ENERGIZING THE WORLD

Peabody

2010 Annual Report
Peabody Energy NYSE: BTU

ONE BTU AT A TIME

RIGHT COMPANY | RIGHT INVESTMENT | RIGHT VISION

The right company. The right investment. The right vision. These powerful statements reflect the leadership of a company with outstanding results in 2010. The year marked record safety, record revenues and the second-best earnings in our history... results that cap an exceptional track record.

Financial Highlights	2010	2009	Improvement
Revenues	$6,860.0	$6,012.4	14%
Operating Profit	$1,325.7	$844.8	57%
EBITDA [1]	$1,815.1	$1,290.1	41%
Income from Continuing Operations	$805.1	$457.9	76%
Adjusted Diluted Earnings Per Share [2]	$3.03	$1.92	58%
Stockholders' Equity	$4,689.3	$3,755.9	25%
Market Capitalization	$17,289.7	$12,125.5	43%
Tons Sold	246	244	1%

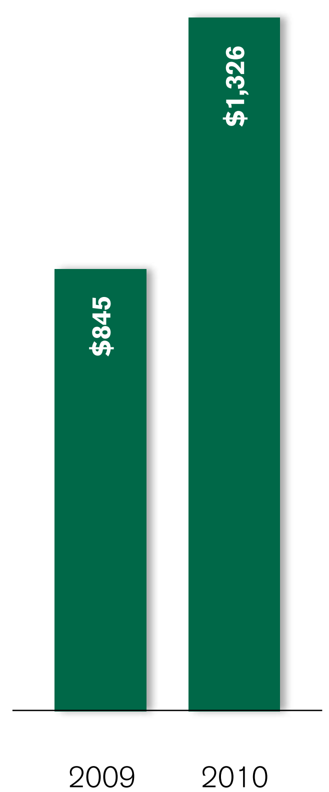
In Millions, Except Adjusted Diluted Earnings Per Share from Continuing Operations

[1] EBITDA is defined as income from continuing operations before deducting net interest expense, early debt extinguishment charges, income taxes, noncontrolling interests, asset retirement obligation expense, and depletion, depreciation and amortization.

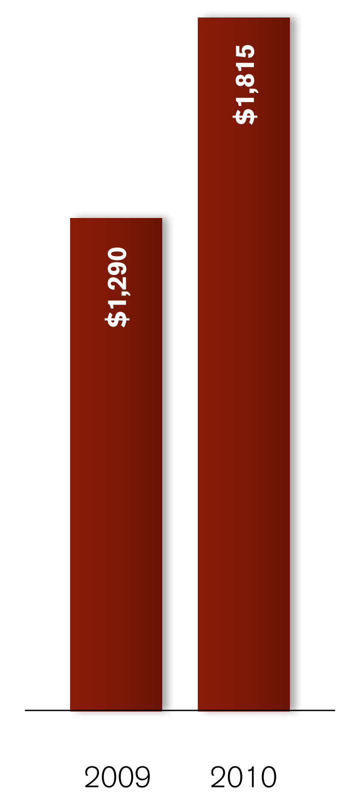
[2] Excludes the impact of remeasurement expense related to foreign income taxes.

+14%
Revenues

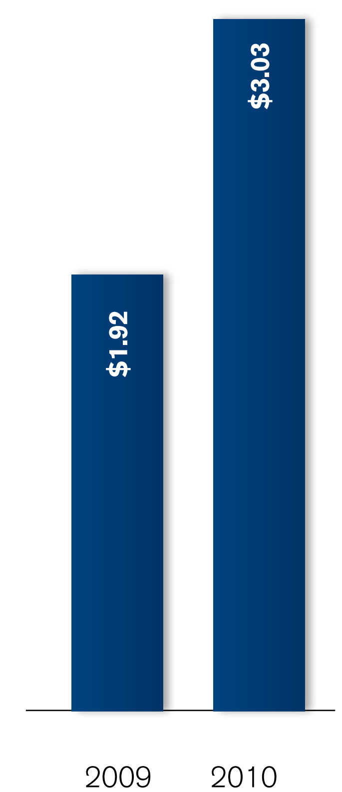
+57%
Operating Profit



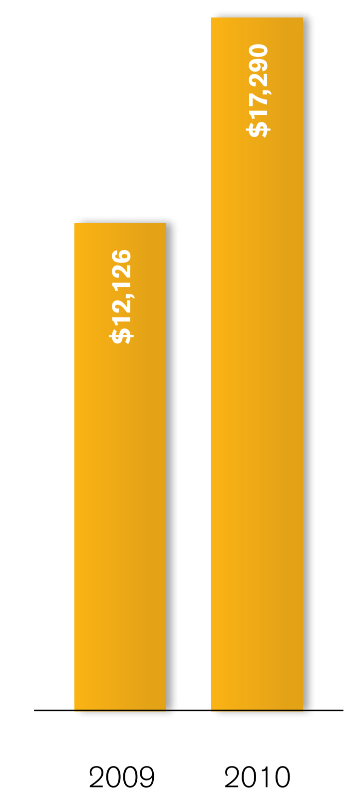
+41%
EBITDA[1]



+58%
Adjusted Diluted EPS[2]



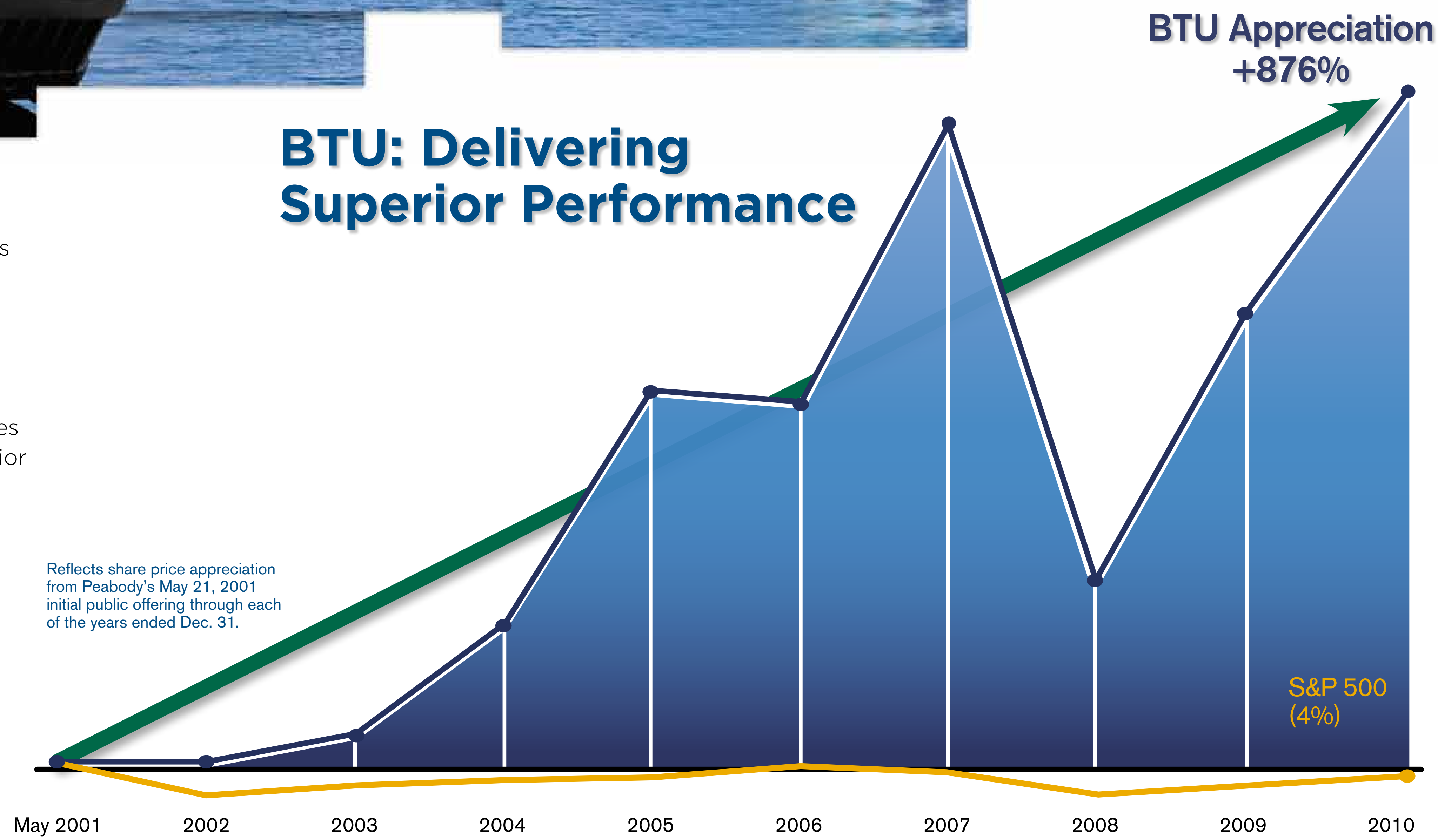
+43%
Market Capitalization



ENERGIZING THE WORLD

Peabody Energy (NYSE: BTU) is the world's largest private-sector coal company and the only global pure-play coal investment. From mine to rail, rail to port and port to plants... Peabody is fueling the world with energy essential to sustain life and grow economies. Our unmatched assets, strategies and people provide global reach and superior shareholder returns over the long haul. Peabody is energizing the world... one Btu at a time.

BTU: Delivering Superior Performance



Reflects share price appreciation from Peabody's May 21, 2001 initial public offering through each of the years ended Dec. 31.

Peabody

ENERGIZING THE WORLD

Peabody Energy is the only global pure-play coal investment and a global leader in clean coal solutions. The company achieved the second-best earnings in our history this past year and added more than $5 billion in shareholder value.

Chairman and Chief Executive Officer Gregory H. Boyce

Dear Shareholder:

Peabody is BTU… the power of energy and the power of a global pure-play coal investment. Peabody serves customers in 25-plus nations on six continents and is expanding in global markets offering the greatest opportunities for sustained growth.

Our results this past year were outstanding and rival our record year.

Our 2010 accomplishments are particularly notable in a year when the world continued to recover from the global financial crisis. In 2010, BTU:

- Achieved a new global safety record and operated the safest large U.S. surface mine;
- Delivered record revenues of $6.9 billion, driven by higher volumes and favorable pricing;
- Increased EBITDA 41 percent to $1.82 billion, the second best in our history;
- Generated $1.1 billion in cash flows from operations, driving our cash balance to $1.3 billion while increasing our dividend by 21 percent;
- Marked a 42 percent increase in share price, more than three times that of the S&P 500;
- Advanced global growth projects in Australia and joint ventures in China, Mongolia and Indonesia;
- Announced major clean coal and Btu Conversion initiatives in the United States, Australia and Asia, including projects in Inner Mongolia and Xinjiang;
- Ranked among the BusinessWeek 50 list of best large U.S. companies and achieved Coaltrans honors as the world's leading coal company, recognizing three decades of leadership; and
- Earned 30 safety, environmental and corporate honors, including major awards for directing Mongolia's first coal mine restoration project.

Best Positioned for the Coal Supercycle

The world is expected to use one ton of coal for every man, woman and child this year. Our energy needs will continue to grow as hundreds of millions of people improve their standard of living, migrating from rural areas to urban regions with digital lifestyles.

Coal is the world's fastest-growing fuel, the dominant global energy source and the sustainable solution for growing needs.

During the next decade, global generation capacity and steel production are expected to grow some 50 percent, driven by China, India and developing Asia.

Peabody's Global Growth Platform Creates Exceptional Value

In Millions, Except Diluted Earnings Per Share from Continuing Operations	2010	2003	Improvement
Revenues	$6,860.0	$2,187.7	214%
Operating Profit	$1,325.7	$234.4	466%
EBITDA [1]	$1,815.1	$422.0	330%
Income from Continuing Operations	$805.1	$97.2	728%
Market Capitalization	$17,289.7	$2,279.3	659%
Tons Sold	246	180	37%

[1] *EBITDA is defined as income from continuing operations before deducting net interest expense, early debt extinguishment charges, income taxes, noncontrolling interests, asset retirement obligation expense, and depletion, depreciation and amortization.*

Peabody has accelerated global growth in recent years, generating exceptional financial results over the long term. The company's robust international reach differentiates us among peers. We are the industry bellwether and the only global pure-play coal investment.

Peabody's Performance Leads Peers

# 1	Tons Sold	Fuels 10% of U.S. Generation and 2% of World's Power
# 1	Net Income	Greater than the Next Eight Largest U.S. Peers Combined
# 1	Market Capitalization	Nearly One-Third of U.S. Coal Market Cap
# 1	Reserves	9 Billion Tons, More than Oil Reserves in the Continental United States
# 1	Powder River & Illinois Basins	Largest Producer in Fastest-Growing U.S. Regions
# 1	Exports	Global Operations Serve Customers on Six Continents
# 1	Credit Rating	Rated the Highest of U.S. Peers

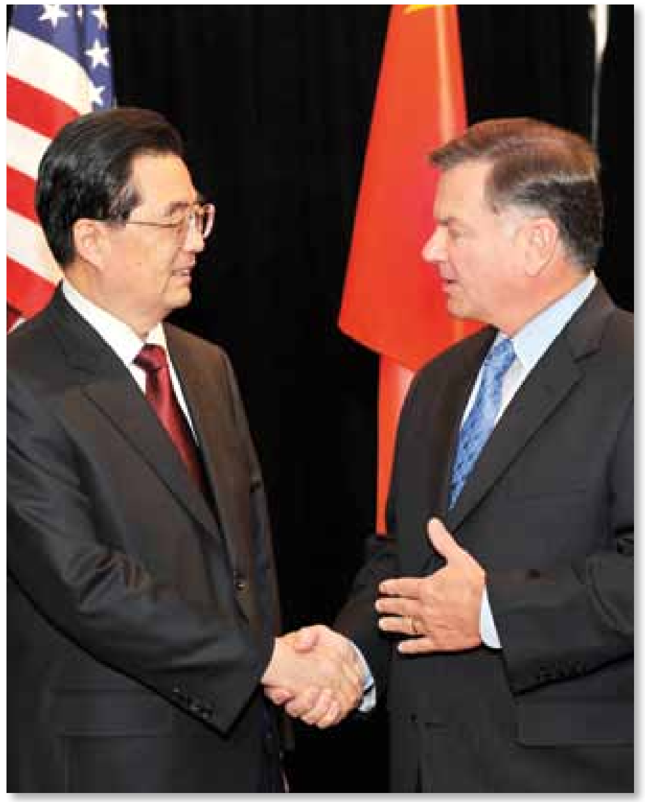
Source: Tons sold, net income, market capitalization, reserves and credit rating based on latest available public data. Comparison based on public U.S. coal peers.

Peabody ranks number one compared to U.S. peers in key benchmark areas, including volumes, net income, market capitalization and exports.

Enormous energy needs around the world point to the early stages of a long-lived supercycle that will result in sustained coal demand growth.

Only 10 years ago, China's energy demand was half that of the United States. Today China is the world's largest energy user. It is projected to add new generation over the next 15 years equal to the current capacity of the United States.

As China continues a brisk economic climb, its new power plants and steel mills will need several hundred million tons of additional coal each year.



(Left) Chinese President Hu Jintao met with Peabody Chairman and Chief Executive Officer Greg Boyce during a state visit to the United States. Peabody announced major energy projects in Xinjiang and Inner Mongolia during President Hu's historic tour in January 2011.

India, too, is rising. Already, the nation has the 12th-largest consumer market driven by the world's largest middle class. Demand for coal imports in India is expected to climb as much as 200 million tons by 2015. Yet even with robust economic growth, it will take China and India decades to match the level of per capita gross domestic product of mature economies.

For both nations to achieve the same per capita electricity use as the European Union, for instance, they would need the equivalent of 7 billion tons of coal each year, approximately the world's current use.

Enormous energy needs around the world point to the early stages of what I call a long-lived supercycle that will result in sustained coal demand growth. Peabody ideally is positioned to benefit through our strong global platform and many growth initiatives.

Sustained Long-Term Growth Platform

As we look to 2011, Peabody will use our position in the fastest-growing markets to target the following key areas:

- Capturing value from upward coal price movements with our significant open sales position;
- Expanding six major Australian metallurgical and thermal export mines;
- Advancing emerging growth projects and commercial transactions in China, Mongolia, Indonesia and India;
- Leveraging Peabody's leadership in the three primary growth avenues for the United States: the Powder River Basin, Illinois Basin and U.S. exports; and
- Maintaining our intensity for excellence in our core areas of safety, operations, portfolio management, trading and brokerage, and social responsibility.

(From left) Peabody's senior executive team includes Eric Ford, Mike Crews, Rick Navarre, Greg Boyce, Sharon Fiehler, Vic Svec, Fred Palmer and Alex Schoch.

Focus on Governance and Social Responsibility

Peabody is advancing a robust plan to expand energy access, strengthen economic growth and drive environmental improvement – our 3E goals – through broad deployment of green coal technologies. We call it the Peabody Plan, and it offers practical energy solutions while benefiting people everywhere.

Our role is to bring energy to market safely, reliably and responsibly. Peabody continues to earn a reputation as a highly admired corporate citizen.

This past year we also strengthened corporate governance by appointing a fifth Board standing committee for Health, Safety and the Environment, reinforcing the strong leadership practices we have in place.

As always, I thank our Board of Directors for its support, and I applaud our 7,200 employees around the world who are tireless in their efforts to deliver energy solutions and shareholder value. I am honored to lead a world-class organization that is energizing the world… one Btu at a time.

Greg Boyce

Gregory H. Boyce
Chairman and Chief Executive Officer
March 15, 2011

RIGHT COMPANY

Peabody maintains an intense focus on safety, productivity and cost containment. We deliver leading performance among peers.

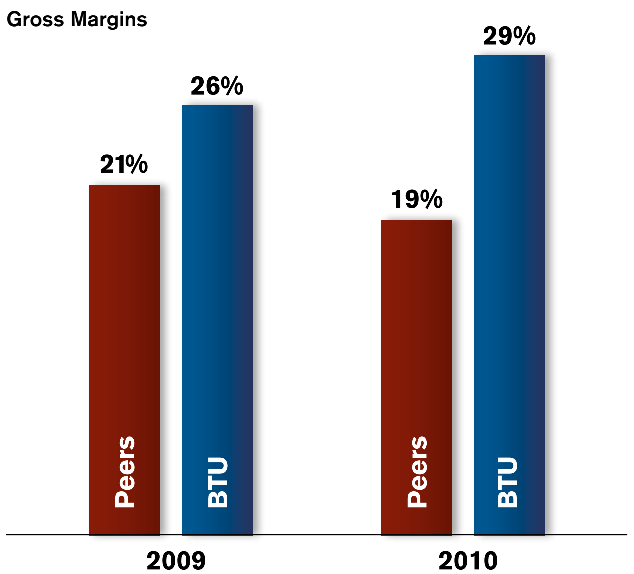
Our operations continue to drive productivity up and costs out across our global platform. Gross margins averaged 29 percent during the year, significantly exceeding the U.S. peer average.

The North Antelope Rochelle Mine, Peabody's flagship in Wyoming, is the most productive in the world, delivering more coal than most companies and nations. In 2010 North Antelope Rochelle achieved record volume of 106 million tons.

(Above) Inspectors at the Posco facility in Pohang, South Korea, examine steel forged with metallurgical coal from Peabody's Millennium Mine in Queensland. Peabody has a long-term relationship with the world's largest steelmakers and is increasing our metallurgical production to supply the fast-growing economies in Asia.

Peabody Delivers Substantially Higher Margins than U.S. Peers

Cost Control and Investments Drive Strong Performance



Peabody's gross margins averaged 29 percent in 2010, reflecting the earnings strength of our global platform and a strong focus on cost containment.

Source: Publicly filed documents as of Dec. 31, 2010. Peers comprised of average margins for ACI, ANR, CNX, ICO, MEE and PCX.

At a time of record global seaborne demand, the Newcastle Coal Infrastructure Group (NCIG) export terminal in Australia gives Peabody access to 6 million tons of throughput at full capacity. In addition, Peabody is pursuing increased U.S. West Coast export capacity.

Peabody approaches productivity improvement and cost reduction in a variety of ways:

- Advanced mining technology and process improvement initiatives enable Peabody to continually benchmark productivity and ensure optimal equipment performance.
- Global positioning satellites, real-time monitoring systems and computerized dispatching technologies improve operating efficiency.
- A maintenance reliability program uses sophisticated analytics to enhance operator safety and equipment availability.
- A new fleet of 400-ton trucks introduced this year builds haulage efficiency and allows the company to redeploy equipment where it is needed throughout the organization.
- Capacity enhancements include upsizing the U.S. surface truck and shovel fleet and introducing state-of-the-art longwall systems in Australia.

New Operations Expand Margins

With 9 billion tons of reserves, Peabody also is able to achieve structural cost savings as the company expands.

New projects often benefit from existing assets, as is the case with the El Segundo Mine in New Mexico.

El Segundo is among the most productive U.S. mines outside the Powder River Basin, with a low overburden-to-coal ratio and access to equipment from other operations.

The planned School Creek Mine in the Powder River Basin – with nearly 800 million tons of low sulfur coal – also will be brought on line for margin enhancement when markets are right.

Peabody Margins Increase in Every Region

	Tons Sold (In Millions)		Gross Margin Per Ton		Margin Improvement
	2010	2009	2010	2009	
Midwestern U.S. Mining Operations	29.7	31.8	$10.85	$8.87	22%
Western U.S. Mining Operations	163.8	160.1	$4.99	$4.50	11%
Australian Mining Operations	27.0	22.3	$35.34	$19.40	82%
Average	–	–	$9.50	$6.70	42%

Peabody's leading position in the lowest-cost, fastest-growing markets enabled us to deliver strong margins across all operating regions in 2010.

Peabody's flagship North Antelope Rochelle Mine in Wyoming's Powder River Basin is the world's most productive coal mine. The operation improved output per employee shift nearly 8 percent in 2010.

Peabody's strategic emphasis on cost containment and operational excellence allows us to deliver good shareholder value in any market and great value in strong market conditions.

The newly commissioned Bear Run Mine in Indiana is ramping up production to 8 million tons of annual capacity and is the largest surface mine in the Eastern United States. Peabody is the leading producer in the Illinois Basin and has a growing export business.

The company's increasing access to rail and port infrastructure enables us to move more product to market. In 2010, the first coal shipment from the Newcastle Coal Infrastructure Group (NCIG) export terminal came from Peabody's Wambo Mine in New South Wales.

The terminal provides Peabody with up to 6 million tons of annual throughput at full capacity and is core to a robust global export strategy.

Peabody's trading platform also extends our international reach across six continents.

World-Class Safety and Land Restoration

Peabody believes that we earn a license to operate in the communities in which we do business. Our culture emphasizes world-class safety, land restoration and community outreach practices.

The past three years have been the safest in our history, and we set a new global safety record in 2010. Peabody earned the U.S. Department of Labor's highest honors for operating the safest large U.S. surface mine for the fourth time in seven years. We also managed three of the safest mines in the United States. We continue to execute strategies and implement technologies toward the goal of zero safety incidents of any kind.

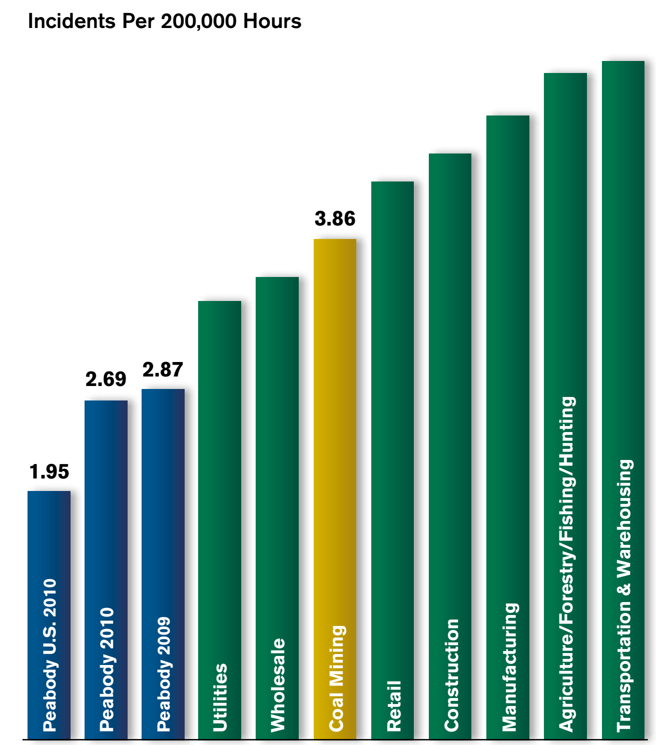
High marks for environmental excellence and good neighbor practices also are the signature of our leadership: Peabody typically returns lands to a condition that is better than before mining occurred, restoring more than 3,400 acres of hardy rangeland, farmland, forest and wetlands in 2010.

The company earned multiple honors for directing the first coal mine land restoration project in Mongolia's history this past year – among a dozen high-profile environmental honors received.

Peabody enters 2011 from a position of strength. Sustained safety, operational and environmental excellence set Peabody apart as the right leader… the right neighbor… and the right company.

2010 Safest Year in Peabody History

Peabody's Safety Outpaces U.S. Industries



Peabody achieved a record global safety rate in 2010 and operated three of the safest U.S. mines. It is far safer to work at a Peabody operation than in other major industries.

Source: Peabody's 2010 data; U.S. Department of Labor, Occupational Safety & Health Administration, 2009 data; Mine Safety and Health Administration preliminary data as of March 1, 2011.

RIGHT INVESTMENT

The right investment delivers rock-solid returns in all market conditions. Peabody's adjusted earnings per share grew 58 percent in 2010 as our share price rose 42 percent.

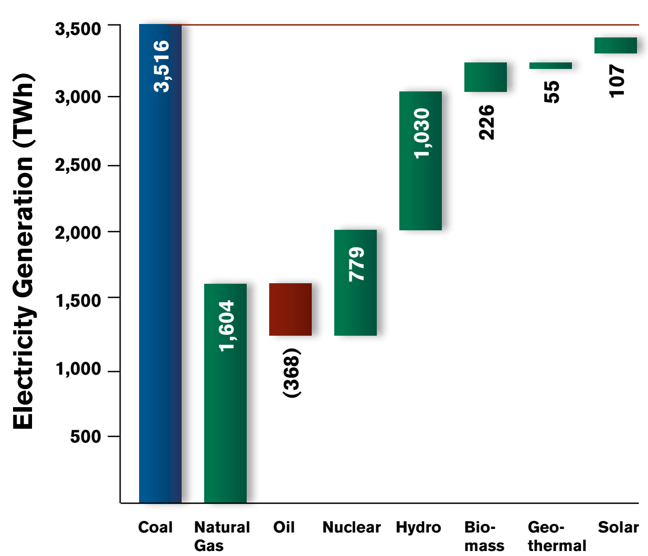
Peabody is the world's largest private-sector coal company at a time when the world is entering the early stages of a long-term supercycle for coal.

Unprecedented energy use in China, India and other developing nations is driving significant increases in thermal and metallurgical coal use. Steel consumption is growing globally, requiring more metallurgical coal.

(Above) Located in the Hunter Valley of New South Wales, the efficient Wambo Complex includes a longwall operation and surface mine. An expansion at the complex is expected to contribute an additional 3 million tons of thermal coal by 2013.

Coal Generation Growth: More than Twice the Closest Alternative

Exceeds Combined Growth in Natural Gas, Oil, Nuclear, Hydro, Biomass, Geothermal and Solar



Coal-fueled power production is expected to continue to dominate global markets, with generation growth forecast to double the closest alternative by 2020. The Pacific Rim leads this growth and drives more than 80 percent of increased seaborne thermal coal demand.

Source: International Energy Agency, World Energy Outlook, 2010.

(Left) A worker from Sumitomo Metals (SMI) manipulates molten steel in a blast furnace in Wakayama, Japan. The steel mill is served by Peabody's Metropolitan Mine in New South Wales (right), which is expanding to meet rising Asian demand. During the next decade, global steel demand is expected to grow by nearly two-thirds, highlighting a global structural shortage of hard coking coal.

Also, conventional oil fields continue to decline, electricity use is expanding, and energy alternatives lack coal's reliability, affordability and scale.

Peabody's strong performance comes at a time of enormous global demand for coal that is expected to continue well into the future.

Coal use is projected to grow 4 billion metric tons in the next quarter century.

More than 90 percent of this increase is forecast to come from fast-growing Asian economies.

We are sculpting our portfolio to access markets with the greatest growth potential. Peabody continues to expand our reach in the Pacific Rim through our Australian growth projects, global trading activities and Asian initiatives, and we are the largest producer in the lowest-cost, highest-growth U.S. regions.

Project Pipeline Expands Seaborne Volumes

Peabody has a pipeline of projects throughout Australia to supply high-margin seaborne volumes, with global seaborne coal demand expected to exceed 1 billion metric tons for the first time in 2011.

Our Australian production has risen at a 60-plus percent compound annual growth rate since 2005, and Peabody's Australian production is expected to reach 35 million to 40 million tons by 2014 to 2015, a dramatic increase from 2010 production of 27 million tons.

Metallurgical export capacity is projected to reach 12 million to 15 million tons as the company expands our Metropolitan, Millennium and Burton mines.

Longer term, the company intends to develop superior hard coking coal capacity from a Denham/Goonyella Corridor in Queensland.

Peabody's Global Growth Catalysts Serve Fastest-Growing Markets

Country	Project Pipeline
Australia	Organic Expansion Lifts Production to 35-40 Million Tons by 2014-2015
China	GreenGen Partner; Projects with Huaneng and Calera in Inner Mongolia and with Yankuang and Others in Xinjiang
India	Coal Supply and Other Long-Term Strategic Venture Discussions Advance with Coal India
Indonesia	Long-Term Sourcing Agreements Executed; Greenfield Developments, Joint Ventures, Mergers and Acquisitions
Mongolia	Exploration Program through Joint Venture; Pursuing Tavan Tolgoi Development
United States	West Coast Terminal Advancing for Powder River Basin Exports to Asia; Organic Growth with Bear Run, Gateway North and El Segundo Mines

A large pipeline of planned projects in Australia, Asia and the United States target expansion through organic growth, joint ventures, and other investments. Peabody is expanding in high-margin markets with the greatest energy needs.

Peabody's Australian thermal export capacity also is targeted to grow to 15 million to 17 million tons as we expand the Wilpinjong Mine and Wambo Complex in New South Wales.

Greater Access to the Fastest-Growing Economies

Within the next decade, our "Asia 100" vision calls for developing a 100-million-ton trading, brokerage and production base to serve the high-demand centers of China, India and the Pacific Rim.

Strategic joint ventures, coal conversion initiatives and clean coal projects will drive our growth. We are pursuing development of a large surface mine that would fuel a 2,000-megawatt supercritical power plant and coal-to-gas facility in Xinjiang, China. In Inner Mongolia, we are advancing a number of projects, including an energy campus with a supercritical power plant that would potentially capture carbon dioxide for use in green building materials. This complements another project to develop a surface mine and downstream coal gasification facility.

Peabody is the only non-Chinese equity participant in GreenGen, China's centerpiece initiative to advance near-zero emissions coal-fueled generation. This project will ultimately include carbon capture and storage.

Exploration activities continue in Mongolia through a joint venture, and Peabody seeks to partner with the Mongolian government to develop the nation's vast reserves. Our activities in Indonesia include pursuing attractive sourcing agreements, greenfield developments and joint ventures in the world's largest thermal coal exporting nation.

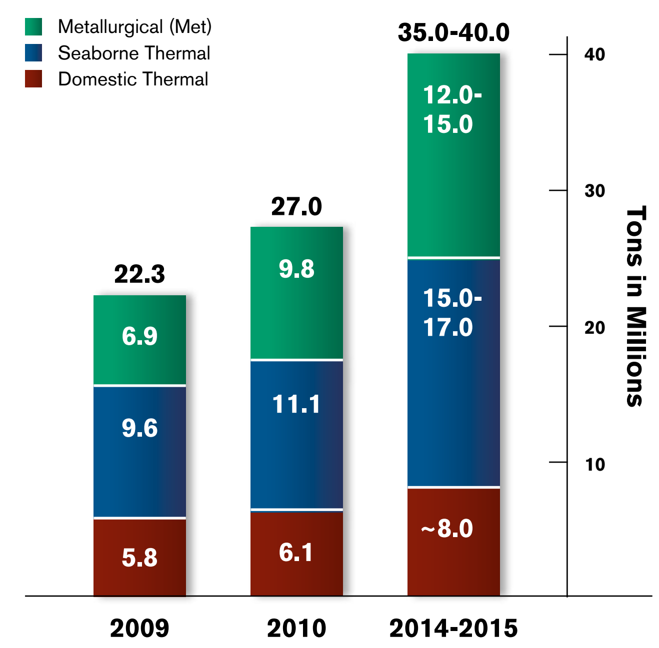
In the United States, Peabody benefits from a leadership position in the fastest-growing regions. Coal regained market share in 2010, supplying nearly two-thirds of incremental power production. Peabody continues to expand capacity and enhance margins across the U.S. platform. The company initiated a 40 percent expansion of the Gateway Mine in Illinois and has permits in place for the longer term development of reserves in Wyoming and Colorado.

United States coal exports continue to grow, and Peabody is advancing export capacity in northwest Washington state to provide a pathway to a subbituminous seaborne market that is expected to grow by more than 100 million tons annually by 2015. The Gateway Pacific Terminal would give Peabody rights to as much as 26 million tons of throughput for clean Powder River Basin coal, with the potential to expand over time.

