

PEABODY ENERGY CORP
Form 10-K
February 26, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2017
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 13-4004153
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)
701 Market Street, St. Louis, Missouri 63101
(Address of principal executive offices) (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 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

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

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

Indicate by check mark 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
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(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Aggregate market value of the voting stock held by non-affiliates (stockholders who are not directors or executive officers) of the Registrant, calculated using the closing price on June 30, 2017: Common Stock, par value \$0.01 per share, \$1.4 billion.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

Number of shares outstanding of each of the Registrant's classes of Common Stock, as of February 19, 2018: Common Stock, par value \$0.01 per share, 129,717,428 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 2018 Annual Meeting of Shareholders (the Company's 2018 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, as amended, 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,” “target,” “likely,” “will,” “to be” or other 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. These factors are difficult to accurately predict and may be beyond our control. Factors that could affect our results or an investment in our securities include, but are not limited to:

- as a result of our emergence from our Chapter 11 Cases, our historical financial information is not indicative of our future financial performance;

- our profitability depends upon the prices we receive for our coal;

- 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;

- the loss of, or significant reduction in, purchases by our largest customers could adversely affect our revenues;

- our trading and hedging activities do not cover certain risks, and may expose us to earnings volatility and other risks;

- our operating results could be adversely affected by unfavorable economic and financial market conditions;

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

- risks inherent to mining could increase the cost of operating our business;

- if transportation for our coal becomes unavailable or uneconomic for our customers, our ability to sell coal could suffer;

- 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;

- take-or-pay arrangements within the coal industry could unfavorably affect our profitability;

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

- 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;

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

- we could be negatively affected if we fail to maintain satisfactory labor relations;

- we could be adversely affected if we fail to appropriately provide financial assurances for our obligations;

- 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;

- our operations may impact the environment or cause exposure to hazardous substances, and our properties may have environmental contamination, which could result in material liabilities to us;

- we may be unable to obtain, renew or maintain permits necessary for our operations, which would reduce our production, cash flows and profitability;

- our mining operations are subject to extensive forms of taxation, which imposes significant costs on us, and future regulations and developments could increase those costs or limit our ability to produce coal competitively;

- if the assumptions underlying our asset retirement obligations for reclamation and mine closures are materially inaccurate, our costs could be significantly greater than anticipated;

our future success depends upon our ability to continue acquiring and developing coal reserves that are economically recoverable;

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we face numerous uncertainties in estimating our economically recoverable coal reserves and inaccuracies in our estimates could result in lower than expected revenues, higher than expected costs and decreased profitability;

our global operations increase our exposure to risks unique to international mining and trading operations;

joint ventures, partnerships or non-managed operations may not be successful and may not comply with our operating standards;

we may undertake further repositioning plans that would require additional charges;

we could be exposed to significant liability, reputational harm, loss of revenue, increased costs or other risks if we sustain cyber attacks or other security breaches that disrupt our operations or result in the dissemination of proprietary or confidential information about us, our customers or other third-parties;

our expenditures for postretirement benefit and pension obligations could be materially higher than we have predicted if our underlying assumptions prove to be incorrect;

concerns about the environmental impacts of coal combustion, including perceived impacts on global climate issues, are resulting in increased regulation of coal combustion in many jurisdictions, unfavorable lending policies by government-backed lending institutions and development banks toward the financing of new overseas coal-fueled power plants and divestment efforts affecting the investment community, which could significantly affect demand for our products or our securities;

our financial performance could be adversely affected by our indebtedness;

despite our and our subsidiaries' indebtedness, we may still be able to incur substantially more debt, including secured debt. This could further increase the risks associated with our indebtedness;

we may not be able to generate sufficient cash to service all of our indebtedness or other obligations;

the terms of our indenture governing our senior secured notes and the agreements and instruments governing our other post-emergence indebtedness impose restrictions that may limit our operating and financial flexibility;

the price of our securities may be volatile;

