

Peabody Energy (NYSE: BTU) Announces Improved Results for the Quarter and Six Months Ended June 30, 2002

-- Operating profit grows 52% and EBITDA* improves 18% for the quarter -- Income from continuing operations increases \$15 million for the quarter and \$40 million for six months -- Revenues rise 7% for the quarter and six months -- Year-to-date interest expense improves 35% -- Revised 2002 EBITDA improvement targeted at 18% to 23%

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ST. LOUIS

Peabody Energy today reported net income of \$24.5 million for the quarter ended June 30, 2002, and \$46.8 million through six months. Earnings per share totaled \$0.45 for the quarter and \$0.87 for the six months. EBITDA* totaled \$113.8 million and \$227.5 million for the quarter and six months ended June 30, 2002. After considering the benefits of excise tax refunds in both years, operating profit increased 52 percent and EBITDA improved 18 percent for the quarter.

"Peabody's operations performed very well for the first six months of 2002 as we managed our way through adverse business conditions and a changing customer landscape," said Peabody Energy Chairman and Chief Executive Officer Irl F. Engelhardt. "The mild weather during eight of the last 10 months increased customer stockpile levels and softened demand. Peabody believes most customer inventories will reach desirable levels in the August to early October timeframe, and improved market conditions will develop in the last third of 2002 and extend into 2003."

FINANCIAL RESULTS

Income from continuing operations totaled \$24.5 million for the quarter and \$46.8 million through six months ended June 30, 2002, an increase of \$14.6 million and \$39.8 million, respectively, over the prior year.

Revenues rose 7 percent for the quarter and six months, to \$702.8 million and \$1,413.5 million, respectively. Average prices per ton for the quarter increased 8 percent at Eastern U.S. operations and 11 percent in the Western operations. Production volumes were dampened by the idling of the Big Mountain Mine in Appalachia and cutbacks in the planned production at the Powder River Basin mines.

Operating profit improved to \$55.2 million for the quarter and \$110.2 million through six months, while EBITDA increased to \$113.8 million and \$227.5 million, respectively. Prior-year results included \$15.3 million in excise tax refunds for the quarter and six months ended June 30, 2001, versus \$2.3 million and \$5.5 million for the quarter and six months ended June 30, 2002.

Gross margin from mining operations increased 18 percent to \$3.15 per ton for the quarter, as improved prices more than offset modest unit cost increases. The cost increases were primarily due to higher royalty and production taxes related to higher prices; the suspension of the Big Mountain Mine; and reduced capacity utilization at the Powder River Basin operations.

Interest expense declined 25 percent for the quarter to \$26.0 million as a result of lower debt levels versus the prior year and lower short-term interest rates.

"Peabody's U.S. operations have posted six successive quarters of year-over-year EBITDA improvements," said Peabody Executive Vice President and Chief Financial Officer Richard A. Navarre. "Peabody's net income improvements over 2001 reflect the strength of our sales backlog, our focus on cost controls and improved interest expense."

Peabody invested \$43 million in capital during the second quarter and \$90 million through six months to replace depleting assets, improve costs and build new mines to serve long-term contracts. Major projects include construction of the Willow Lake and Vermilion Grove mines in Illinois and the Highland No. 9 and 11 mines in Kentucky. Peabody also invested approximately \$33 million to acquire Beaver Dam Coal Company in Kentucky, and oil, gas and coalbed methane rights in the Powder River Basin of Wyoming. Excluding the reserve investments, the company is targeting full-year 2002 capital expenditures in the \$180 million to \$200 million range.

Inventories and receivables increased \$38.7 million during the first six months as receivables rose due to higher prices and company coal inventories expanded in advance of July miner vacations. Assets and liabilities from trading activities were significantly lower than the prior year, as trading was scaled back to manage credit exposure. Peabody's value-at-risk associated

with trading activities was less than \$1.5 million at June 30.

Total debt stood at approximately \$1.08 billion at June 30, with a net debt to total capitalization ratio of 49 percent.

MARKET OVERVIEW

Industry-wide coal shipments declined 3.5 percent through the first half of 2002 due to soft demand from electricity generators and industrial users. Electricity generation from coal through June is estimated to be about 1 percent lower than the first half of 2001. The major factors were the below- normal heating and cooling degree days during eight of the last 10 months and the weak U.S. economy.

Customer inventories at the end of June were approximately 50 days of average utilization, with 40 to 45 days of usage more normal for the end of June. The company believes customers aggressively managed their coal stockpiles by selling into the over-the-counter markets and trimming deliveries during the first six months, and the small number of supplier-to- customer transactions that occurred were at depressed prices.

