Exhibit B

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

or

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

For the transition period from __________ to __________

Commission File Number: 1-16463

PEABODY ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

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

(314) 342-3400

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

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

There were 265,506,092 shares of common stock with a par value of $0.01 per share outstanding at August 3, 2007.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
Cautionary Notice Regarding Forward-Looking Statements

This report includes statements of our expectations, intentions, plans and beliefs that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and are intended to come within the safe harbor protection provided by those sections. These statements relate to future events or our future financial performance, including, without limitation, the section captioned "Outlook." We use words such as "anticipate," "believe," "expect," "may," "project," "will" or other similar words to identify forward-looking statements.

Without limiting the foregoing, all statements relating to our future outlook, anticipated capital expenditures, future cash flows and borrowings, and sources of funding are forward-looking statements. These forward-looking statements are based on numerous assumptions that we believe are reasonable, but are subject to a wide range of uncertainties and business risks and actual results may differ materially from those discussed in these statements. Among the factors that could cause actual results to differ materially are:

- ability to renew sales contracts;
- reductions of purchases by major customers;
- transportation performance and costs, including demurrage;
- geology, equipment and other risks inherent to mining;
- weather;
- legislation, regulations and court decisions;
- new environmental requirements affecting the use of coal, including mercury and carbon dioxide related limitations;
- changes in postretirement benefit and pension obligations;
- changes to contribution requirements to multi-employer benefit funds;
- availability, timing of delivery and costs of key supplies, capital equipment or commodities such as diesel fuel, steel, explosives and tires;
- replacement of coal reserves;
- price volatility and demand, particularly in higher-margin products and in our trading and brokerage businesses;
- performance of contractors, third-party coal suppliers or major suppliers of mining equipment or supplies;
- negotiation of labor contracts, employee relations and workforce availability;
- availability and costs of credit, surety bonds and letters of credit;
- risks associated with customer contracts, including credit and performance risk;
- the effects of acquisitions or divestitures, including integration of new acquisitions;
- form, extent and timing of potential divestiture of a portion of our Eastern U.S. Mining Operations;
- economic strength and political stability of countries in which we have operations or serve customers;
- risks associated with our Btu conversion or generation development initiatives;
- risks associated with the conversion of existing information systems across major business processes to an integrated information technology system;
- growth of domestic and international coal and power markets;
- coal's market share of electricity generation;
- prices of fuels which compete with or impact coal usage, such as oil or natural gas;
- future worldwide economic conditions;
- successful implementation of business strategies;
- variation in revenues related to synthetic fuel production due to expiration of related tax credits at the end of 2007;
- the effects of changes in currency exchange rates, primarily the Australian dollar;
- inflationary trends, including those impacting materials used in our business;
- interest rate changes;
- litigation, including claims not yet asserted;
- terrorist attacks or threats;
- impacts of pandemic illnesses; and

- other factors, including those discussed in Legal Proceedings.

When considering these forward-looking statements, you should keep in mind the cautionary statements in this document and in our other Securities and Exchange Commission (SEC) filings, including the more detailed discussion of these factors, as well as other factors that could affect our results, contained in Item 1A, Risk Factors of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006. We do not undertake any obligation to update these statements, except as required by federal securities laws.

Overview

We are the largest private sector coal company in the world, with majority interests in 40 coal operations located throughout all major U.S. coal producing regions and internationally in Australia and Venezuela. In the first six months of 2007, we sold 123.4 million tons of coal, and in 2006, we sold 247.6 million tons of coal. Our domestic sales represented 22% of all U.S. coal sales. Based on Energy Information Administration (EIA) estimates, demand for coal in the United States was approximately 1.1 billion tons in 2006. Domestic coal consumption is expected to grow at an average rate of 1.8% per year through 2030 when U.S. coal demand is forecasted to be 1.8 billion tons. Coal-fueled generation is used in most cases to meet baseload electricity requirements. Electricity growth is expected to average 1.5% annually through 2030. In 2006, coal's share of electricity generation was approximately 50%, a share that the EIA projects will grow to 57% by 2030.