our Common Stock is subject to dilution and may be subject to further dilution in the future;

there may be circumstances in which the interests of a significant stockholder could be in conflict with other stockholders' interests;

the payment of dividends on our stock or repurchases of our stock is dependent on a number of factors, and future payments and repurchases cannot be assured;

we may not be able to fully utilize our deferred tax assets;

divestitures and acquisitions are a potentially important part of our long-term strategy, subject to our investment criteria, and involve a number of risks, any of which could cause us not to realize the anticipated benefits;

our certificate of incorporation and by-laws include provisions that may discourage a takeover attempt;

diversity in interpretation and application of accounting literature in the mining industry may impact our reported financial results; and

other risks and 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 federal securities laws.

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The words “we,” “us,” “our,” “Peabody” or “the Company” as used in this report, refer to Peabody Energy Corporation Note: 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

We are the world’s largest private-sector coal company by volume. We own interests in 23 coal mining operations located in the United States (U.S.) and Australia. We have a majority interest in 22 of those mining operations and a 50% equity interest in Middlemount Coal Pty Ltd. (Middlemount), which owns the Middlemount Mine in Queensland, Australia. In addition to our mining operations, we market and broker coal from other coal producers, both as principal and agent, and trade coal and freight-related contracts through trading and business offices in the U.S., Australia, China, and the United Kingdom. In 2017, we achieved a global safety incidence rate of 1.38 incidents per 200,000 hours worked, which was a 26% improvement in our global safety performance over the past five years. We were also recognized by the U.S. National Mining Association as the first in the industry to achieve independent certification under the CORESafety® system.

Filing Under Chapter 11 of the United States Bankruptcy Code

On April 13, 2016 (the Petition Date), Peabody Energy Corporation and a majority of its wholly owned domestic subsidiaries as well as one international subsidiary in Gibraltar (the Filing Subsidiaries, and together with Peabody, the Debtors) filed voluntary petitions for reorganization (the Bankruptcy Petitions) under Chapter 11 of Title 11 of the U.S. Code (the Bankruptcy Code) in the United States Bankruptcy Court for the Eastern District of Missouri (the Bankruptcy Court). The Company’s Australian operations and other international subsidiaries were not included in the filings. The Debtors’ Chapter 11 cases (collectively, the Chapter 11 Cases) were jointly administered under the caption In re Peabody Energy Corporation, et al., Case No. 16-42529 (Bankr. E.D. Mo.). During the Chapter 11 Cases, the Debtors continued to operate their business as “debtors-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. In general, as debtors-in-possession, the Debtors were authorized under Chapter 11 to continue to operate as an ongoing business, but could not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court.

On January 27, 2017, the Debtors filed with the Bankruptcy Court the Second Amended Joint Plan of Reorganization of Debtors and Debtors in Possession (as further modified, the Plan) and the Second Amended Disclosure Statement with Respect to the Second Amended Joint Plan of Reorganization of Debtors and Debtors in Possession (previous versions of the Plan and Disclosure Statement were filed with the Bankruptcy Court on December 22, 2016 and January 25, 2017). Subsequently, the Debtors solicited votes on the Plan. On March 15, 2017, the Debtors filed a revised version of the Plan and on March 16, 2017, the Bankruptcy Court held a hearing to determine whether the Plan should be confirmed. On March 17, 2017, the Bankruptcy Court entered an order, Docket No. 2763 (the Confirmation Order), confirming the Plan. On April 3, 2017 (the Effective Date), the Debtors satisfied the conditions to effectiveness set forth in the Plan, the Plan became effective in accordance with its terms and the Debtors emerged from the Chapter 11 Cases.

