PEABODY ENERGY CORP
Form 10-K
February 21, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2013
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 1-16463

PEABODY ENERGY CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	13-4004153 (I.R.S. Employer Identification No.)
701 Market Street, St. Louis, Missouri (Address of principal executive offices)	63101 (Zip Code)

(314) 342-3400
Registrant's telephone number, including area code

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ
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 þ 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 þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
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. (Check one):

Large accelerated filer þ	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨

(Do not check if a smaller reporting company)

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

Aggregate market value of the voting stock held by non-affiliates (shareholders who are not directors or executive officers) of the Registrant, calculated using the closing price on June 30, 2013: Common Stock, par value $0.01 per share, $3.9 billion.

Number of shares outstanding of each of the Registrant's classes of Common Stock, as of February 14, 2014: Common Stock, par value $0.01 per share, 271,298,814 shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Company's 2014 Annual Meeting of Shareholders (the Company's 2014 Proxy Statement) are incorporated by reference into Part III hereof. Other documents incorporated by reference in this report are listed in the Exhibit Index of this Form 10-K.

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This report includes statements of our expectations, intentions, plans and beliefs that constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and are intended to come within the safe harbor protection provided by those sections. These statements relate to future events or our future financial performance, including, without limitation, the section captioned “Outlook” in Management’s Discussion and Analysis of Financial Condition and Results of Operations. We use words such as “anticipate,” “believe,” “expect,” “may,” "forecast," “project,” “should,” “estimate,” “plan,” "outlook" or oth similar words to identify forward-looking statements.

Without limiting the foregoing, all statements relating to our future operating results, anticipated capital expenditures, future cash flows and borrowings and sources of funding are forward-looking statements and speak only as of the date of this report. These forward-looking statements are based on numerous assumptions that we believe are reasonable, but are subject to a wide range of uncertainties and business risks and actual results may differ materially from those discussed in these statements. Among the factors that could cause actual results to differ materially are:

- global supply and demand for coal, including the seaborne thermal and metallurgical coal markets;
- price volatility, particularly in higher-margin products and in our trading and brokerage businesses;
- impact of alternative energy sources, including natural gas and renewables;
- global steel demand and the downstream impact on metallurgical coal prices;
- impact of weather and natural disasters on demand, production and transportation;
- reductions and/or deferrals of purchases by major customers and ability to renew sales contracts;
- credit and performance risks associated with customers, suppliers, contract miners, co-shippers and trading, banks and other financial counterparties;
- geologic, equipment, permitting, site access, operational risks and new technologies related to mining;
- transportation availability, performance and costs;
- availability, timing of delivery and costs of key supplies, capital equipment or commodities such as diesel fuel, steel, explosives and tires;
- impact of take-or-pay arrangements for rail and port commitments for the delivery of coal;
- successful implementation of business strategies;
- negotiation of labor contracts, employee relations and workforce availability;
- changes in postretirement benefit and pension obligations and their related funding requirements;
- replacement and development of coal reserves;
- availability, access to and the related cost of capital and financial markets;
- effects of changes in interest rates and currency exchange rates (primarily the Australian dollar);
- effects of acquisitions or divestitures;
- economic strength and political stability of countries in which we have operations or serve customers;
- legislation, regulations and court decisions or other government actions, including, but not limited to, new environmental and mine safety requirements, changes in income tax regulations, sales-related royalties or other regulatory taxes and changes in derivatives laws and regulations;
- litigation, including claims not yet asserted;
- terrorist attacks or security threats;
- impacts of pandemic illnesses; and
- other factors, including those discussed in "Legal Proceedings," set forth in Part I, Item 3 of this report and "Risk Factors," set forth in Part I, Item 1A of this report.

When considering these forward-looking statements, you should keep in mind the cautionary statements in this document and in our other Securities and Exchange Commission (SEC) filings. These forward-looking statements speak only as of the date on which such statements were made, and we undertake no obligation to update these statements, except as required by the federal securities laws.

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Note: The words “we,” “our,” “Peabody” or “the Company” as used in this report, refer to Peabody Energy Corporation or its applicable subsidiary or subsidiaries. Unless otherwise noted herein, disclosures in this Annual Report on Form 10-K relate only to our continuing operations.

When used in this filing, the term "ton" refers to short or net tons, equal to 2,000 pounds (907.18 kilograms), while "tonne" refers to metric tons, equal to 2,204.62 pounds (1,000 kilograms).

PART I

Item 1. Business.

Overview

Peabody Energy Corporation is the world’s largest private-sector coal company. We own interests in 28 active coal mining operations located in the United States (U.S.) and Australia. We have a majority interest in 27 of those coal operations and a 50% equity interest in the Middlemount Mine in Australia. In addition to our mining operations, we market and broker coal from our operations and other coal producers, both as principal and agent, and trade coal and freight-related contracts through trading and business offices in China, Australia, the United Kingdom, Germany, Singapore, India, Indonesia and the U.S.

History and Development

We were incorporated in Delaware in 1998 and became a public company in 2001. Our history in the coal mining business dates back to 1883. Over the past decade, we have made strategic acquisitions and divestitures to position our company to serve U.S. and international coal markets with the highest demand. Acquisitions and divestitures of note include the following:

- In 2006, we further expanded our presence in Australia with the acquisition of Excel Coal Limited.
- In 2007, we spun off Patriot Coal Corporation (Patriot), which included mines in West Virginia and Kentucky and coal reserves in the Illinois Basin and Appalachia, through a dividend of all outstanding Patriot shares.
- In 2011, we acquired PEA-PCI (formerly Macarthur Coal Limited), an independent coal company in Australia, which included two operating mines, a 50% equity-affiliate joint venture arrangement and several development projects.

Our core strategies to achieve long-term growth and generate positive returns on investment are:

1) Execute the basics of best-in-class safety, operational performance and marketing;
2) Continue to target cost improvements across our global platform to improve our competitive position;
3) Capitalize on organic growth and development opportunities as warranted by global coal market conditions;
4) Expand our presence in high-growth global markets, particularly in Asia; and
5) Advance our new global coal advocacy initiative aimed at improving energy policies around the world.

In response to the challenged environment continuing to be faced by global coal markets in 2013, we advanced multiple projects focused on holding our strong competitive position in the market segments in which we operate. Such advancements included completing owner-operator conversions at the Wilpinjong, Millennium, Wambo Open-Cut and Middlemount mines in Australia; realizing productivity improvements at PEA-PCI operations in Australia as a result of optimization and remediation efforts completed in the prior year; continuing equipment and facility upgrades at our Metropolitan Mine in Australia; and continuing our ongoing cost containment initiatives across our global platform.

Moving forward into 2014, we expect to maintain a disciplined approach to capital spending as we continue to navigate through the near-term challenges in global coal markets. Planned capital and operational projects for 2014 are mainly focused on driving operational improvements and preserving the productive capacity of our existing mining platform. Such projects include completing the commissioning and post start-up modifications of longwall top coal caving technology at our North Goonyella Mine in Australia, converting our Moorvale Mine in Australia to owner-operator status and advancing development of our planned Gateway North Mine in the U.S.

We will continue to explore opportunities to extend our presence in the Asia-Pacific region through joint mine development partnerships or trading agreements with other companies and governments to leverage our experience in managing safe and reliable coal mining operations.

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Segment and Geographic Information

We conduct business through four principal segments: Western U.S. Mining, Midwestern U.S. Mining, Australian Mining and Trading and Brokerage. Our fifth segment, Corporate and Other, includes mining and export/transportation joint ventures, activities associated with certain energy-related commercial matters, Btu Conversion, the optimization of our coal reserve and real estate holdings and costs associated with past mining obligations.

Segment and geographic financial information is contained in Note 27. "Segment and Geographic Information" to our consolidated financial statements and is incorporated herein by reference.

Mining Segments

The maps that follow display our active mine locations as of December 31, 2013. Also shown are the primary ports that we use in the U.S. and in Australia for coal exports and our corporate headquarters in St. Louis, Missouri.

U.S. Mining Operations

The principal business of our Western and Midwestern U.S. Mining segments is the mining, preparation and sale of thermal coal, which is typically supplied to U.S. electricity generators and industrial customers for power generation, with a portion sold into seaborne export markets.

Our Western U.S. Mining segment is comprised of our Powder River Basin, Southwest and Colorado mining operations. The mines in that segment are generally characterized by surface mining extraction processes and coal with a low sulfur and Btu content. Our Midwestern U.S. Mining segment includes our active mining operations in Illinois and Indiana, which are characterized by a mix of surface and underground mining extraction processes and coal with a high sulfur and Btu content.

Customer transportation costs associated with our Western U.S. Mining coal products are generally higher than those of our Midwestern U.S. Mining segment due to comparatively longer shipping distances. The impact of those higher transportation costs on delivered costs to our customers is generally offset by lower coal prices.

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Australian Mining Operations

Our Australian Mining segment operations consist of our mines in Queensland and New South Wales, Australia. The mines in that segment are characterized by both surface and underground extraction processes for the mining of various qualities of metallurgical and thermal coal. Metallurgical coal qualities produced by that segment include hard coking, semi-hard coking, semi-soft and low volatile pulverized coal injection (LV PCI) coals. LV PCI coal is generally used by steel producers as a partial replacement for coke made from coking coal.

Our Australian Mining segment operations are primarily export focused with customers spread across several countries, with a portion of our coal being sold within Australia. Revenues from individual countries generally vary year by year based on demand for electricity and steel, global economic conditions and several other factors, including weather, governmental policies, transportation costs, economic conditions and other items specific to each country.

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The table below summarizes information regarding the operating characteristics of each of our active mines (excluding mines classified as discontinued operations) in the U.S. and Australia. The mines are listed within their respective mining segment in descending order, as determined by tons sold in 2013.

Segment/Mining Complex	Location	Mine Type	Mining Method	Coal Type	Transport Method	2013 Tons Sold (In millions)
Western U.S. Mining						
North Antelope Rochelle	Wyoming	S	D, DL, T/S	T	R	110.9
Rawhide	Wyoming	S	D, T/S	T	R	14.2
Caballo	Wyoming	S	D, T/S	T	R	9.0
El Segundo	New Mexico	S	D, D/L, T/S	T	R	8.4
Kayenta	Arizona	S	DL, T/S	T	R	7.9
Twentymile	Colorado	U	LW	T	R, T	7.2
Lee Ranch	New Mexico	S	T/S	T	R	0.1
Other [1]	—	—	—	—	—	1.1
Midwestern U.S. Mining						
Bear Run	Indiana	S	DL, D, T/S	T	T, R	8.2
Francisco Underground	Indiana	U	CM	T	R	2.9
Gateway	Illinois	U	CM	T	T, R, R/B, T/B	2.8
Somerville Central	Indiana	S	DL, D, T/S	T	R, T/R, T/B	2.7
Wild Boar	Indiana	S	D, T/S	T	T, R, R/B, T/B	2.0
Cottage Grove	Illinois	S	D, T/S	T	T/B	1.9
Wildcat Hills Underground	Illinois	U	CM	T	T/B	1.6
Somerville North [2]	Indiana	S	D, T/S	T	T, R, T/R, T/B	1.5
Somerville South [2]	Indiana	S	D, T/S	T	T, R, T/R, T/B	1.5
Viking - Corning Pit [3]	Indiana	S	D, T/S	T	T, T/R	1.1
Other [1]	—	—	—	—	—	0.1
Australian Mining						
Wilpinjong	New South Wales	S	D, T/S	T	R, EV	13.7
North Wambo Underground [2]	New South Wales	U	LW	T, P	R, EV	3.5
Millennium	Queensland	S	D, T/S	M, P	R, EV	3.4
Coppabella [4]	Queensland	S	DL, D, T/S	P	R, EV	3.1
Wambo Open-Cut [2]	New South Wales	S	T/S	T	R, EV	2.6
Burton *	Queensland	S	T/S	T, M	R, EV	2.1
Moorvale * [4]	Queensland	S	T/S	M, P	R, EV	2.1
North Goonyella	Queensland	U	LTCC	M	R, EV	1.7
Metropolitan	New South Wales	U	LW	M	R, EV	1.4
Eaglefield *	Queensland	S	T/S	M	R, EV	1.3
Middlemount [5]	Queensland	S	T/S	M, P	R, EV	—

Legend:

S Surface Mine

R Rail

T Truck

U	Underground Mine	R/B	Rail and Barge
DL	Dragline	T/B	Truck and Barge
D	Dozer/Casting	T/R	Truck and Rail
T/S	Truck and Shovel	EV	Export Vessel
LW	Longwall	T	Thermal/Steam
LTCC	Longwall Top Coal Caving	M	Metallurgical
CM	Continuous Miner	P	Pulverized Coal Injection
*	Mine is operated by a contract miner		

(1) "Other" in Western and Midwestern U.S. Mining primarily consists of purchased coal used to satisfy certain specific coal supply agreements.

