**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# Form 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the Fiscal Year Ended December 31, 2007**

**or**

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

**Commission File Number 1-16463**

# Peabody Energy Corporation

*(Exact name of registrant as specified in its charter)*

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

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

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, par value $0.01 per share | New York Stock Exchange |
| Preferred Share Purchase Rights | New York Stock Exchange |

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

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

| | | | |
|---|---|---|---|
| Large accelerated filer ☑ | Accelerated filer ☐ | Non-accelerated filer ☐<br>(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 ☑

Aggregate market value of the voting stock held by non-affiliates (shareholders who are not directors or executive officers) of the Registrant, calculated using the closing price on June 29, 2007: Common Stock, par value $0.01 per share, $12.8 billion.

Number of shares outstanding of each of the Registrant's classes of Common Stock, as of February 15, 2008: Common Stock, par value $0.01 per share, 271,009,658 shares outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Company's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Company's 2008 Annual Meeting of Stockholders (the Company's 2008 Proxy Statement) are incorporated by reference into Part III hereof. Other documents incorporated by reference in this report are listed in the Exhibit Index of this Form 10-K.

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*Note: The words "we," "our," "Peabody" or "the Company" as used in this report, refer to Peabody Energy Corporation or its applicable subsidiary or subsidiaries. Unless otherwise noted herein, disclosures in this Annual Report on Form 10-K relate only to our continuing operations. Our discontinued operations, which were spun-off to stockholders in the fourth quarter of 2007, consist of portions of our Eastern U.S. Mining operations business segment.*

# PART I

## Item 1. *Business.*

### Overview

We are the largest private-sector coal company in the world. During the year ended December 31, 2007, we sold 237.8 million tons of coal. During this period, we sold coal to over 340 electricity generating and industrial plants in 19 countries. Our coal products fuel approximately 10% of all U.S. electricity generation and 2% of worldwide electricity generation. At December 31, 2007, we had 9.3 billion tons of proven and probable coal reserves.

We own majority interests in 31 coal mining operations located in the U.S and Australia. Additionally, we own a minority interest in one Venezuelan operating mine through a joint venture arrangement. We shipped 192.3 million tons from our 20 U.S. mining operations and 21.4 million tons from our 11 Australia operations in 2007. We shipped 84% of our U.S. mining operations' coal sales volume from the western United States during the year ended December 31, 2007 and the remaining 16% from the eastern United States. Most of our production in the western United States is low-sulfur coal from the Powder River Basin. Our overall Western U.S. coal production has increased from 128.4 million tons in 2002 to 161.5 million tons during 2007, a compounded annual growth rate of 4.7%. In the West, we own and operate mines in Arizona, Colorado, New Mexico and Wyoming. In the East, we own and operate mines in Illinois and Indiana. We own six mines in Queensland, Australia, and five mines in New South Wales, Australia. Our Australian production includes both low-sulfur domestic and export thermal coal and metallurgical coal. The export thermal and metallurgical coal is predominantly shipped to customers in the Asia-Pacific region. We generated 89% of our global production for the year ended December 31, 2007 from non-union mines.

For the year ended December 31, 2007, 85% of our sales (by volume) were to U.S. electricity generators, 13% were to customers outside the United States and 2% were to the U.S. industrial sector. Approximately 94% of our coal sales during the year ended December 31, 2007 were under long-term (one year or greater) contracts. Our sales backlog, including backlog subject to price reopener and/or extension provisions, was nearly one billion tons as of December 31, 2007, representing more than four years of current production in backlog. Contracts in backlog have remaining terms ranging from one to 17 years. We are targeting 2008 production of 220 to 240 million tons and total sales volume of 240 to 260 million tons, including 8 to 10 million tons of metallurgical coal. As of December 31, 2007, our unpriced 2008 volumes for planned produced tonnage were 5 to 10 million U.S. tons and 9 to 10 million Australia tons. Our total unpriced planned production for 2009 is approximately 80 to 90 million tons in the United States and 17 to 20 million tons in Australia.

Our mining operations consist of three principal operating segments: Western U.S. Mining, Eastern U.S. Mining, and Australian Mining. In addition to our mining operations, we market, broker and trade coal through our Trading and Brokerage Operations segment. Our total tons traded were 166.5 million for the year ended December 31, 2007. In response to growing international markets, we established an international trading group in 2006 and added a trading operations office in Europe in early 2007. We also have a business development, sales and marketing office in Beijing, China to pursue potential long-term growth opportunities there. Our other energy-related commercial activities include the development of mine-mouth coal-fueled generating plants, the management of our vast coal reserve and real estate holdings, and Btu Conversion technologies, which are designed to convert coal to natural gas and transportation fuels.

For financial information regarding each of our operating segments, see Note 24 to our consolidated financial statements.

**Discontinued Operations**

On October 31, 2007, we spun-off portions of our Eastern U.S. Mining operations business segment to form Patriot Coal Corporation (Patriot). We distributed Patriot stock to our stockholders at a ratio of one share of Patriot stock for every 10 shares of Peabody stock held on the record date of October 22, 2007. Our results for all periods presented reflect Patriot as a discontinued operation. The spin-off included eight company-operated mines, two majority-owned joint venture mines, and numerous contractor operated mines serviced by eight coal preparation facilities along with 1.2 billion tons of proven and probable coal reserves. Prior to the spin-off, we received necessary regulatory approvals including a private letter ruling on the tax-free nature of the transaction from the Internal Revenue Service.

**History**

Peabody, Daniels and Co. was founded in 1883 as a retail coal supplier, entering the mining business in 1888 as Peabody & Co. with the opening of our first coal mine in Illinois. In 1926, Peabody Coal Company was listed on the Chicago Stock Exchange and, beginning in 1949, on the New York Stock Exchange.

In 1955, Peabody Coal Company, primarily an underground mine operator, merged with Sinclair Coal Company, a major surface mining company. Peabody Coal Company was acquired by Kennecott Copper Company in 1968. The company was then sold to Peabody Holding Company in 1977, which was formed by a consortium of companies.

During the 1980s, Peabody grew through expansion and acquisition, opening the North Antelope Mine in Wyoming's coal-rich Powder River Basin in 1983 and the Rochelle Mine in 1985.

In July 1990, Hanson, PLC acquired Peabody Holding Company. In the 1990s, Peabody continued to grow through expansion and acquisitions. In February 1997, Hanson spun off its energy-related businesses, including Eastern Group and Peabody Holding Company, into The Energy Group, plc. The Energy Group was a publicly traded company in the United Kingdom and its American Depository Receipts (ADRs) were publicly traded on the New York Stock Exchange.