A group of creditors (the Ad Hoc Committee) that held certain interests in the Company's prepetition indebtedness appealed the Bankruptcy Court's order confirming the Plan. On December 29, 2017, the United States District Court for the Eastern District of Missouri (the District Court) entered an order dismissing the Ad Hoc Committee's appeal, and, in the alternative, affirming the order confirming the Plan. On January 26, 2018, the Ad Hoc Committee appealed the District Court's order to the United States Court of Appeals for the Eighth Circuit (the Eighth Circuit). In its appeal, the Ad Hoc Committee does not ask the Eighth Circuit to reverse the order confirming the Plan. Instead, the Ad Hoc Committee asks the Eighth Circuit to award the Ad Hoc Committee members either unspecified damages or the right to buy an unspecified amount of Company stock at a discount. The Company does not believe the appeal is meritorious and will vigorously defend it.

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Upon emergence, in accordance with Accounting Standards Codification (ASC) 852, we applied fresh start reporting to our consolidated financial statements as of April 1, 2017 and became a new entity for financial reporting purposes reflecting the Successor (as defined below) capital structure. As a new entity, a new accounting basis in the identifiable assets and liabilities assumed was established with no retained earnings or accumulated other comprehensive income (loss). For additional details, refer to Note 1. "Summary of Significant Accounting Policies" and Note 2. "Emergence from the Chapter 11 Cases and Fresh Start Reporting" to the accompanying consolidated financial statements.

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In connection with our emergence from the Chapter 11 Cases and the adoption of fresh start reporting, the results of operations for 2017 separately present a Successor period (for the period April 2, 2017 through December 31, 2017) and a Predecessor period (for the period January 1, 2017 through April 1, 2017). The results of operations for the years ended 2016 and 2015 are presented as Predecessor periods. References to “Successor” are in reference to reporting dates on or after April 2, 2017; references to “Predecessor” are in reference to reporting dates through April 1, 2017, which include the impact of the Plan provisions and the application of fresh start reporting. Although the 2017 Successor period and the 2017 Predecessor period are distinct reporting periods, the effects of emergence and fresh start reporting did not have a material impact on the comparability of our results of operations between the periods, unless otherwise noted herein. Accordingly, references to 2017 results of operations for year ended December 31, 2017 combine the two periods to enhance the comparability of such information to the prior year.

Segment and Geographic Information

We conduct business through six operating segments: Powder River Basin Mining, Midwestern U.S. Mining, Western U.S. Mining, Australian Metallurgical Mining, Australian Thermal Mining and Trading and Brokerage. 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, 2017. Also shown are the primary ports that we use in Australia for coal exports and our corporate headquarters in St. Louis, Missouri.

U.S. Mining Operations - Powder River Basin, Midwestern, Western

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The principal business of our mining segments in the U.S. is the mining, preparation and sale of thermal coal, sold primarily to electric utilities in the U.S. under long-term contracts, with a portion sold as international exports as conditions warrant. Our Powder River Basin Mining operations consist of our mines in Wyoming. The mines in that segment are characterized by surface mining extraction processes, coal with a lower sulfur content and Btu and higher customer transportation costs (due to longer shipping distances). Our Midwestern U.S. Mining operations include our Illinois and Indiana mining operations, which are characterized by a mix of surface and underground mining extraction processes, coal with a higher sulfur content and Btu, and lower customer transportation costs (due to shorter shipping distances). Our Western U.S. Mining operations reflect the aggregation of our New Mexico, Arizona and Colorado mining operations. The mines in that segment are characterized by a mix of surface and underground mining extraction processes, coal with a mid-range sulfur content and Btu. Geologically, our Powder River Basin Mining operations mine sub-bituminous coal deposits, our Midwestern U.S. Mining operations mine bituminous coal deposits and our Western U.S. Mining operations mine both bituminous and sub-bituminous coal deposits.

As described more fully in Part I, Item 1 under the heading “Transportation”, coal consumed in the U.S. is usually sold at the mine with transportation costs borne by the purchaser. Our U.S. mine sites are typically adjacent to a rail loop; however in limited circumstances coal may be trucked to a barge site. Title predominately passes to the purchaser at the rail or barge, as applicable.