Our primary U.S. customers are domestic utilities, which accounted for 87% of our sales in 2006. Internationally, we sell our metallurgical coal to industrial customers and steam coal to utility customers in the Pacific Rim. We typically sell coal to utility customers under long-term contracts (those with terms longer than one year). During 2006, approximately 90% of our sales were under long-term contracts. As of June 30, 2007, our full year 2007 targets include fully committed production of 220 to 225 million tons in the United States and production of 20 to 22 million tons in Australia, along with trading and brokerage volumes. As discussed more fully in Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, our results of operations in the near-term could be negatively impacted by poor weather conditions, unforeseen geologic conditions, equipment problems at mining locations, and by the availability of transportation for coal shipments. On a long-term basis, our results of operations could be impacted by our ability to secure or acquire high-quality coal reserves, find replacement buyers for coal under contracts with comparable terms to existing contracts, or the passage of new or expanded regulations that could limit our ability to mine, increase our mining costs, or limit our customers' ability to utilize coal as fuel for electricity generation. In the past, we have achieved production levels that are relatively consistent with our projections. See the Outlook section for discussion of near-term and long-term impacts to our business.

We conduct business through four principal operating segments: Western U.S. Mining, Eastern U.S. Mining, Australian Mining, and Trading and Brokerage. Our Western U.S. Mining operations consist of our Powder River Basin, Southwest and Colorado operations, and our Eastern U.S. Mining operations consist of our Appalachia and Midwest operations. The principal business of the Western U.S. Mining segment is the mining, preparation and sale of steam coal, sold primarily to U.S. electric utilities. The principal business of the Eastern U.S. Mining segment is the mining, preparation and sale of steam coal, sold primarily to electric utilities, as well as the mining of metallurgical coal, sold to steel and coke producers, located in the United States, Europe and South America.

Geologically, Western operations mine bituminous and subbituminous coal deposits and Eastern operations mine bituminous coal deposits. Our Western U.S. Mining operations are characterized by predominantly surface extraction processes, lower sulfur content and Btu of coal, and higher customer transportation costs (due to longer shipping distances). Our Eastern U.S. Mining operations are characterized by predominantly underground extraction processes, higher sulfur content and Btu of coal, and lower customer transportation costs (due to shorter shipping distances).

Australian Mining operations are characterized by both surface and underground extraction processes, mining various qualities of high-quality metallurgical coal as well as low-sulfur steam coal primarily sold to an international customer base with a portion sold to Australian steel producers and power generators.

We own a 25.5% interest in Carbones del Guasare, which owns and operates the Paso Diablo Mine in Venezuela. The Paso Diablo Mine produces approximately 6 to 8 million tons of steam coal annually for export to the United States and Europe. During the first six months of 2007, our interest in Carbones del Guasare contributed $9.6 million to segment Adjusted EBITDA in "Corporate and Other Adjusted EBITDA" and paid a dividend of $12.9 million. At June 30, 2007, our investment in Paso Diablo was $56.8 million. Each of our mining operations is described in Item 1. Business, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Metallurgical coal is produced primarily from four of our Australian mines and two of our U.S. operations. Metallurgical coal is approximately 5% of our total sales volume and approximately 3% of U.S. sales volume.

In addition to our mining operations, which comprised 87% of revenues in 2006, our trading and brokerage operations (13% of revenues), transactions utilizing our vast natural resource position (selling non-core land holdings and mineral interests) and other ventures generate revenues and additional cash flows.

We continue to pursue the development of coal-fueled generating projects in areas of the U.S. where electricity demand is strong and where there is access to land, water, transmission lines and low-cost coal. The projects involve mine-mouth generating plants using our surface lands and coal reserves. Our ultimate role in these projects could take numerous forms, including, but not limited to, equity partner, contract miner or coal sales. On June 19, 2007, we announced the signing of a $2.9 billion cost reimbursable Target Price Engineering, Procurement and Construction Agreement with Bechtel Power Corporation for the 1,600-megawatt Prairie State Energy Campus in Washington County, Illinois. We have entered into agreements with two new participants for the project and the collective participant commitments now total 1,300-megawatts. The plant, assuming all necessary permits and financing are obtained and following selection of partners and sale of a majority of the output of each plant, could be operational following a four-year construction phase.

