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UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

In re:	Chapter 11
PEABODY ENERGY CORP., *et al.*,	Case No. 16-42529-399
	(Jointly Administered)
Debtors.	

LIMITED OBJECTION OF SIERRA CLUB TO SECOND AMENDED JOINT PLAN OF REORGANIZATION OF DEBTORS AND DEBTORS IN POSSESSION

Sierra Club ("*Sierra Club*"), by its undersigned counsel, submits this limited objection (the "*Limited Objection*") to the *Second Amended Joint Plan of Reorganization of Debtors and Debtors in Possession* (Docket No. 2229, the "*Plan*"). In support of its Limited Objection, Sierra Club states as follows:

PRELIMINARY STATEMENT

1. Sierra Club, on behalf of itself and its over 700,000 members, has several legally protected interests in the Debtors, their assets and businesses, and these chapter 11 cases. Among other things, Sierra Club: (i) is a creditor by assignment of one of the "Encumbered Guarantor Debtors," as that term is defined in the Plan and the *Second Amended Disclosure Statement With Respect to Second Amended Joint Plan of Reorganization of the Debtors and Debtors in Possession* (Docket No. 2231, the "*Disclosure Statement*"); (ii) has members who live and work in close proximity to the Debtors' mining operations, and in at least one instance, is party to a lease with one of the Debtors whereby that Debtor has the right to mine coal directly below her property; and (iii) is a petitioner-appellant in pending litigation before the Tenth Circuit Court of Appeals (on appeal from the U.S. District Court for the District of Wyoming) in which one of the Debtors is an intervening party (the "*Action*").

2. To safeguard their legally protected interests, Sierra Club seeks to ensure that the Debtors' obligations with respect to Environmental Law (as defined in the Plan and Disclosure Statement) will be satisfied in their entirety during the five-year Plan period. The Debtors' environmental obligations include mine reclamation obligations, significant out-of-pocket bonding costs (in light of the recently-announced "Bonding Solution"), and ongoing and potentially long-term water treatment and other pollution abatement costs. While the Debtors reach the conclusion in the Plan that the Plan is feasible, and that it will be able to meet its going-forward obligations, Sierra Club's review of the Plan, the Disclosure Statement and the accompanying Financial Projections (attached as Exhibit C to the Disclosure Statement) introduces significant reasonable doubts as to those conclusions. Among other things, based on Sierra Club's review of publicly-available information:

- In order for the Debtors to reach their projected sales during the Plan period, they will need to increase both production and market share dramatically, in spite of prevailing forecasts suggesting that steam coal demand will fall during the same period, forecasts which have already been borne out by the announced closure of the Navajo Generating Station which is the sole customer for the Debtors' Kayenta Mine;
- In order for the Debtors to meet their profitability targets for the Plan period, they will simultaneously need to increase production while substantially cutting annual operating and SG&A costs, a remarkable proposition for which the Debtors have offered no convincing evidence or explanation and which runs counter not only to the Debtors' historical performance but which may be infeasible to attain; and
- The Debtors' failure to implement fresh start accounting in its Financial Projections renders those projections inaccurate, and may call question to the adequacy of the Debtors' capital structure upon emergence.

3. Based upon the foregoing, Sierra Club remains concerned as to the Debtors' ability to meet its Financial Projections, and correspondingly, its obligations under Environmental Law. It therefore brings this Limited Objection, and requests that confirmation of the Plan be denied unless and until the Debtors produce additional information supporting the Financial Projections, and satisfactorily respond to or clarify the potential deficiencies outlined herein.

BACKGROUND

A. The Debtors and the Chapter 11 Cases

4. On April 13, 2016 (the "*Petition Date*"), Peabody Energy Corporation and certain of its affiliates (collectively, the "*Debtors*") filed petitions for relief under chapter 11 of title 11

of the United States Code (the "*Bankruptcy Code*"), thereby commencing these jointly-administered chapter 11 cases. The Debtors continue to operate and manage these businesses as debtors-in-possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

5. The Debtors comprise the world's largest private-sector coal company, serving thermal and metallurgical coal customers in 25 countries. In the United States, the Debtors conduct mining operations in Arizona, Colorado, Illinois, Indiana, New Mexico and Wyoming. In connection with their U.S. coal mining operations, the Debtors are subject to federal and state laws and regulations (as defined in the Disclosure Statement, "*Environmental Law*").

B. Sierra Club's Protectable Interests in These Cases.

6. Sierra Club has several legally recognizable interests in the Debtors, their assets and businesses, and these chapter 11 cases that warrant this Limited Objection. These interests are described in more detail below:

(i) Sierra Club's Interest as an Unsecured Creditor

7. Sierra Club holds a General Unsecured Claim against Debtor Peabody Bear Run Mining, LLC (Claim No. 4218, originally held by Sullivan County Community Hospital). Based on the Sierra Club's understanding of the Plan and Disclosure Statement, this claim falls within Class 6B (Convenience Claims – Encumbered Guarantor Debtors), and the Plan proposes that holders of Allowed General Unsecured Claims in Class 6B will be receiving Cash in an amount up to 72.5% of its Allowed Convenience Claim.

(ii) Sierra Club and Its Members Have a Direct Interest in Ensuring that the Reorganized Debtors are Able to Meet Their Environmental Law Obligations.

8. Sierra Club has members in all fifty states, including members impacted by the Reorganized Debtors' viability and ability to meet their post-emergence obligations. For example, Nancy Gehlhausen, a Sierra Club member since 1987, lives within a few miles of

several mines owned by the Reorganized Debtors in Indiana, and Peabody Midwest Mining, LLC, one of the Debtors (Case No. 16-42667), leases the right to mine coal directly below her property.

9. As discussed in detail in the affidavit attached hereto as Exhibit A, Ms. Gehlhausen has substantial concerns about existing pollution from the nearby mines, as well as the potential for significant additional pollution in the future, particularly if the Reorganized Debtors lack the financial resources to meet their pollution treatment and reclamation obligations. Ms. Gehlhausen also has concerns about the ability of the Reorganized Debtors to avoid or mitigate harm to her property caused by underground mining below it that the Debtors continue to pursue.

10. As Ms. Gehlhausen's affidavit makes clear, the Debtors' coal mines contain multiple sources of harmful pollution. In addition to the coal mines themselves, the Debtors properties also contain coal preparation and processing plants, large coal refuse gob piles, and coal waste slurry ponds. Many of these sites require active maintenance and ongoing pollution treatment. Ms. Gehlhausen and many of her fellow Sierra Club members worry about what will happen if the Debtors lack the financial resources to continue this ongoing treatment and, ultimately, to complete clean-up and reclamation of these sites. Ms. Gehlhausen and her fellow members worry about the negative impacts from increased pollution and ruined infrastructure for themselves, their families, and their neighbors.

11. Accordingly, Sierra Club has a substantial interest in ensuring that the Reorganized Debtors will be able to meet their post-confirmation reclamation and environmental compliance obligations, including financial assurance obligations, for the benefit of directly impacted Sierra Club members such as Ms. Gehlhausen and other individuals who live, work,

and recreate in areas impacted by the Debtors' mines. Neither the Plan, the Disclosure Statement nor the Financial Projections describe the extent of these environmental obligations with sufficient detail for Sierra Club to confirm that the Debtors have fully accounted for them, and that they will be able to service them in the future.

(iii) Sierra Club Also Has Protectable Interests Based on Pending Litigation Involving the Debtors.

12. Prior to the Petition Date, on May 2, 2012, Sierra Club and WildEarth Guardians (collectively, the "*Environmental Groups*") commenced a Petition for Review of Agency Action by filing a civil lawsuit against the U.S. Bureau of Land Management ("*BLM*") in the U.S. District Court for the District of Columbia (the "*Action*"). This action was subsequently transferred to the U.S. District Court for the District of Wyoming (the "*District Court*"), and was assigned Civil Action No. 2:13-cv-00042-ABJ.

13. The Action pertains to the BLM's environmental review, and subsequent sale, of four federal coal leases in the Powder River Basin in the state of Wyoming (the North Hilight, South Hilight, North Porcupine and South Porcupine leases; collectively, the "*Wright Area Leases*"). In the Action, the Environmental Groups allege that BLM's environmental review of the Wright Area Leases violated the National Environmental Policy Act (42 U.S.C. §§ 4321, et seq.). Among other things, the Environmental Groups sought: (i) to have vacated a Federal Environmental Impact Statement and several Records of Decision issued by BLM, as well as any lease sales, issuances or other actions conducted thereunder; and (ii) an injunction against further BLM approvals or actions with respect to the Wright Area Lease parcels, and any coal mining activities conducted thereon, until such time as BLM has complied with applicable federal law.

14. Debtor BTU Western Resources, Inc. ("*BTU*") has been granted the right to mine the North Porcupine and South Porcupine tracts at lease sales conducted by BLM. On May 28, 2013, BTU, along with several non-Debtor parties, filed a motion to intervene as of right in the Action. BTU asserted that it had the right to intervene because the relief sought by the Environmental Groups in the Action, if granted, would effectively nullify the lease sales and prevent BTU from developing the leases. The motion to intervene was granted on May 30, 2013.

15. On August 17, 2015, the District Court entered an Opinion and Order Affirming Agency Actions in the Action, whereby the actions of BLM were affirmed, and whereby the Petition for Review of Agency Action was denied. A judgment in favor of the respondents (including BTU), and against the Environmental Groups, was entered in the Action on the same date (the "*Judgment*").

16. The Environmental Groups timely filed notices of appeal of the Judgment in the Action, and as of the Petition Date, the Action was pending on appeal (the "*Appeal*") before the Tenth Circuit Court of Appeals (the "*10th Circuit*"). The 10th Circuit Appeal is still pending, and earlier in these cases, the Environmental Groups and the Debtors entered into that certain *Stipulation and Consent Order Concerning Pending Litigation Brought by Sierra Club and WildEarth Guardians*, which was entered by the Court on September 1, 2016 (Docket No. 1225, the "*Stipulation*"). The Stipulation provided, inter alia, that the Debtors would permit oral argument to proceed on the Appeal during the pendency of the Bankruptcy Cases, conditioned upon the Environmental Groups' agreement to withdraw their request for certain relief. Oral argument before the 10th Circuit is scheduled for March 21, 2017. The Stipulation expressly preserves Sierra Club's right to seek vacatur of the leases upon the Plan's Effective Date.

