

ANNUAL REPORT AND
FINANCIAL STATEMENTS

Peabody Coaltrade International Limited
For the Year Ended 31 December 2017
Company Number: 06039007



Peabody Coaltrade International Limited

Annual Report and Financial Statements

Year Ended 31 December 2017

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Annual Report and Financial Statements

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Peabody Coaltrade International Limited

Corporate Information

Directors of the Company

David Richard Leslie Barham

Walter Leroy Hawkins Jr.

Bryan Galli

Marc David Stone (Resigned 23rd January 2017)

Priscilla Duncan (Appointed 23rd January 2017 and Resigned 26th Jan 2018)

Scott Jarboe (Appointed 26th Jan 2018)

Company Bankers

Bank of America, 100 W. 33rd Street, New York USA.

Company Secretary & Solicitors

Marc David Stone (Resigned 23rd January 2017)

Priscilla Duncan (Appointed 23rd January 2017 and Resigned 26th Jan 2018)

Scott Jarboe (Appointed 26th Jan 2018)

Eversheds, Eversheds House, 70 Great Bridgewater Street, Manchester, United Kingdom M1 5ES.

Registered Office

Eversheds House, 70 Great Bridgewater Street, Manchester, United Kingdom M1 5ES.

Peabody Coaltrade International Limited

Strategic Report

Peabody Coaltrade International Limited (the Company) is a limited liability company, incorporated and domiciled in England and Wales. The directors present their strategic report and the audited financial statements of the Company for the year ended 31 December 2017. All amounts shown are in thousands of US dollars.

Results and dividends

The audited financial statements for the Company are shown on pages 11 through 35.

The loss for the year, after taxation, is \$6,540 (2016 Loss: \$24,736).

The directors have not declared any dividend for the year (2016: \$Nil).

Principal activities and review of the business

The Company's principal activities during the year continued to be buying and selling physical and financial coal futures, forwards, swaps and other coal-related transactions principally to economically hedge against future price movements.

The key financial and other performance indicators during the year were as follows:

	2017	2016	Change
	(\$'000)	(\$'000)	%
Operating loss	(6,393)	(25,732)	75%
Loss after taxation	(6,540)	(24,736)	74%
Shareholder's deficiency	(17,580)	(11,040)	(59)%
Current assets as % of current liabilities (quick ratio)	90%	92%	(2)%

The Company monitors performance on an ongoing basis. The key performance indicator is considered to be loss after taxation. This amounted to a loss after taxation for the year of \$6,540 (2016 Loss: \$24,736), driven by the operating loss.

Peabody Coaltrade International Limited

Strategic Report (Continued)

Principal activities and review of the business (continued)

The operating loss decreased by 75% during the year, driven by decrease in volume of trading and reduction of trading losses in 2017 on derivative transactions. The “quick ratio” (current assets as a percentage of current liabilities) has remained largely unchanged from the prior year which triggered the going concern review, and resulted in obtaining a parent company letter of support from Peabody Investments Corporation.

Future developments

The directors expect the future prospects of the Company to return to profitability as coal prices recover from their previous low levels and the Company implements new trading strategies to better extract value from the current environment.

Principal risks and uncertainties

The principal risks and uncertainties facing the Company are broadly grouped as commodity price risk, credit risk, liquidity risk and operational risk.

Commodity price risk

The Company is exposed to movements in the prices of the commodities it trades. The majority of the commodity price risk exposure is in the Newcastle, API-2, and API-4 coal markets. The Company manages certain of its exposures to commodity price risk by matching physical commodity sale and purchase contracts, and through the use of exchange-traded and over-the-counter commodity derivatives. Price risk exposures are reported weekly and reviewed by the Company’s risk function. Details of the Company’s financial instruments and derivative activities and financial risk management objectives and policies are set out in Note 12 to the financial statements. No cash flow hedges were outstanding during the financial year ended 31 December 2017.

Credit risk

Credit risk is the potential exposure of the Company to loss in the event of nonperformance by a given counterparty. The Company controls credit risk through credit approval processes for new counterparties, limits for all counterparties, annual reassessment of significant counterparty limits, weekly monitoring of individual exposures against limits and monthly reviews of exposures against limits by the Company’s risk function.

