Peabody Energy Announces Offering of Common Stock and Senior Notes

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Peabody Energy today announced an offering to sell 6.5 million shares of common stock and $200 million of senior notes under a universal shelf registration statement that has been declared effective by the U.S. Securities and Exchange Commission.

Proceeds that the company receives from the offerings will be used to fund the planned acquisition of coal operations from RAG Coal International AG and for general corporate purposes. Peabody management will not sell shares in the offering.

Also through the common stock offering, Lehman Brothers Merchant Banking Partners II Fund and affiliates intend to reduce their ownership interest in Peabody through the sale of 9 million shares. The underwriters have been granted an over-allotment option to purchase an additional 2.3 million shares of primary and secondary equity. If the over-allotment option is exercised in full, the merchant banking fund and affiliates will sell the remainder of their shares and eliminate their ownership interest in the company.

Morgan Stanley & Co. Incorporated and Lehman Brothers Inc. are serving as joint book-running managers for the equity offering, and Morgan Stanley & Co. Incorporated and Credit Suisse First Boston are serving as joint book-running managers for the senior notes offering.

A copy of the prospectus supplement may be obtained by requesting a copy from Morgan Stanley; Attention: Prospectus Department; 1585 Broadway; New York, NY 10036; Telephone (212) 761-6775. This announcement shall not constitute an offer to sell, or the solicitation of an offer to buy, nor shall there be any sale of these securities in any state in which such offer, solicitation or sale would be unlawful prior to the registration or qualification under the securities laws of any such state.

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