Cooling degree days for June and the first half of July were approximately 15 percent above normal, which is helping to speed the customer inventory reductions. Peabody expects that most customers will reach normal stockpile levels in the August to early October timeframe and more-typical demand conditions will resume at that time.

Conditions are favorable for a more balanced supply and demand situation in the coming months. The company expects the effect of the decision of Judge Haden, if upheld, to reduce industry output from Eastern Kentucky and West Virginia in 2003. The company also sees the impact of bankruptcies in the East, increased bonus payments to acquire reserves in the West, rising natural gas prices and a resumption of normal demand patterns to all have favorable impacts on the markets. Longer term, the company expects coal quality, creditworthiness and reliability to play increasing roles in the marketplace.

At present, Peabody has 99 percent of its 180 million tons of anticipated 2002 production committed, and approximately 77 percent of anticipated 2003 planned production is committed.

GROWTH INITIATIVES

Peabody continues to develop coal-fueled generating plants on its surface and reserve holdings, while pursuing coal supply agreements for new plants being developed by others.

Peabody has signed a letter of intent with a developer of new coal-fueled generation. Through this agreement, Peabody would provide up to 89 million tons of coal through 2020 for the existing and new units. The coal would be supplied by Peabody's mines in New Mexico and Wyoming to satisfy the customer's quality, transportation and sourcing requirements.

Peabody continues to progress in the development of three new coal-fueled generating plants that would be built on its surface and coal reserves. During the quarter, the air permit application for the 300 megawatt Mustang Energy Project was deemed complete and ready for review by New Mexico regulatory authorities. The Federal Energy Regulatory Commission held a hearing, and favorable negotiations occurred, on transmission access for the 1,500 megawatt Prairie State Energy Campus in Illinois. The company advanced transmission access studies for the 1,500 megawatt Thoroughbred Energy Campus and received an amended draft air permit that is progressing through the public comment period. The plants continue to attract strong interest from potential partners, although progress slowed due to the credit, accounting and other issues in the electricity sector.

Peabody also continues to pursue additional opportunities related to its surface and reserve position. Beaver Dam Coal Company was purchased during the quarter adding 22,000 acres of surface and 100 million tons of coal reserves in Western Kentucky. The company's acquisition of nearly 5,000 net acres of oil, gas and coalbed methane rights in the Powder River Basin raises Peabody's total rights in the region to more than 40,000 net acres. And Peabody's sale of rail assets in Warrick County, Ind., to a common carrier allows coal shippers to more fully utilize Peabody's Yankeetown Dock, which is served by the line.

OUTLOOK

Looking forward, Peabody is now targeting full-year 2002 EBITDA of \$450 million to \$470 million, an improvement of 18 to 23 percent over the prior year. This modified guidance is based on reduced volumes due to market conditions offset somewhat by the favorable arbitration ruling on pricing under the Navajo Station coal supply agreement, announced on July 21. The company now targets full-year 2002 EPS of \$1.50 to \$1.80.

The company is targeting third quarter EBITDA of \$110 million to \$120 million, compared with prior-year EBITDA of \$93.0 million. The company is targeting third quarter earnings per share of \$0.30 to \$0.45.

Peabody Energy is the world's largest private-sector coal company, with 2001 sales of 194 million tons of coal and \$2.7 billion in revenues. Its coal fuels more than 9 percent of all U.S. electricity generation and more than 2 percent of worldwide electricity generation.

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, which is not calculated identically by all companies, is not a substitute for operating income, net income and cash flow as determined in accordance with generally accepted accounting principles. Management believes it is a useful indicator of its ability to meet debt service and capital expenditure requirements.

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: growth in coal and power markets; timing of reductions in customer coal inventories; 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.

Condensed Income Statement (Unaudited)
Quarters and Six Months Ended June 30, 2002 and 2001

(Dollars in Millions, Except Per Share Data)

	Quarter Ended		Six Months Ended			
			Pro			
			Forma(A)			
	June	June	June	June		
	2002	2001	2002	2001		
Tons Sold (Millions)		48.3	46.8	98.1	94.7	
Revenues		\$702.8	\$657.3	\$1,413.5	\$1,321.7	
Operating Costs		568.2	525.4	1,138.9	1,066.5	
Depreciation, Depletion & Amortization			58.6	59.3	117.3	117.9
Selling & Administrative		20.8	22.5	47.1	54.6	
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Operating Profit		55.2	50.1	110.2	82.7	
Interest Income		(0.5)	(1.3)	(1.0)	(3.1)	
Interest Expense		26.0	34.5	50.9	78.1	
Income Tax Expense (Benefit)			1.4	4.3	6.0	(4.8)