Peabody Coaltrade International Limited

Strategic Report (Continued)


Principal risks and uncertainties (Continued)

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company aims to mitigate liquidity risk by managing cash generation from its operations primarily through the use of commodity contracts and derivatives as explained above. The Company also manages liquidity risk via amounts owed to / (by) group undertakings

Operational risk

Operational risk includes freight, insurance and legal risks in different jurisdictions. The Company mitigates these risks by employing dedicated, in-house legal and insurance professionals and through the operation of the Company's risk function.


By order of the Board



David Richard Leslie Barham
Managing Director
20 September 2018

Registered Office:
Eversheds House
70 Great Bridgewater Street
Manchester
United Kingdom
M1 5ES

Peabody Coaltrade International Limited

Directors' Report

Company registration number: 06039007

The directors present their report for the year ended 31 December 2017.

Directors of the Company

The current directors are shown on page 1, together with changes in directors since 1 January 2017, up to the date of this report.

Dividends

The directors have not declared any dividend for the year (2016: \$Nil).

Financial instruments

The Company finances its activities with a combination of intercompany loans, cash from operations and short term deposits, as disclosed in Note 12. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities. The Company also enters into derivative transactions, including principally coal swaps, futures and forwards. The purpose is to manage the price risks arising from the Company's operations.

Use of derivatives

The Company uses coal derivatives to reduce exposure to the variability of the global coal market by optimizing its portfolio.

Going concern assumptions

The Company's business activities, together with the factors likely to affect its future development, its financial position, its financial risk management objectives, details of its financial instruments and derivative activities, and its exposures to price, credit and operating risk are described in the Strategic Report on pages 2 to 4.

The Company has considerable financial resources, qualified personnel, and a suitable controls framework to manage the above risks. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

Peabody Coaltrade International Limited

Directors' Report (Continued)

Subsequent events and going concern assumptions (Continued)

On 13th April 2016, Peabody Energy Corporation voluntarily filed for Chapter 11 protection for the majority of its U.S. entities in the United States Bankruptcy Court for the Eastern District of Missouri. On 3rd April 2017, Peabody emerged out of the Chapter 11 protection with a transformed capital structure, including new equity that commenced trading on the New York Stock Exchange under the ticker symbol BTU.

The bankruptcy did not pertain to Peabody Coaltrade International Limited directly as this entity is based in the UK. Peabody Coaltrade International Limited has continued normal operations and we do not foresee any interruptions to our business activity for the foreseeable future.

The financial statements have been prepared on a going concern basis since a parent company letter of support has been provided to address the net current liability and net liability positions on the Balance Sheet at year end. Management believes that the Company will return to profitability, and will once again work its way to net current asset and net asset position.

Financial statements

The financial statements are prepared in thousands of US dollars, as this is the currency in which the majority of the Company's trading transactions are denominated.

Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor was not made aware by the employees or directors of the Company. Having made inquiries of fellow directors and the Company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of this information.


Peabody Coaltrade International Limited

Directors' Report (Continued)

Auditor

In the absence of a notice proposing that the appointment be terminated, Ernst & Young LLP will be deemed to be reappointed as the Company's auditor for the next year.

By order of the Board



David Richard Leslie Barham
Managing Director

20 September 2018
Registered Office:
Eversheds House
70 Great Bridgewater Street
Manchester
United Kingdom M1 5ES

Peabody Coaltrade International Limited

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Peabody Coaltrade International Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PEABODY COALTRADE INTERNATIONAL LIMITED

Opinion

We have audited the financial statements of Peabody Coaltrade International Limited for the year ended 31 December 2017 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of changes in equity and the related notes 1 to 14, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Peabody Coaltrade International Limited

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Peabody Coaltrade International Limited

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Ernst & Young LLP

Oxana Dorrington (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor

London

25 September 2018

Peabody Coaltrade International Limited

Profit and Loss Account For the Year Ended 31 December 2017

	Note	2017 <u>(\$'000)</u>	2016 <u>(\$'000)</u>
Gross loss		(2,338)	(20,561)
Administrative expenses		(4,055)	(5,171)
Operating loss	3	<u>(6,393)</u>	<u>(25,732)</u>
Interest receivable	4	4	142
Interest payable	4	(244)	(50)
		<u>(240)</u>	<u>92</u>
Loss on ordinary activities before taxation		(6,633)	(25,640)
Taxation	6	93	904
Loss for the financial year		<u><u>(6,540)</u></u>	<u><u>(24,736)</u></u>

All disclosures relate only to continuing operations.