Creating a 21st Century energy economy is an opportunity, and Peabody is uniquely positioned to create value. Peabody is the right investment today and into the future.

(Left) Situated on the western coast of Taiwan, Taichung is the world's largest power plant and a prime destination for thermal coal cargoes from Peabody's Wilpinjong Mine in New South Wales. (Above) Wilpinjong, among the most productive mines in Australia, is expanding to serve growing export demand.

Australia Platform Targets Volumes of 35-40 Million Tons



A major capital program is expanding Peabody's Australian operating base, offering considerable opportunity to increase volumes in an undersupplied market. Seaborne thermal and met volumes each would increase significantly over 2010 levels.

Source: Based on Peabody analysis.

RIGHT VISION

Modern energy is a human right and a basic necessity. Every ten-fold increase in electricity is linked to a ten-year increase in longevity and means better lifestyles, higher literacy and a much healthier population.

Electricity is viewed as the greatest invention of the 20th Century, yet today energy inequality is epidemic: Almost half the world's population – more than 3.6 billion people – lacks proper access to electricity. As many as 1.5 billion have none at all.

Another 2 billion people will need power as the population grows, putting the world on a course to have 5 billion to 6 billion people lacking good access to power in as little as 20 years. Consider, too, the tragic loss of more than 1.5 million lives to the effects of energy poverty each year. Peabody believes this human crisis is within the world's power to overcome.

(Above) Good access to electricity drives improved literacy and higher education, and helps people live longer and better. There also is a strong correlation between electrification and improvement in the United Nations Human Development Index.

The Peabody Plan: Energy Access for All by 2050

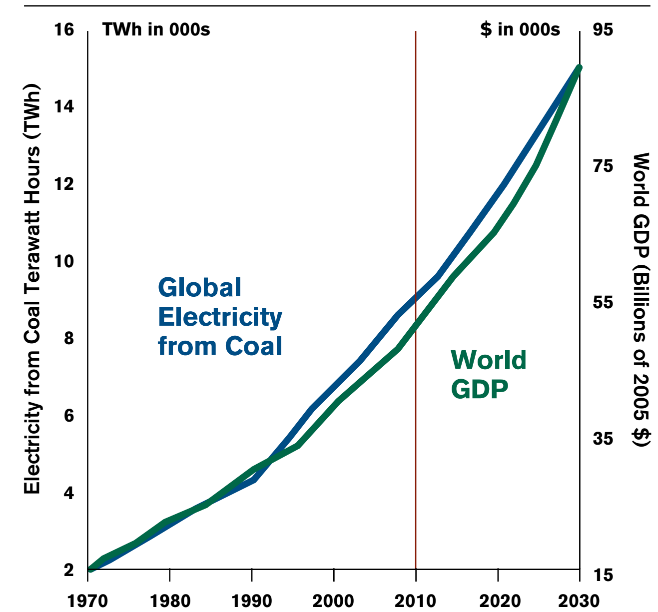
Peabody has a bold vision to create global energy access by 2050. The Peabody Plan lays out a five-step path for building electricity access, reindustrializing economies and improving the environment. Key components of the plan include:

- Expanding electrification to end energy poverty by ensuring that at least half of new generation is fueled by coal as the sustainable, cost-effective solution. At the Copenhagen and Cancun summits, world leaders agreed that social development and poverty eradication are the overriding priorities of developing nations.

(Above) At Washington University in St. Louis, a researcher observes the boiler temperature as part of an oxyfuel demonstration for the Consortium for Clean Coal Utilization. (Right) Phase one construction at the GreenGen power project and carbon research facility in Tianjin, China, is nearing completion, with the first gasification unit expected on line in 2011.

Coal Fuels Global Economic Miracle

A Near-Perfect Correlation: Global Coal and Economic Growth



A rapid rise in the world's use of coal-fueled electricity mirrors the global rise in gross domestic product (GDP). Coal use increased more than 350 percent from 1970 to 2010.

Source: Developed from International Energy Agency, World Energy Outlook, 2009, and Energy Information Administration, International Energy Outlook, 2010.

- Upgrading the world's older coal fleet with advanced supercritical technologies to achieve enormous economic and environmental benefits. Replacing the older fleet would deliver $4.3 trillion in economic benefits and 21 million new jobs over a four year construction process. Avoided carbon dioxide (CO_2) emissions would equate to removing the entire U.S. passenger car fleet from the road.
- Developing at least 100 major carbon capture and storage projects around the world in the next decade, which would lead to commercial deployment of next generation technologies to achieve near-zero emissions. This is consistent with the International Energy Agency's goal of commissioning 2,000 projects by mid-century.
- Deploying significant coal-to-gas, coal-to-chemicals and coal-to-liquids projects during the decade, reducing overdependence on oil and natural gas, especially from unstable regions.

Peabody believes that creating global energy access is society's first priority. The company is advancing a plan to achieve global energy access by 2050 through greater use of clean coal.

- Finally, commercializing next generation clean coal technologies to achieve near-zero emissions. Nearly 430 gigawatts of advanced generation are under development worldwide, in addition to 80 large-scale carbon capture projects.

The Peabody Plan puts people first. This is critical at a time when the world will need as much as six times the current generation capacity of the European Union in as little as 25 years.

Peabody is a Global Leader in Clean Coal Solutions

Around the world, Peabody is partnering in more than a dozen major clean coal technology and low-carbon initiatives for state-of-the-art generation, coal gasification and Btu Conversion.

Chief among these is China's GreenGen project where Peabody is the only non-Chinese equity participant. GreenGen ultimately will be among the world's largest near-zero emissions coal-fueled power plants. In Inner Mongolia, a proposed project with Huaneng Group and Calera Corp. would capture a portion of carbon emissions to create cement.

The company also is a founding member of Australia's COAL21 Fund, pursuing multiple technologies such as oxyfuel. And in the United States, we are advancing coal-to-gas and coal-to-hydrogen initiatives and continuing to support FutureGen. Peabody is engaged in clean coal technology development through the Global Carbon Capture and Storage Institute in Australia, the U.S.-China Energy Cooperation Program, the Consortium for Clean Coal Utilization and the National Carbon Capture Center.

Peabody's vision for clean energy empowers people and economies. It's a principled view and the right vision for sustainable energy solutions.

Energizing the World with the Peabody Plan

The Peabody Plan would realize enormous economic and environmental progress near term by replacing the world's older coal plants with efficient supercritical technology. These new plants would create 1.4 million jobs and $470 billion in economic benefits each year. The avoided CO_2 would be similar to pulling the entire U.S. auto fleet off the road.

2050 Energy Access

- Eliminate Energy Poverty
- Build Electricity Access for 3.6 Billion People
- Fuel 50% of New Generation with Coal

Economic Growth

- Replace Older Coal Plants with Supercritical Technology
- Deploy Significant Coal-to-Gas, -Chemicals and -Liquids by 2020
- Achieve $4.3 Trillion Benefit, 21 Million Jobs During Construction

Environmental Solutions

- Avoid 1.5 Billion Metric Tons of CO_2 Annually
- Develop 100 CCS Projects by 2020
- Commercialize Near-Zero Emissions Technology

Source: Management Information Services, Washington, D.C.

Peabody's Leading Global Operations and Reserves

Peabody shipped 246 million tons of coal through sales, trading and brokerage activities in major coal-producing regions around the world in 2010. We serve customers across North America, South America, Europe, Africa, Asia and Australia.

Geographic Region/Operation	2010 Sales	Mine Type	Coal Type	Proven & Probable Reserves
UNITED STATES				
Powder River Basin				
Caballo	23.5	S	T	
North Antelope Rochelle	105.8	S	T	
Rawhide	11.3	S	T	
Southwest/Colorado				
El Segundo	6.6	S	T	
Kayenta	7.8	S	T	
Lee Ranch	1.7	S	T	
Twentymile	7.1	U	T	
Total U.S. West	163.8			4,178
Midwest				
Illinois				
Cottage Grove	2.1	S	T	
Gateway	3.0	U	T	
Wildcat Hills	0.7	U	T	
Willow Lake	2.9	U	T	
Indiana				
Air Quality	1.1	U	T	
Bear Run	2.8	S	T	
Francisco	2.7	U	T	
Somerville Central	3.3	S	T	
Somerville North	2.0	S	T	
Somerville South	1.7	S	T	
Viking	3.2	S	T	
Wild Boar	0.1	S	T	
Other Midwest*	4.1			
Total U.S. Midwest	29.7			3,650
AUSTRALIA				
Queensland				
Burton	2.6	S	M/T	
Eaglefield	1.1	S	M	
Millennium	1.6	S	M	
North Goonyella	2.5	U	M	
Wilkie Creek	1.7	S	T	
New South Wales				
Metropolitan	1.7	U	M	
North Wambo	3.6	U	T/P	
Wambo	3.0	S	T	
Wilpinjong	9.2	S	T	
Total Australia	27.0			1,185
Trading and Brokerage	25.4			
Total	**245.9**			**9,013**

Mine Type
U: Underground
S: Surface/Open Cut

Short tons in millions.
Results from continuing operations.
*Purchased coal used to satisfy certain coal supply agreements and shipments made from operations closed during 2010.

Coal Type
T: Thermal/Steam
M: Metallurgical
P: Pulverized Coal Injection

Selected Financial Data

All prior years adjusted to reflect continuing operations

Years Ended December 31 (In millions, except per share data)	***2010***	*2009*	*2008*	*2007*	*2006*
Results of Operations Data					
Total revenues	**$ 6,860.0**	$6,012.4	$6,561.0	$4,523.8	$4,045.6
Costs and expenses	**5,534.3**	5,167.6	5,164.7	3,924.1	3,432.8
Operating profit	**1,325.7**	844.8	1,396.3	599.7	612.8
Interest expense, net	**212.5**	193.1	217.0	228.8	127.8
Income from continuing operations before income taxes	**1,113.2**	651.7	1,179.3	370.9	485.0
Income tax provision (benefit)	**308.1**	193.8	191.4	(70.7)	(85.6)
Income from continuing operations, net of income taxes	**805.1**	457.9	987.9	441.6	570.6
Income (loss) from discontinued operations, net of income taxes	**(2.9)**	5.1	(28.8)	(180.1)	30.7
Net income	**802.2**	463.0	959.1	261.5	601.3
Less: net income (loss) attributable to noncontrolling interests	**28.2**	14.8	6.2	(2.3)	0.6
Net income attributable to common stockholders	**$ 774.0**	$ 448.2	$ 952.9	$ 263.8	$ 600.7
Basic earnings per share from continuing operations	**$ 2.89**	$ 1.66	$ 3.63	$ 1.67	$ 2.15
Diluted earnings per share from continuing operations	**$ 2.86**	$ 1.64	$ 3.60	$ 1.64	$ 2.11
Weighted average shares used in calculating basic earnings per share	**267.0**	265.5	268.9	264.1	263.4
Weighted average shares used in calculating diluted earnings per share	**269.9**	267.5	270.7	268.6	268.8
Dividends declared per share	**$ 0.295**	$ 0.250	$ 0.240	$ 0.240	$ 0.240
Other Data					
Tons sold	**245.9**	243.6	255.0	235.5	221.2
Net cash provided by (used in) continuing operations:					
Operating activities	**$ 1,103.7**	$1,055.8	$1,420.8	$ 465.0	$ 611.1
Investing activities	**(703.6)**	(408.2)	(419.3)	(538.9)	(2,055.6)
Financing activities	**(77.1)**	(104.6)	(498.0)	37.4	1,403.0
Adjusted EBITDA (1)	**1,815.1**	1,290.1	1,846.9	969.7	909.7
Balance Sheet Data (at period end)					
Total assets	**$11,363.1**	$9,955.3	$9,695.6	$9,082.3	$9,504.7
Total long-term debt (including capital leases)	**2,750.0**	2,752.3	2,793.6	2,909.0	2,911.6
Total stockholders' equity	**4,689.3**	3,755.9	3,119.5	2,735.3	2,587.0

Adjusted EBITDA is calculated as follows, (unaudited):					
Income from continuing operations, net of income taxes	**$ 805.1**	$ 457.9	$ 987.9	$ 441.6	$ 570.6
Income tax provision (benefit)	**308.1**	193.8	191.4	(70.7)	(85.6)
Depreciation, depletion and amortization	**440.9**	405.2	402.4	346.3	282.7
Asset retirement obligation expense	**48.5**	40.1	48.2	23.7	14.2
Interest expense, net	**212.5**	193.1	217.0	228.8	127.8
Adjusted EBITDA (1)	**$ 1,815.1**	$1,290.1	$1,846.9	$ 969.7	$ 909.7

(1) We define Adjusted EBITDA as income from continuing operations before deducting net interest expense, income taxes, asset retirement obligation expense and depreciation, depletion and amortization. Adjusted EBITDA is used by management to measure our segments' operating performance, and management also believes it is a useful indicator of our ability to meet debt service and capital expenditure requirements. Because Adjusted EBITDA is not calculated identically by all companies, our calculation may not be comparable to similarly titled measures of other companies. Adjusted EBITDA is reconciled to its most comparable measure, under U.S. generally accepted accounting principles, as reflected in Note 22 to our consolidated financial statements.

Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

We are the world's largest private sector coal company, with majority interests in 28 coal mining operations in the United States (U.S.) and Australia. In 2010, we produced 218.4 million tons of coal and sold 245.9 million tons of coal.

We conduct business through four principal segments: Western U.S. Mining, Midwestern U.S. Mining, Australian Mining and Trading and Brokerage. The principal business of the Western and Midwestern U.S. Mining segments is the mining, preparation and sale of thermal (steam) coal, sold primarily to electric utilities. Our Western U.S. Mining operations consist of our Powder River Basin, Southwest and Colorado operations. Our Midwestern U.S. Mining operations consist of our Illinois and Indiana operations. The business of our Australian Mining Segment is the mining of various qualities of low-sulfur, high Btu coal (metallurgical coal) as well as thermal coal primarily sold to an international customer base with a portion sold to Australian steel producers and power generators. Metallurgical coal is produced primarily from five of our Australian mines.

In the U.S., we typically sell coal to utility customers under long-term contracts (those with terms longer than one year). In Australia, our production is sold primarily into the export metallurgical and thermal markets with an increasing number of the contracts negotiated with our customers on a quarterly basis. During 2010, approximately 91% of our worldwide sales (by volume) were under long-term contracts. For the year ended December 31, 2010, 84% of our total sales (by volume) were to U.S. electricity generators, 14% were to customers outside the U.S. and 2% were to the U.S. industrial sector.

Our Trading and Brokerage segment's principal business is the brokering of coal sales of other producers both as principal and agent, and the trading of coal, freight and freight-related contracts. We also provide transportation-related services in support of our coal trading strategy, as well as hedging activities in support of our mining operations.

Our fifth segment, Corporate and Other, includes mining and export/transportation joint ventures, energy-related commercial activities, as well as the management of our vast coal reserve and real estate holdings.

We continue to pursue Btu Conversion projects that expand the uses of coal through coal-to-liquids (CTL) and coal-to-gas (CTG). Our participation in generation development projects involves using our surface lands and coal reserves as the basis for mine-mouth plants, such as with our involvement in the Prairie State Energy Campus (Prairie State). We are also advancing several initiatives associated with clean coal technologies, including carbon capture and storage (CCS).

As discussed more fully in Item 1A. "Risk Factors" of the 2010 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (SEC), our results of operations in the near-term could be negatively impacted by adverse weather conditions, availability of transportation for coal shipments, unforeseen geologic conditions or equipment problems at mining locations and by the rate of the economic recovery. On a long-term basis, our results of operations could be impacted by our ability to secure or acquire high-quality coal reserves, find replacement buyers for coal under contracts with comparable terms to existing contracts or the passage of new or expanded regulations that could limit our ability to mine, increase our mining costs or limit our customers' ability to utilize coal as fuel for electricity generation. In the past, we have achieved production levels that are relatively consistent with our projections. We may adjust our production levels further in response to changes in market demand.

YEAR ENDED DECEMBER 31, 2010 COMPARED TO YEAR ENDED DECEMBER 31, 2009

Summary

In the U.S., demand for coal rose approximately 75 million tons in 2010, led by a 5.5% increase in coal-fueled generation and an 18 million ton rise in exports. The international coal markets strengthened in 2010 due to strong Asian demand growth and weather-related generation recovery in the Atlantic markets, coupled with supply challenges across the major coal exporting nations of the Southern Hemisphere. Our analyses of general business conditions indicate the following:

- Seaborne coal demand increased an estimated 13% in 2010, led by a 32% recovery in global metallurgical coal demand;
- Pacific thermal coal demand for electricity generation rose 15% in 2010, while the Atlantic market declined 10%;
- Benchmark pricing of high quality, hard coking coal in the seaborne market has ranged between $200 to $225 per tonne since April 2010;
- The benchmark prompt seaborne thermal coal price in Newcastle, Australia rose 34% in 2010;
- U.S. coal generation accounted for nearly two-thirds of the growth in total power output in 2010 due to new coal-fueled generation, favorable weather, and a partial reversal of 2009's coal-to-gas switching; and
- Indexed U.S. coal prices rose in 2010 in all regions, with increases ranging from 30 to 50%.

Our revenues increased compared to the prior year by $847.6 million and Segment Adjusted EBITDA increased over the prior year by $535.2 million, led by higher Australian pricing and sales volumes in the current year despite unfavorable weather-related volume impacts that occurred late in 2010.

Income from continuing operations, net of income taxes, increased compared to the prior year by $347.2 million due to the increase in Segment Adjusted EBITDA discussed above, partially offset by increased income taxes, decreased Corporate and Other Adjusted EBITDA, and increased depreciation, depletion and amortization and interest expense.

We ended the year with total available liquidity of $2.7 billion, as discussed further in "Liquidity and Capital Resources."

Tons Sold

The following table presents tons sold by operating segment for the years ended December 31, 2010 and 2009:

			Increase (Decrease)	
(Tons in millions)	2010	2009	Tons	%
Western U.S. Mining	**163.8**	160.1	3.7	2.3%
Midwestern U.S. Mining	**29.7**	31.8	(2.1)	(6.6%)
Australian Mining	**27.0**	22.3	4.7	21.1%
Trading and Brokerage	**25.4**	29.4	(4.0)	(13.6%)
Total tons sold	**245.9**	243.6	2.3	0.9%

Revenues

The following table presents revenues for the years ended December 31, 2010 and 2009:

			Increase (Decrease) to Revenues	
(Dollars in millions)	2010	2009	$	%
Western U.S. Mining	**$2,706.3**	$2,612.6	$ 93.7	3.6%
Midwestern U.S. Mining	**1,320.6**	1,303.8	16.8	1.3%
Australian Mining	**2,520.0**	1,678.0	842.0	50.2%
Trading and Brokerage	**291.1**	391.0	(99.9)	(25.5%)
Corporate and Other	**22.0**	27.0	(5.0)	(18.5%)
Total revenues	**$6,860.0**	$6,012.4	$847.6	14.1%

The increase in Australian Mining operations' revenues was driven by a higher weighted average sales price of 23.9%, led by increased pricing on seaborne metallurgical and thermal coals and a higher mix of metallurgical coal shipments. Volumes also increased in the current year (21.1%) driven by increased demand for metallurgical coal (metallurgical coal shipments of 9.8 million tons were 2.9 million tons, or 42%, greater than the prior year). These increases were muted to an extent by the flooding in Queensland in late 2010 that negatively impacted our production and also restricted throughput due to damage to the port and rail systems. The metallurgical coal demand increase reflects the strengthening of the coal markets as discussed above, coupled with prior year customer destocking of inventory and lower capacity utilization at steel customers.

Western U.S. Mining operations' revenues increased compared to the prior year due to increased sales volume (2.3%) driven by our Powder River Basin and Southwest regions due to increased customer demand and a higher weighted average sales price of 1.3%.

In the Midwestern U.S. Mining segment, revenue improvements due to an increase in our weighted average sales price of 8.4% from contractual price increases were largely offset by decreased shipments (6.6%) on lower customer demand.

Trading and Brokerage revenues were down primarily due to lower international brokerage revenues, unfavorable market movements on freight positions that support our export volumes and weather related shipment deferrals.

Segment Adjusted EBITDA

The following table presents segment Adjusted EBITDA for the years ended December 31, 2010 and 2009:

			Increase (Decrease) to Segment Adjusted EBITDA	
(Dollars in millions)	2010	2009	$	%
Western U.S. Mining	**$ 816.7**	$ 721.5	$ 95.2	13.2%
Midwestern U.S. Mining	**322.1**	281.9	40.2	14.3%
Australian Mining	**953.8**	437.8	516.0	117.9%
Trading and Brokerage	**77.2**	193.4	(116.2)	(60.1%)
Total Segment Adjusted EBITDA	**$2,169.8**	$1,634.6	$ 535.2	32.7%

Our Australian Mining segment benefitted from a higher weighted average sales price ($413.0 million) and increased volumes ($127.9 million) as discussed above, and productivity improvements at our North Goonyella and Wambo underground mines along with fewer longwall move days in the current year ($116.0 million). Partially offsetting the above improvements were net higher adverse weather impacts ($47.0 million) driven by the flooding in late 2010, unfavorable foreign currency impact on operating costs, net of hedging ($34.5 million), increased royalty expense associated with our higher-priced metallurgical coal shipments ($31.7 million) and increased demurrage costs ($10.7 million).

Western U.S. Mining operations' Adjusted EBITDA increased compared to the prior year due to the higher volumes ($49.8 million) and a higher weighted average sales price ($42.1 million) discussed above, lower repairs and maintenance costs due to timing of repairs and improved equipment efficiency ($35.0 million) and fewer longwall move days at our Twentymile Mine in the current year ($10.0 million), partially offset by prior year customer contract termination and restructuring agreements ($27.8 million) and increased commodity costs in the current year ($20.8 million).

In the Midwestern U.S. Mining segment, a higher weighted average sales price ($98.5 million), as discussed above, was partially offset by lower volumes ($42.3 million) due to decreased demand and increased costs on lower productivity due to compliance measures and geological conditions at certain underground mines.

Our Trading and Brokerage segment was down primarily due to the lower revenues as discussed above.

Income From Continuing Operations Before Income Taxes

The following table presents income from continuing operations before income taxes for the years ended December 31, 2010 and 2009:

(Dollars in millions)	2010	2009	Increase (Decrease) to Income $	%
Total Segment Adjusted EBITDA	**$2,169.8**	$1,634.6	$535.2	32.7%
Corporate and Other Adjusted EBITDA [(1)]	**(354.7)**	(344.5)	(10.2)	(3.0%)
Depreciation, depletion and amortization	**(440.9)**	(405.2)	(35.7)	(8.8%)
Asset retirement obligation expense	**(48.5)**	(40.1)	(8.4)	(20.9%)
Interest expense	**(222.1)**	(201.2)	(20.9)	(10.4%)
Interest income	**9.6**	8.1	1.5	18.5%
Income from continuing operations before income taxes	**$1,113.2**	$ 651.7	$461.5	70.8%

[(1)] *Corporate and Other Adjusted EBITDA results include selling and administrative expenses, equity income (loss) from our joint ventures, net gains on asset disposals or exchanges, costs associated with past mining obligations and revenues and expenses related to our other commercial activities such as generation development and Btu Conversion development costs.*

Income from continuing operations before income taxes was higher compared to the prior year primarily due to the higher Total Segment Adjusted EBITDA discussed above, partially offset by lower Corporate and Other Adjusted EBITDA and higher depreciation, depletion and amortization expense and interest expense as discussed below:

- *Corporate and Other Adjusted EBITDA:* higher expense was primarily driven by a current year increase in selling and administrative expenses due to costs to support our business development and international expansion (e.g. headcount, travel, professional services, legal). We also incurred increased post mining costs driven by higher retiree healthcare amortization of actuarial losses and interest cost. These items were partially offset by improved results from equity affiliates primarily due to prior year losses of $54.6 million related to our equity investment in Carbones del Guasare, which included a $34.7 million impairment loss and $19.9 million of operating losses. See Note 1 to our consolidated financial statements for additional information.
- *Depreciation, depletion and amortization:* higher compared to the prior year due to increased production at our Australian mines with higher per-ton depletion rates reflecting higher demand and additional depreciation expense associated with our new Bear Run Mine (commissioned in the second quarter of 2010).
- *Interest expense:* higher primarily due to refinancing charges ($9.3 million) associated with our new five-year Credit Facility and charges ($8.4 million) associated with the extinguishment and refinancing of $650.0 million of senior notes.

Net Income Attributable to Common Stockholders

The following table presents net income attributable to common stockholders for the years ended December 31, 2010 and 2009:

(Dollars in millions)	2010	2009	Increase (Decrease) to Income $	%
Income from continuing operations before income taxes	**$1,113.2**	$ 651.7	$ 461.5	70.8%
Income tax provision	**(308.1)**	(193.8)	(114.3)	(59.0%)
Income from continuing operations, net of income taxes	**805.1**	457.9	347.2	75.8%
Income (loss) from discontinued operations, net of income taxes	**(2.9)**	5.1	(8.0)	156.9%
Net income	**802.2**	463.0	339.2	73.3%
Net income attributable to noncontrolling interests	**(28.2)**	(14.8)	(13.4)	(90.5%)
Net income attributable to common stockholders	**$ 774.0**	$ 448.2	$ 325.8	72.7%

Net income attributable to common stockholders increased compared to the prior year due to the increased income from continuing operations before income taxes as discussed above.

Income tax provision was impacted by the following:

- Increased expense due to higher current year earnings ($161.5 million) and current year income tax resulting from foreign earnings repatriation ($84.5 million), partially offset by
- A change in the valuation allowance ($46.4 million) related primarily to alternative minimum tax credits, lower expense associated with the remeasurement of non-U.S. tax accounts as a result of the larger increase in the Australian exchange rate against the U.S. dollar in the prior year compared to the current year ($26.8 million) as set forth in the table below, the favorable rate difference resulting from higher foreign generated income in the current year ($42.5 million), and lower expense in the current year due to the reduction of our gross unrecognized tax benefit resulting from the completion of the Internal Revenue Service examination of the 2005 federal income tax year ($15.2 million).

	December 31, 2010	2009	2008	Rate Change 2010	2009
Australian dollar to U.S. dollar exchange rate	**$1.0163**	$0.8969	$0.6928	**$0.1194**	$0.2041

Income (loss) from discontinued operations for 2010 reflects a loss of $2.9 million as compared to income of $5.1 million in 2009 due primarily to a coal excise tax refund receivable of approximately $35 million recorded in 2009, partially offset by operating losses and loss on disposal of our Australian Chain Valley Mine in 2009.

Other

The fair value of our foreign currency hedges increased approximately $434 million in 2010 mostly due to the strengthening of the Australian dollar against the U.S. dollar in the current year. The increase is reflected in "Other current assets" and "Investments and other assets" in the consolidated balance sheets.

YEAR ENDED DECEMBER 31, 2009 COMPARED TO YEAR ENDED DECEMBER 31, 2008

Summary

Our overall results for 2009 compared to 2008 reflect the unfavorable impact of lower global demand for coal as a result of the global economic recession. Despite the recession, our 2009 Adjusted EBITDA was the third highest in our 127-year history, only trailing 2008 and 2010. We also ended 2009 with total available liquidity of $2.5 billion. We continued to focus on strong cost control and productivity improvements, increased contributions from our high-margin operations and exercising tight capital discipline.

Our 2009 tons sold were below prior year levels reflecting planned production reductions in the Powder River Basin to match lower demand, partially offset by increased volumes associated with the full-year operation of our El Segundo Mine in the Southwest. In the U.S., the decreased demand from lower industrial output, lower natural gas prices that resulted in higher fuel switching and higher coal stockpiles in the U.S. led to an 8.5 million ton decline in sales volume. In Australia, lower demand from steel customers resulted in a 1.3 million ton decline in metallurgical coal volume, although volumes in the second half of 2009 began to increase on an improved economic outlook led by demand from Asian-Pacific markets.

Our 2009 revenues declined compared to 2008 and were primarily impacted by Australia's lower annual export contract pricing that commenced on April 1, 2009 as compared to 2008's record pricing and the overall decline in volume. Lower revenues were also driven by the decline in Trading and Brokerage revenues that resulted from lower coal pricing volatility. The lower Australian and Trading and Brokerage revenues were partially offset by an increase in U.S. revenues per ton that reflect multi-year contracts signed at higher prices in recent years.

While our Segment Adjusted EBITDA reflects the lower revenue discussed above, our 2009 margins also reflect the impact of producing at reduced levels as well as higher sales related costs. In addition, our costs in Australia were higher due to two additional longwall moves compared to 2008 and the impact of mining in difficult geologic conditions that also included higher costs for overburden removal.

Net income declined in 2009 compared to 2008 reflecting the above items, as well as lower results from equity affiliates and decreased net gains on disposals of assets. Income from continuing operations, net of income taxes was $457.9 million in 2009, or $1.64 per diluted share, 53.6% below 2008 income from continuing operations, net of income taxes of $987.9 million, or $3.60 per diluted share.

Tons Sold

The following table presents tons sold by operating segment for the years ended December 31, 2009 and 2008:

(Tons in millions)	2009	2008	Increase (Decrease) Tons	%
Western U.S. Mining	160.1	169.7	(9.6)	(5.7%)
Midwestern U.S. Mining	31.8	30.7	1.1	3.6%
Australian Mining	22.3	23.4	(1.1)	(4.7%)
Trading and Brokerage	29.4	31.2	(1.8)	(5.8%)
Total tons sold	243.6	255.0	(11.4)	(4.5%)

Revenues

The following table presents revenues for the years ended December 31, 2009 and 2008:

(Dollars in millions)	2009	2008	Increase (Decrease) to Revenues $	%
Western U.S. Mining	$2,612.6	$2,533.1	$ 79.5	3.1%
Midwestern U.S. Mining	1,303.8	1,154.6	149.2	12.9%
Australian Mining	1,678.0	2,242.8	(564.8)	(25.2%)
Trading and Brokerage	391.0	601.8	(210.8)	(35.0%)
Corporate and Other	27.0	28.7	(1.7)	(5.9%)
Total revenues	$6,012.4	$6,561.0	$(548.6)	(8.4%)

2009 revenues were below the prior year driven by decreases in our Australian Mining and Trading and Brokerage segments as discussed below:

- Australian Mining operations' average sales price decreased 21.4% from the prior year reflecting the lower annual export contract pricing that commenced April 1, 2009 compared to the record pricing realized in 2008. The price decreases were combined with volume decreases from the prior year (4.7%) due to overall

lower demand experienced in the first half of 2009. 2009 metallurgical coal shipments of 6.9 million tons were 1.3 million tons below the prior year. In the second half of 2009, 5.0 million tons of metallurgical coal were shipped, reflecting a partial recovery from the lower metallurgical coal shipments that occurred in the first half of the year.
- Trading and Brokerage revenues decreased from the prior year primarily due to lower coal pricing volatility in 2009 resulting in lower margins on trading transactions, partially offset by profit from business contracted in 2008 that was realized in 2009 on an international brokerage arrangement.

These decreases to revenues were partially offset by revenue increases in our Midwestern U.S. and Western U.S. Mining segments as discussed below:
- Midwestern U.S. Mining operations' average sales price increased over the prior year (9.3%) driven by the benefit of higher Illinois Basin prices and increased shipments, including purchased coal used to satisfy certain coal supply agreements.
- Western U.S. Mining operations' average sales price increased over the prior year (9.2%) due to a combination of higher contract pricing and a shift in sales mix. Revenues were also higher due to increased shipments from our El Segundo Mine (commissioned in June 2008) and customer contract termination and restructuring agreements. These increases were partially offset by the prior year revenue recovery on a long-term coal supply agreement ($56.9 million) and an overall volume decrease (5.7%) reflecting our planned Powder River Basin production decreases to match demand.

Segment Adjusted EBITDA

The following table presents segment Adjusted EBITDA for the years ended December 31, 2009 and 2008:

			Increase (Decrease) to Segment Adjusted EBITDA	
(Dollars in millions)	*2009*	*2008*	*$*	*%*
Western U.S. Mining	$ 721.5	$ 681.3	$ 40.2	5.9%
Midwestern U.S. Mining	281.9	177.3	104.6	59.0%
Australian Mining	437.8	1,016.6	(578.8)	(56.9%)
Trading and Brokerage	193.4	218.9	(25.5)	(11.6%)
Total Segment Adjusted EBITDA	$1,634.6	$2,094.1	$(459.5)	(21.9%)

Australian Mining operations' Adjusted EBITDA decreased compared to the prior year due to lower annual export contract pricing and lower sales volume due to reduced demand ($416.0 million) as discussed above. Also impacting the segment's Adjusted EBITDA was higher production costs ($170.7 million) driven by increased overburden stripping ratios and decreased longwall mine performance, which included higher costs associated with two additional longwall moves in 2009 compared to 2008.

Trading and Brokerage Adjusted EBITDA decreased compared to the prior year primarily due to lower net revenue discussed above.

Western U.S. Mining operations' Adjusted EBITDA increased over the prior year driven by higher pricing ($205.5 million), partially offset by lower demand ($63.2 million), a prior year revenue recovery on a long-term coal supply agreement ($56.9 million), higher sales related costs ($52.0 million) and lower productivity due to increased stripping ratios ($20.8 million). The impact of lower demand was partially mitigated by revenues from customer contract termination and restructuring agreements ($27.8 million).

Midwestern U.S. Mining operations' Adjusted EBITDA increased over the prior year primarily due to higher pricing ($110.7 million) and decreased commodity costs ($16.0 million), partially offset by higher costs associated with mining in more difficult geological conditions compared to the prior year ($20.7 million).