The EIA projects that the high price of oil will lead to an increase in demand for unconventional sources of transportation fuel, including Btu conversion technologies, and that coal will increase its share as a fuel for generation of electricity. We are exploring several Btu conversion projects, which are designed to expand the uses of coal through various technologies, and we are continuing to explore options, particularly as they relate to Btu conversion technologies such as coal-to-liquids and coal-to-gas. On July 23, 2007, we announced an agreement with ConocoPhillips to explore development of a commercial scale coal-to-substitute natural gas (SNG) facility in the Midwest. The project would be developed as a mine-mouth facility at a location where we have access to large reserves and existing infrastructure. The facility would be designed to annually produce 50 billion to 70 billion cubic-feet of pipeline quality SNG from more than 3.5 million tons of Midwest coal and petroleum coke.

Results of Operations

Adjusted EBITDA

The discussion of our results of operations below includes references to and analysis of our segments' Adjusted EBITDA results. Adjusted EBITDA is defined as income from operations before deducting net interest expense, income taxes, minority interests, asset retirement obligation expense and depreciation, depletion and amortization. Adjusted EBITDA is used by management primarily as a measure of our segments' operating performance. Because Adjusted EBITDA is not calculated identically by all companies, our calculation may not be comparable to similarly titled measures of other companies. Adjusted EBITDA is reconciled to its most comparable measure, under generally accepted accounting principles, in Note 10 to our condensed consolidated financial statements.

Three and Six Months Ended June 30, 2007 Compared to Three and Six Months Ended June 30, 2006

Summary

Higher average sales prices primarily in the Powder River Basin and increased volumes in Australian Mining operations contributed to moderate increases in revenues during the three and six months ended June 30, 2007 compared to the prior year. Segment Adjusted EBITDA decreased for the quarter and six months compared to prior year primarily related to lower sales volumes resulting from adverse weather conditions, transportation issues and certain capital project delays in our Western U.S. and Australia mining operations; geology issues in our Eastern U.S. Mining operations; and the effects of currency translation related to the weaker U.S. dollar against the very strong Australian dollar. Disruption of the coal chain, including port congestion at our two primary Australian shipping points, Dalrymple Bay Coal Terminal and the Port of Newcastle, was caused by record demand and severe flooding in Newcastle. This led to significant queuing of vessels, which resulted in delayed shipments and increased demurrage charges. Partially offsetting these unfavorable events were improved results from Trading and Brokerage operations, the contribution from new mines in Australia, and higher prices in our U.S. Mining operations.

Net income decreased for the three and six months ended June 30, 2007 compared to prior year, and included higher depreciation, depletion and amortization primarily from our newly acquired mines and additional interest expense associated with approximately $1.7 billion in debt issuances in the second half of 2006 to finance the acquisition of Excel Coal Limited (Excel). We expect to begin to realize the full benefit of the Excel acquisition when the mines under development are fully operational. One of the development-stage mines began operations in the first half of 2007, and the remaining two development-stage mines are expected to be fully commissioned in the second half of 2007. Partially offsetting these decreases were higher gains from asset disposals or exchanges.

Tons Sold

	Three Months Ended June 30,		2007 from 2006 Increase (Decrease)		Six Months Ended June 30,		2007 from 2006 Increase (Decrease)	
	2007	2006	Tons	%	2007	2006	Tons	%
	(Tons in millions)				(Tons in millions)			
Western U.S. Mining Operations	38.3	38.8	(0.5)	(1.3)%	76.2	78.6	(2.4)	(3.1)%
Eastern U.S. Mining Operations	13.1	14.1	(1.0)	(7.1)%	26.6	27.8	(1.2)	(4.3)%
Australian Mining Operations	5.0	2.4	2.6	108.3%	10.0	4.3	5.7	132.6%
Trading and Brokerage Operations	6.1	5.5	0.6	10.9%	10.6	11.4	(0.8)	(7.0)%
Total tons sold	62.5	60.8	1.7	2.8%	123.4	122.1	1.3	1.1%

Revenues

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Increase (Decrease) to Revenues $	Increase (Decrease) to Revenues %	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006	Increase to Revenues $	Increase to Revenues %
	(Dollars in millions)				(Dollars in millions)			
Western U.S. Mining Operations	$ 491.0	$ 400.2	$ 90.8	22.7%	$ 971.6	$ 832.2	$ 139.4	16.8%
Eastern U.S. Mining Operations	493.1	515.5	(22.4)	(4.3)%	999.4	1,021.4	(22.0)	(2.2)%
Australian Mining Operations	259.1	217.5	41.6	19.1%	544.9	370.2	174.7	47.2%
Trading and Brokerage Operations	32.9	160.5	(127.6)	(79.5)%	74.9	358.8	(283.9)	(79.1)%
Sales	1,276.1	1,293.7	(17.6)	(1.4)%	2,590.8	2,582.6	8.2	0.3%
Other revenues	46.0	22.7	23.3	102.6%	96.4	45.6	50.8	111.4%
Total revenues	$ 1,322.1	$ 1,316.4	$ 5.7	0.4%	$2,687.2	$ 2,628.2	$ 59.0	2.2%