There is no comprehensive income attributable to the shareholders of the Company other than the loss for the year.

Peabody Coaltrade International Limited

Company Number: 06039007

Balance Sheet
At 31 December 2017

	Note	2017 (\$'000)	2016 (\$'000)
Non-current assets			
Tangible fixed assets	7	152	203
Investments	8	6	6
		<u>158</u>	<u>209</u>
Current assets			
Cash at bank and in hand	12	3,340	7,928
Stocks	9	-	1,513
Debtors:			
Amounts falling due within one year	10	122,937	92,313
Derivative financial instruments	12	40,049	33,466
		<u>166,326</u>	<u>135,220</u>
Current liabilities			
Creditors: amounts falling due within one year	11-12	175,451	145,038
Derivative financial instruments	12	8,613	1,431
		<u>184,064</u>	<u>146,469</u>
Net current liabilities		<u>(17,738)</u>	<u>(11,249)</u>
Net liabilities		<u>(17,580)</u>	<u>(11,040)</u>
Capital and reserves			
Accumulated Losses		<u>(17,580)</u>	<u>(11,040)</u>
Shareholder's deficiency		<u>(17,580)</u>	<u>(11,040)</u>

The financial statements on pages 12 to 36 were approved by the Board of Directors on 20 September 2018 and were signed on its behalf by:



David Richard Leslie Barham
Managing Director

20 September 2018

Peabody Coaltrade International Limited

**Statement of Changes in Equity
For the Year Ended 31 December 2017**

	Called up Share Capital (Note 13) (\$'000)	(Accumulated Losses) / Retained Earnings (\$'000)	Total Equity (\$'000)
At 1 January 2016	-	13,696	13,696
Loss for the financial year, representing total comprehensive loss	-	(24,736)	(24,736)
At 31 December 2016	-	(11,040)	(11,040)
Loss for the financial year, representing total comprehensive loss	-	(6,540)	(6,540)
At 31 December 2017	-	(17,580)	(17,580)

Peabody Coaltrade International Limited

Notes to the Financial Statements

1. Authorization of financial statements and statement of compliance with FRS 101

The financial statements of Peabody Coaltrade International Limited (the "Company") for the year ended 31 December 2017 were authorized for issue by the board of directors on 20 September 2018 and the balance sheet was signed on the board's behalf by David Richard Leslie Barham. Peabody Coaltrade International Limited is incorporated and domiciled in England and Wales.

These financial statements were prepared in accordance with Financial Reporting Standard 101 reduced framework (FRS 101) and in accordance with applicable accounting standards.

The Company's financial statements are presented in US dollars and all values are rounded to the nearest thousand (\$'000) except when otherwise indicated.

The results of Peabody Coaltrade International Limited are included in the consolidated financial statements of Peabody Energy Corporation which are available from Peabody Energy Corporation, 701 Market Street, St. Louis, MO 63101.

The principal accounting policies adopted by the Company are set out in note 2.

Peabody Coaltrade International Limited

Notes to the Financial Statements (continued)

2. Accounting policies

2.1 Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2017.

These financial statements are separate financial statements. The company has taken advantage of the exemption under s401 of the Companies Act 2006 not to prepare consolidated financial statements, because it is included in the group financial statements of Peabody Energy Corporation. Details of the parent in whose consolidated financial statements the company is included are shown in Note 14 to the financial statements.

The financial statements have been prepared on a going concern basis since a parent company letter of support has been provided to address the net current liability and net liability positions on the Balance Sheet at year end. Management believes that the Company will return to profitability, and will once again work its way to net current asset and net asset position.

Exemptions under FRS 101

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based Payment;
- (b) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 Presentation of Financial Statements;
- (c) the requirements of IAS 7 Statement of Cash Flows;
- (d) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- (e) the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures; and
- (f) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a group.