In May 1998, Lehman Brothers Merchant Banking Partners II L.P. and affiliates (Merchant Banking Fund), an affiliate of Lehman Brothers Inc. (Lehman Brothers), purchased Peabody Holding Company and its affiliates, Peabody Resources Limited and Citizens Power LLC in a leveraged buyout transaction that coincided with the purchase by Texas Utilities of the remainder of The Energy Group. In August 2000, Citizens Power, our subsidiary that marketed and traded electric power and energy-related commodity risk management products, was sold to Edison Mission Energy and in January 2001, we sold our Peabody Resources Limited (in Australia) operations to Coal & Allied, a subsidiary of Rio Tinto Limited.

In April 2001, we changed our name to Peabody Energy Corporation, reflecting our position as a premier energy supplier. In May 2001, we completed an initial public offering of common stock, and our shares began trading on the New York Stock Exchange under the ticker symbol "BTU," the globally recognized symbol for energy.

In April 2004, we acquired coal operations from RAG Coal International AG, expanding our presence in both Australia and Colorado. In December 2004, we completed the purchase of a 25.5% equity interest in Carbones del Guasare from RAG Coal International, S.A. Carbones del Guasare, a joint venture with Anglo American plc and a Venezuelan governmental partner, operates Venezuela's largest coal mine, the Paso Diablo Mine in northwestern Venezuela. In October 2006, we expanded our presence in Australia with the acquisition of Excel Coal Limited (Excel), an independent coal company in Australia. The Excel acquisition included operating and development-stage mines, along with proven and probable coal reserves of up to 500 million tons.

On October 31, 2007, we spun-off portions of our Eastern U.S. Mining operations business segment to form Patriot Coal Corporation as noted above. The spin-off included eight company-operated mines, two majority-owned joint venture mines, and numerous contractor operated mines serviced by eight coal preparation facilities along with 1.2 billion tons of proven and probable coal reserves.

We have transformed in recent years from a high-sulfur, high-cost coal company to a predominately low sulfur, low-cost coal producer, marketer / trader of coal and manager of vast natural resources through organic growth, acquisitions and strategic operational restructuring. We operate under four core strategies to achieve growth. These include executing the basics of best-in-class safety, operations and marketing; capitalizing on organic growth opportunities; expanding in high-growth global markets; and participating in new generation and Btu Conversion technologies to convert coal into natural gas, liquids and hydrogen. Through these strategies, in 2008, we are focused on several key areas to enhance shareholder value amid the multiple markets we operate: 1) improving productivity and costs, utilizing prior-year investments and ongoing operations improvement programs; 2) expanding access to high-growth, high-margin markets; 3) improving capital efficiency; 4) pursuing long-term operating, trading and joint-venture opportunities in China, Mongolia and Mozambique; and 5) advancing clean coal projects, including Btu Conversion initiatives.

**Mining Operations**

We conduct our mining business through three principal mining operating segments: Western U.S. Mining, Eastern U.S. Mining, and Australian Mining. Our Western U.S. Mining Operations consist of our Powder River Basin, Southwest and Colorado operations, and our Eastern U.S. Mining Operations consist of our Midwest operations. The principal business of our U.S. Mining segments is the mining, preparation and sale of steam coal, sold primarily to electric utilities. Internationally, we operate metallurgical and steam coal mines in Queensland, Australia and New South Wales, Australia and have a 25.5% investment in a Venezuelan mine. All of our operating segments are discussed in Note 24 to our consolidated financial statements.

reconfigure FutureGen as a project with multiple carbon capture and storage sites, while some members of Congress argued in favor of the original project.

#### *GreenGen*

In December 2007, we became the only non-Chinese equity partner in "GreenGen," a development-stage project in China to build a near-zero emissions coal-fueled power plant with carbon capture and storage. The US$1 billion GreenGen project is expected to use advanced coal-based technologies to generate electricity. It would be capable of hydrogen production and will advance carbon dioxide capture and storage technologies.

#### *Coal21 Fund*

We have committed to contribute for a five-year period to the Australian COAL21 Fund, which is a voluntary coal industry fund to support clean coal technology demonstration projects and research in Australia. All major coal companies in Australia have committed to this fund. The Clean Coal Technology Special Agreement Act 2007 (Queensland) provides that the amount contributed in relation to Queensland production will be expended on Queensland or National Clean Coal Technology Projects. The Act establishes a Clean Coal Council to make recommendations to the Premier on the Projects which should be funded.

#### *National Clean Coal Fund*

The Federal Labor Government has stated that it will establish a $500 million Clean Coal Fund to develop clean coal technologies in Australia. This includes funding for clean coal research, a pilot coal gasification plant, the demonstration of carbon capture and storage and a national carbon mapping and infrastructure plan. We are not contributing to this fund.

### Btu Conversion

With the increase in U.S. demand for natural gas and oil based commodities, we are determining how to best participate in technologies to economically convert our coal resources to natural gas as well as liquids such as diesel fuel, gasoline and jet fuel. Our initiatives include:

- An agreement with ConocoPhillips to explore development of a commercial scale coal-to-substitute natural gas (SNG) facility in the Midwest;
- A minority investment in GreatPoint Energy, Inc., which is commercializing its proprietary bluegas™ technology that converts coal, petroleum coke and biomass into ultra-clean pipeline quality natural gas while enabling carbon capture and storage;
- An agreement to acquire a 30% interest in Econo-Power International Corporation (EPIC™), which uses air-blown gasifiers to convert coal into a synthetic gas that is ideal for industrial applications; and
- A joint development agreement with Rentech, Inc. to evaluate sites in the Midwest and Montana for coal-to-liquids projects that would transform coal into diesel and jet fuel using Rentech's proprietary Fischer-Tropsch coal-to-liquids process.

### Certain Liabilities

We have long-term liabilities for reclamation (also called asset retirement obligations), pensions and retiree health care. In addition, one labor contract with the UMWA (the Western Surface Agreement) and voluntary arrangements with non-union employees include long-term benefits, notably health care coverage for retired employees and future retirees and their dependents. The majority of our existing liabilities relate to our past operations, including operations spun-off with Patriot.

