantees or off-balance-sheet instruments.

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Financial Instruments with Off-Balance Sheet Risk

As of September 30, 2012, the Company had the following financial instruments with off-balance sheet risk:

	Reclamation Obligations	Lease Obligations	Workers' Compensation Obligations	Other[(1)]	Total
	(Dollars in millions)				
Self bonding	$1,221.9	$—	$ —	$—	$1,221.9
Surety bonds	372.1	105.3	11.8	9.8	499.0
Bank guarantees	225.9	—	—	204.7	430.6
Letters of credit	—	—	62.4	81.2	143.6
	$1,819.9	$105.3	$ 74.2	$295.7	$2,295.1

(1) Other includes the $79.7 million in letters of credit described below and an additional $216.0 million in bank guarantees, surety bonds and letters of credit related to collateral for surety companies, road maintenance, performance guarantees and other operations.

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 September 30, 2012, the Company's maximum reimbursement obligation to the commercial bank was in turn supported by four 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 September 30, 2012. 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.

Accounts Receivable Securitization

The Company has an accounts receivable securitization program (securitization program) with a maximum capacity of $275.0 million through its wholly owned, bankruptcy-remote subsidiary (Seller). At September 30, 2012, the Company had $153.1 million remaining capacity available under the securitization program, net of outstanding letters of credit and amounts drawn. Under the securitization program, the Company contributes trade receivables of most of the Company's U.S. subsidiaries on a revolving basis to the Seller, which then sells the receivables in their entirety to a consortium of unaffiliated asset-backed commercial paper conduits (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 Company utilizes proceeds from the sale of its accounts receivable as an alternative to short-term borrowings under the revolving credit facility portion of the Company's Credit Facility, effectively managing its overall borrowing costs and providing an additional source of working capital. The securitization program extends to May 2013, while the letter of

credit commitment that supports the commercial paper facility underlying the securitization program must be renewed annually.

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 nine months ended September 30, 2012, the Company received total consideration of $3,210.2 million related to accounts receivable sold under the securitization program, including $1,973.7 million of cash up front from the sale of

the receivables, an additional $874.6 million of cash upon the collection of the underlying receivables and $362.0 million that had not been collected at September 30, 2012 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 $100.0 million and $150.0 million at September 30, 2012 and December 31, 2011, 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 $0.5 million and $0.4 million for the three months ended September 30, 2012 and 2011, respectively, and $1.4 million and $1.5 million for the nine months ended September 30, 2012 and 2011, respectively.

Patriot Bankruptcy

On October 31, 2007, the Company spun-off companies that constituted portions of its former Eastern U.S. Mining operations business segment to form Patriot Coal Corporation (Patriot). The spin-off included eight company-operated mines, two majority-owned joint venture mines and numerous contractor-operated mines serviced by eight coal preparation facilities, along with 1.2 billion tons of proven and probable coal reserves. On July 9, 2012, Patriot and certain of its wholly owned subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the U.S. Code in the U.S. Bankruptcy Court for the Southern District of New York.

The Company believes that its only material exposure to the bankruptcy of Patriot relates to up to $150 million in possible federal and state black lung occupational disease liabilities. As Patriot noted in its Annual Report on Form 10-K/A for the year ended December 31, 2011, it has posted $15 million in collateral with the U.S. Department of Labor (DOL) in exchange for the right to self-insure its liabilities under the Federal Coal Mine Health and Safety Act of 1969 (Black Lung Act). If Patriot is unable to meet its black lung liability obligations, the Company believes that the DOL will first look to this collateral for payment. The Black Lung Act allows the DOL to seek recovery from other potentially liable operators as well. The Company may be considered a potentially liable operator for purposes of the Black Lung Act with respect to the black lung liabilities of Patriot at the time of the spin-off.

The Company also has a small number of commercial arrangements with Patriot and believes its potential exposure under these agreements will not have a material adverse effect on its consolidated results of operations, financial condition or cash flows.

Other

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.