17. The Debtors did not disclose any information regarding the Action or the Appeal, or the effects on the Debtors in the event that the Judgment is reversed in the future, in its initial Plan and Disclosure Statement. In response to Sierra Club's *Limited Objection and Reservation of Rights to Debtors' Proposed Disclosure Statement* (Docket No. 2099, the "*Disclosure Statement Objection*"), the Debtors made certain disclosures in the Disclosure Statement regarding the Action and the Appeal, as well as the integral role that the North and South Porcupine leases play in the Debtors' development of their flagship North Antelope Rochelle Mine. To wit, a reversal of the Judgment on appeal, and a remand to BLM, may result in the future vacatur of the North and South Porcupine leases, which would have a material adverse impact on the Debtors' future mining operations in the Powder River Basin.

18. In sum, for multiple reasons, Sierra Club has a direct, fundamental, and legally protected interest in ensuring that the Reorganized Debtors will be financially viable post-emergence, and will be financially able to completely fulfill their environmental reclamation and other obligations.

C. Sierra Club's Discovery Efforts

19. A primary concern of Sierra Club, upon its initial review of the Debtors' Plan and Disclosure Statement, was (and remains) that the Financial Projections, standing alone, would be insufficient for Sierra Club and other parties-in-interest to make a reasoned determination as to the feasibility of the Plan, specifically, whether the Debtors will be able to meet their post-emergence obligations, including those obligations under Environmental Law. Accordingly, on January 12, 2017, Sierra Club filed that certain *Motion for Entry of an Order Authorizing the Issuance of Discovery to Debtors* (Docket No. 1974, the "*Discovery Motion*"). In the Discovery Motion, Sierra Club sought, *inter alia*, access to the source and supporting documents

underpinning the Financial Projections, as well as authority to conduct depositions of representatives of the Debtors related thereto.

20. At a hearing before the Court on January 26, 2017, the Discovery Motion was denied. Accordingly, Sierra Club has not been afforded access to source documents and information necessary for it to make definitive conclusions as to the feasibility of the Plan. This Limited Objection is therefore premised on the limited financial information made available to the public by the Debtors.

ARGUMENT

21. Section 1129(a) of the Bankruptcy Code, 11 U.S.C. § 1129(a), specifies requirements that must be satisfied for a plan to be confirmed. The plan proponent bears the burden of proof with respect to each and every element of section 1129(a). *See, e.g., In re Euerle Farms, Inc.*, 861 F.2d 1089, 1091-92 (8th Cir. 1988); *In re Fur Creations by Varriale, Ltd.*, 188 B.R. 754, 760 (Bankr. S.D.N.Y. 1995); *In re Genesis Health Ventures, Inc.*, 266 B.R. 591, 598-99 (Bankr. D. Del. 2001); *In re Trevarrow Lanes, Inc.*, 183 B.R. 475, 479 (Bankr. E.D. Mich. 1995); *In re Pullman Constr. Inc.*, 107 B.R. 909, 937 (Bankr. N.D. Ill. 1989).

22. Among the section 1129(a) requirements that the Debtors have the burden of proving is that the Plan is "feasible," meaning that "[c]onfirmation of the plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the debtor or any successor to the debtor under the plan, unless such liquidation or reorganization is proposed in the plan." 11 U.S.C. § 1129(a)(11). The feasibility test set forth in section 1129(a)(11) requires the Court to determine whether a plan is workable and has a reasonable likelihood of success. "The feasibility standard is whether the plan offers a reasonable assurance of success. Success need not be guaranteed." *Kane v. Johns-Manville Corp.*, 843 F.2d 636, 649 (2d Cir. 1988). The

key element of feasibility is whether there exists a reasonable probability that the provisions of the plan can be performed. The purpose of the feasibility test is to protect against visionary or speculative plans. *See Pizza of Haw., Inc. v. Shakey's, Inc. (In re Pizza of Haw., Inc.)*, 761 F.2d 1374, 1382 (9th Cir. 1985) (quoting 5 Collier on Bankruptcy ¶ 1129.02[11], at 1129-34 (15th ed. 1984)). In making a feasibility determination, "courts often consider the experience and ability of management, the adequacy of capital resources, and reasonably anticipated liquidity." *In re Apex Oil Co.*, 118 B.R. 683, 708 (Bankr. E.D. Mo. 1990) (Schermer, J.).

23. To support the Debtors' contention that the Plan is feasible, the Debtors rely on their Financial Projections for years 2017 through 2021. Disclosure Statement, pg. 92, Ex. C. The Financial Projections are presented with a host of caveats, including:

- "The projections were not prepared with a view toward compliance with the guidelines established by the American Institute of Certified Public Accountants or the Financial Accounting Standards Board, or the Rules and Regulations of the SEC" (Disclosure Statement, pg. 93);

- "[T]he projections have not been audited, reviewed or subjected to any procedures designed to provide any level of assurance by the Debtors' independent certified public accountants" (*Id.*);

- "[T]he projections should not be regarded as a representation or warranty by the Debtors, or any other entity, as to the accuracy of the projections, or that the projections will be realized" (*Id.*);

- "Actual results may vary materially from those presented in these projections" (*Id.*); and

- "These Projections do not reflect the complete or full impacts of "fresh start accounting," which could result in a material change to any of the projected values" (*Id.* at pgs. 120-21).

24. The largely caveated nature of the Financial Projections was one of the drivers for Sierra Club seeking access, through its Discovery Motion, to the source documents underpinning those projections. Absent the access it sought through the Discovery Motion, Sierra Club and other creditors and parties-in-interest have been forced to rely solely upon this

limited publicly-available information in their evaluations of the Plan. As a result, Sierra Club cannot unqualifiedly conclude that such projections are flawed or unattainable, or that the Debtors' Plan cannot be achieved. This notwithstanding, Sierra Club wishes to bring its findings to the Court's attention, so as to aid it in its evaluation of the feasibility of the Plan. Sierra Club submits that based on the numerous apparent inconsistencies between the Debtors' projections and available information, the Debtors have not met their burden to demonstrate Plan feasibility.

I. Sierra Club's Assessment of Plan Feasibility

25. In order to assist Sierra Club in reviewing the Plan, the Disclosure Statement and the Financial Projections, Sierra Club engaged Amherst Consulting ("*Amherst*"), a leading middle-market investment banking, restructuring and turnaround consulting firm based in Detroit, Michigan. Amherst's professionals are experienced in coal industry restructurings, having previously been retained as an expert by Sierra Club in the Alpha Natural Resources chapter 11 cases (Bankr. E.D. Va.).

26. At Sierra Club's request, Amherst performed a review of the Plan and the Financial Projections, as well as a host of additional publicly-available information, in an effort to draw conclusions as to the veracity of the Debtors' projections and their ability to meet them. Their conclusions are contained in a *Review and Findings of Peabody Energy Disclosure Statement and Related Exhibits* dated March 7, 2017 (the "*Amherst Report*"), a true and correct copy of which is attached to, and incorporated in, this Limited Objection as Exhibit B.

27. Based on the Amherst Report, Sierra Club raises the following issues with the Financial Projections which call into serious question the feasibility of the Plan:

A. The Plan Assumes a Significant Increase in Market Share and Production and a Significant Decrease in Costs for the Plan Period.

28. As an initial matter, the Debtors' sales projections defy industry forecasts. Interestingly, the Debtors project an increase in sales of U.S. thermal coal from its Powder River Basin mines during the Plan period of 14 million tons, while industry experts estimate the region to lose 18 million tons of production during the same period. Amherst Report, pg. 8. Assuming tons sold to be a fair approximation of tons produced, this equates to a projected increase in the Debtors' Powder River Basin market share from 35.8% to 42.4% over the Plan period. *Id.* The Debtors do not provide an explanation in the Plan, Disclosure Statement or Financial Projections of how they intend to achieve such growth in market share over a relatively short time span. Indeed, the notion of increasing market share by approximately 20% in a projected down market appears to be unrealistic.

29. Further confounding is that the Debtors intend to grow production and market share while also slashing operating and SG&A costs during the Plan period. According to the Amherst Report, in order for the Debtors to reach its Plan targets through 2020, they will need to cut approximately $406 million in existing annual operating and SG&A costs (or approximately 10% of such costs at current levels) while simultaneously *increasing* production by 6.6%. Amherst Report, pg. 12. While a lack of information available to Sierra Club means that it cannot definitively conclude that such a result is impossible, these projections become more suspect when also considering the potential that market conditions may compel the permanent closure – and significant attendant reclamation costs – of certain of the Debtors' mines during the Plan period. *Id.*

30. The declining market for coal-fired power generation has already undermined significant assumptions in the Debtors' Plan by precipitating the announced closure in 2019 of

the Navajo Generating Station, the only purchaser of coal from the Debtors' Kayenta Mine in Arizona. Amherst Report, pg. 12. It is unlikely that the Kayenta Mine will find alternative purchasers for its coal, given the lack of infrastructure necessary to ship the coal to other buyers. Because federal and state mining laws will compel the complete reclamation of the closed mine, the Debtors will incur significant ARO costs without generating any additional revenue from the mine. Reclamation bonding will not be available to offset these costs because those funds are only available in the event that the Debtors abandon the mine, an occurrence which would threaten all of the Debtors' mining permits. Even if replacement customers are secured for some of the Kayenta Mine's coal production, reclamation costs will still exceed revenue because coal production will drop considerably and the mine will continue to be subject to the legal requirement that it conduct contemporaneous reclamation.

31. Beyond its dramatic impacts on the Kayenta Mine, the announced closure of the Navajo Generating Station further underscores the weakening market for steam coal. In the statement announcing the anticipated closure in 2019, the plant's owners did not cite regulatory burdens or other factors within the purview of government officials as the basis for their decision, but rather cited changing market conditions. The owners explicitly stated that their decision "is based on the rapidly changing economics of the energy industry, which has seen natural gas prices sink to record lows and become a viable long-term and economical alternative to coal power."[1] These "rapidly changing economics" apply to all of the customers for the Debtors' steam coal. It is possible that additional plant closures will follow, with concomitant impacts on the Debtors' mines.