*Asset Retirement Obligations.* Asset retirement obligations primarily represent the present value of future anticipated costs to restore surface lands to productivity levels equal to or greater than pre-mining conditions, as required by applicable laws and regulations. Expense from continuing operations (which includes liability accretion and asset amortization) for the years ended December 31, 2007, 2006 and 2005 was $25.6 million, $15.8 million, and $20.3 million, respectively. As of December 31, 2007, our asset retirement obligations of $369.5 million included $337.0 million related to locations with active mining operations and $32.5 million related to locations that are closed or inactive.

*Pension-Related Provisions.* Pension-related costs represent the actuarially-estimated cost of pension benefits. Annual minimum contributions to the pension plans are determined by consulting actuaries based on the minimum funding standards of the Employee Retirement Income Security Act of 1974, as amended (ERISA), and an agreement with the Pension Benefit Guaranty Corporation (PBGC). Beginning on January 1, 2008, new minimum funding standards will be required by the Pension Protection Act of 2006. Net pension-related liabilities were $45.8 million as of December 31, 2007, $1.3 million of which was a current liability. Expense for the years ended December 31, 2007, 2006 and 2005 was $19.6 million, $26.3 million and $38.7 million, respectively.

*Retiree Health Care.* Consistent with Statement of Financial Accounting Standard (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" we record a liability representing the estimated cost of providing retiree health care benefits to current retirees and active employees who will retire in the future. Provisions for active employees represent the amount recognized to date, based on their service to date; additional amounts are accrued periodically so that the total estimated liability is accrued when the employee retires. Our retiree health care liabilities were $855.8 million as of December 31, 2007, $70.1 million of which was a current liability. The Patriot spin-off reduced our health care liabilities by $617.0 million. Health care expense related to the spin-off of Patriot for the years ended December 31, 2007, 2006 and 2005 was $46.6 million, $41.4 million and $35.4 million, respectively, and was included in "Discontinued operations."

Under the terms of the spin-off separation agreement, Patriot is primarily liable for all obligations related to the Combined Fund, 1992 Benefit Fund and 1993 Benefit Fund. The Combined Fund and the 1992 Fund were created by federal law in 1992. These multi-employer funds provide health care benefits to a class of retirees who meet the statutory criteria. A third fund, the 1993 Benefit Fund, was established through collective bargaining and provides certain retiree health care benefits. A portion of the Combined Fund retirees was included within our Eastern U.S. Mining operations business segment and became the responsibility of Patriot in conjunction with the related spin-off. The actuarially determined liability representing the amounts anticipated to be due to the Combined Fund also became the responsibility of Patriot in the spin-off and totaled $38.4 million as of October 31, 2007. As of December 31, 2006, this obligation was $30.8 million and was reflected within liabilities of discontinued operations in the consolidated balance sheets. Expense of $2.7 million, $2.5 million and $0.9 million was recognized related to the Combined Fund for the years ended December 31, 2007, 2006 and 2005, respectively, and was included in "Discontinued operations."

The Surface Mining Control and Reclamation Act Amendments of 2006 (the 2006 Act) authorizes a specified amount of federal funds to pay for these programs on a phased-in basis and other programs. To the extent that (i) the annual retiree health care funding requirement exceeds the specified amount of federal funds, (ii) Congress does not allocate additional funds to cover the shortfall, and (iii) Patriot's subsidiaries do not pay their share of the shortfall, some of our subsidiaries would be responsible for the additional costs.

**Employees**

As of December 31, 2007, we had approximately 7,000 employees. As of such date, approximately 27% of our hourly employees were represented by organized labor unions and generated 10% of the 2007 coal production. Relations with our employees and, where applicable, organized labor are important to our success.

We opened training centers in the midwest and western regions of the United States under our "Workforce of the Future" initiative. Due to our current employee demographics, a significant portion of our current hourly employees will retire over the next decade. Our training centers are educating our workforce, particularly our most recent hires, in our rigorous safety standards, the latest in mining techniques and equipment, and the centers disseminate mining best practices across all of our operations. Our training efforts exceed minimum government standards for safety and technical expertise with the intent of developing and retaining a world-class workforce. Additionally, we are implementing a supervisor training program through our training centers to develop both new and current supervisors, in an effort to ensure the replenishment of our operating management workforce over the next decade.

### *United States Labor Relations*

The UMWA, under the Western Surface Agreement, represented approximately 6% of our U.S. subsidiaries' hourly employees, who generated 4% of our U.S. production during the year ended December 31, 2007. An additional 7% of our U.S. subsidiaries' hourly employees are represented by labor unions other than the UMWA. These employees generated 2% of our U.S. production during the year ended December 31, 2007. Hourly workers at our subsidiary's operating mine in Arizona are represented by the UMWA under the Western Surface Agreement, which is effective through September 2, 2013. Hourly workers at our Willow Lake Mine in Illinois are represented by the International Brotherhood of Boilermakers under a labor agreement that was signed in 2007 and that expires April 15, 2011.

### *Australia Labor Relations*

The Australian coal mining industry is unionized and the majority of workers employed at our Australian Mining operations are members of trade unions. The Construction Forestry Mining and Energy Union represents our Australian subsidiary's hourly production employees. As of December 31, 2007, our Australian subsidiary's hourly employees were approximately 26% of our Australian hourly workforce and generated 29% of our total Australian production in the year then ended. Our remaining hourly workforce is employed through contract mining relationships. The labor agreements at our Metropolitan Mine were renewed in July and October 2007 and those agreements expire in 2010. The Wambo mine coal handling plant labor agreement is under negotiation and the North Goonyella Mine operates under an agreement due to expire in March 2008.

## Regulatory Matters — United States

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

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

### *Mine Safety and Health*

Our vision is to provide a workplace that is incident free. We believe that it is our responsibility to our employees to provide a superior safety and health environment. We seek to implement this goal by: training employees in safe work practices; openly communicating with employees; establishing, following and improving safety standards; involving employees in safety processes; and recording, reporting and investigating all accidents, incidents and losses to avoid reoccurrence. A portion of the annual performance incentives for our operating units is tied to their safety performance.

Our safety performance in 2007, as measured by injury incidence rates, was 35% better than the U.S. average for our industry. During 2007, we achieved our vision of zero incidents for the whole year at five of our facilities, which contributed to our second best year ever in safety. We received multiple safety awards during the year, including the Sentinels of Safety at Farmersburg as the safest large surface coal mine in the country. Our training centers educate our employees in safety best practices and reinforce our company-wide belief that productivity and profitability follow when safety is a cornerstone of all of our operations.

You may also request copies of our filings, free of charge, by telephone at (314) 342-3400 or by mail at: Peabody Energy Corporation, 701 Market Street, Suite 900, St. Louis, Missouri 63101, attention: Investor Relations.