Income From Continuing Operations Before Income Taxes

The following table presents income from continuing operations before income taxes for the years ended December 31, 2009 and 2008:

			Increase (Decrease) to Income	
(Dollars in millions)	*2009*	*2008*	*$*	*%*
Total Segment Adjusted EBITDA	$1,634.6	$2,094.1	$(459.5)	(21.9%)
Corporate and Other Adjusted EBITDA [1]	(344.5)	(247.2)	(97.3)	(39.4%)
Depreciation, depletion and amortization	(405.2)	(402.4)	(2.8)	(0.7%)
Asset retirement obligation expense	(40.1)	(48.2)	8.1	16.8%
Interest expense	(201.2)	(227.0)	25.8	11.4%
Interest income	8.1	10.0	(1.9)	(19.0%)
Income from continuing operations before income taxes	$ 651.7	$1,179.3	$(527.6)	(44.7%)

[1] *Corporate and Other Adjusted EBITDA results include selling and administrative expenses, equity income (loss) from our joint ventures, net gains on asset disposals or exchanges, costs associated with past mining obligations and revenues and expenses related to our other commercial activities such as generation development and Btu Conversion development costs.*

Income from continuing operations before income taxes decreased from the prior year primarily due to the lower Total Segment Adjusted EBITDA discussed above and lower Corporate and Other Adjusted EBITDA, partially offset by lower interest expense and asset retirement obligation expense.

The decrease of $97.3 million in Corporate and Other Adjusted EBITDA during 2009 compared to 2008 was due to the following:
- Lower results from equity affiliates ($69.1 million) primarily from our joint venture interest in Carbones del Guasare (owner and operator of the Paso Diablo Mine in Venezuela). Carbones del Guasare incurred unfavorable results in 2009 compared to 2008 (our share of which was $25.6 million) due to lower productivity, higher operating costs and ongoing labor issues; in addition, we recognized a $34.7 million impairment loss on this investment. See Note 1 to our consolidated financial statements for additional information.
- Lower net gains on disposal or exchange of assets ($49.7 million) was due primarily to a $54.0 million gain in the prior year from the sale of non-strategic coal reserves and surface lands located in Kentucky.
- The above decreases to Corporate and Other Adjusted EBITDA were offset by lower costs associated with Btu Conversion activities ($16.9 million).

Interest expense was lower than the prior year due to lower variable interest rates on our Term Loan Facility and accounts receivable securitization program and lower average borrowings on our Revolver.

Asset retirement obligation expense decreased in 2009 as compared to the prior year due primarily to a decrease in the ongoing and closed mine reclamation rates reflecting lower fuel and re-vegetation costs incurred in our Midwestern U.S. Mining segment.

Net Income Attributable to Common Stockholders

The following table presents net income attributable to common stockholders for the years ended December 31, 2009 and 2008:

			Increase (Decrease) to Income	
(Dollars in millions)	*2009*	*2008*	*$*	*%*
Income from continuing operations before income taxes	$651.7	$1,179.3	$(527.6)	(44.7%)
Income tax provision	(193.8)	(191.4)	(2.4)	(1.3%)
Income from continuing operations, net of income taxes	457.9	987.9	(530.0)	(53.6%)
Income (loss) from discontinued operations, net of income taxes	5.1	(28.8)	33.9	117.7%
Net income	463.0	959.1	(496.1)	(51.7%)
Net income attributable to noncontrolling interests	(14.8)	(6.2)	(8.6)	(138.7%)
Net income attributable to common stockholders	$448.2	$ 952.9	$(504.7)	(53.0%)

Net income attributable to common stockholders decreased in 2009 compared to the prior year due to the decrease in income from continuing operations before incomes taxes discussed above.

Income tax provision was impacted by the following:
- Increased expense associated with the remeasurement of non-U.S. tax accounts as a result of the strengthening Australian dollar against the U.S. dollar ($139.6 million; exchange rate rose 29% in 2009 compared to a 21% decrease in 2008, as illustrated below); and

	December 31,			Rate Change	
	2009	*2008*	*2007*	*2009*	*2008*
Australian dollar to U.S. dollar exchange rate	$0.8969	$0.6928	$0.8816	$0.2041	$(0.1888)

- The prior year release of a foreign valuation allowance related to our Australian net operating loss carry forwards ($45.3 million) as a result of significantly higher earnings resulting from the higher contract pricing that was secured during 2008.
- The above increases to income tax expense were partially offset by lower pre-tax earnings in 2009, which drove a decrease to the income tax provision ($184.6 million).

Income from discontinued operations increased compared to the prior year as the prior year included operating losses, net of a $26.2 million gain on the sale of our Baralaba Mine, and an $11.7 million write-off of a coal excise tax receivable in the first quarter of 2008. In late 2008, legislation was passed which contained provisions that allowed for the refund of coal excise tax collected on certain coal shipments. In 2009, we received a coal excise tax refund resulting in approximately $35 million, net of income taxes, recorded in "Income (loss) from discontinued operations, net of income taxes" (see Note 2 to the consolidated financial statements for more information related to the excise tax refund). Partially offsetting the 2009 excise tax refund were operating losses associated with discontinued operations and assets held for sale ($20.6 million) and a $10.0 million loss on the sale of our Chain Valley Mine in Australia.

OUTLOOK

Near-Term Outlook

The World Bank estimates global economic activity, as measured by gross domestic product (GDP), expanded 3.9% in 2010. Global GDP is projected to grow another 3.3% in 2011 and 3.6% in 2012, with developing economies, led by China and India, expanding 6% or more in each year, more than twice the growth expected for high income countries. China's GDP is projected by the World Bank to grow 10.0% in 2010 and 8.7% in 2011. India, the world's second fastest growing economy, is projected by the World Bank to grow 9.5% in 2010 and 8.4% in 2011.

- According to the World Steel Association (WSA), global steel use was expected to increase 13.1% in 2010, followed by another 5.3% in 2011 to a record 1.3 billion tonnes. The WSA forecasts India's steel demand would rise 8.2% in 2010 and 13.6% in 2011. Similar trends are apparent in steel production. For 2010, global steel production exceeded prior year levels by 15%, led by Asia-based production (Japan, Taiwan, South Korea, China and India). Industry reports indicate China, the world's largest steel consumer, is expected to grow its steel use 11% in 2010, and is projected to grow a further 8% to 9% in 2011.
- Industry reports forecast nearly 85 gigawatts of new coal-fueled generation globally were due to come on line during 2010; nearly 80% of which were in China and India. New global coal-fueled generation for 2010 is estimated to require approximately 290 million tons of coal annually. For 2011, approximately 90 gigawatts are expected to be under construction and/or come online, requiring more than 340 million tons of coal. China and India continue to make up the vast majority.
- Given the pace of coal demand in the Pacific throughout 2010, coupled with late-2010 weather-related demand increases in the Northern Hemisphere and supply constraints in key nations such as Australia, Indonesia, South Africa, South America and Canada, prices for seaborne metallurgical and thermal coal have been increasing. High quality, hard coking coal prices have increased from $129 per tonne for annual contracts commencing April 2009, to quarterly (April, July, October 2010) prices ranging between $200 and $225 per tonne, with January 2011 spot price exceeding $350 per tonne. Prompt index prices for Australian seaborne thermal coal rose 34% by year-end 2010, and have risen another 10% as of January 18, 2011.

According to the Energy Information Administration's (EIA) Short-Term Energy Outlook, 2011 coal consumption, coal production and utility coal stockpiles in the U.S. are projected to be essentially on par with 2010. U.S. growth is projected to resume in 2012, with the increased consumption being matched by higher production, resulting in minimal change to utility coal stockpiles.

U.S. natural gas consumption increased 5.5% and production rose approximately 4% in 2010, according to the EIA. Rising supplies combined with persistently high inventory levels have resulted in subdued gas prices. The NYMEX - Henry Hub spot price averaged $4.52 per thousand cubic feet in 2010, above 2009's average $4.06 per thousand cubic feet yet 67% below the 2007 – 2009 average.

The EIA also projects that natural gas consumption, production and storage levels will decline slightly in 2011. Like coal, natural gas consumption is expected to grow in 2012, approximately 1.6% to 66.5 billion cubic feet. The projected production decline in 2011 and higher natural gas consumption in 2012 are expected to lead to strengthening natural gas prices. As natural gas prices begin to rise, natural gas production is expected to rebound, growing approximately 2% in 2012.

U.S. shale natural gas development continues in the U.S. accounting for approximately 20% of gas supply in 2010 and is estimated by the PIRA Energy Group to grow to over 30% of gas supply over the next several years. This is expected to lead to continued growth in gas-fired electricity in the U.S.

As of January 25, 2011, we had 7 to 8 million tons of our targeted 2011 metallurgical coal volumes and 6 to 7 million tons of our planned seaborne thermal coal volumes available for pricing in the last three quarters of 2011. For 2012, all of our expected metallurgical coal sales and 12 to 13 million tons of our estimated seaborne thermal coal sales are available to price. In the U.S., we have modest amounts of coal to price in 2011, 35% to 40% in 2012 and 75% to 85% in 2013. We may continue to adjust our production levels in response to change in market demand.

We continue to manage costs and operating performance in an effort to mitigate external cost pressures, geologic conditions and potential shipping delays resulting from adverse port and rail performance. We may have higher per ton costs as a result of suboptimal production levels due to market-driven changes in demand. We may also encounter poor geologic conditions, lower third-party contract miner or brokerage performance or unforeseen equipment problems that limit our ability to produce at forecasted levels. To the extent upward pressure on costs exceeds our ability to realize sales increases, or if we experience unanticipated operating or transportation difficulties, our operating margins would be negatively impacted. Reductions in the relative cost of other fuels, including natural gas, could impact the use of coal for electricity generation. See Cautionary Notice Regarding Forward-Looking Statements and Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2010 for additional considerations regarding our outlook.

We rely on ongoing access to worldwide financial markets for capital, insurance, hedging and investments through a wide variety of financial instruments and contracts. To the extent these markets are not available or increase significantly in cost, this could have a negative impact on our ability to meet our business goals. Similarly, many of our customers and suppliers rely on the availability of the financial markets to secure the necessary financing and financial surety (letters of credit, bank guarantees, performance bonds, etc.) to complete transactions with us. To the extent customers and suppliers are not able to secure this financial support, it could have a negative impact on our results of operations and/or counterparty credit exposure.

Dodd-Frank Act

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which includes a number of provisions applicable to us in the areas of corporate governance, executive compensation and mine safety and extractive industries disclosure. In addition, the Dodd-Frank Act imposes additional regulation of financial derivatives transactions that may apply to our hedging and our Trading and Brokerage activities. Although the Dodd-Frank Act became generally effective upon its enactment, many provisions have extended implementation periods and delayed effective dates and require further action by the federal regulatory authorities. As a result, in many respects the ultimate impact of the Dodd-Frank Act on us will not be fully known for an extended period of time. We do expect that the Dodd-Frank Act will increase compliance and transaction costs associated with our hedging and Trading and Brokerage activities.

Minerals Resource Rent Tax

On May 2, 2010, the Australian government released a report on Australia's Future Tax System, which included a recommendation to replace the current resource taxing arrangements imposed on non-renewable resources by the Australian federal and state governments with a uniform resource rent tax (the Resource Tax) imposed and administered by the Australian government. As proposed, the Resource Tax would be profit-based and would apply to non-renewable resources projects, including existing projects. On July 2, 2010, the Australian government announced changes to the Resource Tax and proposed a new minerals resource rent tax (the MRRT). The MRRT would still be profit-based, but measures were introduced to lessen the impact of the MRRT. The Australian government and major industry policy makers are actively engaged to work through various structural aspects of the proposed MRRT together with detailed implementation issues. The Committee charged with consulting with industry and preparing recommendations as to the final form of the MRRT submitted its report in late December 2010. The Committee's recommendations largely endorse the mining industry's understanding as to what was agreed with the federal government prior to the federal election. The Committee's recommendations notwithstanding, it remains to be seen whether the federal government will adopt all recommendations, in particular the recommendation that all state royalties (current and future) are creditable against MRRT payments. MRRT is not yet law in Australia; exposure draft legislation is expected in mid-2011. Following the release of the draft legislation, industry participants will engage in further consultation with the federal government as required. The draft law is expected to be presented to the Australian Parliament in late 2011, and if the MRRT becomes law, it is intended to become effective July 1, 2012. If the MRRT were to become law, it may affect the financial performance of our Australian operations from the effective date forward.

Long-Term Outlook

Our long-term global outlook remains positive. According to the BP Statistical Review of World Energy, coal has been the fastest-growing fuel in the world for the past decade.

The International Energy Agency (IEA) estimates in its World Energy Outlook issued in November 2010, current policies scenario, that world primary energy demand will grow 47% between 2008 and 2035. Demand for coal is projected to rise 59%, outpacing the growth rate of oil, natural gas, nuclear, hydro and biomass. China and India alone account for more than 85% of the 2008 – 2035 coal-based primary energy demand growth.

Under the current policies scenario, the IEA expects coal to retain its strong presence as a fuel for the power sector worldwide. Coal's share of the power generation mix was 41% in 2008. By 2035, the IEA estimates coal's fuel share to be 43% as it continues to have the largest share of worldwide electric power production. Currently, we estimate approximately 390 gigawatts of coal-fueled electricity generating plants are planned or under construction around the world, with expected online dates ranging between 2011 and 2015. When complete, those plants would require an estimated 1.4 billion tons of annual coal demand. In the U.S., while some planned coal-based plants have been cancelled, 13 gigawatts of new coal-based generating capacity have been completed in 2010 or are under construction with completion dates of 2011 – 2013, representing approximately 55 million tons of annual coal demand once they become operational.

The IEA projects global natural gas-fueled electricity generation will have a compound annual growth rate of 2.5%, from 4.3 trillion kilowatt hours in 2008 to 8.3 trillion kilowatt hours in 2035. The total amount of electricity generated from natural gas is expected to be approximately one-half the total for coal, even in 2035. Renewables are projected to comprise 23% of the 2035 fuel mix versus 19% in 2008. Nuclear power is expected to grow 52%, however its share of total generation is expected to fall from 13.5% to 11% between 2008 and 2035. Generation from liquid fuels is projected to decline an average of 2.2% annually to 1.5% of the 2035 generation mix.

We believe that Btu Conversion applications such as CTG and CTL plants represent an avenue for potential long-term industry growth. Several CTG and CTL facilities are currently under development in China and India.

We continue to support clean coal technology development toward the ultimate goal of near-zero emissions, and we are advancing more than a dozen projects and partnerships in the U.S., China and Australia. In addition, clean coal technology development in the U.S. is being accelerated by funding under the American Recovery and Reinvestment Act of 2009 and by the formation of an Interagency Task Force on Carbon Capture and Storage to develop a comprehensive and coordinated federal strategy to speed the commercial development of five to ten commercial CCS projects by 2016.

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

LIQUIDITY AND CAPITAL RESOURCES

Capital Resources

Our primary sources of cash include sales of our coal production to customers, cash generated from our trading and brokerage activities, sales of non-core assets and financing transactions. Along with cash and cash equivalents, our liquidity includes the available balances from our revolving credit facility (Revolver) under the Credit Facility, accounts receivable securitization program and a bank overdraft facility in Australia. Our liquidity is also impacted by activity under certain bilateral cash collateralization arrangements. As of December 31, 2010, we had cash and cash equivalents of $1.3 billion and our total available liquidity was $2.7 billion. We currently expect that our cash on hand, cash flow from operations and available liquidity will be sufficient to meet our anticipated capital requirements during the next 12 months and for the foreseeable future, as described below in "Capital Requirements." In addition to the above items, alternative sources of liquidity include the ability to offer and sell certain securities under our shelf registration (as described later).

In 2010, we replaced our previous $1.8 billion revolving credit facility with a $1.5 billion Revolver under a new Credit Facility (as described below). Also, additional information on our accounts receivable securitization program and bilateral cash collateralization arrangements can be found in the "Off-Balance Sheet Arrangements" section.

Credit Facility

On June 18, 2010, we entered into a Credit Agreement which established a $2.0 billion Credit Facility and replaced our third amended and restated credit agreement dated September 15, 2006. The Credit Agreement provides for a $1.5 billion Revolver and a $500.0 million term loan facility (Term Loan). We have the option to request an increase in the capacity of the Credit Facility (but no lender is obligated to increase its commitment to us), provided the aggregate increase for the Revolver and Term Loan does not exceed $250.0 million, the minimum amount of the increase is $25.0 million, and certain other conditions are met under the Credit Agreement. The Revolver also includes a swingline sub-facility where up to $50.0 million is available for same-day borrowings. The Revolver commitments and the Term Loan under the Credit Facility will mature on June 18, 2015. The Term Loan is subject to quarterly repayment of 1.25% per quarter beginning in the fourth quarter of 2010, with the final payment of all amounts outstanding (including accrued interest) being due five years from the date of the execution of the Credit Agreement.

The Revolver replaced our previous $1.8 billion revolving credit facility and the Term Loan replaced our previous term loan facility (the previous term loan had a balance of $490.3 million at the time of replacement and at December 31, 2009). We recorded $21.9 million in deferred financing costs which are being amortized to interest expense over the five year term of the Credit Facility, and incurred refinancing charges of $9.3 million, which is classified as interest expense in the consolidated statements of operations.

There were no borrowings outstanding under the Revolver in 2010 or 2009, or at December 31, 2010. However, we had $67.6 million of outstanding letters of credit as of December 31, 2010, which effectively reduced our borrowing capacity under the Revolver by the same amount.

See Note 8 to our consolidated financial statements for additional information on the new Credit Facility.

Shelf Registration

We have an effective shelf registration statement on file with the SEC for an indeterminate number of securities that is effective for three years (expires August 7, 2012), at which time we expect to be able to file an automatic shelf registration statement that would become immediately effective for another three-year term. Under this universal shelf registration statement, we have the capacity to offer and sell from time to time: securities, including common stock, preferred stock, debt securities, warrants and units.

Capital Requirements

Our primary uses of cash include our cash costs of coal production, capital expenditures, coal reserve lease and royalty payments, debt service costs (interest and principal), lease obligations, take or pay obligations and costs related to past mining obligations. Future dividends and share repurchases, among other restricted items, are subject to limitations imposed in the covenants of certain of our debt instruments. We generally fund our capital expenditure requirements with cash generated from operations.

Capital Expenditures

Capital expenditures for 2011 are anticipated to be $900 to $950 million; including $500 to $550 million earmarked for new mines, expansion and extension projects. Approximately 70% of the growth and expansion capital is targeted for various Australian projects for metallurgical and thermal coal, with the remainder in the U.S. Estimated capital expenditures also include funding for our share of construction costs for Prairie State.

Prairie State

We spent $76.0 million during 2010 representing our 5.06% share of the construction costs. Included in "Investments and other assets" in the consolidated balance sheets as of December 31, 2010 and 2009, are costs of $202.5 million and $126.5 million, respectively. Our share of total construction costs for Prairie State is expected to be approximately $250 million with most of the remaining funding expected in 2011.

GreenGen

We are an equity partner in GreenGen, which is constructing a near-zero emissions coal-fueled power plant with CCS near Tianjin, China. During 2010, we spent $3.1 million representing our 6.0% share of the construction costs, which is reflected as capitalized development costs as part of "Investments and other assets" in the consolidated balance sheet. There were no expenditures for GreenGen for 2009. Our share of total construction costs for GreenGen is expected to be approximately $60 million.

Dividends

We have declared and paid quarterly dividends since our initial public offering in 2001. In January 2011, our Board of Directors approved a dividend of $0.085 per share of common stock, payable on March 3, 2011. The declaration and payment of dividends and the amount of dividends will depend on our results of operations, financial condition, cash requirements, future prospects, any limitations imposed by our debt instruments and other factors deemed relevant by our Board of Directors.

Pension Contributions

During 2010, we made contributions of $112.6 million, which includes our estimate of required contributions for 2011 (based on current assumptions).

Share Repurchase Program

At December 31, 2010, our available capacity for share repurchases was $700.4 million, and our Chairman and Chief Executive Officer has authority to direct us to repurchase up to $100 million of our common stock outside of the share repurchase program. While no such share repurchases were made in 2010, repurchases may be made from time to time based on an evaluation of our outlook and general business conditions, as well as alternative investment and debt repayment options.

Newcastle Coal Infrastructure Group (NCIG)

We own a 17.7% interest in the Newcastle Coal Infrastructure Group (NCIG), a coal transloading facility in Newcastle, Australia. Financing for phase one of stage two of construction closed in 2010 with us providing our pro-rata share of funding of $59.7 million Australian dollars ($54.8 million U.S. dollars). NCIG may further expand the coal transloading facility's capacity which could require us to fund our pro-rata share in a similar manner.

Senior Notes

On August 25, 2010, we completed a $650.0 million offering of 6.5% 10-year Senior Notes due September 2020 (the Notes). The Notes are senior unsecured obligations and rank senior in right of payment to any subordinated indebtedness; equally in right of payment with any senior indebtedness; effectively junior in right of payment to our future secured indebtedness, to the extent of the value of the collateral securing that indebtedness; and effectively junior to all the indebtedness and other liabilities of our subsidiaries that do not guarantee the Notes. Interest payments are scheduled to occur on March 15 and September 15 of each year, commencing on March 15, 2011.

The Notes are jointly and severally guaranteed by nearly all of our domestic subsidiaries, as defined in the note indenture. The note indenture contains covenants that, among other things, limit our ability to create liens and enter into sale and lease-back transactions. The Notes are redeemable at a redemption price equal to 100% of the principal amount of the Notes being redeemed plus a make-whole premium and any accrued unpaid interest to the redemption date.

We used the net proceeds from the issuance of the Notes, after deducting underwriting discounts and expenses, and cash on hand, to extinguish our previously outstanding $650.0 million aggregate principal 6.875% Senior Notes formerly due in March 2013 (the 2013 Notes). All of the 2013 Notes were either tendered or redeemed in 2010. We recognized debt extinguishment costs of $8.4 million, which are classified as interest expense in the consolidated statements of operations. The issuance of the Notes and the extinguishment of the 2013 Notes allowed us to lengthen the maturity of our senior indebtedness and lower the coupon rate.

See Note 8 to our consolidated financial statements for additional information on the Notes.

Total Indebtedness

Our total indebtedness as of December 31, 2010 and 2009, consisted of the following:

(Dollars in millions)	***2010***	*2009*
Term Loan	**$ 493.8**	$ 490.3
6.875% Senior Notes due March 2013	**–**	650.0
5.875% Senior Notes due April 2016	**218.1**	218.1
7.375% Senior Notes due November 2016	**650.0**	650.0
6.5% Senior Notes due September 2020	**650.0**	–
7.875% Senior Notes due November 2026	**247.2**	247.1
6.34% Series B Bonds due December 2014	**12.0**	15.0
6.84% Series C Bonds due December 2016	**33.0**	33.0
Convertible Junior Subordinated Debentures due 2066	**373.3**	371.5
Capital lease obligations	**69.6**	67.5
Fair value hedge adjustment	**2.2**	8.4
Other	**0.8**	1.4
Total	**$2,750.0**	$2,752.3

We were in compliance with all of the covenants of the Credit Facility, the 5.875% Senior Notes, the 7.375% Senior Notes, the 6.5% Senior Notes, the 7.875% Senior Notes and the Debentures as of December 31, 2010.

Historical Cash Flows

			Increase (Decrease) to To Cash Flow	
(Dollars in millions)	***2010***	*2009*	*$*	*%*
Net cash provided by operating activities	**$1,087.1**	$1,050.2	$ 36.9	3.5%
Net cash used in investing activities	**(703.6)**	(406.5)	(297.1)	73.1%
Net cash used in financing activities	**(77.1)**	(104.6)	27.5	(26.3)%

Operating Activities

The changes from the prior year were driven by the following:

- Strong operating cash flows generated from our Australian Mining operations driven by higher volumes and pricing; partially offset by
- Increased margin posted for our derivative trading instruments;
- Lower utilization of our accounts receivable securitization program in the current year; and
- Higher pension payments in the current year.

Investing Activities

The changes from the prior year were driven by the following:

- Higher current year capital spending of $296.4 million related primarily to our Bear Run Mine;
- Current year net cash outflows related to our pro-rata share of funding for the NCIG coal transloading facility; and
- The collection of a note receivable of $30.0 million in the prior year; partially offset by
- Federal coal lease expenditures of $123.6 million in the prior year.

Financing Activities

The increase compared to the prior year was primarily due to the excess tax benefits related to share-based compensation of $51.0 million, partially offset by the payment of debt issuance costs of $32.2 million in the current year related to our Credit Facility refinancing and the offering of the Notes. The proceeds from long-term debt include $500.0 million from the Term Loan and $641.9 million of net proceeds from the issuance of the Notes. These proceeds were used to pay off the $490.3 million balance due on our previous term loan facility and the previously outstanding $650.0 million 2013 Notes.

Other Long-Term Debt

A description of our other debt instruments is described in Note 8 to the consolidated financial statements.

CONTRACTUAL OBLIGATIONS

The following is a summary of our contractual obligations as of December 31, 2010:

	Payments Due By Year				
(Dollars in millions)	*Total*	*Less Than 1 Year*	*2 - 3 Years*	*4 - 5 Years*	*More Than 5 Years*
Long-term debt obligations (principal and interest)	$ 5,621.6	$ 213.4	$ 436.6	$ 789.4	$4,182.2
Capital lease obligations (principal and interest)	74.6	17.0	42.1	15.5	–
Operating lease obligations	455.8	95.6	147.2	106.1	106.9
Unconditional purchase obligations [(1)]	458.2	406.7	51.5	–	–
Coal reserve lease and royalty obligations	62.0	7.2	14.3	10.2	30.3
Take or pay obligations [(2)]	2,892.9	217.5	465.9	425.7	1,783.8
Other long-term liabilities [(3)]	2,204.1	154.6	301.7	298.7	1,449.1
Total contractual cash obligations	$11,769.2	$1,112.0	$1,459.3	$1,645.6	$7,552.3

(1) We have purchase agreements with approved vendors for most types of operating expenses. However, our specific open purchase orders (which have not been recognized as a liability) under these purchase agreements, combined with any other open purchase orders, are not material. The commitments in the table above relate to capital purchases. The purchase obligations for capital expenditures relate to new mines and expansion and extension projects in Australia and the U.S.

(2) Represents various long- and short-term take or pay arrangements associated with rail and port commitments for the delivery of coal including amounts relating to export facilities.

(3) Represents long-term liabilities relating to our postretirement benefit plans, work-related injuries and illnesses, defined benefit pension plans and mine reclamation and end of mine closure costs.

We do not expect any of the $111.0 million of gross unrecognized tax benefits reported in our consolidated financial statements to require cash settlement within the next year. Beyond that, we are unable to make reasonably reliable estimates of periodic cash settlements with respect to such unrecognized tax benefits.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, we are a party to certain off-balance sheet arrangements. These arrangements include guarantees, indemnifications, financial instruments with off-balance sheet risk, such as bank letters of credit, bank guarantees and surety bonds and our accounts receivable securitization program. Assets and liabilities related to these arrangements are not reflected in our consolidated balance sheets, and we do not expect any material adverse effects on our financial condition, results of operations or cash flows to result from these off-balance sheet arrangements.

Accounts Receivable Securitization

We have an accounts receivable securitization program (securitization program) through our wholly-owned, bankruptcy-remote subsidiary (Seller). Under the securitization program, beginning in 2010, we contribute, on a revolving basis, trade receivables of most of our U.S. subsidiaries to the Seller, which then sells the receivables in their entirety to a consortium of unaffiliated asset-backed commercial paper conduits (the Conduits). After the sale, we, as servicer of the assets, collect the receivables on behalf of the Conduits for a nominal servicing fee. We utilize proceeds from the sale of our accounts receivable as an alternative to short-term borrowings under our Credit Facility, effectively managing our overall borrowing costs and providing an additional source for working capital. The securitization program was renewed in May 2009 and amended in December 2009 in order to qualify for sale accounting under a newly adopted accounting standard related to financial asset transfers. Prior to amending the securitization program, we sold senior undivided interests in certain of our accounts receivable and retained subordinated interests in those receivables. The current securitization program extends to May 2012, while the letter of credit commitment that supports the commercial paper facility underlying the securitization program must be renewed annually.

The Seller is a separate legal entity whose assets are available first and foremost to satisfy the claims of its creditors. Of the receivables sold to the Conduits, a portion of the amount due to the Seller is deferred until the ultimate collection of the underlying receivables. During the year ended December 31, 2010, we received total consideration of $4,576.3 million related to accounts receivable sold under the securitization program, including $2,460.1 million of cash up front from the sale of the receivables, an additional $1,953.6 million of cash upon the collection of the underlying receivables, and $162.6 million that had not been collected at December 31, 2010 and was recorded at fair value, which approximates carrying value. The reduction in accounts receivable as a result of securitization activity with the Conduits was $150.0 million at December 31, 2010 and $254.6 million at December 31, 2009.

The securitization activity has been reflected in the consolidated statements of cash flows as operating activity because both the cash received from the Conduits upon sale of receivables as well as the cash received from the Conduits upon the ultimate collection of receivables are not subject to significantly different risks given the short-term nature of our trade receivables. We recorded expense associated with securitization transactions of $2.4 million, $4.0 million and $10.8 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Other Off-Balance Sheet Arrangements

In 2010, we added standalone credit facilities with multiple banks to allow us to obtain letters of credit and bank guarantees in support of certain operations outside the U.S. As of December 31, 2010, the total capacity under these new facilities, both committed and uncommitted, was approximately

$324 million, of which approximately $141 million was utilized (based on the U.S. dollar exchange rate at December 31, 2010). Also during 2010, we entered into a bilateral cash collateralized agreement in support of certain letters of credit whereby we posted cash collateral in lieu of utilizing our Credit Facility. Such cash collateral is classified within cash and cash equivalents given our ability to substitute letters of credit at any time for this cash collateral.

See Note 19 to our consolidated financial statements for a discussion of our guarantees.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition, results of operations, liquidity and capital resources is based upon our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). We are also required under U.S. GAAP to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Postretirement Benefit and Pension Liabilities

We have long-term liabilities for our employees' postretirement benefit costs and defined benefit pension plans. Detailed information related to these liabilities is included in Notes 11 and 12 to our consolidated financial statements. Liabilities for postretirement benefit costs are not funded. Our pension obligations are funded in accordance with the provisions of applicable law. Expense for the year ended December 31, 2010 for pension and postretirement liabilities totaled $115.6 million, while funding payments were $187.9 million.

Each of these liabilities is actuarially determined and we use various actuarial assumptions, including the discount rate and future cost trends, to estimate the costs and obligations for these items. Our discount rate is determined by utilizing a hypothetical bond portfolio model which approximates the future cash flows necessary to service our liabilities.

We make assumptions related to future trends for medical care costs in the estimates of retiree health care and work-related injuries and illnesses obligations. Our medical trend assumption is developed by annually examining the historical trend of our cost per claim data. In addition, we make assumptions related to future compensation increases and rates of return on plan assets in the estimates of pension obligations.

If our assumptions do not materialize as expected, actual cash expenditures and costs that we incur could differ materially from our current estimates. Moreover, regulatory changes could increase our obligation to satisfy these or additional obligations. For our postretirement health care liability, assumed discount rates and health care cost trend rates have a significant effect on the expense and liability amounts reported for health care plans. Below we have provided two separate sensitivity analyses to demonstrate the significance of these assumptions in relation to reported amounts.

(Dollars in millions)	*One Percentage-Point Increase*	*One Percentage-Point Decrease*
Healthcare cost trend rate:		
Effect on total service and interest cost components [1]	$ 7.8	$ (6.6)
Effect on total postretirement benefit obligation [1]	$112.5	$(94.4)

(Dollars in millions)	*One-Half Percentage-Point Increase*	*One-Half Percentage-Point Decrease*
Discount rate:		
Effect on total service and interest cost components [1]	$ 0.6	$ (0.6)
Effect on total postretirement benefit obligation [1]	$ (51.1)	$ 58.8

[1] In addition to the effect on total service and interest cost components of expense, changes in trend and discount rates would also increase or decrease the actuarial gain or loss amortization expense component. The gain or loss amortization would approximate the increase or decrease in the obligation divided by 11.93 years at December 31, 2010.

Asset Retirement Obligations

Our asset retirement obligations primarily consist of spending estimates for surface land reclamation and support facilities at both surface and underground mines in accordance with applicable reclamation laws in the U.S. and Australia as defined by each mining permit. Asset retirement obligations are determined for each mine using various estimates and assumptions including, among other items, estimates of disturbed acreage as determined from engineering data, estimates of future costs to reclaim the disturbed acreage and the timing of these cash flows, discounted using a credit-adjusted, risk-free rate. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the reclamation activities), the obligation and asset are revised to reflect the new estimate after applying the appropriate credit-adjusted, risk-free rate. If our assumptions do not materialize as expected, actual cash expenditures and costs that we incur could be materially different than currently estimated. Moreover, regulatory changes could increase our obligation to perform reclamation and mine closing activities. Asset retirement obligation expense for the year ended December 31, 2010 was $48.5 million, and payments totaled $14.1 million. See Note 10 to our consolidated financial statements for additional details regarding our asset retirement obligations.

Income Taxes

We account for income taxes in accordance with accounting guidance which requires deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. The guidance also requires that deferred tax assets be reduced by a valuation allowance if it is "more likely than not" that some portion or all of the deferred tax asset will not be realized. In our annual evaluation of the need for a valuation allowance, we take into account various factors, including the expected level of future taxable income and available tax planning strategies. If actual results differ from the assumptions made in our annual evaluation of our valuation allowance, we may record a change in valuation allowance through income tax expense in the period such determination is made.