Peabody Coaltrade International Limited

Notes to the Financial Statements (continued)

2.2 Estimates and Judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Fair value of financial instruments

When the fair values of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, their fair value is determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. The estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty's), correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments in the balance sheet and the level where the instruments are disclosed in the fair value hierarchy. The models are tested for validity by calibrating to prices from any observable current market transactions in the same instrument (without modification or repackaging) when available.

Taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

Peabody Coaltrade International Limited

Notes to the Financial Statements (continued)

2.3 Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

a) Revenue recognition

Due to the nature of the Company's trading activities, figures for revenue are not considered a valid measure of activity, thus gross profit or loss is used as a more appropriate measure. Revenue for the years ended 31 December 2017 and 2016 were \$50,412 and \$160,026 respectively. The revenue numbers are included within the Gross (loss) / profit in the Profit and Loss account. All revenue is exclusive of value added tax.

b) Taxation

(i) Corporation Tax

Corporation tax payable is provided on taxable profits at the effective rate of 19.25% (2016: 20%). Current tax liabilities (assets) for the current and prior periods shall be measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

(ii) Deferred taxation

A deferred tax liability shall be recognised for all taxable temporary differences. A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. Deferred tax assets and liabilities shall not be discounted.

Notes to the Financial Statements (continued)

2.3 Significant accounting policies (continued)

c) Financial instruments

i) Financial assets

Initial recognition and measurement

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables; held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and short-term deposits, trade and other receivables, and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships.

Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Peabody Coaltrade International Limited

Notes to the Financial Statements (continued)

2.3 Significant accounting policies (continued)

i) Financial assets (continued)

Financial assets at fair value through profit or loss are carried in the balance sheet at fair value with changes in fair value recognized in gross profit or loss in the Profit and Loss account.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value and subsequently measured at amortized cost using the effective interest (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in interest receivable in the Profit and Loss account. Losses arising from impairment are recognized in the Profit and Loss account in administrative expenses.

ii) Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial liabilities at fair value through profit or loss are carried in the balance sheet at fair value with changes in fair value recognised in gross profit or loss in the Profit and Loss account.

Interest bearing loans and borrowings

Obligations for loans and borrowings are recognized when the Company becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs.

Peabody Coaltrade International Limited

Notes to the Financial Statements (continued)

2.3 Significant accounting policies (continued)

ii) Financial liabilities (continued)

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognized respectively in interest receivable and interest payable.

Derecognition of financial liabilities

A liability is generally derecognized when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognized in profit or loss.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

iv) Fair values

The fair value of financial instruments that are traded in active markets at the reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 12.

Peabody Coaltrade International Limited

Notes to the Financial Statements (continued)

2.3 Significant accounting policies (continued)

v) Derivative financial instruments and hedging

The Company uses various financial instruments for trading purposes or as hedges to reduce certain exposures to future commodity price risks. These include physical and exchange traded forward commodity contracts, exchange traded commodity futures and over-the-counter swaps with recognized exchanges.

Financial assets and liabilities, including all derivative financial instruments, are marked to market with unrealized gains or losses shown as assets and liabilities within the balance sheet at their fair value and changes in fair value recorded in the profit and loss account.

All forward commodity contracts, not qualifying for the own use exemption, are recorded at fair value on the balance sheet with changes in fair value reflected in the profit and loss account.

Gains or losses on forward commodity contracts are shown within derivative financial instrument assets or liabilities, as appropriate. The Company's valuation strategies for derivatives and other financial instruments utilize, as far as possible, quoted prices in an active market.

The Company offsets its asset and liability coal trading derivative positions on a counterparty-by-counterparty basis, where the contractual agreement provides for the net settlement of contracts with the counterparty.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is formally designated and documented at its inception. This documentation identifies the risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the reporting period for which they were designated.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment; or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

Peabody Coaltrade International Limited

Notes to the Financial Statements (continued)

2.3 Significant accounting policies (continued)

v) Derivative financial instruments and hedging (continued)

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the Profit and Loss account. The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

Fair value hedges

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged; the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss. For hedged items carried at amortized cost, the adjustment is amortized through the Profit and Loss account such that it is fully amortized by maturity. When an unrecognized firm commitment is designated as a hedged item, this gives rise to an asset or liability in the balance sheet, representing the cumulative change in the fair value of the firm commitment attributable to the hedged risk.