(16) Commitments and Contingencies

Commitments

Unconditional Purchase Obligations

As of September 30, 2012, purchase commitments for capital expenditures were $728.3 million, all of which is obligated within the next three years and $688.5 million is obligated in the next 12 months.

Federal Coal Leases

In the second quarter of 2012, the Company was named by the U.S. Department of the Interior, Bureau of Land Management (BLM) as the winning bidder for control of approximately 1.1 billion tons of federal coal reserves adjacent to its North Antelope Rochelle Mine in the Southern Powder River Basin of Wyoming, with a weighted average bid price of approximately $1.10 per mineable ton. Consequently, the Company made aggregate payments of $247.9 million in the nine months ended September 30, 2012 pursuant to the two associated federal coal leases, with remaining annual payments of $247.9 million due in each of the next four years.

In July 2011, the Company was named by the BLM as the winning bidder for control of approximately 220 million tons of federal coal reserves adjacent to its Caballo Mine in the Powder River Basin at a bid price of $0.95 per mineable ton, with payments of $42.1 million due annually in each of the years from 2011 through 2015 pursuant to the associated federal coal lease (the Belle Ayr North Lease). Similarly, in September 2011, a subsidiary of Alpha Natural Resources, Inc. (Alpha) was named by the BLM as the winning bidder for control of approximately 130 million tons of federal coal reserves in the Powder River Basin at a bid price of $1.10 per mineable ton, with contractual payments of $28.6 million due annually in each of the years from 2011 through 2015 under the associated federal coal lease (the Caballo West Lease). In July 2012, the Company and Alpha executed a lease exchange agreement with the BLM whereby the Company agreed to sell, assign and transfer its interest in the Belle Ayr North Lease in exchange for (i) Alpha's interest in the Caballo West Lease, (ii) reimbursement of $13.5 million for the difference in the related federal coal lease payments made by each party in 2011 and (iii) five annual true up payments of $3.9 million for the excess of the $1.10 bid price per mineable ton assumed under the Caballo West Lease over the $0.95 price under the transferred lease. An aggregate of $17.4 million was received from Alpha at closing for the reimbursement payment and first true up payment, which was classified in "Proceeds from disposal of assets" in the unaudited condensed consolidated statement of cash flows for the nine months ended September 30, 2012. The four remaining annual true up payments are due from Alpha on November 1 in each of the years from 2012 through 2015.

The federal coal leases executed with the BLM described above expire after a 20-year initial term, unless at such time there is ongoing production on the subject leases or within an active logical mining unit of which they are part.

Other

In the third quarter of 2012, the Company entered into long-term agreements with Kinder Morgan Energy Partners L.P. (Kinder Morgan) to secure and expand the Gulf Coast export platform of the Company's Western U.S. Mining and Midwestern U.S. Mining coal products. Under the multi-terminal agreements, the Company gains additional access to Kinder Morgan's Deepwater Terminal and Houston Bulk Terminal near Houston, Texas and International Marine Terminal in Myrtle Grove, Louisiana through 2021 and 2020, respectively. The agreements are expected to increase the Company's annual Gulf Coast coal export capacity by approximately 2 million and 4 million tons in 2013 and 2014, respectively, and 5 million to 7 million tons in each of the years from 2015 through 2020. These agreements are subject to customary minimum throughput obligations during those periods at commercially reasonable coal handling, blending and storage rates.

There were no other material changes to the Company’s commitments from the information provided in Note 23 to the Consolidated Financial Statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011.

Contingencies

From time to time, the Company and/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 and that there is no individual case pending that is likely to have a material adverse effect

on the Company’s financial condition, results of operations or cash flows. The Company discusses its significant legal proceedings below.