## Item 1A. *Risk Factors.*

The risk factors discussed herein relate specifically to the risks associated with our continuing operations.

***We may not be able to achieve some or all of the strategic objectives that we expected to achieve in connection with the spin-off of Patriot Coal Corporation in October 2007.***

We may not be able to completely achieve the financial and strategic objectives of our spin-off of Patriot Coal Corporation or such objectives may be delayed in their realization if they ever occur.

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

Most of our sales are made under coal supply agreements, which are important to the stability and profitability of our operations. The execution of a satisfactory coal supply agreement is frequently the basis on which we undertake the development of coal reserves required to be supplied under the contract. For the year ended December 31, 2007, 94% of our sales volume was sold under long-term coal supply agreements. At December 31, 2007, our sales backlog, including backlog subject to price reopener and/or extension provisions, was nearly one billion tons, representing more than four years of current production in backlog. Contracts in backlog have remaining terms ranging from one to 17 years.

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

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

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

For the year ended December 31, 2007, we derived 23% of our total coal revenues from sales to our five largest customers. At December 31, 2007, we had 125 coal supply agreements and trading transactions with these customers expiring at various times from 2008 to 2014. We are currently discussing the extension of existing agreements or entering into new long-term agreements with some of these customers, but these negotiations may not be successful and those customers may not continue to purchase coal from us under long-term coal supply agreements. If a number of these customers significantly reduce their purchases of coal from us, or if we are unable to sell coal to them on terms as favorable to us as the terms under our current agreements, our financial condition and results of operations could suffer materially.

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

Transportation costs represent a significant portion of the total cost of coal and the cost of transportation is a critical factor in a customer's purchasing decision. Increases in transportation costs and the lack of sufficient rail and port capacity could lead to reduced coal sales. As of December 31, 2007, certain coal supply agreements, which account for less than 5% of our tons sold, permit the customer to terminate the contract if the cost of transportation increases by an amount over specified levels in any given 12-month period.

Coal producers depend upon rail, barge, trucking, overland conveyor and ocean-going vessels to deliver coal to markets. While our coal customers typically arrange and pay for transportation of coal from the mine or port to the point of use, disruption of these transportation services because of weather-related problems, infrastructure damage, strikes, lock-outs, lack of fuel or maintenance items, transportation delays or other events could temporarily impair our ability to supply coal to our customers and thus could adversely affect our results of operations. For example, two primary railroads serve the Powder River Basin mines. Due to the high volume of coal shipped from all Powder River Basin mines, the loss of access to rail capacity could create temporary congestion on the rail systems servicing that region. In Australia we currently ship coal through the ports of Dalrymple Bay, Gladstone, Brisbane, Newcastle and Port Kembla. In most instances, we rail coal to these ports. The Australian coal supply chains (rail and port) can be impacted by a number of factors including weather events, breakdown or underperformance of the port and rail infrastructure, congestion and balancing systems which are imposed to manage vessel queuing and demurrage. We are also susceptible to increased costs or lost sales due to Australian coal chain problems. In 2007, we experienced high demurrage costs (fees paid to third-party shipping companies for loading time that exceeded the stipulated time) and increased vessel wait times due to these problems and the high demand for Australian coal.

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

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

***Concerns about the environmental impacts of coal combustion, including perceived impacts on global climate change, are resulting in increased regulation of coal combustion in many jurisdictions, and interest in further regulation, which could significantly affect demand for our products.***

Global climate change continues to attract considerable public and scientific attention. Widely publicized scientific reports in 2007, such as the Fourth Assessment Report of the Intergovernmental Panel on Climate

Change, have also engendered widespread concern about the impacts of human activity, especially fossil fuel combustion, on global climate change. In turn, considerable and increasing government attention in the United States is being paid to global climate change and to reducing greenhouse gas emissions, particularly from coal combustion by power plants. Legislation was introduced in Congress in 2006 and 2007 to reduce greenhouse gas emissions in the United States and additional legislation is likely to be introduced in the future. In addition, a growing number of states in the United States are taking steps to reduce greenhouse gas emissions from coal-fired power plants. The U.S. Supreme Court's recent decision in Massachusetts v. EPA ruled that the EPA improperly declined to address carbon dioxide impacts on climate change in a recent rulemaking. Although the specific rulemaking related to new motor vehicles, the reasoning of the decision could affect other federal regulatory programs, including those that directly relate to coal use. Enactment of laws and passage of regulations regarding greenhouse gas emissions by the United States or some of its states, or other actions to limit carbon dioxide emissions, could result in electric generators switching from coal to other fuel sources.

Concerns about other adverse environmental effects from coal combustion have also led to increased regulation. For example, in the United States, CAIR and CAMR, both issued by the EPA in March 2005, impose increasingly stringent requirements on coal-fired power plants in order to reduce emissions of sulfur dioxide, nitrogen oxide, and mercury. Each of the regulations takes effect in two phases, the first phase requiring certain reductions in overall emissions by 2009-10, the second requiring additional reductions in overall emissions by 2015 under CAIR and 2018 under CAMR. Both rules have been the subject of legal challenges by environmental advocacy groups that seek larger cuts sooner. On February 2, 2008, the Court of Appeals for the District of Columbia rendered a decision effectively vacating CAMR. If the decision stands, the EPA will have to revisit its standards regarding mercury emissions. Some states have independently established requirements imposing larger cuts sooner. Such requirements, in varying degrees, increase the costs of coal utilization for our customers and our prospective customers.

Further developments in connection with legislation, regulations or other limits on greenhouse gas emissions and other environmental impacts from coal combustion, both in the United States and in other countries where we sell coal, could have a material adverse effect on our results of operations, cash flows and financial condition.

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

Federal, state and local authorities regulate the coal mining industry with respect to matters such as employee health and safety, permitting and licensing requirements, air quality standards, water pollution, plant and wildlife protection, reclamation and restoration of mining properties after mining is completed, the discharge of materials into the environment, surface subsidence from underground mining and the effects that mining has on groundwater quality and availability. Numerous governmental permits and approvals are required for mining operations. We are required to prepare and present to federal, state or local authorities data pertaining to the effect or impact that any proposed exploration for or production of coal may have upon the environment. The costs, liabilities and requirements associated with these regulations may be costly and time-consuming and may delay commencement or continuation of exploration or production. The possibility exists that new legislation and/or regulations and orders related to the environment or employee health and safety may be adopted and may materially adversely affect our mining operations, our cost structure and/or our customers' ability to use coal. New legislation or administrative regulations (or judicial interpretations of existing laws and regulations), including proposals related to the protection of the environment that would further regulate and tax the coal industry, may also require us or our customers to change operations significantly or incur increased costs. Some of our coal supply agreements contain provisions that allow a purchaser to terminate its contract if legislation is passed that either restricts the use or type of coal permissible at the purchaser's plant or results in specified increases in the cost of coal or its use. These factors and legislation, if enacted, could have a material adverse effect on our financial condition and results of operations.