(2) Represents our majority-owned mines in which there is an outside non-controlling ownership interest.

(3) Mine is expected to close in the first half of 2014.

(4) We own a 73.3% undivided interest in an unincorporated joint venture that owns the Coppabella and Moorvale mines.

(5) We own a 50.0% equity interest in Middlemount Coal Pty Ltd., which owns the Middlemount Mine. Because that entity is accounted for as an unconsolidated equity affiliate, 2013 tons sold from that mine have been excluded from the table above.

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Refer to the "Summary of Coal Production and Sulfur Content of Assigned Reserves" table within Part I, Item 2. "Properties," which is incorporated by reference herein, for additional information regarding coal reserves, product characteristics and production volume associated with each mine.

Trading and Brokerage Segment

Our Trading and Brokerage segment engages in the direct and brokered trading of coal and freight-related contracts through trading and business offices in Australia, China, Germany, India, Indonesia, Singapore, the United Kingdom and the U.S. (listed alphabetically). Coal brokering is conducted both as principal and agent in support of various coal production-related activities that may involve coal produced from our mines, coal sourcing arrangements with third-party mining companies or offtake agreements with other coal producers. From time to time and where possible, our Trading and Brokerage segment may enter into financial derivative contract positions offsetting certain coal purchase and sale contracts included in our portfolio in an effort to reduce market price risk and secure a margin on forecasted transactions. Our Trading and Brokerage segment also provides transportation-related services, including economic hedging, in support of our coal trading strategy, as well as cash flow hedging activities in support of sales from our mining operations.

Corporate and Other Segment

Our Corporate and Other Segment includes selling and administrative items, activity associated with our joint ventures, resource management activity, past mining obligations and our other commercial activities such as generation development and the evaluation of Btu Conversion projects.

Resource Management. As of December 31, 2013, we held approximately 8.3 billion tons of proven and probable coal reserves and approximately 500,000 acres of surface property. We have an ongoing asset optimization program whereby our resource development group regularly reviews these reserves and surface properties for opportunities to generate earnings and cash flow through the sale or exchange of non-strategic coal reserves and surface lands. In addition, we generate revenue through royalties from coal reserves and oil and gas rights leased to third parties and farm income from surface lands under third-party contracts.

Middlemount Mine. We own a 50% equity interest in the Middlemount Mine in Queensland, Australia. The mine predominantly produces semi-hard coking coal and LV PCI coal for sale into seaborne coal markets through rail and port capacity contracted through Abbot Point Coal Terminal, with future capacity also secured at Dalrymple Bay Coal Terminal. Mining operations commenced at Middlemount Mine in late 2011 and that mine continued to ramp up production and invest in operational improvements through 2013. During the year ended December 31, 2013, the mine sold approximately 3 million tons of coal (on a 100% basis).

Paso Diablo Mine. We own a 48.37% noncontrolling interest in Carbones del Guasare S.A. (CdG), which previously operated the Paso Diablo Mine, a surface mining operation in northwestern Venezuela that produced thermal coal for export primarily to the U.S. and Europe. In the fourth quarter of 2013, the Venezuelan government, at the discretion of the Minister of Energy for the Republic of Venezuela, refused to act upon CdG's request for an extension or renewal of the underlying mining concession for the Paso Diablo Mine and the concession expired. The expiration of the concession triggered, by law, the extinguishment of the underlying mining rights that were granted to CdG and the transfer of all of the mining assets previously owned by CdG related to the mine to the Republic of Venezuela. In addition, these events converted an ongoing condition of force majeure under the one remaining coal sales contract we had for coal supplied from the Paso Diablo Mine into a permanent force majeure, resulting in the termination of the coal sales contract. We had previously fully impaired the carrying value of our equity investment in CdG in 2009. Accordingly, the expiration of CdG's mining concession did not impact our results of operations, financial condition or cash flows for the year ended December 31, 2013.

Singapore Joint Venture. We own a 50% interest in Sino-Pacific Coal Trading Corporation Pte. Ltd. (Sino-Pacific), a Singapore-based joint venture agreement with Shenhua Group Corporation Limited (Shenhua), a large-scale state-owned energy company headquartered in Beijing, China. The joint venture is intended to supply Shenhua's Chinese coal import demand with thermal coal. Sino-Pacific is expected to commence operations in 2014, subject to regulatory approvals.

Mongolia Joint Venture. We own a 50% interest in Peabody-Winsway Resources B.V., a joint venture agreement with Winsway Coking Coal Holdings Ltd. (Winsway), a Hong Kong stock exchange listed company in which we also own an equity interest. The joint venture holds several exploration licenses in Mongolia.

Export Facilities. We have a 37.5% interest in Dominion Terminal Associates, a partnership that operates a coal export terminal in Newport News, Virginia that exports both metallurgical and thermal coal primarily to European and Brazilian markets.

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Generation Development. We are a 5.06% owner in the Prairie State Energy Campus (Prairie State), a 1,600 megawatt coal-fueled electricity generation plant and adjacent coal mine in Washington, St. Clair and Randolph counties in Illinois, which commenced commercial operations during 2012. We are responsible for our 5.06% share of Prairie State's production costs and marketing and selling our share of electricity generated by the facility.

Btu Conversion. Btu Conversion involves projects designed to expand the uses of coal such as through conversion to transportation fuels and coal gasification technologies.

Clean Coal Technology. We continue to support clean coal technology development and other “green coal” initiatives seeking to reduce global atmospheric levels of carbon dioxide and other emissions. In China, we are the only non-Chinese equity partner in GreenGen, an integrated gasification combined cycle coal-fueled power plant near Tianjin, China that began electric generation for commercial consumption in 2012 and plans to utilize carbon capture and storage (CCS) in its next stage of development. We are also a founding member of the U.S.-China Energy Cooperation Program. In Australia, we have an ongoing commitment to the Australian COAL21 Fund, an industry effort to pursue a collection of low-carbon emission technologies in Australia, and are also a founding member of the Global Carbon Capture and Storage Institute, an international initiative hosted by the Australian government. In the U.S., we are a founding member of the FutureGen Alliance in Illinois and are presently developing the FutureGen 2.0 project. We are also a founding member of the Consortium for Clean Coal Utilization at Washington University in St. Louis in Missouri and the National Carbon Capture Center in Alabama.

Captive Insurance Entities. A portion of our insurance risks associated with workers’ compensation, general liability and auto liability coverage is self-insured through two wholly-owned captive insurance companies. The captive entities invoice certain of our subsidiaries for the premiums on these policies, pay the related claims, maintain reserves for anticipated losses and invest funds to pay future claims. Historically, the actuarially-determined reserves maintained by our captive insurance companies have provided adequate coverage of actual claims incurred.

Coal Supply Agreements

Customers. Our coal supply agreements are primarily with electricity generators, industrial facilities and steel manufacturers. Most of our sales (excluding trading transactions) are made under long-term coal supply agreements (those with terms longer than one year and which typically include price reopener and/or extension provisions). A smaller portion of our sales are made on a shorter-term or a spot basis. Sales under long-term coal supply agreements comprised approximately 80%, 89% and 91% of our worldwide sales from our mining operations (by volume) for the years ended December 31, 2013, 2012 and 2011, respectively.

For the year ended December 31, 2013, we derived 25% of our total revenues from our five largest customers. Those five customers were supplied primarily from 46 coal supply agreements (excluding trading transactions) expiring at various times from 2014 to 2026. The contract contributing the greatest amount of annual revenue in 2013 was approximately $340 million, or approximately 5% of our 2013 total revenues, and is due to expire in 2026.

Backlog. Our sales backlog, which includes coal supply agreements subject to price reopener and/or extension provisions, was approximately 900 million tons of coal as of both January 1, 2014 and 2013. Contracts in backlog have remaining terms ranging from one to 14 years and represent approximately four years of production based on our 2013 production volume of 218.4 million tons. Approximately 77% of our backlog is expected to be filled beyond 2014.

U.S. Mining Operations. Revenues from our Western and Midwestern U.S. Mining segments, in aggregate, represented approximately 57%, 54% and 55% of our total revenue base for the years ended December 31, 2013, 2012 and 2011, respectively, during which periods the coal mining activities of those segments contributed respective aggregate amounts of approximately 84%, 85% and 89% of our sales volumes from mining operations. We expect to continue selling a significant portion of our Western U.S. Mining and Midwestern U.S. Mining segment coal production under long-term supply agreements, and customers of those segments continue to pursue long-term sales agreements in recognition of the importance of reliability, service and predictable coal prices to their operations. The terms of coal supply agreements result from competitive bidding and extensive negotiations with customers. Consequently, the terms of those agreements vary significantly in many respects, including price adjustment features, price reopener terms, coal quality requirements, quantity parameters, permitted sources of supply, treatment of environmental constraints, extension options, force majeure and termination and assignment provisions. Our strategy

is to selectively renew, or enter into new, long-term supply agreements when we can do so at prices we believe are favorable.

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Australian Mining Operations. Revenues from our Australian Mining segment represented approximately 41%, 43% and 39% of our total revenue base for the years ended December 31, 2013, 2012 and 2011, respectively, during which periods the coal mining activities of that segment contributed respective amounts of 16%, 15% and 11% of our sales volumes from mining operations. Our production is primarily sold into the seaborne metallurgical and thermal markets, with a majority of those sales executed through annual and multi-year international coal supply agreements that contain provisions requiring both parties to renegotiate pricing periodically. Industry commercial practice, and our typical practice, is to negotiate pricing for those metallurgical and seaborne thermal coal contracts on a quarterly and annual basis, respectively, with a portion sold on a shorter-term basis.

Transportation

Methods of Distribution. Coal consumed in the U.S. is usually sold at the mine with transportation costs borne by the purchaser. Our Australian export coal is usually sold at the loading port, with purchasers paying ocean freight. Our U.S. export coal is more typically sold on a delivered basis into the unloading port, with us paying ocean freight. In each case, exporters usually pay shipping costs from the mine to the port, including any demurrage costs (fees paid to third-party shipping companies for loading time that exceeded the stipulated time). Demurrage continues to be a component of the shipping costs of our Australian exports as certain ports continue to experience vessel queues, though such conditions generally continued to improve during 2013, as in the prior year.

We believe we have good relationships with U.S. and Australian rail carriers and barge companies due, in part, to our modern coal-loading facilities and the experience of our transportation coordinators. Refer to the table on page 5 in the foregoing "Mining Segments" section for a summary of transportation methods by mine.

