PEABODY ENERGY CORP
Form 10-Q
November 06, 2014

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

FORM 10-Q

(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ____________
Commission File Number: 1-16463

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

Delaware	13-4004153
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
701 Market Street, St. Louis, Missouri	63101-1826
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

There were 271,445,649 shares of the registrant's common stock (par value of $0.01 per share) outstanding at October 31, 2014.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions, except per share data)			
Revenues				
Sales	$1,550.5	$1,621.4	$4,619.3	$4,787.2
Other revenues	172.4	176.2	488.4	483.7
Total revenues	1,722.9	1,797.6	5,107.7	5,270.9
Costs and expenses				
Operating costs and expenses (exclusive of items shown separately below)	1,453.3	1,432.1	4,315.7	4,258.7
Depreciation, depletion and amortization	163.6	186.4	483.9	542.8
Asset retirement obligation expenses	15.0	13.4	46.5	50.7
Selling and administrative expenses	52.9	55.0	171.6	184.1
Other operating (income) loss:				
Net gain on disposal or exchange of assets	(13.9)	(4.1)	(25.9)	(49.9)
Asset impairment	—	—	—	21.5
Loss from equity affiliates	15.8	2.6	44.0	35.6
Operating profit	36.2	112.2	71.9	227.4
Interest expense	114.5	111.0	323.0	323.1
Interest income	(3.7)	(4.2)	(11.7)	(11.2)
(Loss) income from continuing operations before income taxes	(74.6)	5.4	(239.4)	(84.5)
Income tax provision (benefit)	79.4	(18.6)	30.9	(199.6)
(Loss) income from continuing operations, net of income taxes	(154.0)	24.0	(270.3)	115.1
Income (loss) from discontinued operations, net of income taxes	5.0	(43.1)	6.0	(66.5)
Net (loss) income	(149.0)	(19.1)	(264.3)	48.6
Less: Net income attributable to noncontrolling interests	1.6	7.0	8.1	7.8
Net (loss) income attributable to common stockholders	$(150.6)	$(26.1)	$(272.4)	$40.8
(Loss) income from continuing operations:				
Basic (loss) income per share	$(0.58)	$0.06	$(1.04)	$0.40
Diluted (loss) income per share	$(0.58)	$0.06	$(1.04)	$0.40
Net (loss) income attributable to common stockholders:				
Basic (loss) income per share	$(0.56)	$(0.10)	$(1.02)	$0.15
Diluted (loss) income per share	$(0.56)	$(0.10)	$(1.02)	$0.15
Dividends declared per share	$0.085	$0.085	$0.255	$0.255

See accompanying notes to unaudited condensed consolidated financial statements.

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PEABODY ENERGY CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Net (loss) income	$(149.0)	$(19.1)	$(264.3)	$48.6
Other comprehensive (loss) income, net of income taxes:				
Net change in unrealized holding (losses) gains on available-for-sale securities (net of respective tax (benefit) provision of ($0.2), $1.8, ($1.0) and $1.7)				
Unrealized holding (losses) gains on available-for-sale securities	(0.4)	2.9	(1.7)	(10.7)
Less: Reclassification for realized losses included in net (loss) income	—	—	—	13.3
Net change in unrealized (losses) gains on available-for-sale securities	(0.4)	2.9	(1.7)	2.6
Net unrealized (losses) gains on cash flow hedges (net of respective tax (benefit) provision of ($104.2), $6.7, $1.9 and ($221.3))				
(Decrease) increase in fair value of cash flow hedges	(180.6)	27.3	3.5	(217.7)
Less: Reclassification for realized losses (gains) included in net (loss) income	3.4	(34.8)	(1.6)	(175.5)
Net unrealized (losses) gains on cash flow hedges	(177.2)	(7.5)	1.9	(393.2)
Postretirement plans and workers' compensation obligations (net of respective tax provision of $4.0, $8.3, $1.8 and $25.0)				
Prior service cost for the period	—	—	(17.4)	—
Amortization of actuarial loss and prior service cost included in net (loss) income	6.8	14.2	20.4	42.6
Postretirement plans and workers' compensation obligations	6.8	14.2	3.0	42.6
Foreign currency translation adjustment	(36.8)	4.5	(10.4)	(68.9)
Other comprehensive (loss) income, net of income taxes	(207.6)	14.1	(7.2)	(416.9)
Comprehensive loss	(356.6)	(5.0)	(271.5)	(368.3)
Less: Comprehensive income attributable to noncontrolling interests	1.6	7.0	8.1	7.8
Comprehensive loss attributable to common stockholders	$(358.2)	$(12.0)	$(279.6)	$(376.1)

See accompanying notes to unaudited condensed consolidated financial statements.

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PEABODY ENERGY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 2014	December 31, 2013
	(In millions, except per share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$466.5	$444.0
Accounts receivable, net of allowance for doubtful accounts of $7.1 at September 30, 2014 and $7.4 at December 31, 2013	490.0	557.9
Inventories	490.9	506.7
Assets from coal trading activities, net	52.7	36.1
Deferred income taxes	106.9	66.4
Other current assets	324.4	381.6
Total current assets	1,931.4	1,992.7
Property, plant, equipment and mine development, net	10,651.1	11,082.5
Deferred income taxes	4.9	7.8
Investments and other assets	957.3	1,050.4
Total assets	$13,544.7	$14,133.4
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt	$21.4	$31.7
Liabilities from coal trading activities, net	22.4	6.1
Accounts payable and accrued expenses	1,656.5	1,737.7
Total current liabilities	1,700.3	1,775.5
Long-term debt, less current maturities	5,969.7	5,970.7
Deferred income taxes	16.0	40.9
Asset retirement obligations	724.1	712.8
Accrued postretirement benefit costs	712.4	684.0
Other noncurrent liabilities	827.1	1,001.6
Total liabilities	9,949.6	10,185.5
Stockholders' equity		
Preferred Stock — $0.01 per share par value; 10.0 shares authorized; no shares issued or outstanding as of September 30, 2014 or December 31, 2013	—	—
Perpetual Preferred Stock — 0.8 shares authorized, no shares issued or outstanding as of September 30, 2014 or December 31, 2013	—	—
Series Common Stock — $0.01 per share par value; 40.0 shares authorized, no shares issued or outstanding as of September 30, 2014 or December 31, 2013	—	—
Common Stock — $0.01 per share par value; 800.0 shares authorized, 285.4 shares issued and 271.4 shares outstanding as of September 30, 2014 and 283.9 shares issued and 270.1 shares outstanding as of December 31, 2013	2.9	2.8
Additional paid-in capital	2,375.9	2,340.0
Treasury stock, at cost — 14.0 shares as of September 30, 2014 and 13.8 shares as of December 31, 2013	(467.0)	(464.7)
Retained earnings	2,108.2	2,449.8
Accumulated other comprehensive loss	(426.4)	(419.2)
Peabody Energy Corporation stockholders' equity	3,593.6	3,908.7
Noncontrolling interests	1.5	39.2

Total stockholders' equity	3,595.1	3,947.9
Total liabilities and stockholders' equity	$13,544.7	$14,133.4

See accompanying notes to unaudited condensed consolidated financial statements.

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PEABODY ENERGY CORPORATION
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2014	2013
	(Dollars in millions)	
Cash Flows From Operating Activities		
Net (loss) income	$(264.3)	$48.6
(Income) loss from discontinued operations, net of income taxes	(6.0)	66.5
(Loss) income from continuing operations, net of income taxes	(270.3)	115.1
Adjustments to reconcile (loss) income from continuing operations, net of income taxes to net cash provided by operating activities:		
Depreciation, depletion and amortization	483.9	542.8
Noncash interest expense	17.7	27.5
Deferred income taxes	(44.3)	(261.3)
Share-based compensation	35.8	39.5
Asset impairment	—	21.5
Net gain on disposal or exchange of assets	(25.9)	(49.9)
Loss from equity affiliates	44.0	35.6
Gains on previously monetized foreign currency hedge positions	(106.7)	—
Changes in current assets and liabilities:		
Accounts receivable	142.0	54.7
Change in receivable from accounts receivable securitization program	(75.0)	40.9
Inventories	20.5	(15.0)
Net assets from coal trading activities	(14.6)	(41.2)
Other current assets	4.4	11.0
Accounts payable and accrued expenses	76.2	(21.9)
Asset retirement obligations	28.4	35.0
Accrued postretirement benefit costs	12.7	10.0
Accrued pension costs	14.6	37.1
Other, net	2.4	(3.8)
Net cash provided by continuing operations	345.8	577.6
Net cash used in discontinued operations	(95.7)	(33.6)
Net cash provided by operating activities	250.1	544.0
Cash Flows From Investing Activities		
Additions to property, plant, equipment and mine development	(107.5)	(228.7)
Changes in accrued expenses related to capital expenditures	(22.8)	(102.6)
Federal coal lease expenditures	(89.4)	(89.5)
Proceeds from disposal of assets, net of notes receivable	152.5	133.3
Purchases of debt securities	(6.0)	(9.9)
Proceeds from sales and maturities of debt securities	7.7	17.7
Proceeds from the maturity of short-term investments	—	4.8
Contributions to joint ventures	(410.4)	(539.8)
Distributions from joint ventures	408.5	576.6
Advances to related parties	(19.7)	(39.5)
Repayments of loans from related parties	1.4	22.7
Other, net	(3.9)	(4.2)
Net cash used in continuing operations	(89.6)	(259.1)
Net cash used in discontinued operations	—	(1.0)

Net cash used in investing activities	(89.6)	(260.1)
Cash Flows From Financing Activities		
Repayments of long-term debt	(15.6)	(1,384.0)
Proceeds from long-term debt	1.1	1,188.0
Payment of deferred financing costs	(10.1)	(22.8)
Repurchase of employee common stock relinquished for tax withholding	(2.3)	(2.9)
Dividends paid	(69.2)	(68.8)
Restricted cash for distributions to noncontrolling interests	(42.5)	—
Other, net	0.6	(0.9)
Net cash used in financing activities	(138.0)	(291.4)
Net change in cash and cash equivalents	22.5	(7.5)
Cash and cash equivalents at beginning of period	444.0	558.8
Cash and cash equivalents at end of period	$466.5	$551.3

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Peabody Energy Corporation Stockholders' Equity						
	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Stockholders' Equity
	(Dollars in millions)						
December 31, 2013	$2.8	$2,340.0	$(464.7)	$2,449.8	$ (419.2)	$ 39.2	$ 3,947.9
Net (loss) income	—	—	—	(272.4)	—	8.1	(264.3)
Net change in unrealized holding losses on available-for-sale securities (net of $1.0 tax benefit)	—	—	—	—	(1.7)	—	(1.7)
Net unrealized gains on cash flow hedges (net of $1.9 tax provision)	—	—	—	—	1.9	—	1.9
Postretirement plans and workers' compensation obligations (net of $1.8 tax provision)	—	—	—	—	3.0	—	3.0
Foreign currency translation adjustment	—	—	—	—	(10.4)	—	(10.4)
Dividends paid	—	—	—	(69.2)	—	—	(69.2)
Share-based compensation	—	35.8	—	—	—	—	35.8
Write-off of excess tax benefits related to share-based compensation	—	(5.4)	—	—	—	—	(5.4)
Stock options exercised	—	0.5	—	—	—	—	0.5
Employee stock purchases	—	5.1	—	—	—	—	5.1
Employee stock grants	0.1	(0.1)	—	—	—	—	—
Repurchase of employee common stock relinquished for tax withholding	—	—	(2.3)	—	—	—	(2.3)
Distributions to noncontrolling interests	—	—	—	—	—	(3.3)	(3.3)
Dividend payable to noncontrolling interests	—	—	—	—	—	(42.5)	(42.5)
September 30, 2014	$2.9	$2,375.9	$(467.0)	$2,108.2	$ (426.4)	$ 1.5	$ 3,595.1

See accompanying notes to unaudited condensed consolidated financial statements.

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PEABODY ENERGY CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The condensed consolidated financial statements include the accounts of Peabody Energy Corporation (the Company) and its affiliates. Interests in subsidiaries controlled by the Company are consolidated and any outside shareholder interests are reflected as noncontrolling interests, except when the Company has an undivided interest in an unincorporated joint venture. In those cases, the Company includes its proportionate share in the assets, liabilities, revenues and expenses of the jointly controlled entities within each applicable line item of the unaudited condensed consolidated financial statements. All intercompany transactions, profits and balances have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform with the 2014 presentation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. In the opinion of management, these financial statements reflect all normal, recurring adjustments necessary for a fair presentation. Balance sheet information presented herein as of December 31, 2013 has been derived from the Company’s audited consolidated balance sheet at that date. The Company's results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for future quarters or for the year ending December 31, 2014.

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

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

Newly Adopted Accounting Standards

Presentation of Unrecognized Tax Benefits. In July 2013, the Financial Accounting Standards Board (FASB) issued accounting guidance requiring entities to present unrecognized tax benefits as a reduction to any related deferred tax assets for net operating losses, similar tax losses or tax credit carryforwards if such settlement is required or expected in the event an uncertain tax position is disallowed. Previously effective U.S. GAAP did not provide explicit guidance on the topic. The new presentation guidance became effective for interim and annual periods beginning after December 15, 2013 (January 1, 2014 for the Company). The adoption of the guidance beginning January 1, 2014 had no material effect on the Company's results of operations, financial condition, cash flows or financial statement presentation.

Accounting Standards Not Yet Implemented

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

Revenue Recognition. In May 2014, the FASB issued a comprehensive revenue recognition standard that will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The new standard provides a single principles-based, five-step model to be applied to all contracts with customers, which steps are to (1) identify the contract(s) with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when each performance obligation is satisfied. More specifically, revenue will be recognized when promised goods or services are transferred to the customer in an amount that reflects the consideration expected in exchange for those goods or services. The standard also requires entities to disclose sufficient qualitative and quantitative information to enable financial statement users to understand the nature, amount, timing and uncertainty of revenues and cash flows arising from contracts with customers. The new guidance will be effective for interim and annual periods beginning after December 15, 2016 (January 1, 2017 for the Company) and the standard allows for either a full retrospective adoption or a modified retrospective adoption. The Company is in the process of evaluating the impact that the adoption of this guidance will have on its results of operations, financial condition, cash flows and financial statement presentation.

Discontinued Operations. In April 2014, the FASB issued accounting guidance that raised the threshold for disposals to qualify as discontinued operations to a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Such a strategic shift may include the disposal of (1) a major geographical area of operations, (2) a major line of business, (3) a major equity method investment or (4) other major parts of an entity. Provided that the major strategic shift criterion is met, the new guidance does allow entities to have significant continuing involvement and continuing cash flows with the discontinued operation, unlike current U.S. GAAP. The new standard also requires additional disclosures for discontinued operations and new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. The new guidance will apply prospectively to disposals that occur in interim and annual periods beginning on or after December 31, 2014 (January 1, 2015 for the Company), with early adoption permitted for disposals or new classifications of assets as held for sale that have not been reported in previously issued financial statements. The impact to the Company's financial statements will depend on any disposal activity that occurs subsequent to the adoption date.