The Company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation.

d) Pension contributions

The Company matches voluntary contributions up to specified levels to employee retirement accounts.

e) Foreign currencies

The Company's functional currency is United States dollars as this is the currency in which the majority of the Company's trading transactions are denominated.

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Peabody Coaltrade International Limited

Notes to the Financial Statements (continued)

2.3 Significant accounting policies (continued)

f) Trade and other debtors

Trade debtors, are recognized and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortized cost. Provision for impairment is made through profit or loss when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

g) Cash at bank and in hand

Cash and short term deposits in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

h) Stocks

Stocks are valued at the lower of cost or net realizable value. Cost includes those costs in bringing the stocks to its present location and condition. The calculation of net realizable value takes into account any relevant forward commitments and is based on estimated selling price less any further costs expected to be incurred in relation to disposal.

i) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation is provided on all tangible fixed assets on a straight-line basis to write off the cost of each asset evenly over its expected life as follows:

Leasehold improvements	10 years
Equipment	5 years
Software	3 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Peabody Coaltrade International Limited

Notes to the Financial Statements (continued)

3. Operating (loss) / profit

	<u>2017</u>	<u>2016</u>
	(\$'000)	(\$'000)
Operating (loss) / profit is stated after charging:		
Auditor's remuneration – audit of the financial statements	128	115
Auditor's remuneration – taxation compliance services	16	21
Depreciation of tangible fixed assets	51	54
Staff costs (<i>Note 5</i>)	945	1,013
Foreign exchange differences	(68)	706
Net loss on financial positions	2,534	23,220

4. Net interest receivable

	<u>2017</u>	<u>2016</u>
	(\$'000)	(\$'000)
Interest receivable	4	142
Interest payable	(244)	(50)
	<u>(240)</u>	<u>92</u>

5. Staff costs

	<u>2017</u>	<u>2016</u>
	(\$'000)	(\$'000)
Wages and salaries	792	839
Share based payment charge	16	12
Social security costs	95	129
Pension costs	42	33
	<u>945</u>	<u>1,013</u>

The average monthly number of employees during the year, including 3 unpaid directors (2016: 2), was 9 (2016: 9).

Peabody Coaltrade International Limited

Notes to the Financial Statements (continued)

5. Staff costs (continued)

None of the directors received remuneration for their services to the Company. The directors of the Company are also employees of the parent company. The directors received total remunerations for the year of \$3,216 (2016: \$2,051), all of which were paid by other group entities. The directors do not believe it is practicable to apportion this amount between their services as directors of the Company and their services as employees of the parent company.

6. Taxation

(a) Tax on loss:

	<u>2017</u>	<u>2016</u>
	(\$'000)	(\$'000)
Current tax:		
UK Corporation tax		
- for this year	-	(1003)
- adjustments in respect of prior years	(93)	123
- exchange loss	-	(24)
Total current tax	<u>(93)</u>	<u>(904)</u>
Deferred tax:		
Origination and reversal of timing differences in the year	(1,137)	(4,278)
Impact of change in tax laws and rates	1,052	307
Valuation allowance	85	3,971
Total deferred tax	<u>-</u>	<u>-</u>
Tax credit charge on loss	<u>(93)</u>	<u>(904)</u>

Peabody Coaltrade International Limited

Notes to the Financial Statements (continued)

6. Taxation (continued)

(b) Reconciliation of the total tax credit:

The tax credit in the profit and loss account for the year is different from the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The difference is reconciled below:

	2017	2016
	(\$'000)	(\$'000)
Loss	(6,633)	(25,640)
Tax credit on loss at 19.25% (2017) & 20% (2016)	(1,277)	(5,128)
Permanent differences	(2)	7
Foreign tax credit	42	(42)
Foreign currency loss	14	(24)
Impact of change in tax laws and rates	1,045	307
Other	-	5
Valuation allowance	85	3,971
Total tax credit in the profit and loss account	<u>(93)</u>	<u>(904)</u>

(c) Changes in Corporation tax rate

The UK corporation tax rate reduced to 19% with effect from 1 April 2017, and will further reduce to 17% from 1 April 2020.