Total revenues increased for the three and six months ended June 30, 2007 compared to prior year while our total sales decreased for the three months ended June 30, 2007 and increased for the six months ended June 30, 2007. The primary causes of the change in these periods included the following:

- Continued shift towards trading contracts versus brokerage contracts in our Trading and Brokerage operations. Trading and Brokerage operations' sales decreased in the quarter and six months as the amount of brokerage business was reduced and replacement business was in the form of traded contracts. Contracts for trading activity are recorded at net margin in other revenues, whereas contracts for brokerage activity are recorded at gross sales price to revenues and operating costs. While the shift to trading contracts reduced total sales, there was no impact to Adjusted EBITDA;
- Lower volumes in our Eastern U.S Mining operations related to geology issues;
- Lower average sales prices in our Australia Mining operations related to lower metallurgical contract pricing (Pacific Rim seaborne market fiscal year began April 1) and higher thermal product sales in our overall price mix;
- Lower volumes in our Australia Mining operations resulting from adverse weather events that affected production (excluding the impact of recently acquired mines), damaged rails, and further amplified port and rail congestion; and
- Lower volumes in the Powder River Basin of our Western U.S. Mining operations for the quarter related to capital project delays and equipment issues that affected production and adverse weather conditions. The impact of adverse weather conditions on sales during the six months also included a blizzard in the Powder River Basin that effectively shut down operations and transportation for several days in the first quarter.

The decline in volume and average sales prices discussed above was partially offset in the second quarter and fully offset in the six months by the following:

- Higher volumes in Australia from recently acquired mines;
- Higher average sales prices, increasing over 20%, in our Western U.S. Mining operations (mainly reflecting increases of approximately 25% per ton on new contracts in the Powder River Basin for each period presented). These increases in the Powder River Basin drove the overall increase in total sales for the six months. Additionally, we also benefited from higher volumes at our other Western U.S. Mining operations;
- Higher average sales prices experienced in our Eastern U.S. Mining operations were driven by favorable contract pricing, partially offset by coal quality issues.

Higher other revenues in the second quarter and six months primarily related to higher trading gains resulting from increased international volumes and favorable international pricing (quarter — $9.5 million; six months — $15.2 million) and higher revenues from synthetic fuel plants in the current period as customers idled those plants in the prior year (quarter — $6.0 million; six months — $9.1 million). Higher proceeds received from the monetization of in-the-money contracts with third-party coal producers contributed $16.2 million to the increase for the six months.

Segment Adjusted EBITDA

	Three Months Ended June 30,		Increase (Decrease) to Segment Adjusted EBITDA		Six Months Ended June 30,		Increase (Decrease) to Segment Adjusted EBITDA	
	2007	2006	$	%	2007	2006	$	%
	(Dollars in millions)				(Dollars in millions)			
Western U.S. Mining Operations	$ 136.9	$ 100.0	$ 36.9	36.9%	$ 276.6	$ 227.8	$ 48.8	21.4%
Eastern U.S. Mining Operations	72.3	108.1	(35.8)	(33.1)%	153.4	240.6	(87.2)	(36.2)%
Australian Mining Operations	41.9	65.9	(24.0)	(36.4)%	104.4	113.7	(9.3)	(8.2)%
Trading and Brokerage Operations	26.5	21.2	5.3	25.0%	63.3	37.4	25.9	69.3%
Total Segment Adjusted EBITDA	$ 277.6	$ 295.2	$ (17.6)	(6.0)%	$ 597.7	$ 619.5	$ (21.8)	(3.5)%

Adjusted EBITDA from our Western U.S. Mining operations increased during the second quarter and six months primarily related to an overall increase in average sales prices from our Powder River Basin operations and a 28% increase in our premium product prices from our Powder River Basin operations. Partially offsetting higher average sales prices were lower sales volumes and higher costs associated with equipment repairs and maintenance, adverse weather conditions in the first and second quarters, capital project delays and higher add-on taxes and royalties.