(3) Asset Realization

The Company's mining and exploration assets and mining-related investments may be adversely affected by numerous uncertain factors that may cause the Company to be unable to recover all or a portion of the carrying value of those assets. As a result of various unfavorable conditions, including but not limited to sustained trends of weakness in U.S. and international seaborne coal market pricing and certain asset-specific factors, the Company recognized aggregate impairment charges of $528.3 million and $910.9 million during the years ended December 31, 2013 and 2012, respectively. For additional information surrounding those charges, refer to Note 2. "Asset Impairment and Mine Closures Costs" to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

The Company generally does not view short-term declines subsequent to previous impairment assessments in thermal and metallurgical coal prices in the markets in which it sells its products as an indicator of impairment, such as the decline in benchmark pricing for seaborne metallurgical and thermal coal that occurred during the nine months ended September 30, 2014. However, the Company generally does view a sustained trend of adverse changes in coal market pricing (for example, over periods exceeding one year) as an indicator of potential impairment and, because of the volatile and cyclical nature of U.S. and international seaborne coal markets, it is reasonably possible that such prices may not improve or decrease further in the near term, which may result in the need for future adjustments to the carrying value of the Company's long-lived mining assets and mining-related investments. The Company's assets whose recoverability and values are most sensitive to near-term pricing include mines in Australia with comparatively shorter remaining lives and mining-related investments, which assets had an aggregate carrying value of $199.7 million as of September 30, 2014. The Company conducted a review of those assets for recoverability as of September 30, 2014 and determined that no impairment charge was necessary as of that date.

(4) Discontinued Operations

Discontinued operations include certain former Australian Mining and Midwestern U.S. Mining segment assets that have prematurely ceased production and other previously divested operations.

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

Summarized Results of Discontinued Operations
Results from discontinued operations were as follows during the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Income (loss) from discontinued operations before income taxes	$7.6	$(62.1)	$8.6	$(94.8)
Income tax provision (benefit)	2.6	(19.0)	2.6	(28.3)
Income (loss) from discontinued operations, net of income taxes	$5.0	$(43.1)	$6.0	$(66.5)

There were no significant revenues from discontinued operations during the three and nine months ended September 30, 2014. Total revenues associated with discontinued operations amounted to $38.6 million and $106.3 million during the three and nine months ended September 30, 2013, respectively.
Assets and Liabilities of Discontinued Operations
The carrying amounts of assets and liabilities classified as discontinued operations included in the Company's condensed consolidated balance sheets were as follows:

	September 30, 2014	December 31, 2013
	(Dollars in millions)	
Assets:		
Other current assets	$1.6	$38.6
Investments and other assets	20.2	47.4
Total assets classified as discontinued operations	$21.8	$86.0
Liabilities:		
Accounts payable and accrued expenses	$19.6	$127.8
Other noncurrent liabilities	84.7	90.2
Total liabilities classified as discontinued operations	$104.3	$218.0

Settlement Agreement with Patriot and the UMWA. Pursuant to the definitive settlement agreement reached in 2013 with Patriot Coal Corporation and certain of its wholly owned subsidiaries (Patriot) and the United Mine Workers of America (UMWA) on behalf of itself, its represented Patriot employees and its represented Patriot retirees, the Company remitted a payment of $70 million to Patriot in January 2014. Refer to Note 18. "Commitments and Contingencies" for additional details surrounding that settlement agreement.
Wilkie Creek Mine. In December 2013, the Company ceased production and commenced the reclamation of the Wilkie Creek Mine in Queensland, Australia and correspondingly accrued for contractual liabilities and certain other exit costs at that time. The following table summarizes the changes in those liabilities for the nine months ended September 30, 2014:

	Contractual Liabilities	Other Exit Costs	Total
	(Dollars in millions)		
Liability balance at December 31, 2013	$33.9	$2.7	$36.6
Change in estimate	(3.4)	(0.2)	(3.6)
Cash payments	(18.2)	(2.4)	(20.6)

Foreign currency loss	0.4	—	0.4
Liability balance at September 30, 2014	$12.7	$0.1	$12.8

In addition to the closure-related liabilities detailed above, the Company's unaudited condensed consolidated balance sheet at September 30, 2014 included $48.0 million of asset retirement obligations related to Wilkie Creek.

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

In May 2014, the Company entered into an agreement to sell the Wilkie Creek Mine in exchange for approximately $70 million in cash and the assumption of port and rail obligations and asset retirement obligations, with the closing of the sale subject to certain conditions. In August 2014, the Company terminated that agreement as the potential buyer was unable to meet its obligations for closing. In connection with the termination, the Company recognized a before- and after-tax net gain of $4.6 million and $3.2 million, respectively, comprised of a non-refundable payment made by the potential buyer towards the purchase, partially offset by transaction costs. The net gain on termination was classified in "Income (loss) from discontinued operations, net of income taxes" in the unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2014.

Prior to closure in December 2013, the Wilkie Creek Mine was classified as held for sale. Results from discontinued operations for the three and nine months ended September 30, 2013 reflected before- and after-tax impairment charges of $45.2 million and $32.4 million, respectively, to write the assets of that mine down to estimated fair value. The Company used a market approach in connection with its estimate based on new market information received during the third quarter of 2013 that was considered an unobservable Level 3 input under the fair value hierarchy.

(5) Investments

Investments in available-for-sale securities at September 30, 2014 were as follows:

Available-for-sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in millions)			
Current:				
U.S. corporate bonds	$10.9	$—	$—	$10.9
Noncurrent:				
Marketable equity securities	10.9	—	(1.4)	9.5
Federal government securities	29.4	—	—	29.4
U.S. corporate bonds	12.2	—	—	12.2
Total	$63.4	$—	$(1.4)	$62.0

Investments in available-for-sale securities at December 31, 2013 were as follows:

Available-for-sale securities	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(Dollars in millions)		
Current:				
Federal government securities	$2.8	$—	$—	$2.8
U.S. corporate bonds	2.4	—	—	2.4
Noncurrent:				
Marketable equity securities	10.9	1.3	—	12.2
Federal government securities	28.8	—	(0.1)	28.7
U.S. corporate bonds	20.8	0.1	—	20.9
Total	$65.7	$1.4	$(0.1)	$67.0

The Company's short-term investments are defined as those investments with remaining maturities, at the time of purchase, of greater than three months and up to one year and are included in "Other current assets" in the condensed consolidated balance sheets. Long-term investments are defined as those investments with remaining maturities of greater than one year and are included in "Investments and other assets" in the condensed consolidated balance sheets.

The Company’s investments in marketable equity securities consist of an investment in Winsway Enterprises Holdings

Limited (Winsway), formally referred to as Winsway Coking Coal Holdings Limited. Those equity securities are included in "Investments and other assets" in the condensed consolidated balance sheets.

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Contractual maturities for available-for-sale investments in debt securities at September 30, 2014 were as shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Contractual maturities for available-for-sale debt securities	Cost	Fair Value
	(Dollars in millions)	
Due in one year or less	$10.9	$10.9
Due in one to five years	41.6	41.6
Total	$52.5	$52.5

Proceeds from sales and maturities of debt securities shown in the tables above amounted to $2.7 million and $0.8 million for the three months ended September 30, 2014 and 2013, respectively, and $7.7 million and $17.7 million for the nine months ended September 30, 2014 and 2013, respectively. The Company realized net gains of less than $0.1 million during each of the three and nine months ended September 30, 2014 and 2013 associated with those sales and maturities using the specific identification method. Purchases of debt securities shown in the tables above amounted to $1.8 million and $0.2 million for the three months ended September 30, 2014, and 2013, respectively, and $6.0 million and $9.9 million for the nine months ended September 30, 2014 and 2013, respectively.

The Company also recognized proceeds of $4.8 million from the maturity of time deposits denominated in Chinese Renminbi during the nine months ended September 30, 2013. The Company did not have any held-to-maturity investments as of September 30, 2014 or December 31, 2013.

At each reporting date, the Company performs separate evaluations of debt and equity securities to determine if any unrealized losses are other-than-temporary. After evaluating the length of time market value has been less than cost and the financial conditions and near-term prospects of Winsway, the Company deemed the unrealized loss incurred during the three and nine months ended September 30, 2014 associated with its investment in Winsway equity securities to be temporary and the change during the period to be generally consistent with the trend of equity securities across the coal mining industry. The Company has the ability to hold the securities until recovery and has no current intention to divest the securities. Accordingly, the Company did not recognize other-than-temporary losses on its investments during the three and nine months ended September 30, 2014. The Company recognized an other-than-temporary asset impairment charge of $21.5 million during the nine months ended September 30, 2013, which was triggered by a second quarter 2013 downgrade of Winsway's credit rating and the duration and severity of the market losses incurred at that time, thereby resetting the cost basis of the Company's investment.

(6) Inventories

Inventories as of September 30, 2014 and December 31, 2013 consisted of the following:

	September 30, 2014	December 31, 2013
	(Dollars in millions)	
Materials and supplies	$158.8	$166.8
Raw coal	120.3	122.6
Saleable coal	211.8	217.3
Total	$490.9	$506.7

Materials and supplies inventories presented above have been shown net of reserves of $5.4 million and $7.4 million as of September 30, 2014 and December 31, 2013, respectively.

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(7) Derivatives and Fair Value Measurements

Risk Management — Non-Coal Trading Activities

The Company is exposed to various types of risk in the normal course of business, including foreign currency exchange rate risk for non-U.S. dollar expenditures and balances, price risk on commodities utilized in the Company's mining operations and interest rate risk on long-term debt. The Company manages commodity price risk (excluding coal trading activities) related to the sale of coal, in part, through the use of long-term coal supply agreements (those with terms longer than one year), rather than through the use of derivative instruments. In order to manage its exposure related to price risk on certain commodities used in production, as well as for foreign currency exchange rate and interest rate risk, the Company utilizes derivative financial instruments. These risks are actively monitored in an effort to ensure compliance with the risk management policies of the Company.

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

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

Explosives Hedges. The Company is also exposed to commodity price risk associated with explosives utilized in production in the U.S. and Australia. From time to time, this risk is managed through the use of derivatives, primarily swaps. This risk is also managed through the use of cost pass-through contracts. When swap contracts are used, the Company generally designates those contracts as cash flow hedges, with the objective of reducing the variability of cash flows associated with forecasted explosives purchases. As of September 30, 2014, the Company had no swaps in place associated with explosives hedges.

Interest Rate Swaps. The Company is exposed to interest rate risk on its fixed rate and variable rate long-term debt. From time to time, the Company manages the interest rate risk associated with the fair value of its fixed rate borrowings using fixed-to-floating interest rate swaps to effectively convert a portion of the underlying cash flows on the debt into variable rate cash flows. The Company designates these swaps as fair value hedges, with the objective of hedging against adverse changes in the fair value of the fixed rate debt that results from market interest rate changes. In addition, from time to time, interest rate risk associated with the Company’s variable rate borrowings is managed using floating-to-fixed interest rate swaps. The Company designates these swaps as cash flow hedges, with the objective of reducing the variability of cash flows associated with market interest rate changes. As of September 30, 2014, the Company had no interest rate swaps in place.

Notional Amounts and Fair Value. The following summarizes the Company’s foreign currency and commodity positions at September 30, 2014:

	Notional Amount by Year of Maturity				
	Total	2014	2015	2016	2017
Foreign Currency					
A$:US$ hedge contracts (A$ millions)	$3,597.4	$406.3	$1,661.1	$1,007.0	$523.0
Commodity Contracts					
Diesel fuel hedge contracts (million gallons)	181.9	25.6	85.5	53.3	17.5

	Instrument Classification by		
	Cash Flow	Fair Value	Economic

	Hedge	Hedge	Hedge	Fair Value of Net Liability (Dollars in millions)
Foreign Currency				
A$:US$ hedge contracts (A$ millions)	$3,597.4	$—	$—	$(315.0)
Commodity Contracts				
Diesel fuel hedge contracts (million gallons)	181.9	—	—	(28.7)

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Based on the net fair value of the Company’s non-coal trading commodity contract hedge positions held in “Accumulated other comprehensive loss” at September 30, 2014, the Company expects to reclassify an unrealized net loss associated with the Company's diesel fuel hedge programs of approximately $20 million from comprehensive income into earnings over the next 12 months. Based on net unrealized losses associated with the Company's foreign currency hedge contract portfolio, as partially offset by unrecognized realized gains related to foreign currency cash flow hedge contracts monetized in the fourth quarter of 2012 held in "Accumulated other comprehensive loss" at September 30, 2014, the net loss expected to be reclassified from comprehensive income to earnings over the next twelve months associated with that hedge program is approximately $130 million. As these realized and unrealized gains and losses are associated with derivative instruments that represent hedges of forecasted transactions, the amounts reclassified to earnings are expected to partially offset the effect of any changes in the hedged exposure related to the underlying transactions, when realized.

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

A measure of ineffectiveness is inherent in hedging future diesel fuel purchases with derivative positions based on refined petroleum products as a result of location and/or product differences. Transportation surcharges, which may vary over time, for purchased diesel fuel in certain regions can also result in ineffectiveness, though such surcharges have historically changed infrequently and comprise a small portion of the total cost of delivered diesel.

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

The tables below show the classification and amounts of pre-tax gains and losses related to the Company’s non-coal trading hedges during the three and nine months ended September 30, 2014 and 2013:

		Three Months Ended September 30, 2014			
Financial Instrument	Income Statement Classification Gains (Losses) - Realized	Gain recognized in income on non-designated derivatives	Loss recognized in other comprehensive income on derivatives (effective portion)	(Loss) gain reclassified from other comprehensive income into income (effective portion) (1)	Loss reclassified from other comprehensive income into income (ineffective portion)
		(Dollars in millions)			
Commodity swap contracts	Operating costs and expenses	$—	$(47.3)	$(1.0)	$(1.8)
Foreign currency forward contracts	Operating costs and expenses	—	(227.7)	9.6	—
Total		$—	$(275.0)	$8.6	$(1.8)

Financial Instrument	Income Statement Classification Gains (Losses) - Realized	Three Months Ended September 30, 2013 Gain recognized in income on non-designated derivatives	Gain recognized in other comprehensive income on derivatives (effective portion)	Gain reclassified from other comprehensive income into income (effective portion)	Gain reclassified from other comprehensive income into income (ineffective portion)
		(Dollars in millions)			
Commodity swap contracts	Operating costs and expenses	$—	$ 15.8	$ 4.3	$ 0.2
Foreign currency forward contracts	Operating costs and expenses	—	51.7	9.9	—
Total		$—	$ 67.5	$ 14.2	$ 0.2

(1) Includes the reclassification from "Accumulated other comprehensive loss" into earnings of $31.9 million of previously unrecognized gains on foreign currency cash flow hedge contracts monetized in the fourth quarter of 2012.