Export Facilities. Our U.S. Mining operations exported approximately 2%, 3% and 3% of its tons sold for the years ended December 31, 2013, 2012 and 2011, respectively. Our primary ports used for U.S. exports are the Dominion Terminal Associates coal terminal in Newport News, Virginia, the United Bulk Terminal near New Orleans, Louisiana, the St. James Stevedoring Anchorages terminal in Convent, Louisiana and the Kinder Morgan terminal near Houston, Texas. We are continuing to pursue access to U.S. west coast port facilities that will allow us to export our Powder River Basin coal products to serve demand in the Asian region.

Our Australian Mining operations sold approximately 75%, 77% and 74% of its tons into the seaborne coal markets for the years ended December 31, 2013, 2012 and 2011, respectively. We have generally secured our ability to transport coal in Australia through rail contracts and interests in three east coast coal export terminals that are primarily funded through take-or-pay arrangements (see the "Liquidity and Capital Resources" section in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information). In Queensland, seaborne metallurgical and thermal coal from our mines is exported through the Dalrymple Bay Coal Terminal, in addition to the Abbot Point Coal Terminal used by our joint venture Middlemount Mine. In New South Wales, our primary ports for exporting metallurgical and thermal coal are at Port Kembla and Newcastle, which includes both the Port Waratah Coal Services terminal and the terminal operated by Newcastle Coal Infrastructure Group (NCIG).

Suppliers

Mining Supplies and Equipment. The principal goods we purchase in support of our mining activities are mining equipment and replacement parts, diesel fuel, ammonium-nitrate and emulsion-based explosives, off-the-road (OTR) tires, steel-related products (including roof control materials), lubricants and electricity. We have many well-established, strategic relationships with our key suppliers of goods and do not believe that we are overly dependent on any of our individual suppliers.

Historically, there has been some consolidation in the supplier base providing mining materials to the coal industry for certain of these goods, such as explosives in the U.S. and both surface and underground mining equipment globally, which has limited the number of sources for these materials. In situations where we have elected to concentrate a large portion of our purchases with one supplier in lieu of seeking other alternatives, it has been to take advantage of cost savings from larger volumes of purchases, benefit from long-term pricing for parts, ensure security of supply and/or allow for equipment fleet standardization. Supplier concentration related to our mining equipment also allows us to benefit from fleet standardization, which in turn improves asset utilization by facilitating the development of common maintenance practices across our global platform and enhancing our flexibility to move equipment between mines as

necessary.

While demand growth has outpaced supply in recent periods, market demand and lead times for certain OTR tires stabilized in 2013. We do not expect lead times or any supply constraints to have a near-term material impact on our financial condition, results of operations or cash flows due to the strategic relationships and long-term supply contracts we have with our OTR tire suppliers.

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Surface and underground mining equipment demand and lead times decreased substantially on a year-over-year basis in 2012 and remained lower in 2013 due to challenged market conditions experienced across several extractive industry sectors. This is consistent with a decline in our own near-term demand for such equipment as we have sought to defer new and early stage development projects, while continuing to evaluate the timing associated with such projects based on changes in global coal market demand. We continue to use our global leverage with major suppliers to either ensure security of supply to meet the requirements of our active projects or to delay deliveries when warranted by coal market conditions.

Services. We also purchase services at our mine sites, including services related to maintenance for mining equipment, construction, temporary labor and other various contracted services, such as contract mining for both production and development and explosive services. We do not believe that we are overly dependent on any of our individual service providers.

Technical Innovation

We continue to advance new technologies to maximize safety, including partnering with other companies and certain governmental agencies to pursue technologies that have the potential to improve our safety performance and provide better safety protection for employees. We are currently partnering with three of our mining equipment vendors to incorporate proximity detection systems on our continuous miners and proximity detection and video surveillance systems on our battery-powered coal haulage equipment, shuttle cars and section scoops at our U.S. underground mines. Additionally, we have installed and are testing a proximity detection system for large mining equipment and light vehicles at one of our Australian surface mines. We have also initiated a collaborative effort with certain vendors to identify and evaluate potential fatigue monitoring programs and technologies for our surface operations.

We emphasize the application of technical innovation to improve equipment performance and operating efficiencies. Development is typically undertaken and funded by equipment suppliers with our engineering, maintenance and purchasing personnel providing input and expertise to those suppliers who then design and produce equipment that we believe will improve our operating performance and mining capabilities.

We seek to deploy the best mining technologies available based on the specific geologic conditions of each of our mining operations. For example, we commenced with the the commissioning of longwall top coal caving technology at our North Goonyella Mine in Australia in 2013, which technology we expect will be fully operational in 2014.

We leverage technology and data systems to enhance our operating and maintenance efforts through the integration of original equipment manufacturer systems, mobile technologies and automated reporting systems to provide an integrated, real time picture of of our mining operations and equipment performance. We continue to advance the use of in-house developed software to schedule trains, monitor coal quality and customer shipments and manage mine operations and pit blending to enhance our reliability and product consistency.

We employ maintenance standards based on reliability-centered maintenance practices at all operations to increase equipment utilization and reduce maintenance and capital spending over time by extending the equipment life, while minimizing the risk of premature failures. Specialized maintenance reliability software is used at many operations to better support improved equipment strategies, predict equipment condition and aid analysis necessary for better decision-making for such issues as component replacement timing.

Competition

The markets in which we sell our coal are highly competitive. We compete directly with other coal producers and, with respect to our thermal coal products, indirectly with producers of other energy products that provide an alternative to coal use. We compete on the basis of coal quality and characteristics, delivered price, customer service and support and reliability of supply. Our principal U.S. direct competitors (listed alphabetically) are other large coal producers, including Alliance Resource Partners, Alpha Natural Resources, Inc., Arch Coal, Inc. and Cloud Peak Energy Inc., who collectively accounted for approximately 36% of total U.S. coal production in 2012 according to the National Mining Association's "2012 Coal Producer Survey," the most recent data publicly available as of February 21, 2014. Major international direct competitors (listed alphabetically) include Anglo-American PLC, BHP Billiton, China Coal, Glencore Xstrata PLC, Rio Tinto and Shenhua Group.

Demand for coal and the prices that we will be able to obtain for our coal are influenced by factors beyond our control, including global economic conditions, the demand for electricity and steel, the impact of weather on heating

and cooling demand and taxes and environmental regulations imposed by the U.S. and foreign governments. Metallurgical coal demand is also impacted by competing technologies used to make steel, some of which do not use coal as a manufacturing input.

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The use of thermal coal is further influenced by the availability and relative cost of alternative fuels, with customers focused on securing the lowest cost fuel supply in order to produce electric power reliably at a competitive price. The International Energy Agency (IEA) reported in its World Energy Outlook 2013 that coal's share of worldwide electric power generation mix was 41% in 2011. Alternative fuels to thermal coal include natural gas, fuel oil and nuclear, hydroelectric, wind, biomass and solar power sources.

Due to domestic growth in the use of hydraulic fracturing, natural gas is the most significant substitute to thermal coal for electricity generation in the U.S., and vice versa. The U.S. Energy Information Administration (EIA) reported in its February 2014 "Short-Term Energy Outlook" that, driven by a 36% increase in full year average U.S. natural gas prices during 2013, coal's share of U.S. electricity generation for all sectors increased from 37% in 2012 to 39% in 2013, while still falling short of the 42% level experienced in 2011. We believe the economics of gas-to-coal switching enable demand for thermal coals produced in the U.S. Powder River and Illinois basins in which we produce to benefit when natural gas prices rise above a range of $2.75 to $3.00 per mmBtu and $3.50 to $3.75 per mmBtu, respectively, and to decline when natural gas prices fall below those levels. The EIA expects full year average U.S. natural gas prices of $4.17 per mmBtu in 2014 and correspondingly projects coal's share of U.S. electricity generation for all sectors to increase to 40% in that period.

Working Capital

We generally fund our working capital requirements through a combination of existing cash and cash equivalents and proceeds from the sale of our coal production to customers and our trading and brokerage activities. Our revolving credit facility (the 2013 Revolver) under our secured credit agreement entered into in 2013 (the 2013 Credit Facility) and our accounts receivable securitization program are also available to fund our working capital requirements. Refer to the "Liquidity and Capital Resources" section of Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for additional information regarding working capital.

Employees

We had approximately 8,300 employees as of December 31, 2013, including approximately 5,900 hourly employees. Additional information on our employees and related labor relations matters is contained in Note 22. "Management - Labor Relations" to our consolidated financial statements, which information is incorporated herein by reference.

Executive Officers of the Company

Set forth below are the names, ages and positions of our executive officers. Executive officers are appointed by, and hold office at the discretion of, our Board of Directors, subject to the terms of any employment agreements.

Name	Age [1]	Position [2]
Gregory H. Boyce	59	Chairman and Chief Executive Officer, Director
Glenn L. Kellow	46	President and Chief Operating Officer
Michael C. Crews	46	Executive Vice President and Chief Financial Officer
Sharon D. Fiehler	57	Executive Vice President and Chief Administrative Officer
Eric Ford	59	Executive Vice President - Office of the Chief Executive Officer
Christopher J. Hagedorn	41	President - Asia and Trading
Jeane L. Hull	59	Executive Vice President and Chief Technical Officer
Charles F. Meintjes	51	President - Australia
Alexander C. Schoch	59	Executive Vice President Law, Chief Legal Officer and Secretary
Kemal Williamson	54	President - Americas

(1) As of February 14, 2014.

(2) As of December 31, 2013.

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Gregory H. Boyce was elected Chairman of the Board in October 2007 and has been a director of the Company since March 2005. He was named Chief Executive Officer Elect of the Company in March 2005 and assumed the position of Chief Executive Officer in January 2006. He was President of the Company from October 2003 to December 2007 and was Chief Operating Officer of the Company from October 2003 to December 2005. He previously served as Chief Executive - Energy of Rio Tinto plc (an international natural resource company) from 2000 to 2003. Other prior positions include President and Chief Executive Officer of Kennecott Energy Company from 1994 to 1999 and President of Kennecott Minerals Company from 1993 to 1994. He has extensive engineering and operating experience with Kennecott. Mr. Boyce serves on the board of directors of Marathon Oil Corporation and Monsanto Company. He is Chairman of the Coal Industry Advisory Board of the International Energy Agency and is a former Chairman of the National Mining Association. He serves on the Board of Directors of the U.S.-China Business Council, and is a member of The Business Council, Business Roundtable and the National Coal Council. In addition, Mr. Boyce is a member of the Board of Trustees of Washington University in St. Louis and the Advisory Council of the University of Arizona's Department of Mining and Geological Engineering. He also is President of the Board for Variety - The Children's Charity of St. Louis and is a member of the Board of Commissioners for the St. Louis Science Center.

Glenn L. Kellow was named our President and Chief Operating Officer in August 2013. He has executive responsibility for all aspects of our global operations including safety, production, sales and marketing, environmental, productivity improvement, engineering and planning. Mr. Kellow has extensive experience in the global resource industry, where he has served in multiple executive, operational and financial roles in coal and other commodities in the United States, Australia and South America. From 1985 to 2013, Mr. Kellow served in a number of roles with BHP Billiton, the world's largest mining company, including senior appointments as President, Aluminum and Nickel (2012-2013), President, Stainless Steel Materials (2010-2012), President and Chief Operating Officer, New Mexico Coal (2007-2010), and Chief Financial Officer, Base Metals (2003-2007). He is a former director of the World Coal Association and the National Mining Association and was the Chairman of Worsley Alumina (Australia), Chairman of Mozal (Mozambique) and Vice Chairman of the Nickel Institute. Mr. Kellow is a graduate of the advanced management program at the University of Pennsylvania's Wharton School of Business and holds a master's degree in business administration and a bachelor's degree in commerce from the University of Newcastle.