Eastern U.S. Mining operations' Adjusted EBITDA decreased during the second quarter and six months primarily related to lower sales volumes and higher costs associated with production shortfalls stemming from geology issues at several of our mines; higher costs for commodities, including fuel; and loss of a contract miner. Modest increases in average sales prices were offset by lower coal quality at one of our mines. Results in the six months of 2006 reflected favorable sulfur premiums and an $8.9 million settlement of customer billings regarding coal quality.

Our Australian Mining operations' Adjusted EBITDA decreased during the second quarter and six months compared to prior year primarily due to lower pricing on metallurgical coal contracts; rail and port congestion at Dalrymple Bay Coal Terminal and the Port of Newcastle; higher congestion-related demurrage costs; and higher non-cash costs resulting from the weakening U.S. dollar, net of hedging gains. Dalrymple Bay Coal Terminal has been experiencing queues of over 50 vessels at a time (approximately a 34-day queue). Partially offsetting these decreases were contributions from our newly acquired mines and a $6.3 million insurance recovery on a business interruption claim in the first half of 2007. Our newly acquired mines experienced reduced shipments and damaged rail lines resulting from a storm late in the second quarter. The Port of Newcastle was closed for several days in June due to the storm, with up to 79 vessels in the queue at certain times (a 35 — 40 day queue).

Trading and Brokerage operations' Adjusted EBITDA increased during the second quarter and six months due to higher international trading gains resulting from higher volumes in 2007 and higher pricing. The price increases were driven by strong supply/demand fundamentals that were further strengthened by tightened Australian supply due to adverse weather impacting rail and port availability. Trading and Brokerage operations' Adjusted EBITDA was also impacted by lower gains in the second quarter, but higher gains in the six months ended June 30, 2007 related to the monetization of in-the-money contracts with third-party coal producers and trading partners.

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Income Before Income Taxes and Minority Interests

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Increase (Decrease) to Income $	Increase (Decrease) to Income %	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006	Increase (Decrease) to Income $	Increase (Decrease) to Income %
	(Dollars in millions)				(Dollars in millions)			
Total Segment Adjusted EBITDA	$ 277.6	$ 295.2	$ (17.6)	(6.0)%	$ 597.7	$ 619.5	$ (21.8)	(3.5)%
Corporate and Other Adjusted EBITDA	27.0	(16.4)	43.4	264.6%	(23.6)	(81.3)	57.7	71.0%
Depreciation, depletion and amortization	(108.5)	(91.5)	(17.0)	(18.6)%	(211.4)	(172.4)	(39.0)	(22.6)%
Asset retirement obligation expense	(7.5)	(11.6)	4.1	35.3%	(18.8)	(18.9)	0.1	0.5%
Interest expense	(59.0)	(25.3)	(33.7)	(133.2)%	(117.8)	(52.7)	(65.1)	(123.5)%
Interest income	3.6	1.5	2.1	140.0%	9.0	4.1	4.9	119.5%
Income before income taxes and minority interests	$ 133.2	$ 151.9	$ (18.7)	(12.3)%	$ 235.1	$ 298.3	$ (63.2)	(21.2)%

Income before income taxes and minority interests for the three and six months ended June 30, 2007 was lower than the prior year primarily due to higher interest expense and depreciation, depletion and amortization, partially offset by lower net expense in Corporate and Other Adjusted EBITDA.

Corporate and Other Adjusted EBITDA results include selling and administrative expenses, equity income from our joint ventures, net gains on disposal or exchange of assets, costs associated with past mining obligations and revenues and expenses related to our other commercial activities such as coalbed methane, generation development, Btu conversion and resource management. The improvement in Corporate and Other Adjusted EBITDA during the second quarter and six months includes the following:

- Higher net gains on disposals or exchanges of assets (quarter — $48.7 million; six months — $76.1 million). Activity for the second quarter and six months included a gain of $50.5 million on the exchange of our coalbed methane and oil and gas rights in the Illinois Basin, West Virginia, New Mexico and the Powder River Basin for high-Btu coal reserves located in West Virginia and Kentucky and cash proceeds. Our 2007 activity also included gains totaling $78.5 million ($43.6 million in the second quarter) from sales of non-strategic coal reserves and surface lands located in Kentucky. Net gains on disposals or exchanges of assets in the prior year included a $39.2 million gain on exchange of coal reserves (see Note 5); and

- Higher cost reimbursement and partner fees for the Prairie State Energy Campus project, primarily related to the entrance of new project partners (quarter — $13.1 million; six months — $11.5 million).