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Financial Instrument	Income Statement Classification Gains (Losses) - Realized	Nine Months Ended September 30, 2014 Gain recognized in income on non-designated derivatives	(Loss) gain recognized in other comprehensive income on derivatives (effective portion)	Loss reclassified from other comprehensive income into income (effective portion) [1]	Loss reclassified from other comprehensive income into income (ineffective portion)
		(Dollars in millions)			
Commodity swap contracts	Operating costs and expenses	$—	$(38.1)	$(3.3)	$(1.0)
Foreign currency forward contracts	Operating costs and expenses	—	48.7	(2.9)	—
Total		$—	$10.6	$(6.2)	$(1.0)

Financial Instrument	Income Statement Classification Gains (Losses) - Realized	Nine Months Ended September 30, 2013 Gain recognized in income on non-designated derivatives	Loss recognized in other comprehensive income on derivatives (effective portion)	Gain reclassified from other comprehensive income into income (effective portion)	Gain reclassified from other comprehensive income into income (ineffective portion)
		(Dollars in millions)			
Commodity swap contracts	Operating costs and expenses	$—	$(3.3)	$11.5	$0.5
Foreign currency forward contracts	Operating costs and expenses	—	(402.2)	157.1	—
Total		$—	$(405.5)	$168.6	$0.5

(1) Includes the reclassification from "Accumulated other comprehensive loss" into earnings of $106.7 million of previously unrecognized gains on foreign currency cash flow hedge contracts monetized in the fourth quarter of 2012.

Cash Flow Presentation. The Company classifies the cash effects of its non-coal trading derivatives within the "Cash Flows From Operating Activities" section of the unaudited condensed consolidated statements of cash flows during the period of settlement for those instruments.

Offsetting and Balance Sheet Presentation

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

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The classification and amount of non-coal trading derivative financial instruments presented on a gross and net basis as of September 30, 2014 and December 31, 2013 are presented in the tables that follow.

	Fair Value of Assets as of September 30, 2014		
Financial Instrument	Gross Amounts Recognized	Gross Amounts Offset in the Condensed Consolidated Balance Sheet	Net Amounts Presented in the Condensed Consolidated Balance Sheet
	(Dollars in millions)		
Current Assets:			
Foreign currency forward contracts	$0.1	$(0.1)	$—
Total	$0.1	$(0.1)	$—
Noncurrent Assets:			
Commodity swap contracts	$0.1	$(0.1)	$—
Total	$0.1	$(0.1)	$—

	Fair Value of Liabilities as of September 30, 2014		
Financial Instrument	Gross Amounts Recognized	Gross Amounts Offset in the Condensed Consolidated Balance Sheet	Net Amounts Presented in the Condensed Consolidated Balance Sheet
	(Dollars in millions)		
Current Liabilities:			
Commodity swap contracts	$19.9	$—	$19.9
Foreign currency forward contracts	173.7	—	173.7
Total	$193.6	$—	$193.6
Noncurrent Liabilities:			
Commodity swap contracts	$8.9	$(0.1)	$8.8
Foreign currency forward contracts	141.4	(0.1)	141.3
Total	$150.3	$(0.2)	$150.1

	Fair Value of Assets as of December 31, 2013				
Financial Instrument	Gross Amounts Recognized	Gross Amounts Offset in the Condensed Consolidated Balance Sheet	Net Amounts Presented in the Condensed Consolidated Balance Sheet	Derivatives Not Offset in the Condensed Consolidated Balance Sheet [1]	Net Amount
	(Dollars in millions)				
Current Assets:					
Commodity swap contracts	$8.7	$(2.3)	$6.4	n.a.	n.a.
	—	—	—	n.a.	n.a.

Foreign currency forward contracts					
Total	$8.7	$(2.3)	$6.4	$(5.0)	$1.4
Noncurrent Assets:					
Commodity swap contracts	$2.8	$(0.9)	$1.9	n.a.	n.a.
Foreign currency forward contracts	0.2	(0.2)	—	n.a.	n.a.
Total	$3.0	$(1.1)	$1.9	$(1.3)	$0.6

(1) Adjustments relate to the further netting of derivative contracts with a common counterparty across the Company's foreign currency, diesel fuel and explosives hedging strategy derivative contract portfolios that would be contractually enforceable in the event of default. Such adjustments were not applicable as of September 30, 2014 due to the consistent net liability position with common counterparties across the Company's foreign currency and diesel fuel hedging strategy derivative contract portfolios as of that date.

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Financial Instrument	Fair Value of Liabilities as of December 31, 2013 Gross Amounts Recognized	Gross Amounts Offset in the Condensed Consolidated Balance Sheet	Net Amounts Presented in the Condensed Consolidated Balance Sheet	Derivatives Not Offset in the Condensed Consolidated Balance Sheet [1]	Net Amount
	(Dollars in millions)				
Current Liabilities:					
Commodity swap contracts	$3.9	$(1.9)	$2.0	n.a.	n.a.
Foreign currency forward contracts	211.9	—	211.9	n.a.	n.a.
Total	$215.8	$(1.9)	$213.9	$(5.4)	$208.5
Noncurrent Liabilities:					
Commodity swap contracts	$2.5	$(1.3)	$1.2	n.a.	n.a.
Foreign currency forward contracts	261.6	(0.2)	261.4	n.a.	n.a.
Total	$264.1	$(1.5)	$262.6	$(0.9)	$261.7

(1) Adjustments relate to the further netting of derivative contracts with a common counterparty across the Company's foreign currency, diesel fuel and explosives hedging strategy derivative contract portfolios that would be contractually enforceable in the event of default. Such adjustments were not applicable as of September 30, 2014 due to the consistent net liability position with common counterparties across the Company's foreign currency and diesel fuel hedging strategy derivative contract portfolios as of that date.

See Note 8. "Coal Trading" for information on balance sheet offsetting related to the Company’s coal trading activities.

Fair Value Measurements

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

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

	September 30, 2014 Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Investments in debt and equity securities	$27.1	$34.9	$—	$62.0
Commodity swaps and options	—	(28.7)	—	(28.7)
Foreign currency cash flow hedge contracts	—	(315.0)	—	(315.0)
Total net financial assets (liabilities)	$27.1	$(308.8)	$—	$(281.7)

	December 31, 2013 Level 1	Level 2	Level 3	Total
	(Dollars in millions)			

Investments in debt and equity securities	$28.8	$38.2	$—	$67.0
Commodity swaps and options	—	5.1	—	5.1
Foreign currency cash flow hedge contracts	—	(473.3)	—	(473.3)
Total net financial assets (liabilities)	$28.8	$(430.0)	$—	$(401.2)

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

- Investments in debt and equity securities: U.S. government securities and marketable equity securities are valued based on quoted prices in active markets (Level 1) and investment-grade corporate bonds and U.S. government agency securities are valued based on the various inputs listed above that may preclude the security from being measured using an identical asset in an active market (Level 2).
- Commodity swap contracts — diesel fuel and explosives: valued based on a valuation that is corroborated by the use of market-based pricing (Level 2).
- Foreign currency forward and option contracts: valued utilizing inputs obtained in quoted public markets (Level 2).

The Company did not have any transfers between levels during the three and nine months ended September 30, 2014 or 2013 for its non-coal trading positions. The Company's policy is to value transfers between levels using the beginning of period valuation.

Other Financial Instruments. The following methods and assumptions were used by the Company in estimating fair values for other financial instruments as of September 30, 2014 and December 31, 2013:

- Cash and cash equivalents, accounts receivable, including those within the Company's accounts receivable securitization program, notes receivable and accounts payable have carrying values which approximate fair value due to the short maturity or the liquid nature of these instruments.
- Long-term debt fair value estimates are based on observed prices for securities with an active trading market when available (Level 2), and otherwise on estimated borrowing rates to discount the cash flows to their present value (Level 3).

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

	September 30, 2014		December 31, 2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(Dollars in millions)			
Long-term debt	$5,991.1	$5,720.8	$6,002.4	$6,167.5

Credit and Nonperformance Risk

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

(8) Coal Trading

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

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

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Trading revenues recognized during the three and nine months ended September 30, 2014 and 2013 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Trading Revenues by Type of Instrument	2014	2013	2014	2013
	(Dollars in millions)			
Commodity futures, swaps and options	$10.7	$59.3	$69.0	$145.2
Physical commodity purchase/sale contracts	4.3	(27.2)	(22.7)	(90.6)
Total trading revenues	$15.0	$32.1	$46.3	$54.6

Risk Management

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

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

The gross fair value of coal trading positions designated as cash flow hedges of forecasted sales was an asset of $45.8 million and $62.9 million as of September 30, 2014 and December 31, 2013, respectively. Based on the net fair value of the Company’s coal trading positions held in “Accumulated other comprehensive loss” at September 30, 2014, unrealized gains to be reclassified from comprehensive income to earnings over the next 12 months are expected to be approximately $40 million. As these unrealized gains are associated with derivative instruments that represent hedges of forecasted transactions, the amounts reclassified to earnings may partially offset the effect of the realized underlying transactions in the unaudited condensed consolidated statements of operations.

Forecasted Transactions No Longer Probable. During the nine months ended September 30, 2014, the Company reclassified gains of $2.0 million out of “Accumulated other comprehensive loss” to earnings as the underlying forecasted transactions were deemed no longer probable of occurring within an acceptable proximity to the timing contemplated at hedge designation.

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Offsetting and Balance Sheet Presentation

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

The fair value of assets and liabilities from coal trading activities presented on a gross and net basis as of September 30, 2014 and December 31, 2013 is set forth below:

Affected line item in the condensed consolidated balance sheets	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Variation margin (held) posted [1]	Net Amounts of Assets (Liabilities) Presented in the Condensed Consolidated Balance Sheets
	(Dollars in millions)			
	Fair Value as of September 30, 2014			
Assets from coal trading activities, net	$381.5	$(296.4)	$(32.4)	$52.7
Liabilities from coal trading activities, net	(320.1)	296.4	1.3	(22.4)
Total, Net	$61.4	$—	$(31.1)	$30.3
	Fair Value as of December 31, 2013			
Assets from coal trading activities, net	$418.8	$(324.7)	$(58.0)	$36.1
Liabilities from coal trading activities, net	(332.7)	324.7	1.9	(6.1)
Total, Net	$86.1	$—	$(56.1)	$30.0

(1) Approximately $8 million and $42 million of the net variation margin held at September 30, 2014 and December 31, 2013, respectively, related to cash flow hedges.

See Note 7. "Derivatives and Fair Value Measurements" for information on balance sheet offsetting related to the Company’s non-coal trading activities.

Fair Value Measurements

The following tables set forth the hierarchy of the Company's net financial asset (liability) coal trading positions for which fair value is measured on a recurring basis as of September 30, 2014 and December 31, 2013:

	September 30, 2014			
	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Commodity futures, swaps and options	$—	$35.2	$—	$35.2
Physical commodity purchase/sale contracts	—	(7.2)	2.3	(4.9)
Total net financial assets	$—	$28.0	$2.3	$30.3

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Commodity futures, swaps and options	$—	$26.4	$—	$26.4
Physical commodity purchase/sale contracts	—	1.5	2.1	3.6
Total net financial assets	$—	$27.9	$2.1	$30.0

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

- Commodity futures, swaps and options: generally valued based on unadjusted quoted prices in active markets (Level 1) or a valuation that is corroborated by the use of market-based pricing (Level 2).
- Physical commodity purchase/sale contracts: purchases and sales at locations with significant market activity corroborated by market-based information (Level 2).

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

The Company's risk management function, which is independent of the Company's commercial trading function, is responsible for valuation policies and procedures, with oversight from executive management. Generally, the Company's Level 3 instruments or contracts are valued using bid/ask price quotations and other market assessments obtained from multiple, independent third-party brokers or other transactional data incorporated into internally-generated discounted cash flow models. While the Company does not anticipate any decrease in the number of third-party brokers or market liquidity, the occurrence of such events could erode the quality of market information and therefore the valuation of its market positions. The Company's valuation techniques include basis adjustments to the foregoing price inputs for quality, such as heat rate and sulfur and ash content; location differentials, expressed as port and freight costs, and credit risk. The Company's risk management function independently validates the Company's valuation inputs, including unobservable inputs, with third-party information and settlement prices from other sources where available. A daily process is performed to analyze market price changes and changes to the portfolio. Further periodic validation occurs at the time contracts are settled with the counterparty. These valuation techniques have been consistently applied in all periods presented, and the Company believes it has obtained the most accurate information available for the types of derivative contracts held.

The following table summarizes the quantitative unobservable inputs utilized in the Company's internally-developed valuation models for physical commodity purchase/sale contracts classified as Level 3 as of September 30, 2014:

	Range	Weighted

Input	Low	High	Average
Quality adjustments	1 %	9 %	7 %
Location differentials	18 %	66 %	29 %

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Beginning of period	$2.6	$1.3	$2.1	$5.2
Total net gains (losses) realized/unrealized:				
Included in earnings	2.0	(2.7)	5.3	(7.1)
Settlements	(2.3)	1.8	(5.1)	2.3
End of period	$2.3	$0.4	$2.3	$0.4

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Changes in net unrealized gains (losses) (1)	$1.1	$(3.0)	$1.6	$(2.9)

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

The Company did not have any significant transfers in its coal trading positions between Level 1 and Level 2 during the three and nine months ended September 30, 2014 or 2013. There were no transfers in or out of Level 3 during the three and nine months ended September 30, 2014 or 2013. The Company’s policy is to value transfers between levels using the beginning of period valuation.

As of September 30, 2014, the timing of the estimated future realization of the value of the Company’s trading portfolio was as follows:

Year of Expiration	Percentage of Portfolio Total
2014	25%
2015	56%
2016	14%
2017	3%
2018	2%
	100%

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

At September 30, 2014, 84% of the Company’s credit exposure related to coal trading activities was with investment grade counterparties, while 3% was with non-investment grade counterparties and 13% was with counterparties that are not rated.

Performance Assurances and Collateral

Certain of the Company’s derivative trading instruments require the parties to provide additional performance assurances whenever a material adverse event jeopardizes one party’s ability to perform under the instrument. If the Company was to sustain a material adverse event (using commercially reasonable standards), its counterparties could request collateralization on derivative trading instruments in net liability positions which, based on an aggregate fair value at September 30, 2014 and December 31, 2013, would have amounted to collateral postings to counterparties of approximately $21 million and $7 million, respectively. As of September 30, 2014 and December 31, 2013, no collateral was posted to counterparties for such positions.

Certain of the Company’s other derivative trading instruments require the parties to provide additional performance assurances whenever a credit downgrade occurs below a certain level, as specified in each underlying contract. The terms of such derivative trading instruments typically require additional collateralization, which is commensurate with the severity of the credit downgrade. In recent months, each of the three major credit rating agencies downgraded the Company's corporate credit rating by one notch. The Company was not required to post additional collateral as a result of those downgrades. Even if a credit downgrade were to have occurred below contractually specified levels, the Company’s additional collateral requirement owed to its counterparties would have been zero at September 30, 2014 and December 31, 2013 based on the aggregate fair value of all derivative trading instruments with such features. Accordingly, the Company had posted no margin related to such features as of September 30, 2014 or December 31, 2013.