Litigation Relating to Continuing Operations

Gulf Power Company Litigation. On June 22, 2006, Gulf Power Company (Gulf Power) filed a breach of contract lawsuit against a Company subsidiary in the U.S. District Court, Northern District of Florida, contesting the force majeure declaration by the Company's subsidiary under a coal supply agreement with Gulf Power and seeking damages for alleged past and future tonnage shortfalls of nearly 5 million tons under the agreement, which expired on December 31, 2007. On June 30, 2009, the court granted Gulf Power's motion for partial summary judgment on liability and denied the Company subsidiary's motion for summary judgment. On September 30, 2010, the court entered its order on damages, awarding Gulf Power zero dollars in damages and the Company subsidiary its costs to defend the lawsuit. On November 1, 2010, Gulf Power filed a motion to alter or amend the judgment, contesting the trial court's damages order, to which the Company subsidiary objected. The court entered an order on July 29, 2011 that affirmed its September 30, 2010 decision in all respects except for 2007 cover coal purchases and granted in part Gulf Power's motion to alter judgment with respect to 2007 cover coal purchases. On September 30, 2011, the court entered an order awarding Gulf Power damages in the amount of $20.5 million for its 2007 cover coal purchases. On January 19, 2012, the court entered its order awarding Gulf Power prejudgment interest in the amount of $6.9 million plus post-judgment interest. The Company's subsidiary has filed its notice of appeal and briefing is complete. Oral arguments before the U.S. Court of Appeals for the Eleventh Circuit is scheduled for the week of January 26, 2013. Based on the Company's evaluation of information currently available concerning the issues and their potential impact, the Company believes that its subsidiary will be successful in the liability appeals process and, therefore, no liability has been recorded at this time.

Monto Coal Pty Limited, Monto Coal 2 Pty Ltd Limited and Macarthur Coal Limited. In October 2007, a statement of claim was delivered to 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 Monto Coal Pty Ltd breached the Monto Coal Management Agreement. 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 Monto Coal Pty Ltd to breach the Monto Coal Joint Venture Agreement and the Monto Coal Management Agreement, respectively. These actions, which are pending before the Supreme Court of Queensland, Australia, seek damages from the three defendants collectively of no less than $1,193.2 million 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. However, based on current information, the Company believes these claims are likely to be finalized without a material adverse effect on its financial condition, results of operations or cash flows.

Claims and Litigation Relating to Indemnities or Historical Operations

Oklahoma Lead Claims. 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 with respect to certain claims relating to a former affiliate of Gold Fields. A predecessor of Gold Fields formerly operated two lead mills near Picher, Oklahoma prior to the 1950s and mined, in accordance with lease agreements and permits, approximately 0.15% of the total amount of the crude ore mined in the county.

In June 2005, Gold Fields and other potentially responsible parties (PRPs) received a letter from the U. S. Department of Justice alleging that the PRPs' mining operations caused the U.S. Environmental Protection Agency (EPA) to incur approximately $125 million in residential yard remediation costs at Picher, Oklahoma and will cause the EPA to incur additional remediation costs relating to historical mining sites. In June 2008, Gold Fields and other PRPs received letters from the U.S. Department of Justice and the EPA re-initiating settlement negotiations. Gold Fields continues to participate in the settlement discussions. Gold Fields believes it has meritorious defenses to these claims.

In February 2005, the state of Oklahoma, on behalf of itself and several other parties, sent a notice to Gold Fields and other companies regarding a possible natural resources damage claim. The state of Oklahoma has also indicated that it seeks to recover remediation costs from these parties.

The outcome of these claims is subject to numerous uncertainties. Based on the Company's evaluation of the issues and their potential impact, the 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.

Patriot Coal Corporation. On October 23, 2012, eight individual plaintiffs and the United Mine Workers of America filed a putative class action lawsuit in the U.S. District Court for the Southern District of West Virginia against Peabody Holding Company, LLC, Peabody Energy Corporation and an unrelated coal company. The lawsuit seeks to have the court obligate the defendants to maintain certain Patriot Coal Corporation benefit plans at their current levels and to find the defendants actions in violation of the Employee Retirement Income Security Act of 1974. The Company believes that the lawsuit is without merit and will vigorously defend against it.