Michael C. Crews was named our Executive Vice President and Chief Financial Officer in June 2008. He joined us in 1998 as Senior Manager of Financial Reporting, and has served as Assistant Corporate Controller, Director of Planning, Assistant Treasurer, Vice President of Planning, Analysis, and Performance Assessment, and Vice President of Operations Planning. Prior to joining us, Mr. Crews served for three years in financial positions with MEMC Electronic Materials, Inc. and six years at KPMG Peat Marwick in St. Louis. Mr. Crews serves on the Board of Directors of the St. Louis Regional Chamber and is a member of the advisory board of Washington University's Wells Fargo Advisors Center for Financial and Accounting Research. Mr. Crews has a Bachelor of Science degree in Accountancy from the University of Missouri at Columbia, a Master of Business Administration degree from Washington University in St. Louis and is a Certified Public Accountant in the State of Missouri.

Sharon D. Fiehler has been our Executive Vice President and Chief Administrative Officer since January 2008. From April 2002 to January 2008, she served as our Executive Vice President of Human Resources and Administration. Ms. Fiehler joined us in 1981 as Manager - Salary Administration and has held a series of employee relations, compensation and salaried benefits positions. Prior to joining us, she was a personnel representative for Ford Motor Company. Ms. Fiehler is Deputy Chair and a Director of the Federal Reserve Bank of St. Louis; a member of the Board of Trustees of the Missouri Botanical Garden; and a member of the Board of Directors of Junior Achievement of Greater St. Louis. She is also a member of the International Women's Forum/Missouri and the St. Louis Forum. Ms. Fiehler holds a Master of Business Administration degree from the University of Missouri-St. Louis and bachelor degrees in psychology and social work from Southern Illinois University Edwardsville.

Eric Ford was named Executive Vice President, Office of the Chief Executive Officer, in August 2013. He retired from Peabody on January 31, 2014. Mr. Ford served as Chairman - Australia from October 2012 to August 2013, as President - Australia from March 2012 to October 2012 and as Executive Vice President and Chief Operating Officer from March 2007 to March 2012. Mr. Ford has 40 years of extensive international management, operating and

engineering experience and, prior to joining us, most recently served as Chief Executive Officer of Anglo Coal Australia Pty Ltd. He joined Anglo Coal in 1971 and, after a series of increasingly complex operating assignments, was appointed President and Chief Executive Officer of Anglo American's joint venture coal mining operation in Colombia in 1998. In 2000, he returned to Anglo American Corporation as Executive Director of Operations for Anglo Platinum Corporation Limited. He was subsequently appointed Chief Executive Officer of Anglo Coal Australia Pty Ltd in 2001. Mr. Ford holds a Master of Science degree in Management Science from Imperial College in London and a Bachelor of Science degree in Mining Engineering (cum laude) from the University of the Witwatersrand in Johannesburg, South Africa. He serves on the board of directors of Compass Minerals International Inc. and as a Director of the Minerals Council of Australia. Mr. Ford was previously Deputy Chairman and a member of the Executive Committee of the Coal Industry Advisory Board of the IEA.

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Christopher J. Hagedorn was named our President - Asia and Trading in March 2012. He has executive responsibility for our business and growth activities in Asia, including China, Mongolia, Indonesia and India; our global COALTRADE business, which includes global coal trading plus structured products and origination; Asian finance and administration; Asia business development activities; and the law function for Asia and Global Trading activities. He most recently served as our Senior Vice President Global Sales and Trading Support, and previously held positions with us of Senior Vice President, Chief Procurement Officer, and Vice President - Business Performance. Prior to joining us in August, 2006, he was an Associate Principal at McKinsey & Company in Cleveland, Ohio, where he provided management consulting services on various operations, marketing and business strategy topics to international clients in the energy, metals and mining, and chemicals sectors. Mr. Hagedorn holds a Bachelor of Science in chemical engineering from Washington University in St. Louis and a Doctorate in chemical engineering from the University of California - Santa Barbara. He is a member of the Board of Directors of the Sheldon Concert Hall in St. Louis.

Jeane L. Hull was named our Executive Vice President and Chief Technical Officer in March 2011. She joined us in May 2007 as the Senior Vice President of Engineering and Technical Services, and then served as Group Executive - Powder River Basin and Southwest from June 2008 to March 2011. Prior to joining us, Ms. Hull served as Chief Operating Officer of Kennecott Utah Copper, a subsidiary of Rio Tinto. She held numerous management, engineering and operations positions with Rio Tinto and affiliates and also spent 12 years with Mobil Mining and Minerals and Mobil Chemical Company. A registered professional engineer, Ms. Hull graduated from the South Dakota School of Mines and Technology with a Bachelor of Science degree in Civil Engineering. She holds a Master of Business Administration degree from Nova University in Florida. Ms. Hull is a member of the University of Wyoming School of Energy Resources Council. She also serves on the University Advisory Board for South Dakota School of Mines and Technology, the Industry Advisory Board for Missouri University of Science and Technology Mining Department and the Washington University Olin Business School Women’s Leadership Forum Steering Committee.

Charles F. Meintjes was named our President - Australia in October 2012. He has executive responsibility for our Australia operating platform, which includes overseeing the areas of health and safety, operations, sales and marketing, product delivery and support functions. Mr. Meintjes has extensive senior operational, strategy, continuous improvement and information technology experience with mining companies on three continents. He joined us in 2007, and most recently served as Acting President - Americas. Other past positions with us include Group Executive of Midwest and Colorado Operations, Senior Vice President of Operations Improvement and Senior Vice President Engineering and Continuous Improvement. Prior to joining us, Mr. Meintjes served as a consultant to Exxaro Resources Limited in South Africa, and is a former Executive Director and Board Member for Kumba Resources Limited in South Africa. He also served on the boards of two public companies, AST Gijima in South Africa and Ticor Limited in Australia and has senior management experience in the steel and the aluminum industry with Iscor and Alusaf in South Africa. Mr. Meintjes holds dual Bachelor of Commerce degrees in accounting from Rand Afrikaans University and the University of South Africa. He is a Chartered Accountant in South Africa and completed the advanced management program at the University of Pennsylvania’s Wharton School of Business.

Alexander C. Schoch was named our Executive Vice President Law and Chief Legal Officer in October 2006 and our Secretary in May 2008. Prior to joining us, Mr. Schoch served as Vice President and General Counsel for Emerson Process Management, an operating segment of Emerson Electric Co. and a leading supplier of process-automation products, from August 2004 to October 2006. Mr. Schoch also served in several legal positions with Goodrich Corporation, a global supplier to the aerospace and defense industries, from 1987 to 2004, including Vice President, Associate General Counsel and Secretary. Prior to that, he worked for Marathon Oil Company as an attorney in its international exploration and production division. Mr. Schoch holds a Juris Doctorate from Case Western Reserve University in Ohio, as well as a Bachelor of Arts in Economics from Kenyon College in Ohio. He is admitted to practice law in several states, and is a member of the American and International Bar Associations. Mr. Schoch serves as a Trustee at Large on the Board of Trustees for the Energy & Mineral Law Foundation, and on the following Boards of Directors: the National Blues Museum, St. Louis, Missouri; Safe Connections, St. Louis, Missouri; and Case Western Reserve University Law Alumni Association, Cleveland, Ohio.

Kemal Williamson was named our President - Americas in October 2012. He has executive responsibility for our U.S. operating platform and business development activities. He oversees the areas of health and safety; operations; sales and marketing; product delivery; and support functions. Mr. Williamson has more than 30 years experience in mining engineering and operations roles across North America and Australia. He most recently served as Group Executive Operations for the Peabody Energy Australia operations. He also has held executive leadership roles across project development, as well as in positions overseeing our Western U.S., Powder River Basin and Midwest operations. Mr. Williamson joined us in 2000 as Director of Land Management. Prior to that, he served two years at Cyprus Australia Coal Corporation as Director of Operations and managed coal operations in Australia for half a decade. He also has mining engineering, financial analysis and management experience across Colorado, Kentucky and Illinois. Mr. Williamson holds a Bachelor of Science degree in mining engineering from Pennsylvania State University as well as a Master of Business Administration degree from the Kellogg School of Management, Northwestern University in Evanston, Illinois.

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Regulatory Matters — U.S.

Federal, state and local authorities regulate the U.S. coal mining industry with respect to matters such as employee health and safety, permitting and licensing requirements, air quality standards, water pollution, plant and wildlife protection, the reclamation and restoration of mining properties after mining has been completed, the discharge of materials into the environment, surface subsidence from underground mining and the effects of mining on groundwater quality and availability. In addition, the industry is affected by significant legislation mandating certain benefits for current and retired coal miners. Numerous federal, state and local governmental permits and approvals are required for mining operations. We believe that we have obtained all permits currently required to conduct our present mining operations.

We endeavor to conduct our mining operations in compliance with all applicable federal, state and local laws and regulations. However, because of extensive and comprehensive regulatory requirements, violations during mining operations occur from time to time in the industry. None of our violations to date or the monetary penalties assessed have been material.

Mine Safety and Health

We are subject to health and safety standards both at the federal and state level. The regulations are comprehensive and affect numerous aspects of mining operations, including training of mine personnel, mining procedures, blasting, the equipment used in mining operations and other matters.

Mine Safety and Health Administration (MSHA) is the entity responsible for monitoring compliance with the federal mine health and safety standards. MSHA has various enforcement tools that it can use, including the issuance of monetary penalties and orders of withdrawal from a mine or part of a mine. Some, but not all, of the costs of complying with existing regulations and implementing new safety and health regulations may be passed on to customers.

MSHA has taken a number of actions to identify mines with safety issues, and has engaged in a number of targeted enforcement, awareness, outreach and rulemaking activities to reduce the number of mining fatalities, accidents and illnesses. There has also been an industry-wide increase in the monetary penalties assessed for citations of a similar nature.

In Part I, Item 4. "Mine Safety Disclosures" and in Exhibit 95 to this Annual Report on Form 10-K, we provide additional details on how we monitor safety performance and MSHA compliance, as well as provide the mine safety disclosures required by SEC regulations.

Black Lung

Under the Black Lung Benefits Revenue Act of 1977 and the Black Lung Benefits Reform Act of 1977, as amended in 1981, each U.S. coal mine operator must pay federal black lung benefits and medical expenses to claimants who are current and former employees and last worked for the operator after July 1, 1973. Coal mine operators must also make payments to a trust fund for the payment of benefits and medical expenses to claimants who last worked in the coal industry prior to July 1, 1973. Historically, less than 7% of the miners currently seeking federal black lung benefits are awarded these benefits. The trust fund is funded by an excise tax on U.S. production of up to $1.10 per ton for deep-mined coal and up to $0.55 per ton for surface-mined coal, neither amount to exceed 4.4% of the gross sales price.

Environmental Laws and Regulations

We are subject to various federal, state, local and tribal environmental laws and regulations. These laws and regulations place substantial requirements on our coal mining operations, and require regular inspection and monitoring of our mines and other facilities to ensure compliance. We are also affected by various other federal, state, local and tribal environmental laws and regulations that our customers are subject to.

Surface Mining Control and Reclamation Act. In the U.S., the Surface Mining Control and Reclamation Act of 1977 (SMCRA), which is administered by the Office of Surface Mining Reclamation and Enforcement (OSM), established mining, environmental protection and reclamation standards for all aspects of U.S. surface mining and many aspects of deep mining. Mine operators must obtain SMCRA permits and permit renewals for mining operations from the OSM. Where state regulatory agencies have adopted federal mining programs under SMCRA, the state becomes the regulatory authority. Except for Arizona, states in which we have active mining operations have achieved primary

control of enforcement through federal authorization. In Arizona, we mine on tribal lands and are regulated by the OSM because the tribes do not have SMCRA authorization.

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After a permit application is prepared and submitted to the regulatory agency, it goes through a completeness and technical review. Public notice of the proposed permit is given for a comment period before a permit can be issued. Regulatory authorities have considerable discretion in the timing of the permit issuance and the public has the right to comment on and otherwise engage in the permitting process, including public hearings and through intervention in the courts. Before a SMCRA permit is issued, a mine operator must submit a bond or other form of financial security to guarantee the performance of reclamation obligations.

