

Peabody Energy (NYSE: BTU) Announces Improved Results for First Quarter Of 2002

-- EBITDA* improves 25% and operating profit increases 68% -- Net income improves \$34 million, driving diluted EPS of \$0.42 -- Revenues rise 7% on strong pricing and 4% sales volume growth -- Reduced debt leads to 43% reduction in interest expense -- Targeted 2002 EBITDA improvement remains at 20% to 30%

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ST. LOUIS

Peabody Energy today reported EBITDA* of \$113.7 million for the quarter ended March 31, 2002, a year-on-year increase of 25 percent. Operating profit increased 68 percent to \$55.0 million. Net income totaled \$22.3 million for the quarter, compared with an \$11.5 million loss in the prior-year period.

Diluted earnings per share totaled \$0.42 for the quarter. Per-share comparisons with the prior year are not meaningful given the change in capital structure resulting from Peabody's May 2001 initial public offering.

"Peabody's operating, sales and trading groups managed their way through a tough business environment to record another strong quarter," said Peabody Energy Chairman and Chief Executive Officer Irl F. Engelhardt. "Pricing improved while we largely held the line on costs, leading to solid margin expansion. We expect the U.S. economy will improve and customers will reduce stockpiles over the next three to four months, allowing us to continue to target EBITDA improvement for the full year that is 20 to 30 percent above last year's levels."

Earlier this month, Peabody's publicly traded shares increased to more than 50 percent of its outstanding shares with the sale of 9.0 million shares (excluding any overallotment that may be exercised) by certain shareholders, including Lehman Brothers Merchant Banking Partners II L.P.

QUARTER RESULTS

Quarterly revenues rose 7 percent, led by higher pricing in both the Eastern and Western U.S., resulting from multi-year contracts signed in 2001. Sales volume rose 4 percent to an industry record 49.8 million tons. Average revenues per ton increased 6 percent at Eastern operations and 11 percent in the West.

Operating profit totaled \$55.0 million for the quarter, a 68 percent improvement over the prior-year period, while EBITDA increased 25 percent to \$113.7 million. Operating profits increased in all regions with the exception of the Southwest, where results were affected by two outages in the coal transportation pipeline and higher maintenance costs.

"We're pleased with our margin expansion in all facets of our business, which was aided by strong cost containment efforts," said Peabody Executive Vice President and Chief Financial Officer Richard A. Navarre. "Approximately half of the \$0.28 per-ton average cost increase consisted of royalties and taxes due to higher prices. And much more of our operating profit flowed to the bottom line, due to significantly lower interest expense."

Interest expense declined 43 percent from the prior year, following the repayment of \$822 million in debt since December 2000. Net income totaled \$22.3 million for the first quarter, an increase of \$33.8 million over the prior year.

MARKET OVERVIEW

As expected, first quarter shipments industry-wide lagged prior-year results by 4.6 percent, driven by warmer-than-normal winter weather, the U.S. economic downturn and low natural gas prices at the beginning of the year. This allowed certain natural gas generating plants to dispatch ahead of several coal plants in the Northeast and along the Gulf coast until natural gas prices increased to more normal levels in February and March.

Peabody continues to anticipate that customers will work down their stockpiles in the next three to four months. U.S. generation from coal is expected to grow 1 to 2 percent overall in 2002, driven by a strong economic recovery and a return to normal weather patterns. While second quarter shipments will be soft due to stockpile management programs, coal markets are firming and coal purchase solicitations are increasing.

Peabody has 97 percent of its 187 million tons of anticipated 2002 production committed. This planned production level represents an 8 million ton reduction since January. Peabody currently has more than 69 percent of anticipated 2003 production committed.

GROWTH INITIATIVES

Peabody continues to expand its trading and brokerage activities. Using the flexibility built into sales contracts and capitalizing on a 1 billion ton backlog of sales, the company creates asset-based trading and brokerage transactions.

Several management changes were recently announced to provide greater focus on growing the core and new energy businesses and increasing the emphasis on capturing the value from Peabody's surface lands and reserve base.

Peabody believes that the need for low-cost baseload generation in the 2005 timeframe and beyond continues to grow. Peabody is developing clean, low-cost generation to satisfy that need. During the first quarter, Peabody filed the air quality permit for the 300 megawatt Mustang Energy Project in New Mexico. State authorities have deemed this application complete and ready for review. Peabody also continued the permitting process, transmission access agreements and contractor-related activities for its two Midwestern coal-fueled generating projects, the Thoroughbred and Prairie State Energy campuses. Both 1,500 megawatt mine-mouth generating plants would be built on a portion of Peabody's 300,000-plus acres of surface lands and 9.1 billion tons of coal reserves.

Peabody also invested \$47 million in capital during the first quarter to replace depleting assets, drive cost improvements and develop replacement operations to serve long-term contracts. The company continues to target 2002 capital expenditures in the \$165 million to \$195 million range.

OUTLOOK

During the second quarter, the company expects continued expanded margins to overcome the effects of three longwall moves and suspension costs related to the Big Mountain Mine in West Virginia. Peabody is targeting second quarter EBITDA of \$105 million to \$115 million and is targeting earnings per share of \$0.20 to \$0.35.

For the year, the company continues to target 2002 EBITDA of \$475 million to \$500 million and 2002 earnings per share between \$1.60 and \$2.00, based on a continued economic recovery, return to normal weather and a drawdown of customer stockpiles over the next three to four months.

Peabody Energy is the world's largest private-sector coal company. Its coal fuels more than 9 percent of all U.S. electricity generation and more than 2 percent of worldwide electricity generation.