Environmental Claims and Litigation

Environmental claims have been asserted against Gold Fields related to activities of Gold Fields or a former affiliate. Gold Fields or the former affiliate has been named a PRP at five national priority list sites based on the Superfund Amendments and Reauthorization Act of 1986. Claims were asserted at 13 additional sites, bringing the total to 18, which have since been reduced to 10 by completion of work, transfer or regulatory inactivity. The number of PRP sites in and of itself is not a relevant measure of liability because the nature and extent of environmental concerns 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 $48.7 million as of September 30, 2012 and $52.5 million as of December 31, 2011, $7.8 million and $11.6 million of which was reflected as a current liability, respectively. These amounts represent those costs that the Company believes are probable and reasonably estimable.

Significant uncertainty exists as to whether claims will be pursued against Gold Fields in all cases, and where they are pursued, the amount of the eventual costs and liabilities, which could be greater or less than the liabilities recorded in the consolidated balance sheets. 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.

Native Village of Kivalina and City of Kivalina v. ExxonMobil Corporation, et al. In February 2008, the Native Village of Kivalina and the City of Kivalina filed a lawsuit in the U.S. District Court for the Northern District of California against the Company, several owners of electricity generating facilities and several oil companies. The plaintiffs are the governing bodies of a village in Alaska that they contend is being destroyed by erosion allegedly caused by global warming that the plaintiffs attribute to emissions of greenhouse gases by the defendants. The plaintiffs assert claims for nuisance, and allege that the defendants have acted in concert and are jointly and severally liable for the plaintiffs' damages. The suit seeks damages for lost property values and for the cost of relocating the village. The defendants filed motions to dismiss on the grounds of lack of personal and subject matter jurisdiction. In June 2009, the court granted defendants' motion to dismiss for lack of subject matter jurisdiction finding that plaintiffs' federal claim for nuisance is barred by the political question doctrine and for lack of standing. The plaintiffs appealed the court's dismissal to the U.S. Court of Appeals for the Ninth Circuit, which heard oral arguments on November 28, 2011. On September 29, 2012, the U.S. Court of Appeals for the Ninth Circuit affirmed the district court's dismissal of the case on the grounds that the Clean Air Act and Environmental Protection Agency action under the Clean Air Act displaces the plaintiffs' claims. On October 4, 2012, the plaintiffs filed a petition for rehearing en banc, which requests the case to be heard before all judges of the court.

Other

In addition, at times the Company becomes a party to other claims, lawsuits, arbitration proceedings and administrative procedures in the ordinary course of business in the U.S., Australia and other countries where the Company does business. In June 2007, the New York Office of the Attorney General served a letter and subpoena on the Company, seeking information and documents relating to the Company's disclosure to investors of risks associated with possible climate change and related legislation and regulations. The Company believes it has made full and proper disclosure of these potential risks. Based on current information, the Company believes that the ultimate resolution of such other pending or threatened proceedings is not reasonably likely to have a material adverse effect on its financial position, results of operations or cash flows.

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(17) Segment Information
The Company reports its results of operations primarily through the following reportable segments: “Western U.S. Mining,” “Midwestern U.S. Mining,” “Australian Mining,” “Trading and Brokerage” and “Corporate and Other.” The Company’s chief operating decision maker uses Adjusted EBITDA as the primary measure of segment profit and loss. The Company defines Adjusted EBITDA as income from continuing operations before deducting net interest expense, income taxes, asset retirement obligation expenses, depreciation, depletion and amortization and amortization of basis difference associated with equity method investments.
Reportable segment results were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in millions)			
Revenues:				
Australian Mining	$866.0	$718.7	$2,605.0	$2,155.3
Western U.S. Mining	783.5	758.5	2,213.5	2,124.5
Midwestern U.S. Mining	355.7	368.5	1,050.1	1,025.3
Trading and Brokerage	45.6	131.5	173.7	329.5
Corporate and Other	8.0	3.4	18.3	31.5
Total	$2,058.8	$1,980.6	$6,060.6	$5,666.1
Adjusted EBITDA:				
Australian Mining	$221.4	$246.1	$757.4	$852.2
Western U.S. Mining	243.9	218.7	616.3	532.2
Midwestern U.S. Mining	103.5	105.4	317.4	292.8
Trading and Brokerage	35.7	57.4	109.2	134.6
Corporate and Other	(144.6)	(119.1)	(378.8)	(273.4)
Total	$459.9	$508.5	$1,421.5	$1,538.4