Our U.S. export coal is more typically sold on a delivered basis into the unloading port, and we pay 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). The primary ports used for U.S. exports are 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.

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Australian Mining Operations - Metallurgical, Thermal

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The business of our Australian operating platform is primarily export focused with customers spread across several countries, while a portion of our metallurgical and thermal coal is sold within Australia. Generally, revenues from individual countries vary year by year based on electricity and steel demand, the strength of the global economy, governmental policies and several other factors, including those specific to each country. Our Australian Metallurgical Mining operations consist of mines in Queensland and one in New South Wales, Australia. The mines in that segment are characterized by both surface and underground extraction processes used to mine various qualities of metallurgical coal (low-sulfur, high Btu coal). The metallurgical coal qualities include hard coking coal, semi-hard coking coal, semi-soft coking coal and low-volatile pulverized coal injection (LV PCI) coal. Our Australian Thermal Mining operations consist of mines in New South Wales, Australia. The mines in that segment are characterized by both surface and underground extraction processes used to mine low-sulfur, high Btu thermal coal. We classify our Australian mines within the Australian Metallurgical Mining or Australian Thermal Mining segments based on the primary customer base and coal reserve type of each mining operation. A small portion of the coal mined by the Australian Metallurgical Mining segment is of a thermal grade. Similarly, a small portion of the coal mined by the Australian Thermal Mining segment is of a metallurgical grade. Additionally, we may market some of our metallurgical coal products as a thermal coal product from time to time depending on supply and demand conditions. As described more fully in Part I, Item 1 under the heading “Transportation”, our Australian export coal is usually sold at the loading port, with purchasers paying ocean freight. We have generally secured our ability to transport coal in Australia through rail and port contracts and interests in five east coast coal export terminals. 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).

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The table below summarizes information regarding the operating characteristics of each of our mines that were active in 2017 in the U.S. and Australia. The mines are listed within their respective mining segment in descending order, as determined by tons sold in 2017.

Segment/Mining Complex	Location	Mine Type	Mining Method	Coal Type	Primary Transport Method	2017 Tons Sold (In millions)
Powder River Basin Mining						
North Antelope Rochelle	Wyoming	S	D, DL, T/S	T	R	101.5
Caballo	Wyoming	S	D, T/S	T	R	11.1
Rawhide	Wyoming	S	D, T/S	T	R	10.3
Third party ⁽¹⁾	—	—	—	—	—	2.1
Midwestern U.S. Mining						
Bear Run	Indiana	S	DL, D, T/S	T	Tr, R	7.3
Wild Boar	Indiana	S	D, T/S	T	Tr, R, R/B, T/B	2.7
Gateway North	Illinois	U	CM	T	Tr, R, R/B, T/B	2.5
Somerville Central	Indiana	S	DL, D, T/S	T	R, R/B, T/B, T/R	2.2
Francisco Underground	Indiana	U	CM	T	R	2.1
Wildcat Hills Underground	Illinois	U	CM	T	T/B	1.4
Cottage Grove	Illinois	S	D, T/S	T	T/B	0.3
Western U.S. Mining						
Kayenta	Arizona	S	DL, T/S	T	R	6.2
El Segundo	New Mexico	S	D, DL, T/S	T	R	5.1
Twentymile	Colorado	U	LW	T	R, Tr	3.4
Lee Ranch	New Mexico	S	T/S	T	R	—
Australian Metallurgical Mining						
Coppabella ⁽²⁾	Queensland	S	DL, D, T/S	P	R, EV	2.9
North Goonyella	Queensland	U	LW	M	R, EV	2.9
Millennium	Queensland	S	D, T/S	M, P	R, EV	2.8
Moorvale ⁽²⁾	Queensland	S	D, T/S	P, T	R, EV	2.0
Metropolitan	New South Wales	U	LW	M, P, T	R, EV	1.1
Middlemount ⁽³⁾	Queensland	S	D, T/S	M, P	R, EV	—
Australian Thermal Mining						
Wilpinjong	New South Wales	S	D, T/S	T	R, EV	13.4
Wambo Open-Cut ⁽⁴⁾	New South Wales	S	T/S	T	R, EV	3.5
Wambo Underground ⁽⁴⁾	New South Wales	U	LW	M, T	R, EV	2.3