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[1] https://www.srpnet.com/newsroom/releases/021317.aspx

32. Additional recent events have also called into significant question the future viability of the Debtors' largest coal mine. The Debtors recently expanded their North Antelope Rochelle Mine in Wyoming – which they refer to in their Second Amended Disclosure Statement as their "flagship" mine – via the North Porcupine and South Porcupine coal leases issued to the Debtors by the federal Bureau of Land Management ("*BLM*"). A February 7 decision of the Department of Interior's Board of Land Appeals determined a similar BLM coal lease in Wyoming held by a non-Debtor entity to have "no legal effect" due to a procedural defect, and the lease was therefore set aside. 189 IBLA 274 at 283 (Feb. 7, 2017). The Debtors' North Porcupine and South Porcupine leases appear to suffer from an identical defect. Should the Debtors' leases ultimately be determined to be invalid and set aside, it would have a material impact on the North Antelope Rochelle Mine as Debtors have acknowledged that the leases "play an integral role in the [Debtors'] development" of the mine.

33. Finally, Amherst notes in its report that depreciation "vastly exceeds" capital expenditures during the Plan period, which "may be an indication of underinvestment within the plan which could lead to cash flow shortfalls . . . when assets' useful lives are exhausted." This imbalance is further evidence of potential infeasibility of the Plan.

B. The Debtors' Historical Performance Further Calls Into Question Their Ability to Achieve Plan Projections.

34. In evaluating the feasibility of the Plan, Amherst conducted a detailed benchmark comparable public company analysis, wherein it took a sample of fifteen (15) publicly-traded companies with businesses and assets similar to those of the Debtors. Among those companies sampled are competitors of the Debtors that recently went through chapter 11 restructurings of their own, including Arch Coal, Inc. and Alpha Natural Resources, Inc. A description of the comparable companies sampled can be found at pages 13-14 of the Amherst Report.

35. In its analysis, Amherst looked at sales, profitability, cash flow and capitalization measures for the Debtors and the comparable public companies, and performed a benchmarking analysis of the Debtors in relation to such companies to understand the Debtors' position within the industry, as well as potential future reaction to market forces.

36. In looking at key metrics, including revenue, gross margin, EBITDA margin, and compound annual growth rate (CAGR) of EBITDA, of the Debtors and the sampled companies between fiscal year 2014 and fiscal year 2016, Amherst observed the following:

- In both fiscal years 2014 and 2016, the Debtors' gross margins were near the bottom of their peer group, having the third lowest margin in 2014 (with only Arch Coal and Alpha Natural Resources having lower margins) and the second lowest margin in 2016 (ahead of only Alpha Natural Resources) (Amherst Report, pg. 15);
- In both fiscal years 2014 and 2016, the Debtors' EBITDA margins were at the lower end of the range exhibited by its peer group, with the sixth-lowest margin in 2014 and the third-lowest margin in 2016 (Amherst Report, pg. 16); and
- In examining 3-year CAGR of EBITDA, the Debtors EBITDA-level profitability "suffered an accelerated decline," falling from negative 28.0% in 2014 to negative 47.9% in 2016 (*Id.*).

37. While Amherst observes that unfavorable market conditions were certainly a contributing factor to the Debtors' recent financial distress, the decline in the Debtors' metrics over the past several years suggests that the Debtors are being outperformed by their peer companies when it comes to cost efficiency and profitability; specifically, the decline in the Debtors' EBITDA percentage between 2014 and 2016 may be indicative of their inability to adjust expenses in the face of adverse market forces. Amherst Report, pg. 12. Given these

historical operating challenges, the Debtors' ability to increase production while decreasing costs, as appears to be necessary to achieve Plan objectives, must be called into question, particularly where the Debtors do not articulate in the Plan when, how or where they will eliminate costs, all the while increasing production and market share. *Id.* at 13.

C. The Debtors Do Not Take Fresh Start Accounting Into Account in the Financial Projections.

38. In the Plan, the Debtors caution that they expect "to be subject to the fresh start reporting rules required under the Financial Accounting Standards Board Accounting Standards Codification Topic 852, Reorganization." Plan, pg. 130. Under the "fresh start accounting" rules, the Debtors are required "to use current values (going concern or reorganization values) in [their] balance sheet for both assets and liabilities and to eliminate all prior earnings or deficits." Amherst Report, pg. 18. The Debtors acknowledge in the Plan that once fresh start accounting is implemented, the reorganized Debtors' "consolidated financial condition and results of operations from and after the Effective Date will not be comparable to the financial condition or results of operations reflected in the [Debtors'] consolidated historical financial statements." Plan, pg. 130-31. Moreover, the Debtors acknowledge that the Financial Projections "do not currently reflect the full impact of fresh start reporting, which may have a material impact on the financial projections moving forward." Plan, pg. 131.

39. The Debtors' decision not to incorporate fresh start accounting standards in their Financial Projections creates an impossible situation for creditors and parties-in-interest reviewing the Plan, in that these parties are being asked to make critical Plan-related decisions based on financial statements "which are known to be incorrect and do not follow FASB guidelines for plan disclosure during or after emergence from chapter 11." Amherst Report, pg. 18. Further compounding this obfuscation in the Plan is the lack of sufficient publicly-available

information to determine the effects of fresh start accounting, thereby rendering it impossible to know if, for instance, the stated value of the Debtors' fixed assets ($5.3 billion) represents a reasonable fair market value. If the fair market value of these assets is materially less than the current book value, it may indicate that the Debtors' post-bankruptcy investors have overpaid, and that projected cash flows could be negatively impacted in two ways: (a) through increased tax obligations due to lower depreciation expenses; and (b) increases in asset replacement costs. Amherst Report, pg. 23. Conversely, if the fair market value of the Debtors' fixed assets is understated, the reorganized Debtors may find themselves undercapitalized at emergence. *Id.* Under either scenario, the Debtors' failure to produce accurate financial statements in the Plan raises significant questions about its feasibility.

II. The Feasibility of the Debtors' Plan is Contingent on Complete and Successful Implementation of the Bonding Solution

40. The Debtors recently filed a notice of the achievement of a Bonding Solution that requires the Debtors to replace all of their current self-bonds by the Effective Date, primarily through the use of reliable third-party surety bonds. Docket No. 2583. Complete and successful implementation of the Bonding Solution is critical to the feasibility of the Plan. Should the Debtors fail to meet their obligations under the Bonding Solution, it would endanger their ability to maintain their existing mining permits or to procure new permits. Sierra Club therefore hereby reserves its rights to file additional objections should the Debtors' seek to alter the terms of the Bonding Solution or otherwise fail to completely and successfully implement the Bonding Solution.

CONCLUSION

41. Given the Debtors' refusal to provide Sierra Club access to the full set of information necessary to fully vet the Financial Projections, Sierra Club cannot conclude with

certainty whether the Plan is feasible in its current form. However, the publicly-available information casts significant doubt on the feasibility of the Plan and therefore on overall Plan confirmability. Sierra Club submits that the Debtors should have in their possession the information necessary to respond to these concerns, and should be required to do so in a satisfactory fashion as a condition to confirmation.

Dated: March 9, 2017

Respectfully submitted,

SIERRA CLUB

By: /s/ Thomas R. Fawkes
One of Its Attorneys

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CERTIFICATE OF SERVICE

I hereby certify that on March 9, 2017, a copy of the foregoing was served by: (1) electronic mail; and (2) the Court's CM/ECF system on the Master Service List and each entity requesting service under Fed. R. Bankr. P. 2002 (including the parties to which notice must be provided in that certain *Order (I) Approving Second Amended Disclosure Statement, (II) Establishing Procedures for Solicitation and Tabulation of Votes to Accept or Reject Second Amended Joint Plan of Reorganization, (III) Scheduling Hearing on Confirmation of Second Amended Joint Plan of Reorganization and (IV) Approving Related Notice Procedures* (Docket No. 2234)), which has been posted on the Debtors' Case Information Website as of February 22, 2017.

/s/ Thomas R. Fawkes
Thomas R. Fawkes

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

In re:	)	Chapter 11
	)	
PEABODY ENERGY CORP., *et al.*,	)	Case No. 16-42529-399
	)	
	)	(Jointly Administered)
Debtors.	)	

Declaration of Nancy Gehlhausen

1. My name is Nancy Gehlhausen. I am a resident of Oakland City in Gibson County, Indiana. I have lived here for over 30 years, since 1981. I am an active member of the Sierra Club, and have been since 1987.

2. My home is located within a few miles of both Peabody Energy's Francisco underground coal mine and its Somerville strip mine. Mining has approached as close as a quarter mile from my property. Peabody Midwest Mining, a subsidiary of Peabody Energy, leases the coal located beneath my property, and makes an annual payment to us for the mineral rights it holds on our property. The lease and annual payment arrangement were already in place before we purchased our property. To my knowledge, we have never had an opportunity to reject or renegotiate this arrangement. We do not actually own the coal that Peabody leases. I have received a legal notice from Peabody stating that they intend to assume the lease in the bankruptcy. I take Peabody's assumption notice as an indication that it intends to mine the coal underneath my property.

3. I am very concerned about the effects of coal mining, by Peabody and others, on my property and on those of my neighbors. I am bothered by the dust produced by blasting and coal trucks, and worry about what effect the mining will have on my home as it gets closer to where I live, including directly under a portion of our property. I have friends who have experienced broken windows and cracks in their houses from blasting. A woman who lives within five miles of me had a huge boulder blown into her house. While running near Peabody's Somerville mine once, I was showered with dust from a coal mine blast. Before I got the worst of it, I was able to turn and run in the opposite direction. I am aware that subsidence from underground coal mining has occurred in neighboring counties and I'm concerned that it could happen here, too, including under my house.