Our liability for unrecognized tax benefits contains uncertainties because management is required to make assumptions and to apply judgment to estimate the exposures associated with our various filing positions. We recognize the tax benefit from an uncertain tax position only if it is "more likely than not" that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position must be measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. We believe that the judgments and estimates are reasonable; however, actual results could differ.

Level 3 Fair Value Measurements

In accordance with the "Fair Value Measurements and Disclosures" topic of the Financial Accounting Standards Board Accounting Standards Codification, we evaluate the quality and reliability of the assumptions and data used to measure fair value in the three level hierarchy, Levels 1, 2 and 3. Level 3 fair value measurements are those where inputs are unobservable, or observable but cannot be market-corroborated, requiring us to make assumptions about pricing by market participants. Commodity swaps and options and physical commodity purchase/sale contracts transacted in less liquid markets or contracts, such as long-term arrangements, with limited price availability were classified in Level 3. Indicators of less liquid markets are those with periods of low trade activity or when broker quotes reflect wide pricing spreads. Generally, these instruments or contracts are valued using internally generated models that include forward pricing curve quotes from one to three reputable brokers. Our valuation techniques also include basis adjustments for heat rate, sulfur and ash content, port and freight costs, and credit and nonperformance risk. We validate our valuation inputs with third-party information and settlement prices from other sources where available. We also consider credit and nonperformance risk in the fair value measurement by analyzing the counterparty's exposure balance, credit rating and average default rate, net of any counterparty credit enhancements (e.g., collateral), as well as our own credit rating for financial derivative liabilities.

We have consistently applied these valuation techniques in all periods presented, and believe we have obtained the most accurate information reasonably available for the types of derivative contracts held. Valuation changes from period to period for each level will increase or decrease depending on: (i) the relative change in fair value for positions held, (ii) new positions added, (iii) realized amounts for completed trades, and (iv) transfers between levels. Our coal trading strategies utilize various swaps and derivative physical contracts. Periodic changes in fair value for purchase and sale positions, which are executed to lock in coal trading spreads, occur in each level and therefore the overall change in value of our coal-trading platform requires consideration of valuation changes across all levels.

At December 31, 2010 and 2009, 3% and 5%, respectively, of our net financial assets were categorized as Level 3. See Notes 4 and 5 to our consolidated financial statements for additional information regarding fair value measurements.

NEWLY ADOPTED ACCOUNTING STANDARDS AND ACCOUNTING STANDARDS NOT YET IMPLEMENTED

See Note 1 to our consolidated financial statements for a discussion of newly adopted accounting pronouncements and accounting pronouncements not yet implemented.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The potential for changes in the market value of our coal and freight trading, crude oil, diesel fuel, natural gas, explosives, interest rate and currency portfolios is referred to as "market risk." Market risk related to our coal trading and freight portfolio is evaluated using a value at risk (VaR) analysis. VaR analysis is not used to evaluate our non-trading interest rate, diesel fuel, explosives or currency hedging portfolios. A description of each market risk category is set forth below. We attempt to manage market risks through diversification, controlling position sizes and executing hedging strategies. Due to lack of quoted market prices and the long-term, illiquid nature of the positions, we have not quantified market risk related to our non-trading, long-term coal supply agreement portfolio.

Coal Trading Activities and Related Commodity Price Risk

We engage in direct and brokered trading of coal, ocean freight and fuel-related commodities in over-the-counter markets (coal trading). These activities give rise to commodity price risk, which represents the potential loss that can be caused by an adverse change in the market value of a particular commitment. We actively measure, monitor and adjust traded position levels to remain within risk limits prescribed by management. For example, we have policies in place that limit the amount of total exposure, as measured by VaR, that we may assume at any point in time.

We account for coal trading using the fair value method, which requires us to reflect financial instruments with third parties at market value in our consolidated financial statements. Our trading portfolio included forwards, swaps and options as of December 31, 2010 and 2009.

We perform a VaR analysis on our coal trading portfolio, which includes bilaterally-settled and exchange-settled over-the-counter and brokerage coal trading. The use of VaR allows us to quantify in dollars, on a daily basis, a measure of price risk inherent in our trading portfolio. VaR represents the potential loss in value of our mark-to-market portfolio due to adverse market movements over a defined time horizon (liquidation period) within a specified confidence level. Our VaR model is based on a variance/co-variance approach. This captures our exposure related to forwards, swaps and options positions. Our VaR model assumes a 5 to 15-day holding period and a 95% one-tailed confidence interval. This means that there is a one in 20 statistical chance that the portfolio would lose more than the VaR estimates during the liquidation period. Our volatility calculation incorporates an exponentially weighted moving average algorithm based on the previous 60 market days, which makes our volatility more representative of recent market conditions, while still reflecting an awareness of historical price movements. VaR does not capture the loss expected in the 5% of the time the portfolio value exceeds measured VaR.

The use of VaR allows us to aggregate pricing risks across products in the portfolio, compare risk on a consistent basis and identify the drivers of risk. We use historical data to estimate price volatility as an input to VaR. Given our reliance on historical data, we believe VaR is reasonably effective in characterizing risk exposures in markets in which there are not sudden fundamental changes or shifts in market conditions. Due to the subjectivity in the choice of the liquidation period, reliance on historical data to calibrate the models and the inherent limitations in the VaR methodology, we perform regular stress and scenario analyses to estimate the impacts of market changes on the value of the portfolio. Additionally, back-testing is regularly performed to monitor the effectiveness of our VaR measure. The results of these analyses are used to supplement the VaR methodology and identify additional market-related risks. An inherent limitation of VaR is that past changes in market risk factors may not produce accurate predictions of future market risk.

In 2010, we modified our VaR methodology to be in line with our global trading strategy. The previous methodology used an additive approach whereby the domestic portfolio and the international portfolio were calculated separately and then added together to arrive at our total global VaR. The new methodology explicitly considers correlation measures between the domestic and the international portfolios to consolidate our total global VaR. The high, low and average VaR for the year ended December 31, 2010 is set forth in the table below under the previous and new methodology:

(Dollars in millions)	*Low*	*High*	*Average*
Previous Methodology	$4.5	$37.6	$10.1
New Methodology	$3.4	$18.8	$ 7.0

As of December 31, 2010, the timing of the estimated future realization of the value of our trading portfolio was as follows:

Year of Expiration	*Percentage of Portfolio Total*
2011	70%
2012	21%
2013	3%
2014	4%
2015	2%
	100%

We also monitor other types of risk associated with our coal trading activities, including credit, market liquidity and counterparty nonperformance.

Nonperformance and Credit Risk

Coal Trading

The fair value of our coal trading assets and liabilities reflects adjustments for nonperformance and credit risk. Our exposure is substantially with electric utilities, energy producers and energy marketers. Our policy is to independently evaluate each customer's creditworthiness prior to entering into transactions and to regularly monitor the credit extended. If we engage in a transaction with a counterparty that does not meet our credit standards, we seek to protect our position by requiring the counterparty to provide an appropriate credit enhancement. Also, when appropriate (as determined by our credit management function), we have taken steps to reduce our 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 our benefit to serve as collateral in the event of a failure to pay or perform. To reduce our credit exposure related to trading and brokerage activities, we seek to enter into netting agreements with counterparties that permit us to offset receivables and payables with such counterparties and, to the extent required, will post or receive margin amounts associated with exchange-cleared positions.

Non-Coal Trading

The fair value of our non-coal trading derivative assets and liabilities also reflects adjustments for nonperformance and credit risk. We conduct our hedging activities related to foreign currency, interest rate, fuel and explosives exposures with a variety of highly-rated commercial banks and closely monitor counterparty creditworthiness. To reduce our credit exposure for these hedging activities, we seek to enter into netting agreements with counterparties that permit us to offset receivables and payables with such counterparties.

Foreign Currency Risk

We utilize currency forwards to hedge currency risk associated with anticipated Australian dollar expenditures. The accounting for these derivatives is discussed in Note 4 to our consolidated financial statements. Assuming we had no hedges in place, our exposure in operating costs and expenses due to a $0.10 change in the Australian dollar/U.S. dollar exchange rate is approximately $208 million for 2011. However, taking into consideration hedges currently in place, our net exposure to the same rate change is approximately $60 million for 2011. The table at the end of this section shows the notional amount of our hedge contracts as of December 31, 2010.

Interest Rate Risk

Our objectives in managing exposure to interest rate changes are to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. From time to time, we manage our debt to achieve a certain ratio of fixed-rate debt and variable-rate debt as a percent of net debt through the use of various hedging instruments, which are discussed in detail in Note 4 to our consolidated financial statements. As of December 31, 2010, we had $2.3 billion of fixed-rate borrowings and $0.5 billion of variable-rate borrowings outstanding and had no interest rate swaps in place. A one percentage point increase in interest rates would result in an annualized increase to interest expense of approximately $5 million on our variable-rate borrowings. With respect to our fixed-rate borrowings, a one percentage point increase in interest rates would result in a decrease of approximately $163 million in the estimated fair value of these borrowings.

OTHER NON-TRADING ACTIVITIES – COMMODITY PRICE RISK

Long-term Coal Contracts

We manage our commodity price risk for our non-trading, long-term coal contract portfolio through the use of long-term coal supply agreements (those with terms longer than one year), rather than through the use of derivative instruments. Sales under such agreements comprised approximately 91%, 93% and 90% of our worldwide sales (by volume) for the years ended December 31, 2010, 2009 and 2008, respectively. Substantially all of our coal in the U.S. is contracted in 2011 at planned production levels. We had 13 to 15 million tons remaining to be priced for 2011 in Australia at January 25, 2011.

Diesel Fuel and Explosives Hedges

We manage commodity price risk of the diesel fuel and explosives used in our mining activities through the use of cost pass-through contracts and derivatives, primarily swaps.

Notional amounts outstanding under fuel-related, derivative swap contracts are noted in the table at the end of this section. We expect to consume 145 to 150 million gallons of diesel fuel in 2011. Assuming we had no hedges in place, a $10 per barrel change in the price of crude oil (the primary component of a refined diesel fuel product) would increase or decrease our annual diesel fuel costs by approximately $36 million based on our expected usage. However, taking into consideration hedges currently in place, our net exposure to changes in the price of crude oil is approximately $14 million.

Notional amounts outstanding under explosives-related swap contracts are noted in the table at the end of this section. We expect to consume 355,000 to 365,000 tons of explosives during 2011 in the U.S. Explosives costs in Australia are generally included in the fees paid to our contract miners. Assuming we had no hedges in place, a price change in natural gas (often a key component in the production of explosives) of one dollar per million MMBtu would result in an increase or decrease in our annual explosives costs of approximately $6 million based on our expected usage. However, taking into consideration hedges currently in place, our net exposure to changes in the price of natural gas is approximately $2 million.

Notional Amounts and Fair Value

The following summarizes our interest rate, foreign currency and commodity positions at December 31, 2010:

	Notional Amount by Year of Maturity						
	Total	*2011*	*2012*	*2013*	*2014*	*2015*	*2016 and thereafter*
Foreign Currency							
A$:US$ hedge contracts (A$ millions)	**$4,187.5**	**$1,484.2**	**$1,355.2**	**$926.6**	**$421.5**	**$ –**	**$ –**
Commodity Contracts							
Diesel fuel hedge contracts (million gallons)	**191.4**	**89.5**	**76.2**	**25.7**	**–**	**–**	**–**
U.S. explosives hedge contracts (million MMbtu)	**8.4**	**3.9**	**3.0**	**1.5**	**–**	**–**	**–**

	Account Classification by			*Fair Value Asset (Liability) (Dollars in millions)*
	Cash flow hedge	*Fair value hedge*	*Economic hedge*	
Foreign Currency				
A$:US$ hedge contracts (A$ millions)	**$4,187.5**	**$ –**	**$ –**	**$640.1**
Commodity Contracts				
Diesel fuel hedge contracts (million gallons)	**191.4**	**–**	**–**	**$ 40.3**
U.S. explosives hedge contracts (million MMbtu)	**8.4**	**–**	**–**	**$ (0.1)**

Management Report

OVERVIEW

Management of Peabody Energy Corporation is responsible for the preparation and presentation of the financial statements included in this annual report. Management is also responsible for the reasonableness of estimates and judgments inherent in the preparation of the financial statements. These statements have been prepared in conformity with U.S. generally accepted accounting principles and include amounts based on management's best estimates and judgments.

The financial statements have been audited by Ernst & Young LLP, an independent registered public accounting firm. Their audit was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States). Ernst & Young also audited the effectiveness of our internal control over financial reporting.

Management maintains a strong awareness of the importance of full and open presentation of our financial position and results of operations and utilizes a system of disclosure controls and procedures to ensure such presentation. To facilitate this, the Company maintains a Disclosure Committee, which includes senior executives who possess in-depth knowledge of the Company's business.

The Audit Committee of the Board of Directors, composed of independent directors, meets periodically with the independent registered public accountants, our internal auditors and management to review accounting, auditing, internal accounting controls and financial reporting matters. The independent certified public accountants and our internal auditors have access to and separately meet on a periodic basis with the Audit Committee.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our disclosure controls and procedures are designed to, among other things, provide reasonable assurance that material information, both financial and non-financial, and other information required under the securities laws to be disclosed is accumulated and communicated to senior management, including the principal executive officer and principal financial officer, on a timely basis. As of December 31, 2010, the end of the period covered by the Annual Report on Form 10-K, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of December 31, 2010, and concluded that such controls and procedures are effective to provide reasonable assurance that the desired control objectives were achieved.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

We periodically review our internal control over financial reporting as part of our efforts to ensure compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. In addition, we routinely review our system of internal control over financial reporting to identify potential changes to our processes and systems that may improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new systems, consolidating the activities of acquired business units, migrating certain processes to our shared services organizations, formalizing and refining policies and procedures, improving segregation of duties and adding monitoring controls. In addition, when we acquire new businesses, we incorporate our controls and procedures into the acquired business as part of our integration activities. There have been no changes in our internal control over financial reporting that occurred during the three months ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for maintaining and establishing adequate internal control over financial reporting. Our internal control framework and processes were designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of inherent limitations, any system of internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of our internal control over financial reporting using the criteria set by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework*. Based on this assessment, management concluded that the Company's internal control over financial reporting was effective to provide reasonable assurance that the desired control objectives were achieved as of December 31, 2010.

Our Independent Registered Public Accounting Firm, Ernst & Young LLP, has audited our internal control over financial reporting, as stated in their unqualified opinion report included herein.

Greg Boyce

Gregory H. Boyce
Chairman and Chief Executive Officer

Michael C. Crews

Michael C. Crews
Executive Vice President and Chief Financial Officer

February 28, 2011

Reports of Independent Registered Public Accounting Firm

**THE BOARD OF DIRECTORS AND STOCKHOLDERS
PEABODY ENERGY CORPORATION**

We have audited Peabody Energy Corporation's (the Company's) internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Peabody Energy Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Peabody Energy Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Peabody Energy Corporation as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010 and our report dated February 28, 2011, expressed an unqualified opinion thereon.

Ernst & Young LLP

St. Louis, Missouri
February 28, 2011

**THE BOARD OF DIRECTORS AND STOCKHOLDERS
PEABODY ENERGY CORPORATION**

We have audited the accompanying consolidated balance sheets of Peabody Energy Corporation (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Peabody Energy Corporation at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Peabody Energy Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2011, expressed an unqualified opinion thereon.

Ernst & Young LLP

St. Louis, Missouri
February 28, 2011

Consolidated Statements of Operations

Years Ended December 31 (Dollars in millions, except per share data)	2010	2009	2008
Revenues			
Sales	**$6,331.3**	$5,468.1	$6,004.0
Other revenues	**528.7**	544.3	557.0
Total revenues	**6,860.0**	6,012.4	6,561.0
Costs and Expenses			
Operating costs and expenses	**4,841.0**	4,472.6	4,589.7
Depreciation, depletion and amortization	**440.9**	405.2	402.4
Asset retirement obligation expense	**48.5**	40.1	48.2
Selling and administrative expenses	**232.2**	203.8	197.3
Other operating (income) loss:			
Net gain on disposal or exchange of assets	**(30.0)**	(23.2)	(72.9)
Loss from equity affiliates	**1.7**	69.1	–
Operating Profit	**1,325.7**	844.8	1,396.3
Interest expense	**222.1**	201.2	227.0
Interest income	**(9.6)**	(8.1)	(10.0)
Income From Continuing Operations Before Income Taxes	**1,113.2**	651.7	1,179.3
Income tax provision	**308.1**	193.8	191.4
Income From Continuing Operations, Net of Income Taxes	**805.1**	457.9	987.9
Income (loss) from discontinued operations, net of income taxes	**(2.9)**	5.1	(28.8)
Net Income	**802.2**	463.0	959.1
Less: Net income attributable to noncontrolling interests	**28.2**	14.8	6.2
Net Income Attributable to Common Stockholders	**$ 774.0**	$ 448.2	$ 952.9
Income From Continuing Operations			
Basic earnings per share	**$ 2.89**	$ 1.66	$ 3.63
Diluted earnings per share	**$ 2.86**	$ 1.64	$ 3.60
Net Income Attributable to Common Stockholders			
Basic earnings per share	**$ 2.88**	$ 1.68	$ 3.52
Diluted earnings per share	**$ 2.85**	$ 1.66	$ 3.50
Dividends declared per share	**$ 0.295**	$ 0.250	$ 0.240

See accompanying notes to consolidated financial statements

Consolidated Balance Sheets

December 31 (Amounts in millions, except per share data)	2010	2009
Assets		
Current assets		
Cash and cash equivalents	**$ 1,295.2**	$ 988.8
Accounts receivable, net of allowance for doubtful accounts of $30.3 at December 31, 2010 and $18.3 at December 31, 2009	**558.2**	303.0
Inventories	**332.9**	325.1
Assets from coal trading activities, net	**192.5**	276.8
Deferred income taxes	**120.4**	40.0
Other current assets	**459.0**	255.3
Total current assets	**2,958.2**	2,189.0
Property, plant, equipment and mine development		
Land and coal interests	**7,657.0**	7,557.3
Buildings and improvements	**1,079.8**	908.0
Machinery and equipment	**1,699.3**	1,391.2
Less: accumulated depreciation, depletion and amortization	**(3,010.0)**	(2,595.0)
Property, plant, equipment and mine development, net	**7,426.1**	7,261.5
Investments and other assets	**978.8**	504.8
Total assets	**$11,363.1**	$ 9,955.3
Liabilities and Stockholders' Equity		
Current liabilities		
Current maturities of long-term debt	**$ 43.2**	$ 14.1
Liabilities from coal trading activities, net	**181.7**	110.6
Accounts payable and accrued expenses	**1,288.8**	1,187.7
Total current liabilities	**1,513.7**	1,312.4
Long-term debt, less current maturities	**2,706.8**	2,738.2
Deferred income taxes	**539.8**	299.1
Asset retirement obligations	**501.3**	452.1
Accrued postretirement benefit costs	**963.9**	914.1
Other noncurrent liabilities	**448.3**	483.5
Total liabilities	**6,673.8**	6,199.4
Stockholders' equity		
Preferred Stock – $0.01 per share par value; 10.0 shares authorized, no shares issued or outstanding as of December 31, 2010 or December 31, 2009	**–**	–
Series A Junior Participating Preferred Stock – 1.5 shares authorized, no shares issued or outstanding as of December 31, 2010 or December 31, 2009	**–**	–
Perpetual Preferred Stock – 0.8 shares authorized, no shares issued or outstanding as of December 31, 2010 or December 31, 2009	**–**	–
Series Common Stock – $0.01 per share par value; 40.0 shares authorized, no shares issued or outstanding as of December 31, 2010 or December 31, 2009	**–**	–
Common Stock – $0.01 per share par value; 800.0 shares authorized, 279.1 shares issued and 270.2 shares outstanding as of December 31, 2010 and 276.8 shares issued and 268.2 shares outstanding as of December 31, 2009	**2.8**	2.8
Additional paid-in capital	**2,182.0**	2,067.7
Retained earnings	**2,878.4**	2,183.8
Accumulated other comprehensive loss	**(67.9)**	(183.5)
Treasury shares, at cost: 8.9 shares as of December 31, 2010 and 8.6 shares as of December 31, 2009	**(334.6)**	(321.1)
Peabody Energy Corporation's stockholders' equity	**4,660.7**	3,749.7
Noncontrolling interests	**28.6**	6.2
Total stockholders' equity	**4,689.3**	3,755.9
Total liabilities and stockholders' equity	**$11,363.1**	$ 9,955.3

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

Years Ended December 31 *(Dollars in millions)*	*2010*	*2009*	*2008*
Cash Flows From Operating Activities			
Net income	**$ 802.2**	$ 463.0	$ 959.1
(Income) loss from discontinued operations, net of income taxes	**2.9**	(5.1)	28.8
Income from continuing operations, net of income taxes	**805.1**	457.9	987.9
Adjustments to reconcile income from continuing operations, net of income taxes to net cash provided by operating activities:			
Depreciation, depletion and amortization	**440.9**	405.2	402.4
Deferred income taxes	**71.7**	131.1	(33.3)
Share-based compensation	**41.1**	38.8	34.9
Net gain on disposal or exchange of assets	**(30.0)**	(23.2)	(72.9)
Loss from equity affiliates	**1.7**	69.1	–
Revenue recovery on coal supply agreement	**–**	–	(56.9)
Dividends received from equity affiliates	**–**	–	19.9
Changes in current assets and liabilities:			
Accounts receivable	**(149.2)**	101.8	(114.7)
Change in receivable from accounts receivable securitization program	**(104.6)**	(20.4)	–
Inventories	**(7.7)**	(48.9)	(13.2)
Net assets from coal trading activities	**(109.6)**	70.9	(43.0)
Other current assets	**(28.5)**	(3.2)	2.3
Accounts payable and accrued expenses	**223.3**	(121.6)	245.7
Asset retirement obligations	**32.5**	27.7	32.9
Workers' compensation obligations	**(8.9)**	3.0	10.3
Accrued postretirement benefit costs	**23.1**	7.2	13.6
Contributions to pension plans	**(112.6)**	(38.7)	(21.3)
Other, net	**15.4**	(0.9)	26.2
Net cash provided by continuing operations	**1,103.7**	1,055.8	1,420.8
Net cash used in discontinued operations	**(16.6)**	(5.6)	(123.0)
Net cash provided by operating activities	**1,087.1**	1,050.2	1,297.8
Cash Flows From Investing Activities			
Additions to property, plant, equipment and mine development	**(557.0)**	(260.6)	(264.1)
Investment in Prairie State Energy Campus	**(76.0)**	(56.8)	(40.9)
Federal coal lease expenditures	**–**	(123.6)	(178.5)
Proceeds from disposal of assets, net of notes receivable	**19.2**	53.9	72.8
Investments in equity affiliates and joint ventures	**(18.8)**	(15.0)	(2.6)
Investments in debt and equity securities	**(74.6)**	–	–
Proceeds from sale of debt securities	**12.4**	–	–
Other, net	**(8.8)**	(6.1)	(6.0)
Net cash used in continuing operations	**(703.6)**	(408.2)	(419.3)
Net cash provided by discontinued operations	**–**	1.7	23.9
Net cash used in investing activities	**(703.6)**	(406.5)	(395.4)
Cash Flows From Financing Activities			
Change in revolving line of credit	**–**	–	(97.7)
Proceeds from long-term debt	**1,150.0**	–	–
Payments of long-term debt	**(1,167.3)**	(37.1)	(32.7)
Common stock repurchase	**–**	–	(199.8)
Dividends paid	**(79.4)**	(66.8)	(64.9)
Repurchase of employee common stock relinquished for tax withholding	**(13.5)**	(2.3)	(11.0)
Payment of debt issuance costs	**(32.2)**	–	–
Excess tax benefits related to share-based compensation	**51.0**	–	–
Proceeds from stock options exercised	**16.4**	3.6	14.1
Acquisition of noncontrolling interests (Millennium Mine)	**–**	–	(110.1)
Other, net	**(2.1)**	(2.0)	4.1
Net cash provided by (used in) continuing operations	**(77.1)**	(104.6)	(498.0)
Net change in cash and cash equivalents	**306.4**	539.1	404.4
Cash and cash equivalents at beginning of year	**988.8**	449.7	45.3
Cash and cash equivalents at end of year	**$ 1,295.2**	$ 988.8	$ 449.7

See accompanying notes to consolidated financial statements

Consolidated Statements of Changes in Stockholders' Equity

	Peabody Energy Corporation's Stockholders' Equity						
(Dollars in millions)	*Common Stock*	*Additional Paid-in Capital*	*Treasury Stock*	*Retained Earnings*	*Accumulated Other Comprehensive Loss*	*Noncontrolling Interests*	*Total Stockholders' Equity*
December 31, 2007	$2.7	$ 1,966.1	$ (108.0)	$ 940.9	$ (67.1)	$ 0.7	$ 2,735.3
Comprehensive income:							
Net income	–	–	–	952.9	–	6.2	959.1
Decrease in fair value of cash flow hedges (net of $178.2 tax benefit)	–	–	–	–	(217.9)	–	(217.9)
Postretirement plans and workers' compensation obligations (net of $59.3 tax benefit)	–	–	–	–	(103.5)	–	(103.5)
Comprehensive income				952.9	(321.4)	6.2	637.7
Dividends paid	–	–	–	(64.9)	–	–	(64.9)
Patriot Coal Corporation spin-off adjustment	–	–	–	(26.5)	–	–	(26.5)
Share-based compensation	–	34.9	–	–	–	–	34.9
Stock options exercised	0.1	14.0	–	–	–	–	14.1
Employee stock purchases	–	5.2	–	–	–	–	5.2
Repurchase of employee common stock relinquished for tax withholding	–	–	(11.0)	–	–	–	(11.0)
Common stock repurchased	–	–	(199.8)	–	–	–	(199.8)
Distributions to noncontrolling interests	–	–	–	–	–	(1.1)	(1.1)
Eliminations of noncontrolling interests due to acquisitions	–	–	–	–	–	(4.4)	(4.4)
December 31, 2008	$2.8	$ 2,020.2	$ (318.8)	$ 1,802.4	$ (388.5)	$ 1.4	$ 3,119.5
Comprehensive income:							
Net income	–	–	–	448.2	–	14.8	463.0
Increase in fair value of cash flow hedges (net of $220.9 tax provision)	–	–	–	–	319.8	–	319.8
Postretirement plans and workers' compensation obligations (net of $71.8 tax benefit)	–	–	–	–	(114.8)	–	(114.8)
Comprehensive income				448.2	205.0	14.8	668.0
Dividends paid	–	–	–	(66.8)	–	–	(66.8)
Share-based compensation	–	38.8	–	–	–	–	38.8
Stock options exercised	–	3.6	–	–	–	–	3.6
Employee stock purchases	–	5.1	–	–	–	–	5.1
Repurchase of employee common stock relinquished for tax withholding	–	–	(2.3)	–	–	–	(2.3)
Distributions to noncontrolling interests	–	–	–	–	–	(10.0)	(10.0)
December 31, 2009	**$2.8**	**$2,067.7**	**$(321.1)**	**$2,183.8**	**$(183.5)**	**$ 6.2**	**$3,755.9**
Comprehensive income:							
Net income	**–**	**–**	**–**	**774.0**	**–**	**28.2**	**802.2**
Increase in fair value of cash flow hedges (net of $129.5 tax provision)	**–**	**–**	**–**	**–**	**127.5**	**–**	**127.5**
Postretirement plans and workers' compensation obligations (net of $2.1 tax benefit)	**–**	**–**	**–**	**–**	**(11.9)**	**–**	**(11.9)**
Comprehensive income				**774.0**	**115.6**	**28.2**	**917.8**
Dividends paid	**–**	**–**	**–**	**(79.4)**	**–**	**–**	**(79.4)**
Share-based compensation	**–**	**41.1**	**–**	**–**	**–**	**–**	**41.1**
Excess tax benefits related to share based compensation	**–**	**51.0**	**–**	**–**	**–**	**–**	**51.0**
Stock options exercised	**–**	**16.4**	**–**	**–**	**–**	**–**	**16.4**
Employee stock purchases	**–**	**5.8**	**–**	**–**	**–**	**–**	**5.8**
Repurchase of employee common stock relinquished for tax withholding	**–**	**–**	**(13.5)**	**–**	**–**	**–**	**(13.5)**
Distributions to noncontrolling interests	**–**	**–**	**–**	**–**	**–**	**(5.8)**	**(5.8)**
December 31, 2010	**$2.8**	**$2,182.0**	**$(334.6)**	**$2,878.4**	**$ (67.9)**	**$28.6**	**$4,689.3**

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Years Ended December 31

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Peabody Energy Corporation (the Company) and its affiliates. All intercompany transactions, profits and balances have been eliminated in consolidation.

Description of Business

The Company is engaged in the mining of thermal coal for sale primarily to electric utilities and metallurgical coal for sale to industrial customers. The Company's mining operations are located in the United States (U.S.) and Australia, and include an equity interest in a mining operation in Venezuela. In addition to the Company's mining operations, the Company markets, brokers coal sales of other coal producers both as principal and agent, and trades coal, freight and freight-related contracts. The Company's other energy related commercial activities include participating in the development of mine-mouth coal-fueled generating plants, the management of its vast coal reserve and real estate holdings, and the development of Btu Conversion and clean coal technologies. The Company's Btu Conversion projects are designed to expand the uses of coal through various technologies such as coal-to-liquids and coal gasification.

Newly Adopted Accounting Standards and Accounting Standards Not Yet Implemented

In December 2010, the Financial Accounting Standards Board (FASB) issued an update to guidance on accounting for Business Combinations that clarified a public entity's disclosure requirements for pro forma presentation of revenue and earnings related to a business combination. The new guidance requires that if comparative statements are presented, the public entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the year had occurred as of the beginning of the comparable prior annual reporting period only. The guidance also requires the supplemental pro forma disclosures to include a description of the nature and amount of material nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010 (January 1, 2011 for the Company), though early adoption is permitted. The guidance, should it become applicable, will impact the Company's disclosures but it will not impact the Company's results of operations, financial condition or cash flows.

In January 2010, the FASB issued accounting guidance that requires new fair value disclosures, including significant transfers in and out of Level 1 and Level 2 fair-value measurements and a description of the reasons for the transfers. In addition, the guidance requires new disclosures regarding activity in Level 3 fair value measurements, including a gross basis reconciliation. The new disclosure requirements became effective for interim and annual periods beginning January 1, 2010, except for the disclosure of activity within Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010 (January 1, 2011 for the Company). While the adoption of the guidance had an impact on the Company's disclosures, it did not affect the Company's results of operations, financial condition or cash flows. Further, the adoption of the gross presentation of Level 3 activity will also impact the Company's disclosures, but will not affect its results of operations, financial condition or cash flows.

In June 2009, the FASB issued accounting guidance on consolidations which clarifies that the determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The guidance also requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity, and additional disclosures about a company's involvement in variable interest entities and any associated changes in risk exposure. The guidance became effective January 1, 2010, at which time there was no impact on the Company's results of operations, financial condition or cash flows. The Company will continue monitoring and assessing its business ventures in accordance with the guidance.

In June 2009, the FASB issued accounting guidance that seeks to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The guidance, which became effective January 1, 2010, had an impact on the Company's disclosures for its accounts receivable securitization program, but did not affect the Company's results of operations, financial condition or cash flows.

Sales

The Company's revenue from coal sales is realized and earned when risk of loss passes to the customer. Under the typical terms of the Company's coal supply agreements, title and risk of loss transfer to the customer at the mine or port, where coal is loaded to the transportation source(s) that serves each of the Company's mines. The Company incurs certain "add-on" taxes and fees on coal sales. Reported coal sales include taxes and fees charged by various federal and state governmental bodies and the freight charges on destination customer contracts.

Other Revenues

Other revenues include net revenues from coal trading activities as discussed in Note 5 and coal revenues that were derived from the Company's mining operations and sold through the Company's coal trading business. Also included are revenues from contract termination or restructuring payments, royalties related to coal lease agreements, sales agency commissions, farm income, property and facility rentals and generation development activities. Royalty income generally results from the lease or sublease of mineral rights to third parties, with payments based upon a percentage of the selling price or an amount per ton of coal produced.

Discontinued Operations and Assets Held for Sale

The Company classifies items within discontinued operations in the consolidated statements of operations when the operations and cash flows of a particular component (defined as operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity) of the Company have been (or will be) eliminated from the ongoing operations of the Company as a result of a disposal transaction, and the Company will no longer have any significant continuing involvement in the operations of that component. See Note 2 for additional details related to discontinued operations and assets held for sale.

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost, which approximates fair value. Cash equivalents consist of highly liquid investments with original maturities of three months or less.

Inventories

Materials and supplies and coal inventory are valued at the lower of average cost or market. Raw coal represents coal stockpiles that may be sold in current condition or may be further processed prior to shipment to a customer. Coal inventory costs include labor, supplies, equipment, operating overhead and other related costs.

Property, Plant, Equipment and Mine Development

Property, plant, equipment and mine development are recorded at cost. Interest costs applicable to major asset additions are capitalized during the construction period. Capitalized interest in 2010, 2009 and 2008 was immaterial.

Expenditures which extend the useful lives of existing plant and equipment assets are capitalized. Maintenance and repairs are charged to operating costs as incurred. Costs incurred to develop coal mines or to expand the capacity of operating mines are capitalized. Costs incurred to maintain current production capacity at a mine are charged to operating costs as incurred. Costs to acquire computer hardware and the development and/or purchase of software for internal use are capitalized and depreciated over the estimated useful lives.

