

Peabody Energy (NYSE: BTU) Signs Definitive Agreements to Purchase Operations From RAG Coal International

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Peabody Energy announced today that it has signed definitive agreements to purchase coal operations from RAG Coal International AG. Closing on the transactions is expected within the next three months and requires no additional U.S. or Australian regulatory approvals.

The combined purchase price is US\$441 million in cash, and no debt will be assumed. The combined 2003 EBITDA of the purchased properties is approximately US\$95 million, excluding gains from foreign currency translation. The transactions are expected to be accretive to earnings in the first 12 months.

The purchases include:

- Two Queensland mines that produce 7 million tonnes per year of high-quality metallurgical coal used by steel producers in Pacific Rim countries. Steel markets in Asia are showing double-digit growth given strong economies and infrastructure needs.
- The Twentymile Mine in Colorado, which produces 7.5 million tons per year of low sulfur steam coal for electricity generators in the West, Southwest, Midwest and Mexico. Twentymile is perennially one of the largest and most productive underground mines in America.

"The new operations will help Peabody to further diversify its customer base and will increase its presence in international markets," said Chairman and Chief Executive Officer Irl F. Engelhardt. "We are acquiring high-quality assets, which allows us to accelerate our rate of growth. We look forward to welcoming the talented RAG employees and management to the Peabody team."

The companies continue with a memorandum of understanding for Peabody's purchase of a 25 percent interest in Carbones del Guasare, S.A., a joint venture that includes Anglo American plc and a Venezuelan governmental partner. Carbones del Guasare operates the Paso Diablo surface mine in northwestern Venezuela, which produces nearly 7 million tonnes per year of coal for electricity generators and steel producers in Europe and North America.

Peabody Energy is the world's largest private-sector coal company, with 2003 sales of 203 million tons of coal and \$2.8 billion in revenues. Its coal products fuel approximately 9.8 percent of all U.S. electricity generation and nearly 2.5 percent of worldwide electricity generation.

EBITDA (also called adjusted EBITDA) is defined as income before the cumulative effect of accounting changes before deducting net interest expense, income taxes, minority interests, asset retirement obligation expense, 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 uses EBITDA as a key measure of operating performance and also 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; coal's market share of electricity generation; the extent of the economic recovery and future economic conditions; milder-than-normal weather; railroad and other transportation performance and costs; the ability to renew sales contracts upon expiration or renegotiation; the ability to successfully implement operating strategies; the effectiveness of cost-cutting measures; regulatory and court decisions; future legislation; changes in Australian currency exchange rates; changes in post-retirement benefit and pension obligations; credit,

market and performance risk associated with customers; modification or termination of long-term coal supply agreements; reductions of purchases by major customers; risks inherent to mining including geologic conditions or unforeseen equipment problems; terrorist attacks or threats affecting our operations or our customers' operations; replacement of reserves; implementation of new accounting standards; inflationary trends; the effects of interest rates on discounting liabilities; the effects of acquisitions or divestitures; 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.

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