The improvement in Corporate and Other Adjusted EBITDA during the second quarter and six months was partially offset by:

- Lower equity income (quarter — $2.2 million; six months — $6.0 million) from our 25.5% interest in Carbones del Guasare (owner and operator of the Paso Diablo Mine in Venezuela), which primarily resulted from trucking issues, a temporary shortage of explosives, and delays in receiving equipment, which impacted operations; and

- Higher expenses (quarter — $11.4 million; six months — $19.4 million) associated with higher past mining obligations resulting from increased healthcare costs and additional multiemployer pension and retiree healthcare funding in accordance with 2006 legislation and requirements under the 2007 National Bituminous Coal Wage Agreement.

Depreciation, depletion and amortization increased (quarter — $17.0 million; six months - $39.0 million) primarily related to the addition of recently acquired Australian operations.

Interest expense increased (quarter — $33.7 million; six months — $65.1 million) primarily due to approximately $1.7 billion in new debt issuances in the second half of 2006 to finance the acquisition of Excel.

Net Income

	Three Months Ended June 30,		Decrease to Income		Six Months Ended June 30,		Decrease to Income	
	2007	2006	$	%	2007	2006	$	%
	(Dollars in millions)				(Dollars in millions)			
Income before income taxes and minority interests	$ 133.2	$ 151.9	$ (18.7)	(12.3)%	$ 235.1	$ 298.3	$ (63.2)	(21.2)%
Income tax (provision) benefit	(19.1)	3.3	(22.4)	(678.8)%	(31.7)	(8.2)	(23.5)	(286.6)%
Minority interests	(6.4)	(1.8)	(4.6)	(255.6)%	(7.2)	(6.4)	(0.8)	(12.5)%
Net income	$ 107.7	$ 153.4	$ (45.7)	(29.8)%	$ 196.2	$ 283.7	$ (87.5)	(30.8)%

Net income decreased during the three and six months ended June 30, 2007 compared to prior year due to the decrease in income before income taxes discussed above, a higher income tax provision and an increase in minority interests. The income tax provision was higher for the quarter and six months primarily due to a reduction in tax reserves totaling $21.4 million in the prior year related to the favorable finalization of former parent companies' federal tax audits. Minority interests increased primarily from the absorption of losses in excess of the minority interest capital contribution at one of our mines, partially offset by lower earnings allocable to partners.

Outlook

Events Impacting Near-Term Operations

Global coal markets continued to reflect high demand and pricing, with prices strengthening in the international and domestic markets in early 2007. China's economy grew 11.5% year-over-year in the first half of 2007 as published by the National Bureau of Statistics of China, while the U.S. economy grew at an annual rate of 3.4% based on recent reports by the U.S. Commerce Department.

Operationally, we dealt with several external events in the first half of 2007, including adverse weather, transportation logistic issues and a weakening U.S. dollar. We anticipate that the impact from certain of these events will continue to affect our Australian Mining operations results in the second half of 2007, including higher costs due to demurrage and currency exchange rate changes. The port congestion and significant queuing of vessels at Dalrymple Bay Coal Terminal and Port of Newcastle are expected to continue into the second half of 2007, as congestion at these coal export terminals led to mandatory reductions of throughput entitlements for coal shippers, ranging from 13-21% for the remainder of 2007. We anticipate that planned incremental production cuts from original targets at our U.S. operations, as well as higher fuel charges, will impact our Eastern U.S. and Western U.S. Mining operations' results in the second half of 2007. The U.S. market continues to experience high utility customer stockpiles, which has decreased demand and led to our planned production cuts. As of June 30, 2007, we expect full year 2007 sales targets of 260 to 275 million tons. We expect U.S. production targets of 220 to 225 million tons and Australian production of 20 to 22 million tons for the year.