Certain statements in this press release are forward looking as defined in the Private Securities Litigation Reform Act of 1995. These statements involve certain risks and uncertainties that may cause actual results to differ materially from expectations as of the date of this release. These risks include, but are not limited to: continued growth in coal and power markets; future economic conditions; severity of weather; railroad performance; the ability to renew coal sales contracts upon expiration or renegotiation; risks of coal mining including geological conditions; the ability to successfully implement operating strategies; regulatory and court decisions; future legislation; credit and market risk associated with the company's customers; and other risks detailed from time to time in the company's reports filed with the Securities and Exchange Commission. These factors are difficult to accurately predict and may be beyond the control of the company.

NOTE: For comparison purposes, prior year information reflects pro forma data that excludes the gain on, and results of, Australian operations which were sold in January 2001, and discontinued operations.

* EBITDA (also called adjusted EBITDA) is defined as income from continuing operations before deducting net interest expense, income taxes, minority interests and depreciation, depletion and amortization. EBITDA is not a substitute for operating income, net income and cash flow from operating activities as determined in accordance with generally accepted accounting principles as a measure of profitability or liquidity. It is presented as additional information because management believes it is a useful indicator of its ability to meet debt service and capital expenditure requirements. Because EBITDA is not calculated identically by all companies, the presentation herein may not be comparable to similarly titled measures of other companies.

Condensed Income Statement (Unaudited)
For the Quarter Ended March 31, 2002 and 2001

(Dollars in Millions, Except Share Data)

	Quarter Ended	
	Pro Forma	
	March 2002	March 2001 (a)
Tons Sold (Millions)	49.8	47.9
Revenues	\$710.6	\$664.5
Operating Costs	570.6	541.1
Depreciation, Depletion & Amortization	58.7	58.6
Selling & Administrative	26.3	32.1
Operating Profit	55.0	32.7
Interest Income	(0.5)	(1.7)
Interest Expense	24.9	43.6
Income Tax Expense (Benefit)	4.6	(9.1)
Minority Interests	3.7	2.9
Income (Loss) Before Extraordinary Item	22.3	(3.0)
Extraordinary Loss from Debt		
Extinguishment, Net of Taxes	-	(8.5)
Net Income (Loss)	\$22.3	\$(11.5)
Diluted EPS (b)	\$0.42	nm
EBITDA	\$113.7	\$91.3

(a) Excludes gain on, and results of, Australian operations sold in January 2001, and discontinued operations.

(b) Weighted average diluted shares outstanding were 53.7 million for the quarter ended March 31, 2002.

This information is intended to be reviewed in conjunction with the company's filings with the Securities and Exchange Commission.

Supplemental Financial Data (Unaudited)
For the Quarter Ended March 31, 2002 and 2001

	Quarter Ended	
	Pro Forma	
	March 2002	March 2001 (a)
Revenue Summary (Dollars in Millions)		
Mining Operations	\$614.5	\$578.3
Trading & Brokerage Operations	89.5	77.1
Other	6.6	9.1
Total	\$710.6	\$664.5
Tons Sold (in Millions)		
East	12.7	13.6

West	32.1	30.9	
Trading & Brokerage		5.0	3.4
Total	49.8	47.9	

Revenues per Ton - Mining Operations

East	\$25.86	\$24.40
West	8.89	8.01
Total	13.70	13.00

Operating Costs per Ton - Mining

Operations (b)

East	\$20.12	\$20.24
West	6.36	5.50
Total	10.27	9.99

Gross Margin per Ton - Mining

Operations (b)

East	\$5.74	\$4.16
West	2.53	2.51
Total	3.43	3.01

Operating Profit per Ton	\$1.10	\$0.68
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Dollars in Millions

Gross Margin - Mining Operations	\$154.1	\$134.0
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Gross Margin - Trading & Brokerage

Operations (c)

11.3	7.3
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Selling & Administrative	(26.3)	(32.1)
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Other Operating Costs and Revenues	(25.4)	(17.9)
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EBITDA	113.7	91.3
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Depreciation, Depletion & Amortization	(58.7)	(58.6)
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Operating Profit	55.0	32.7
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Capital Expenditures	47.0	42.1
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(a) Excludes gain on, and results of, Australian operations sold in January 2001, and discontinued operations.

(b) Excludes depreciation, depletion, and amortization; selling and administrative expenses; and certain other costs related to past mining activities.

(c) Tons traded (in millions) for the quarters ended March 31, 2002 and 2001 were 28.2 and 14.3, respectively.

This information is intended to be reviewed in conjunction with the company's filings with the Securities and Exchange Commission.

Condensed Balance Sheet

As of March 31, 2002 and December 31, 2001

(In Millions)

(Unaudited)

March 31, 2002 December 31, 2001

Cash & Cash Equivalents	\$16.1	\$38.6
Receivables	192.7	178.1
Inventories	239.1	215.7
Assets from Coal/Allowance Trading Activities	75.6	60.5
Other Current Assets	38.8	34.6
Total Current Assets	562.3	527.5
Net Property, Plant & Equipment	4,348.9	4,355.9
Investments & Other Assets	262.4	267.5
Total Assets	\$5,173.6	\$5,150.9
Current Maturities of Debt	\$72.3	\$46.5
Liabilities from Coal/Allowance Trading Activities	51.7	45.7
Accounts Payable & Accruals	574.2	592.1
Total Current Liabilities	698.2	684.3
Long-Term Debt	972.7	984.6
Deferred Taxes	569.3	564.8
Other Long-Term Liabilities	1,832.6	1,834.6
Total Liabilities	4,072.8	4,068.3
Minority Interests	47.9	47.1
Stockholders' Equity	1,052.9	1,035.5
Total Liabilities & Stockholders' Equity	\$5,173.6	\$5,150.9

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