Legend:

S	Surface Mine	Tr	Truck
U	Underground Mine	R/B	Rail to Barge
DL	Dragline	T/B	Truck to Barge
D	Dozer/Casting	T/R	Truck to Rail
T/S	Truck and Shovel	EV	Export Vessel
LW	Longwall	T	Thermal/Steam
CM	Continuous Miner	M	Metallurgical
R	Rail	P	Pulverized Coal Injection

⁽¹⁾ Third party purchased coal used to satisfy coal supply agreements.

⁽²⁾ We own a 73.3% undivided interest in an unincorporated joint venture that owns the Coppabella and Moorvale mines. The tons shown reflect our share.

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- We own a 50% equity interest in Middlemount, which owns the Middlemount Mine. Because that entity is
- (3) accounted for as an unconsolidated equity affiliate, 2017 tons sold from that mine, which totaled 4.2 million tons (on a 100% basis), have been excluded from the table above.
 - (4) Represents our majority-owned mines in which there is an outside non-controlling ownership interest. 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.

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Trading and Brokerage Segment

Our Trading and Brokerage segment engages in the direct and brokered trading of coal and freight-related contracts through our trading and business offices. 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, including optimization and blending of such coal, coal sourcing arrangements with third-party mining companies or offtake agreements with other coal producers. Our Trading and Brokerage segment also provides transportation-related services, which involve both financial derivative contracts and physical contracts. Collectively, coal and freight-related hedging activities include both economic hedging and, from time to time, cash flow hedging in support of our coal trading strategy.

Corporate and Other Segment

Our Corporate and Other segment includes selling and administrative expenses, including our technical and shared services functions, corporate hedging activities, mining and export/transportation joint ventures, restructuring charges and activities associated with the optimization of our coal reserve and real estate holdings, minimum charges on certain transportation-related contracts, the closure of inactive mining sites and certain energy-related commercial matters.

Resource Management. As of December 31, 2017, we controlled approximately 5.2 billion tons of proven and probable coal reserves and approximately 600,000 acres of surface property through ownership and lease agreements. We have an ongoing asset optimization program whereby our property management 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. These surface lands include acres where we have completed post-mining reclamation. 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 Middlemount, which owns 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 first commenced at the Middlemount Mine in late 2011. During the years ended December 31, 2017, 2016 and 2015, the mine sold 4.2 million, 4.5 million and 4.2 million tons of coal, respectively (on a 100% basis).

Coal Supply Agreements

Customers. Our coal supply agreements are primarily with electricity generators, industrial facilities and steel manufacturers. Most of our sales (excluding trading and brokerage transactions) are made under long-term coal supply agreements (those with initial terms of one year or longer and which often include price reopener and/or extension provisions). A smaller portion of our sales are made under contracts with terms of less than one year, including sales made on a spot basis. Sales under long-term coal supply agreements comprised approximately 83%, 86% and 88% of our worldwide sales from our mining operations (by volume) for the years ended December 31, 2017, 2016 and 2015, respectively. A recent trend has been for our customers under long-term coal supply agreements to seek contracts of shorter duration.

For the year ended December 31, 2017, we derived 27% of our total revenues from our five largest customers. Those five customers were supplied primarily from 21 coal supply agreements (excluding trading and brokerage transactions) expiring at various times from 2018 to 2025. The contract contributing the greatest amount of annual revenue in 2017 was approximately \$277 million, or approximately 5% of our 2017 total revenues, and is due to expire in 2019.