Coal reserves are recorded at cost, or at fair value in the case of nonmonetary exchanges of reserves or businesses. The net book value of coal reserves totaled $5.0 billion as of December 31, 2010 and $5.3 billion as of December 31, 2009. These coal reserves include mineral rights for leased coal interests and advance royalties that had a net book value of $3.7 billion as of December 31, 2010 and $4.0 billion as of December 31, 2009. The remaining net book value of coal reserves of $1.3 billion at December 31, 2010 and $1.3 billion at December 31, 2009 relates to coal reserves held by fee ownership. Amounts attributable to properties where the Company was not currently engaged in mining operations or leasing to third parties and, therefore, the coal reserves were not currently being depleted was $1.3 billion as of December 31, 2010 and $1.4 billion as of December 31, 2009.

Depletion of coal reserves and amortization of advance royalties is computed using the units-of-production method utilizing only proven and probable reserves (as adjusted for recoverability factors) in the depletion base. Mine development costs are principally amortized over the estimated lives of the mines using the straight-line method. Depreciation of plant and equipment (excluding life of mine assets) is computed using the straight-line method over the estimated useful lives. The estimated useful lives by category of assets are as follows:

	Years
Building and improvements	10 to 20
Machinery and equipment	3 to 33
Leasehold improvements	Life of Lease

Included in machinery and equipment are certain assets that are depreciated using the straight-line method over the estimated life of the mine, which varies from one to 33 years.

Investments in Joint Ventures

The Company accounts for its investments in less than majority owned corporate joint ventures under either the equity or cost method. The Company applies the equity method to investments in joint ventures when it has the ability to exercise significant influence over the operating and financial policies of the joint venture. Investments accounted for under the equity method are initially recorded at cost, and any difference between the cost of the Company's investment and the underlying equity in the net assets of the joint venture at the investment date is amortized over the lives of the related assets that gave rise to the difference. The Company's pro rata share of earnings from joint ventures and basis difference amortization is reported in the consolidated statements of operations in "(Income) loss from equity affiliates." Included in the Company's equity method investments is its joint venture interest in Carbones del Guasare, which owns and operates the Paso Diablo Mine in Venezuela. In 2009, the Company recognized an impairment loss of $34.7 million related to its interest in Carbones del Guasare based on the joint venture's deteriorating operating results (resulting in 2009 equity losses of $19.9 million), ongoing cash flow issues resulting in no dividend payments since January 2008, the Company's expectations concerning ongoing operating and cash flow issues for the joint venture and uncertainty impacting recoverability of this investment. The table below summarizes the book value of the Company's equity method investments, which is reported in "Investments and other assets" in the consolidated balance sheets, and the income (loss) from its equity affiliates:

	Book value at December 31,		Income (loss) from equity affiliates for the year ended December 31,		
(Dollars in millions)	**2010**	2009	**2010**	2009	2008
Interest in Carbones del Guasare	**$ –**	$ –	**$ –**	$(54.6)	$ 5.7
Other equity method investments	**2.7**	5.1	**(1.7)**	(14.5)	(5.7)
Total equity method investments	**$2.7**	$5.1	**$(1.7)**	$(69.1)	$ –

Asset Retirement Obligations

The Company's asset retirement obligation (ARO) liabilities primarily consist of spending estimates for surface land reclamation and support facilities at both surface and underground mines in accordance with applicable reclamation laws in the U.S. and Australia as defined by each mining permit.

The Company estimates its ARO liabilities for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation and then discounted at the credit-adjusted, risk-free rate. The Company records an ARO asset associated with the discounted liability for final reclamation and mine closure. The obligation and corresponding asset are recognized in the period in which the liability is incurred. The ARO asset is amortized on the units-of-production method over its expected life and the ARO liability is accreted to the projected spending date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognized at the appropriate historical credit-adjusted, risk-free rate. The Company also recognizes an obligation for contemporaneous reclamation liabilities incurred as a result of surface mining. Contemporaneous reclamation consists primarily of grading, topsoil replacement and re-vegetation of backfilled pit areas.

Environmental Liabilities

Accruals for other environmental matters are recorded in operating expenses when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Accrued liabilities are exclusive of claims against third parties and are not discounted. In general, costs related to environmental remediation are charged to expense. The current portion of these accruals is included in "Accounts payables and accrued expenses" and the long-term portion is included in "Other noncurrent liabilities" in the consolidated balance sheets.

Income Taxes

Income taxes are accounted for using a balance sheet approach. The Company accounts for deferred income taxes by applying statutory tax rates in effect at the reporting date of the balance sheet to differences between the book and tax basis of assets and liabilities. A valuation allowance is established if it is "more likely than not" that the related tax benefits will not be realized. In determining the appropriate valuation allowance, the Company considers projected realization of tax benefits based on expected levels of future taxable income, available tax planning strategies and the overall deferred tax position.

The Company recognizes the tax benefit from uncertain tax positions only if it is "more likely than not" the tax position will be sustained on examination by the taxing authorities. The tax benefits recognized from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. To the extent the Company's assessment of such tax positions changes, the change in estimate will be recorded in the period in which the determination is made. Tax-related interest and penalties are classified as a component of income tax expense.

Postretirement Health Care and Life Insurance Benefits

The Company accounts for postretirement benefits other than pensions by accruing the costs of benefits to be provided over the employees' period of active service. These costs are determined on an actuarial basis. The Company's consolidated balance sheets reflect the funded status of postretirement benefits.

Pension Plans

The Company sponsors non-contributory defined benefit pension plans accounted for by accruing the cost to provide the benefits over the employees' period of active service. These costs are determined on an actuarial basis. The Company's consolidated balance sheets reflect the funded status of the defined benefit pension plans.

Derivatives

The Company recognizes at fair value all derivatives as assets or liabilities on the consolidated balance sheets. Gains or losses from derivative financial instruments designated as fair value hedges are recognized immediately in the consolidated statements of operations, along with the offsetting gain or loss related to the underlying hedged item.

Gains or losses on derivative financial instruments designated as cash flow hedges are recorded as a separate component of stockholders' equity until the hedged transaction occurs (or until hedge ineffectiveness is determined), at which time gains or losses are reclassified to the consolidated statements of operations in conjunction with the recognition of the underlying hedged item. To the extent that the periodic changes in the fair value of the derivatives exceed the changes in the hedged item, the ineffective portion of the periodic non-cash changes are recorded in the consolidated statements of operations in the period of the change. If the hedge ceases to qualify for hedge accounting, the Company prospectively recognizes the mark-to-market movements in the consolidated statements of operations in the period of the change. The potential for hedge ineffectiveness is present in the design of the Company's cash flow hedge relationships and is discussed in detail in Notes 4 and 5.

Non-derivative contracts and derivative contracts for which the Company has elected to apply the normal purchases and normal sales exception are accounted for on an accrual basis.

Use of Estimates in the Preparation of the Consolidated Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Impairment of Long-Lived Assets

The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that assets might be impaired and the undiscounted cash flows estimated to be generated by those assets under various assumptions are less than the carrying amounts of the assets. Impairment losses are measured by comparing the estimated fair value of the impaired asset to its carrying amount. There were no impairment losses recorded during the years ended December 31, 2010, 2009 or 2008.

Fair Value

For assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements, the Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company's asset and liability derivative positions are offset on a counterparty-by-counterparty basis if the contractual agreement provides for the net settlement of contracts with the counterparty in the event of default or termination of any one contract.

Foreign Currency

The Company's foreign subsidiaries utilize the U.S. dollar as their functional currency. As such, monetary assets and liabilities are remeasured at year-end exchange rates while non-monetary items are remeasured at historical rates. Income and expense accounts are remeasured at the average rates in effect during the year, except for those expenses related to balance sheet amounts that are remeasured at historical exchange rates. Gains and losses from foreign currency remeasurement related to tax balances are included as a component of income tax expense while all other remeasurement gains and losses are included in operating costs and expenses. The total foreign currency remeasurement losses for the years ended December 31, 2010 and 2009 were $38.5 million and $55.4 million, respectively. The total foreign currency remeasurement gain for the year ended December 31, 2008 was $71.1 million.

Share-Based Compensation

The Company accounts for share-based compensation at the grant date fair value of awards and recognizes the related expense over the vesting period of the award. See Note 14 for information related to share-based compensation.

Exploration and Drilling Costs

Exploration expenditures are charged to operating costs as incurred, including costs related to drilling and study costs incurred to convert or upgrade mineral resources to reserves.

Advance Stripping Costs

Pre-production: At existing surface operations, additional pits may be added to increase production capacity in order to meet customer requirements. These expansions may require significant capital to purchase additional equipment, expand the workforce, build or improve existing haul roads and create the initial pre-production box cut to remove overburden (i.e., advance stripping costs) for new pits at existing operations. If these pits operate in a separate and distinct area of the mine, the costs associated with initially uncovering coal (i.e., advance stripping costs incurred for the initial box cuts) for production are capitalized and amortized over the life of the developed pit consistent with coal industry practices.

Post-production: Advance stripping costs related to post-production are expensed as incurred. Where new pits are routinely developed as part of a contiguous mining sequence, the Company expenses such costs as incurred. The development of a contiguous pit typically reflects the planned progression of an existing pit, thus maintaining production levels from the same mining area utilizing the same employee group and equipment.

Reclassifications

Certain amounts in prior periods have been reclassified to conform with the current year presentation, with no effect on previously reported net income or stockholders' equity.

(2) DISCONTINUED OPERATIONS

Discontinued operations reflect the spin off of Patriot Coal Corporation (Patriot) and other operations recently divested, as well as certain non-strategic Midwestern mining assets held for sale where the Company has committed to the divestiture of such assets.

Revenues resulting from discontinued operations (including assets held for sale) were $84.2 million, $301.5 million and $513.0 million for the years ended December 31, 2010, 2009 and 2008, respectively. Nearly all of these revenues pertain to supply agreements the Company entered into with Patriot to meet commitments under non-assignable pre-existing customer agreements sourced from Patriot mining operations. Income (loss) before income taxes from discontinued operations reflects a loss of $4.7 million and $60.6 million for the years ended December 31, 2010 and December 31, 2008, respectively, and income of $14.4 million for the year ended December 31, 2009. The income tax provision (benefit) resulting from discontinued operations reflects a benefit of $1.8 million and $31.8 million for the years ended December 31, 2010 and December 31, 2008, respectively, and a provision of $9.3 million for the year ended December 31, 2009.

Total assets related to discontinued operations were $15.7 million and $40.6 million as of December 31, 2010 and 2009, respectively. Total liabilities associated with discontinued operations were $14.8 million and $47.1 million as of December 31, 2010 and 2009, respectively.

(3) INVENTORIES

Inventories consisted of the following:

(Dollars in millions)	***2010***	*2009*
Materials and supplies	**$ 97.1**	$106.5
Raw coal	**55.4**	80.5
Saleable coal	**180.4**	138.1
Total	**$332.9**	$325.1

(4) 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 fluctuations in commodity prices, interest rates and foreign currency exchange rates. These risks are actively monitored in an effort to ensure compliance with the risk management policies of the Company. In most cases, commodity price risk (excluding coal trading activities) related to the sale of coal is mitigated through the use of long-term, fixed-price contracts rather than financial instruments.

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 changes in the fair value of the fixed rate debt that result from market interest rate changes. From time to time, the 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 December 31, 2010, the Company had no interest rate swaps in place.

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 by entering into 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 Australian dollar expenditures. As of December 31, 2010, the Company had only forward contracts in place.

Diesel Fuel and Explosives Hedges

The Company is exposed to commodity price risk associated with diesel fuel and explosives in the U.S. and Australia. This risk is managed through the use of cost pass-through contracts and derivatives, primarily swaps. The Company has generally designated the swap contracts as cash flow hedges, with the objective of reducing the variability of cash flows associated with the forecasted purchase of diesel fuel and explosives. In Australia, the explosives costs and a portion of the diesel fuel costs are not hedged as they are usually included in the fees paid to the Company's contract miners.

Notional Amounts and Fair Value

The following summarizes the Company's foreign currency and commodity positions at December 31, 2010:

	Notional Amount by Year of Maturity						
	Total	*2011*	*2012*	*2013*	*2014*	*2015*	*2016 and thereafter*
Foreign Currency							
A$:US$ hedge contracts (A$ millions)	**$4,187.5**	**$1,484.2**	**$1,355.2**	**$926.6**	**$421.5**	**$ –**	**$ –**
Commodity Contracts							
Diesel fuel hedge contracts (million gallons)	**191.4**	**89.5**	**76.2**	**25.7**	**–**	**–**	**–**
U.S. explosives hedge contracts (million MMbtu)	**8.4**	**3.9**	**3.0**	**1.5**	**–**	**–**	**–**

	Account Classification by			*Fair Value Asset (Liability) (Dollars in millions)*
	Cash flow hedge	*Fair value hedge*	*Economic hedge*	
Foreign Currency				
A$:US$ hedge contracts (A$ millions)	**$4,187.5**	**$ –**	**$ –**	**$640.1**
Commodity Contracts				
Diesel fuel hedge contracts (million gallons)	**191.4**	**–**	**–**	**$ 40.3**
U.S. explosives hedge contracts (million MMbtu)	**8.4**	**–**	**–**	**$ (0.1)**

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 as a separate component of stockholders' equity until the hedged transaction impacts reported earnings, at which time gains and losses are reclassified to the consolidated statements of operations at the time of the recognition of the underlying hedged item. The ineffective portion of the derivative's change in fair value is recorded in the consolidated statements of operations. In addition, if the hedging relationship ceases to be highly effective, or it becomes probable that a forecasted transaction is no longer expected to occur, gains and losses on the derivative are recorded to the consolidated statements of operations.

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

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

With respect to the interest rate swaps, there was no hedge ineffectiveness recognized in the consolidated statements of operations during the years ended December 31, 2010, 2009 or 2008.

The tables below show the classification and amounts of pre-tax gains and losses related to the Company's non-trading hedges during the years ended December 31, 2010 and 2009:

	2010				
Financial Instrument (Dollars in millions)	*Income Statement Classification Gains (Losses) - Realized*	*Gain (loss) recognized in income on non-designated derivatives [(1)]*	*Gain (loss) recognized in other comprehensive income on derivative (effective portion)*	*Gain (loss) reclassified from other comprehensive income into income (effective portion)*	*Gain (loss) reclassified from other comprehensive income into income (ineffective portion)*
Interest rate swaps:					
Cash flow hedges	Interest expense	**$(8.5)**	**$ 0.8**	**$ (0.5)**	**$ –**
Diesel fuel hedge contracts:					
Cash flow hedges	Operating costs and expenses	**–**	**34.1**	**(27.3)**	**(1.1)**
Explosives cash flow hedge contracts:					
Cash flow hedges	Operating costs and expenses	**–**	**(4.2)**	**(8.9)**	**–**
Foreign currency cash flow hedge contracts	Operating costs and expenses	**–**	**622.2**	**188.2**	**–**
Total		**$(8.5)**	**$652.9**	**$151.5**	**$(1.1)**

(1) Amounts relate to swaps that were de-designated and terminated in conjunction with the refinancing of the Company's previous credit facility.

Financial Instrument (Dollars in millions)		2009 Income Statement Classification Gains (Losses) - Realized	Gain (loss) recognized in income on non-designated derivatives [2]	Gain (loss) recognized in other comprehensive income on derivative (effective portion)	Gain (loss) reclassified from other comprehensive income into income (effective portion)	Gain (loss) reclassified from other comprehensive income into income (ineffective portion)
Interest rate swaps:						
	Cash flow hedges	Interest expense	$ –	$ 0.2	$ (5.5)	$ –
Diesel fuel hedge contracts:						
	Cash flow hedges	Operating costs and expenses	–	67.9	(84.4)	0.7
	Economic hedges	Operating costs and expenses	(0.6)	–	–	–
Explosives cash flow hedge contracts:						
	Cash flow hedges	Operating costs and expenses	–	(2.4)	(13.9)	–
	Economic hedges	Operating costs and expenses	(2.1)	–	–	–
Foreign currency cash flow hedge contracts		Operating costs and expenses	–	458.0	(30.8)	–
Total			$(2.7)	$523.7	$(134.6)	$0.7

[2] Amounts relate to diesel fuel and explosives hedge derivatives that were de-designated in 2009.

Based on their fair value at December 31, 2010, the amount of gains to be realized in 2011 associated with the Company's foreign currency and diesel fuel hedge programs are expected be approximately $274 million and $13 million, respectively. The losses to be realized under the explosives hedge program are expected to be less than $1 million.

The classification and amount of derivatives presented on a gross basis as of December 31, 2010 and 2009 are as follows:

Financial Instrument (Dollars in millions)	Fair Value as of December 31, 2010 Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities
Diesel fuel cash flow hedge contracts	**$ 25.3**	**$ 26.9**	**$11.9**	**$ –**
Explosives cash flow hedge contracts	**0.5**	**0.1**	**0.1**	**0.6**
Foreign currency cash flow hedge contracts	**273.5**	**366.6**	**–**	**–**
Total	**$299.3**	**$393.6**	**$12.0**	**$0.6**

Financial Instrument (Dollars in millions)	Fair Value as of December 31, 2009 Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities
Interest Rate Swaps:				
Fair value hedges	$ –	$ 1.5	$ –	$ –
Cash flow hedges	–	–	–	9.8
Diesel fuel cash flow hedge contracts	6.7	18.0	31.3	15.6
Explosives cash flow hedge contracts	0.1	–	4.9	–
Foreign currency cash flow hedge contracts	110.6	100.2	1.6	3.1
Total	$117.4	$119.7	$37.8	$28.5

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

The Company elected the trading exemption for its coal trading transactions which allows for reduced disclosure since it is the Company's policy to include these instruments as a part of its trading book. See Note 5 for information related to the Company's coal trading activities.

Fair Value Measurements

Fair Value Measured on a Recurring Basis

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 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.

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:

(Dollars in millions)	2010 Level 1	Level 2	Level 3	Total
Investment in debt securities	**$17.9**	**$ –**	**$ –**	**$ 17.9**
Commodity swaps and options – diesel fuel	**–**	**40.3**	**–**	**40.3**
Commodity swaps and options – explosives	**–**	**(0.1)**	**–**	**(0.1)**
Foreign currency hedge contracts	**–**	**640.1**	**–**	**640.1**
Total net financial assets	**$17.9**	**$680.3**	**$ –**	**$698.2**

(Dollars in millions)	2009 Level 1	Level 2	Level 3	Total
Commodity swaps and options – diesel fuel	$ –	$ (22.2)	$ –	$ (22.2)
Commodity swaps and options – explosives	–	(4.8)	–	(4.8)
Interest rate swaps	–	(8.3)	–	(8.3)
Foreign currency hedge contracts	–	206.1	–	206.1
Total net financial assets	$ –	$170.8	$ –	$170.8

For Level 1 and 2 financial assets and liabilities, the Company utilizes both direct and indirect observable price quotes, including interest rate yield curves, exchange indices, broker quotes, published indices and other market quotes. Below is a summary of the Company's valuation techniques for Level 1 and 2 financial assets and liabilities:

- Investment in debt securities: valued based on quoted prices in active markets (Level 1).
- Commodity swaps and options – diesel fuel and explosives: generally valued based on a valuation that is corroborated by the use of market-based pricing (Level 2).
- Interest rate swaps: valued based on modeling observable market data and corroborated with statements from counterparties (Level 2).
- Foreign currency hedge contracts: valued utilizing inputs obtained in quoted public markets (Level 2).

The Company did not have any transfers between levels during 2010 for its non-coal trading positions. The Company's policy is to value all transfers between levels using the beginning of period valuation. This represents a change in policy from those in effect at December 31, 2009. Previously, the end of the period values were used for transfers into Level 3 and beginning of period values for transfers out of Level 3.

Other Financial Instruments

The following methods and assumptions were used by the Company in estimating fair values for other financial instruments as of December 31, 2010 and 2009:

- Cash and cash equivalents, accounts receivable, including accounts receivable within the Company's securitization program, and accounts payable and accrued expenses have carrying values which approximate fair value due to the short maturity or the financial nature of these instruments.
- Investments and other assets in the consolidated balance sheets includes the Company's investments in debt and equity securities related to the Company's pro-rata share of funding in the Newcastle Coal Infrastructure Group (NCIG). The investments are recorded at cost, which approximate fair value. See Note 20 for additional information related to NCIG.
- Long-term debt fair value estimates are based on observed prices for securities with an active trading market when available, and otherwise on estimated borrowing rates to discount the cash flows to their present value. The carrying amounts of the 7.875% Senior Notes due 2026 and the Convertible Junior Subordinated Debentures due 2066 are net of the respective unamortized note discounts.

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

	2010		2009	
(Dollars in millions)	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt	**$2,750.0**	**$2,960.0**	$2,752.3	$2,828.8

Nonperformance and Credit Risk

The fair value of the Company's non-coal trading derivative assets and liabilities reflects adjustments for nonperformance and credit risk. The Company conducts its hedging activities related to foreign currency, interest rate, fuel and explosives exposures with a variety of highly-rated commercial banks and closely monitors counterparty creditworthiness. To reduce its credit exposure for these hedging activities, the Company seeks to enter into netting agreements with counterparties that permit the Company to offset asset and liability positions with such counterparties.

(5) COAL TRADING

Risk Management – Coal Trading

The Company engages in direct and brokered trading of coal, ocean freight and fuel-related commodities in over-the-counter markets (coal trading), some of which is subsequently exchange-cleared and some of which is bilaterally-cleared. 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 on a fair value basis. For its derivative trading contracts that are eligible to be cleared on an exchange, the Company utilizes exchange-published settlement prices and forward curves. For other derivative contracts, the Company establishes fair values using bid/ask price quotations or other market assessments obtained from multiple, independent third-party brokers to value its trading positions from the over-the-counter market. Prices from these sources are then averaged to obtain trading position values. While the Company does not anticipate any decrease in the number of third-party brokers or market liquidity, such events could erode the quality of market information and therefore the valuing of its market positions should the number of third-party brokers decrease or if market liquidity is reduced.

The Company elected the trading exemption for its coal trading transactions which allows for reduced disclosure since it is the Company's policy to include these instruments as a part of its trading book. Trading revenues are recorded in "Other revenues" in the consolidated statements of operations and include realized and unrealized gains and losses on derivative instruments, including those under the normal purchases and normal sales exception.

(Dollars in millions)	2010	2009
Trading Revenue by Type of Instrument		
Commodity swaps and options	**$ 23.2**	$176.5
Physical commodity purchase/sale contracts	**135.5**	85.0
Total trading revenue	**$158.7**	$261.5

Hedge Ineffectiveness

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.

Fair Value Measurements

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

	2010		2009	
(Dollars in millions)	Gross Basis	Net Basis	Gross Basis	Net Basis
Assets from coal trading activities	**$ 1,706.2**	**$ 192.5**	$ 949.8	$ 276.8
Liabilities from coal trading activities	**(1,843.5)**	**(181.7)**	(779.3)	(110.6)
Subtotal	**(137.3)**	**10.8**	170.5	166.2
Net margin posted (held) [1]	**148.1**	**–**	(4.3)	–
Net value of coal trading positions	**$ 10.8**	**$ 10.8**	$ 166.2	$ 166.2

[1] *Represents margin posted with counterparties of $148.2 million, net of margin held from counterparties of $0.1 million at December 31, 2010; and margin held from counterparties of $22.4 million, net of margin posted with counterparties of $18.1 million at December 31, 2009.*

As previously discussed in Note 4, 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. The following tables set forth the hierarchy of the Company's net financial asset (liability) trading positions for which fair value is measured on a recurring basis:

	2010			
(Dollars in millions)	Level 1	Level 2	Level 3	Total
Commodity swaps and options	**$10.7**	**$(76.2)**	**$ –**	**$(65.5)**
Physical commodity purchase/ sale contracts	**–**	**57.7**	**18.6**	**76.3**
Total net financial assets (liabilities)	**$10.7**	**$(18.5)**	**$18.6**	**$ 10.8**

	2009			
(Dollars in millions)	Level 1	Level 2	Level 3	Total
Commodity swaps and options	$(1.7)	$ 80.7	$ –	$ 79.0
Physical commodity purchase/ sale contracts	–	70.2	17.0	87.2
Total net financial assets (liabilities)	$(1.7)	$150.9	$17.0	$166.2

For Level 1 and 2 financial assets and liabilities, the Company utilizes both direct and indirect observable price quotes, including LIBOR yield curves, New York Mercantile Exchange (NYMEX), Intercontinental Exchange indices (ICE), NOS Clearing ASA, LCH.Clearnet (formerly known as the London Clearing House), broker quotes, published indices and other market quotes. Below is a summary of the Company's valuation techniques for Level 1 and 2 financial assets and liabilities:

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

Commodity swaps and options and physical commodity purchase/sale contracts transacted in less liquid markets or contracts, such as long-term arrangements with limited price availability were classified in Level 3. These instruments or contracts are valued based on quoted inputs from brokers or counterparties, or reflect methodologies that consider historical relationships among similar commodities to derive the Company's best estimate of fair value. The Company has consistently applied these valuation techniques in all periods presented, and believes it has obtained the most accurate information available for the types of derivative contracts held.

The Company did not have any significant transfers between Level 1 and Level 2 during 2010. In addition, there were no significant transfers in or out of Level 3 during 2010. The Company's policy is to value all transfers between levels using the beginning of period valuation. This represents a change in policy from that in effect at December 31, 2009. Previously, the end of the period values were used for transfers into Level 3 and beginning of period values for transfers out of Level 3.

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

(Dollars in millions)	2010	2009	2008
Beginning of year	**$17.0**	$37.8	$128.7
Total gains or losses (realized/unrealized):			
Included in earnings	**2.1**	(2.9)	(9.8)
Included in other comprehensive income	**(0.5)**	(1.6)	3.4
Purchases, issuances and settlements	**(0.1)**	(20.5)	(58.8)
Net transfers in (out)	**0.1**	4.2	(25.7)
End of year	**$18.6**	$17.0	$ 37.8

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

(Dollars in millions)	2010	2009	2008
Changes in unrealized gains (losses) [1]	**$6.7**	$15.6	$(34.8)

[1] *Within the consolidated statements of operations 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's trading assets and liabilities are generally made up of forward contracts, financial swaps and margin. The net fair value of coal trading positions designated as cash flow hedges of anticipated future sales was a liability of $125.4 million as of December 31, 2010 and an asset of $93.0 million as of December 31, 2009.

As of December 31, 2010, 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
2011	70%
2012	21%
2013	3%
2014	4%
2015	2%
	100%

At December 31, 2010, 50% of the Company's credit exposure related to coal trading activities with investment grade counterparties and 50% with non-investment grade counterparties.

Nonperformance and Credit Risk

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

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 were to sustain a material adverse event (using commercially reasonable standards), the counterparties could request collateralization on derivative trading instruments in net liability positions which, based on an aggregate fair value at December 31, 2010 and 2009, would have amounted to collateral postings of approximately $160 million and $84 million, respectively, to its counterparties. As of December 31, 2010, $5.8 million of collateral was posted to counterparties for such positions while zero was posted at December 31, 2009 (reflected in "Liabilities from coal trading activities, net").

Certain of the Company's other derivative trading instruments require the parties to provide additional performance assurances whenever a credit downgrade occurs below a certain level as specified in each underlying contract. The terms of such derivative trading instruments typically require additional collateralization, which is commensurate with the severity of the credit downgrade. If a credit downgrade were to have occurred below contractually specified levels, the Company's additional collateral requirement owed to its counterparties would have been zero at December 31, 2010 and approximately $16 million at December 31, 2009 based on the aggregate fair value of all derivative trading instruments with such features that are in a net liability position. As of December 31, 2009, the Company posted $0.8 million for such instruments in a net liability position. As of December 31, 2010, $5.0 million of margin was posted with a counterparty due to timing and market fluctuations (reflected in "Liabilities from coal trading activities, net").

The Company is required to post collateral on positions that are in a net liability position with an exchange, known as variation margin, which was $137.4 million as of December 31, 2010 and $18.1 million as of December 31, 2009 (reflected in "Liabilities from coal trading activities, net").

In addition, the Company is required by the exchange 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 December 31, 2010 and 2009, the Company had posted initial margin of $39.5 million and $29.7 million, respectively (reflected in "Other current assets"). In addition, the Company posted $4.4 million and $5.5 million of margin in excess of the exchange-required variation and initial margin discussed above as of December 31, 2010 and 2009, respectively (also reflected in "Other current assets").

(6) INCOME TAXES

Income from continuing operations before income taxes consisted of the following:

(Dollars in millions)	2010	2009	2008
U.S.	**$ 535.5**	$281.4	$ 185.2
Non U.S.	**577.7**	370.3	994.1
Total	**$1,113.2**	$651.7	$1,179.3

Total income tax provision consisted of the following:

(Dollars in millions)	2010	2009	2008
Current:			
U.S. federal	**$113.9**	$ (0.7)	$ –
Non U.S.	**70.5**	61.7	224.7
State	**1.0**	1.7	–
Total current	**185.4**	62.7	224.7
Deferred:			
U.S. federal	**47.9**	56.0	47.1
Non U.S.	**69.1**	74.4	(81.7)
State	**5.7**	0.7	1.3
Total deferred	**122.7**	131.1	(33.3)
Total provision	**$308.1**	$193.8	$191.4

The following is a reconciliation of the expected statutory federal income tax provision to the Company's actual income tax provision:

(Dollars in millions)	2010	2009	2008
Expected income tax provision at federal statutory rate	**$ 389.6**	$228.1	$ 412.7
Excess depletion	**(53.5)**	(44.0)	(40.1)
Foreign earnings provision differential	**(121.4)**	(83.6)	(119.7)
Foreign earnings repatriation	**84.5**	–	–
Remeasurement of foreign income tax accounts	**47.6**	74.4	(65.2)
State income taxes, net of U.S. federal tax benefit	**(4.8)**	3.4	(1.6)
General business tax credits	**(17.0)**	(12.2)	(12.6)
Changes in valuation allowance	**(28.7)**	17.3	(44.2)
Changes in tax reserves	**–**	5.9	34.4
Other, net	**11.8**	4.5	27.7
Total provision	**$ 308.1**	$193.8	$ 191.4

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities consisted of the following:

Dollars in millions)	2010	2009
Deferred tax assets:		
Tax credits and loss carryforwards	**$ 425.2**	$ 557.1
Postretirement benefit obligations	**427.7**	474.7
Intangible tax asset and purchased contract rights	**15.1**	30.9
Accrued reclamation and mine closing liabilities	**97.8**	57.0
Accrued long-term workers' compensation liabilities	**15.5**	23.1
Employee benefits	**53.5**	80.3
Hedge activities	**30.6**	–
Financial guarantee	**18.8**	20.1
Others	**45.4**	39.5
Total gross deferred tax assets	**1,129.6**	1,282.7
Deferred tax liabilities:		
Property, plant, equipment and mine development, leased coal interests and advance royalties, principally due to differences in depreciation, depletion and asset writedowns	**1,241.5**	1,221.0
Unamortized discount on Convertible Junior Subordinated Debentures	**135.5**	139.6
Hedge activities	**–**	29.2
Investments and other assets	**107.0**	64.8
Total gross deferred tax liabilities	**1,484.0**	1,454.6
Valuation allowance	**(65.0)**	(87.2)
Net deferred tax liability	**$ (419.4)**	$ (259.1)

Deferred taxes are classified as follows:		
Current deferred income taxes	**$ 120.4**	$ 40.0
Noncurrent deferred income taxes	**(539.8)**	(299.1)
Net deferred tax liability	**$ (419.4)**	$ (259.1)

The Company's tax credits and loss carryforwards included alternative minimum tax (AMT), foreign tax and general business credits of $317.0 million, state net operating loss (NOL) carryforwards of $23.8 million and foreign loss carryforwards of $84.4 million as of December 31, 2010. The AMT credits and foreign NOL and capital loss carryforwards have no expiration date. The foreign tax and general business credits begin to expire in 2020 and 2027, respectively. The state NOL carryforwards begin to expire in the year 2011. In assessing the near term use of NOLs and tax credits and corresponding valuation allowance adjustments, the Company evaluated the overall deferred tax position, available tax strategies and future taxable income. The $28.7 million change in the valuation allowance due to the 2010 assessment included a $48.8 million decrease on AMT credits, an $11.7 million increase on state NOLs and an $8.4 million increase on foreign deferred assets. The remaining valuation allowance at December 31, 2010 of $65.0 million represents a reserve for state NOLs and certain foreign deferred tax assets.

Unrecognized Tax Benefits

The total amount of the net unrecognized tax benefits was $107.9 million ($111.0 million gross) at December 31, 2010 and was $109.2 million ($113.2 million gross) at December 31, 2009. The amount of the Company's gross unrecognized tax benefits has decreased by $2.2 million since January 1, 2010 primarily as a result of the Company's Internal Revenue Service (IRS) audit for the 2005 and 2006 tax years. A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

(Dollars in millions)	***2010***	*2009*	*2008*
Balance at beginning of period	**$113.2**	$186.3	$152.6
Additions for current year tax positions	**3.4**	2.7	30.3
Additions for prior year positions	**13.8**	15.7	3.4
Reductions for settlements with tax authorities	**(19.4)**	(88.5)	–
Reductions for expirations of statute of limitations	**–**	(3.0)	–
Balance at end of period	**$111.0**	$113.2	$186.3

The amount of the net unrecognized tax benefits that, if recognized, would directly affect the effective tax rate is $107.9 million at December 31, 2010 and $109.2 million at December 31, 2009. The Company does not expect any significant changes to its net unrecognized tax benefits within 12 months of this reporting date.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits in its income tax provision. The Company has recognized $8.2 million of interest for the year ended December 31, 2010. The Company had $14.6 million and $6.4 million of accrued interest related to uncertain tax positions at December 31, 2010 and 2009, respectively. The Company has considered the application of penalties on its unrecognized tax benefits and determined, based upon several factors, that no accrual of penalties is required.