(d) Deferred tax

The deferred tax included in the balance sheet is as follows:

	2017	2016
	(\$'000)	(\$'000)
Deferred tax asset		
Pension and employee bonus	19	42
Tax losses carried forward	7,942	7,851
Valuation allowance	(7,951)	(7,866)
At 31 December	<u>10</u>	<u>27</u>
Deferred tax liability		
Accelerated capital allowance	(10)	(27)
At 31 December	<u>(10)</u>	<u>(27)</u>
Disclosed on the balance sheet		
Deferred tax asset	7,951	7866
Valuation allowance	<u>(7,951)</u>	<u>(7,866)</u>
	-	-

The gross amount of unused tax losses are \$ 46.7 million and \$40.8 million as at 31 December 2017 and 2016, respectively. The losses do not have an expiry date.

Peabody Coaltrade International Limited

Notes to the Financial Statements (continued)

7. Tangible fixed assets

	Leasehold Improvements	Equipment	Software	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Cost:				
At 1 January 2017	491	271	75	837
At 31 December 2017	491	271	75	837
Accumulated depreciation:				
At 1 January 2017	294	265	75	634
Provided during the year	49	2	-	51
At 31 December 2017	343	267	75	685
Net book values:				
At 31 December 2017	148	4	-	152
At 31 December 2016	197	6	-	203

8. Investments

On 24 April 2012, the Company acquired a 0.01% interest in the common stock of an associate company, Peabody Coaltrade India Private Limited. In addition, the Company retains 100% ownership of ordinary shares in 9 East Shipping Limited (Registered address: Eversheds House, 70 Great Bridgewater Street, Manchester, United Kingdom M1 5ES) which is incorporated and domiciled in England and Wales, an entity that provides shipping and logistics services, and a 0.01% interest in the common stock of an associate company, PT Peabody Coaltrade Indonesia. Investments are accounted for at cost.

9. Stocks

	2017	2016
	(\$'000)	(\$'000)
Finished goods and goods for resale	-	1,513
	-	1,513

The difference between the carrying value of stocks and their replacement cost is not material.

Peabody Coaltrade International Limited

Notes to the Financial Statements (continued)

10. Debtors: amounts falling due within one year

	<u>2017</u>	<u>2016</u>
	(\$'000)	(\$'000)
Trade debtors	170	22,786
Amounts owed by group undertakings	104,217	54,588
Other debtors	18,442	14,939
Corporation tax receivable	108	-
	<u>122,937</u>	<u>92,313</u>

11. Creditors: amounts falling due within one year

	<u>2017</u>	<u>2016</u>
	(\$'000)	(\$'000)
Trade creditors	3,441	7,261
Amounts owed to group undertakings	172,010	137,770
Other creditors	-	7
	<u>175,451</u>	<u>145,038</u>

Peabody Coaltrade International Limited

Notes to the Financial Statements (continued)

12. Financial assets and liabilities

The Company has provided below an analysis of the financial assets and liabilities analysed into the respective categories.

Financial risk management objectives and policies

The Company's primary financial instruments comprise cash and physical and exchange-traded forward commodity contracts, which expose the Company to a variety of related risks. The Board has approved and monitors the risk management processes, including documentation of treasury process, counterparty limits and reporting structures. The main risks arising from the Company's financial instruments are commodity price risk and credit risk.

Commodity price risk

The Company is exposed to movements in the prices of the commodities it trades. The majority of the price risk exposure is in the Newcastle, API-2, and API-4 coal markets. The Company manages certain of its exposures to commodity price risk by matching physical commodity sale and purchase contracts and through the use of exchange-traded and over-the-counter commodity derivatives. Price risk exposures are reported weekly and reviewed by the Company's risk function.