4. In addition to the impacts to my home and those of my neighbors, I'm very concerned about the negative effects coal mining has on the environment. As I run along county roads I often see exposed piles of slurry in coal mine ponds. Sometimes while driving on back roads I'll come around a corner and get a view of the Somerville mine or other strip mines and seeing all of that destruction breaks my heart.

5. I am particularly concerned about the impacts of Peabody's mines on the Patoka River National Wildlife Refuge, which is located just to the north of where I live. I visit the Refuge at least once a week, sometimes more, and am secretary for our local Friends of the Patoka River Refuge group. Our group organizes volunteers to help care for the Refuge, including building and maintaining trails. When I visit, I like to hike, take pictures, look for wildflowers and work in the wildflower gardens. When new property is added to the refuge, I like to go out and document what's there and to watch what new things come in. When I was a teacher, I would take classes of my French students to visit the refuge. Recently, I helped take a group of about 60 high school students to visit the Refuge. They were so excited when we found a baby box turtle. I have also seen nesting bald eagles, migrating sandhill cranes,

and whooping cranes at the Refuge. I want to make sure other people, including other students, continue to have the experience of viewing this incredible wildlife.

6. I'm very concerned, however, that the wildlife in the Refuge will be negatively impacted by Peabody's coal mining, and in particular that the wildlife will be harmed if Peabody is able to evade any of its environmental responsibilities through its bankruptcy. Peabody's Francisco mine has a coal preparation plant, a large old coal refuse gob pile, and several coal waste slurry ponds on site. All of these have the potential to produce harmful water pollution. The site, including the slurry ponds, ultimately drain into Keg Creek which then flows north into the Patoka River at the Refuge. If there were to be a spill or other significant pollution discharges, it could be devastating to the Refuge and the wildlife that relies on it. I would be very upset if pollution from Peabody's mine were to damage the Refuge.

7. We have seen the damage that waste coal gob piles can do the waterways in this area. Acid mine drainage from the nearby Enos Tipple gob pile polluted the South Fork Patoka River for over 50 years after the owners of the gob pile site declared bankruptcy and stopped taking care of it. This pollution killed off most of the aquatic life in the river. The Indiana Division of Mining and Reclamation was eventually stuck with 180-plus acres of old gob storage piles at the site, which had not been covered by topsoil. Although the river has recovered somewhat, thanks in part to the government-funded reclamation, I'm very concerned that additional pollution would be devastating. The fact that Peabody is now in bankruptcy makes me nervous that similar problems will come from Peabody's sites if the company is allowed to abandon them or otherwise shirk its responsibilities.

8. It's important to me that we be able to maintain a healthy environment for our children and grandchildren. My son lives in Indianapolis with my nine year old grandson. They come

to visit us three or four times a year, and we always like to do outdoor activities because my grandson doesn't get to have those experiences in the city. I often worry that we might leave my grandson and others in his generation a worse environment than what we have now. I think about this legacy a lot. My husband and I do what we can to restore our own land, including putting in new wetland habitats. I am fearful that Peabody and other coal companies may be allowed to do the opposite – leave the land worse off than when they found it.

9. I am aware that some people support the coal mines in my area because of the jobs, but I do not think the mines have been good for our community. I am a retired public school teacher who taught French in the local junior high and high school. Peabody and the other coal companies have hurt our school system by buying up houses and then leaving them empty or tearing them down along with the roads, power, and telephones. Without those houses, there are fewer and fewer students left in the school system. As a result, our school system is struggling to stay open. I'm very concerned about what will happen to the kids who do still live here and need to go to school. The coal mining has also hurt other parts of our economy. I'm skeptical of the coal companies' claims that, after mining, the degraded and compacted "reclaimed" land can be as productive for farming as what was there before. In addition, Peabody's mining activities destroy the local infrastructure, so anyone who wants to build a house or start a business has to put back in the roads, water, and electricity. And even if they can afford to restore the infrastructure, they would be building on unstable land subject to subsidence. Peabody may have brought some short term benefits for this community, but they are leaving us with long term problems.

10. All of these problems from Peabody's mines – the environmental issues and the impacts to our economy – will be made worse if Peabody is allowed to abandon its responsibilities through the bankruptcy process. I'm very concerned that Peabody will try to use its

bankruptcy to avoid the obligations it has to clean up its mines and rebuild what it has destroyed. For example, Peabody currently maintains levees below some of its refuse ponds at the Francisco mine, and those levees keep mining pollution out of our local waterways. What will happen if Peabody stops maintaining those levees? Also, the waste coal gob piles at Peabody's mines are covered by a layer of soil that is subject to erosion by wind and rain, and Peabody is currently chemically treating the drainage from the pile as well as the drainage from nearby settling ponds. If Peabody stops maintaining the pile and ponds, the waste coal will soon be exposed and this will make pollution problems worse, particularly if Peabody also stops its chemical treatment of the pollution. The costs of maintaining these piles are only going to rise. We're already seeing far heavier rain – sometimes five inches of rain at once – than we ever did in the past. It is important that Peabody not only retain all of its responsibilities and obligations, but set aside enough money to cover the costs. If Peabody does not clean up its mines in Gibson County, or ensure that enough money is set aside for someone else to clean up the sites if needed, I worry about the negative impacts from increased pollution and ruined infrastructure for me, my family, and my neighbors.

11. I already have reason to doubt that Peabody will make good on its obligations or promises. I have seen how Peabody and the other coal mine operators take years to rebuild roads they promised to do immediately. And even when the roads are built, they're often of poor quality and don't hold up. I'm also aware that Peabody at one point was going to sell some mined land to the Refuge. But at the last minute, Peabody included an indemnity clause stating that it would not be liable for any pollution or other harm from that property. That meant that the Refuge couldn't go forward with the purchase. A third party eventually stepped in and helped with the transaction, but Peabody's insistence on the indemnity clause raised for me the question of why the company is not doing more to stop the pollution in the first place.

12. In light of these risks not only to my own property, but to the health of the environment in the Refuge and in my community, I submit this declaration because I want to ensure that once Peabody emerges from bankruptcy, it remains obligated to comply with all environmental obligations, including in particular those related to the Francisco and Somerville mines. Peabody should not be permitted to use the bankruptcy process to avoid these obligations, and the Bankruptcy Court should require Peabody to commit to meeting all of these obligations, including by setting aside a sufficient amount of funding to guarantee that our environment and infrastructure will be protected from environmental damage. I have witnessed coal companies avoid these types of obligations in the past, and the consequences are grave. Peabody should not be permitted to do the same.

13. One example of what I'm concerned about is Peabody's self-bonding for its reclamation obligations. I understand that Peabody has over $140 million in reclamation obligations in Indiana that are covered only by self-bonds. I think the only way that we can be sure that reclamation will be covered is if Peabody is required to replace those self-bonds the way other coal companies have.

I declare under penalty of perjury that the foregoing is true and correct.

Nancy Gehlhausen 12/7/2016

Nancy Gehlhausen (date)

Review and Findings of Peabody Energy Disclosure Statement and Related Exhibits

March 7, 2017

By:

AmherstConsulting

Table of Contents

NATURE, SCOPE AND APPROACH

Amherst Consulting was engaged to perform a review of the Disclosure Statement (as amended) and related source documents related to the Peabody Energy ("Peabody" or the "Debtor") bankruptcy (case # 16-45259) in an effort to draw conclusions as to the veracity of the Debtor's projections and its ability to meet them. Debtor did not allow full access to all source documents used in creating the projections and other financial information provided in the Disclosure Statement and related sources. Therefore, documents used in our review were limited to company bankruptcy filings and other available public information. The purpose of obtaining and reviewing this documentation was to provide Earthjustice and the Sierra Club ("the Client"), in as much detail as possible, with Amherst's assessment and analysis of Peabody and its related entities and to gain a better understanding of the viability of their proposed restructured operating structure and the credibility of their financial projections.

This report has the goal of assessing whether, post-confirmation, Debtor will be able to meet the financial projections, including environmental and other obligations, as set forth in Peabody's Disclosure Statement and related documentation. The Report provides the Client with Amherst's best professional assessment (given the available data) of whether the financial projections for the Reorganized Debtor are realistic and if the Reorganized Debtor will be financially viable entities capable of fulfilling its obligations. Our process consisted of reviewing publicly available information including but not limited to:

- Bankruptcy filings
- United States Energy Information Administration information
- Office of Surface Mining Reclamation and Enforcement information
- Peabody produced business plan (July/August 2016 Release)
- World Bank Forecasts
- Economist Intelligence Unit information
- SEC filings
- Various news sources
- Institute for Energy Economics and Financial Analysis reports
- S&P Global Market Intelligence
- FASB Accounting Standards Codification Topic 852
- FASB Statement of Position 90-7

It should be noted that, given Debtor's refusal to provide additional information or to allow Amherst or its client the ability to review detailed backup documentation not already in the public domain, our conclusions remain fairly broad and a number of open questions remain.

SUMMARY OF CONCLUSIONS

Debtor's Revenue Projections Do Not Line up with Debtor's Basic Revenue Assumptions

I. Projected Revenues are lower than what would be expected based on the assumptions purported to be used to create them.

   a. In dollars, the total revenues by year reported in the Debtor's plan do not line up with the calculated total revenues implied using the Plan's key assumptions. In other words, there is "meaningful detail which truly drives the projections which is hidden behind the assumptions data provided".

   b. In other words, the projected revenues are materially lower than the provided assumptions indicate they should be; which leads to the following open questions:

      i. The pricing assumptions as shown in the Plan documents do not directly correlate with the projected revenues. Which are correct - the assumptions or the projected revenues?

      ii. What additional internal assumptions, including marketplace, operational, etc., drive Debtor to assume revenues nearly $1B per year lower than top level assumptions would indicate?

      iii. If the assumptions disclosed in Debtor's Disclosure Statement are incorrect, what additional impact do those errors have on the feasibility of the Reorganization Plan?

Debtor's Sales Projections would Require a Shift in Market Dynamics

II. Debtor will need to improve market share from 35.8% to 42.4% and overcome headwinds of falling steam coal demand and production utilization to achieve the sales forecast.