Tax Returns Subject to Examination

The Company's federal income tax returns are under examination by the IRS for the 2006 through 2008 income tax years. The Company and the IRS did not reach an agreement on the adjustment of interest income accrued by a foreign subsidiary through the alternative dispute resolution program (Fast Track Settlement) for the 2006 federal income tax year. The Company and the IRS are proceeding with the formal IRS appeals process to resolve the remaining issue, which could take one to two years to complete. Should the IRS positions ultimately be sustained at the conclusion of the appeals process, additional income tax charges would be required to the extent the Company's NOL carryforwards are reduced. The IRS began an examination of the Company's federal income tax returns for the 2007 and 2008 income tax years during 2010. Notwithstanding these audit cycles, the years 1999 – 2001, 2003 through 2004 and 2009 remain potentially subject to examination due to NOL carryforwards. The Company's state income tax returns for the tax years 1996 and beyond remain potentially subject to examination by various state taxing authorities due to NOL carryforwards. In December 2010, the Australian Tax Office began an examination of the Company's Australian income tax returns for the tax years 2004 through 2009.

Foreign Earnings

The total amount of undistributed earnings of foreign subsidiaries for income tax purposes was $1.1 billion at December 31, 2010 and $1.4 billion at December 31, 2009. During 2010, the Company recorded tax expense of $84.5 million related to the repatriation of certain earnings of non-U.S. subsidiaries. The Company has not provided deferred taxes on foreign earnings of $1.1 billion for 2010 and $1.3 billion for 2009 because such earnings are considered to be indefinitely reinvested outside the U.S. Should the Company repatriate all of these earnings, a one-time income tax charge to the Company's consolidated statements of operations of up to $382.0 million could occur.

Tax Payments

The following table summarizes the Company's tax payments:

(Dollars in millions)	***2010***	*2009*	*2008*
U.S. – federal	**$ 65.0**	$ –	$ –
U.S. – state and local	**0.4**	0.9	–
Non U.S.	**83.0**	169.7	65.8
Total tax payments	**$148.4**	$170.6	$65.8

(7) ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following:

(Dollars in millions)	***2010***	*2009*
Trade accounts payable	**$ 467.1**	$ 387.6
Other accrued expenses	**193.3**	160.0
Accrued taxes other than income	**185.4**	172.3
Accrued payroll and related benefits	**155.7**	135.0
Accrued health care	**85.9**	78.7
Accrued royalties	**74.7**	51.1
Income taxes payable	**59.6**	80.7
Accrued interest	**30.5**	31.7
Workers' compensation obligations	**14.6**	8.7
Accrued environmental	**6.3**	7.9
Other accrued benefits	**4.2**	4.0
Commodity hedge contracts	**2.9**	29.4
Liabilities associated with discontinued operations	**8.6**	40.6
Total accounts payable and accrued expenses	**$1,288.8**	$1,187.7

(8) LONG-TERM DEBT

The Company's total indebtedness as of December 31, 2010 and 2009 consisted of the following:

(Dollars in millions)	***2010***	*2009*
Term Loan	**$ 493.8**	$ 490.3
6.875% Senior Notes due March 2013	**–**	650.0
5.875% Senior Notes due April 2016	**218.1**	218.1
7.375% Senior Notes due November 2016	**650.0**	650.0
6.5% Senior Notes due September 2020	**650.0**	–
7.875% Senior Notes due November 2026	**247.2**	247.1
6.34% Series B Bonds due December 2014	**12.0**	15.0
6.84% Series C Bonds due December 2016	**33.0**	33.0
Convertible Junior Subordinated Debentures due 2066	**373.3**	371.5
Capital lease obligations	**69.6**	67.5
Fair value hedge adjustment	**2.2**	8.4
Other	**0.8**	1.4
Total	**$2,750.0**	$2,752.3

Credit Facility

On June 18, 2010, the Company entered into an unsecured credit agreement (the Credit Agreement) which established a $2.0 billion credit facility (the Credit Facility) and replaced the Company's third amended and restated credit agreement dated as of September 15, 2006. The Credit Agreement provides for a $1.5 billion revolving credit facility (the Revolver) and a $500.0 million term loan facility (the Term Loan). The Company has the option to request an increase in the capacity of the Credit Facility, provided the aggregate increase for the Revolver and Term Loan does not exceed $250.0 million, the minimum amount of the increase is $25.0 million, and certain other conditions are met under the Credit Agreement. The Revolver also includes a swingline sub-facility under which up to $50.0 million is available for same-day borrowings. The Revolver commitments and the Term Loan under the Credit Facility will mature on June 18, 2015.

The Revolver replaced the Company's previous $1.8 billion revolving credit facility and the Term Loan replaced the Company's previous term loan facility (the previous term loan had a balance of $490.3 million at the time of replacement and at December 31, 2009). The Company recorded $21.9 million in deferred financing costs, which are being amortized to interest expense over the five-year term of the Credit Facility. The Company also recorded refinancing charges of $9.3 million, which was recorded in "Interest expense" in the consolidated statements of operations. The $500.0 million of proceeds from the Term Loan was used to repay the balance due on the Company's previous term loan facility.

All borrowings under the Credit Agreement (other than swingline borrowings and borrowings denominated in currencies other than U.S. dollars) bear interest, at the Company's option, at either a "base rate" or a "eurocurrency rate", as defined in the Credit Agreement, plus in each case, a rate adjustment based on the Company's leverage ratio, as defined in the Credit Agreement, ranging from 2.50% to 1.25% per year for borrowings bearing interest at the "base rate" and from 3.50% to 2.25% per year for borrowings bearing interest at the "eurocurrency rate" (such rate added to the "eurocurrency rate," the "Eurocurrency Margin"). Swingline borrowings bear interest at a "BBA LIBOR" rate equal to the rate at which deposits in U.S. dollars for a one month term are offered in the interbank eurodollar market, as determined by the administrative agent, plus the Eurocurrency Margin. Borrowings denominated in currencies other than U.S. dollars will bear interest at the "eurocurrency rate" plus the Eurocurrency Margin.

The Company pays a usage-dependent commitment fee under the Revolver, which is dependent upon the Company's leverage ratio, as defined in the Credit Agreement, and ranges from 0.500% to 0.375% of the available unused commitment. Swingline loans are not considered usage of the revolving credit facility for purposes of calculating the commitment fee. The fee accrues quarterly in arrears.

In addition, the Company pays a letter of credit fee calculated at a rate dependent on the Company's leverage ratio, as defined in the Credit Agreement, ranging from 3.50% to 2.25% per year of the undrawn amount of each letter of credit and a fronting fee equal to 0.125% per year of the face amount of each letter of credit. These fees are payable quarterly in arrears.

The $500.0 million Term Loan is subject to quarterly repayment of 1.25% per quarter commencing on December 31, 2010, with the final payment of all amounts outstanding (including accrued interest) being due on June 18, 2015.

Under the Credit Agreement, the Company must comply with certain financial covenants on a quarterly basis including a minimum interest coverage ratio and a maximum leverage ratio. The Credit Agreement also includes various affirmative and negative covenants that place limitations on the Company's ability to, among other things, incur debt; make loans, investments, advances and acquisitions; sell assets; make redemptions and repurchase of capital stock; engage in mergers or consolidations; engage in affiliate transactions; and restrict distributions from subsidiaries. When in compliance with the financial covenants and customary default provisions, the Company is not restricted in its ability to pay dividends, sell assets and make redemptions or repurchase capital stock provided that the Company may only redeem and repurchase capital stock with the proceeds received from the concurrent issue of capital stock or indebtedness permitted under the Credit Agreement.

Nearly all of the Company's direct and indirect domestic subsidiaries guarantee all loans under the Credit Agreement. Certain of the Company's foreign subsidiaries also, to the extent permitted by applicable law and existing contractual obligations, would be guarantors of loans made to one of the Company's Dutch subsidiaries.

As of December 31, 2010, the Company had no borrowings on the Revolver, but had $67.6 million of letters of credit outstanding. The remaining capacity on the Revolver at December 31, 2010 was $1.4 billion.

The interest rate payable on the Revolver and the Term Loan was LIBOR plus 2.25%, or 2.51%, at December 31, 2010.

6.5% Senior Notes

On August 25, 2010, the Company completed a $650.0 million offering of 6.5% 10-year Senior Notes due September 2020 (the Notes). The Notes are senior unsecured obligations and rank senior in right of payment to any subordinated indebtedness; equally in right of payment with any senior indebtedness; would be effectively junior in right of payment to the Company's future secured indebtedness, to the extent of the value of the collateral securing that indebtedness; and effectively junior to all the indebtedness and other liabilities of its subsidiaries that do not guarantee the Notes. Interest payments are scheduled to occur on March 15 and September 15 of each year, commencing on March 15, 2011.

The Notes are jointly and severally guaranteed by nearly all of the Company's domestic subsidiaries, as defined in the note indenture. The note indenture contains covenants that, among other things, limit the Company's ability to create liens and enter into sale and lease-back transactions. The Notes are redeemable at a redemption price equal to 100% of the principal amount of the Notes being redeemed plus a make-whole premium and any accrued unpaid interest to the redemption date.

The Company used the net proceeds of $641.9 million from the issuance of the Notes, after deducting underwriting discounts and expenses, and cash on hand to extinguish its previously outstanding $650.0 million aggregate principal 6.875% Senior Notes formerly due in March 2013 (the 2013 Notes). All of the 2013 Notes were either tendered or redeemed during 2010. The Company recognized debt extinguishment costs of $8.4 million, which was recorded in "Interest expense" in the consolidated statements of operations. The issuance of the Notes and the extinguishment of the 2013 Notes allowed the Company to extend the maturity of its senior indebtedness and lower the coupon rate.

6.875% Senior Notes

The notes, which were tendered or redeemed during 2010 and are no longer outstanding, were senior unsecured obligations of the Company and ranked equally with all of the Company's other senior unsecured indebtedness. Interest payments were scheduled to occur on March 15 and September 15 of each year. The notes were guaranteed by the Company's Subsidiary Guarantors as defined in the note indenture.

5.875% Senior Notes

The notes are senior unsecured obligations of the Company and rank equally with all of the Company's other senior unsecured indebtedness. Interest payments are scheduled to occur on April 15 and October 15 of each year. The notes are guaranteed by the Company's Subsidiary Guarantors as defined in the note indenture. The note indenture contains covenants which, among other things, limit the Company's ability to incur additional indebtedness and issue preferred stock, pay dividends or make other distributions, make other restricted payments and investments, create liens, sell assets and merge or consolidate with other entities. The notes are redeemable at fixed redemption prices as set forth in the indenture.

7.375% Senior Notes and 7.875% Senior Notes

The notes are general unsecured obligations of the Company and rank senior in right of payment to any subordinated indebtedness of the Company; equally in right of payment with any senior indebtedness of the Company; effectively junior in right of payment to the Company's future secured indebtedness, to the extent of the value of the collateral securing that indebtedness; and effectively junior to all the indebtedness and other liabilities of the Company's subsidiaries that do not guarantee the notes. Interest payments are scheduled to occur on May 1 and November 1 of each year.

The notes are guaranteed by the Company's Subsidiary Guarantors, as defined in the note indenture. The note indenture contains covenants that, among other things, limit the Company's ability to create liens and enter into sale and lease-back transactions. The notes are redeemable at a redemption price equal to 100% of the principal amount of the notes being redeemed plus a make-whole premium, if applicable, and any accrued unpaid interest to the redemption date.

Series Bonds

The Series Bonds were assumed as part of the Excel Coal Limited acquisition. In December 2009, the Company purchased $20.0 million of the bonds in an open market transaction for $19.0 million resulting in a $1.0 million gain that was recorded as a component of "Interest expense" in the consolidated statements of operations. The purchase included $10.0 million of the 6.84% Series A Bonds and $10.0 million of the 6.84% Series C Bonds. Based on this purchase, the 6.84% Series A Bonds were paid in full. The 6.34% Series B Bonds are payable in installments. The first scheduled payment occurred in December 2008. The 6.84% Series C Bonds are payable in installments beginning December 2012. Interest payments are scheduled to occur in June and December of each year. The notes are redeemable at a redemption price equal to 100% of the principal amount of the notes being redeemed plus a make-whole premium, if applicable, and any accrued unpaid interest to the redemption date.

Convertible Junior Subordinated Debentures

As of December 31, 2010, the Company had $732.5 million aggregate principal outstanding of Convertible Junior Subordinated Debentures (the Debentures) that generally require interest to be paid semiannually at a rate of 4.75% per year. The Company may elect to, and to the extent that a mandatory trigger event (as defined in the indenture governing the Debentures) has occurred and is continuing will be required to, defer interest payments on the Debentures. After five years of deferral at the Company's option, or upon the occurrence of a mandatory trigger event, the Company generally must sell warrants or preferred stock with specified characteristics and use the funds from that sale to pay deferred interest, subject to certain limitations. In no event may the Company defer payments of interest on the Debentures for more than 10 years.

The Debentures are convertible at any time on or prior to December 15, 2036 if any of the following conditions occur: (i) the Company's closing common stock price exceeds 140% of the then applicable conversion price for the Debentures (currently $81.64 per share) for at least 20 of the final 30 trading days in any quarter; (ii) a notice of redemption is issued with respect to the Debentures; (iii) a change of control, as defined in the indenture governing the Debentures; (iv) satisfaction of certain trading price conditions; and (v) other specified corporate transactions described in the indenture governing the Debentures. In addition, the Debentures are convertible at any time after December 15, 2036 to December 15, 2041, the scheduled maturity date. In the case of conversion following a notice of redemption or upon a non-stock change of control, as defined in the indenture governing the Debentures, holders may convert their Debentures into cash in the amount of the principal amount of their Debentures and shares of the Company's common stock for any conversion value in excess of the principal amount. In all other conversion circumstances, holders will receive perpetual preferred stock (see Note 13) with a liquidation preference equal to the principal amount of their Debentures, and any conversion value in excess of the principal amount will be settled with the Company's common stock. As a result of the Patriot spin-off, the conversion rate was adjusted. The conversion rate has also been adjusted when there has been a change in the Company's dividend distribution rate. The current conversion rate is 17.1493 shares of common stock per $1,000 principal amount of Debentures effective February 7, 2011. This adjusted conversion rate represents a conversion price of $58.31.

The Debentures are not subject to redemption prior to December 20, 2011. Between December 20, 2011 and December 19, 2036, the Company may redeem the Debentures, in whole or in part, if for at least 20 out of the 30 consecutive trading days immediately prior to the date on which notice of redemption is given, the Company's closing common stock price has exceeded 130% of the then applicable conversion price for the Debentures (currently $75.80 per share). On or after December 20, 2036, whether or not the redemption condition is satisfied, the Company may redeem the Debentures, in whole or in part. The Company may not redeem any Debentures unless (i) all accrued and unpaid interest on the Debentures has been paid in full on or prior to the redemption date and (ii) if any perpetual preferred stock is outstanding, the Company has first given notice to redeem the perpetual preferred stock in the same proportion as the redemption of the Debentures. Any redemption of the Debentures will be at a cash redemption price of 100% of the principal amount of the Debentures to be redeemed, plus accrued and unpaid interest to the date of redemption.

On December 15, 2041, the scheduled maturity date, the Company will use commercially reasonable efforts, subject to the occurrence of a market disruption event, as defined in the indenture governing the Debentures, to issue securities of equivalent equity content in an amount sufficient to pay the principal amount of the Debentures, together with accrued and unpaid interest. At the final maturity date of the Debentures on December 15, 2066, the entire principal amount will become due and payable, together with accrued and unpaid interest.

In connection with the issuance of the Debentures, the Company entered into a Capital Replacement Covenant (the CRC). Pursuant to the CRC, the Company covenanted for the benefit of holders of covered debt, as defined in the CRC (currently the Company's 7.875% Senior Notes, issued in the aggregate principal amount of $250.0 million), that neither the Company nor any of its subsidiaries shall repay, redeem or repurchase all or any part of the Debentures on or after December 15, 2041 and prior to December 15, 2046, except to the extent that the total repayment, redemption or repurchase price does not exceed the sum of: (i) 400% of the Company's net cash proceeds from the sale of its common stock and rights to acquire its common stock (including common stock issued pursuant to the Company's dividend reinvestment plan or employee benefit plans); (ii) the Company's net cash proceeds from the sale of its mandatorily convertible preferred stock, as defined in the CRC, or debt exchangeable for equity, as defined in the CRC; and (iii) the Company's net cash proceeds from the sale of other replacement capital securities, as defined in the CRC, in each case, during the six months prior to the notice date for the relevant payment, redemption or repurchase.

The Debentures are unsecured obligations of the Company, ranking junior to all existing and future senior and subordinated debt (excluding trade accounts payable or accrued liabilities arising in the ordinary course of business) except for any future debt that ranks equal to or junior to the Debentures. The Debentures will rank equal in right of payment with the Company's obligations to trade creditors. Substantially all of the Company's existing indebtedness is senior to the Debentures. In addition, the Debentures will be effectively subordinated to all indebtedness of the Company's subsidiaries. The indenture governing the Debentures places no limitation on the amount of additional indebtedness that the Company or any of the Company's subsidiaries may incur.

The Company accounts for the liability and equity components of the Debentures in a manner that reflects the nonconvertible debt borrowing rate when recognizing interest cost in subsequent periods. The following table illustrates the carrying amount of the equity and debt components of the Debentures:

(Dollars in millions)	**2010**	2009
Carrying amount of the equity component	**$ 215.4**	$ 215.4
Principal amount of the liability component	**732.5**	732.5
Unamortized discount	**(359.2)**	(361.0)
Net carrying amount	**$ 373.3**	$ 371.5

The following table illustrates the effective interest rate and the interest expense related to the Debentures:

(Dollars in millions)	**2010**	2009	2008
Effective interest rate	**4.9%**	4.9%	4.9%
Interest expense – contractual interest coupon	**$34.8**	$34.8	$34.5
Interest expense – amortization of debt discount	**1.8**	1.6	1.5

The remaining period over which the discount will be amortized is 31 years as of December 31, 2010.

Interest Rate Swaps

As of December 31, 2010, the Company had no interest rate swaps in place. At December 31, 2009, there was an unrealized loss of $9.8 million related to a cash flow hedge then in place. The swap was cancelled in 2010 in connection with the refinancing of the Credit Facility as discussed above. The unrealized loss was recorded in "Interest expense" in the consolidated statements of operations at the time of cancellation.

At December 31, 2009, there was a net unrealized gain of $1.5 million on two fair value hedges then in place. The swaps were cancelled in 2010 in connection with the extinguishment of the 2013 Notes as discussed previously. Additionally, at December 31, 2009 there was a fair value hedge adjustment of $3.5 million on the 2013 Notes. These net unrealized gains were reflected as a reduction in "Interest expense" in the consolidated statements of operations at the time of extinguishment.

The fair value hedge adjustment, which represents the unamortized portion of terminated fair value hedges ($2.2 million and $8.4 million at December 31, 2010 and 2009, respectively), is reflected as an adjustment to the carrying value of the related debt.

Because the critical terms of the swaps and the respective debt instruments they hedged coincided, there was no hedge ineffectiveness recognized in the consolidated statements of operations during the years ended December 31, 2010, 2009, or 2008.

Capital Lease Obligations

Capital lease obligations are for mining equipment (see Note 9 for additional information).

Debt Maturities, Interest Paid, and Financing Costs

The aggregate amounts of long-term debt maturities (excluding unamortized debt discounts) subsequent to December 31, 2010, including capital lease obligations, were as follows:

Year of Maturity (Dollars in millions)	
2011	**$ 43.2**
2012	**50.2**
2013	**58.8**
2014	**50.0**
2015	**400.4**
2016 and thereafter	**2,147.4**
Total	**$2,750.0**

Interest paid on long-term debt was $197.9 million, $201.6 million and $226.0 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Financing costs incurred with the issuance of the Company's debt are being amortized to interest expense over the remaining term of the associated debt. The remaining balance at December 31, 2010 was $52.0 million, of which $35.5 million will be amortized to interest expense over the next five years.

(9) LEASES

The Company leases equipment and facilities under various noncancelable lease agreements. Certain lease agreements require the maintenance of specified ratios and contain restrictive covenants which limit indebtedness, subsidiary dividends, investments, asset sales and other Company actions. Rental expense under operating leases was $181.7 million, $127.8 million and $121.3 million for the years ended December 31, 2010, 2009 and 2008, respectively. The gross value of property, plant, equipment and mine development assets under capital leases was $109.5 million and $98.4 million as of December 31, 2010 and 2009, respectively, related primarily to the leasing of mining equipment. The accumulated depreciation for these items was $39.5 million and $31.0 million at December 31, 2010 and 2009, respectively.

The Company also leases coal reserves under agreements that require royalties to be paid as the coal is mined. Certain agreements also require minimum annual royalties to be paid regardless of the amount of coal mined during the year. Total royalty expense was $548.7 million, $439.4 million and $506.4 million for the years ended December 31, 2010, 2009 and 2008, respectively.

A substantial amount of the coal mined by the Company is produced from mineral reserves leased from the owner. One of the major lessors is the U.S. government, from which the Company leases substantially all of the coal it mines in Wyoming and a majority of the coal it mines in Colorado under terms set by Congress and administered by the U.S. Bureau of Land Management. These leases are generally for an initial term of ten years but may be extended by diligent development and mining of the reserves until all economically recoverable reserves are depleted. The Company has met the diligent development requirements for substantially all of these federal leases either directly through production, by including the lease as a part of a logical mining unit with other leases upon which development has occurred, or by paying advance royalty in lieu of continued operations. Annual production on these federal leases must total at least 1.0% of the original amount of coal in the entire logical mining unit. In addition, royalties are payable monthly at a rate of 12.5% of the gross realization from the sale of the coal mined using surface mining methods and at a rate of 8.0% of the gross realization for coal produced using underground mining methods. The Company also leases coal reserves in Arizona from The Navajo Nation and the Hopi Tribe under leases that are administered by the U.S. Department of the Interior. These leases expire upon exhaustion of the leased reserves or upon the permanent ceasing of all mining activities on the related reserves as a whole. The royalty rates are also generally based upon a percentage of the gross realization from the sale of coal. These rates are subject to redetermination every ten years under the terms of the leases. The remainder of the leased coal is generally leased from state governments, land holding companies and various individuals. The duration of these leases varies greatly. Typically, the lease terms are automatically extended as long as active mining continues. Royalty payments are generally based upon a specified rate per ton or a percentage of the gross realization from the sale of the coal.

Mining and exploration in Australia is generally executed under leases or licenses granted by state governments. Mining leases are typically for an initial term of up to 21 years (but which may be renewed) and contain conditions relating to such matters as minimum annual expenditures, restoration and rehabilitation. Royalties are paid to the state government as a percentage of the sales price. Generally landowners do not own the mineral rights or have the ability to grant rights to mine those minerals. These rights are retained by state governments. Compensation is payable to landowners for the loss of access to the land where the landowner retains the surface rights, and the amount and type of compensation can be determined by agreement or arbitration as provided in the mining law. Surface rights are typically acquired directly from landowners by mutual agreement.

Future minimum lease and royalty payments as of December 31, 2010 are as follows:

(Dollars in millions)	*Capital Leases*	*Operating Leases*	*Coal Lease and Royalty Obligations*
2011	$17.0	$ 95.6	$ 7.2
2012	17.0	78.7	6.9
2013	25.1	68.5	7.4
2014	15.5	59.0	6.2
2015	–	47.1	4.0
2016 and thereafter	–	106.9	30.3
Total minimum lease payments	$74.6	$455.8	$62.0
Less interest	5.0		
Present value of minimum capital lease payments	$69.6		

As of December 31, 2010, certain of the Company's lease obligations were secured by outstanding surety bonds totaling $110.3 million.

(10) ASSET RETIREMENT OBLIGATIONS

Reconciliations of the Company's ARO liability are as follows:

(Dollars in millions)	***2010***	*2009*
Balance at beginning of year	**$452.1**	$418.7
Liabilities incurred or acquired	**8.2**	0.4
Liabilities settled or disposed	**(7.9)**	(8.1)
Accretion expense	**26.7**	24.0
Revisions to estimates	**22.2**	17.1
Balance at end of year	**$501.3**	$452.1
Balance at end of year – active locations	**$465.4**	$422.0
Balance at end of year – closed or inactive locations	**$ 35.9**	$ 30.1

The credit-adjusted, risk-free interest rates were 6.37%, 7.92%, and 7.91% at December 31, 2010, 2009 and 2008, respectively.

As of December 31, 2010 and 2009, the Company had $704.4 million and $772.3 million, respectively, in surety bonds and bank guarantees outstanding to secure reclamation obligations or activities. The amount of reclamation self-bonding in certain states in which the Company qualifies was $920.3 million and $821.9 million as of December 31, 2010 and 2009, respectively. Additionally, the Company had $0.1 million and $34.9 million of letters of credit in support of reclamation obligations or activities as of December 31, 2010 and 2009, respectively.

(11) POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The Company currently provides health care and life insurance benefits to qualifying salaried and hourly retirees and their dependents from defined benefit plans established by the Company. Plan coverage for health and life insurance benefits is provided to future hourly retirees in accordance with the applicable labor agreement.

Net periodic postretirement benefit cost included the following components:

(Dollars in millions)	***2010***	*2009*	*2008*
Service cost for benefits earned	**$12.9**	$10.5	$10.1
Interest cost on accumulated postretirement benefit obligation	**58.2**	55.2	54.0
Amortization of prior service cost	**2.6**	1.5	0.4
Amortization of actuarial loss	**24.9**	14.5	17.3
Net periodic postretirement benefit cost	**$98.6**	$81.7	$81.8

The following includes amounts recognized in accumulated other comprehensive loss:

(Dollars in millions)	***2010***	*2009*	*2008*
Net actuarial (gain) loss arising during year	**$ 45.3**	$165.2	$(18.3)
Prior service cost arising during year	**7.9**	(10.5)	–
Amortization:			
Actuarial loss	**(24.9)**	(14.5)	(17.3)
Prior service cost	**(2.6)**	(1.5)	(0.4)
Total recognized in other comprehensive loss	**25.7**	138.7	(36.0)
Net periodic postretirement benefit cost	**98.6**	81.7	81.8
Total recognized in net periodic postretirement benefit cost and other comprehensive loss	**$124.3**	$220.4	$ 45.8

The Company amortizes actuarial gain and loss using a 0% corridor with an amortization period that covers the average remaining service period of active employees (11.93 years and 10.92 years at January 1, 2010 and 2009, respectively). The estimated net actuarial loss and prior service cost that will be amortized from accumulated other comprehensive loss into net periodic postretirement benefit cost during the year ended December 31, 2011 are $26.9 million and $2.8 million, respectively.

The following table sets forth the plan's funded status reconciled with the amounts shown in the consolidated balance sheets:

(Dollars in millions)	***2010***	*2009*
Change in benefit obligation:		
Accumulated postretirement benefit obligation at beginning of period	**$ 982.2**	$ 833.4
Service cost	**12.9**	10.5
Interest cost	**58.2**	55.2
Participant contributions	**2.1**	1.2
Plan amendments [1]	**7.9**	(10.5)
Benefits paid	**(77.4)**	(72.8)
Actuarial loss	**45.3**	165.2
Accumulated postretirement benefit obligation at end of period	**1,031.2**	982.2
Change in plan assets:		
Fair value of plan assets at beginning of period	**–**	–
Employer contributions	**75.3**	71.6
Participant contributions	**2.1**	1.2
Benefits paid and administrative fees (net of Medicare Part D reimbursements)	**(77.4)**	(72.8)
Fair value of plan assets at end of period	**–**	–
Funded status at end of year	**(1,031.2)**	(982.2)
Less current portion (included in Accounts payable and accrued expenses)	**67.3**	68.1
Noncurrent obligation (included in Accrued postretirement benefit costs)	**$ (963.9)**	$(914.1)

(1) Effective January 1, 2011, certain plans were modified to ensure consistency of benefits across the Company, the impact of which is reflected in the December 31, 2010 figures above. Effective January 1, 2010, the benefits provided to certain salaried retirees were capped at a fixed level, which resulted in a decrease to the retiree health care liability of $7.3 million, the impact of which is reflected in the December 31, 2009 figures above. The Company began realizing the effect of this plan amendment over 13.54 years beginning January 1, 2010.

The weighted-average assumptions used to determine the benefit obligations as of the end of each year were as follows:

	2010	*2009*
Discount rate	**5.81%**	6.14%
Rate of compensation increase	**3.50%**	3.50%
Measurement date	**Dec. 31, 2010**	Dec. 31, 2009

The weighted-average assumptions used to determine net periodic benefit cost were as follows:

	2010	2009	2008
Discount rate	**6.14%**	6.85%	6.60%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Measurement date	**Dec. 31, 2009**	Dec. 31, 2008	Dec. 31, 2007

The following presents information about the assumed health care cost trend rate:

	2010	2009
Health care cost trend rate assumed for next year	**9.00%**	7.50%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	**5.00%**	5.00%
Year that the rate reaches the ultimate trend rate	**2017**	2016

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage-point change in the assumed health care cost trend would have the following effects:

(Dollars in millions)	One Percentage-Point Increase	One Percentage-Point Decrease
Effect on total service and interest cost components	$ 7.8	$ (6.6)
Effect on total postretirement benefit obligation	$112.5	$(94.4)

Plan Assets

The Company's postretirement benefit plans are unfunded.

Estimated Future Benefit Payments

The following benefit payments (net of retiree contributions), which reflect expected future service as appropriate, are expected to be paid by the Company:

(Dollars in millions)	Postretirement Benefits
2011	$ 67.3
2012	68.8
2013	72.6
2014	74.6
2015	76.5
Years 2016-2020	402.2

(12) PENSION AND SAVINGS PLANS

One of the Company's subsidiaries, Peabody Investments Corp. (PIC), sponsors a defined benefit pension plan covering certain U.S. salaried employees and eligible hourly employees at certain PIC subsidiaries (the Peabody Plan). A PIC subsidiary also has a defined benefit pension plan covering eligible employees who are represented by the United Mine Workers of America (UMWA) under the Western Surface Agreement (the Western Plan). PIC also sponsors an unfunded supplemental retirement plan to provide senior management with benefits in excess of limits under the federal tax law. These plans are collectively referred to as The Plans.

Effective May 31, 2008, the Peabody Plan was frozen in its entirety for both participation and benefit accrual purposes. The Company adopted an enhanced savings plan contribution structure in lieu of benefits formerly accrued under the Peabody Plan.

Net periodic pension cost included the following components:

(Dollars in millions)	2010	2009	2008
Service cost for benefits earned	**$ 1.5**	$ 1.4	$ 2.0
Interest cost on projected benefit obligation	**50.5**	51.3	51.0
Expected return on plan assets	**(58.3)**	(60.9)	(60.6)
Amortization of prior service cost	**1.4**	1.4	1.3
Amortization of actuarial (gains) losses	**21.9**	1.9	(0.5)
Net periodic pension costs	**17.0**	(4.9)	(6.8)
Curtailment gain	**–**	–	(0.6)
Total net periodic pension (benefit) cost	**$ 17.0**	$ (4.9)	$ (7.4)

The following includes amounts recognized in accumulated other comprehensive loss:

(Dollars in millions)	2010	2009	2008
Net actuarial loss arising during year	**$ 13.1**	$46.1	$199.2
Amortization:			
Actuarial gain (loss)	**(21.9)**	(1.9)	0.5
Prior service cost	**(1.4)**	(1.4)	(0.7)
Total recognized in other comprehensive loss	**(10.2)**	42.8	199.0
Net periodic pension (benefit) cost	**17.0**	(4.9)	(6.8)
Total recognized in net periodic pension cost and other comprehensive loss	**$ 6.8**	$37.9	$192.2

The Company amortizes actuarial gain and loss using a 5% corridor with a five-year amortization period. The estimated net actuarial loss and prior service cost that will be amortized from accumulated other comprehensive loss into net periodic pension cost during the year ended December 31, 2011 are $30.1 million and $1.0 million, respectively.

The following summarizes the change in benefit obligation, change in plan assets and funded status of the Company's plans:

(Dollars in millions)	2010	2009
Change in benefit obligation:		
Projected benefit obligation at beginning of period	**$ 844.9**	$ 768.6
Service cost	**1.5**	1.4
Interest cost	**50.5**	51.3
Benefits paid	**(50.4)**	(48.3)
Actuarial loss	**34.5**	71.9
Projected benefit obligation at end of period	**881.0**	844.9
Change in plan assets:		
Fair value of plan assets at beginning of period	**629.6**	552.6
Actual return on plan assets	**79.8**	86.6
Employer contributions	**112.6**	38.7
Benefits paid	**(50.4)**	(48.3)
Fair value of plan assets at end of period	**771.6**	629.6
Funded status at end of year	**$(109.4)**	$(215.3)
Amounts recognized in the consolidated balance sheets:		
Current obligation (included in Accounts payable and accrued expenses)	**$ (1.8)**	$ (1.8)
Noncurrent obligation (included in Other noncurrent liabilities)	**(107.6)**	(213.5)
Net amount recognized	**$(109.4)**	$(215.3)

The weighted-average assumptions used to determine the benefit obligations as of the end of each year were as follows:

	2010	2009
Discount rate	**5.84%**	6.19%
Rate of compensation increase	**N/A**	N/A
Measurement date	**Dec. 31, 2010**	Dec. 31, 2009

The weighted-average assumptions used to determine net periodic benefit cost were as follows:

	2010	2009	2008
Discount rate	**6.19%**	6.90%	6.75%
Expected long-term return on plan assets	**8.25%**	8.75%	8.75%
Measurement date	**Dec. 31, 2010**	Dec. 31, 2009	Dec. 31, 2008

The expected rate of return on plan assets is determined by taking into consideration expected long-term returns associated with each major asset class (net of inflation) based on long-term historical ranges, inflation assumptions and the expected net value from active management of the assets based on actual results. Effective January 1, 2010, the Company lowered its expected rate of return on plan assets from 8.75% to 8.25% given the decline in asset performance due to the global recession and disruption in the financial markets, as well as management's reevaluation of the ongoing impact of active management of assets by outside investment advisors.