The Company is required to post variation margin on positions that are in a net liability position and is entitled to receive and hold variation margin on positions that are in a net asset position with an exchange and certain of its OTC derivative contract counterparties. At September 30, 2014 and December 31, 2013, the Company held net variation margin of $31.1 million and $56.1 million, respectively.

In addition to the requirements surrounding variation margin, the Company is required by the exchanges upon which it transacts to post certain additional collateral, known as initial margin, which represents an estimate of potential future adverse price movements across the Company’s portfolio under normal market conditions. As of September 30, 2014 and December 31, 2013, the Company had posted initial margin of $16.1 million and $19.6 million, respectively, which was reflected in “Other current assets” in the condensed consolidated balance sheets. The Company also had posted $0.1 million and $1.0 million of margin in excess of the exchange-required variation and initial margin discussed above as of September 30, 2014 and December 31, 2013, respectively.

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(9) Financing Receivables

The Company's total financing receivables as of September 30, 2014 and December 31, 2013 consisted of the following:

Balance Sheet Classification	September 30, 2014	December 31, 2013
	(Dollars in millions)	
Accounts receivable, net	$—	$0.1
Investments and other assets	358.3	351.7
Total financing receivables	$358.3	$351.8

The Company periodically assesses the collectability of accounts and loans receivable by considering factors such as specific evaluation of collectability, historical collection experience, the age of the receivable and other available evidence. Below is a description of the Company's financing receivables outstanding as of September 30, 2014.

Codrilla Mine Project. In 2011, a wholly owned subsidiary of PEA-PCI, then Macarthur Coal Limited, completed the sale of a portion of its 85% interest in the Codrilla Mine Project to the other participants of the Coppabella Moorvale Joint Venture, afterward retaining 73.3% ownership.The final outstanding installment payment of 40% of the sale price is due upon the earlier of the mine's first coal shipment or a specified date. The sales agreement was amended in the second quarter of 2013 to delay the specified date from March 31, 2015 to June 30, 2016, resulting in an adjustment to the discounted value of the note receivable in the amount of $1.6 million. This adjustment was recorded as a reduction to "Interest income" in the unaudited condensed consolidated statements of operations for the nine months ended September 30, 2013. There are currently no indications of impairment on the remaining installment and the Company expects to receive full payment upon the earlier of the mine's first shipment or June 30, 2016. The remaining balance associated with these receivables was recorded in "Investments and other assets" in the condensed consolidated balance sheets, which balance totaled $29.1 million and $28.5 million at September 30, 2014 and December 31, 2013, respectively.

Middlemount Mine. The Company periodically makes loans to the Middlemount Mine joint venture (Middlemount), in which the Company owns a 50% equity interest, pursuant to the related shareholders' agreement for purposes of funding capital expenditures and working capital requirements. Middlemount is required to pay down the loans as excess cash is generated pursuant to its shareholders' agreement. The loans bear interest at a rate equal to the monthly average 30-day Australian Bank Bill Swap Reference Rate plus 3.5% and expire on December 24, 2015. Based on the expected timing of repayment of these loans, which is projected to extend beyond the stated expiration date, the Company considers these loans to be of a long-term nature. As a result, the foreign currency impact related to the shareholder loans is included in foreign currency translation adjustment in the condensed consolidated balance sheets and the unaudited condensed consolidated statements of comprehensive income. As a result of the expected timing of interest repayments, interest income on these loans is recognized when cash is received. The Company recognized interest income related to these loans of $1.1 million and $1.5 million during the three months ended September 30, 2014 and 2013, respectively, and $3.7 million and $4.9 million during the nine months ended September 30, 2014 and 2013, respectively. Interest income under a full accrual basis would have resulted in additional interest income of $1.7 million and $1.5 million during the three months ended September 30, 2014 and 2013, respectively, and $4.8 million during each of the nine months ended September 30, 2014 and 2013. The carrying value of these loans of $329.2 million and $323.2 million was reflected in "Investments and other assets" in the condensed consolidated balance sheets as of September 30, 2014 and December 31, 2013, respectively.

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

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(10) Property, Plant, Equipment and Mine Development

Property, plant, equipment and mine development, net, as of September 30, 2014 and December 31, 2013 consisted of the following:

	September 30, 2014	December 31, 2013
	(Dollars in millions)	
Land and coal interests	$11,036.4	$11,024.1
Buildings and improvements	1,591.7	1,525.4
Machinery and equipment	2,644.7	2,777.5
Less: Accumulated depreciation, depletion and amortization	(4,621.7)	(4,244.5)
Total, net	$10,651.1	$11,082.5

(11) Income Taxes

The Company's income tax provision of $79.4 million and income tax benefit of $18.6 million for the three months ended September 30, 2014 and 2013, respectively, include remeasurement benefits related to foreign tax accounts of $1.2 million and $2.6 million, respectively. The Company's income tax provision of $30.9 million and income tax benefit of $199.6 million for the nine months ended September 30, 2014 and 2013, respectively, include remeasurement benefits related to foreign tax accounts of $3.9 million and $38.1 million, respectively. The Company's 2014 effective tax rate before remeasurement is based on the Company's estimated full year effective tax rate, which is comprised of the expected statutory tax expense offset by reductions from percentage depletion and foreign rate differential.

The Company wrote-off deferred tax assets of $70.1 million during the three months ended September 30, 2014 related to the repeal of the Australian Minerals and Resource Rent Tax, including $54.0 million of related royalty allowance credits recognized during the first half of the year. The Company also recorded a valuation allowance on certain Australian deferred tax assets not considered more likely than not to be realized amounting to $80.6 million and $252.2 million during the three and nine months ended September 30, 2014, respectively. The Company released a portion of its valuation allowance on U.S. capital loss carryforwards amounting to $25.5 million during the nine months ended September 30, 2013 due to a change in expected realization upon the sale of non-strategic U.S. coal reserves and surface lands.

During the three and nine months ended September 30, 2014, the Company decreased its net unrecognized tax benefits, interest and penalties by $70.7 million and $119.1 million, respectively, due to amended returns filed and finalization of Australian Tax Office audits on the 2004 through 2012 tax years. During the nine months ended September 30, 2014, the U.S. Internal Revenue Service added the 2011 through 2013 tax years to an in-process 2009 through 2010 audit due to amended returns filed for capital and net operating loss carrybacks. The Company believes that during the next twelve months it is reasonably possible it will recognize a $23.6 million decrease in its net unrecognized tax benefits due to potential audit settlements.

(12) Long-term Debt

The Company’s total indebtedness as of September 30, 2014 and December 31, 2013 consisted of the following:

	September 30, 2014	December 31, 2013
	(Dollars in millions)	
2013 Term Loan Facility due September 2020	$1,177.7	$1,185.4
7.375% Senior Notes due November 2016	650.0	650.0
6.00% Senior Notes due November 2018	1,518.8	1,518.8
6.50% Senior Notes due September 2020	650.0	650.0
6.25% Senior Notes due November 2021	1,339.6	1,339.6
7.875% Senior Notes due November 2026	247.6	247.5

Convertible Junior Subordinated Debentures due December 2066	381.7	379.7
Capital lease obligations	24.3	30.5
Other	1.4	0.9
Total long-term debt	$5,991.1	$6,002.4

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The carrying amounts of the Convertible Junior Subordinated Debentures due December 2066 (the Debentures), the 2013 Term Loan Facility due September 2020 and the 7.875% Senior Notes due December 2026 have been presented above net of the respective unamortized original issue discounts.

Other than as described in the following section, there were no significant changes to the Company's long-term debt subsequent to December 31, 2013. Information regarding the Company's long-term debt is outlined in Note 12 to the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Debentures Consent Solicitation

In June 2014, the Company received sufficient consents from holders of the Debentures to amend the related indenture and eliminate the provisions relating to the mandatory and optional deferral of interest, thereby providing the Company greater financial and operational flexibility and increased ease of administration with respect to the Debentures. After receiving those consents, the Company entered into a supplemental indenture reflecting the amendments, which binds all holders of the Debentures.

The eliminated provisions related to the mandatory deferral of interest (1) required that the Company defer interest payments on the Debentures under specified circumstances unless it obtained funds for those payments through the sale of qualifying warrants or qualifying preferred stock, (2) subject to limitations, required that the Company obtain the necessary funds through such a sale, and (3) prohibited the Company from making certain distributions (including dividends) with respect to its capital stock during any mandatory extension period (as defined in the original indenture governing the Debentures) and until the Company paid all accrued but unpaid interest on the Debentures. The eliminated provisions related to the optional deferral of interest allowed the Company to defer interest payments on the Debentures at its discretion, in certain circumstances.

Holders of the Debentures that validly consented to the amendments received a consent fee of $15.00 per $1,000 principal amount of the Debentures. The Company paid aggregate consent fees of $10.1 million in June 2014 in connection with the Debentures consent solicitation, which will be amortized over the remaining term of the Debentures. Additionally, the Company incurred $1.6 million in fees to third parties related to the consent solicitation and supplemental indenture, which were classified in "Interest expense" in the unaudited condensed consolidated statement of operations for the nine months ended September 30, 2014.

2013 Credit Facility

On September 24, 2013, the Company entered into a secured credit agreement (the 2013 Credit Facility), which provided for a $1.65 billion revolving credit facility and a $1.20 billion term loan facility (the 2013 Term Loan Facility). Proceeds from the 2013 Term Loan Facility were used primarily to pay off the Company’s then-outstanding term loan borrowings under the Company’s unsecured credit agreements dated June 18, 2010 and October 28, 2011 (as amended). The Company recognized expense of $11.5 million on the write-off of previously deferred financing costs related to those facilities, which was classified in "Interest expense" in the unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2013.

Voluntary Debt Prepayments and Repurchases

During the nine months ended September 30, 2013, prior to the execution of the 2013 Credit Facility, the Company voluntarily prepaid $167.0 million in aggregate principal amount of its previous term loan facilities with existing cash on hand. The Company also repurchased $32.4 million of certain Australian private placement bonds with existing cash on hand during that period. In connection with the foregoing, the Company recognized an aggregate loss on debt extinguishment of $5.4 million during the nine months ended September 30, 2013, which was classified in "Interest expense" in the unaudited condensed consolidated statement of operations for that period.

During the nine months ended September 30, 2014, the Company made no debt payments in excess of scheduled maturities.

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(13) Pension and Postretirement Benefit Costs

Net periodic pension cost included the following components:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Service cost for benefits earned	$0.6	$0.6	$1.6	$1.7
Interest cost on projected benefit obligation	11.3	10.6	34.0	31.7
Expected return on plan assets	(13.6)	(14.9)	(40.7)	(44.6)
Amortization of prior service cost and net actuarial loss	7.9	16.6	23.6	49.9
Net periodic pension cost	$6.2	$12.9	$18.5	$38.7

Annual contributions to the qualified plans are made in accordance with minimum funding standards and the Company's agreement with the Pension Benefit Guaranty Corporation (PBGC). Funding decisions also consider certain funded status thresholds defined by the Pension Protection Act of 2006 (generally 80%). The Company currently expects its qualified plans to be at or above the Pension Protection Act thresholds and will therefore avoid benefit restrictions and at-risk penalties for 2014. During the three and nine months ended September 30, 2014, the Company contributed $1.5 million and $3.9 million, respectively, to its qualified and non-qualified pension plans. On August 8, 2014, the Highway and Transportation Funding Act of 2014 (HATFA) was signed into law, which extends pension funding stabilization provisions that were part of the Moving Ahead for Progress in the 21st Century Act of 2012 (MAP-21) passed on July 6, 2012. Under HATFA, the pension funding stabilization provisions temporarily increased the interest rates used to determine pension liabilities for purposes of minimum funding requirements through 2017. Similar to MAP-21, HATFA is not expected to change the Company's total required cash contributions over the long term, but is expected to reduce the Company's required cash contributions through 2017 if current interest rate levels persist. Based upon revised minimum funding requirements in accordance with HATFA, the Company expects to contribute $1.0 million to its qualified plans for the remainder of 2014. Accordingly, the Company’s 2014 contribution requirements for its qualified plans and benefit payments for its non-qualified plans are estimated to be approximately $5.0 million, a reduction from previous 2014 estimates of $13.0 million.

Net periodic postretirement benefit cost included the following components:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Service cost for benefits earned	$3.1	$4.0	$9.2	$11.8
Interest cost on accumulated postretirement benefit obligation	9.1	10.5	27.3	31.4
Amortization of prior service cost and net actuarial loss	3.9	5.6	11.8	16.8
Special termination benefits	—	(0.6)	—	0.9
Net periodic postretirement benefit cost	$16.1	$19.5	$48.3	$60.9

During the nine months ended September 30, 2014, the Company increased its accumulated postretirement benefit obligation (included in “Accrued postretirement benefit costs”) by $27.6 million, with an offsetting pre-tax prior service cost adjustment recorded directly to “Accumulated other comprehensive loss.” The adjustment was a result of a plan change effective April 1, 2014 for certain plan participants' benefits no longer funded through a Medicare Advantage Program. The plan change will not affect participant benefits, although it is expected to increase future employer contributions, including an additional $2.0 million of Company contributions for the year ending December 31, 2014.