In situations where our coal resources are federally owned, the U.S. Bureau of Land Management oversees a substantive exploration and leasing process. If surface land is managed by the U.S. Forest Service, that agency serves as the cooperating agency during the federal coal leasing process. Federal coal leases also require an approved federal mining permit under the signature of the Assistant Secretary of the Department of the Interior.

The SMCRA Abandoned Mine Land Fund requires a fee on all coal produced in the U.S. The proceeds are used to rehabilitate lands mined and left unreclaimed prior to August 3, 1977 and to pay health care benefit costs of orphan beneficiaries of the Combined Fund created by the Coal Industry Retiree Health Benefit Act of 1992. The fee amount can change periodically. Pursuant to the Tax Relief and Health Care Act of 2006, from October 1, 2007 to September 30, 2012, the fee was $0.315 and $0.135 per ton of surface-mined and underground-mined coal, respectively. From October 1, 2012 through September 30, 2021, the fee is $0.28 and $0.12 per ton of surface-mined and underground-mined coal, respectively.

The OSM has been in the process of developing a “stream protection rule,” which could result in changes to mining operations under the SMCRA program. The OSM has projected that it will issue a proposed stream protection rule in 2014. Other rulemaking proceedings have been proposed or are being considered by the OSM. Notably, the Proposed Rule for Cost Recovery for Permit Processing, Administration and Enforcement was published in March 2013. If finalized as proposed, it will result in minor cost increases at our mine operations on tribal lands in Arizona. Additionally, the OSM is working on a Coal Combustion Residues rulemaking for minefill operations. The agency has projected it may publish a proposed rule by May 2014. These OSM rulemakings and others could have a direct impact on our operations.

Clean Air Act. The Clean Air Act, enacted in 1970, and comparable state and tribal laws that regulate air emissions affect our U.S. coal mining operations both directly and indirectly.

Direct impacts on coal mining and processing operations may occur through the Clean Air Act permitting requirements and/or emission control requirements relating to particulate matter (PM), sulfur dioxide and ozone. It is possible that modifications to the national ambient air quality standards (NAAQS) could directly impact our mining operations in a manner that includes, but is not limited to, requiring changes in vehicle emissions standards or resulting in newly designated non-attainment areas. Furthermore, the U.S. Environmental Protection Agency (EPA) in 2009 adopted revised rules to add more stringent PM emissions limits for coal preparation and processing plants constructed or modified after April 28, 2008. Since 2011, the EPA has required underground coal mines to report on their greenhouse gas emissions.

The Clean Air Act indirectly, but more significantly, affects the U.S. coal industry by extensively regulating the air emissions of sulfur dioxide, nitrogen oxides, mercury, PM and other substances emitted by coal-fueled electricity generating plants. The air emissions programs that may affect our operations, directly or indirectly, include, but are not limited to, the Acid Rain Program, interstate transport rules, New Source Performance Standards (NSPS), Maximum Achievable Control Technology (MACT) emissions limits for Hazardous Air Pollutants, the Regional Haze program and New Source Review. In addition, in recent years the U.S. EPA has adopted more stringent NAAQS for PM, nitrogen oxide and sulfur dioxide. The EPA is expected to propose a more stringent ozone standard from the current standard. The Sierra Club and others requested the U.S. District Court for the Northern District of California on January 21, 2014 to order the EPA to propose a new ozone NAAQS by December 1, 2014 and issue a final rule by October 1, 2015. The actual final rule date remains unknown at this time. More stringent standards may trigger additional control technology for mining equipment, or result in additional challenges to permitting and expansion efforts. Many of these air emissions programs and regulations have resulted in litigation which has not been completely resolved.

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In December 2009, the EPA published its finding that atmospheric concentrations of greenhouse gases endanger public health and welfare within the meaning of the Clean Air Act, and that emissions of greenhouse gases from new motor vehicles and motor vehicle engines are contributing to air pollution that are endangering public health and welfare within the meaning of the Clean Air Act. In May 2010, the EPA published final greenhouse gas emission standards for new motor vehicles pursuant to the Clean Air Act. Both the endangerment finding and motor vehicle standards have been the subject of litigation. Because the Clean Air Act specifies that the prevention of significant deterioration (PSD) program applies once emissions of regulated pollutants exceed either 100 or 250 tons per year (depending on the type of source), millions of sources previously unregulated under the Clean Air Act could be subject to greenhouse gas reduction measures. The EPA published a rule in June 2010 to limit the number of greenhouse gas sources that would be subject to the PSD program. In the so-called "tailoring rule," the EPA limited the regulation of greenhouse gases from certain stationary sources to those that emit more than 75,000 tons of greenhouse gases per year (for sources that would be subject to PSD permitting regardless of greenhouse gas emissions due to other emissions) or 100,000 tons of greenhouse gases per year (for sources not subject to PSD permitting for any other air emissions), measured by "carbon dioxide equivalent."

In a decision issued on June 26, 2012, the U.S. Court of Appeals for the District of Columbia (D.C. Circuit) affirmed the EPA's endangerment finding, its motor vehicle greenhouse gas rule and the tailoring rule. In a decision issued on December 20, 2012, the same court denied petitions to reconsider that decision. Petitions for review to the U.S. Supreme Court (Supreme Court) were filed, and on October 15, 2013, the Supreme Court accepted six petitions for review, but only a single question is being considered: "Whether the EPA permissibly determined that its regulation of greenhouse gas emissions from new motor vehicles triggered permitting requirements under the Clean Air Act for stationary sources that emit greenhouse gases." A decision in the case will likely come by June 2014. This review will not affect the D.C. Circuit decision upholding the EPA's 2009 "endangerment finding" with respect to greenhouse gas emissions from new motor vehicles. However, the decision could have a significant impact on EPA rules, proposed rules and rules under development that may affect the demand for coal, including the proposed NSPS for carbon dioxide emissions from new fossil fuel-fired electric utility generating units and the performance standards under development for carbon dioxide emissions from existing power plants.

Proposed NSPS for Fossil Fuel-Fired Electricity Utility Generating Units. On April 13, 2012, the EPA published for comment proposed NSPS for emissions of carbon dioxide from new fossil fuel-fired electric utility generating units. If those standards are adopted as proposed, it is unlikely, with a few possible exceptions, that any new coal-fired electric utility generating units could be constructed in the U.S. as CCS technologies are not yet commercially viable.

In light of over 2 million comments on its April 13, 2012 proposal and ongoing developments in the industry, the EPA subsequently indicated its intention to issue a new proposal. On June 25, 2013, the U.S. President directed the EPA to issue that new proposal by September 30, 2013 and to finalize it in a timely manner. On September 20, 2013, the EPA revoked its April 13, 2012 proposal and issued a new proposed NSPS for emissions of carbon dioxide from new fossil fuel-fired electric utility generating units, using section 111(b) of the Clean Air Act. On January 8, 2014, the re-proposal was published in the Federal Register, with the comment deadline stated as March 10, 2014.

The EPA has not yet proposed rules for modified sources under section 111(b) of the Clean Air Act or existing sources under section 111(d) of the Clean Air Act. However, the U.S. President directed the EPA, in the June 25, 2013 statement referred to above, to issue such standards, regulations or guidelines, as appropriate, addressing carbon pollution from existing, modified and reconstructed power plants. The President also requested that the EPA: (a) issue a proposal addressing such matters by June 1, 2014; (b) finalize it by June 1, 2015; and (c) include, in the guidelines addressing existing power plants, a requirement that states submit to the EPA implementation plans required under Section 111(d) of the Clean Air Act by June 30, 2016. We believe that any final rules issued by the EPA in this area will be challenged.

Cross State Air Pollution Rule (CSAPR). On July 6, 2011, the EPA finalized the CSAPR, which requires 28 states from Texas eastward (not including the New England states or Delaware) to significantly improve air quality by reducing power plant emissions that cross state lines and contribute to ozone and/or fine particle pollution in other states. Under the CSAPR, the first phase of the nitrogen oxide and sulfur dioxide emissions reductions was to commence in 2012 with further reductions effective in 2014. In October 2011, the EPA proposed amendments to the

CSAPR to increase emission budgets in ten states, including Texas, and ease limits on market-based compliance options. While the CSAPR had an initial compliance deadline of January 1, 2012, the rule was challenged and on December 30, 2011, the D.C. Circuit stayed the rule and advised that the EPA is expected to continue administering the Clean Air Interstate Rule (CAIR) until the pending challenges are resolved. The court vacated the CSAPR on August 21, 2012, in a 2 to 1 decision, concluding that the rule was beyond the EPA's statutory authority. On October 5, 2012, the EPA petitioned for en banc review of that decision by the entire D.C. Circuit, which denied the EPA's petition on January 24, 2013. On March 29, 2013, the Solicitor General's Office, on behalf of the EPA, and, separately, certain non-governmental organizations, filed petitions for writs of certiorari with the Supreme Court seeking Supreme Court review of the D.C. Circuit's decision. The Supreme Court granted these petitions on June 24, 2013, held oral arguments on December 10, 2013 and will likely issue a decision by June 2014.

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Mercury and Air Toxic Standards (MATS). On December 16, 2011, the EPA issued MATS, which imposes MACT emission limits on hazardous air emissions from new and existing coal-fueled electric generating plants. The rule also revised NSPS for nitrogen oxides, sulfur dioxides and particulate matter for new and modified coal-fueled electricity generating plants. The MACT rule provides three years for compliance and a possible fourth year as a state permitting agency may deem necessary. On March 28, 2013, the EPA issued reconsidered MACT standards for new plants that are less stringent in some aspects than the standards issued in December 2011. On June 24, 2013, certain environmental organizations and industry groups filed an appeal of these regulations in the D.C. Circuit, and oral arguments were held on December 10, 2013. The rule could result in the retirement of certain older coal plants.

Clean Water Act. The Clean Water Act of 1972 directly impacts U.S. coal mining operations by requiring effluent limitations and treatment standards for wastewater discharge from mines through the National Pollutant Discharge Elimination System (NPDES). Regular monitoring, reporting and performance standards are requirements of NPDES permits that govern the discharge of water from mine-related point sources into receiving waters.

The U.S. Army Corps of Engineers (Corps) regulates certain activities affecting navigable waters and waters of the U.S., including wetlands. Section 404 of the Clean Water Act requires mining companies to obtain Corps permits to place material in streams for the purpose of creating slurry ponds, water impoundments, refuse areas, valley fills or other mining activities.

States are empowered to develop and apply “in stream” water quality standards. These standards are subject to change and must be approved by the EPA. Discharges must either meet state water quality standards or be authorized through available regulatory processes such as alternate standards or variances. “In stream” standards vary from state to state. Additionally, through the Clean Water Act section 401 certification program, states have approval authority over federal permits or licenses that might result in a discharge to their waters. States consider whether the activity will comply with their water quality standards and other applicable requirements in deciding whether or not to certify the activity.

In September 2013, a draft rule identifying waters protected by the Clean Water Act was sent to the Office of Management and Budget. This draft rule may be formally proposed by the EPA in early 2014, but we believe the final rule will not likely be issued until 2015. Litigation is likely from various stakeholders. If CWA authority is eventually expanded, it may impact our operations in some areas by way of additional requirements.

National Environmental Policy Act (NEPA). NEPA, signed into law in 1970, requires federal agencies to review the environmental impacts of their decisions and issue either an environmental assessment or an environmental impact statement. We must provide information to agencies when we propose actions that will be under the authority of the federal government. The NEPA process involves public participation and can involve lengthy timeframes.