A number of laws, including in the U.S. the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA or Superfund), impose liability relating to contamination by hazardous substances. Such liability may involve the costs of investigating or remediating contamination and damages to natural resources, as well as claims seeking to recover for property damage or personal injury caused by hazardous substances. Such liability may arise from conditions at formerly as well as currently owned or operated properties, and at properties to which hazardous substances have been sent for treatment, disposal, or other handling. Liability under CERCLA and similar state statutes is without regard to fault, and typically is joint and several, meaning that a person may be held responsible for more than its share, or even all of, the liability involved. Our mining operations involve some use of hazardous materials. In addition, we have accrued for liability arising out of contamination associated with Gold Fields Mining, LLC (Gold Fields), a dormant, non-coal-producing subsidiary of ours that was previously managed and owned by Hanson PLC, or with Gold Fields' former affiliates. A predecessor owner of ours, Hanson PLC transferred ownership of Gold Fields to us in the February 1997 spin-off of its energy business. Gold Fields is currently a defendant in several lawsuits and has received notices of several other potential claims arising out of lead contamination from mining and milling operations it conducted in northeastern Oklahoma. Gold Fields is also involved in investigating or remediating a number of other contaminated sites. Although we have accrued for many of these liabilities known to us, the amounts of other potential losses cannot be estimated. Significant uncertainty exists as to whether claims will be pursued against Gold Fields in all cases, and where they are pursued, the amount of the eventual costs and liabilities, which could be greater or less than our accrual. Although we believe many of these liabilities are likely to be resolved without a material adverse effect on us, future developments, such as new information concerning areas known to be or suspected of being contaminated for which we may be responsible, the discovery of new contamination for which we may be responsible, or the inability to share costs with other parties that may be responsible for the contamination, could have a material adverse effect on our financial condition or results of operations.

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

We provide postretirement health and life insurance benefits to eligible union and non-union employees. We calculated the total accumulated postretirement benefit obligation under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," which we estimate had a present value of $855.8 million as of December 31, 2007, $70.1 million of which was a current liability. We have estimated these unfunded obligations based on assumptions described in the notes to our consolidated financial statements. If our assumptions do not materialize as expected, cash expenditures and costs that we incur could be materially higher. Moreover, regulatory changes or changes to Medicare benefit levels could increase our obligations to provide these or additional benefits.

We are party to an agreement with the PBGC and TXU Europe Limited, an affiliate of our former parent corporation, under which we are required to make specified contributions to two of our defined benefit pension plans and to maintain a $37.0 million letter of credit in favor of the PBGC. If we or the PBGC give notice of an intent to terminate one or more of the covered pension plans in which liabilities are not fully funded, or if we fail 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 Employment Retirement Income Security Act of 1974, as amended. The PBGC, however, is required to first apply amounts received from a $110.0 million guaranty in place from TXU Europe Limited in favor of the PBGC before it draws on our letter of credit. On November 19, 2002, TXU Europe Limited was placed under the administration process in the United Kingdom (a process similar to bankruptcy proceedings in the United States) and continues under this process as of December 31, 2007.

The United Mine Workers of America Combined Fund was created by federal law in 1992. This multi-employer fund provides health care benefits to a closed group of retirees including retired employees of our former subsidiaries (now owned by Patriot Coal Corporation) who last worked prior to 1976, as well as orphaned beneficiaries of bankrupt companies who were receiving benefits as orphans prior to the 1992 law.

No new retirees will be added to this group. The liability is subject to increases or decreases in per capita health care costs, offset by the mortality curve in this aging population of beneficiaries. Another fund, the 1992 Benefit Plan created by the same federal law in 1992, provides benefits to qualifying retired former employees of bankrupt companies who have defaulted in providing their former employees with retiree medical benefits. Beneficiaries continue to be added to this fund as employers default in providing their former employees with retiree medical benefits, but the overall exposure for new beneficiaries into this fund is limited to retirees covered under their employer's plan who retired prior to October 1, 1994. A third fund, the 1993 Benefit Plan, was established through collective bargaining and provides benefits to qualifying retired former employees who retired after September 30, 1994 of certain signatory companies who have gone out of business and have defaulted in providing their former employees with retiree medical benefits. Beneficiaries continue to be added to this fund as employers go out of business.

The Surface Mining Control and Reclamation Act Amendments of 2006 (the 2006 Act) authorizes a specified amount of federal funds to pay for these programs on a phased-in basis and other programs. To the extent that (i) the annual retiree health care funding requirement exceeds the specified amount of federal funds, (ii) Congress does not allocate additional funds to cover the shortfall, and (iii) Patriot's subsidiaries do not pay for their share of the shortfall, some of our subsidiaries would be responsible for the additional costs.

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

Our mining operations require a reliable supply of replacement parts, explosives, fuel, tires, steel-related products (including roof control) and lubricants. If the cost of any of these inputs increased significantly, or if a source for these supplies or mining equipment were unavailable to meet our replacement demands, our profitability could be reduced from our current expectations. Recent consolidation of suppliers of explosives has limited the number of sources for these materials, and our current supply of explosives is concentrated with one supplier. Further, our purchases of some items of underground mining equipment are concentrated with one principal supplier. Over the past few years, industry-wide demand growth has exceeded supply growth for certain surface and underground mining equipment and other capital equipment as well as off-the-road tires. As a result, lead times for some items have increased significantly.

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

Our recoverable reserves decline as we produce coal. We have not yet applied for the permits required or developed the mines necessary to use all of our reserves. Furthermore, we may not be able to mine all of our reserves as profitably as we do at our current operations. Our future success depends upon our conducting successful exploration and development activities or acquiring properties containing economically recoverable reserves. Our current strategy includes increasing our reserves through acquisitions of government and other leases and producing properties and continuing to use our existing properties. The federal government also leases natural gas and coalbed methane reserves in the West, including in the Powder River Basin. Some of these natural gas and coalbed methane reserves are located on, or adjacent to, some of our Powder River Basin reserves, potentially creating conflicting interests between us and lessees of those interests. Other lessees' rights relating to these mineral interests could prevent, delay or increase the cost of developing our coal reserves. These lessees may also seek damages from us based on claims that our coal mining operations impair their interests. Additionally, the federal government limits the amount of federal land that may be leased by any company to 150,000 acres nationwide. As of December 31, 2007, we leased a total of 63,463 acres from the federal government. The limit could restrict our ability to lease additional federal lands. For additional discussion of our federal leases see Item 2. Properties.