The Company believes that an average 2% movement in the Newcastle, API-2, and API-4 price index would represent the following change in the Company's net derivative financial instruments:

Increase (decrease) in Indices	Effect on net assets
	(\$'000)
2%	18
(2)%	(18)

Credit risk

Credit risk is the potential exposure of the Company to loss in the event of nonperformance by a counterparty. The Company controls credit risk through credit approval processes for new counterparties, limits for all counterparties, annual reassessment of significant counterparty limits, weekly monitoring of individual exposures against limits and monthly reviews of exposures against limits by the Company's risk function.

Peabody Coaltrade International Limited

Notes to the Financial Statements (continued)

12. Financial assets and liabilities (continued)

The financial assets and liabilities are summarized below:

		31 December 2017		
Category of financial asset		At Fair Value Through Profit or Loss (\$'000)	Held to Maturity (\$'000)	Loans and Receivables (\$'000)
	Measurement basis	Fair value through profit or loss	Amortized cost	Amortized cost
Debtors	(a)	-	-	122,937
Derivative financial instruments	(b)	40,049	-	-
Cash at bank and in hand	(c)	-	-	3,340
		40,049	-	126,277

		31 December 2016		
Category of financial asset		At Fair Value Through Profit or Loss (\$'000)	Held to Maturity (\$'000)	Loans and Receivables (\$'000)
	Measurement basis	Fair value through profit or loss	Amortized cost	Amortized cost
Debtors	(a)	-	-	92,313
Derivative financial instruments	(b)	33,466	-	-
Cash at bank and in hand	(c)	-	-	7,928
		33,466	-	100,241

^(a)Debtors principally comprise amounts due from counterparties, including group undertakings in respect of amounts due under physical commodity contracts.

^(b)Derivative financial instruments represent fair value gains on forward physical and futures commodity contracts.

^(c)Cash principally represents cash held on overnight accounts.

Peabody Coaltrade International Limited

Notes to the Financial Statements (continued)

12. Financial assets and liabilities (continued)

Category of financial liability	Measurement basis	31 December 2017	
		At Fair Value Through Profit or Loss (\$'000)	Other (\$'000)
Creditors	(a)	-	175,451
Derivative financial instruments	(b)	8,613	-
		<u>8,613</u>	<u>175,451</u>

Category of financial liability	Measurement basis	31 December 2016	
		At Fair Value Through Profit or Loss (\$'000)	Other (\$'000)
Creditors	(a)	-	145,038
Derivative financial instruments	(b)	1,431	-
		<u>1,431</u>	<u>145,038</u>

^(a)Creditors principally represent amounts payable to counterparties, including group undertakings, in respect of amounts due under physical commodity contracts.

^(b)Derivative financial instruments represent fair value losses on forward physical and futures commodity contracts.

The carrying amounts of financial assets and liabilities, carried at amortized cost, are not significantly different from their fair values.

Peabody Coaltrade International Limited

Notes to the Financial Statements (continued)

12. Financial assets and liabilities (continued)

Derivative financial instruments

The table below analyses the Company's gross derivative financial instruments into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date.

	2017	2016
	(\$'000)	(\$'000)
Less than one year – Assets	154,741	296,541
Less than one year – Liabilities	(123,493)	(264,506)
Between one and five years – Assets	6,499	687
Between one and five years – Liabilities	(6,311)	(687)
Total at 31 December	<u>31,436</u>	<u>32,035</u>

The table below shows the net derivative financial instruments carried at fair value by valuation method at 31 December 2017.

31 December 2017	Total	Level 1 ^(a)	Level 2 ^(b)	Level 3 ^(c)
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Forward contracts not designated as hedges	31,436	(2,641)	34,077	-
	<u>31,436</u>	<u>(2,641)</u>	<u>34,077</u>	<u>-</u>
31 December 2016	Total	Level 1 ^(a)	Level 2 ^(b)	Level 3 ^(c)
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
Forward contracts not designated as hedges	32,035	-	32,619	(584)
	<u>32,035</u>	<u>-</u>	<u>32,619</u>	<u>(584)</u>

^(a) Valuation is based on unadjusted quoted prices in active markets for identical financial instruments. This category includes listed equity shares and other quoted funds.

^(b) Valuation is based on inputs that are observable for the financial instruments which includes quoted prices for similar instruments or identical instruments in markets which are not considered to be active or either directly or indirectly based on observable market data.