Resource Conservation and Recovery Act (RCRA). RCRA, which was enacted in 1976, affects U.S. coal mining operations by establishing “cradle to grave” requirements for the treatment, storage and disposal of hazardous wastes. Typically, the only hazardous wastes generated at a mine site are those from products used in vehicles and for machinery maintenance. Coal mine wastes, such as overburden and coal cleaning wastes, are not considered hazardous wastes under RCRA.

Subtitle C of RCRA exempted fossil fuel combustion wastes from hazardous waste regulation until the EPA completed a report to Congress and made a determination on whether the wastes should be regulated as hazardous. A recent federal district court decision in the District of Columbia requires the EPA to soon submit to the court a proposed deadline for completing the agency’s CCR rulemaking process. This EPA initiative is separate from the OSM CCR rulemaking mentioned above.

Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). Although typically not applied to the coal mining sector, CERCLA, which was enacted in 1980, nonetheless may affect U.S. coal mining operations by creating liability for investigation and remediation in response to releases of hazardous substances into the environment and for damages to natural resources. Under CERCLA, joint and several liabilities may be imposed on waste generators, site owners or operators and others, regardless of fault.

Toxic Release Inventory. Arising out of the passage of the Emergency Planning and Community Right-to-Know Act in 1986 and the Pollution Prevention Act passed in 1990, the EPA's Toxic Release Inventory program requires companies to report the use, manufacture or processing of listed toxic materials that exceed established thresholds,

including chemicals used in equipment maintenance, reclamation, water treatment and ash received for mine placement from power generation customers.

Endangered Species Act (ESA). The ESA of 1973 and counterpart state legislation is intended to protect species whose populations allow for categorization as either endangered or threatened. Changes in listings or requirements under these regulations could have a material adverse effect on our our costs or our ability to mine some of our properties in accordance with our current mining plans.

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Use of Explosives. Our surface mining operations are subject to numerous regulations relating to blasting activities. Pursuant to these regulations, we incur costs to design and implement blast schedules and to conduct pre-blast surveys and blast monitoring. The storage of explosives is subject to strict federal regulatory requirements. The U.S. Bureau of Alcohol, Tobacco and Firearms (ATF) regulates the use of explosive blasting materials. In addition to ATF regulation, the Department of Homeland Security (DHS) is expected to finalize an ammonium nitrate security program rule in 2014. While such new regulations may result in additional costs related to our surface mining operations, such costs are not expected to have a material adverse effect on our results of operations, financial condition or cash flows.

Regulatory Matters — Australia

The Australian mining industry is regulated by Australian federal, state and local governments with respect to environmental issues such as land reclamation, water quality, air quality, dust control, noise, planning issues (such as approvals to expand existing mines or to develop new mines) and health and safety issues. The Australian federal government retains control over the level of foreign investment and export approvals. Industrial relations are regulated under both federal and state laws. Australian state governments also require coal companies to post deposits or give other security against land which is being used for mining, with those deposits being returned or security released after satisfactory reclamation is completed.

Native Title and Cultural Heritage. Since 1992, the Australian courts have recognized that native title to lands, as recognized under the laws and customs of the Aboriginal inhabitants of Australia, may have survived the process of European settlement. These developments are supported by the Federal Native Title Act which recognizes and protects native title, and under which a national register of native title claims has been established. Native title rights do not extend to minerals; however, native title rights can be affected by the mining process unless those rights have previously been extinguished. There is also federal and state legislation to prevent damage to Aboriginal cultural heritage and archaeological sites.

Mining Tenements and Environmental. In Queensland and New South Wales, the development of a mine requires both the grant of a right to impact the environment and an approval which authorizes the environmental impact. These approvals are obtained under separate legislation from separate government authorities. However, the application processes run concurrently and are also concurrent with any native title or cultural heritage process that is required. The environmental impacts of mining projects are regulated by state and federal governments. Federal regulation will only apply if the particular project will significantly impact a matter of national environmental significance (for example, a water resource, an endangered species or particular protected places). Environmental approvals processes involve complex issues that, on occasion, require lengthy studies and documentation.

Our Australian mining operations are generally subject to local, state and federal laws and regulations. At the federal level, these legislative acts include, but are not limited to, the Environment Protection and Biodiversity Act 1999, Native Title Act 1993, Australian Heritage Council Act 2003 and the Aboriginal and Torres Strait Islander Heritage Protection Act 1984.

In Queensland, laws and regulations related to mining include, but are not limited to, the Mineral Resources Act 1989, Environmental Protection Act 1994 (EP Act), Environmental Protection Regulation 1998, Integrated Planning Act 1997, Building Act 1975, Explosives Act 1999, Aboriginal Cultural Heritage Act 2003, Water Act 2000, State Development and Public Works Organisation Act 1971, Queensland Heritage Act 1992, Transport Infrastructure Act 1994, Nature Conservation Act 1992, Vegetation Management Act 1999, Land Protection (Pest and Stock Route Management) Act 2002, Land Act 1994, Fisheries Act 1994 and Forestry Act 1959. Under the EP Act, policies have been developed to achieve the objectives of the law and provide guidance on specific areas of the environment, including air, noise, water and waste management. State planning policies address matters of Queensland State interest, and must be adhered to during mining project approvals. Increased emphasis has recently been placed on topics including, but not limited to, hazardous dams assessment and the protection of strategic cropping land.

In New South Wales, laws and regulations related to mining include, but are not limited to, the Mining Act 1992, Coal Mines Regulation Act 1982, Mine Subsidence Compensation Act 1961, Environmental Planning and Assessment Act 1979 (EP&A Act), Environmental Planning and Assessment Regulations 2000, Protection of the Environment Operations Act 1997, Contaminated Land Management Act 1997, Explosives Act 2003, Water Management Act 2000, Water Act 1912, Radiation Control Act 1990, Heritage Act 1977, Aboriginal Land Rights Act 1983, Crown

Lands Act 1989, Dangerous Goods Act 2008, Fisheries Management Act 1994, Forestry Act 1916, Native Title (New South Wales) Act 1994, Native Vegetation Act 2003, Noxious Weeds Act 1993, Roads Act 1993, and National Parks & Wildlife Act 1974. Under the EP&A Act, environmental planning instrument provisions must be taken into consideration. There are multiple State Environmental Planning Policies (SEPPs) relevant to coal projects in New South Wales. Amendments to the SEPPs related to mining surrounding the protection of agriculture, water resources and critical industry clusters are under consideration.

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Occupational Health and Safety. State legislation requires us to provide and maintain a safe working environment for the people employed in our mines including by providing safe systems of work, safety equipment and appropriate information, instruction, training and supervision. In recognition of the specialized nature of mining and mining activities, specific occupational health and safety obligations have been mandated under state legislation specific to the coal mining industry. There are some differences in the application and detail of the laws, and mining operators, directors, officers and certain other employees are all subject to the obligations under this legislation.

Industrial Relations. A national industrial relations system administered by the federal government applies to all private sector employers and employees. The matters regulated under the national system include employment conditions, unfair dismissal, enterprise bargaining, industrial action and resolution of workplace disputes. Many of the workers employed in our mines are covered by enterprise agreements approved under the national system.

National Greenhouse and Energy Reporting Act 2007 (NGER Act). In 2007, a single, national reporting system relating to greenhouse gas emissions, energy use and energy production was introduced. The NGER Act imposes requirements for corporations meeting a certain threshold to register and report greenhouse gas emissions and abatement actions, as well as energy production and consumption. Information collected through this system provides the basis for assessing liability under a carbon pricing mechanism. The Clean Energy Regulator administers the NGER Act. The Department of Environment is responsible for NGER Act-related policy developments and review. Both foreign and local corporations that meet the prescribed carbon dioxide and energy production or consumption limits in Australia (Controlling Corporations) must comply with the NGER Act. One of our subsidiaries is now registered as a Controlling Corporation and must report annually on the greenhouse gas emissions and energy production and consumption of our Australian entities.

Queensland Royalty. In September 2012, the State of Queensland announced new royalty rates on coal prices. The royalty change went into effect on October 1, 2012 and raised the royalty payment to the State of Queensland on coal prices over $100 per tonne from 10% to 12.5% for pricing up to $150 per tonne and 15% on pricing over $150 per tonne. There was no change to the 7% rate for coal sold below $100 per tonne. The ultimate impact of these royalty rates will depend upon the volume of tonnes produced at each of our Queensland mining locations and coal prices received for those tonnes.

2013 Australian Elections. A federal election to determine the members of the 44th Parliament of Australia was held on September 7, 2013, resulting in the overall defeat of the incumbent Australian Labor Party by the Liberal-National Party coalition (the Coalition). Prior to the election, the Coalition called for the repeal of the Australian government’s carbon pricing framework and Minerals Resource Rent Tax (MRRT), both of which are discussed in additional detail below, and reiterated that stance when it released its Resource and Energy Policy. On November 20, 2013, Australia's House of Representatives voted to repeal the carbon pricing framework and the MRRT, thereby sending the related legislative packages to the Senate for consideration in 2014. While we would anticipate a modest improvement in our costs from the repeal of this legislation, the timing and likelihood of success of such a repeal remains uncertain.

Carbon Pricing Framework. The Australian government's carbon pricing framework commenced on July 1, 2012, with an initial carbon price of $23.00 Australian dollars per tonne of carbon dioxide equivalent emissions, scheduled to escalate by 2.5% per year for inflation over a three year period and transition to an emissions trading scheme after June 30, 2015. All of our Australian operations have been impacted by the fugitive emissions portion of the framework (defined as the methane and carbon dioxide which escapes into the atmosphere when coal is mined and gas is produced). Net of transition benefits, we recognized expense of approximately $40 million and $15 million in 2013 and 2012, respectively, related to this framework.

MRRT. On March 29, 2012, Australia passed legislation creating the MRRT effective from July 1, 2012. The MRRT is a profits-based tax of our 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 Australian Tax Office, 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. We have 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. As of December 31, 2013, we had recorded a net deferred tax asset of approximately $15 million related to the MRRT.

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Regulatory Matters — Financial Markets and Derivatives

Dodd-Frank Act - Derivatives Regulation. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was enacted, which among other things, requires the Commodity Futures Trading Commission (CFTC) and the SEC to adopt new comprehensive regulations related to financial derivative transactions. The CFTC and SEC have finalized many definitions and rule makings and the full impact of the new regulatory regime has mostly taken shape. We are eligible for the commercial end-user exemption available under the Dodd-Frank Act and are in full compliance with the finalized portion of these regulations. We expect that the Dodd-Frank Act will primarily continue to impact us through an increase in compliance and transaction costs associated with our corporate hedging and trading and brokerage activities.

European Markets Infrastructure Regulation (EMIR). In July 2012, the European Commission adopted EMIR, which is related to over-the-counter derivatives, central counterparties and trade repositories. EMIR requires that information on all European derivative transactions be reported to trade repositories and accessible to supervisory authorities, including the European Securities and Markets Authority. The regulation also requires standard derivative contracts to be cleared through Central Counterparties (CCPs), requires margining for uncleared trades and establishes stringent organizational, business conduct and prudential requirements for these CCPs. In December 2012, the European Commission adopted technical standards complimenting the regulation. We expect that EMIR and the related technical standards will increase compliance and transaction costs associated with our corporate hedging and trading and brokerage activities. The legislation is not expected to have an impact on our trading strategies utilized to hedge or mitigate risk related to asset production and commercial activities.

Markets in Financial Instruments Directive (MiFID). In October 2011, the European Commission adopted proposals to revise its MiFID and to enact a new Markets in Financial Instruments Regulation. We expect these will increase compliance and transaction costs associated with our corporate hedging and trading and brokerage activities.

