Peabody, Arch Subsidiaries Complete Reserve Transaction in the Powder River Basin

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Peabody Energy subsidiaries today announced a commercial transaction with Arch Coal, Inc. which will optimize the mine plan and accelerate the development schedule for the planned ultra-low sulfur School Creek Mine in Wyoming's Powder River Basin (PRB).

In the transaction, the entities exchanged 60 million ton blocks of PRB reserves to optimize each company's mine plans. Peabody also purchased the rail, loadout and surface facilities at the former North Rochelle Mine, as well as the "box cut" mine development infrastructure and other assets, for $84.6 million. This will allow the mine to expand into premium quality coal more quickly and lower development costs.

"Amid ever-growing demand for Powder River Basin coal, this transaction allows us to accelerate the development of the 30 to 40 million ton-per-year School Creek Mine and produce a premium product at the start of operations," said Group Vice President of U.S. Western Operations Kemal Williamson. "We look forward to proceeding with development, given unprecedented customer interest in this premium quality coal."

Peabody's School Creek Mine will access nearly 800 million tons of ultra- low sulfur premium Btu coal. The state-of-the-art mine could begin production as early as the fourth quarter of 2008. Peabody has approximately 3.5 billion tons of PRB coal -- more than any other producer. The Powder River Basin is expected to remain the fastest growing coal-producing region in the United States.

Peabody is the largest and most productive coal producer in the Powder River Basin, and its PRB operations helped to lead Peabody to record safety results in 2005. Its three mines there were the nation's most productive through the first nine months of 2005. They also shipped a record 125.7 million tons, a 9 percent increase over 2004 shipments. 2005 sales volume included a record 82.7 million tons from the ultra-low sulfur North Antelope Rochelle Mine and a record 30.6 million tons from its Caballo Mine. The company is expecting even greater increases in 2006 to satisfy growing customer demand for ultra-low sulfur coal.

Peabody Energy is the world's largest private-sector coal company, with 2004 sales of 227 million tons and $3.6 billion in revenues. Its coal products fuel more than 10 percent of all U.S. electricity and 3 percent of worldwide electricity.

The use of the words "Peabody," "the company" and "our" relate to Peabody, our subsidiaries and our majority owned affiliates. 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. For detailed risk factors, please refer to the company's filings with the U.S. Securities and Exchange Commission. These factors are difficult to accurately predict and may be beyond the control of the company.

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