Debtor's Cost Projections Include Unsubstantiated Cost Reductions which are Material to the Success of the Reorganization Plan

III. In order to meet projected profitability, Debtor must 1.) Increase production 7% while simultaneously 2.) Cutting annual operating and SG&A costs by 10%.

   a. Without explanation, Operating and SG&A costs per ton sold are projected to drop more than 15% from 2016 through 2020 (Note: Expenses are forecast to increase slightly during 2021 from 2020 lows)

b. This reduction in costs must come at the same time as production is expected to increase by 7%.

c. Debtor anticipates the closure of at least one of Debtor's mines in 2019 and there remains the potential for more closures as well. Thus, it is likely that the Debtor will incur significant ARO costs at these mines without corresponding operating revenues. This further calls into question the Debtor's ability to reduce overall costs to the extent projected.

<u>Debtor's Historical Ability to Manage Costs with Market Trends is Poor</u>

IV. Although one of the largest among its peer group (and the largest of its closest peers), Debtor has historically underperformed when it comes to cost efficiency and profitability. Even among its closest peers (Cloud Peak Energy, Arch and Alpha), Debtor has been outperformed by smaller companies in the space. Over the course of the last several years, Debtor has not shown the ability to improve its efficiency or check its costs in the wake of falling revenues.

V. Debtor's decline in EBITDA percentage from 2014 through 2016 is indicative of the Company's inability to adjust its expenses to match market forces. Yet, Debtor's projections indicate BOTH a 7% increase in cost efficiency AND 10% in current cost reductions through 2020.

<u>Debtor's Implementation of Fresh Start Reporting will have a Material Real-life Impact and Should be Taken into Account in the Disclosure Statement</u>

VI. Debtor treats the implementation of fresh start reporting as something that need only be disclosed in passing, ignoring the real world potential impacts of this approach, and forcing creditors and other parties reviewing the Plan to make decisions as to confirmation of the Plan based on pro-forma financial statements which are known to be incorrect and do not follow FASB guidelines for plan disclosure during or after emergence from Ch. 11.

VII. Information necessary to provide the reader a clear understanding of the expected effects of fresh start reporting was and is available to Debtor and should be incorporated into the disclosure statement.

VIII. In the end, the only certainty relative to Debtor's disclosure of balance sheet items is that they are known to be incorrect by virtue of the fact that it reports the projected assets, liabilities and equity position of an entity which, upon confirmation, will no longer exist. No view of the actual emergent entity is made available in the disclosure statement.

FINANCIAL PROJECTIONS AND ASSUMPTIONS

The financial projections provided in Peabody's bankruptcy plan are very high level making it difficult to evaluate their accuracy. However, by examining the underlying assumptions provided, as well as some inter-statement relationships, a certain amount of insight may be gleaned. This insight suggests that Peabody's assumptions regarding certain sales prices, volume and demand, and SG&A costs are optimistic. In some cases these assumptions conflict with industry projections that paint a less positive picture for Peabody. Moreover, the feasibility of the plan fundamentally depends on Peabody's ability to increase sales in spite of decreasing demand. At the same time, the company must significantly cut its annual costs. Peabody must justify its assumptions in light of conflicting industry information to demonstrate the feasibility of its plan.

I. Revenues

Revenues in the plan depend on sales price and tons sold, for each of which partial assumptions have been provided by Peabody. These assumptions conflict with certain industry projections. These industry projections suggest lower-than-assumed prices, production volumes, and demand.

a. *Sales Price*

i. Peabody generally sells coal of 5 categories. In the U.S. this includes thermal coal in the Powder River Basin (PRB), Midwest, and Western US (New Mexico, Arizona, and Colorado). In Australia, their product is segmented into thermal coal and metallurgical coal.

	2017	2018	2019	2020	2021
Powder River Basin					
PRB 8800 Price per Tonne - Peabody Plan	$ 11.75	$ 12.25	$ 12.75	$ 13.00	$ 13.75
PRB 8800 Price per Tonne - SNL Forecast	12.05	12.25	12.75	13.00	13.00
Australian Metallurgical					
AUS Met Price per Tonne - Peabody Plan	$ 186	$ 115	$ 115	$ 120	$ 123
AUS Met Price per Tonne - AUS DIIS*	186	108	N/A	N/A	N/A
Australian Thermal					
AUS New Castle Price per Tonne - Peabody Plan	$ 71	$ 66	$ 58	$ 60	$ 65
AUS New Castle Price per Tonne - AUS DIIS*	75	67	N/A	N/A	N/A

* Sourced from Australian Government Department of Industry, Innovation, and Science

ii. Peabody has given forward guidance regarding the largest three of these categories. The chart above reflects a comparison of Peabody's assumptions for the 5 year period of the plan compared to alternative source data.

iii. For the most part, the *stated assumptions* in Peabody's plan appear reasonable. However, very limited data exists to assess the Australian market figures. Despite their *stated assumptions* regarding pricing appearing to be directionally correct, it may not be possible to evaluate the true pricing actually driving Peabody's plan. It appears that the pricing assumptions relate only to the benchmark prices for the industry and do not give any insight as to the figures Peabody is actually utilizing in their plan. The Plan figures would depend heavily on Peabody's sales under contract as well as unlisted assumptions that may have to do with Peabody's coal quality profile, among other factors. Assuming the pricing assumptions roughly equate to true pricing figures in the Peabody plan, and based on the plan volume projections, the potential miss in Peabody's plan if SNL and AUS DIIS pricing is used vs. Peabody's figures is $100mm for PRB coal in 2021 and $70mm for Australian met coal in 2018.

iv. No guidance is given as to Midwest or Western pricing included in the plan, though it appears, based upon recent data and market information, that the Midwestern operations may recognize prices in the low to mid $40's over the plan period. Western prices are more difficult to determine.

b. Sales Volume and Demand

i. While the Peabody plan lists assumptions on tons sold, there is no mine detail or explanation for shifts in sales between mines or competitors. Peabody's plan for U.S. thermal coal appears to project Peabody exceeding industry expectations for volume movement in the PRB region. Peabody is projecting its PRB tons sold to increase by 14mm from 2017-2020 while industry estimates expect the region to lose 18mm tons of production. While tons sold and tons produced will not necessarily move in exact tandem, the tons produced figure for the PRB region can generally be considered a good substitute for tons sold. Using this substitute, Peabody projects their market share to grow from 35.8% to 42.4% over the projected period. No explanation of how or why Peabody expects to gain market share is provided. The below chart summarizes Peabody's forecast thermal coal sales as well as industry expectations for production in the region and total U.S. steam coal supply, demand, and usage.

	2017	2018	2019	2020	2021
Peabody PRB Sales Tons	117	129	129	131	131
% Change	17.0%	10.3%	0.0%	1.6%	0.0%
SNL Forecast PRB Produced Tons	327	332	311	312	309
% Change	16.8%	1.5%	-6.3%	0.3%	-1.0%
Total U.S. Steam Supply	797	799	753	748	743
Total U.S. Steam Demand	766	764	718	713	708
Usage %	96.1%	95.6%	95.4%	95.3%	95.3%
Change in Usage %	-4.3%	-0.5%	-0.3%	0.0%	0.0%

ii. Beyond the need to gain market share in the region, Peabody will also need to overcome an overall demand reduction for U.S. steam coal as well a reduction in utilization of production in order to meet their sales forecast.

iii. There may be some upside to the Midwest sales tons when taking the same approach to analysis. However, Peabody's portion of production in the region is significantly lower than in the PRB and therefore may not track the general supply changes for that region.

iv. We have not identified meaningful publically available information that provides deep insight into demand within the Australian coal markets, but a report from the Australian Government Department of Industry, Innovation, and Science indicates that production should be flat to slightly increasing, making Peabody's projections reasonable absent additional information. Their business plan from mid-2016 indicated low pricing and higher strip ratios would lead to closure of mines in the region. Despite short term price increases for Australian met coal, it appears the Company has not changed that projection.

v. Macroeconomic factors will continue to alter the Seaborne coal market and impact Peabody's results. Activity in China and India will have the largest impact. This is evidenced by large market swings over the last few months as China curbed working days at Chinese plants and then relaxed those regulations. China also recently announced it will stop importing coal from North Korea, a move that could bolster prices. China imported 24.8mm tons from North Korea in 2016.

c. *Overall Revenue*

i. The lack of detail behind true plan pricing and sales makes it difficult to break down and analyze – and therefore verify – forecasted revenues. This holds true when trying to test sales at the highest levels. The chart below indicates what total revenues would look like if Peabody's projected tons sold were simply multiplied by assumed prices in the plan by region. The implied revenue varies drastically from the revenue totals in Peabody's report.

Tons and Revenues in millions	2017	2018	2019	2020	2021
PRB Tons	117	129	129	131	131
PRB Price	$ 11.75	$ 12.25	$ 12.75	$ 13.00	$ 13.75
Implied PRB Revenues	$ 1,375	$ 1,580	$ 1,645	$ 1,703	$ 1,801
AUS Met Tons	11	10	8	6	5
AUS Met Price	186	115	115	120	123
Implied AUS Met Revenues	2,046	1,150	920	720	615
AUS Thermal Tons	22	20	20	21	21
New Castle Price	71	66	58	60	65
Implied AUS Thermal Revenues	1,562	1,320	1,160	1,260	1,365
Midwest Tons	19	19	20	20	20
Midwest High Level Price Assumption(1)	38	41	43	43	43
Implied Midwest Revenues	722	779	860	860	860
Western Tons	13	16	16	14	14
Western High Level Price Assumption(2)	38	38	38	38	38
Implied Western Revenue	494	608	608	532	532
Total Implied Revenue	$ 6,199	$ 5,437	$ 5,193	$ 5,075	$ 5,173
Revenue Per Plan	$ 5,206	$ 4,664	$ 4,385	$ 4,324	$ 4,475
Plan vs. Implied Revenue	$ (993)	$ (773)	$ (808)	$ (751)	$ (698)

1 - Based upon EIA IL Basin estimates with conservative buffer for coal quality

2 - Based upon limited historic New Mexico & Colorado pricing

ii. While the above chart is dependent upon assumptions around Midwest and Western pricing, the results should be directionally correct. <u>It indicates there is meaningful detail which truly drives the projections that</u>

is hidden behind the assumptions data provided. In other words, the projected revenues are materially lower than the provided assumptions indicate they should be. The indication being that either the assumptions are incomplete, and therefore misleading, or they are misapplied in the Projections.