Regulatory Matters — Mongolia

As noted above, we currently own a 50% interest in the Peabody-Winsway Resources B.V. joint venture, which holds coal and mineral interests in Mongolia and is regulated by Mongolian federal, provincial and local governments with respect to exploration, development, production, occupational health, mine safety, water use, environmental protection and remediation, foreign investment and other related matters. The Mineral Resources Authority of Mongolia is the government agency with the authority to issue, extend and revoke mineral licenses, which generally give the license holder the right to engage in the mining of minerals within the license area for 30 years (with the right to extend for two additional periods of 20 years). Mongolian law provides for state participation in the exploitation of any mineral deposit of “strategic importance,” as determined by the Mongolian Parliament.

Global Climate

In the U.S., Congress has considered legislation addressing global climate issues and greenhouse gas emissions, but to date nothing has been enacted. While it is possible that the U.S. will adopt legislation in the future, the timing and specific requirements of any such legislation are uncertain. In the absence of new U.S. federal legislation, the EPA is undertaking steps to regulate greenhouse gas emissions pursuant to the Clean Air Act. In response to the 2007 U.S. Supreme Court ruling in Massachusetts v. EPA, the EPA has commenced several rulemaking projects as described under “Regulatory Matters-U.S. - Clean Air Act.”

A number of states in the U.S. have adopted programs to regulate greenhouse gas emissions. For example, 10 northeastern states (Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island and Vermont) entered into the Regional Greenhouse Gas Initiative (RGGI) in 2005, which is a mandatory cap-and-trade program to cap regional carbon dioxide emissions from power plants. In 2011, New Jersey announced its withdrawal from RGGI effective January 1, 2012. Six midwestern states (Illinois, Iowa, Kansas, Michigan, Minnesota and Wisconsin) and one Canadian province have entered into the Midwestern Regional Greenhouse Gas Reduction Accord (MGGRA) to establish voluntary regional greenhouse gas reduction targets and develop a voluntary multi-sector cap-and-trade system to help meet the targets. It has been reported that, while the MGGRA has not been formally suspended, the participating states are no longer pursuing it. Seven western states (Arizona, California, Montana, New Mexico, Oregon, Utah and Washington) and four Canadian provinces entered into the Western Climate Initiative (WCI) in 2008 to establish a voluntary regional greenhouse gas reduction goal and

develop market-based strategies to achieve emissions reductions. However, in November 2011, the WCI announced that six states had withdrawn from the WCI, leaving California and four Canadian provinces as the remaining members. Of those five jurisdictions, only California and Quebec have adopted greenhouse gas cap-and-trade regulations to date and both programs have begun operating. Many of the states and provinces that left WCI, RGGI and MGGRA, along with many that continue to participate, have joined the new North America 2050 initiative, which seeks to reduce greenhouse gas emissions and create economic opportunities in ways not limited to cap-and-trade programs.

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In the U.S., several states have enacted legislation establishing greenhouse gas emissions reduction goals or requirements. In addition, several states have enacted legislation or have in effect regulations requiring electricity suppliers to use renewable energy sources to generate a certain percentage of power or that provide financial incentives to electricity suppliers for using renewable energy sources.

We participated in the Department of Energy's Voluntary Reporting of Greenhouse Gases Program until its suspension in May 2011, and regularly disclose in our Corporate and Social Responsibility Report the quantity of emissions per ton of coal produced by us in the U.S. The vast majority of our emissions are generated by the operation of heavy machinery to extract and transport material at our mines.

In 2013, the U.S. and a number of international development banks, including the World Bank, the European Investment Bank and the European Bank for Reconstruction and Development, announced that they would no longer provide financing for the development of new coal-fueled power plants or would do so only in narrowly defined circumstances. Other international development banks, such as the Asian Development Bank, have indicated that they will continue to provide such financing.

The Kyoto Protocol, adopted in December 1997 by the signatories to the 1992 United Nations Framework Convention on Climate Change, established a binding set of emission targets for developed nations. The U.S. signed the Kyoto Protocol but it was not ratified by the U.S. Senate. Australia ratified the Kyoto Protocol in December 2007 and became a full member in March 2008. There are continuing discussions to develop a treaty to replace the Kyoto Protocol after its expiration in 2012, including at the Cancun meetings in late 2010, the Durban meeting in late 2011 and the Doha meeting in late 2012. At the Doha meeting, an amendment to the Kyoto Protocol was adopted, which includes new commitments for certain parties in a second commitment period, from 2013 to 2020.

Australia's Parliament passed carbon pricing legislation in November 2011. The first three years of the program involve the imposition of a carbon tax that commenced in July 2012 and a mandatory greenhouse gas emissions trading program commencing in 2015. On November 20, 2013, Australia's House of Representatives voted to repeal the carbon pricing framework, thereby sending the related legislative package to the Senate for consideration in 2014.

Enactment of laws or passage of regulations by the U.S. or some of its states or by other countries regarding emissions from the mining of coal, or other actions to limit such emissions, are not expected to have a material adverse effect on our results of operations, financial condition or cash flows.

Enactment of laws or passage of regulations regarding emissions from the combustion of coal by the U.S., some of its states or other countries, or other actions to limit such emissions, could result in electricity generators switching from coal to other fuel sources. Further, policies limiting available financing for the development of new coal-fueled power plants could adversely impact the global demand for coal in the future. The potential financial impact on us of future laws, regulations or other policies will depend upon the degree to which any such laws or regulations force electricity generators to diminish their reliance on coal as a fuel source. That, in turn, will depend on a number of factors, including the specific requirements imposed by any such laws, regulations or other policies, the time periods over which those laws, regulations or other policies would be phased in, the state of commercial development and deployment of CCS technologies and the alternative markets for coal. In view of the significant uncertainty surrounding each of these factors, it is not possible for us to reasonably predict the impact that any such laws, regulations or other policies may have on our results of operations, financial condition or cash flows.

Available Information

We file or furnish annual, quarterly and current reports (including any exhibits or amendments to those reports), proxy statements and other information with the SEC. These materials are available free of charge through our website (www.peabodyenergy.com) as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Information included on our website does not constitute part of this document. These materials may also be accessed through the SEC's website (www.sec.gov) or in the SEC’s Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

In addition, copies of our filings will be made available, free of charge, upon request by telephone at (314) 342-7900 or by mail at: Peabody Energy Corporation, Peabody Plaza, 701 Market Street, St. Louis, Missouri 63101-1826, attention: Investor Relations.

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Item 1A. Risk Factors.

We operate in a rapidly changing environment that involves a number of risks. The following discussion highlights some of these risks and others are discussed elsewhere in this report. These and other risks could materially and adversely affect our business, financial condition, prospects, operating results or cash flows. The following risk factors are not an exhaustive list of the risks associated with our business. New factors may emerge or changes to these risks could occur that could materially affect our business.

Risks Associated with Our Operations

Our profitability depends upon the prices we receive for our coal.

Coal prices are dependent upon factors beyond our control, including:

- the strength of the global economy;
- the demand for electricity;
- the demand for steel, which may lead to price fluctuations in the periodic repricing of our metallurgical coal contracts;
- the global supply of thermal and metallurgical coal;
- changes in the fuel consumption patterns of electric power generators;
- weather patterns and natural disasters;
- competition within our industry and the availability, quality and price of alternative fuels, including natural gas, fuel oil, nuclear, hydroelectric, wind, biomass and solar power;
- the proximity, capacity and cost of transportation and terminal facilities;
- coal and natural gas industry output and capacity;
- governmental regulations and taxes, including those establishing air emission standards for coal-fueled power plants or mandating increased use of electricity from renewable energy sources;
- regulatory, administrative and judicial decisions, including those affecting future mining permits and leases; and
- technological developments, including those related to alternative energy sources, those intended to convert coal-to-liquids or gas and those aimed at capturing and storing carbon dioxide.

In the U.S., our strategy is to selectively renew, or enter into new, long-term supply agreements when we can do so at prices we believe are favorable. In Australia, current industry practice, and our typical practice, is to negotiate pricing for metallurgical coal contracts quarterly and seaborne thermal coal contracts annually, with a portion sold on a shorter-term basis.

If a substantial number of our long-term coal supply agreements terminate, our revenues and operating profits could suffer if we are unable to find alternate buyers willing to purchase our coal on comparable terms to those in our contracts.

Most of our sales are made under coal supply agreements, which are important to the stability and profitability of our operations. The execution of a satisfactory coal supply agreement is frequently the basis on which we undertake the development of coal reserves required to be supplied under the contract, particularly in the U.S.

Many of our coal supply agreements contain provisions that permit the parties to adjust the contract price upward or downward at specified times. We may adjust these contract prices based on inflation or deflation and/or changes in the factors affecting the cost of producing coal, such as taxes, fees, royalties and changes in the laws regulating the mining, production, sale or use of coal. In a limited number of contracts, failure of the parties to agree on a price under those provisions may allow either party to terminate the contract. We sometimes experience a reduction in coal prices in new long-term coal supply agreements replacing some of our expiring contracts. Coal supply agreements also typically contain force majeure provisions allowing temporary suspension of performance by us or the customer during the duration of specified events beyond the control of the affected party. Most of our coal supply agreements contain provisions requiring us to deliver coal meeting quality thresholds for certain characteristics such as Btu, sulfur content, ash content, grindability and ash fusion temperature. Failure to meet these specifications could result in economic penalties, including price adjustments, the rejection of deliveries or termination of the contracts. Moreover, some of these agreements permit the customer to terminate the contract if transportation costs, which our customers typically bear, increase substantially. In addition, some of these contracts allow our customers to terminate their contracts in the event of changes in regulations affecting our industry that restrict the use or type of coal permissible at the customer’s plant or increase the price of coal beyond specified limits.

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The operating profits we realize from coal sold under supply agreements depend on a variety of factors. In addition, price adjustment and other provisions may increase our exposure to short-term coal price volatility provided by those contracts. If a substantial portion of our coal supply agreements were modified or terminated, we could be materially adversely affected to the extent that we are unable to find alternate buyers for our coal at the same level of profitability. Market prices for coal vary by mining region and country. As a result, we cannot predict the future strength of the coal market overall or by mining region and cannot provide assurance that we will be able to replace existing long-term coal supply agreements at the same prices or with similar profit margins when they expire.

The loss of, or significant reduction in, purchases by our largest customers could adversely affect our revenues.

For the year ended December 31, 2013, we derived 25% of our total revenues from our five largest customers. Those five customers were supplied primarily from 46 coal supply agreements (excluding trading transactions) expiring at various times from 2014 to 2026. The contract contributing the greatest amount of annual revenue in 2013 was approximately $340 million, or approximately 5% of our 2013 total revenue base. We are currently discussing the extension of existing agreements or entering into new long-term agreements with some of these customers, but these negotiations may not be successful and those customers may not continue to purchase coal from us under long-term coal supply agreements. If a number of these customers significantly reduce their purchases of coal from us, or if we are unable to sell coal to them on terms as favorable to us as the terms under our current agreements, our financial condition and results of operations could suffer materially. In addition, our revenue could be adversely affected by a decline in customer purchases due to lack of demand, cost of competing fuels and environmental and other governmental regulations.

Our operating results could be adversely affected by unfavorable economic and financial market conditions.

In recent years, the global economic recession and the worldwide financial and credit market disruptions had a negative impact on us and on the coal industry generally. If any of these conditions return, if coal prices continue at or below levels experienced in 2013 for a prolonged period or if there are further downturns in economic conditions, particularly in developing countries such as China and India, our business, financial condition or results of operations could be adversely affected. While we are focused on cost control, productivity improvements, increased contributions from our high-margin operations and capital discipline, there can be no assurance that these actions, or any others we may take, will be sufficient in response to challenging economic and financial conditions.

Our ability to collect payments from our customers could be impaired if their creditworthiness or contractual performance deteriorates.