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(14) Accumulated Other Comprehensive Loss

The following table below sets forth the after-tax components of accumulated other comprehensive loss and changes thereto recorded during the nine months ended September 30, 2014:

	Foreign Currency Translation Adjustment	Net Actuarial Loss Associated with Postretirement Plans and Workers' Compensation Obligations	Prior Service Cost Associated with Postretirement Plans	Cash Flow Hedges	Available-For-Sale Securities	Total Accumulated Other Comprehensive (Loss) Income
	(Dollars in millions)					
December 31, 2013	$(70.5)	$ (205.8)	$ 12.0	$(155.7)	$ 0.8	$ (419.2)
Net change in fair value	—	—	—	3.5	(1.7)	1.8
Reclassification from other comprehensive income to earnings	—	19.1	1.3	(1.6)	—	18.8
Current period change	(10.4)	—	(17.4)	—	—	(27.8)
September 30, 2014	$(80.9)	$ (186.7)	$ (4.1)	$(153.8)	$ (0.9)	$ (426.4)

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The following tables provide additional information regarding items reclassified out of "Accumulated other comprehensive loss" into earnings during the three months ended September 30, 2014 and 2013:

Details about accumulated other comprehensive income (loss) components	Amount reclassified from accumulated other comprehensive loss [1] Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Affected line item in the condensed consolidated statement of operations
	(Dollars in millions)		
Net actuarial loss associated with postretirement plans and workers' compensation obligations:			
Postretirement health care and life insurance benefits	$(3.6)	$(6.0)	Operating costs and expenses
Defined benefit pension plans	(6.2)	(13.6)	Operating costs and expenses
Defined benefit pension plans	(1.3)	(2.8)	Selling and administrative expenses
Insignificant items	1.0	(0.3)	
	(10.1)	(22.7)	Total before income taxes
	3.7	8.4	Income tax benefit
	$(6.4)	$(14.3)	Total after income taxes
Prior service cost associated with postretirement plans:			
Postretirement health care and life insurance benefits	$(0.3)	$0.4	Operating costs and expenses
Defined benefit pension plans	(0.4)	(0.2)	Operating costs and expenses
	(0.7)	0.2	Total before income taxes
	0.3	(0.1)	Income tax benefit (provision)
	$(0.4)	$0.1	Total after income taxes
Cash flow hedges:			
Foreign currency cash flow hedge contracts	$9.6	$9.9	Operating costs and expenses
Fuel and explosives commodity swaps	(2.8)	4.5	Operating costs and expenses
Coal trading commodity futures, swaps and options	(11.4)	37.8	Other revenues
Insignificant items	(0.1)	(0.2)	
	(4.7)	52.0	Total before income taxes
	1.3	(17.2)	Income tax benefit (provision)
	$(3.4)	$34.8	Total after income taxes

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

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The following tables provide additional information regarding items reclassified out of "Accumulated other comprehensive loss" into earnings during the nine months ended September 30, 2014 and 2013:

Details about accumulated other comprehensive income (loss) components	Amount reclassified from accumulated other comprehensive loss (1) Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013	Affected line item in the condensed consolidated statement of operations
	(Dollars in millions)		
Net actuarial loss associated with postretirement plans and workers' compensation obligations:			
Postretirement health care and life insurance benefits	$(10.8)	$(18.0)	Operating costs and expenses
Defined benefit pension plans	(18.6)	(40.8)	Operating costs and expenses
Defined benefit pension plans	(4.0)	(8.4)	Selling and administrative expenses
Insignificant items	3.0	(0.9)	
	(30.4)	(68.1)	Total before income taxes
	11.3	25.2	Income tax benefit
	$(19.1)	$(42.9)	Total after income taxes
Prior service cost associated with postretirement plans:			
Postretirement health care and life insurance benefits	$(1.0)	$1.2	Operating costs and expenses
Defined benefit pension plans	(1.0)	(0.7)	Operating costs and expenses
	(2.0)	0.5	Total before income taxes
	0.7	(0.2)	Income tax benefit (provision)
	$(1.3)	$0.3	Total after income taxes
Cash flow hedges:			
Foreign currency cash flow hedge contracts	$(2.9)	$157.1	Operating costs and expenses
Fuel and explosives commodity swaps	(4.3)	12.0	Operating costs and expenses
Coal trading commodity futures, swaps and options	9.4	88.8	Other revenues
Insignificant items	(0.2)	(0.5)	
	2.0	257.4	Total before income taxes
	(0.4)	(81.9)	Income tax provision
	$1.6	$175.5	Total after income taxes
Available-for-sale securities:			
Debt securities	$—	$0.1	Interest income
Equity securities	—	(21.5)	Asset impairment
	—	(21.4)	Total before income taxes

—	8.1	Income tax benefit
$—	$(13.3)	Total after income taxes

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

(15) Resource Management and Other Commercial Events

Coal Supply Agreement

During April 2014, the Company finalized pricing under a sales agreement for one of its Western U.S. Mining segment customers. As a result of that agreement, the Company recognized additional contract revenue and sales-related expenses totaling $33.5 million and $6.4 million, respectively, during the nine months ended September 30, 2014 and will continue to realize higher prices for coal supplied pursuant to that agreement in 2014.

Divestitures

In January 2014, the Company sold a non-strategic exploration tenement asset in Australia in exchange for cash proceeds of $62.6 million. The Company had previously recorded an impairment charge in December 2013 to write down the carrying value of that asset to its fair value. Accordingly, there was no gain or loss recognized on the disposal during the nine months ended September 30, 2014.

In June 2013, the Company sold non-strategic coal reserves and surface lands located in Kentucky in exchange for cash proceeds of $35.0 million and short-term notes receivable totaling $35.0 million, which notes were subsequently collected in December 2013. The Company recognized a gain on sale of $40.3 million related to the transaction, which was classified in "Net gain on disposal or exchange of assets" in the unaudited condensed consolidated statement of operations for the nine months ended September 30, 2013.

(16) Earnings per Share (EPS)

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

For all but the performance units, the potentially dilutive impact of the Company’s share-based compensation awards is determined using the treasury stock method. Under the treasury stock method, awards are treated as if they had been exercised with any proceeds used to repurchase common stock at the average market price during the period. Any incremental difference between the assumed number of shares issued and purchased is included in the diluted share computation. For the Company’s performance units, their contingent features result in an assessment for any potentially dilutive common stock by using the end of the reporting period as if it were the end of the contingency period for all units granted. For further discussion of the Company’s share-based compensation awards, see Note 18 to the consolidated financial statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

A conversion of the Debentures may result in payment for any conversion value in excess of the principal amount of the Debentures in the Company’s common stock. For diluted EPS purposes, potential common stock is calculated based on whether the market price of the Company’s common stock at the end of each reporting period is in excess of the conversion price of the Debentures. For a full discussion of the conditions under which the Debentures may be converted, the conversion rate to common stock and the conversion price, see Note 12 to the consolidated financial statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013. The effect of the Debentures was excluded from the calculation of diluted EPS for all periods presented herein because to do so would have been anti-dilutive for those periods.

The computation of diluted EPS also excluded aggregate stock options and restricted stock awards of approximately 3.1 million and 3.3 million for the three months ended September 30, 2014 and 2013, respectively, and 3.2 million and 3.3 million for the nine months ended September 30, 2014 and 2013, respectively, because to do so would have been anti-dilutive for those periods. Because the potential dilutive impact of such share-based compensation awards is calculated under the treasury stock method, anti-dilution generally occurs when the exercise prices or unrecognized compensation cost per share of such awards are higher than the Company's average stock price during the applicable period.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In millions, except per share data)			
EPS numerator:				
(Loss) income from continuing operations, net of income taxes	$(154.0)	$24.0	$(270.3)	$115.1
Less: Net income attributable to noncontrolling interests	1.6	7.0	8.1	7.8
(Loss) income from continuing operations attributable to common stockholders, before allocation of earnings to participating securities	(155.6)	17.0	(278.4)	107.3
Less: Earnings allocated to participating securities	0.3	0.2	0.8	0.6
(Loss) income from continuing operations attributable to common stockholders, after allocation of earnings to participating securities	(155.9)	16.8	(279.2)	106.7
Income (loss) from discontinued operations attributable to common stockholders, after allocation of earnings to participating securities	5.0	(43.1)	6.0	(66.5)
Net (loss) income attributable to common stockholders, after earnings allocated to participating securities	$(150.9)	$(26.3)	$(273.2)	$40.2
EPS denominator:				
Weighted average shares outstanding — basic	268.2	267.2	268.0	267.0
Impact of dilutive securities	—	0.5	—	0.5
Weighted average shares outstanding — diluted	268.2	267.7	268.0	267.5
Basic EPS attributable to common stockholders:				
(Loss) income from continuing operations	$(0.58)	$0.06	$(1.04)	$0.40
Income (loss) from discontinued operations	0.02	(0.16)	0.02	(0.25)
Net (loss) income attributable to common stockholders	$(0.56)	$(0.10)	$(1.02)	$0.15
Diluted EPS attributable to common stockholders:				
(Loss) income from continuing operations	$(0.58)	$0.06	$(1.04)	$0.40
Income (loss) from discontinued operations	0.02	(0.16)	0.02	(0.25)
Net (loss) income attributable to common stockholders	$(0.56)	$(0.10)	$(1.02)	$0.15

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

In the normal course of business, the Company is a party to guarantees and financial instruments with off-balance-sheet risk, most of which are not reflected in the accompanying condensed consolidated balance sheets. Such financial instruments are valued based on the amount of exposure under the instrument and the likelihood of required performance. In the Company’s past experience, virtually no claims have been made against these financial instruments. As of November 6, 2014, management does not expect any material losses to result from these guarantees or off-balance-sheet instruments.

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Financial Instruments with Off-Balance Sheet Risk

As of September 30, 2014, the Company had the following financial instruments with off-balance sheet risk:

	Reclamation Obligations	Lease Obligations	Workers' Compensation Obligations	Other [(1)]	Total
	(Dollars in millions)				
Self bonding	$1,374.3	$—	$—	$—	$1,374.3
Surety bonds	326.2	104.4	98.1	10.6	539.3
Bank guarantees	285.4	—	—	121.0	406.4
Letters of credit	17.6	—	34.1	85.6	137.3
	$2,003.5	$104.4	$132.2	$217.2	$2,457.3

(1) Other includes the $79.7 million in letters of credit related to Dominion Terminal Associates and TXU Europe Limited described below and an additional $137.5 million in bank guarantees, letters of credit and surety bonds related to collateral for road maintenance, performance guarantees and other operations.

The Company owns a 37.5% interest in Dominion Terminal Associates, a partnership that operates a coal export terminal in Newport News, Virginia under a 30-year lease that permits the partnership to purchase the terminal at the end of the lease term for a nominal amount. The partners have severally (but not jointly) agreed to make payments under various agreements which in the aggregate provide the partnership with sufficient funds to pay rents and to cover the principal and interest payments on the floating-rate industrial revenue bonds issued by the Peninsula Ports Authority, and which are supported by letters of credit from a commercial bank. As of September 30, 2014, the Company's maximum reimbursement obligation to the commercial bank was in turn supported by four letters of credit totaling $42.7 million.

The Company is party to an agreement with the PBGC and TXU Europe Limited, an affiliate of the Company's former parent corporation, under which the Company is required to make special contributions to two of the Company's defined benefit pension plans and to maintain a $37.0 million letter of credit in favor of the PBGC. If the Company or the PBGC gives notice of an intent to terminate one or more of the covered pension plans in which liabilities are not fully funded, or if the Company fails to maintain the letter of credit, the PBGC may draw down on the letter of credit and use the proceeds to satisfy liabilities under the Employee Retirement Income Security Act of 1974, as amended. The PBGC, however, is required to first apply amounts received from a $110.0 million guarantee in place from TXU Europe Limited in favor of the PBGC before it draws on the Company's letter of credit. On November 19, 2002, TXU Europe Limited was placed under the administration process in the U.K. (a process similar to bankruptcy proceedings in the U.S.) and continues under this process as of September 30, 2014. As a result of these proceedings, TXU Europe Limited may be liquidated or otherwise reorganized in such a way as to relieve it of its obligations under its guarantee.

As of September 30, 2014, one of the Company's wholly-owned captive insurance subsidiaries was party to a letter of credit arrangement for $22.5 million in relation to certain of its workers' compensation and other insurance-related obligations whereby that subsidiary has pledged $32.1 million of its investments in debt securities as collateral. This arrangement reduces the letters of credit drawn on the Company's 2013 Credit Facility and effectively lowers the fees associated with the related letters of credit.

Accounts Receivable Securitization

The Company has an accounts receivable securitization program (securitization program) with a maximum capacity of $275.0 million through its wholly owned, bankruptcy-remote subsidiary (Seller). At September 30, 2014, the Company had $247.4 million remaining capacity available under the securitization program, net of outstanding letters of credit and amounts drawn. Under the securitization program, the Company contributes trade receivables of most of the Company's U.S. subsidiaries on a revolving basis to the Seller, which then sells the receivables in their entirety to a consortium of unaffiliated asset-backed commercial paper conduits and banks (the Conduits). After the sale, the Company, as servicer of the assets, collects the receivables on behalf of the Conduits for a nominal servicing fee. The Company utilizes proceeds from the sale of its accounts receivable as an alternative to short-term borrowings under the revolving credit facility portion of the Company's Credit Facility, effectively managing its overall borrowing costs and providing an additional source of working capital. The securitization program will expire in April 2016.

The Seller is a separate legal entity whose assets are available first and foremost to satisfy the claims of its creditors. Of the receivables sold to the Conduits, a portion of the amount due to the Seller is deferred until the ultimate collection of the underlying receivables. During the nine months ended September 30, 2014, the Company received total consideration of $3,196.8 million related to accounts receivable sold under the securitization program, including $2,064.8 million of cash up front from the sale of the receivables, an additional $918.0 million of cash upon the collection of the underlying receivables and $214.0 million that had not been collected at September 30, 2014 and was recorded at carrying value, which approximates fair value. The reduction in accounts receivable as a result of securitization activity with the Conduits was $25.0 million and $100.0 million at September 30, 2014 and December 31, 2013, respectively.

The securitization activity has been reflected in the unaudited condensed consolidated statements of cash flows as an operating activity because both the cash received from the Conduits upon sale of the receivables as well as the cash received from the Conduits upon the ultimate collection of the receivables are not subject to significantly different risks given the short-term nature of the Company’s trade receivables. The Company recorded expense associated with securitization transactions of $0.4 million and $0.5 million for the three months ended September 30, 2014 and 2013, respectively, and $1.2 million for each of the nine months ended September 30, 2014 and 2013, respectively.

Patriot Bankruptcy Reorganization

As part of the definitive settlement agreement reached in 2013 with Patriot and the UMWA, which agreement is discussed in Note 18. "Commitments and Contingencies," the Company has provided $135.7 million of credit support to Patriot. Approximately $100 million of this credit support ends in 2018. As of September 30, 2014, $81.4 million of this credit support took the form of surety bonds issued for the benefit of Patriot beneficiaries; $31.9 million of this credit support took the form of corporate guarantees to Patriot beneficiaries; and $22.4 million of this credit support took the form of letters of credit issued for the benefit of Patriot beneficiaries. Those surety bonds and letters of credit are included in the financial instruments with off-balance sheet risk table presented in this note, while the corporate guarantees are not. A total of $50.7 million of the credit support (all in the form of surety bonds) relates to Patriot’s Coal Act obligations that the Company agreed to fund at the time of the Patriot spin-off pursuant to the Coal Act Liabilities Assumption Agreement and to Patriot’s Federal Black Lung obligations.

Patriot has approximately $150 million in federal and state black lung occupational disease liabilities related to workers employed in periods prior to Patriot’s spin-off from the Company in 2007. At the time of the spin-off, Patriot indemnified the Company against any claim relating to these liabilities, including any claim made by the U.S. Department of Labor (“DOL”) against the Company with respect to these obligations as a potentially liable operator under the Federal Coal Mine Health and Safety Act of 1969. The definitive settlement agreement reached in 2013, which became effective upon Patriot's emergence from bankruptcy on December 18, 2013, included Patriot’s affirmance of the indemnity relating to such black lung liabilities.

If Patriot does not pay the black lung liabilities in the future, the DOL would first look to Patriot and any related credit support for payment before asserting any claims against the Company. While Patriot has agreed to indemnify the Company against any such claims by the DOL, the Company could be responsible for those liabilities if Patriot were not able to fund such indemnification.