Our planned mine development projects and acquisition activities may not result in significant additional reserves, and we may not have continuing success developing additional mines. Most of our mining operations are conducted on properties owned or leased by us. Because title to most of our leased properties and mineral rights are not thoroughly verified until a permit to mine the property is obtained, our right to mine some of our reserves may be materially adversely affected if defects in title or boundaries exist. In addition, in order to develop our reserves, we must receive various governmental permits. We cannot predict whether we will continue to receive the permits necessary for us to operate profitably in the future. We may not be able to negotiate new leases from the government or from private parties, obtain mining contracts for properties containing additional reserves or maintain our leasehold interest in properties on which mining operations are not commenced during the term of the lease. From time to time, we have experienced litigation with lessors of our coal properties and with royalty holders.

***A decrease in our production of metallurgical coal could decrease our anticipated profitability.***

We have annual capacity to produce approximately 8 to 10 million tons of metallurgical coal. Prices for metallurgical coal at the end of 2007 were near historically high levels. As a result, our margins from these sales have increased significantly, and represented a larger percentage of our overall revenues and profits and are expected to continue to favorably contribute in the future. To the extent we experience either production or transportation difficulties that impair our ability to ship metallurgical coal to our customers at anticipated levels, our profitability could be reduced in 2008.

The majority of our 2008 metallurgical coal production will be priced during the first quarter of 2008. As a result, a decrease in logistics or port capacity could decrease our profitability.

***Our financial performance could be adversely affected by our debt.***

Our financial performance could be affected by our indebtedness. As of December 31, 2007, our total indebtedness was $3.27 billion, and we had $1.29 billion of available borrowing capacity under our Revolving Credit Facility. The indentures governing our convertible debentures and 7.375% and 7.875% Senior Notes do not limit the amount of indebtedness that we may issue, and the indentures governing our 6.875% and 5.875% Senior Notes permit the incurrence of additional indebtedness.

The degree to which we are leveraged could have important consequences, including, but not limited to:

- making it more difficult for us to pay interest and satisfy our debt obligations;
- increasing our vulnerability to general adverse economic and industry conditions;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal, and interest on, our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions, research and development or other general corporate uses;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions, research and development or other general corporate requirements;
- limiting our flexibility in planning for, or reacting to, changes in our business and in the coal industry; and
- placing us at a competitive disadvantage compared to less leveraged competitors.

In addition, our indebtedness subjects us to financial and other restrictive covenants. Failure by us to comply with these covenants could result in an event of default that, if not cured or waived, could have a material adverse effect on us.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to sell assets, seek additional capital or seek to restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to sell material assets or operations to attempt to meet our debt service and other obligations. The Senior Unsecured Credit Facility and indentures governing certain of our notes restrict our ability to sell assets and use the proceeds from the sales. We may not be able to consummate those sales or to obtain the proceeds which we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due.

### *The covenants in our senior unsecured credit facility and the indentures governing our senior notes and convertible debentures impose restrictions that may limit our operating and financial flexibility.*

Our Senior Unsecured Credit Facility, the indentures governing our senior notes and convertible debentures and the instruments governing our other indebtedness contain certain restrictions and covenants which restrict our ability to incur liens and debt or provide guarantees in respect of obligations of any other person. Under our Senior Unsecured Credit Facility, we must comply with certain financial covenants on a quarterly basis including a minimum interest coverage ratio and a maximum leverage ratio, as defined. The financial covenants also place limitations on our investments in joint ventures, unrestricted subsidiaries, indebtedness of non-loan parties and the imposition of liens on our assets. These covenants and restrictions are reasonable and customary and have not impacted our business in the past.

Operating results below current levels or other adverse factors, including a significant increase in interest rates, could result in our inability to comply with the financial covenants contained in our Senior Unsecured Credit Facility. If we violate these covenants and are unable to obtain waivers from our lenders, our debt under these agreements would be in default and could be accelerated by our lenders. If our indebtedness is accelerated, we may not be able to repay our debt or borrow sufficient funds to refinance it. Even if we are able to obtain new financing, it may not be on commercially reasonable terms, on terms that are acceptable to us or at all. If our debt is in default for any reason, our business, financial condition and results of operations could be materially and adversely affected. In addition, complying with these covenants may also cause us to take actions that are not favorable to holders of our other debt or equity securities and may make it more difficult for us to successfully execute our business strategy and compete against companies who are not subject to such restrictions.

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

U.S. federal and state laws and Australian laws require us to secure certain of our obligations to reclaim lands used for mining, to pay federal and state workers' compensation, to secure coal lease obligations and to satisfy other miscellaneous obligations. The primary method for us to meet those obligations is to post a corporate guarantee (i.e. self bond), provide a third-party surety bond or provide a letter of credit. As of December 31, 2007, we had $640.6 million of self bonds in place primarily for our reclamation obligations. As of December 31, 2007, we also had outstanding surety bonds with third parties and letters of credit of $952.9 million, of which $419.9 million was for post-mining reclamation, $133.9 million related to workers' compensation obligations, $41.4 million was for retiree healthcare obligations, $73.0 million was for coal lease obligations, and $284.7 million was for other obligations, including collateral for surety companies and bank guarantees, road maintenance, and performance guarantees. As of December 31, 2007, the amount of letters of credit securing Patriot obligations was $136.8 million, of which $95.4 million related to Patriot's workers' compensation obligations. Surety bonds are typically renewable on a yearly basis. Surety bond issuers and holders may not continue to renew the bonds or may demand additional collateral upon those renewals. Letters of credit are subject to our successful renewal of our bank revolving credit facilities, which are currently set to expire in 2011. Our failure to maintain, or inability to acquire, surety bonds or letters of credit or to provide a suitable alternative would have a material adverse effect on us. That failure could result from a variety of factors including the following:

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

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

***The conversion of our convertible debentures may result in the dilution of the ownership interests of our existing stockholders.***

If the conditions permitting the conversion of our convertible debentures are met and holders of the convertible debentures exercise their conversion rights, any conversion value in excess of the principal amount will be delivered in shares of our common stock. If any common stock is issued in connection with a conversion of our convertible debentures, our existing stockholders will experience dilution in the voting power of their common stock and earnings per share could be negatively impacted.