Backlog. Our sales backlog (excluding trading and brokerage transactions), which includes coal supply agreements subject to price reopener and/or extension provisions, was approximately 507 million and 587 million tons of coal as of January 1, 2018 and 2017, respectively. Contracts in backlog have remaining terms ranging from one to 12 years and represent approximately three years of production based on our 2017 production volume of 188.3 million tons. Approximately 69% of our backlog is expected to be filled beyond 2018.

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U.S. Mining Operations. Revenues from our Powder River Basin Mining, Western U.S. Mining and Midwestern U.S. Mining segments, in aggregate, represented approximately 53%, 59% and 63% of our total revenue base for the years ended December 31, 2017, 2016 and 2015, respectively, during which periods the coal mining activities of those segments contributed respective aggregate amounts of approximately 84%, 81% and 83% of our sales volumes from mining operations. We expect to continue selling a significant portion of our Powder River Basin Mining, 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 approach is to selectively renew, or enter into new, long-term supply agreements when we can do so at prices and terms and conditions we believe are favorable.

Australian Mining Operations. Revenues from our Australian Metallurgical Mining and Australian Thermal Mining segments represented approximately 46%, 41% and 36% of our total revenue base for the years ended December 31, 2017, 2016 and 2015, respectively, during which periods the coal mining activities of those segments contributed respective amounts of 16%, 19% and 17% 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 seaborne metallurgical coal contracts on a quarterly, spot or index basis and seaborne thermal coal contracts on an annual, spot or index basis. The portion of volume priced on a shorter-term basis and index linked basis has increased in recent years and represented 30% in 2017.

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, and we pay 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).

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

Export Facilities. Our U.S. Mining operations exported approximately 1%, 0% and 0% of its annual tons sold for the years ended December 31, 2017, 2016 and 2015, respectively. The primary ports used for U.S. exports are 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 periodically assess opportunities for access to West Coast port facilities that will allow us to export our Powder River Basin coal products to serve demand in the Asian region, should market conditions warrant.

Our Australian Mining operations sold approximately 73%, 75% and 77% of its tons into the seaborne coal markets for the years ended December 31, 2017, 2016 and 2015, respectively. We have generally secured our ability to transport coal in Australia through rail and port contracts and interests in five east coast coal export terminals that are primarily funded through take-or-pay arrangements (refer to 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 on our take-or-pay obligations). 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 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.

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There has been consolidation in the supplier base providing certain mining materials and equipment to the coal industry. This has limited the number of global sources for these items, such as surface and underground mining equipment. 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.

Surface and underground mining equipment demand and lead times have begun to extend in recent periods due to recovering market conditions experienced across several extractive industry sectors. We do not expect this to impact our own near-term demand for such equipment as we extend the lives of existing equipment through improved maintenance practices and equipment rebuilds in order to defer the requirement for larger capital purchases. We continue to use our global leverage with major suppliers to ensure security of supply to meet the requirements of our active mines.

Services. We also purchase services at our mine sites, including services related to maintenance for mining equipment, construction, temporary labor, use of explosives and various other requirements. We do not believe that we have undue operational or financial risk associated with our dependence on any individual service providers.

Competition

Demand for coal and the prices that we will be able to obtain for our coal are highly competitive and influenced by factors beyond our control, including but not limited to global economic conditions, the demand for electricity and steel, the cost of alternative fuels, the cost of electricity generation from alternative fuels, including wind, solar, oil, hydro, nuclear, natural gas and biomass, the impact of weather on heating and cooling demand and taxes and environmental regulations imposed by the U.S. and foreign governments.

Thermal Coal

Demand for our thermal coal products is impacted by economic conditions, demand for electricity, including the impact of energy efficient products, and the cost of electricity generation from coal and alternative fuels. Our products compete with producers of other forms of electric generation, including natural gas, oil, nuclear, hydro, wind, solar and biomass, that provide an alternative to coal use. The use and price of thermal coal is heavily influenced by the availability and relative cost of alternative fuels and the generation of electricity utilizing alternative fuels, with customers focused on securing the lowest cost fuel supply in order to coordinate the most efficient utilization of generating resources in the economic dispatch of the power grid at the most competitive price.