II. Costs – Operating, SG&A, and Depreciation

a. The plan provides no detail behind the $4B in annual operating expenses in the projections. Additionally, final figures from 2016 were not made available for comparison to 2017 and beyond.

b. Without a detailed build-up of costs, one method to assess the projections is by examining Operating and S&GA costs per ton and comparing the projected amounts to historical actual.

PEABODY ENERGY ANALYSIS OF PROJECTED OPERATING AND SG&A COSTS	9-months 2016	Baseline Annualized 2016	2017	2018	2019	2020	2021
Costs of Operations ($ millions)							
Operating Costs & Expenses	$ 2,981	$ 3,975	$ 3,977	$ 3,745	$ 3,604	$ 3,583	$ 3,662
SG&A Expenses	115	153	130	138	144	139	134
Total Expenses	$ 3,096	$ 4,128	$ 4,107	$ 3,883	$ 3,748	$ 3,722	$ 3,796
Shipment Amounts (millions of Tons)							
Tons Sold	135	180	182	194	193	192	191
Annual Change in Tons Sold			1.4%	6.6%	-0.5%	-0.5%	-0.5%
Cumulative Change in Tons Sold from 2016			1.4%	7.7%	7.1%	6.6%	6.0%
Cost per Ton Sold ($)							
Operating Costs per Ton Sold	$ 22.07	$ 22.07	$ 21.85	$ 19.30	$ 18.67	$ 18.66	$ 19.17
SG&A Expenses per Ton Sold	0.85	0.85	0.71	0.71	0.75	0.72	0.70
Total Costs per Ton Sold	$ 22.91	$ 22.91	$ 22.57	$ 20.02	$ 19.42	$ 19.39	$ 19.87
Annual Variance			(0.35)	(2.55)	(0.60)	(0.03)	0.49
Cumulative Variance from 2016			(0.35)	(2.90)	(3.50)	(3.53)	(3.04)
Cumulative Variance from 2016 (%)			-1.5%	-12.7%	-15.3%	-15.4%	-13.3%
VARIANCE ANALYSIS (Efficiency vs. Price Variance)							
Projected Costs per Ton		$ 22.91	$ 22.57	$ 20.02	$ 19.42	$ 19.39	$ 19.87
Total Variance from 2016 Baseline			0.35	2.90	3.50	3.53	3.04
Efficiency Variance							
Calculated Projected Costs per Ton (based on fixed cost at 2016 annualized levels and projected increased production).		$ 22.91	$ 22.68	$ 21.28	$ 21.39	$ 21.50	$ 21.61
Efficiency Variance			$ 0.24	$ 1.64	$ 1.53	$ 1.42	$ 1.30
Price Variance							
Additional Cost Cuts Necessary to Achieve Projection			0.11	1.26	1.97	2.11	1.74
Annual $ value of cost cuts (millions)			**$ 21**	**$ 245**	**$ 380**	**$ 406**	**$ 332**

c. The above chart highlights a significant projected drop in Operating Costs per ton over the first 3 years of the Plan. SG&A costs also show a significant drop-off versus current run rates. While the business plan filed in mid-2016 alluded to cost savings initiatives to be undertaken, none were clearly identified and the updated plan as filed provides no detail on any such items.

d. Basic variance analysis indicates that, in order to achieve these targets, Debtor will be required to cut existing costs while at the same time increasing production from the same assets. As shown in the chart, through 2020, Debtor must cut approximately $406 million in existing annual costs (10% of total operating and SG&A costs) while simultaneously increasing production by 6.6%. Some of these cost reductions may be achieved by changes in product mix; although Debtor has not supplied sufficient detail to determine any such impact.

e. The Debtor's claims that it can cut costs while increasing production are particularly suspect given the significant potential for at least some of the Debtor's mines to incur substantial reclamation costs without producing coal or revenue. For example, it was recently announced that the Navajo Generating Station – the sole client for the Debtor's Kayenta Mine in Arizona – will close in 2019. With the loss of its sole customer, the Kayenta Mine will be forced to close and will thereby incur significant reclamation costs without generating any new production or revenue.

f. One final note regarding the plan expenses. Depreciation vastly exceeds new capital expenditures over the life of the Plan. This may be an indication of under-investment within the Plan which could lead to cash flow shortfalls as reality catches up to the Debtor in its need to recapitalize when assets' useful lives are exhausted. This, too, raises questions about the feasibility of the Debtor's Plan.

HISTORICAL PERFORMANCE ISSUES[1]

The Debtor's ability to increase production while decreasing costs, as is necessary to Plan feasibility, is further called into doubt by the Debtor's past performance. Although one of the largest among its peer group (and the largest of its closest peers), the Debtor has historically underperformed when it comes to cost efficiency and profitability. Even among its closest peers (Cloud Peak Energy, Arch and Alpha), Debtor has been outperformed by smaller companies in the space. Over the course of the last several years, Debtor has not shown the ability to materially improve its efficiency in the wake of falling revenues.

Debtor's EBITDA percent declined from 2014 through 2016 which is indicative of the Company's inability to adjust its expenses to match market forces. Yet, Debtor's projections indicate BOTH

[1] All financial results per Capital IQ as of the report date.

a 7% increase in cost efficiency AND 10% in current cost reductions through 2020. How is this to be accomplished? Throughout their business plan, which was published in August 2016, Peabody claims that they will continue to drive down costs. However, nowhere in the plan do they articulate when, how, or where costs will be eliminated. It should also be noted that the Debtor also expected to begin a new mine project in the Midwest which start-up costs would have to be offset by cost downs. We do not have additional information regarding this project so we are uncertain as to its continuing status.

BENCHMARK COMPARABLE PUBLIC COMPANY ANALYSIS

A benchmarking analysis of publicly traded comparable companies was performed with the intent of ascertaining the historical and expected future performance of Peabody in relation to its peers.

We believe that, when viewed from a macro-perspective, Peabody's performance and financial metrics give an accurate representation of its market position within the industry on both a historical basis, and most importantly, barring a significant change in fundamental business operations subsequent to the reorganization, a going forward basis.

The traditional Benchmark Comparable Public Company Analysis includes the following basic steps:

1. Select a sample of publicly traded companies that are comparable to the Subject (Debtor) in their markets, products, operations and technologies.

2. Develop a set of measures of the performance and condition of each company including sales, profitability and cash flow measures, as well as capitalization measures.

3. Perform a benchmark analysis of the Debtor in relation to its peer group to obtain an understanding of the Company's position within the industry and potential future reaction to market forces.

As described, this analysis requires a sample of publicly traded companies that are comparable to the subject. In the case of Peabody (OTCPK:BTUU.Q), we found 15 such companies in businesses reasonably comparable to them. The comparability of these companies to Peabody is tabulated further in this report. A brief description of each of the selected companies is provided below:

Alliance Resource Partners. (NasdaqGS:ARLP) produces and markets coal primarily to utilities and industrial users in the United States. The company operates ten underground mining complexes in Illinois, Indiana, Kentucky, Maryland and West Virginia. It also operates a coal loading terminal on the Ohio River at Mt. Vernon, Indiana. The company's mining activities are conducted in the Illinois Basin and Appalachian regions.

Alpha Natural Resources, Inc. (OTCMKTS:ANRZQ or "IQ3478354") produces both steam and metallurgical coal for power generation and the production of steel. It produces, processes, and sells coal from approximately 18 active mines and over eight coal preparation plants located throughout West Virginia and Kentucky.

Arch Coal, Inc. (NYSE:ARCH) produces and sells thermal and metallurgical coal from surface and underground mines located in the United States. Operations extend to every major coal supply basin

Cloud Peak Energy Inc. (NYSE:CLD) produces coal in the Powder River Basin ("PRB") in the United States. The Company owns and operates three surface coal mines in the PRB, the lowest cost major coal producing region in the nation. The Antelope and Cordero Rojo mines are located in Wyoming and the Spring Creek Mine is located in Montana.

CNX Coal Resources LP (NYSE:CNXC) produces coal through a 25% undivided interest in and operational control over CONSOL Energy's Pennsylvania mining complex. The Pennsylvania mining complex has three underground mines.

Foresight Energy LP (NYSE:FELP) is a producer and marketer of thermal coal with reserves in the Illinois Basin. The company maintains four mining complexes in the Illinois Basin.

Hallador Energy Company (NasdaqCM:HNRG) owns and operates Indiana's 2nd largest coal producer. The company is focused on developing coal reserves in the Illinois Basin.

Natural Resource Partners L.P. (NYSE:NRP) a diversified natural resource company that owns interests in coal, aggregates and industrial minerals across the United States. The Partnership's coal reserves are located in the three major U.S. coal-producing regions: Appalachia, the Illinois Basin, and the Western United States, as well as lignite reserves in the Gulf Coast region

Rhino Resource Partners LP (OTCPK:RHNO) together with its subsidiaries, produces, processes, and sells various grades of steam and metallurgical coal from surface and underground mines in the United States. The Company's coal reserves are located in Central Appalachia, Northern Appalachia, the Illinois Basin and the Western Bituminous region.

SunCoke Energy, Inc (NYSE:SXC) operates as an independent producer of coke in the Americas. The company offers metallurgical and thermal coal. It also provides coal handling and/or mixing services to steel, coke, electric utility, and coal mining customers.

Teck Resources Limited (TSX:TECK.B) Teck Resources Limited operates as an independent producer of steelmaking coal in the Americas.