***Provisions of our convertible debentures could discourage an acquisition of us by a third-party.***

Certain provisions of our convertible debentures could make it more difficult or more expensive for a third-party to acquire us. Upon the occurrence of certain transactions constituting a "change of control" as defined in the indenture relating to our convertible debentures, holders of our convertible debentures will have the right, at their option, to convert their convertible debentures and thereby require us to pay the principal amount of such converted debentures in cash.

***An inability of brokerage sources to fulfill the delivery terms of their contracts with us could reduce our profitability.***

In conducting our trading, brokerage and mining operations, we utilize third-party sources of coal production, including contract miners and brokerage sources, to fulfill deliveries under our coal supply agreements. In Australia, the majority of our mines utilize contract miners. Employee relations at mines that use contract miners is the responsibility of the contractor.

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

***If the coal industry experiences overcapacity in the future, our profitability could be impaired.***

During the mid-1970s and early 1980s, a growing coal market and increased demand for coal attracted new investors to the coal industry, spurred the development of new mines and resulted in production capacity in excess of market demand throughout the industry. Similarly, increases in future coal prices could encourage the development of expanded capacity by new or existing coal producers. Coal prices in most regions of the U.S. and globally were approaching record highs in early 2008, and the sustainability of these prices or its effects on future production is uncertain.

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

As of December 31, 2007, we had approximately 7,000 employees. As of such date, approximately 27% of our hourly employees were represented by unions and they generated approximately 10% of our 2007 coal production. Relations with our employees and, where applicable, organized labor are important to our success.

Due to the higher labor costs and the increased risk of strikes and other work-related stoppages that may be associated with union operations in the coal industry, our competitors who operate without union labor may have a competitive advantage in areas where they compete with our unionized operations. If some or all of our current non-union operations were to become unionized, we could incur an increased risk of work stoppages, reduced productivity and higher labor costs.

### *United States Labor Relations*

Approximately 85% of our U.S. miners are non-union and are employed in the states of Wyoming, Colorado, Indiana, New Mexico, and Illinois. The UMWA under the Western Surface Agreement represented approximately 6% of our U.S. subsidiaries' hourly employees, who generated 4% of our U.S. production during the year ended December 31, 2007. An additional 7% of our U.S. subsidiaries' hourly employees are represented by labor unions other than the UMWA. These employees generated 2% of our U.S. production during the year ended December 31, 2007. Hourly workers at our mine in Arizona are represented by the UMWA under the Western Surface Agreement, which is effective through September 2, 2013. In April 2007, a new labor agreement was ratified for our hourly workforce at the Willow Lake Mine, which is represented by the International Brotherhood of Boilermakers. The new four-year labor agreement expires on April 15, 2011.

### *Australia Labor Relations*

The Australian coal mining industry is unionized and all of our hourly workers and those employed through our contract mining relationships are members of trade unions. The Construction Forestry Mining and Energy Union represents our Australian subsidiary's hourly production employees. As of December 31, 2007, our Australian hourly employees were approximately 26% of our Australian hourly workforce and generated 29% of our Australian total production in the year then ended. The labor agreements at our Metropolitan Mine were renewed in July and October 2007 and those agreements expire in 2010. The Wambo mine coal handling plant labor agreement is under negotiation and the North Goonyella Mine operates under an agreement due to expire in March 2008.

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

We manage our business with a number of key personnel, the loss of a number of whom could have a material adverse effect on us. In addition, as our business develops and expands, we believe that our future success will depend greatly on our continued ability to attract and retain highly skilled and qualified personnel. We cannot assure you that key personnel will continue to be employed by us or that we will be able to attract and retain qualified personnel in the future. Failure to retain or attract key personnel could have a material adverse effect on us.

Due to the current demographics of our mining workforce, a high portion of our current hourly employees are eligible to retire over the next decade. Additionally, many of our mine sites are in more secluded areas of the United States, such as the Native American reservations of Arizona and the Southern Powder River Basin of Wyoming. These geographic locations provide limited pools of qualified personnel, and it is challenging to locate qualified persons interested in working in some of these regions. Failure to attract new employees to the mining workforce could have a material adverse effect on us.

### *Our ability to collect payments from our customers could be impaired if their creditworthiness deteriorates.*

Our ability to receive payment for coal sold and delivered depends on the continued creditworthiness of our customers. Our customer base has changed with deregulation as utilities have sold their power plants to their non-regulated affiliates or third parties. These new power plant owners or other customers may have credit ratings that are below investment grade. If deterioration of the creditworthiness of our customers occurs, our $275.0 million accounts receivable securitization program and our business could be adversely affected.

### *Our certificate of incorporation and by-laws include provisions that may discourage a takeover attempt.*

Provisions contained in our certificate of incorporation and by-laws and Delaware law could make it more difficult for a third-party to acquire us, even if doing so might be beneficial to our stockholders. Provisions of our by-laws and certificate of incorporation impose various procedural and other requirements that could make it more difficult for stockholders to effect certain corporate actions. For example, a change in control of our Company may be delayed or deterred as a result of the stockholders' rights plan adopted by our Board of

Directors. These provisions could limit the price that certain investors might be willing to pay in the future for shares of our common stock and may have the effect of delaying or preventing a change in control.

***Growth in our global operations increases our risks unique to international mining and trading operations.***

We currently have international mining operations in Australia and Venezuela. We have a business development, sales and marketing office in Beijing, China and an international trading group in our Trading and Brokerage operations. In addition, we are actively pursuing long-term operating, trading and joint-venture opportunities in China, Mongolia and Mozambique. The international expansion of our operations increases our exposure to country and currency risks. Some of our international activities include expansion into developing countries where business practices and counterparty reputations may not be as well developed as in our U.S. or Australian operations. We are also challenged by political risks, including expropriation and the inability to repatriate earnings on our investment. In particular, the Venezuelan government has suggested its desire to increase government ownership in Venezuelan energy assets and natural resources. Actions to nationalize Venezuelan coal properties could be detrimental to our investments in the Paso Diablo Mine and Cosila development project. During 2007, the Paso Diablo Mine contributed $21.2 million to segment Adjusted EBITDA in “Corporate and Other Adjusted EBITDA” (see Item 7) and paid a dividend of $12.9 million. At December 31, 2007, our investment in Paso Diablo was $68.4 million, recorded in “Investments and other assets” on the consolidated balance sheet.