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Dollars in millions)			
Total Adjusted EBITDA	$459.9	$508.5	$1,421.5	$1,538.4
Depreciation, depletion and amortization	172.5	108.4	470.7	317.6
Amortization of basis difference related to equity affiliates	(0.2)	—	3.0	—
Asset retirement obligation expenses	21.1	14.6	53.3	43.3
Interest expense	99.4	59.2	308.3	159.1
Interest income	(5.1)	(4.1)	(19.7)	(11.7)
Income tax provision	49.3	39.2	85.5	238.8
Income from continuing operations, net of income taxes	$122.9	$291.2	$520.4	$791.3

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(18) Supplemental Guarantor/Non-Guarantor Financial Information
In accordance with the indentures governing the 5.875% Senior Notes due April 2016 (redeemed in the second quarter of 2011), the 7.375% Senior Notes due November 2016, the 6.00% Senior Notes due September 2018, the 6.50% Senior Notes due September 2020, the 6.25% Senior Notes due September 2021 and the 7.875% Senior Notes due November 2026 (collectively the Senior Notes), certain wholly owned U.S. subsidiaries of the Company have fully and unconditionally guaranteed the Senior Notes, on a joint and several basis. 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.
Unaudited Supplemental Condensed Consolidating Statements of Income

	Three Months Ended September 30, 2012				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in millions)				
Total revenues	$—	$ 1,336.9	$ 778.3	$ (56.4)	$ 2,058.8
Costs and expenses					
Operating costs and expenses	(95.6)	882.8	778.2	(56.4)	1,509.0
Depreciation, depletion and amortization	—	84.8	87.7	—	172.5
Asset retirement obligation expenses	—	11.8	9.3	—	21.1
Selling and administrative expenses	8.3	54.5	5.9	—	68.7
Other operating (income) loss:					
Net (gain) loss on disposal or exchange of assets	—	(1.4)	1.2	—	(0.2)
(Income) loss from equity affiliates	(117.0)	1.9	19.3	117.0	21.2
Interest expense	101.8	5.8	124.4	(132.6)	99.4
Interest income	(72.9)	(46.8)	(18.0)	132.6	(5.1)
Unrealized (gain) loss on derivatives	—	(112.3)	112.3	—	—
Income (loss) from continuing operations before income taxes	175.4	455.8	(342.0)	(117.0)	172.2
Income tax provision (benefit)	131.8	101.7	(184.2)	—	49.3
Income (loss) from continuing operations, net of income taxes	43.6	354.1	(157.8)	(117.0)	122.9
Loss from discontinued operations, net of income taxes	(0.7)	(75.9)	(4.7)	—	(81.3)
Net income (loss)	42.9	278.2	(162.5)	(117.0)	41.6
Less: Net loss attributable to noncontrolling interests	—	—	(1.3)	—	(1.3)
Net income (loss) attributable to common stockholders	$42.9	$ 278.2	$ (161.2)	$ (117.0)	$ 42.9
Comprehensive income (loss) attributable to common stockholders	$ 119.3	$ 291.7	$ (175.8)	$ (115.9)	$ 119.3

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Unaudited Supplemental Condensed Consolidating Statements of Income

	Three Months Ended September 30, 2011				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in millions)				
Total revenues	$—	$ 1,213.3	$ 811.3	$ (44.0)	$ 1,980.6
Costs and expenses					
Operating costs and expenses	(99.3)	905.0	637.7	(44.0)	1,399.4
Depreciation, depletion and amortization	—	69.6	38.8	—	108.4
Asset retirement obligation expenses	—	11.0	3.6	—	14.6
Selling and administrative expenses	8.0	52.5	10.7	—	71.2
Other operating (income) loss:					
Net (gain) loss on disposal or exchange of assets	—	(1.8)	0.1	—	(1.7)
(Income) loss from equity affiliates	(252.5)	2.7	0.5	252.5	3.2