Other

Included in "Other noncurrent liabilities" in the Company's condensed consolidated balance sheets as of September 30, 2014 and December 31, 2013 is a liability of $45.6 million related to reclamation, bonding and mine closure commitments provided on behalf of a third-party coal producer associated with a 2007 purchase of coal reserves and surface lands in the Illinois Basin.

The Company is the lessee under numerous equipment and property leases. It is common in such commercial lease transactions for the Company, as the lessee, to agree to indemnify the lessor for the value of the property or equipment leased, should the property be damaged or lost during the course of the Company's operations. The Company expects that losses with respect to leased property, if any, would be covered by insurance (subject to deductibles). The Company and certain of its subsidiaries have guaranteed other subsidiaries' performance under various lease obligations. Aside from indemnification of the lessor for the value of the property leased, the Company's maximum potential obligations under its leases are equal to the respective future minimum lease payments, and the Company assumes that no amounts could be recovered from third parties.

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

(18) Commitments and Contingencies

Commitments

Unconditional Purchase Obligations

As of September 30, 2014, purchase commitments for capital expenditures were $75.3 million, all of which are obligated within the next 12 months.

There were no other material changes to the Company’s commitments from the information provided in Note 24 to the consolidated financial statements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

Contingencies

From time to time, the Company or its subsidiaries are involved in legal proceedings arising in the ordinary course of business or related to indemnities or historical operations. The Company believes it has recorded adequate reserves for these liabilities and that there is no individual case pending that is likely to have a material adverse effect on the Company’s financial condition, results of operations or cash flows. The Company discusses its significant legal proceedings below, including ongoing proceedings and those that impacted the Company's results of operations for the periods presented.

Litigation Relating to Continuing Operations

Monto Coal Pty Limited, Monto Coal 2 Pty Ltd Limited and Macarthur Coal Limited. In October 2007, a statement of claim was delivered to Monto Coal Pty Ltd, a wholly owned subsidiary of PEA-PCI, then Macarthur Coal Limited, and Monto Coal 2 Pty Ltd, an equity accounted investee, from the minority interest holders in the Monto Coal Joint Venture, alleging that Monto Coal 2 Pty Ltd breached the Monto Coal Joint Venture Agreement and Monto Coal Pty Ltd breached the Monto Coal Management Agreement. Monto Coal Pty Ltd is the manager of the Monto Coal Joint Venture pursuant to the Management Agreement. Monto Coal 2 Pty Ltd holds a 51% interest in the Monto Coal Joint Venture. The plaintiffs are Sanrus Pty Ltd, Edge Developments Pty Ltd and H&J Enterprises (Qld) Pty Ltd. An additional statement of claim was delivered to PEA-PCI in November 2010 from the same minority interest holders in the Monto Coal Joint Venture, alleging that PEA-PCI induced Monto Coal 2 Pty Ltd and Monto Coal Pty Ltd to breach the Monto Coal Joint Venture Agreement and the Monto Coal Management Agreement, respectively. These actions, which are pending before the Supreme Court of Queensland, Australia, seek damages from the three defendants collectively of $1,193.2 million Australian dollars, plus interest and costs. The defendants dispute the claims and are vigorously defending their positions. Based on the Company's evaluation of the issues and their potential impact, the amount of any future loss cannot be reasonably estimated. However, based on current information, the Company believes these claims are likely to be finalized without a material adverse effect on its financial condition, results of operations or cash flows.

Sumiseki Materials Co. Ltd. In 2010, Sumiseki Materials Co. Ltd. (Sumiseki), the Class B shareholder (noncontrolling interest holder) in Wambo Coal Pty Ltd (Wambo), an Australian subsidiary of the Company, filed a lawsuit against Wambo in the Supreme Court of New South Wales, Australia, alleging that it was entitled to certain dividends from Wambo (subject to limited exceptions) and requested payment of those dividends for periods from 2009 to 2012. In March 2013, the Supreme Court ruled Sumiseki was entitled to the disputed dividends (subject to limited exceptions). In May 2013, the Supreme Court issued finalized orders, which included the amounts due for the disputed dividends including interest. Wambo appealed the Supreme Court's decision to the New South Wales Court of Appeal and obtained a stay of the Supreme Court judgment. In accordance with the terms of the stay, Wambo posted security with the court in an interest-bearing trust account jointly operated by the parties.

On September 17, 2014, the Court of Appeal upheld the Supreme Court's ruling (with a minor exception), finding Sumiseki is entitled to the disputed dividends plus interest and costs. In its ruling, the Court of Appeal noted that while payment of dividends is usually a matter for a company's directors, the Class B dividend is a mandatory dividend, regardless of any decision by the directors, and that the amount of the dividend is based on a percentage of the company's net profit, unless there is a legal prohibition that precludes the dividend being paid. Wambo has filed an application for leave to appeal the ruling to the High Court of Australia.

Based on the results of the Court of Appeals proceedings, the Company reclassified the security posted with the court and the amount of dividends payable from "Cash and cash equivalents" and "Noncontrolling interests," respectively, as presented in the condensed consolidated balance sheet as of December 31, 2013, to "Other current assets" and "Accounts payable and accrued expenses," respectively, in the unaudited condensed consolidated balance sheet as of September 30, 2014. Amounts recorded include $42.5 million related to the dividends payable and $10.0 million of related accrued interest in "Accounts payable and accrued expenses" in the unaudited condensed consolidated balance sheet as of September 30, 2014. The Company reflected the portion of the reclassified security posted with the court related to dividends within the "Cash Flows From Financing Activities" section of the unaudited condensed consolidated statement of cash flows for the nine months ended September 30, 2014.

Eagle Mining, LLC Arbitration. On May 3, 2013, Eagle Mining, LLC (Eagle) filed an arbitration demand against a Company subsidiary under a contract mining agreement, asserting various claims for damages. An arbitration hearing was held in January 2014 before a single arbitrator. On March 18, 2014, the arbitrator awarded Eagle damages on some of its claims in the total amount of $23.4 million. In December 2013, prior to the arbitration hearing, the Company subsidiary established a reserve in the amount of $7.8 million, which amount represented the low end of the Company's previous estimated range of loss associated with the matter. The difference between the Company’s reserve amount and the amount of the award was primarily due to damages that were awarded on one of the claims at the high end of the Company’s previous estimated range of loss, and that were awarded on another claim for which the Company initially determined the probability of loss to be remote. As a result of the damages awarded to Eagle in arbitration, the Company recorded an additional charge of $15.6 million in "Operating costs and expenses" in the unaudited condensed consolidated statement of operations for the nine months ended September 30, 2014. On April 18, 2014, the Company subsidiary filed a petition to partially vacate and modify the arbitration award in the United States District Court for the Southern District of West Virginia, Charleston Division.

Contract Pricing Arbitration. The Company is engaged in an arbitration process with one of its U.S. customers related to the negotiated price of coal delivered pursuant to a long-term coal supply agreement. Through September 30, 2014, the Company had shipped 3.6 million tons subject to pricing in accordance with the outcome of the arbitration, with the disputed sum representing approximately 35% of the total amount that was invoiced and collected upon based on contract prices in effect in 2013. As of September 30, 2014, the Company had provided an accrual in its unaudited condensed consolidated balance sheet representing the Company’s best estimate of the associated exposure. The final pricing and ultimate impact, if any, is subject to resolution of the arbitration, which is expected in January 2015.

Queensland Bulk Handling Pty Ltd. On June 30, 2014, Queensland Bulk Handling Pty Ltd (QBH) filed a statement of claim with the Supreme Court of Queensland, Australia, against Peabody (Wilkie Creek) Pty Limited, an indirect wholly-owned subsidiary of the Company, alleging breach of a Coal Port Services Agreement between the parties. QBH seeks damages of $113.1 million Australian dollars, plus interest and costs. The Company believes that its subsidiary has strong legal defenses to this claim, and will defend its interests vigorously in this proceeding. The Company further believes this claim is likely to be resolved without a material adverse effect on its financial condition, results of operations or cash flows.

Gulf Power Company. On June 22, 2006, Gulf Power Company (Gulf Power) filed a breach of contract lawsuit against a Company subsidiary in the U.S. District Court, Northern District of Florida, contesting the force majeure declaration by the Company's subsidiary under a coal supply agreement with Gulf Power and seeking damages for alleged past and future tonnage shortfalls of nearly five million tons under the agreement, which expired in 2007. After the proceedings, the District Court awarded Gulf Power damages of $20.6 million for its 2007 cover coal purchases and prejudgment interest of $6.9 million plus post-judgment interest. The Company's subsidiary and Gulf Power both appealed and, in June 2013, the U.S. Court of Appeals for the Eleventh Circuit issued its order affirming the District Court's judgment in all respects. The Company subsidiary and Gulf Power agreed not to seek judicial review of the Eleventh Circuit's order, and the Company subsidiary paid the judgment during the third quarter of 2013. In connection with the order, the Company recorded a charge for the judgment amount of $20.6 million in "Operating costs and expenses" and $6.9 million in "Interest expense" in the unaudited condensed consolidated statements of operations for the nine months ended September 30, 2013.

Claims, Litigation and Settlements Relating to Indemnities or Historical Operations

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

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Environmental claims for remediation, past costs, future costs, and/or natural resource damages have been asserted against Gold Fields related to historical activities of Gold Fields or a former affiliate. Gold Fields or the former affiliate has been named a potentially responsible party (PRP) at five national priority list sites based on the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA). CERCLA claims were asserted at 13 additional sites, bringing the total to 18, which have since been reduced to eight by completion of work, transfer or regulatory inactivity. The number of CERCLA sites alone is not a relevant measure of liability because the nature and extent of environmental concerns and costs varies by site, as does the estimated share of responsibility relative to other PRPs for Gold Fields or the former affiliate.

Undiscounted liabilities for environmental cleanup-related costs for all of the sites noted above were $70.3 million as of September 30, 2014 and $63.8 million as of December 31, 2013, of which $29.6 million and $18.3 million was reflected as a current liability, respectively, in the condensed consolidated balance sheets as of those dates. These amounts represent those costs that the Company believes are probable and reasonably estimable.

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

Settlement Agreement with Patriot and the UMWA. In 2012, Patriot Coal Corporation and certain of its wholly owned subsidiaries (Patriot) filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. In 2013, the Company entered into a definitive settlement agreement with Patriot and the United Mine Workers of America (UMWA), on behalf of itself, its represented Patriot employees and its represented Patriot retirees, to resolve all disputed issues related to Patriot’s bankruptcy.

In connection with the settlement agreement with Patriot and the UMWA, which became effective on December 18, 2013, the Company is required to provide total payments of $310 million, payable over four years through 2017, to partially fund the newly established voluntary employee beneficiary association (VEBA) and settle all Patriot and UMWA claims involving the Patriot bankruptcy. Those payments included an initial payment of $90 million made in January 2014, comprised of $70 million paid to Patriot and $20 million paid to the VEBA, and subsequent payments to be paid to the VEBA of $75 million in 2015, $75 million in 2016 and $70 million in 2017.

Other

In June 2007, the New York Office of the Attorney General (NYAG) served a letter and subpoena on the Company, seeking information and documents relating to the Company's disclosure to investors of risks associated with possible climate change and related legislation and regulations. The Company believes it has made full and proper disclosure of these potential risks. In late 2013, the NYAG submitted a letter to the Company requesting additional information and documents and the Company is in the process of complying with that request.

In January 2013, the Securities and Exchange Commission (SEC) staff served a subpoena on the Company seeking information and documents relating to the development of Prairie State Energy Campus, a 1,600 megawatt coal-fueled electricity generation plant and adjacent coal mine in Illinois in which the Company owns a 5.06% undivided interest. The Company cooperated with the SEC's investigation and has not received any related communication from the SEC since August 2013.

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

(19) Segment Information

The Company reports its results of operations primarily through the following reportable segments: “Australian Mining," “Western U.S. Mining,” “Midwestern U.S. Mining,” “Trading and Brokerage” and “Corporate and Other.” The Company’s chief operating decision maker uses Adjusted EBITDA as the primary measure of segment profit and loss. The Company defines Adjusted EBITDA as (loss) income from continuing operations before deducting net interest expense, income taxes, asset retirement obligation expenses, depreciation, depletion and amortization, asset impairment and mine closure costs, charges for the settlement of claims and litigation related to previously divested operations and amortization of basis difference related to equity affiliates.

Reportable segment results were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Revenues:				
Australian Mining	$676.3	$705.3	$1,995.5	$2,188.1
Western U.S. Mining	711.1	705.4	2,119.7	1,986.4
Midwestern U.S. Mining	312.9	346.6	920.5	1,013.3
Trading and Brokerage	15.0	32.1	46.3	54.6
Corporate and Other	7.6	8.2	25.7	28.5
Total	$1,722.9	$1,797.6	$5,107.7	$5,270.9
Adjusted EBITDA:				
Australian Mining	$16.9	$74.8	$30.9	$287.7
Western U.S. Mining	194.8	193.5	590.7	508.9
Midwestern U.S. Mining	86.8	112.4	235.4	331.5
Trading and Brokerage	3.3	17.2	7.7	(7.8)
Corporate and Other	(85.5)	(85.9)	(258.4)	(273.9)
Total	$216.3	$312.0	$606.3	$846.4

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Adjusted EBITDA	$216.3	$312.0	$606.3	$846.4
Depreciation, depletion and amortization	(163.6)	(186.4)	(483.9)	(542.8)
Asset impairment	—	—	—	(21.5)
Amortization of basis difference related to equity affiliates	(1.5)	—	(4.0)	(4.0)
Asset retirement obligation expenses	(15.0)	(13.4)	(46.5)	(50.7)
Interest expense	(114.5)	(111.0)	(323.0)	(323.1)
Interest income	3.7	4.2	11.7	11.2
Income tax (provision) benefit	(79.4)	18.6	(30.9)	199.6
	$(154.0)	$24.0	$(270.3)	$115.1

(Loss) income from continuing operations, net of income taxes

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(20) Supplemental Guarantor/Non-Guarantor Financial Information

In accordance with the indentures governing the 7.375% Senior Notes due November 2016, the 6.00% Senior Notes due November 2018, the 6.50% Senior Notes due September 2020, the 6.25% Senior Notes due November 2021 and the 7.875% Senior Notes due November 2026 (collectively the Senior Notes), certain 100% owned U.S. subsidiaries of the Company (each, a Guarantor Subsidiary) have fully and unconditionally guaranteed the Senior Notes, on a joint and several basis.The indentures governing the Senior Notes contain customary exceptions under which a guarantee of a Guarantor Subsidiary will terminate, including (a) the release or discharge of the guarantee of the Company’s 2013 Credit Facility by such Guarantor Subsidiary, except a discharge or release by or as a result of payment under such guarantee, (b) a sale or other disposition, by way of merger, consolidation or otherwise, of all of the capital stock of such Guarantor Subsidiary, and (c) the legal defeasance or discharge of the indentures. Separate financial statements and other disclosures concerning the Guarantor Subsidiaries are not presented because management believes that such information is not material to the holders of the Senior Notes. The following historical financial statement information is provided for the Guarantor/Non-Guarantor Subsidiaries.