We advanced our evaluation of strategic opportunities, including a possible spin-off or other strategic transaction, for portions of our Eastern U.S. Mining Operations business segment. We filed an initial Form 10 with the Securities and Exchange Commission and requested a Private Letter Ruling from the Internal Revenue Service as prerequisites for a possible tax-free spin-off of Patriot Coal Corporation (Patriot). Patriot would become an independent publicly-traded company producing steam and metallurgical quality coal in the eastern United States from operations and coal reserves in Appalachia and Western Kentucky. The potential spin-off would separate businesses with fundamentally different characteristics and allow management to pursue distinct operating and business strategies. The timetable and other details of the proposed transaction are expected to be finalized in the second-half of 2007.

The majority of our United Mine Workers of America (UMWA)-represented eastern workforce operates under a recently signed, five-year labor agreement expiring December 31, 2011. This contract replaced a contract that had expired on December 31, 2006 and mirrors the 2007 National Bituminous Coal Wage Agreement. In April 2007, a new labor agreement was ratified for our hourly workforce at the Willow Lake underground mine, which is represented by the International Brotherhood of Boilermakers. The new 4-year labor agreement expires on April 15, 2011. The impact of these new labor agreements will result in higher wage, pension, and retiree healthcare costs of approximately $30 million for

2007. Additionally, the UMWA-represented workforce at our Arizona mine operates under the Western Surface Agreement of 2000 and the UMWA-represented workforce at one of our eastern mines operates under a separate contract, both of which expire in the second half of 2007. Furthermore, new labor agreements are being negotiated at two of our Australian mines.

Long-term Outlook

Our outlook for the coal markets remains positive. We believe strong coal markets will continue worldwide as long as growth continues in the U.S., Asia and other undeveloped economies that are increasing coal demand for electricity generation and steelmaking. We estimate that more than 115 gigawatts of new coal-fueled electricity generating capacity is under construction around the world and more than 12,000 megawatts is under construction or recently come on line in the United States. The EIA projects an additional 156 gigawatts of new U.S. coal-fueled generation by 2030, which by itself could represent more than 500 million tons of additional coal demand.

Coal prices continue to strengthen. Internationally, Australian thermal coal prices have increased during 2007, exceeding $70 per metric tonne for seaborne shipments during the second quarter for spot sales. The spot prices for metallurgical coal have also increased recently in 2007, signaling the potential for higher 2008 contract pricing. Both China and India increased net imports of coal to satisfy growth in electricity generation and steel production. Russia is predicting a decline in its coal exports due to continued domestic demand. We expect to capitalize on the strong global market for metallurgical and thermal coal from sales of our Australian production, including our newly acquired thermal coal mines. Also, in response to growing international markets, we established an international trading group in 2006 and added a trading office in Europe in early 2007, which expands our trading activities to four continents. U.S. coal markets showed signs of strengthening, with approximately 55% and 35% improvements in current 2009 published prices over prompt levels at the beginning of 2007 for reference Powder River Basin and Central Appalachian coal products, respectively.

By early 2008, we expect to have dramatically reshaped our global platform, with major enhancements to our flagship Powder River Basin operations, expansion in Australia, strategic evaluation of our Eastern operations and a larger global trading presence. Capital projects are targeted for the expansion of our international platform in Australia, including the completion of our Wilpinjong Mine, North Wambo Underground Mine and Millennium Mine.

Demand for Powder River Basin coal remains strong, particularly for our ultra-low sulfur products. The Powder River Basin represents more than half of our production. We control approximately 3.5 billion tons of proven and probable reserves in the Southern Powder River Basin, and we sold 138.4 million tons of coal from this region during 2006, an increase of 10.1% over the prior year. Our major 2007 projects include the installation of a new dragline system at our North Antelope Rochelle Mine in the Powder River Basin, which is expected to reduce fuel usage and costs, the completion of a new in-pit conveyor system and progress on a new coal blending and loadout facility also at North Antelope Rochelle, which is expected to increase capacity and improve blending capabilities.

Coal-to-gas and coal-to-liquids (CTL) plants represent an emerging opportunity for long-term industry growth. The EIA continues to project an increase in demand for unconventional sources of transportation fuel, including CTL. Coal-to-gas and CTL facilities are being built and operated outside the United States as alternatives to high-priced conventional oil and gas.