***As we continue to pursue development of Generation Development and Btu Conversion activities, we face challenges and risks that differ from those in our mining business.***

We continue to pursue the development of coal-fueled generating projects in the U.S., including mine-mouth generating plants using our surface lands and coal reserves. Our ultimate role in these projects could take numerous forms, including, but not limited to, equity partner, contract miner or coal sales. We are a 5.06% owner in the 1,600 plus-megawatt Prairie State Energy Campus in Washington County, Illinois and are pursuing development of the 1,500-megawatt Thoroughbred Energy Campus in Muhlenberg County, Kentucky. We also continue to pursue opportunities to participate in technologies to economically convert our coal resources to natural gas and liquids such as diesel fuel, gasoline and jet fuel (Btu Conversion).

As we move forward with all of these projects, we are exposed to risks related to the performance of our partners, securing required financing, obtaining necessary permits, meeting stringent regulatory laws, maintaining strong supplier relationships and managing (along with our partners) large projects, including managing through long lead times for ordering and obtaining capital equipment. Our work in new or recently commercialized technologies could expose us to unanticipated risks, evolving legislation and uncertainty regarding the extent of future government support and funding.

***The implementation of our new enterprise resource planning system carries certain risks, including the potential for business interruption, and the associated adverse impact.***

To support the continued growth and globalization of our businesses, we are converting our existing information systems across major business processes to an integrated information technology system provided by SAP AG. The U.S. implementation occurred in August 2007. We made extensive plans to support effective implementation of this information technology system. Such a major undertaking carries the additional risk of unforeseen issues, interruptions and costs. The extent to which we successfully convert our information technology systems and address unforeseen issues will have a direct bearing on our ability to perform certain day-to-day functions.

***Diversity in interpretation and application of accounting literature in the mining industry may impact our reported financial results.***

The mining industry has limited industry-specific accounting literature and, as a result, we understand diversity in practice exists in the interpretation and application of accounting literature to mining specific issues. For example, some companies capitalize drilling and related costs incurred to delineate and classify mineral resources as proven and probable reserves, and other companies expense such costs. In addition, some industry participants expense pre-production stripping costs associated with developing new pits at existing surface mining operations, while other companies capitalize pre-production stripping costs for new pit development at existing operations. The materiality of such expenditures can vary greatly relative to a given company's respective financial position and results of operations. As diversity in mining industry accounting is addressed, we may need to restate our reported results if the resulting interpretations differ from our current accounting practices (for additional information regarding our accounting policies with respect to drilling costs and advance stripping costs, please see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates).

### Item 1B. *Unresolved Staff Comments.*

None.

### Item 2. *Properties.*

### Coal Reserves

We had an estimated 9.3 billion tons of proven and probable coal reserves as of December 31, 2007. An estimated 8.2 billion tons of our proven and probable coal reserves are in the United States and 1.1 billion tons are in Australia. Forty-six percent of our reserves, or 4.2 billion tons, are compliance coal and 54% are non-compliance coal. We own approximately 37% of these reserves and lease property containing the remaining 63%. Compliance coal is defined by Phase II of the Clean Air Act as coal having sulfur dioxide content of 1.2 pounds or less per million Btu. Electricity generators are able to use coal that exceeds these specifications by using emissions reduction technology, using emission allowance credits or blending higher sulfur coal with lower sulfur coal.

Below is a table summarizing the locations and reserves of our major operating regions.

| | | Proven and Probable Reserves as of December 31, 2007[1] | | |
|---|---|---|---|---|
| Operating Regions | | Owned Tons | Leased Tons | Total Tons |
| | | | (Tons in millions) | |
| Midwest | Illinois, Indiana and Kentucky | 2,686 | 1,005 | 3,691 |
| Powder River Basin | Wyoming and Montana | 67 | 3,274 | 3,341 |
| Southwest | Arizona and New Mexico | 639 | 351 | 990 |
| Colorado | Colorado | 35 | 171 | 206 |
| Total United States | | 3,427 | 4,801 | 8,228 |
| Australia | New South Wales | — | 484 | 484 |
| Australia | Queensland | — | 589 | 589 |
| Total Australia | | — | 1,073 | 1,073 |
| Total Proven and Probable Coal Reserves | | 3,427 | 5,874 | 9,301 |

(1) Reserves have been adjusted to take into account estimated losses involved in producing a saleable product.

Reserves are defined by SEC Industry Guide 7 as that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Proven and probable coal reserves are defined by SEC Industry Guide 7 as follows:

*Proven (Measured) Reserves* — Reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so close and

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PEABODY ENERGY CORPORATION

/s/ GREGORY H. BOYCE
Gregory H. Boyce
*Chairman and Chief Executive Officer*

Date: February 27, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons, on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | | Date |
|---|---|---|
| /s/ GREGORY H. BOYCE<br>Gregory H. Boyce | Chairman and Chief Executive Officer, Director (principal executive officer) | February 27, 2008 |
| /s/ RICHARD A. NAVARRE<br>Richard A. Navarre | President, Chief Commercial Officer and Chief Financial Officer (principal financial and accounting officer) | February 27, 2008 |
| /s/ WILLIAM A. COLEY<br>William A. Coley | Director | February 27, 2008 |
| /s/ HENRY GIVENS, JR., PhD<br>Henry Givens, Jr., PhD | Director | February 27, 2008 |
| /s/ WILLIAM E. JAMES<br>William E. James | Director | February 27, 2008 |
| /s/ ROBERT B. KARN III<br>Robert B. Karn III | Director | February 27, 2008 |
| /s/ HENRY E. LENTZ<br>Henry E. Lentz | Director | February 27, 2008 |
| /s/ WILLIAM C. RUSNACK<br>William C. Rusnack | Director | February 27, 2008 |
| /s/ JAMES R. SCHLESINGER, PhD<br>James R. Schlesinger, PhD | Director | February 27, 2008 |

| Signature | | Date |
|---|---|---|
| /s/ BLANCHE M. TOUHILL, PhD<br>Blanche M. Touhill, PhD | Director | February 27, 2008 |
| /s/ JOHN F. TURNER<br>John F. Turner | Director | February 27, 2008 |
| /s/ SANDRA VAN TREASE<br>Sandra Van Trease | Director | February 27, 2008 |
| /s/ ALAN H. WASHKOWITZ<br>Alan H. Washkowitz | Director | February 27, 2008 |