The projected benefit obligation and the accumulated benefit obligation exceeded plan assets for all plans as of December 31, 2010 and 2009. The accumulated benefit obligation for all pension plans was $881.0 million and $844.9 million as of December 31, 2010 and 2009, respectively.

Assets of the Plans

Assets of the Peabody Plan and the Western Plan are commingled in the PIC Master Trust (the Master Trust) and are invested in accordance with investment guidelines that have been established by the Company's Retirement Committee (the Retirement Committee) after consultation with outside investment advisors and actuaries.

The asset allocation targets have been set with the expectation that the Plans' assets will be managed with an appropriate level of risk so that they can fund each Plan's expected liabilities. To determine the appropriate target asset allocations, the Retirement Committee considers the demographics of each Plan's participants, the funding status of each Plan, the business and financial profile of the Company and other associated risk preferences. These allocation targets are reviewed by the Retirement Committee on a regular basis and revised as necessary. The current target allocations for plan assets are 55% equity securities, 35% fixed income investments and 10% real estate investments. The Company plans to transition to 60% equity securities and 40% fixed income investments over time.

Assets of the Plans are either under active management by third-party investment advisors or in index funds, all selected and monitored by the Retirement Committee. The Retirement Committee has established specific investment guidelines for each major asset class including performance benchmarks, allowable and prohibited investment types and concentration limits. In general, the Plans' investment guidelines do not permit leveraging the assets held in the Master Trust. Equity investment guidelines do not permit entering into put or call options (except as deemed appropriate to manage currency risk), and futures contracts are permitted only to the extent necessary to equitize cash holdings.

A financial instrument's level within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for investments measured at fair value, including the general classification of such investments pursuant to the valuation hierarchy.

U.S. equity securities

Investment vehicles include various small-cap publicly traded common stocks, an exchange-traded fund and a common/collective trust. Publicly traded common stocks and the exchange-traded fund are traded on a national securities exchange and are valued at quoted market prices in active markets and are classified within Level 1 of the valuation hierarchy. While the common/collective trust invests in various large-cap publicly traded common stocks that are traded on a national securities exchange, it is classified within Level 2 of the valuation hierarchy since the net asset value (NAV) is based on a derived price in an active market and it is not publicly traded on a national securities exchange. U.S. equity securities are not subject to liquidity redemption restrictions.

International equity securities

Investment vehicles include a common/collective trust and an investment entity that primarily invest in various large-cap international equity securities that are valued on the basis of quotations from the primary market in which they are traded and translated at each valuation date from the local currency into U.S. dollars using the mean between the bid and asked market rates for such currencies. The NAV of the fund and the calculation of the NAV of each underlying investment are determined in U.S. dollars by the custodial trustee or at the direction of the investment manager as of the end of each month. These investments are classified within the Level 2 valuation hierarchy since the NAV is based on a derived price in an active market and neither the common/collective trust nor the investment entity are publicly traded on a national securities exchange. Redemptions of the common/collective trust and 103-12 investment entity can only occur as of the last business day of the month with a notification period of six business days and three business days before the end of the month, respectively.

Debt securities

Investment vehicles include U.S. government and agency securities and various institutional mutual funds that hold mortgage-backed debt securities, international debt securities and corporate debt securities. Institutional mutual funds are invested in various diversified portfolios of fixed-income instruments, and the NAV for each institutional mutual fund is calculated daily in actively traded markets by an independent custodian for the investment manager. The U.S. government and agency securities are classified within the Level 1 valuation hierarchy since fair value is based on public price quotations in active markets. The institutional mutual funds are classified within the Level 2 valuation hierarchy since fair value inputs are derived prices in active markets and the institutional mutual funds are not publicly traded on a national securities exchange. Debt securities are not subject to liquidity redemption restrictions.

Short-term investments

Investment vehicles primarily include institutional mutual funds. Short-term investments include a diversified portfolio of liquid, short-term instruments of varying maturities. The institutional mutual funds are classified within the Level 2 valuation hierarchy since fair value inputs are derived prices in active markets and the institutional mutual funds are not publicly traded on a national securities exchange.

Interests in real estate

Investments in real estate represent interests in several limited partnerships, which invest in various real estate properties. They are valued using various methodologies including independent third party appraisals. For some investments little market activity may exist and determination of fair value is then based on the best information available in the circumstances. This involves a significant degree of judgment by taking into consideration a combination of internal and external factors. Based on the above factors, the real estate funds are classified within the Level 3 valuation hierarchy.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The inputs or methodologies used for valuing investments are not necessarily an indication of the risk associated with investing in those investments.

The following tables present the fair value of assets in the Master Trust by asset category and by fair value hierarchy:

	2010			
(Dollars in millions)	*Level 1*	*Level 2*	*Level 3*	*Total*
U.S. equity securities	**$82.6**	**$250.5**	**$ –**	**$333.1**
International equity securities	**–**	**118.9**	**–**	**118.9**
Mortgage-backed debt securities	**–**	**108.2**	**–**	**108.2**
U.S. debt securities	**0.6**	**60.2**	**–**	**60.8**
International debt securities	**–**	**25.7**	**–**	**25.7**
Corporate debt securities	**–**	**46.1**	**–**	**46.1**
Short-term investments	**–**	**31.1**	**–**	**31.1**
Interests in real estate	**–**	**–**	**47.7**	**47.7**
Total assets at fair value	**$83.2**	**$640.7**	**$47.7**	**$771.6**

	2009			
(Dollars in millions)	*Level 1*	*Level 2*	*Level 3*	*Total*
U.S. equity securities	$68.1	$200.2	$ –	$268.3
International equity securities	–	102.2	–	102.2
Mortgage-backed debt securities	–	77.5	–	77.5
U.S. debt securities	10.5	35.3	–	45.8
International debt securities	–	19.2	–	19.2
Corporate debt securities	–	37.2	–	37.2
Short-term investments	–	32.0	–	32.0
Interests in real estate	–	–	47.4	47.4
Total assets at fair value	$78.6	$503.6	$47.4	$629.6

The table below sets forth a summary of changes in the fair value of the Master Trust's Level 3 investments.

(Dollars in millions)	***2010***	*2009*
Interests in Real Estate		
Beginning of year	**$47.4**	$ 62.2
Assets held at the reporting date:		
Realized loss	**(0.1)**	(0.8)
Unrealized gain (loss)	**1.3**	(19.3)
Purchases, sales and settlements, net	**(0.9)**	5.3
End of year	**$47.7**	$ 47.4

Contributions

Annual contributions to the Plans are made as recommended by consulting actuaries based upon the Employee Retirement Income Security Act of 1974 minimum funding standard. In May 1998, the Company entered into an agreement with the Pension Benefit Guaranty Corporation (PBGC) which requires the Company to maintain certain minimum funding requirements. Effective January 1, 2008, new minimum funding standards required by the Pension Protection Act of 2006 (the Pension Protection Act) increased the long-term funding targets for single employer pension plans from 90% to 100%. The Pension Protection Act also introduced "benefit restriction" and "at-risk" penalties for plans that fail to meet certain funded status thresholds (generally 80%). As of December 31, 2010, the Company's qualified plans are expected to be at or above these Pension Protection Act thresholds, and therefore, avoid benefit restrictions and at-risk penalties for 2011. The Company does not anticipate any contributions to the qualified plans during 2011.

Estimated Future Benefit Payments

The following benefit payments (net of retiree contributions), which reflect expected future service, as appropriate, are expected to be paid by the Master Trust:

(Dollars in millions)	*Pension Benefits*
2011	$ 55.7
2012	57.0
2013	58.5
2014	60.6
2015	62.7
Years 2016-2020	330.7

Defined Contribution Plans

The Company sponsors employee retirement accounts under three 401(k) plans for eligible U.S. employees. The Company matches voluntary contributions to each plan up to specified levels. The expense for these plans was $51.3 million, $47.9 million and $50.5 million for the years ended December 31, 2010, 2009 and 2008, respectively. A performance contribution feature allows for additional contributions from the Company based upon meeting specified Company performance targets. Performance contributions related to the years ended December 31, 2010, 2009 and 2008 were $20.6 million, $20.3 million and $18.7 million, respectively.

(13) STOCKHOLDERS' EQUITY

Common Stock

The Company has 800.0 million authorized shares of $0.01 par value common stock. Holders of common stock are entitled to one vote per share on all matters to be voted upon by the stockholders and vote together, as one class, with the holders of the Company's Series A Junior Participating Preferred Stock, if any such shares were issued and outstanding. The holders of common stock do not have cumulative voting rights in the election of directors. Holders of common stock are entitled to receive ratably dividends if, as and when dividends are declared from time to time by the Company's Board of Directors out of funds legally available for that purpose, after payment of dividends required to be paid on outstanding preferred stock or series common stock, as described below. Upon liquidation, dissolution or winding up, any business combination or a sale or disposition of all or substantially all of the assets, the holders of common stock are entitled to receive ratably the assets available for distribution to the stockholders after payment of liabilities and accrued but unpaid dividends and liquidation preferences on any outstanding preferred stock or series common stock. The common stock has no preemptive or conversion rights and is not subject to further calls or assessment by the Company. There are no redemption or sinking fund provisions applicable to the common stock.

The following table summarizes common stock activity January 1, 2008 to December 31, 2010:

	2010	2009	2008
Shares outstanding at the beginning of the year	**268,203,815**	266,644,979	270,066,621
Stock options exercised	**1,529,501**	463,490	1,388,174
Stock grants to employees	**585,897**	794,213	788,895
Employee stock purchases	**179,611**	374,548	119,737
Stock grants to non-employee directors	**5,740**	4,788	2,870
Shares repurchased	**–**	–	(5,524,574)
Shares relinquished	**(268,308)**	(78,203)	(196,744)
Shares outstanding at the end of the year	**270,236,256**	268,203,815	266,644,979

Preferred Stock and Series Common Stock

The Board of Directors is authorized to issue up to 10.0 million shares of preferred stock and up to 40.0 million shares of series common stock, both with a $0.01 per share par value. The Board of Directors can determine the terms and rights of each series, whether dividends (if any) will be cumulative or non-cumulative and the dividend rate of the series, redemption or sinking fund provisions, conversion terms, prices and rates, and amounts payable on shares of the series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company. The Board of Directors may also determine restrictions on the issuance of shares of the same series or of any other class or series, and the voting rights (if any) of the holders of the series. There were no outstanding shares of preferred stock or series common stock as of December 31, 2010.

Perpetual Preferred Stock

As discussed in Note 8, the Company had $732.5 million aggregate principal amount of Debentures outstanding as of December 31, 2010. Perpetual preferred stock issued upon a conversion of the Debentures will be fully paid and non-assessable, and holders will have no preemptive or preferential right to purchase any of the Company's other securities. The perpetual preferred stock has a liquidation preference of $1,000 per share, is not convertible and is redeemable at the Company's option at any time at a cash redemption price per share equal to the liquidation preference plus any accumulated dividends. Holders are entitled to receive cumulative dividends at an annual rate of 3.0875% if and when declared by the Company's Board of Directors. If the Company fails to pay dividends on the perpetual preferred stock for five years, or upon the occurrence of a mandatory trigger event, as defined in the certificate of designations governing the perpetual preferred stock, the Company generally must sell warrants or preferred stock with specified characteristics and use the funds from that sale to pay accumulated dividends after the payment in full of any deferred interest on the Debentures, subject to certain limitations. In the event of a mandatory trigger event, the Company may not declare dividends on the perpetual preferred stock other than those funded through the sale of warrants or preferred stock as described above. Any deferred interest on the Debentures at the time of notice of conversion will be reflected as accumulated dividends on the perpetual preferred stock at issuance. Additionally, holders of the perpetual preferred stock are entitled to elect two additional members to serve on the Company's Board of Directors if (i) prior to any remarketing of the perpetual preferred stock, the Company fails to declare and pay dividends with respect to the perpetual stock for 10 consecutive years or (ii) after any successful remarketing or any final failed remarketing of the perpetual preferred stock, the Company fails to declare and pay six dividends thereon, whether or not consecutive. The perpetual preferred stock may be remarketed at the holder's election after December 15, 2046 or earlier, upon the first occurrence of a change of control if the Company does not redeem the perpetual preferred stock. There were no outstanding shares of perpetual preferred stock as of December 31, 2010.

Preferred Share Purchase Rights Plan and Series A Junior Participating Preferred Stock

Each outstanding share of common stock, par value $0.01 per share, of the Company carries one preferred share purchase right (a Right). The Rights are governed by a plan that expires in August 2012.

The Rights have certain anti-takeover effects. The Rights will cause substantial dilution to a person or group that attempts to acquire the Company on terms not approved by the Company's Board of Directors, except pursuant to any offer conditioned on a substantial number of Rights being acquired. The Rights should not interfere with any merger or other business combination approved by the Board of Directors since the Rights may be redeemed by the Company at a redemption price of $0.001 per Right prior to the time that a person or group has acquired beneficial ownership of 15% or more of the common stock of the Company. In addition, the Board of Directors is authorized to reduce the 15% threshold to not less than 10%.

Each Right entitles the holder to purchase one quarter of one-hundredth of a share of Series A Junior Participating Preferred Stock from the Company at an exercise price of $27.50, which in turn provides rights to receive the number of common stock shares having a market value of two times the exercise price of the Right. The Right is exercisable only if a person or group acquires 15% or more of the Company's common stock. The Board of Directors is authorized to issue up to 1.5 million shares of Series A Junior Participating Preferred Stock. There were no outstanding shares of Series A Junior Participating Preferred Stock as of December 31, 2010.

Treasury Stock

Share repurchase program

The Company has a share repurchase program for its common stock with an authorized amount of $1 billion in which repurchases may be made from time to time based on an evaluation of the Company's outlook and general business conditions, as well as alternative investment and debt repayment options. The Company's Chairman and Chief Executive Officer also has authority to direct the Company to repurchase up to $100 million of common stock outside the share repurchase program. The repurchase program does not have an expiration date and may be discontinued at any time. Through December 31, 2010, the Company made repurchases under the program of 7.7 million shares at a cost of $299.6 million ($199.8 million in 2008 and $99.8 million in 2006), leaving $700.4 million available for share repurchase under the program.

Shares relinquished

During the year ended December 31, 2010, the Company received 268,308 shares of common stock to pay estimated taxes as consideration for the payout of performance units and the vesting of restricted stock. The value of the common stock tendered by employees was based upon the closing price on the dates of the respective transactions.

(14) SHARE-BASED COMPENSATION

The Company has equity incentive plans for employees and non-employee directors that in the aggregate allow for the issuance of share-based compensation in the form of stock appreciation rights, restricted stock, performance awards, incentive stock options, nonqualified stock options and deferred stock units. These plans made 24.8 million shares of the Company's common stock available for grant, with 10.3 million shares available for grant as of December 31, 2010. The Company has two employee stock purchase plans that provide for the purchase of up to 6.0 million shares of the Company's common stock, with 5.0 million shares authorized for purchase by U.S. employees and 1.0 million shares authorized for purchase by Australian employees.

Share-Based Compensation Expense and Cash Flows

The Company's share-based compensation expense is recorded in "Selling and administrative expenses" in the consolidated statements of operations. The cash received by the Company upon the exercise of stock options and when employees purchase stock under the employee stock purchase plans is reflected as a financing activity in the consolidated statements of cash flows. Share-based compensation expense and cash flow amounts were as follows:

(Dollars in millions)	2010	2009	2008
Share-based compensation expense	**$41.1**	$38.8	$34.9
Tax benefit	**15.4**	15.0	13.5
Share-based compensation expense, net of tax benefit	**25.7**	23.8	21.4
Cash received upon the exercise of stock options and from employee stock purchases	**22.2**	8.7	19.3
Excess tax benefits related to share-based compensation	**51.0**	–	–

As of December 31, 2010, the total unrecognized compensation cost related to nonvested awards was $23.0 million, net of taxes, which is expected to be recognized over 3.5 years with a weighted-average period of 0.8 years.

Deferred Stock Units

In 2010, 2009 and 2008, the Company granted deferred stock units to each of its non-employee directors. The fair value of these units is equal to the market price of the Company's common stock at the date of grant. These deferred stock units generally vest after one year and are settled in common stock on the specified distribution date elected by each non-employee director.

Restricted Stock Awards

The primary share-based compensation tool used by the Company for its employee base is through awards of restricted stock. The majority of restricted stock awards are typically granted in January of each year with a lesser portion granted in the first month of the subsequent three quarters. Awards generally cliff vest after three years of service. The fair value of restricted stock is equal to the market price of the Company's common stock at the date of grant and is amortized to expense ratably over the vesting period, net of estimated forfeitures.

A summary of restricted stock award activity is as follows:

	2010	Weighted Average Grant-Date Fair Value
Nonvested at December 31, 2009	**2,144,865**	$35.51
Granted	**493,360**	47.18
Vested	**(643,828)**	31.86
Forfeited	**(100,098)**	39.40
Nonvested at December 31, 2010	**1,894,299**	$39.32

The total fair value of restricted stock awards granted during the years ended December 31, 2010, 2009 and 2008, was $23.3 million, $23.1 million and $20.4 million, respectively. The total fair value of restricted stock awards vested during the years ended December 31, 2010, 2009 and 2008, was $20.5 million, $11.2 million and $2.8 million, respectively.

Stock Options

Over the past few years, the Company's stock option awards have been primarily limited to senior management personnel. All stock options are granted at an exercise price equal to the market price of the Company's common stock at the date of grant. Stock options generally vest in one-third increments over a period of three years or cliff vest after three years, and expire after 10 years from the date of grant. Expense is recognized ratably over the vesting period, net of estimated forfeitures. Option grants are typically made in January of each year or upon hire for eligible plan participants.

The Company used the Black-Scholes option pricing model to determine the fair value of stock options. The Company utilized U.S. Treasury yields as of the grant date for its risk-free interest rate assumption, matching the Treasury yield terms to the expected life of the option. The Company utilized historical company data to develop its dividend yield, expected volatility and expected option life assumptions.

A summary of outstanding option activity under the plans is as follows:

	2010	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in millions)
Options Outstanding at December 31, 2009	**3,246,030**	$20.44	4.7	$85.1
Granted	**257,375**	47.87		
Exercised	**(1,310,059)**	11.88		
Forfeited	**(277,045)**	3.30		
Options Outstanding at December 31, 2010	**1,916,301**	$32.25	5.9	$61.2
Vested and Exercisable	**1,239,155**	$27.61	4.6	$45.1

During the years ended December 31, 2010, 2009 and 2008, the total intrinsic value of options exercised, defined as the excess fair value of the underlying stock over the exercise price of the options, was $53.7 million, $14.7 million and $72.8 million, respectively. The weighted-average fair values of the Company's stock options and the assumptions used in applying the Black-Scholes option pricing model were as follows:

	2010	2009	2008
Weighted-average fair value	**$25.70**	$26.84	$64.31
Risk-free interest rate	**2.8%**	1.5%	3.3%
Expected option life	**5.0 years**	5.0 years	5.0 years
Expected volatility	**64%**	60%	40%
Dividend yield	**0.6%**	0.9%	0.5%

Performance Units

Performance units are typically granted annually in January and vest over a three-year measurement period. Prior to 2009, the performance units were usually subject to the achievement of two goals, 50% based on stock price performance compared to both an industry peer group and a S&P index (market condition) and 50% based on a return on capital target (performance condition). For 2009 and 2010, the units granted were only subject to the achievement of the market condition. Three performance unit grants are outstanding for any given year. The payouts related to all active grants will be settled in the Company's common stock.

A summary of performance unit activity is as follows:

	2010	Weighted Average Remaining Contractual Life
Nonvested at December 31, 2009	**356,444**	1.5
Granted	**138,399**	
Forfeited	**–**	
Vested	**(108,181)**	
Nonvested at December 31, 2010	**386,662**	1.5

As of December 31, 2010, there were 108,181 performance units vested that had an aggregate intrinsic value of $10.0 million and a conversion price per share of $62.36.

The performance condition awards were valued utilizing the grant date fair values of the Company's stock adjusted for dividends foregone during the vesting period. The market condition awards were valued utilizing a Monte Carlo simulation which incorporates the total stockholder return hurdles set for each grant. The assumptions used in the valuations for grants were as follows:

	2010	2009	2008
Risk-free interest rate	**1.7%**	1.3%	2.9%
Expected volatility	**64%**	60%	40%
Dividend yield	**0.6%**	0.9%	0.5%

Employee Stock Purchase Plans

The Company's eligible full-time and part-time employees are able to contribute up to 15% of their base compensation into the employee stock purchase plans, subject to a limit of $25,000 per person per year. Employees are able to purchase Company common stock at a 15% discount to the lower of the fair market value of the Company's common stock on the initial or final trading dates of each six-month offering period. Offering periods begin on January 1 and July 1 of each year. The Company uses the Black-Scholes option pricing model to determine the fair value of employee stock purchase plans share-based payments. The fair value of the six-month "look-back" option in the Company's employee stock purchase plans is estimated by adding the fair value of 0.15 of one share of stock to the fair value of 0.85 of an option on one share of stock. The Company utilized U.S. Treasury yields as of the grant date for its risk-free interest rate assumption, matching the Treasury yield terms to the six-month offering period. The Company utilized historical company data to develop its dividend yield and expected volatility assumptions.

Shares purchased under the plans were 0.2 million for the year ended December 31, 2010, 0.3 million for the year ended December 31, 2009 and 0.1 million for the year ended December 31, 2008.

(15) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table sets forth the after-tax components of comprehensive income (loss):

(Dollars in millions)	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	Total Accumulated Other Comprehensive Loss
December 31, 2007	$3.1	$ (116.7)	$(18.9)	$ 65.4	$ (67.1)
Net decrease in fair value of cash flow hedges	–	–	–	(194.5)	(194.5)
Reclassification from other comprehensive income to earnings	–	14.1	0.2	(23.4)	(9.1)
Current period change	–	(117.8)	–	–	(117.8)
December 31, 2008	3.1	(220.4)	(18.7)	(152.5)	(388.5)
Net increase in fair value of cash flow hedges	–	–	–	235.2	235.2
Reclassification from other comprehensive income to earnings	–	11.8	1.8	84.6	98.2
Current period change	–	(134.9)	6.5	–	(128.4)
December 31, 2009	3.1	(343.5)	(10.4)	167.3	(183.5)
Net increase in fair value of cash flow hedges	–	–	–	229.9	229.9
Reclassification from other comprehensive income to earnings	–	31.8	2.5	(102.4)	(68.1)
Current period change	–	(46.2)	–	–	(46.2)
December 31, 2010	**$3.1**	**$(357.9)**	**$ (7.9)**	**$294.8**	**$(67.9)**

Comprehensive income (loss) differs from net income by the amount of unrealized gain or loss resulting from valuation changes of the Company's cash flow hedges (see Note 4 and Note 5 for information related to the Company's cash flow hedges) and the change in actuarial loss and prior service cost during the periods. The values of the Company's cash flow hedging instruments are affected by changes in interest rates, crude oil, diesel fuel, natural gas and coal prices and the U.S. dollar/Australian dollar exchange rate. The change in the value of the cash flow hedges during 2010 was primarily due to the strengthening of the Australian dollar against the U.S. dollar.

(16) RESOURCE MANAGEMENT AND OTHER COMMERCIAL EVENTS

In 2008, the Company sold approximately 58 million tons of non-strategic coal reserves and surface lands located in Kentucky for $21.5 million cash proceeds and a note receivable of $54.9 million, and recognized a gain of $54.0 million. The note receivable was paid in two installments, $30.0 million of which was received in December 2008 with the balance received in June 2009. The non-cash portion of this transaction was excluded from the investing section of the consolidated statement of cash flows until the cash was received.

(17) EARNINGS PER SHARE

The Company's restricted stock awards are considered participating securities. As such, the Company uses the two-class method to compute basic and diluted EPS. The following illustrates the earnings allocation method utilized in the calculation of basic and diluted EPS. Diluted EPS includes any dilutive impact of share-based compensation and the Debentures.

(In millions, except per share amounts)	***2010***	*2009*	*2008*
EPS numerator:			
Income from continuing operations, net of income taxes	**$805.1**	$457.9	$987.9
Less: Net income attributable to noncontrolling interests	**28.2**	14.8	6.2
Income from continuing operations attributable to common stockholders before allocation of earnings to participating securities	**776.9**	443.1	981.7
Less: Earnings allocated to participating securities	**(5.6)**	(2.9)	(5.5)
Income from continuing operations attributable to common stockholders, after earnings allocated to participating securities [1]	**771.3**	440.2	976.2
Income (loss) from discontinued operations, net of income taxes	**(2.9)**	5.1	(28.8)
Net income attributable to common stockholders, after earnings allocated to participating securities [1]	**$768.4**	$445.3	$947.4
EPS denominator:			
Weighted average shares outstanding – basic	**267.0**	265.5	268.9
Impact of dilutive securities	**2.9**	2.0	1.8
Weighted average shares outstanding – diluted [2]	**269.9**	267.5	270.7
Basic EPS attributable to common stockholders:			
Income from continuing operations	**$ 2.89**	$ 1.66	$ 3.63
Income (loss) from discontinued operations	**(0.01)**	0.02	(0.11)
Net income	**$ 2.88**	$ 1.68	$ 3.52
Diluted EPS attributable to common stockholders:			
Income from continuing operations	**$ 2.86**	$ 1.64	$ 3.60
Income (loss) from discontinued operations	**(0.01)**	0.02	(0.10)
Net income	**$ 2.85**	$ 1.66	$ 3.50

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

[2] Weighted average shares outstanding excludes anti-dilutive shares that totaled 0.2 million for the years ended December 31, 2010 and 2009 and 0.1 million for the year ended December 31, 2008.

(18) RISK MANAGEMENT – LABOR RELATIONS

As of December 31, 2010, the Company had approximately 7,200 employees, which included approximately 5,100 hourly employees. As of December 31, 2010, approximately 28% of the Company's hourly employees were represented by organized labor unions and generated 9% of its 2010 coal production. The Company could experience labor disputes, work stoppages or other disruptions in production that could negatively impact the Company's profitability.

U.S. Labor Relations

Hourly workers at the Company's Kayenta Mine in Arizona are represented by the UMWA under the Western Surface Agreement, which is effective through September 2, 2013. This agreement covers approximately 7% of the Company's U.S. subsidiaries' hourly employees, who generated 4% of the Company's U.S. production during the year ended December 31, 2010.

Hourly workers at the Company's Willow Lake Mine in Illinois are represented by the International Brotherhood of Boilermakers under a labor agreement that expires April 15, 2011; the Company expects to begin negotiations prior to expiration of the existing contract. This agreement covers approximately 10% of the Company's U.S. subsidiaries' hourly employees, who generated approximately 2% of the Company's U.S. production during the year ended December 31, 2010.

Australian Labor Relations

The Australian coal mining industry is unionized and the majority of workers employed at the Company's Australian Mining operations are members of trade unions. The Construction Forestry Mining and Energy Union represents the Company's Australian subsidiaries' hourly production and engineering employees, including those employed through contract mining relationships. All the Australian subsidiaries' mine sites have enterprise bargaining agreements. In 2010, the Company successfully renegotiated new labor agreements at its North Goonyella, Wilkie Creek and Metropolitan mines. The North Goonyella Mine agreement will expire in 2012 and the Wilkie Creek and Metropolitan Mine agreements will expire in 2013. The labor agreement for the Wambo coal handling plant expires in April 2011; negotiations for a new agreement are expected to commence in March 2011. The labor agreement for the North Wambo Underground Mine was renewed in early 2009 and will expire in April 2012.

(19) FINANCIAL INSTRUMENTS AND GUARANTEES WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Company is a party to guarantees and financial instruments with off-balance-sheet risk, such as bank letters of credit, performance or surety bonds and other guarantees and indemnities, which are not reflected in the accompanying consolidated balance sheets. Such financial instruments are valued based on the amount of exposure under the instrument and the likelihood of required performance. In the Company's past experience, virtually no claims have been made against these financial instruments. Management does not expect any material losses to result from these guarantees or off-balance-sheet instruments.

Financial Instruments with Off-Balance Sheet Risk

The Company has letters of credit, bank guarantees, surety bonds and corporate guarantees (such as self bonds) in support of the Company's reclamation, coal lease and workers' compensation obligations as follows as of December 31, 2010:

(Dollars in millions)	*Reclamation Obligations*	*Lease Obligations*	*Workers' Compensation Obligations*	*Other [1]*	*Total*
Self bonding	**$ 920.3**	**$ –**	**$ –**	**$ –**	**$ 920.3**
Surety bonds	**577.2**	**110.3**	**7.3**	**10.5**	**705.3**
Bank guarantees	**127.2**	**–**	**–**	**128.3**	**255.5**
Letters of credit	**0.1**	**–**	**68.8**	**87.4**	**156.3**
	$1,624.8	**$110.3**	**$76.1**	**$226.2**	**$2,037.4**

[1] Other includes letter of credit obligations described below and an additional $138.9 million in letters of credit and surety bonds related to collateral for surety companies, road maintenance, performance guarantees and other operations.

The Company owns a 37.5% interest in Dominion Terminal Associates, a partnership that operates a coal export terminal in Newport News, Virginia under a 30-year lease that permits the partnership to purchase the terminal at the end of the lease term for a nominal amount. The partners have severally (but not jointly) agreed to make payments under various agreements which in the aggregate provide the partnership with sufficient funds to pay rents and to cover the principal and interest payments on the floating-rate industrial revenue bonds issued by the Peninsula Ports Authority, and which are supported by letters of credit from a commercial bank. As of December 31, 2010, the Company's maximum reimbursement obligation to the commercial bank was in turn supported by four letters of credit totaling $42.7 million. During 2010, the Company entered into a bilateral cash collateralized agreement for these letters of credit whereby the Company posted cash collateral in lieu of utilizing the Company's Credit Facility. Such cash collateral is classified within cash and cash equivalents given the Company has the ability to substitute letters of credit at any time for this cash collateral and it is therefore readily available to the Company.

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 United Kingdom (a process similar to bankruptcy proceedings in the U.S.) and continues under this process as of December 31, 2010. 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.

At December 31, 2010, the Company had a $7.6 million letter of credit for collateral for bank guarantees issued with respect to certain reclamation and performance obligations related to some of the Company's Australian mines.

Accounts Receivable Securitization

The Company has an accounts receivable securitization program (securitization program) through its wholly-owned, bankruptcy-remote subsidiary (Seller). Under the securitization program, beginning in 2010, the Company contributes, on a revolving basis, trade receivables of most of the Company's U.S. subsidiaries to the Seller, which then sells the receivables in their entirety to a consortium of unaffiliated asset-backed commercial paper conduits (the Conduits). After the sale, the Company, as servicer of the assets, collects the receivables on behalf of the Conduits for a nominal servicing fee. The Company utilizes proceeds from the sale of its accounts receivable as an alternative to short-term borrowings under the Company's Credit Facility, effectively managing its overall borrowing costs and providing an additional source for working capital. The securitization program was renewed in May 2009 and amended in December 2009 in order to qualify for sale accounting under a newly adopted accounting standard related to financial asset transfers. Prior to amending the securitization program, the Company sold senior undivided interests in certain of its accounts receivable and retained subordinated interests in those receivables. The current securitization program extends to May 2012, while the letter of credit commitment that supports the commercial paper facility underlying the securitization program must be renewed annually.

The Seller is a separate legal entity whose assets are available first and foremost to satisfy the claims of its creditors. Of the receivables sold to the Conduits, a portion of the amount due to the Seller is deferred until the ultimate collection of the underlying receivables. During the year ended December 31, 2010, the Company received total consideration of $4,576.3 million related to accounts receivable sold under the securitization program, including $2,460.1 million of cash up front from the sale of the receivables, an additional $1,953.6 million of cash upon the collection of the underlying receivables, and $162.6 million that had not been collected at December 31, 2010 and was recorded at fair value which approximates carrying value. The reduction in accounts receivable as a result of securitization activity with the Conduits was $150.0 million at December 31, 2010 and $254.6 million at December 31, 2009.

The securitization activity has been reflected in the consolidated statements of cash flows as operating activity because both the cash received from the Conduits upon sale of receivables as well as the cash received from the Conduits upon the ultimate collection of 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 $2.4 million, $4.0 million and $10.8 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Other

The Company had a liability recorded of $50.2 million as of December 31, 2010 and $52.3 million as of December 31, 2009 related to reclamation and bonding commitments associated with the purchase of approximately 427 million tons of coal reserves and surface lands in the Illinois Basin in 2007.

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 would be covered by insurance (subject to deductibles). The Company and certain of its subsidiaries have guaranteed other subsidiaries' performance under their 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.