Management continues to focus on cost control and operating performance to mitigate external cost pressures, geologic conditions and potentially adverse port and rail performance. We are experiencing increases in operating costs related to fuel, explosives, steel, tires, contract mining, new wage agreements and healthcare, and have taken measures to mitigate the increases in these costs, including a company-wide initiative to instill best practices at all operations. In addition, low long-term interest rates also have a negative impact on expenses related to our actuarially determined, employee-related liabilities. In spite of our efforts to manage controllable costs, we expect a year-over-year increase in these costs. We may also encounter poor geologic conditions, lower third-party contract miner or brokerage source performance or unforeseen equipment problems that limit our ability to produce at forecasted levels. To the extent upward pressure on costs exceeds our ability to realize sales increases, or if we experience unanticipated operating or transportation difficulties, our operating margins would be negatively impacted. See “Cautionary Notice Regarding Forward-Looking Statements” and Item 1A. Risk Factors for additional cautionary factors regarding our outlook.

Liquidity and Capital Resources

Our primary sources of cash include sales of our coal production to customers, cash generated from our trading and brokerage activities, sales of non-core assets and financing transactions, including the sale of our accounts receivable (through our securitization program). Our primary uses of cash include our cash costs of coal production, capital expenditures, interest costs and costs related to past mining obligations as well as planned acquisitions. Our ability to pay dividends, service our debt (interest and principal) and acquire new productive assets or businesses is dependent upon our ability to continue to generate cash from the primary sources noted above in excess of the primary uses. Future dividends, among other things, are subject to limitations imposed by our Senior Notes and Debenture covenants. We expect to fund all of our capital expenditure requirements with cash generated from operations.

Net cash provided by operating activities for the six months ended June 30, 2007 increased $13.1 million compared to the prior year. This increase primarily related to working capital changes partially offset by lower cash income from operations.

Net cash used in investing activities increased $20.1 million for the six months ended June 30, 2007 compared to the prior year. The increase reflects higher capital spending of $88.2 million in 2007, partially offset by the acquisition of an additional interest in a joint venture for $44.5 million in 2006 and $22.5 million in proceeds from disposals or exchanges of assets, net of notes receivable. Capital expenditures in 2007 included mine development at our recently acquired Australian mines, the completion of an in–pit conveyor system and progress on a coal blending and loadout facility at one of our Western mines.

Net cash used for financing activities increased $52.8 million compared to the prior year. The increase primarily related to the repayment of $103.0 million of debt that included a $60.0 million retirement of our 5.0% Subordinated Note; a $24.9 million repayment on the outstanding balance of our Term Loan under the Senior Unsecured Credit Facility; a $13.8 million open-market purchase of 5.875% Senior Notes; and capital lease payments totaling $4.3 million. Also contributing to the increase in net cash used in financing activities were lower tax benefit related to stock option exercises and lower proceeds from the exercise of stock options, partially offset by higher usage of our accounts receivable securitization program of $12.3 million during 2007 and payments for common stock repurchases of $11.5 million in the prior year.

Our total indebtedness as of June 30, 2007 and December 31, 2006, consisted of the following:

	June 30, 2007	December 31, 2006
	(Dollars in thousands)	
Term Loan under Senior Unsecured Credit Facility	$ 522,054	$ 547,000
Convertible Junior Subordinated Debentures due 2066	732,500	732,500
7.375% Senior Notes due 2016	650,000	650,000
6.875% Senior Notes due 2013	650,000	650,000
7.875% Senior Notes due 2026	246,931	246,897
5.875% Senior Notes due 2016	218,090	231,845
5.0% Subordinated Note	—	59,504
6.84% Series C Bonds due 2016	43,000	43,000
6.34% Series B Bonds due 2014	21,000	21,000
6.84% Series A Bonds due 2014	10,000	10,000
Capital lease obligations	97,792	96,869
Fair value of interest rate swaps	(21,668)	(13,784)
Other	22,301	22,918
Total	$3,192,000	$3,297,749

As of June 30, 2007, the Revolving Credit Facility's remaining available borrowing capacity under the Senior Unsecured Credit Facility was $1.38 billion.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PEABODY ENERGY CORPORATION

Date: August 8, 2007

By: /s/ RICHARD A. NAVARRE
Richard A. Navarre
Chief Financial Officer and
Executive Vice President of Corporate Development
(On behalf of the registrant and as Principal Financial Officer)