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Unaudited Supplemental Condensed Consolidating Statements of Operations

	Three Months Ended September 30, 2014				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in millions)				
Total revenues	$—	$ 1,008.1	$ 731.1	$ (16.3)	$ 1,722.9
Costs and expenses					
Operating costs and expenses (exclusive of items shown separately below)	(6.7)	758.2	718.1	(16.3)	1,453.3
Depreciation, depletion and amortization	—	77.0	86.6	—	163.6
Asset retirement obligation expenses	—	6.5	8.5	—	15.0
Selling and administrative expenses	12.0	36.4	4.5	—	52.9
Other operating (income) loss:					
Net gain on disposal or exchange of assets	—	(4.4)	(9.5)	—	(13.9)
Loss from equity affiliates and investment in subsidiaries	80.9	3.6	12.2	(80.9)	15.8
Interest expense	106.0	1.7	171.2	(164.4)	114.5
Interest income	—	(2.8)	(165.3)	164.4	(3.7)
(Loss) income from continuing operations before income taxes	(192.2)	131.9	(95.2)	80.9	(74.6)
Income tax (benefit) provision	(41.1)	57.0	63.5	—	79.4
(Loss) income from continuing operations, net of income taxes	(151.1)	74.9	(158.7)	80.9	(154.0)
Income (loss) from discontinued operations, net of income taxes	0.5	(0.1)	4.6	—	5.0
Net (loss) income	(150.6)	74.8	(154.1)	80.9	(149.0)
Less: Net income attributable to noncontrolling interests	—	—	1.6	—	1.6
Net (loss) income attributable to common stockholders	$(150.6)	$ 74.8	$ (155.7)	$ 80.9	$ (150.6)

Unaudited Supplemental Condensed Consolidating Statements of Comprehensive Income

	Three Months Ended September 30, 2014				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in millions)				
Net (loss) income	$(150.6)	$ 74.8	$ (154.1)	$ 80.9	$ (149.0)
Other comprehensive (loss) income, net of income taxes	(207.6)	2.7	(6.7)	4.0	(207.6)
Comprehensive (loss) income	(358.2)	77.5	(160.8)	84.9	(356.6)
Less: Comprehensive income attributable to noncontrolling interests	—	—	1.6	—	1.6
Comprehensive (loss) income attributable to common stockholders	$(358.2)	$ 77.5	$ (162.4)	$ 84.9	$ (358.2)

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

Unaudited Supplemental Condensed Consolidating Statements of Operations

	Three Months Ended September 30, 2013				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in millions)				
Total revenues	$—	$ 1,005.8	$ 823.8	$ (32.0)	$ 1,797.6
Costs and expenses					
Operating costs and expenses (exclusive of items shown separately below)	(14.4)	755.6	722.9	(32.0)	1,432.1
Depreciation, depletion and amortization	—	83.0	103.4	—	186.4
Asset retirement obligation expenses	—	4.8	8.6	—	13.4
Selling and administrative expenses	11.2	38.5	5.3	—	55.0
Other operating (income) loss:					
Net gain on disposal or exchange of assets	—	(4.0)	(0.1)	—	(4.1)
(Income) loss from equity affiliates and investment in subsidiaries	(98.0)	2.0	0.6	98.0	2.6
Interest expense	113.0	88.2	22.6	(112.8)	111.0
Interest income	(0.1)	(98.8)	(18.1)	112.8	(4.2)
Unrealized (gain) loss on derivatives	—	(19.7)	19.7	—	—
(Loss) income from continuing operations before income taxes	(11.7)	156.2	(41.1)	(98.0)	5.4
Income tax provision (benefit)	10.0	(32.2)	3.6	—	(18.6)
(Loss) income from continuing operations, net of income taxes	(21.7)	188.4	(44.7)	(98.0)	24.0
Loss from discontinued operations, net of income taxes	(4.4)	(1.8)	(36.9)	—	(43.1)
Net (loss) income	(26.1)	186.6	(81.6)	(98.0)	(19.1)
Less: Net income attributable to noncontrolling interests	—	—	7.0	—	7.0
Net (loss) income attributable to common stockholders	$ (26.1)	$ 186.6	$ (88.6)	$ (98.0)	$ (26.1)

Unaudited Supplemental Condensed Consolidating Statements of Comprehensive Income

	Three Months Ended September 30, 2013				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in millions)				
Net (loss) income	$ (26.1)	$ 186.6	$ (81.6)	$ (98.0)	$ (19.1)
Other comprehensive income (loss), net of income taxes	14.1	14.2	(36.4)	22.2	14.1
Comprehensive (loss) income	(12.0)	200.8	(118.0)	(75.8)	(5.0)
Less: Comprehensive loss attributable to noncontrolling interests	—	—	7.0	—	7.0
Comprehensive (loss) income attributable to common stockholders	$ (12.0)	$ 200.8	$ (125.0)	$ (75.8)	$ (12.0)

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

Unaudited Supplemental Condensed Consolidating Statements of Operations

	Nine Months Ended September 30, 2014				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in millions)				
Total revenues	$—	$2,989.5	$ 2,177.3	$(59.1)	$ 5,107.7
Costs and expenses					
Operating costs and expenses (exclusive of items shown separately below)	7.2	2,226.2	2,141.4	(59.1)	4,315.7
Depreciation, depletion and amortization	—	230.4	253.5	—	483.9
Asset retirement obligation expenses	—	22.1	24.4	—	46.5
Selling and administrative expenses	36.6	120.5	14.5	—	171.6
Other operating (income) loss:					
Net gain on disposal or exchange of assets	—	(16.3)	(9.6)	—	(25.9)
Loss from equity affiliates and investment in subsidiaries	45.7	6.3	37.7	(45.7)	44.0
Interest expense	318.9	5.0	174.3	(175.2)	323.0
Interest income	(0.2)	(7.3)	(179.4)	175.2	(11.7)
(Loss) income from continuing operations before income taxes	(408.2)	402.6	(279.5)	45.7	(239.4)
Income tax (benefit) provision	(134.1)	122.8	42.2	—	30.9
(Loss) income from continuing operations, net of income taxes	(274.1)	279.8	(321.7)	45.7	(270.3)
Income (loss) from discontinued operations, net of income taxes	1.7	(1.3)	5.6	—	6.0
Net (loss) income	(272.4)	278.5	(316.1)	45.7	(264.3)
Less: Net income attributable to noncontrolling interests	—	—	8.1	—	8.1
Net (loss) income attributable to common stockholders	$(272.4)	$278.5	$ (324.2)	$45.7	$ (272.4)

Unaudited Supplemental Condensed Consolidating Statements of Comprehensive Income

	Nine Months Ended September 30, 2014				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in millions)				
Net (loss) income	$(272.4)	$278.5	$ (316.1)	$45.7	$ (264.3)
Other comprehensive (loss) income, net of income taxes	(7.2)	5.1	(22.6)	17.5	(7.2)
Comprehensive (loss) income	(279.6)	283.6	(338.7)	63.2	(271.5)
Less: Comprehensive income attributable to noncontrolling interests	—	—	8.1	—	8.1
Comprehensive (loss) income attributable to common stockholders	$(279.6)	$283.6	$ (346.8)	$63.2	$ (279.6)

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

Unaudited Supplemental Condensed Consolidating Statements of Operations

	Nine Months Ended September 30, 2013				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in millions)				
Total revenues	$—	$2,992.9	$ 2,438.8	$ (160.8)	$ 5,270.9
Costs and expenses					
Operating costs and expenses (exclusive of items shown separately below)	(168.9)	2,279.5	2,308.9	(160.8)	4,258.7
Depreciation, depletion and amortization	—	248.1	294.7	—	542.8
Asset retirement obligation expenses	—	26.6	24.1	—	50.7
Selling and administrative expenses	39.5	125.7	18.9	—	184.1
Other operating (income) loss:					
Net gain on disposal or exchange of assets	—	(49.8)	(0.1)	—	(49.9)
Asset impairment	21.5	—	—	—	21.5
(Income) loss from equity affiliates and investment in subsidiaries	(192.1)	10.4	25.2	192.1	35.6
Interest expense	316.2	99.2	142.8	(235.1)	323.1
Interest income	(68.3)	(138.5)	(39.5)	235.1	(11.2)
Unrealized loss (gain) on derivatives	—	441.9	(441.9)	—	—
Income (loss) from continuing operations before income taxes	52.1	(50.2)	105.7	(192.1)	(84.5)
Income tax provision (benefit)	0.5	(117.4)	(82.7)	—	(199.6)
Income (loss) from continuing operations, net of income taxes	51.6	67.2	188.4	(192.1)	115.1
Loss from discontinued operations, net of income taxes	(10.8)	(4.3)	(51.4)	—	(66.5)
Net income (loss)	40.8	62.9	137.0	(192.1)	48.6
Less: Net income attributable to noncontrolling interests	—	—	7.8	—	7.8
Net income (loss) attributable to common stockholders	$40.8	$62.9	$ 129.2	$ (192.1)	$ 40.8

Unaudited Supplemental Condensed Consolidating Statements of Comprehensive Income

	Nine Months Ended September 30, 2013				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in millions)				
Net income (loss)	$40.8	$62.9	$ 137.0	$ (192.1)	$ 48.6
Other comprehensive (loss) income, net of income taxes	(416.9)	42.7	(100.5)	57.8	(416.9)
Comprehensive (loss) income	(376.1)	105.6	36.5	(134.3)	(368.3)
Less: Comprehensive income attributable to noncontrolling interests	—	—	7.8	—	7.8
	$(376.1)	$105.6	$ 28.7	$ (134.3)	$ (376.1)

Comprehensive (loss) income attributable to common stockholders

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

Unaudited Supplemental Condensed Consolidating Balance Sheets

	September 30, 2014				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications/ Eliminations	Consolidated
	(Dollars in millions)				
Assets					
Current assets					
Cash and cash equivalents	$317.4	$0.2	$148.9	$ —	$466.5
Accounts receivable, net	0.1	—	489.9	—	490.0
Receivables from affiliates, net	230.6	—	—	(230.6)	—
Inventories	—	211.6	279.3	—	490.9
Assets from coal trading activities, net	—	47.0	5.7	—	52.7
Deferred income taxes	34.7	62.2	10.0	—	106.9
Other current assets	0.4	60.1	263.9	—	324.4
Total current assets	583.2	381.1	1,197.7	(230.6)	1,931.4
Property, plant, equipment and mine development, net	—	4,931.7	5,719.4	—	10,651.1
Deferred income taxes	—	19.8	—	(14.9)	4.9
Investments and other assets	10,730.1	8.0	684.6	(10,465.4)	957.3
Notes receivable from affiliates, net	—	1,515.0	—	(1,515.0)	—
Total assets	$11,313.3	$6,855.6	$7,601.7	$ (12,225.9)	$13,544.7
Liabilities and Stockholders’ Equity					
Current liabilities					
Current maturities of long-term debt	$12.0	$0.1	$9.3	$ —	$21.4
Payables to affiliates, net	—	203.4	27.2	(230.6)	—
Liabilities from coal trading activities, net	—	9.8	12.6	—	22.4
Accounts payable and accrued expenses	382.1	616.9	657.5	—	1,656.5
Total current liabilities	394.1	830.2	706.6	(230.6)	1,700.3
Long-term debt, less current maturities	5,953.4	6.4	9.9	—	5,969.7
Deferred income taxes	27.7	—	3.2	(14.9)	16.0
Notes payable to affiliates, net	1,032.6	—	482.4	(1,515.0)	—
Other noncurrent liabilities	311.9	1,566.6	385.1	—	2,263.6
Total liabilities	7,719.7	2,403.2	1,587.2	(1,760.5)	9,949.6
Peabody Energy Corporation stockholders’ equity	3,593.6	4,452.4	6,013.0	(10,465.4)	3,593.6
Noncontrolling interests	—	—	1.5	—	1.5
Total stockholders’ equity	3,593.6	4,452.4	6,014.5	(10,465.4)	3,595.1
	$11,313.3	$6,855.6	$7,601.7	$ (12,225.9)	$13,544.7

Total liabilities and stockholders' equity

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

Supplemental Condensed Consolidating Balance Sheets

	December 31, 2013				
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Reclassifications/ Eliminations	Consolidated
	(Dollars in millions)				
Assets					
Current assets					
Cash and cash equivalents	$300.7	$0.3	$143.0	$ —	$444.0
Accounts receivable, net	1.3	—	559.1	(2.5)	557.9
Receivables from affiliates, net	22.8	35.2	—	(58.0)	—
Inventories	—	235.1	271.6	—	506.7
Assets from coal trading activities, net	—	46.7	—	(10.6)	36.1
Deferred income taxes	—	61.9	6.4	(1.9)	66.4
Other current assets	34.5	73.7	273.4	—	381.6
Total current assets	359.3	452.9	1,253.5	(73.0)	1,992.7
Property, plant, equipment and mine development, net	—	5,055.7	6,026.8	—	11,082.5
Deferred income taxes	16.5	—	7.8	(16.5)	7.8
Investments and other assets	11,394.9	8.8	762.6	(11,115.9)	1,050.4
Notes receivable from affiliates, net	—	1,433.0	—	(1,433.0)	—
Total assets	$11,770.7	$6,950.4	$8,050.7	$ (12,638.4)	$14,133.4
Liabilities and Stockholders' Equity					
Current liabilities					
Current maturities of long-term debt	$12.0	$0.1	$19.6	$ —	$31.7
Payables to affiliates, net	—	—	58.0	(58.0)	—
Deferred income taxes	1.9	—	—	(1.9)	—
Liabilities from coal trading activities, net	—	0.2	16.5	(10.6)	6.1
Accounts payable and accrued expenses	360.0	577.7	802.5	(2.5)	1,737.7
Total current liabilities	373.9	578.0	896.6	(73.0)	1,775.5
Long-term debt, less current maturities	5,959.1	6.5	5.1	—	5,970.7
Deferred income taxes	—	55.9	1.5	(16.5)	40.9
Notes payable to affiliates, net	1,032.6	—	400.4	(1,433.0)	—
Other noncurrent liabilities	496.4	1,521.8	380.2	—	2,398.4
Total liabilities	7,862.0	2,162.2	1,683.8	(1,522.5)	10,185.5
Peabody Energy Corporation stockholders' equity	3,908.7	4,788.2	6,327.7	(11,115.9)	3,908.7
Noncontrolling interests	—	—	39.2	—	39.2
Total stockholders' equity	3,908.7	4,788.2	6,366.9	(11,115.9)	3,947.9

Total liabilities and stockholders' equity	$11,770.7	$6,950.4	$8,050.7	$ (12,638.4)	$14,133.4