^(c) Valuation is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Peabody Coaltrade International Limited

Notes to the Financial Statements (continued)

12. Financial assets and liabilities (continued)

The table below shows the summary of changes in the fair value of the Company's Level 3 financial assets and financial liabilities for the year ended 31 December 2017.

	Level 3 Net Derivative Financial Instruments
	(\$'000)
Opening balance	(584)
Realized gains to profit and loss account	-
Unrealized losses to profit and loss account	(33)
Transfer from Level 2	617
At 31 December 2017	-
Unrealized gains for the year included in the profit and loss account for Level 3 derivative financial instruments held at year-end	-

The Company's risk management function, which is independent of the Company's commercial trading function, is responsible for valuation policies and procedures, with oversight from executive management. Generally, the Company's Level 3 instruments or contracts are valued using bid/ask price quotations and other market assessments obtained from multiple, independent third-party brokers or other transactional data incorporated into internally-generated discounted cash flow models. While the Company does not anticipate any decrease in the number of third-party brokers or market liquidity, the occurrence of such events could erode the quality of market information and therefore the valuation of its market positions. The Company's valuation techniques include basis adjustments to the foregoing price inputs for quality, such as heat rate, location differentials expressed as port and freight costs, and credit risk.

The Company's risk management function independently validates the Company's valuation inputs, including unobservable inputs, with third-party information and settlement prices from other sources where available. A daily process is performed to analyze market price changes and changes to the portfolio. Further periodic validation occurs at the time contracts are settled with the counterparty. These valuation techniques have been consistently applied in all periods presented, and the Company believes it has obtained the most accurate information available for the types of derivative contracts held.

Significant increases or decrease in the inputs in isolation could result in a significantly higher or lower fair value measurement. The unobservable inputs are not necessarily related; therefore, a change in one unobservable input would not necessarily correspond with a change in another unobservable input.

Peabody Coaltrade International Limited

Notes to the Financial Statements (continued)

12. Financial assets and liabilities (continued)

For Level 1 and 2 financial assets and liabilities, the Company utilizes both direct and indirect observable price quotes, including Chicago Mercantile Exchange (CME), Intercontinental Exchange (ICE), and 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:

1. Commodity futures, swaps and options: generally valued based on unadjusted quotes prices in active markets (Level 1) or a valuation that is corroborated by the use of market-based pricing (Level 2).
2. Physical commodity purchase/sale contracts: purchases and sales at locations with significant market activity corroborated by market-based information (Level 2) except when credit and non-performance risk is considered to be a significant input (greater than 10% of fair value), then the Company classified as Level 3.

Physical commodity purchase/sale contracts include a credit valuation adjustment based on credit and non-performance risk (Level 3). The credit valuation adjustment has not historically had a material impact on the valuation of the contracts resulting in Level 2 classification. However, due to the parent company's corporate credit rating downgrades in 2016, the credit valuation adjustments as of 31 December 2016 on contracts in which the Company is in an unrealized loss position were considered to be significant unobservable inputs in the valuation of the contracts resulting in Level 3 classification. During the second quarter of 2017, two of the major credit rating agencies upgrades the parent company's corporate credit rating upon emergence from the Chapter 11 proceedings. With the credit rating upgrade, the credit valuation adjustment as of 31 December 2017, no longer has a material impact on the valuation of contracts and is in line with the Company's historical range.

Peabody Coaltrade International Limited

Notes to the Financial Statements (continued)

13. Share capital

	Authorized Number of Shares		Issued and Fully Paid Number	
Ordinary shares of \$1 each attributable to equity interests	1,000	\$ 1	1	\$ 1
At 31 December 2017 and 2016	1,000	\$ 1	1	\$ 1

14. Ultimate parent undertaking

The directors regard Peabody Energy Corporation, a company registered in the United States of America, as the Company's ultimate parent undertaking. The immediate parent undertaking is Peabody MCC (Gibraltar) Limited, a company registered in Gibraltar. The financial statements of Peabody Energy Corporation are available from:

Peabody Energy Corporation
701 Market Street
St. Louis, MO 63101