2014 Fiscal Year Revenue

TSX:TECK.B	7,425
OTCPK:BTUU.Q	**6,734**
IQ3478354	4,286
NYSE:CNX	2,959
NYSE:ARCH	2,937
NasdaqGS:ARLP	2,301
NYSE:SXC	1,491
NYSE:CLD	1,282
NasdaqGM:WLB	1,116
NYSE:FELP	1,109
NYSE:NC	897
NYSE:CNXC	409
NYSE:NRP	358
OTCPK:RHNO	239
NasdaqCM:HNRG	236

2016 Fiscal Year Revenue

TSX:TECK.B	6,924
OTCPK:BTUU.Q	**4,620**
IQ3478354	2,643
NYSE:ARCH	1,974
NYSE:CNX	1,971
NasdaqGS:ARLP	1,931
NasdaqGM:WLB	1,422
NYSE:SXC	1,223
NYSE:FELP	865
NYSE:NC	859
NYSE:CLD	772
NYSE:NRP	403
NYSE:CNXC	279
NasdaqCM:HNRG	275
OTCPK:RHNO	170

In the selected peer group, Fiscal Year 2014 revenue ranged from a high of $7.4 billion to a low of $236.0 million. Fiscal Year 2016 saw a decrease in total revenue, with a high of $6.9 billion and a low of $170 million. Peabody is the second largest, in terms of revenue size, within the selected peer group. The Company experienced a dramatic decline between our two selected benchmark years in total revenue of approximately $2.0 billion. As discussed in this report, industry volatility and Peabody's specific industry subset have a significant impact on the Company's performance. A continued lack of diversification will likely leave the Company exposed to similar market forces, and by extension, revenue volatility.

2014 Fiscal Year Gross Margin

NYSE:NRP	75.02%
NYSE:CNX	52.41%
NYSE:CNXC	40.30%
NasdaqGS:ARLP	38.44%
NYSE:FELP	34.74%
NasdaqCM:HNRG	27.99%
NYSE:NC	20.64%
NasdaqGM:WLB	20.63%
NYSE:SXC	18.64%
NYSE:CLD	18.17%
TSX:TECK.B	17.85%
OTCPK:RHNO	15.49%
OTCPK:BTUU.Q	**15.33%**
NYSE:ARCH	12.11%
IQ3478354	9.89%

2016 Fiscal Year Gross Margin

NYSE:NRP	60.82%
NasdaqGS:ARLP	39.40%
NYSE:CNX	35.36%
NasdaqCM:HNRG	30.38%
NYSE:CNXC	30.37%
NYSE:FELP	27.81%
TSX:TECK.B	25.76%
NYSE:SXC	25.07%
NYSE:CLD	20.11%
NYSE:NC	19.66%
NasdaqGM:WLB	18.82%
OTCPK:RHNO	14.03%
NYSE:ARCH	12.12%
OTCPK:BTUU.Q	**10.04%**
IQ3478354	1.18%

In the selected peer group, Fiscal Year 2014 Gross Margin ranged from a high of 75.02% to a low of 9.89%. Fiscal Year 2016 saw a high of 60.8% and a low of 1.18%. Peabody's gross margins were at the bottom of those exhibited in the peer group. It should be noted that the most direct pure play competitors (NYSE:ARCH and Alpha Natural Resources) also exhibit gross profit margins towards the lower end of the peer group. Pending no changes in ultimate end markets or product offerings, it is likely that Peabody will continue to underperform in the selected peer group.

2014 Fiscal Year EBITDA Margin

NYSE:NRP	72.08%
NYSE:FELP	38.84%
NYSE:CNXC	38.07%
NasdaqGS:ARLP	35.40%
NYSE:CNX	30.82%
TSX:TECK.B	22.78%
NasdaqCM:HNRG	22.11%
NYSE:CLD	14.41%
NYSE:SXC	13.53%
OTCPK:BTUU.Q	**11.62%**
NasdaqGM:WLB	11.54%
OTCPK:RHNO	8.41%
NYSE:ARCH	8.08%
IQ3478354	5.91%
NYSE:NC	1.00%

2016 Fiscal Year EBITDA Margin

NYSE:NRP	58.00%
TSX:TECK.B	35.87%
NasdaqGS:ARLP	35.64%
NYSE:FELP	29.26%
NYSE:CNXC	27.40%
NasdaqCM:HNRG	26.24%
OTCPK:RHNO	22.97%
NYSE:SXC	17.69%
NYSE:CLD	14.64%
NasdaqGM:WLB	12.71%
NYSE:ARCH	8.84%
NYSE:CNX	8.54%
OTCPK:BTUU.Q	**6.82%**
NYSE:NC	0.56%
IQ3478354	-0.11%

In the selected peer group, Fiscal Year 2014 EBITDA Margin ranged from a high of 72.02% to a low of 1.00%. Fiscal Year 2016 saw a high of 58.8% and a low of negative .11%. Peabody Corporation's EBITDA margins are towards the lower end of the range exhibited by the comparable peer group. As a result, Peabody will continue to be more susceptible to market volatility than its peer group.

2014 Fiscal Year EBITDA (3-Year CAGR)

NYSE:FELP	31.20%
NasdaqGM:WLB	23.50%
NYSE:SXC	13.32%
NasdaqGS:ARLP	12.26%
NYSE:CNXC	0.00%
NasdaqCM:HNRG	-1.84%
NYSE:NRP	-7.80%
NYSE:CNX	-14.55%
NYSE:CLD	-16.82%
OTCPK:BTUU.Q	**-28.00%**
TSX:TECK.B	-28.46%
NYSE:ARCH	-34.45%
NYSE:NC	-35.14%
OTCPK:RHNO	-35.66%
IQ3478354	-41.79%

2016 Fiscal Year EBITDA (3-Year CAGR)

NasdaqGM:WLB		30.34%
NasdaqCM:HNRG		24.41%
TSX:TECK.B		4.77%
NYSE:SXC		3.64%
NasdaqGS:ARLP		-1.26%
OTCPK:RHNO		-4.46%
NYSE:CNXC		-5.68%
NYSE:NRP		-5.74%
NYSE:ARCH		-11.01%
NYSE:FELP		-17.16%
NYSE:CLD		-20.89%
NYSE:NC		-28.20%
NYSE:CNX		-35.15%
OTCPK:BTUU.Q		**-47.90%**
IQ3478354	n/a	n/a

In the selected peer group, Fiscal Year 2014 3-Year EBITDA CAGR ranged from a high of 31.20% to a low of negative 41.79%. Subsequently, in Fiscal Year 2016, EBITDA CAGR ranged from a high of 30.34% to a low of negative -47.9%. Peabody's EBITDA level profitability suffered an accelerated decline. While market conditions had a significant impact on Peabody's market segment, the increased decline in EBITDA level profitability, compared to other relatively pure play competitors, is a signal of operational weakness and will likely continue without significant operational restructuring. Because such restructuring is not clearly outlined in the business plan, the Debtor must justify the feasibility of its plan in light of its past poor performance.

FRESH START REPORTING

I. SUMMARY

a. The Financial Accounting Standards Board requires that debtors emerging from Chapter 11 adopt fresh start reporting under certain conditions. Fresh start reporting requires the debtor to use current values (going concern or reorganization values) in its balance sheet for both assets and liabilities and to eliminate all prior earnings or deficits. The two conditions allowing fresh start reporting are:

   i. The reorganized value of the emerging entity immediately before the confirmation of the plan is less than the total of all post-petition liabilities and allowed claims. And,

   ii. Holders of existing voting shares immediately before confirmation retain less than 50% of the voting shares of the emerging entity.

b. Debtor has stated that it intends to implement fresh start reporting upon confirmation and emergence from Chapter 11. Thus, all of its assets and liabilities will be restated to current values at that time.

c. Debtor treats the implementation of fresh start reporting as something that is to be disclosed in passing, ignoring the real world potential impacts and forcing creditors and other parties reviewing the Plan to make decisions as to confirmation of the Plan based on pro-forma financial statements which are known to be incorrect and do not follow FASB guidelines for plan disclosure during or after emergence from Chapter 11.

   i. Fresh start reporting is designed to allow readers of financial statements, including pro-forma financial statements, to see clearly the market values associated with a Company's assets, liabilities, and equity value. By not providing pro-forma financial statements using fresh start reporting, Debtor's historical values continue to be used, potentially materially misstating the go-forward values.

   ii. The court should not confirm a plan of reorganization wherein pro-forma financial statements, as presented in the Plan, are known to be materially different from actual expected reporting the moment the Plan is confirmed.

d. Information necessary to provide the reader a clear understanding of the expected effects of fresh start reporting was and is available to Debtor and should be incorporated into the disclosure statement.

e. Holes in the information provided leave questions as to the adequacy of proposed capitalization and level of accruals accounted for in the Plan. With limited information, it is impossible to know if investors have overpaid (excess goodwill) or undercapitalized the emergent entity (negative goodwill).

II. FRESH START REPORTING IS TO BE IMPLEMENTED AND WILL HAVE A MATERIAL EFFECT ON FINANCIAL REPORTING

a. DEBTOR RECOGNIZES AND ADMITS FRESH START IS TO BE IMPLEMENTED

i. Debtor has disclosed the fact that Fresh-start reporting will likely be implemented and that its assets and liabilities will likely be adjusted to fair market value and retained earnings restated to zero as of the confirmation date.

a. "As a result of the consummation of the Plan and the transactions contemplated thereby, <u>the New Company expects to be subject to the fresh start reporting rules</u> required under the <u>Financial Accounting Standards Board Accounting Standards Codification Topic 852</u>, Reorganizations. Under applicable fresh start reporting rules that may apply to the New Company upon the Effective Date of the Plan, <u>the New Company's assets and liabilities would be adjusted to fair values and their accumulated deficit would be restated to zero."</u>

(Page 130-131 of Amended Disclosure Statement)

ii. In doing so, Debtor admits that the New Company's financial condition and results of operations will not be comparable to historical reporting.

"Accordingly, the New Company's consolidated financial condition and results of operations from and after the Effective Date will not be comparable to the financial condition or results of operations reflected in the Company's consolidated historical financial statements."

(Page 130-131 of Amended Disclosure Statement)

iii. Despite admitting that the actual post-emergence reporting under fresh start reporting will not be comparable to current reporting, Debtor chooses to simply roll forward existing reporting.

1. Debtor submits projections with the disclosure statement which do NOT take into account all of the various changes it admits could have a material impact on reader's understanding of the go-forward entity.