In the U.S., natural gas is highly competitive (along with other alternative fuel sources) with thermal coal for electricity generation. The competitiveness of natural gas has been strengthened by accelerated growth in domestic natural gas production and transmission facilities over the last five years and comparatively low natural gas prices (versus historic levels). Gas prices averaged \$3.02 per mmBtu in 2017, versus \$2.55, \$2.63 and \$4.26 per mmBtu in 2016, 2015 and 2014, respectively. Natural gas price trends can significantly impact U.S. coal burn and production. We believe the U.S. Powder River and Illinois basins in which we produce are competitive against natural gas when natural gas prices average in excess of \$2.50 to \$2.75 per mmBtu and \$3.00 to \$3.50 per mmBtu, respectively. In addition, the competitiveness of other alternative fuel sources for electricity generation with coal has been strengthened by the growth of low-cost and government subsidized generation fueled by other alternative fuel sources. Internationally, thermal coal also competes with alternative forms of electric generation. The competitiveness and availability of natural gas, oil, nuclear, hydro, wind, solar and biomass varies by country and region. In addition, seaborne thermal coal import demand can be significantly impacted by the availability of indigenous coal production, particularly in the two leading coal import countries, China and India, among others, and the competitiveness of seaborne supply from leading thermal coal exporting countries, including Indonesia, Australia, Russia, Colombia and South Africa, among others.

In addition to our alternative fuel source competitors, our principal U.S. direct coal supply competitors (listed alphabetically) are other large coal producers, including Alliance Resource Partners, Arch Coal, Inc., Cloud Peak Energy Inc., Contura Energy Inc., Murray Energy Corporation and Westmoreland Coal Company, which collectively

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accounted for approximately 43% of total U.S. coal production in 2016 according to the U.S. Energy Information Administration's "Annual Coal Report 2016," the most recent data publicly available as of November 15, 2017. Major international direct coal supply competitors (listed alphabetically) include Anglo-American PLC, BHP Billiton, China Coal, Coal India Limited, Glencore PLC, PT Bumi Resources Tbk., Rio Tinto, Shenhua Group and Yancoal Australia Ltd, among others.

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Metallurgical Coal

Demand for our metallurgical coal products is impacted by economic conditions, demand for steel and competing technologies used to make steel, some of which do not use coal as a manufacturing input. We compete on the basis of coal quality and characteristics, delivered energy cost (including transportation costs), customer service and support and reliability of supply.

Seaborne metallurgical coal import demand can be significantly impacted by the availability of indigenous coal production, particularly in leading metallurgical coal import countries of China, India, Japan, South Korea and Brazil, among others, and the competitiveness of seaborne metallurgical coal supply, including from leading metallurgical coal exporting countries of Australia, U.S., Russia, Canada and Mongolia, among others.

Major international direct competitors (listed alphabetically) include Anglo-American PLC, BHP Billiton, China Coal, Glencore PLC, PT Bumi Resources Tbk., Rio Tinto and Shenhua Group, among others.

Working Capital

We generally fund our working capital requirements through a combination of existing cash and cash equivalents, proceeds from the sale of our coal production to customers and our trading and brokerage activities. Our current accounts receivable securitization program and revolving credit facility are also available to fund our working capital requirements to the extent we have remaining availability. 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 7,100 employees as of December 31, 2017, including approximately 5,500 hourly employees. Additional information on our employees and related labor relations matters is contained in Note 23. “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 ⁽¹⁾
Glenn L. Kellow	50	President and Chief Executive Officer
Amy B. Schwetz	43	Executive Vice President and Chief Financial Officer
A. Verona Dorch		