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

Unaudited Supplemental Condensed Consolidating Statements of Cash Flows

	Nine Months Ended September 30, 2014			
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
	(Dollars in millions)			
Cash Flows From Operating Activities				
Net cash (used in) provided by continuing operations	$(286.9)	$634.2	$ (1.5)	$ 345.8
Net cash used in discontinued operations	(72.1)	(3.6)	(20.0)	(95.7)
Net cash (used in) provided by operating activities	(359.0)	630.6	(21.5)	250.1
Cash Flows From Investing Activities				
Additions to property, plant, equipment and mine development	—	(57.8)	(49.7)	(107.5)
Changes in accrued expenses related to capital expenditures	—	0.9	(23.7)	(22.8)
Federal coal lease expenditures	—	(89.4)	—	(89.4)
Proceeds from disposal of assets, net of notes receivable	—	54.7	97.8	152.5
Purchases of debt securities	—	—	(6.0)	(6.0)
Proceeds from sales and maturities of debt securities	—	—	7.7	7.7
Contributions to joint ventures	—	—	(410.4)	(410.4)
Distributions from joint ventures	—	—	408.5	408.5
Advances to related parties	—	—	(19.7)	(19.7)
Repayments of loans from related parties	—	—	1.4	1.4
Other, net	—	(3.6)	(0.3)	(3.9)
Net cash (used in) provided by investing activities	—	(95.2)	5.6	(89.6)
Cash Flows From Financing Activities				
Repayments of long-term debt	(9.0)	(0.1)	(6.5)	(15.6)
Proceeds from long-term debt	—	—	1.1	1.1
Payment of deferred financing costs	(10.1)	—	—	(10.1)
Repurchase of employee common stock relinquished for tax withholding	(2.3)	—	—	(2.3)
Dividends paid	(69.2)	—	—	(69.2)
Restricted cash for distributions to noncontrolling interests	—	—	(42.5)	(42.5)
Other, net	5.5	(1.6)	(3.3)	0.6
Transactions with affiliates, net	460.8	(533.8)	73.0	—
Net cash provided by (used in) financing activities	375.7	(535.5)	21.8	(138.0)
Net change in cash and cash equivalents	16.7	(0.1)	5.9	22.5
Cash and cash equivalents at beginning of period	300.7	0.3	143.0	444.0
Cash and cash equivalents at end of period	$317.4	$0.2	$ 148.9	$ 466.5

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

Unaudited Supplemental Condensed Consolidating Statements of Cash Flows

	Nine Months Ended September 30, 2013			
	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
	(Dollars in millions)			
Cash Flows From Operating Activities				
Net cash provided by (used in) continuing operations	$98.1	$687.4	$ (207.9)	$ 577.6
Net cash used in discontinued operations	(14.3)	(0.3)	(19.0)	(33.6)
Net cash provided by (used in) operating activities	83.8	687.1	(226.9)	544.0
Cash Flows From Investing Activities				
Additions to property, plant, equipment and mine development	—	(65.1)	(163.6)	(228.7)
Changes in accrued expenses related to capital expenditures	—	(2.4)	(100.2)	(102.6)
Federal coal lease expenditures	—	(89.5)	—	(89.5)
Proceeds from disposal of assets, net of notes receivable	—	48.3	85.0	133.3
Purchases of debt securities	—	—	(9.9)	(9.9)
Proceeds from sales and maturities of debt securities	—	—	17.7	17.7
Proceeds from the maturity of short-term investments	—	—	4.8	4.8
Contributions to joint ventures	—	—	(539.8)	(539.8)
Distributions from joint ventures	—	—	576.6	576.6
Advances to related parties	—	—	(39.5)	(39.5)
Repayments of loans from related parties	—	—	22.7	22.7
Other, net	—	(4.1)	(0.1)	(4.2)
Net cash used in continuing operations	—	(112.8)	(146.3)	(259.1)
Net cash used in discontinued operations	—	—	(1.0)	(1.0)
Net cash used in investing activities	—	(112.8)	(147.3)	(260.1)
Cash Flows From Financing Activities				
Repayments of long-term debt	(1,331.3)	(0.1)	(52.6)	(1,384.0)
Proceeds from long-term debt	1,188.0	—	—	1,188.0
Payment of debt issuance costs	(22.8)	—	—	(22.8)
Repurchase of employee common stock relinquished for tax withholding	(2.9)	—	—	(2.9)
Dividends paid	(68.8)	—	—	(68.8)
Other, net	6.7	(1.7)	(5.9)	(0.9)
Transactions with affiliates, net	231.4	(572.5)	341.1	—
Net cash (used in) provided by financing activities	0.3	(574.3)	282.6	(291.4)
Net change in cash and cash equivalents	84.1	—	(91.6)	(7.5)
Cash and cash equivalents at beginning of period	269.6	0.3	288.9	558.8
Cash and cash equivalents at end of period	$353.7	$0.3	$ 197.3	$ 551.3

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Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

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 ot 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 and customer procurement practices, particularly in international seaborne 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 and production;
- 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;
- ability to appropriately secure our obligations for land reclamation, federal and state workers' compensation, federal coal leases and other obligations related to our operations;
- 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 Part II, Item 1. "Legal Proceedings."

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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, including the more detailed discussion of these factors and other factors that could affect our results contained in Item 1A. “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2013. 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.

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).

Overview

We are the world’s largest private sector coal company. As of September 30, 2014, we owned interests in 27 active coal mining operations located in the United States (U.S.) and Australia. We have a majority interest in 26 of those mining operations and a 50% equity interest in the Middlemount Mine in 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 Australia, China, Germany, India, Indonesia, Singapore, the United Kingdom and the U.S. (listed alphabetically).

In 2013, we produced and sold 218.4 million and 251.7 million tons of coal, respectively, from continuing operations. During that period, 73% of our total sales (by volume) were to U.S. electricity generators, 26% were to customers outside the U.S. and 1% were to the U.S. industrial sector, with approximately 80% of our worldwide sales (by volume) delivered under long-term contracts.

We conduct business through four principal operating segments: Western U.S. Mining, Midwestern U.S. Mining, Australian Mining and Trading and Brokerage. Our Western U.S. Mining segment consists of our Powder River Basin, Southwest and Colorado operations, while our Midwestern U.S. Mining segment consists of our operations in Illinois and Indiana.

The business of our Australian Mining segment is the mining of various qualities of metallurgical coal, as well as thermal 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 those specific to each country. 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.

The principal business of the Western and Midwestern U.S. Mining segments is the mining, preparation and sale of thermal coal. In the U.S., we typically supply thermal coal to domestic electricity generators and industrial customers for power generation under long-term contracts, with a portion sold as seaborne exports.

Our Trading and Brokerage segment engages in the direct and brokered trading of coal and freight-related contracts through the trading and business offices mentioned above. 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. Our Trading and Brokerage segment also provides transportation-related services, which involves both financial derivative contracts and physical contracts. Collectively, coal and freight-related hedging activities include both economic hedging and cash flow hedging in support of our coal trading strategy, and cash flow hedging in support of sales from our mining operations.

Our fifth segment, Corporate and Other, includes mining and export/transportation joint ventures and activities associated with the optimization of our coal reserve and real estate holdings, the closure of inactive mining sites and certain energy-related commercial matters.

To maximize the utilization of our coal assets and land holdings, we are evaluating Btu Conversion projects that would convert coal to natural gas (CTG) or transportation fuels (CTL) and contributing to the development of clean coal technologies, including carbon capture and storage (CCS).

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Results of Operations

Non-U.S. GAAP Financial Measures

The following discussion of our results of operations includes references to and analysis of Adjusted EBITDA, Adjusted (Loss) Income from Continuing Operations and Adjusted Diluted EPS, which are financial measures not recognized in accordance with U.S. generally accepted accounting principles (GAAP). These financial measures are not intended to serve as alternatives to U.S. GAAP measures of performance and may not be comparable to similarly-titled measures presented by other companies.

Adjusted EBITDA is defined as (loss) income from continuing operations before deducting net interest expense, income taxes, asset retirement obligation expenses, depreciation, depletion and amortization, asset impairment and mine closure costs, charges for the settlement of claims and litigation related to previously divested operations and amortization of basis difference related to equity affiliates. Adjusted EBITDA is the primary metric used by management to measure our segments' operating performance and we believe it is useful to external users of our financial statements in comparing our current results with those of prior and future periods and in evaluating our operating performance without regard to our capital structure or the cost basis of our assets.

Adjusted (Loss) Income from Continuing Operations and Adjusted Diluted EPS are defined as (loss) income from continuing operations and diluted (loss) earnings per share from continuing operations (EPS), respectively, excluding the impacts of asset impairment and mine closure costs and charges for the settlement of claims and litigation related to previously divested operations, net of tax, and the remeasurement of foreign income tax accounts on our income tax provision. When applicable, we calculate the income tax benefits related to asset impairment and mine closure costs and charges for the settlement of claims and litigation related to previously divested operations based on the enacted tax rate in the jurisdiction in which they have been or will be realized, adjusted for the estimated recoverability of those benefits. We have included Adjusted (Loss) Income from Continuing Operations and Adjusted Diluted EPS in our discussion because, in the opinion of management, excluding those foregoing items is useful in comparing our current results with those of prior periods. We also believe that excluding the impact of the remeasurement of our foreign income tax accounts represents a meaningful indicator of our ongoing effective tax rate.

A reconciliation of Adjusted EBITDA to its most comparable measure under U.S. GAAP is included in Note 19. "Segment Information" of the accompanying unaudited condensed consolidated financial statements. Adjusted (Loss) Income from Continuing Operations and Adjusted Diluted EPS are reconciled to their most comparable measures under U.S. GAAP in the sections that follow.

Three and Nine Months Ended September 30, 2014 Compared to the Three and Nine Months Ended September 30, 2013

Summary

In 2013, the coal segments that we serve were characterized by (1) abundant supply in international markets, which continued to suppress prices, and (2) a positive near-term demand outlook in the U.S., with customer coal stockpile inventories having decreased during that year to a level that was in line with historical norms. Those trends have continued thus far in 2014 and have impacted our results for the three and nine months ended September 30, 2014.

Global demand for metallurgical coal remained steady during the nine months ended September 30, 2014. Worldwide steel production increased 2.1% during that period compared to the prior year according to data recently published by the World Steel Association (WSA), though the WSA expects that trend to decelerate slightly in the remainder of 2014, projecting a 2.0% full year increase in worldwide steel production in its October 2014 Short Range Outlook.

Demand for international seaborne thermal coal was stagnant during the nine months ended September 30, 2014, as growth in imports into India only partially offset a slight decline in Chinese imports during that period compared to the prior year.

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Overall, mixed trends in demand and the impact of high supply continued to weigh on international coal prices. Benchmark pricing for seaborne premium high quality hard coking coal (HQHCC), premium low volatile pulverized coal injections products (LV PCI) and thermal coal originating from Newcastle, Australia (NEWC) for the first three quarters of 2014 and 2013 were as follows:

Contract Commencement	HQHCC		Price Decrease	LV PCI		Price Decrease	NEWC		Price Decrease
Month:	2014	2013	%	2014	2013	%	2014	2013	%
January	$143	$165	(13.3)%	$116	$124	(6.5)%	$87	$91	(4.4)%
April	$120	$172	(30.2)%	$100	$141	(29.1)%	$82	$95	(13.7)%
July	$120	$145	(17.2)%	$100	$116	(13.8)%	$76	$90	(15.6)%

In the U.S., electricity generation from coal increased 3% during the nine months ended September 30, 2014 compared to the same period in 2013, according to the U.S. Energy Information Administration (EIA). U.S. electricity generation from coal benefited during that period from higher heating-degree days due to cold winter weather and gas-to-coal switching due to higher natural gas prices; however, poor rail performance and mild summer weather tempered the effect of those positive factors, particularly in the third quarter. Accordingly, our total U.S. volumes shipped decreased year-over-year during the three months ended September 30, 2014 and increased during the nine months then ended.

Our revenues decreased during the three and nine months ended September 30, 2014 compared to the same periods in the prior year (three months, $74.7 million; nine months, $163.2 million). Year-over-year changes in revenues for both current year interim periods reflected lower realized pricing from our Australian Mining segment (three months, $139.3 million; nine months, $404.2 million), partially offset by an increase in tons sold from our Australian Mining segment, higher realized pricing from our Western U.S. Mining segment and, for the nine month period, higher tons sold from our Western U.S. Mining segment.

In order to mitigate the impact of lower coal pricing, we have continued to focus on driving operational efficiencies, optimizing production across our mining platform and controlling expenses at all levels of the organization. Overall, Adjusted EBITDA decreased during the three and nine months ended September 30, 2014 compared to the same periods in the prior year (three months, $95.7 million; nine months, $240.1 million). Net results attributable to common stockholders also decreased in the three and nine months ended September 30, 2014 compared to the same periods in the prior year (three months, $124.5 million; nine months, $313.2 million). In addition to lower Adjusted EBITDA, those results also reflected an adverse impact from income taxes, partially offset by lower depreciation, depletion and amortization, improved results from discontinued operations and, for the year-to-date period, the impact of an asset impairment charge recognized in the second quarter of 2013, as discussed further in the sections that follow.

As of September 30, 2014, our available liquidity was approximately $2.3 billion, a slight increase from the end of 2013. Refer to the "Liquidity and Capital Resources" section contained within this Item 2 for a further discussion of factors affecting our available liquidity.

Tons Sold

The following table presents tons sold by operating segment:

	Three Months Ended September 30,		Increase (Decrease) to Volumes		Nine Months Ended September 30,		Increase (Decrease) to Volumes	
	2014	2013	Tons	%	2014	2013	Tons	%
	(Tons in millions)				(Tons in millions)			
Australian Mining	10.0	9.0	1.0	11.1 %	27.9	25.9	2.0	7.7 %
Western U.S. Mining	41.7	42.7	(1.0)	(2.3)%	123.3	117.9	5.4	4.6 %
Midwestern U.S. Mining	6.5	6.9	(0.4)	(5.8)%	18.9	19.9	(1.0)	(5.0)%
Trading and Brokerage	4.3	10.5	(6.2)	(59.0)%	15.4	23.4	(8.0)	(34.2)%
Total tons sold	62.5	69.1	(6.6)	(9.6)%	185.5	187.1	(1.6)	(0.9)%

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Revenues

The following table presents revenues by operating segment:

	Three Months Ended September 30,		Increase (Decrease) to Revenues		Nine Months Ended September 30,		Increase (Decrease) to Revenues	
	2014	2013	$	%	2014	2013	$	%
	(Dollars in millions)				(Dollars in millions)			
Australian Mining	$676.3	$705.3	$(29.0)	(4.1)%	$1,995.5	$2,188.1	$(192.6)	(8.8)%
Western U.S. Mining	711.1	705.4	5.7	0.8%	2,119.7	1,986.4	133.3	6.7%
Midwestern U.S. Mining	312.9	346.6	(33.7)	(9.7)%	920.5	1,013.3	(92.8)	(9.2)%
Trading and Brokerage	15.0	32.1	(17.1)	(53.3)%	46.3	54.6	(8.3)	(15.2)%
Corporate and Other	7.6	8.2	(0.6)	(7.3)%	25.7	28.5	(2.8)	(9.8)%
Total revenues	$1,722.9	$1,797.6	$(74.7					