Minority Interests	3.8	2.7	7.5	5.5
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Income Before Extraordinary Item	24.5	9.9	46.8	7.0
Extraordinary Loss from Debt Extinguishment, Net of Taxes	-	(27.6)	-	(36.1)
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Net Income (Loss)	\$24.5	\$(17.7)	\$46.8	\$(29.1)
Diluted EPS(B)	\$0.45	nm	\$0.87	nm
EBITDA	\$113.8	\$109.4	\$227.5	\$200.6

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

(B) Weighted average diluted shares outstanding were 53.9 million for the quarter ended June 30, 2002 and 53.8 million for the six months ended June 30, 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)

Quarters and Six Months Ended June 30, 2002 and 2001

	Quarter Ended		Six Months Ended	
			Pro Forma(A)	
	June	June	June	June
	2002	2001	2002	2001
Revenue Summary (Dollars in Millions)				
Mining Operations	\$604.6	\$579.0	\$1,219.1	\$1,157.3
Trading & Brokerage Operations	92.1	65.5	181.5	142.6
Other	6.1	12.8	12.9	21.8
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Total	\$702.8	\$657.3	\$1,413.5	\$1,321.7
Tons Sold (in Millions)				
East	11.8	13.2	24.6	26.7
West	31.3	30.4	63.4	61.4
Trading & Brokerage	5.2	3.2	10.1	6.6
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Total	48.3	46.8	98.1	94.7
Revenues per Ton - Mining Operations				
East	\$26.89	\$24.80	\$26.36	\$24.60
West	9.15	8.27	9.02	8.14
Total	14.02	13.26	13.86	13.13

Operating Costs per Ton - Mining

Operations(B)

East	\$21.84	\$20.99	\$20.95	\$20.61
West	6.72	6.11	6.54	5.80
Total	10.87	10.60	10.56	10.29

Gross Margin per Ton - Mining

Operations(B)

East	\$5.05	\$3.81	\$5.41	\$3.99
West	2.43	2.16	2.48	2.34
Total	3.15	2.66	3.30	2.84

Operating Profit per Ton	\$1.14	\$1.07	\$1.12	\$0.87
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Dollars in
Millions

Gross Margin - Mining Operations	\$135.7	\$116.1	\$289.8	\$250.2
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Gross Margin - Trading & Brokerage

Operations ©	17.1	9.0	28.3	16.3
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Selling & Administrative	(20.8)	(22.5)	(47.1)	(54.6)
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Other Operating Costs and Revenues	(18.2)	6.8	(43.5)	(11.3)
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EBITDA	113.8	109.4	227.5	200.6
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Depreciation, Depletion &

Amortization	(58.6)	(59.3)	(117.3)	(117.9)
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Operating Profit	55.2	50.1	110.2	82.7
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Capital Expenditures and Acquisitions	76.1	43.0	123.2	92.6
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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. Amounts reflect higher unit costs in the East of \$0.64 for the quarter and \$0.31 for the six months related to the Big Mountain Mine suspension, and \$0.32 for the quarter and \$0.15 for the six months related to production taxes and royalties. Higher unit costs in the West were led by increases of \$0.21 for the quarter and \$0.21 for the six months related to production taxes and royalties.

© Tons traded (in millions) for the quarter and six months ended June 30, 2002 were 17.1 and 45.3 respectively, compared to 7.8 and 22.1 for the corresponding prior periods.

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 June 30, 2002 and 2001, and December 31, 2001

(In Millions)

	(Unaudited)		(Unaudited)
	June 30,	June 30,	December 31,
	2002	2001	2001
Cash & Cash Equivalents		\$8.8	\$31.2
Receivables	190.1	162.5	178.1
Inventories	242.4	212.6	215.7
Assets from Coal/Allowance Trading Activities	83.9	128.4	60.5
Other Current Assets	41.0	32.9	34.6
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Total Current Assets	566.2	567.6	527.5
Net Property, Plant & Equipment	4,372.6	4,294.0	4,337.4
Investments & Other Assets	278.0	284.0	286.0
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Total Assets	\$5,216.8	\$5,145.6	\$5,150.9
Current Maturities of Debt	\$46.5	\$27.7	\$46.5
Liabilities from Coal/Allowance Trading Activities	51.4	116.4	45.7
Accounts Payable & Accruals	543.0	506.9	592.1
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Total Current Liabilities	640.9	651.0	684.3
Long-Term Debt	1,037.8	993.3	984.6
Deferred Taxes	577.4	562.5	564.8
Other Long-Term Liabilities	1,836.1	1,829.7	1,834.6
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Total Liabilities	4,092.2	4,036.5	4,068.3
Minority Interests	49.2	41.9	47.1
Stockholders' Equity	1,075.4	1,067.2	1,035.5
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Total Liabilities & Stockholders' Equity	\$5,216.8	\$5,145.6	\$5,150.9

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