In connection with the development of the Prairie State Energy Campus (Prairie State), a 1,600 megawatt coal-fuel electricity generation project currently under construction, each owner, including one of the Company's subsidiaries, has issued a guarantee for its proportionate share (5.06% for the Company) of the construction costs under the Target Price Engineering, Procurement and Construction Agreement with Bechtel Power Corporation.

The Company has provided financial guarantees under certain long-term debt agreements entered into by its subsidiaries, and substantially all of the Company'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.

(20) COMMITMENTS AND CONTINGENCIES

Commitments

As of December 31, 2010, purchase commitments for capital expenditures were $458.2 million, all of which is obligated within the next three years with $406.7 million obligated in the next year. The purchase commitments for capital expenditures represent an increase of $386.5 million over amounts committed as of December 31, 2009 and primarily relate to new mines and expansion and extension projects in Australia and the U.S. Commitments made for expenditures under coal leases are reflected in Note 9. The Company also has various long- and short-term take or pay arrangements associated with rail and port commitments in Australia for the delivery of coal including amounts relating to export facilities. As of December 31, 2010, these commitments totaled $2,892.9 million with $1,109.1 million obligated within the next five years, of which $217.5 million was obligated within the next year. During 2010, the Company recognized approximately $145 million of expense, reflected in "Operating costs and expenses" in the consolidated statements of operations, related to these take or pay arrangements.

The Company controls a 17.7% interest in NCIG, a coal transloading facility in Newcastle, Australia, that is backed by take or pay agreements. The total loading capacity for stage one is 33 million tons per year, of which the Company's share is 5.8 millions tons. In the second quarter of 2010, stage one of construction was substantially completed and operations commenced. NCIG is currently operating at a reduced rate as part of its ramp-up to full capability, which is anticipated to occur by late 2011. Phase one of stage two construction has been approved and is under way. When complete, it is expected to provide the Company with approximately 2 million tons of additional annual throughput capacity beginning in mid-year 2012. Financing for phase one of stage two construction closed in the third quarter of 2010 with the Company providing its pro-rata share of funding of $59.7 million Australian dollars ($54.8 million U.S. dollars) where the Company received underlying debt and equity securities of NCIG for its contributions. Subsequent to the funding, the Company sold a portion of the debt securities for $10.6 million.

A subsidiary of the Company owns a 5.06% undivided interest in Prairie State. The Company invested $76.0 million, $56.8 million and $40.9 million during the years ended December 31, 2010, 2009 and 2008, respectively, representing its 5.06% share of the construction costs for those periods. Included in "Investments and other assets" in the consolidated balance sheets as of December 31, 2010 and December 31, 2009, are costs of $202.5 million and $126.5 million, respectively. The Company's share of total construction costs for Prairie State is expected to be approximately $250 million with most of the remaining funding expected in 2011.

The Company is an equity partner in GreenGen, a partnership to fund the construction in China of a near-zero emissions coal-fueled power plant with carbon capture and storage. During the year ended December 31, 2010, the Company spent $3.1 million representing its 6.0% share of the construction costs, which is reflected as capitalized development costs as part of "Investments and other assets" in the consolidated balance sheets. There were no expenditures for GreenGen for 2009 or 2008. The Company's share of total construction costs for GreenGen is expected to be approximately $60 million.

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.

Litigation Relating to Continuing Operations

Navajo Nation Litigation

On June 18, 1999, the Navajo Nation served three of the Company's subsidiaries, including Peabody Western Coal Company (Peabody Western), with a complaint that had been filed in the U.S. District Court for the District of Columbia. The Navajo Nation alleged 16 claims, including Civil Racketeer Influenced and Corrupt Organizations Act (RICO) violations and fraud. On April 12, 2010, the Navajo Nation filed an amended complaint to substantially narrow the scope of its claims by removing the RICO allegations but leaving the other 12 common law tort and contractual claims. The complaint alleges that the defendants jointly participated in unlawful activity to obtain favorable coal lease amendments. The plaintiff is seeking various remedies including actual damages of at least $600 million, punitive damages of at least $1 billion, a determination that Peabody Western's two coal leases terminated due to Peabody Western's breach of these leases and a reformation of these leases to adjust the royalty rate to 20%. The court allowed the Hopi Tribe to intervene in this lawsuit, and the Hopi Tribe sought unspecified actual damages, punitive damages and reformation of its coal lease. One of the Company's subsidiaries named as a defendant is now a subsidiary of Patriot. However, the Company is responsible for this litigation under the Separation Agreement entered into with Patriot in connection with the spin-off. The U.S. Supreme Court has ruled against the Navajo Nation in a related case against the U.S. government, and remanded that case to the lower court to dismiss the complaint. The U.S. Supreme Court said that none of the sources relied on by the Navajo Nation provided a basis for its breach-of-trust lawsuit against the U.S. government, which undermines some of the claims the Navajo Nation asserts in its litigation against the Company.

In October 2010, the Company and the other defendants settled the Hopi claims, and the court dismissed those claims. The court ordered the Navajo Nation and the defendants to mediate the case, and mediation commenced in November 2010.

The outcome of this litigation is subject to numerous uncertainties. Based on the Company's evaluation of the issues and their potential impact, the amount of any future loss cannot be reasonably estimated. However, based on current information, the Company believes this matter is likely to be resolved without a material adverse effect on the Company's financial condition, results of operations or cash flows.

Gulf Power Company Litigation

On June 22, 2006, Gulf Power Company (Gulf Power) filed a breach of contract lawsuit against a Company subsidiary in the U.S. District Court, Northern District of Florida, contesting the force majeure declaration by the Company's subsidiary under a coal supply agreement with Gulf Power and seeking damages for alleged past and future tonnage shortfalls of nearly five million tons under the agreement, which expired on December 31, 2007. Gulf Power filed a motion for partial summary judgment on liability, and the Company subsidiary filed a motion for summary judgment seeking complete dismissal. On June 30, 2009, the court granted Gulf Power's motion for partial summary judgment and denied the Company subsidiary's motion for summary judgment. The damages portion of the trial was held in February 2010. On September 30, 2010, the court entered its order on damages, awarding Gulf Power zero dollars in damages and the Company its costs to defend the lawsuit. The Company is also seeking its reasonable attorney's fees incurred since October 15, 2008. On November 1, 2010, Gulf Power filed a motion to alter or amend the judgment, contesting the trial court's damages order, to which the Company objected. The court has not yet ruled on the motion.

The outcome of this litigation is subject to numerous uncertainties. Based on the Company's evaluation of the issues and their potential impact, the amount of any future loss cannot reasonably be estimated. However, based on current information, the Company believes this matter is likely to be resolved without a material adverse effect on its financial condition, results of operations or cash flows.

Claims and Litigation Relating to Indemnities or Historical Operations

Oklahoma Lead Litigation

Gold Fields Mining, LLC (Gold Fields) is a dormant, non-coal producing entity that was previously managed and owned by Hanson PLC, the Company's predecessor owner. In a February 1997 spin-off, Hanson PLC transferred ownership of Gold Fields to the Company, despite the fact that Gold Fields had no ongoing operations and the Company had no prior involvement in its past operations. Gold Fields is currently one of the Company's subsidiaries. The Company indemnified TXU Group with respect to certain claims relating to a former affiliate of Gold Fields. A predecessor of Gold Fields formerly operated two lead mills near Picher, Oklahoma prior to the 1950s and mined, in accordance with lease agreements and permits, approximately 0.15% of the total amount of the crude ore mined in the county.

Gold Fields and several other companies are defendants in two property damage lawsuits pending in the U.S. District Court for the Northern District of Oklahoma arising from past operations near Picher, Oklahoma. The plaintiffs are seeking compensatory damages for diminution in property values and punitive damages. These cases were originally filed as putative class actions, but the court denied class certification and the cases were subsequently amended to include a number of individual plaintiffs.

In December 2003, the Quapaw Indian tribe and certain Quapaw land owners filed a separate lawsuit in the U.S. District Court for the Northern District of Oklahoma against Gold Fields, five other companies and the U.S. The plaintiffs sought compensatory and punitive damages based on a variety of theories. In December 2007, the court dismissed the tribe's medical monitoring claim. In July 2008, the court dismissed the tribe's claim for interim and lost use damages under the Comprehensive Environmental Response, Compensation and Liability Act without prejudice to refile at the point the U.S. Environmental Protection Agency (EPA) selects a final remedy for the site. Gold Fields filed a third-party complaint against the U.S. and other parties. In October 2010, the parties entered into a settlement agreement and the case was dismissed.

In February 2005, the state of Oklahoma, on behalf of itself and several other parties, sent a notice to Gold Fields and other companies regarding a possible natural resources damage claim.

The outcome of litigation and these claims are subject to numerous uncertainties. Based on the Company's evaluation of the issues and their potential impact, the amount of any future loss cannot be reasonably estimated. However, based on current information, the Company believes this matter is likely to be resolved without a material adverse effect on its financial condition, results of operations or cash flows.

Environmental Claims and Litigation

Environmental claims have been asserted against Gold Fields related to activities of Gold Fields or a former affiliate. Gold Fields or the former affiliate has been named a potentially responsible party (PRP) at five national priority list sites based on the Superfund Amendments and Reauthorization Act of 1986. Claims were asserted at 13 additional sites, bringing the total to 18, which have since been reduced to 11 by completion of work, transfer or regulatory inactivity. The number of PRP sites in and of itself is not a relevant measure of liability because the nature and extent of environmental concerns varies by site, as does the estimated share of responsibility for Gold Fields or the former affiliate. Undiscounted liabilities for environmental cleanup-related costs for all of the sites noted above were $51.1 million as of December 31, 2010 and $49.5 million as of December 31, 2009, $6.3 million and $7.9 million of which was reflected as a current liability, respectively. These amounts represent those costs that the Company believes are probable and reasonably estimable. In June 2005, Gold Fields and other PRPs received a letter from the U.S. Department of Justice alleging that the PRP's mining operations caused the EPA to incur approximately $125 million in residential yard remediation costs at Picher, Oklahoma and will cause the EPA to incur additional remediation costs relating to historical mining sites. In June 2008, Gold Fields and other PRPs received letters from the U.S. Department of Justice and the EPA re-initiating settlement negotiations. Gold Fields continues to participate in the settlement discussions. Gold Fields believes it has meritorious defenses to these claims.

Gold Fields is involved in other litigation in the Picher area, and the Company indemnified TXU Group with respect to a defendant as is more fully discussed under the "Oklahoma Lead Litigation" caption above. Gold Fields has also been contacted by the state of Kansas (Kansas Department of Health and Environment) and is in negotiations for final resolution of natural resource damages claims at two sites. Significant uncertainty exists as to whether claims will be pursued against Gold Fields in all cases, and where they are pursued, the amount of the eventual costs and liabilities, which could be greater or less than the liabilities recorded in the consolidated balance sheets. Based on the Company's evaluation of the issues and their potential impact, the total amount of any future loss cannot be reasonably estimated. However, based on current information, the Company believes these claims and litigation are likely to be resolved without a material adverse effect on its financial condition, results of operations or cash flows.

Comer, et al v. Murphy Oil Co., et al.

In April 2006, residents and owners of land and property along the Mississippi Gulf coast filed a putative class action lawsuit in the U.S. District Court in the Southern District of Mississippi against more than 45 oil, chemical, utility and coal companies, including the Company. The plaintiffs alleged that defendants' greenhouse gas emissions "were a proximate and direct cause of the increase in the destructive capacity of Hurricane Katrina," and sought damages based on several legal theories. The defendants filed motions to dismiss on the grounds of lack of personal and subject matter jurisdiction. In August 2007, the court granted defendants' motion to dismiss for lack of subject matter jurisdiction finding that plaintiffs' claims are barred by the political question doctrine and for lack of standing. In October 2009, a three-judge panel of the U.S. Court of Appeals for the Fifth Circuit (Fifth Circuit) reversed in part the decision of the trial court, holding that the plaintiffs had standing to assert their public and private nuisance, trespass and negligence claims. The court held that plaintiffs did not satisfy the prudential standing requirement for their unjust enrichment, fraudulent misrepresentation and civil conspiracy claims and dismissed those claims and ordered that the case be remanded to the district court for further proceedings. In March 2010, the Fifth Circuit vacated the panel opinion and ordered a hearing en banc before the full Fifth Circuit to consider plaintiffs' appeal. After the en banc court was properly constituted, a recusal by one of the judges resulted in the en banc court losing its quorum. On May 28, 2010, the Fifth Circuit issued an order indicating that the court had no authority to reinstate the panel decision and directing the clerk to dismiss the appeal. Plaintiffs filed a Petition for Mandamus with the U.S. Supreme Court. On January 10, 2011, the U.S. Supreme Court denied the plaintiffs' Petition for Mandamus. As a result, the trial court's dismissal of the case is final.

Native Village of Kivalina and City of Kivalina v. ExxonMobil Corporation, et al.

In February 2008, the Native Village of Kivalina and the City of Kivalina filed a lawsuit in the U.S. District Court for the Northern District of California against the Company, several owners of electricity generating facilities and several oil companies. The plaintiffs are the governing bodies of a village in Alaska that they contend is being destroyed by erosion allegedly caused by global warming that the plaintiffs attribute to emissions of greenhouse gases by the defendants. The plaintiffs assert claims for nuisance, and allege that the defendants have acted in concert and are jointly and severally liable for the plaintiffs' damages. The suit seeks damages for lost property values and for the cost of relocating the village. The defendants filed motions to dismiss on the grounds of lack of personal and subject matter jurisdiction. In June 2009, the court granted defendants' motion to dismiss for lack of subject matter jurisdiction finding that plaintiffs' federal claim for nuisance is barred by the political question doctrine and for lack of standing. The plaintiffs are appealing the court's dismissal to the U.S. Court of

Appeals for the Ninth Circuit. The parties have filed their respective briefs with the court.

Other

In addition, at times the Company becomes a party to other claims, lawsuits, arbitration proceedings and administrative procedures in the ordinary course of business in the U.S., Australia and other countries where the Company does business. Based on current information, the Company believes that the ultimate resolution of such other pending or threatened proceedings is not reasonably likely to have a material adverse effect on its financial position, results of operations or liquidity.

New York Office of the Attorney General Subpoena

The New York Office of the Attorney General sent a letter to the Company dated June 14, 2007 that referred to the Company's "plans to build new coal-fired electric generating units," and said that the "increase in CO_2 emissions from the operation of these units, in combination with Peabody Energy's other coal-fired power plants, will subject Peabody Energy to increased financial, regulatory, and litigation risks." The Company currently has no electricity generating capacity in place. The letter included a subpoena issued under New York state law, which seeks information and documents relating to the Company's analysis of the risks associated with climate change and possible climate change legislation or regulations, and its disclosure of such risks to investors. The Company believes that it has made full and proper disclosure of these potential risks.

(21) SUMMARY QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

A summary of the unaudited quarterly results of operations for the years ended December 31, 2010 and 2009 is presented in the tables that follow.

	2010			
(In millions except per share data)	*First Quarter*	*Second Quarter*	*Third Quarter*	*Fourth Quarter*
Revenues	**$1,515.6**	**$1,661.4**	**$1,864.7**	**$1,818.3**
Operating profit	**242.2**	**324.4**	**444.7**	**314.4**
Income from continuing operations, net of income taxes	**137.1**	**214.7**	**237.6**	**215.7**
Net income	**136.7**	**214.2**	**236.3**	**215.0**
Net income attributable to common stockholders	**133.7**	**206.2**	**224.1**	**210.0**
Basic earnings per share – continuing operations [(1)]	**0.50**	**0.77**	**0.84**	**0.78**
Diluted earnings per share – continuing operations [(1)]	**$ 0.50**	**$ 0.76**	**$ 0.83**	**$ 0.77**
Weighted average shares used in calculating basic earnings per share	**266.5**	**266.6**	**267.1**	**267.7**
Weighted average shares used in calculating diluted earnings per share	**268.2**	**268.3**	**268.6**	**270.3**

[(1)] *Earnings per share for the quarters may not sum to the amounts for the year as each period is computed on a discrete basis.*

Operating profit in the second, third and fourth quarters reflects higher contract pricing in Australia. Operating profit for the fourth quarter includes an adverse impact related to flooding in Queensland, Australia and lower results from the Company's Trading and Brokerage operations. Income from continuing operations, net of income taxes in the first, third and fourth quarters included non-cash tax expense of $5.4 million, $42.7 million, and $18.8 million, respectively, from the remeasurement of non-U.S. income tax accounts, while the second quarter included a non-cash benefit of $19.3 million.

In the third quarter of 2009, the Company's Chain Valley Mine in Australia was held for sale and subsequently sold in the fourth quarter of 2009. All periods presented below reflect the Chain Valley Mine as a discontinued operation.

	2009			
(In millions except per share data)	*First Quarter*	*Second Quarter*	*Third Quarter*	*Fourth Quarter*
Revenues	$1,453.0	$1,338.2	$1,667.0	$1,554.2
Operating profit	219.7	215.4	220.3	189.4
Income from continuing operations, net of income taxes	141.2	90.0	113.2	113.5
Net income	175.2	82.0	110.8	95.0
Net income attributable to common stockholders	170.0	79.2	106.8	92.2
Basic earnings per share – continuing operations [(1)]	0.51	0.33	0.41	0.41
Diluted earnings per share – continuing operations [(1)]	$ 0.50	$ 0.32	$ 0.41	$ 0.41
Weighted average shares used in calculating basic earnings per share	265.3	265.4	265.7	265.8
Weighted average shares used in calculating diluted earnings per share	267.3	267.1	267.3	267.7

[(1)] *Earnings per share for the quarters may not sum to the amounts for the year as each period is computed on a discrete basis.*

Operating profit in the second, third and fourth quarters reflects lower contract pricing in Australia that began in the second quarter. Operating profit in the fourth quarter included an impairment loss of $34.7 million (see "Investments in Joint Ventures" section of Note 1 for additional information). Income from continuing operations, net of income taxes in the first quarter included a non-cash benefit of $0.9 million from the remeasurement of non-U.S. income tax accounts while the second, third and fourth quarters included non-cash tax expense of $47.7 million, $22.3 million, and $5.3 million, respectively. Net income in the first quarter included a gain of approximately $35 million (net of income taxes) related to a coal excise tax refund.

(22) SEGMENT INFORMATION

The Company reports its operations primarily through the following reportable operating segments: "Western U.S. Mining," "Midwestern U.S. Mining," "Australian Mining," "Trading and Brokerage" and "Corporate and Other." Western U.S. Mining operations reflect the aggregation of the Powder River Basin, Southwest and Colorado mining operations, and Midwestern U.S. Mining operations reflects the Company's Illinois and Indiana mining operations. The principal business of the Western and Midwestern U.S. Mining segments is the mining, preparation and sale of thermal coal, sold primarily to electric utilities. The business of the Company's Australian Mining Segment is the mining of various qualities of low-sulfur, high Btu coal (metallurgical coal) as well as thermal coal primarily sold to an international customer base with a portion sold to Australian steel producers and power generators. For the year ended December 31, 2010, 84% of the Company's total sales (by volume) were to U.S. electricity generators, 14% were to customers outside the U.S. and 2% were to the U.S. industrial sector. Western U.S. Mining operations are characterized by predominantly surface mining extraction processes, lower sulfur content and Btu of coal and higher customer transportation costs (due to longer shipping distances). Conversely, Midwestern U.S. Mining operations are characterized by a mix of surface and underground mining extraction processes, higher sulfur content and Btu of coal and lower customer transportation costs (due to shorter shipping distances). Geologically, Western operations mine bituminous and subbituminous coal deposits, and Midwestern operations mine bituminous coal deposits. Australian Mining operations are characterized by both surface and underground extraction processes, mining various qualities of metallurgical and thermal coal. The Company's Trading and Brokerage segment brokers coal sales of other coal producers both as principal and agent, and trades coal, freight and freight-related contracts. Corporate and Other includes selling and administrative expenses, net gains on property disposals, costs associated with past mining obligations, joint venture earnings (losses) and revenues and expenses related to the Company's other commercial activities such as generation development, Btu Conversion, clean coal technologies and resource management.

The Company's chief operating decision maker uses Adjusted EBITDA as the primary measure of segment profit and loss. The Company defines Adjusted EBITDA as income from continuing operations before deducting net interest expense, income taxes, asset retirement obligation expense and depreciation, depletion and amortization.

Operating segment results for the year ended December 31, 2010 were as follows (total assets as of December 31, 2010):

(Dollars in millions)	*Western U.S. Mining*	*Midwestern U.S. Mining*	*Australian Mining*	*Trading and Brokerage*	*Corporate and Other*	*Consolidated*
Revenues	**$2,706.3**	**$1,320.6**	**$2,520.0**	**$291.1**	**$22.0**	**$6,860.0**
Adjusted EBITDA	**816.7**	**322.1**	**953.8**	**77.2**	**(354.7)**	**1,815.1**
Total assets	**3,008.4**	**608.0**	**3,603.4**	**398.2**	**3,745.1**	**11,363.1**
Additions to property, plant, equipment and mine development	**143.3**	**224.9**	**147.8**	**0.9**	**40.1**	**557.0**
Federal coal lease expenditures	**–**	**–**	**–**	**–**	**–**	**–**
Loss from equity affiliates	**–**	**–**	**–**	**–**	**1.7**	**1.7**
Additions to advance mining royalties	**1.3**	**1.3**	**–**	**–**	**3.1**	**5.7**

Operating segment results for the year ended December 31, 2009 were as follows (total assets as of December 31, 2009):

(Dollars in millions)	*Western U.S. Mining*	*Midwestern U.S. Mining*	*Australian Mining*	*Trading and Brokerage*	*Corporate and Other*	*Consolidated*
Revenues	$2,612.6	$1,303.8	$1,678.0	$391.0	$ 27.0	$6,012.4
Adjusted EBITDA	721.5	281.9	437.8	193.4	(344.5)	1,290.1
Total assets	3,087.6	444.4	3,386.8	673.0	2,363.5	9,955.3
Additions to property, plant, equipment and mine development	78.3	104.2	70.1	1.8	6.2	260.6
Federal coal lease expenditures	123.6	–	–	–	–	123.6
Income (loss) from equity affiliates	–	–	–	–	(69.1)	(69.1)
Additions to advance mining royalties	1.5	1.6	–	–	3.0	6.1

Operating segment results for the year ended December 31, 2008 were as follows (total assets as of December 31, 2008):

(Dollars in millions)	*Western U.S. Mining*	*Midwestern U.S. Mining*	*Australian Mining*	*Trading and Brokerage*	*Corporate and Other*	*Consolidated*
Revenues	$2,533.1	$1,154.6	$2,242.8	$601.8	$ 28.7	$6,561.0
Adjusted EBITDA	681.3	177.3	1,016.6	218.9	(247.2)	1,846.9
Total assets	3,140.4	552.0	2,985.9	920.3	2,097.0	9,695.6
Additions to property, plant, equipment and mine development	140.4	30.3	62.8	–	30.6	264.1
Federal coal lease expenditures	178.5	–	–	–	–	178.5
Income (loss) from equity affiliates	–	–	–	–	–	–
Additions to advance mining royalties	2.1	2.2	–	–	1.7	6.0

A reconciliation of adjusted EBITDA to consolidated income from continuing operations follows:

(Dollars in millions)	***2010***	*2009*	*2008*
Total adjusted EBITDA	**$1,815.1**	$1,290.1	$1,846.9
Depreciation, depletion and amortization	**(440.9)**	(405.2)	(402.4)
Asset retirement obligation expense	**(48.5)**	(40.1)	(48.2)
Interest expense	**(222.1)**	(201.2)	(227.0)
Interest income	**9.6**	8.1	10.0
Income tax provision	**(308.1)**	(193.8)	(191.4)
Income from continuing operations, net of income taxes	**$ 805.1**	$ 457.9	$ 987.9

(23) SUPPLEMENTAL GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION

Supplemental guarantor/non-guarantor financial information is located in Note 23 of the Company's consolidated financial statements filed as part of the 2010 Annual Report on Form 10-K with the U.S. Securities and Exchange Commission.

Stock Price and Performance Information

MARKET INFORMATION

Our common stock is listed on the New York Stock Exchange, under the symbol "BTU". As of February 11, 2011, there were 1,307 holders of record of our common stock.

The table below sets forth the range of quarterly high and low sales prices (including intraday prices) for our common stock on the New York Stock Exchange during the calendar quarters indicated.

	Share Price High	*Share Price Low*	*Dividends Paid*
2010			
First Quarter	**$52.14**	**$39.88**	**$0.070**
Second Quarter	**50.25**	**34.89**	**0.070**
Third Quarter	**49.94**	**38.08**	**0.070**
Fourth Quarter	**64.59**	**48.76**	**0.085**
2009			
First Quarter	$30.95	$20.17	$0.060
Second Quarter	37.44	23.56	0.060
Third Quarter	41.54	27.19	0.060
Fourth Quarter	48.21	34.54	0.070

DIVIDEND POLICY

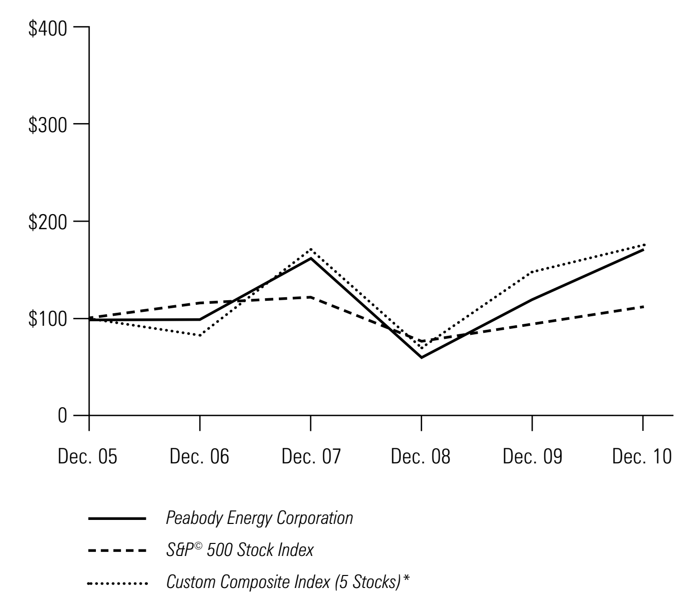
We have declared and paid quarterly dividends since our initial public offering in 2001. Most recently, our Board of Directors declared a dividend of $0.085 per share of Common Stock on January 27, 2011, payable on March 3, 2011, to stockholders of record on February 10, 2011. The declaration and payment of dividends and the amount of dividends will depend on our results of operations, financial condition, cash requirements, future prospects, any limitations imposed by our debt instruments and other factors deemed relevant by our Board of Directors. Limitations on our ability to pay dividends imposed by our debt instruments are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations.

STOCK PERFORMANCE GRAPH

The following performance graph compares the cumulative total return on our common stock with the cumulative total return of the following indices: (i) the S&P 500 Stock Index and (ii) a peer group comprised of Arch Coal Inc., Massey Energy Company, CONSOL Energy, Inc., Alpha Natural Resources, Inc. and International Coal Group, Inc. (Custom Composite Index). The graph assumes that the value of the investment in our common stock and each index was $100 at December 31, 2005. The graph also assumes that all dividends, including the spin-off of Patriot Coal Corporation, were reinvested and that investments were held through December 31, 2010. These indices are included for comparative purposes only and do not necessarily reflect management's opinion that such indices are an appropriate measure of the relative performance of the stock involved, and are not intended to forecast or be indicative of possible future performance of the common stock.

Cumulative Total Return

(Based upon an initial investment of $100 on December 31, 2005 with dividends reinvested)



	Dec. 05	*Dec. 06*	*Dec. 07*	*Dec. 08*	*Dec. 09*	***Dec. 10***
Peabody Energy Corporation	$100	$99	$161	$60	$120	**$171**
S&P 500 Stock Index	$100	$116	$122	$77	$97	**$112**
Custom Composite Index (5 Stocks)*	$100	$83	$171	$70	$148	**$176**

* *The Custom Composite Index consist of Alpha Natural Resources Inc., Arch Coal, Inc., CONSOL Energy Inc., International Coal Group, Inc., and Massey Energy Company.*

Board of Directors and Executives

Directors

Gregory H. Boyce [3*]
Chairman and
Chief Executive Officer,
Peabody Energy

William A. Coley [2*, 3]
Former Chief
Executive Officer,
British Energy Group plc

William E. James [2, 5]
Managing General Partner,
RockPort Capital Partners LLC

Robert B. Karn III [1, 2]
Former Managing Partner,
Arthur Andersen Financial &
Consulting, St. Louis

All Directors except Mr. Boyce are independent under New York Stock Exchange listing standards.

M. Frances Keeth [2, 4]
Former Executive
Vice President,
Royal Dutch Shell, plc

Henry E. Lentz [3, 5]
Managing Director,
Lazard Frères & Co. LLC

Robert A. Malone [2, 4*]
Former Chairman
and President,
BP America Inc.

William C. Rusnack [1*, 3]
Former President and
Chief Executive Officer,
Premcor Inc.

John F. Turner [4, 5]
Former U.S. Assistant
Secretary of State for
Oceans and International
Environmental and
Scientific Affairs

Sandra A. Van Trease [1, 4]
Group President,
BJC Healthcare

Alan H. Washkowitz [1, 5*]
Former Managing Director,
Lehman Brothers Inc.

*Chair
(1) Audit Committee
(2) Compensation Committee
(3) Executive Committee
(4) Health, Safety and Environmental Committee
(5) Nominating and Corporate Governance Committee

Senior Executives

Gregory H. Boyce
Chairman and
Chief Executive Officer

Michael C. Crews
Executive Vice President and
Chief Financial Officer

Sharon D. Fiehler
Executive Vice President and
Chief Administrative Officer

Eric Ford
Executive Vice President and
Chief Operating Officer

Richard A. Navarre
President and
Chief Commercial Officer

Fredrick D. Palmer
Senior Vice President of
Government Relations

Alexander C. Schoch
Executive Vice President of
Law, Chief Legal Officer
and Secretary

Vic Svec
Senior Vice President of
Investor Relations and
Corporate Communications

Executives

Carlton B. Adams
Senior Vice President
of Global Supply
Chain Management

Paul T. Demzik
President of Peabody
COALTRADE

Bryan A. Galli
President of Peabody
COALSALES

Walter L. Hawkins
Senior Vice President
of Finance

Jeane L. Hull
Group Executive of
Powder River Basin and
Southwest Operations

Erik L. Ludtke
President of Peabody Sales,
Marketing and Trading

Charles Meintjes
Group Executive of Midwest
and Colorado Operations

Robert L. Reilly
Senior Vice President of
Business Development

Zhenchun Shi
President of Peabody Asia

Andrew P. Slentz
Senior Vice President of
Global Human Resources

L. Brent Stottlemyre
Senior Vice President,
Controller and
Chief Accounting Officer

Julian Thornton
Group Executive and
Managing Director of
Peabody Energy Australia

Shareholder Information

Stock Exchange Listing
Peabody Energy stock is traded on the New York Stock Exchange (NYSE) under the ticker symbol BTU.

Financial Information
Peabody Energy
Peabody Plaza
701 Market Street
St. Louis, MO 63101-1826
Phone: (314) 342-7900
Fax: (314) 342-7799
IR@PeabodyEnergy.com
PeabodyEnergy.com

Annual Meeting
Peabody Energy will hold our annual shareholders meeting at 10 a.m. on Tuesday, May 3, 2011 at The Chase Park Plaza Hotel in St. Louis.

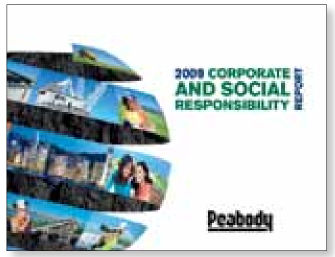
Independent Auditors
Ernst & Young LLP
190 Carondelet Plaza, Suite 1300
Clayton, MO 63105
Phone: (314) 290-1000
Fax: (314) 290-1882

Transfer Agent
If you have questions regarding your BTU account, please contact your broker, or our transfer agent, American Stock Transfer & Trust Company (AST), at (866) 621-2789 for residents of the United States or Canada, or (718) 921-8347 for residents outside the United States and Canada. AST may also be contacted at Amstock.com. AST can help with dividend reinvestments, lost certificates, transfer of stock to another person and additional services.

Stock Splits
Shares of BTU split 2-for-1 on March 30, 2005, and again on Feb. 22, 2006.

Dividends
Peabody pays quarterly dividends on common stock, subject to the approval of the Board of Directors.

Disclosure Certification
Peabody has included as exhibits to our 2010 Annual Report on Form 10-K, filed with the Securities and Exchange Commission (SEC), certificates of Peabody's Chairman and Chief Executive Officer and Peabody's Executive Vice President and Chief Financial Officer, certifying the quality of the company's public disclosure.



Report on Corporate and Social Responsibility
Peabody has a longstanding record of good corporate governance and sustainable practices. Our Corporate and Social Responsibility Report assesses progress against priorities and reviews Peabody's actions, positions and policies. Reports may be downloaded at PeabodyEnergy.com.

Coal Can Do That
For the latest news, blogs, statistics and studies about clean energy solutions from coal, visit CoalCanDoThat.com.

Peabody and Affiliates
The use of the words "Peabody," "the company," and "our" relate to Peabody, our subsidiaries and our majority-owned affiliates.

Forward-Looking Statements
Some of the information included in this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended, and is intended to come within the safe harbor protection provided by those sections. These statements relate to future events or our future financial performance. When considering these forward-looking statements, you should keep in mind the cautionary statements in our documents filed with the SEC.

Peabody

Peabody Energy
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701 Market Street
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CoalCanDoThat.com