> *"…the financial projections set forth in Exhibit C do not currently reflect the full impact of fresh start reporting, which may have a material impact on the financial projections moving forward."*
>
> *(Page 130-131 of Amended Disclosure Statement)*

b. FINANCIAL ACCOUNTING STANDARDS BOARD CONCURS WITH DEBTOR ON IMPLEMENTATION AND EFFECTS OF FRESH START REPORTING

i. FASB Codification Topic 852, which essentially reiterated SOP 90-7, provides guidance for reporting during and post-emergence in Ch. 11.

Debtor does appear to meet the criteria to require fresh start reporting.

While the FASB recognizes that the court will determine the adequacy of the disclosure statement, it takes special note that…

> *"…entities that expect to adopt fresh-start reporting should report information about the reorganization value in the disclosure statement, <u>so that creditors and stockholders can make an informed judgment about the plan</u>.*

The FASB goes on to recommend that…

> *"The most likely place to report the reorganization value is in the pro forma balance sheet that is commonly part of the disclosure statement."*

Relative to the use of fresh start reporting, FASB notes that…

> *"Fresh-start financial statements prepared by entities emerging from Chapter 11 will not be comparable with those prepared before their plans were confirmed because they are, in effect, those of a new entity."*

Clearly, simply rolling forward Debtor's pre-petition historical asset and liability values does not provide adequate information relative the New Company's balance sheet which, as noted above, "…are, in effect, those of a new entity."

III. DEBTOR DOES NOT PROVIDE SUFFICIENT INFORMATION TO ALLOW FOR INFORMED JUDGMENT

a. DEBTOR PROVIDES ONE-OFF VALUATION ANALYSIS WITHOUT INCORPORATION INTO PRO-FORMA FINANCIAL STATEMENTS

i. Rather than produce true pro-forma balance sheets incorporating fresh-start reporting, Debtor has chosen to simply provide a pro-forma Enterprise Valuation in its disclosure statement.

1. The Valuation analysis provides the following pieces of information, but does not provide a pro-forma balance sheet nor does it disclose the specific effects of the valuation on the expected post-emergence balance sheet.

   Furthermore, the projected financial statements included with the disclosure statement do not take into account or describe in any way the considerable effects of fresh start reporting specific to the New Company itself and its finances.

2. Pro-forma Valuation Analysis Disclosures related to Fresh Start Reporting as of Effective Date (April 3, 2017):

   a. Enterprise Value ($4.225B - $4.925B) midpoint $4.575B
   b. Funded Indebtedness & Capital Leases - $1,970B
   c. Cash on Hand - $0.800B
   d. Net Debt - $1.170B
   e. Equity Value ($3.055B - $3.755B) midpoint $3.405B

   (Pages 121-122 of the Amended Disclosure Statement)

ii. Debtor does not fully incorporate the valuation analysis into the pro-forma financial statements. Rather, only specific pieces are incorporated. Cash and cash equivalents, long term debt and stockholder's equity amounts are drawn from the valuation, but the remaining pro-forma balance sheet entries appear to be left at historical values, thus creating a mish-mosh of financial data that provides no clarity whatsoever.

b. LACK OF APPROPRIATE DISCLOSURE IS AVOIDABLE AS INFORMATION IS AVAILABLE

i. By refusing to provide true pro-forma balance sheets with the disclosure statement, Debtor misleads the reader as to the expected balance sheets during the forecast period. Readers of the disclosure statement are left to perform their own analysis as to the New Company's financial position based on pro-forma balance sheet data that is only known to be inaccurate and not stated at fair market value.

ii. Amounts and estimates needed for Debtor to produce pro-forma statements under fresh start reporting are generally known and could be used to produce pro-forma statements useful to the Plan stakeholders.

1. As part of the disclosure statement, Debtor contracted with Lazard to perform a pro-forma valuation analysis for the entity as a whole (Page 121 of the amended disclosure statement). The valuation date is assumed to be the Effective Date of the Plan (April 3, 2017), which is also the date to be used for the implementation of fresh start reporting.

2. Lazard was able to use Plan projections and other data to estimate a range of Enterprise Value for the entity prospectively.

3. Furthermore, the Plan itself lays out the expected debt and equity structure and amounts post-emergence.

4. An estimate of FMV for working capital and non-funded liability accounts could and should be made to make the reader aware of all possible issues.

iii. Debtor could, in fact, use much of the same data utilized by Lazard to prepare appropriate and adequate pro-forma financial statements and Plan disclosures.

IV. HOLES IN REPORTING LEAVE QUESTIONS AS TO THE ADEQUACY OF CAPITAL STRUCTURE AND/OR ACCRUAL FOR ARO OR OTHER LIABILITES

a. Left to fend for ourselves with minimal information available from Debtor's disclosure statement and other sources, a sketchy picture of the post-emergence fresh start reporting balance sheet can be drawn.

b. If we assume working capital, fixed asset, and non-funded debt accounts stated in Debtor's projections adequately reflect fair market value, Debtor can expect to book a minimum of $0.5B in goodwill as part of its fresh start reporting adjustments.

c. However, holes in the information leave material concerns about the current balance sheet values as they related to fair market value. For example, fixed assets, including millions of dollars in used equipment, show a depreciated value of approximately $5.3B. Is that a reasonable FMV for these assets? Is it possible that the fixed assets, at market value, are only worth a fraction of the carrying cost? If so, projected cash flows could be negatively impacted through 1.) increased tax burden due to lower depreciation expenses and 2.) increased need for asset replacement.

d. "Exhibit A – Pro-forma Balance Sheet upon Emergence" attempts to piece together that which Debtor has failed to supply in their disclosure statement; a true pro-forma balance sheet upon the effective date (emergence) which incorporates ALL of the effects of fresh start accounting – assuming much of the working capital, fixed asset, and non-funded debt account fair market values are as shown.

e. For our analysis, actual entries necessary to achieve a fresh start balance sheet are not developed. Instead, we have attempted to use available information provided by Debtor regarding fair market value of assets, liabilities, and equity – as of the Plan Effective Date – to piece together what the fresh start balance sheet itself might look like.

   A review of this pro-forma Effective Date Balance Sheet indicates several potentially serious flaws in Debtor's mish-mosh pro-forma statements.

   i. If the fair market value of fixed and other assets is materially less than the current book value, it would indicate that the investors into Peabody's post-bankruptcy capitalization may have materially overpaid in their acceptance of debt and equity instruments.

   ii. Conversely, if the FMV of assets are understated, the investors will have undercapitalized the emergent entity.

f. In the end, the only certainty relative to Debtor's disclosure of balance sheet items is that they are known to be incorrect by virtue of the fact that it reports the projected assets, liabilities and equity position of an entity which, upon confirmation, will no longer exist. No view of the actual emergent entity is made available in the disclosure statement.

EXHIBIT A - PRO-FORMA BALANCE SHEET UPON EMERGENCE

Consolidated Balance Sheets 2017 - 2021		CALC.	AMOUNTS PER EXHIBIT C (DOCKET # 2019)				
($ in millions)		Effective Date (Upon Emergence)	2017	2018	2019	2020	2021
Cash & Cash Equivalents	(a)	$ 800	$ 1,058	$ 1,131	$ 1,148	$ 1,164	$ 1,172
Accounts Receivable, Net	(d)	400	403	385	375	370	381
Inventories	(d)	200	194	184	176	176	179
Other Current Assets	(d)	250	273	246	236	237	216
Total Current Assets		**1,650**	**1,928**	**1,946**	**1,935**	**1,947**	**1,948**
Property, Plant, Equipment & Mine Development, Net	(d)	5,300	5,231	5,120	5,008	4,882	4,875
Investments & Other Assets	(d)	750	767	726	722	720	722
Goodwill	(e)	525	-	-	-	-	-
Total Assets		**$ 8,225**	**$ 7,926**	**$ 7,792**	**$ 7,665**	**$ 7,549**	**$ 7,545**
Current Portion of Long-term Debt	(b)	$ 5	$ 13	$ -	$ -	$ -	$ -
Accounts Payable & Accrued Expenses	(d)	850	835	825	834	825	775
Other Current Liabilities	(d)	50	48	47	62	86	114
Total Current Liabilities		**905**	**896**	**872**	**896**	**911**	**889**
Long-term Debt, Less Current Portion		1,965	1,659	1,429	1,237	1,106	1,016
Other Funded Debt		300	-	-	-	-	-
Asset Retirement Obligations	(d)	700	707	726	748	770	792
Accrued Postretirement Benefit Costs	(d)	700	704	667	632	597	564
Other Noncurrent Liabilites	(d)	550	552	487	439	387	371
Total Liabilities		**5,120**	**4,518**	**4,181**	**3,952**	**3,771**	**3,632**
Peabody Energy Corporation Stockholders' Equity	(c)	3,105	3,395	3,601	3,703	3,767	3,897
Noncontrolling Interests		-	13	10	10	11	16
Total Liabilities & Stockholders' Equity		**$ 8,225**	**$ 7,926**	**$ 7,792**	**$ 7,665**	**$ 7,549**	**$ 7,545**

NOTES:

DEBTOR STATED AMOUNTS

(EV) Enterprise Value - Per P. 121 of the Amended Disclosure Statement (Docket # 2231)
FMV (Stock & Equity) + FMV (Debt) + Minority Interests - Cash & Cash Equivalents [(e)+(g)-(a)]
$4,575

(a) Cash and Cash Equivalents - Balance upon emergence per P. 4 of Exhibit C (Docket # 2019) and P. 121 of the Amended Disclosure Statement (Docket # 2231)

(b) Current Portion of Long-Term Debt and Long-Term Debt - Balance upon emergence per P. 4 of Exhibit C (Docket # 2019) and P. 121 of the Amended Disclosure Statement (Docket # 2231)

(c) Stockholder's Equity - Balance upon emergence per P. 4 of Exhibit C (Docket # 2019) and P. 121 of the Amended Disclosure Statement (Docket # 2231)

(d) Amounts whose book value is assumed to be at FMV based on projected financial statements provided in the Disclosure statement.

(e) Calculated Goodwill