Our ability to receive payment for coal sold and delivered or for financially settled contracts depends on the continued creditworthiness and contractual performance of our customers and counterparties. Our customer base has changed with deregulation in the U.S. as utilities have sold their power plants to their non-regulated affiliates or third parties and with our continued expansion in the Asia-Pacific region. These new customers may have credit ratings that are below investment grade or are not rated. If deterioration of the creditworthiness of our customers occurs or they fail to perform the terms of their contracts with us, our accounts receivable securitization program and our business could be adversely affected.

Risks inherent to mining could increase the cost of operating our business.

Our mining operations are subject to conditions that can impact the safety of our workforce, or delay coal deliveries or increase the cost of mining at particular mines for varying lengths of time. These conditions include fires and explosions from methane gas or coal dust; accidental mine water discharges; weather, flooding and natural disasters; unexpected maintenance problems; unforeseen delays in implementation of mining technologies that are new to our operations; key equipment failures; variations in coal seam thickness; variations in coal quality; variations in the amount of rock and soil overlying the coal deposit; variations in rock and other natural materials and variations in geologic conditions. We maintain insurance policies that provide limited coverage for some of these risks, although there can be no assurance that these risks would be fully covered by our insurance policies. Despite our efforts, such conditions could occur and have a substantial impact on our results of operations, financial condition or cash flows.

If transportation for our coal becomes unavailable or uneconomic for our customers, our ability to sell coal could suffer.

Transportation costs represent a significant portion of the total cost of coal use and the cost of transportation is a critical factor in a customer’s purchasing decision. Increases in transportation costs and the lack of sufficient rail and port capacity could lead to reduced coal sales. As of December 31, 2013, certain of our coal supply agreements permit the customer to terminate the contract if the cost of transportation increases by an amount over specified levels in any given 12-month period.

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We depend upon rail, barge, trucking, overland conveyor and ocean-going vessels to deliver coal to our customers. While our coal customers typically arrange and pay for transportation of coal from the mine or port to the point of use, disruption of these transportation services because of weather-related problems, infrastructure damage, strikes, lock-outs, lack of fuel or maintenance items, underperformance of the port and rail infrastructure, congestion and balancing systems which are imposed to manage vessel queuing and demurrage, non-performance or delays by co-shippers, transportation delays or other events could temporarily impair our ability to supply coal to our customers and thus could adversely affect our results of operations.

A decrease in the availability or increase in costs of key supplies, capital equipment or commodities such as diesel fuel, steel, explosives and tires could decrease our anticipated profitability.

Our mining operations require a reliable supply of mining equipment, replacement parts, fuel, explosives, tires, steel-related products (including roof control materials), lubricants and electricity. There has been some consolidation in the supplier base providing mining materials to the coal industry, such as with suppliers of explosives in the U.S. and both surface and underground equipment globally, that has limited the number of sources for these materials. In situations where we have chosen to concentrate a large portion of purchases with one supplier, it has been to take advantage of cost savings from larger volumes of purchases and to ensure security of supply. If the cost of any of these inputs increased significantly, or if a source for these supplies or mining equipment were unavailable to meet our replacement demands, our profitability could be reduced or we could experience a delay or halt in our production.

Take-or-pay arrangements within the coal industry could significantly affect our costs and the prices we receive for our coal products.

We have substantial take-or-pay arrangements, predominately in Australia, totaling $3.7 billion, with terms ranging up to 26 years, that commit us to pay a minimum amount for rail and port commitments for the delivery of coal even if those commitments go unused. The take-or-pay provisions in these contracts allow us to subsequently apply take-or-pay payments made to deliveries subsequently taken, but these provisions have limitations and we may not be able to utilize all such amounts paid if the limitations apply or if we do not subsequently take sufficient volumes to utilize the amounts previously paid. Additionally, coal companies, including us, may continue to deliver coal during times when it might otherwise be optimal to suspend operations because these take-or-pay provisions effectively convert a marginal cost of selling coal to a fixed operating cost.

An inability of trading, brokerage, mining or freight counterparties to fulfill the terms of their contracts with us could reduce our profitability.

In conducting our trading, brokerage and mining operations, we utilize third-party sources of coal production and transportation, including contract miners and brokerage sources, to fulfill deliveries under our coal supply agreements. While we completed several conversions to owner-operator status at certain of our Australian operations in 2013, a portion of our sales volume continues to come from mines that utilize contract miners. Employee relations at mines that use contract miners are the responsibility of the contractor.

Our profitability or exposure to loss on transactions or relationships is dependent upon the reliability (including financial viability) and price of the third-party suppliers; our obligation to supply coal to customers in the event that weather, flooding, natural disasters or adverse geologic mining conditions restrict deliveries from our suppliers; our willingness to participate in temporary cost increases experienced by our third-party coal suppliers; our ability to pass on temporary cost increases to our customers; the ability to substitute, when economical, third-party coal sources with internal production or coal purchased in the market and the ability of our freight sources to fulfill their delivery obligations. Market volatility and price increases for coal or freight on the international and domestic markets could result in non-performance by third-party suppliers under existing contracts with us, in order to take advantage of the higher prices in the current market. Such non-performance could have an adverse impact on our ability to fulfill deliveries under our coal supply agreements.

Our trading and hedging activities may expose us to earnings volatility and other risks.

We enter into hedging arrangements designed primarily to manage market price volatility of foreign currency (primarily the Australian dollar), diesel fuel, coal and explosives. Also, from time to time, we manage the interest rate risk associated with our variable and fixed rate borrowings using interest rate swaps. Generally, we attempt to designate hedging arrangements as cash flow hedges with gains or losses recorded as a separate component of

stockholders' equity until the hedged transaction occurs (or until hedge ineffectiveness is determined). While we utilize a variety of risk monitoring and mitigation strategies, those strategies require judgment and they cannot anticipate every potential outcome or the timing of such outcomes. As such, there is potential for these hedges to no longer qualify for hedge accounting. If that were to happen, we would be required to recognize the mark to market movements through current year earnings, possibly resulting in increased volatility in our income in future periods. In addition, to the extent that we engage in hedging activities, we may be prevented from realizing the benefits of future price changes of foreign currency, diesel fuel, coal and explosives.

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We also enter into derivative trading instruments, some of which require us to post margin based on the value of those instruments and other credit factors. If our credit is downgraded, the fair value of our hedge portfolio moves significantly, or laws or regulations are passed requiring all hedge arrangements to be exchange-traded or exchange-cleared, we could be required to post additional margin, which could impact our liquidity.

Through our trading and hedging activities, we are also exposed to the nonperformance and credit risk with various counterparties, including exchanges and other financial intermediaries. Should the counterparties to these arrangements fail to perform, we may be forced to enter into alternative arrangements, which could negatively impact our profitability and/or liquidity. In addition, some of our trading and brokerage activities include an increasing number of exchange-settled transactions, which expose us to the margin requirements of the exchange for daily changes in the value of our positions. If there are significant and extended unfavorable price movements against our positions, or if there are future regulations that impose new margin requirements, position limits and capital charges, even if not directly applicable to us, our liquidity could be impacted.

We may not recover our investments in our mining, exploration and other assets, which may require us to recognize impairment charges related to those assets.

The value of our assets may be adversely affected by numerous uncertain factors, some of which are beyond our control, including unfavorable changes in the economic environments in which we operate, lower-than-expected coal pricing, technical and geological operating difficulties, an inability to economically extract our coal reserves and unanticipated increases in operating costs. These may cause us to fail to recover all or a portion of our investments in those assets and may trigger the recognition of impairment charges in the future, which could have a substantial impact on our results of operations.

As described in Note 2. "Asset Impairment and Mine Closure Costs" to the accompanying consolidated financial statements, we recognized aggregate asset impairment and mine closure costs of $528.3 million and $929.0 million in 2013 and 2012, respectively. Because of the volatile nature of U.S. and international coal markets, it is reasonably possible that our current estimates of projected future cash flows from our mining assets may change in the near term, which may result in the need for further adjustments to the carrying value of those assets or adjustments to assets not previously impaired.

Our ability to operate our company effectively could be impaired if we lose key personnel or fail to attract qualified personnel.

We manage our business with a number of key personnel, the loss of whom could have a material adverse effect on us, absent the completion of an orderly transition. In addition, we believe that our future success will depend greatly on our continued ability to attract and retain highly skilled and qualified personnel, particularly personnel with mining experience. We cannot provide assurance that key personnel will continue to be employed by us or that we will be able to attract and retain qualified personnel in the future. Failure to retain or attract key personnel could have a material adverse effect on us.

We could be negatively affected if we fail to maintain satisfactory labor relations.

As of December 31, 2013, we had approximately 8,300 employees, which included approximately 5,900 hourly employees. Approximately 35% of our hourly employees were represented by organized labor unions and generated 19% of 2013 coal production. Additionally, those employed through contract mining relationships in Australia are also members of trade unions. Relations with our employees and, where applicable, organized labor are important to our success. If some or all of our current non-union operations were to become unionized, we could incur an increased risk of work stoppages, reduced productivity and higher labor costs. Also, if we fail to maintain good relations with our union workforce, we could experience labor disputes, work stoppages or other disruptions in production that could negatively impact our profitability.

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Our mining operations could be adversely affected if we fail to appropriately secure our obligations.

U.S. federal and state laws and Australian laws require us to secure certain of our obligations to reclaim lands used for mining, to pay federal and state workers' compensation, to secure coal lease obligations and to satisfy other miscellaneous obligations. The primary methods we use to meet those obligations are to post a corporate guarantee (i.e., self bond), provide a third-party surety bond or provide a letter of credit. As of December 31, 2013, we had $1,365.1 million of self bonding in place for our reclamation obligations. As of December 31, 2013, we also had outstanding surety bonds with third parties, bank guarantees and letters of credit of $1,086.6 million, of which $586.0 million was for post-mining reclamation, $135.0 million related to workers' compensation obligations, $109.9 million was for coal lease obligations and $255.7 million was for other obligations, including road maintenance and performance guarantees. Surety bonds are typically renewable on a yearly basis. Surety bond issuers and holders may not continue to renew the bonds or may demand additional collateral upon those renewals, which may in turn affect our available liquidity. Our ability to maintain and acquire letters of credit is subject to us maintaining compliance under our two primary facilities used for such items, which is our 2013 Credit Facility and our accounts receivable securitization program. Our failure to retain, or inability to acquire, surety bonds or letters of credit or to provide a suitable alternative would have a material adverse effect on us. That failure could result from a variety of factors including the following:

- lack of availability, higher expense or unfavorable market terms of new surety bonds;
- restrictions on the availability of collateral for current and future third-party surety bond issuers under the terms of our indentures or our 2013 Credit Facility;
- the exercise by third-party surety bond issuers of their right to refuse to renew the surety; and
- the inability to renew our 2013 Credit Facility or a default thereunder.

Our ability to self bond reduces our costs of providing financial assurances. To the extent we are unable to maintain our current level of self bonding due to legislative or regulatory changes or changes in our financial condition, our costs would increase and our liquidity available for other uses would be reduced.

Our mining operations are extensively regulated, which imposes significant costs on us, and future regulations and developments could increase those costs or limit our ability to produce coal.

Governmental authorities regulate the coal mining industry with respect to matters such as employee health and safety, permitting and licensing requirements, air quality standards, water pollution, plant and wildlife protection, reclamation and restoration of mining properties after mining is completed, the discharge of materials into the environment, surface subsidence from underground mining and the effects that mining has on groundwater quality and availability. Numerous governmental permits and approvals are required for mining operations. We are required to prepare and present to governmental authorities data pertaining to the effect that any proposed exploration for or production of coal may have upon the environment. The public, including non-governmental organizations, opposition groups and individuals, have statutory rights to comment upon and submit objections to requested permits and approvals. The costs, liabilities and requirements associated with these regulations may be costly and time-consuming and may delay commencement or continuation of exploration or production.