

BTU is the Key.



PEABODY ENERGY 2005 Annual Report

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2005 Annual Report
PEABODY ENERGY NYSE: BTU

Peabody

BTU is the Key.

Peabody Energy (NYSE: BTU) is the key to fueling the future energy needs of America and the world. We are the world's largest coal company. We serve growing coal demand from electricity generators and steel producers. And we are growing to serve new global customers and emerging "Btu Conversion" markets. We believe that Peabody is in the early stages of a long period of significant growth for you, our shareholders.



Our Key Financial Highlights

(In Millions, Except Per-Share Data)	2005	2004	Improvement
Tons Sold	239.9	227.2	6%
Revenues	\$4,644.5	\$3,631.6	28%
Operating Profit	\$518.4	\$246.7	110%
EBITDA ¹	\$870.4	\$559.2	56%
Net Income	\$422.7	\$175.4	141%
Earnings Per Share ³	\$1.58	\$0.69	129%
Cash Flows from Operations	\$702.8	\$283.8	148%
Net Debt to Net Capital Ratio	29%	38%	24%
Market Capitalization	\$10,852.9	\$5,241.7	107%

¹ EBITDA or Adjusted EBITDA is defined as income from continuing operations before deducting net interest expense, early debt extinguishment costs, income taxes, minority interests, asset retirement obligation expense, and depletion, depreciation and amortization.

² Excludes 2001 and 2003 debt extinguishment charges and 2003 cumulative effect of accounting changes.

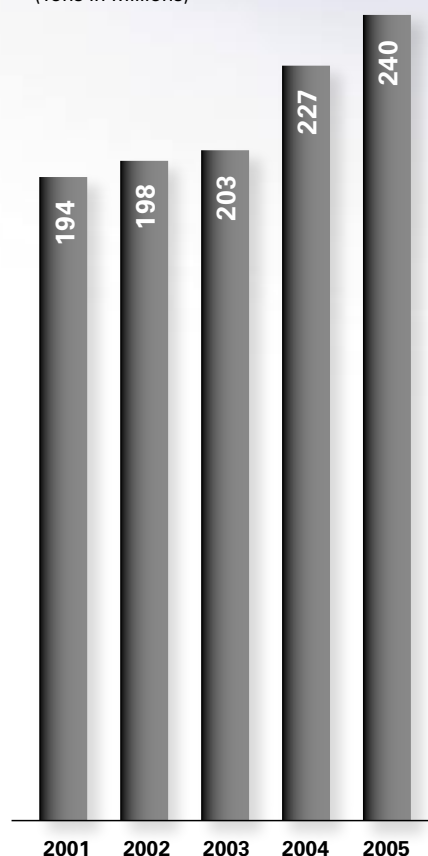
³ Per-share data reflect 2-for-1 stock splits in March 2005 and February 2006.

2001 excludes the results from and the gain associated with the sale of Peabody Resources Limited and discontinued operations.

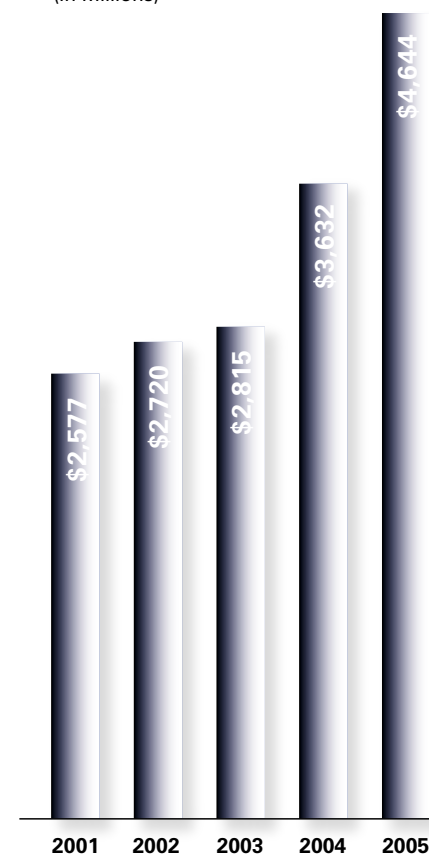
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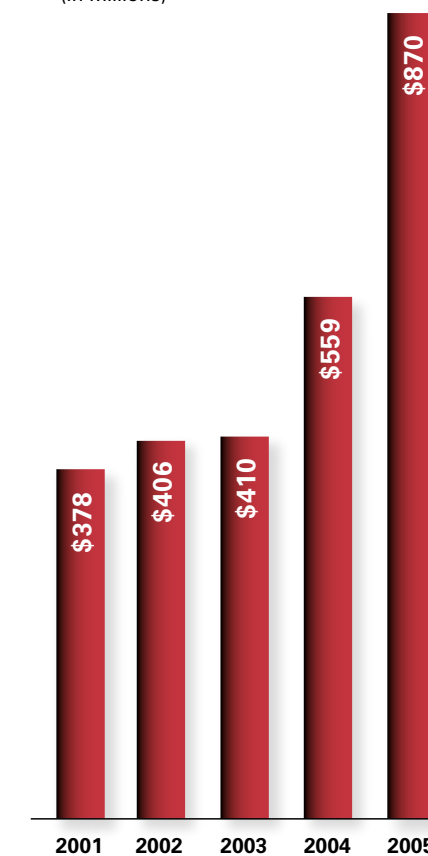
Sales Volume (Tons in Millions)



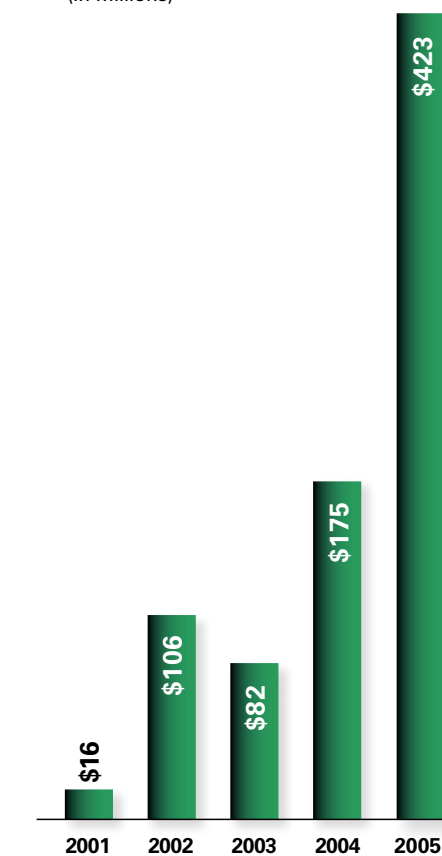
Revenues (In Millions)



EBITDA¹ (In Millions)



Income² (In Millions)



Key to Energy. Key to Growth. Key to Shareholder Value



Peabody Energy (NYSE: BTU) is the key to growing energy needs. As the world's largest private-sector coal company, Peabody fuels approximately 10% of U.S. electricity and 3% of the world's power.

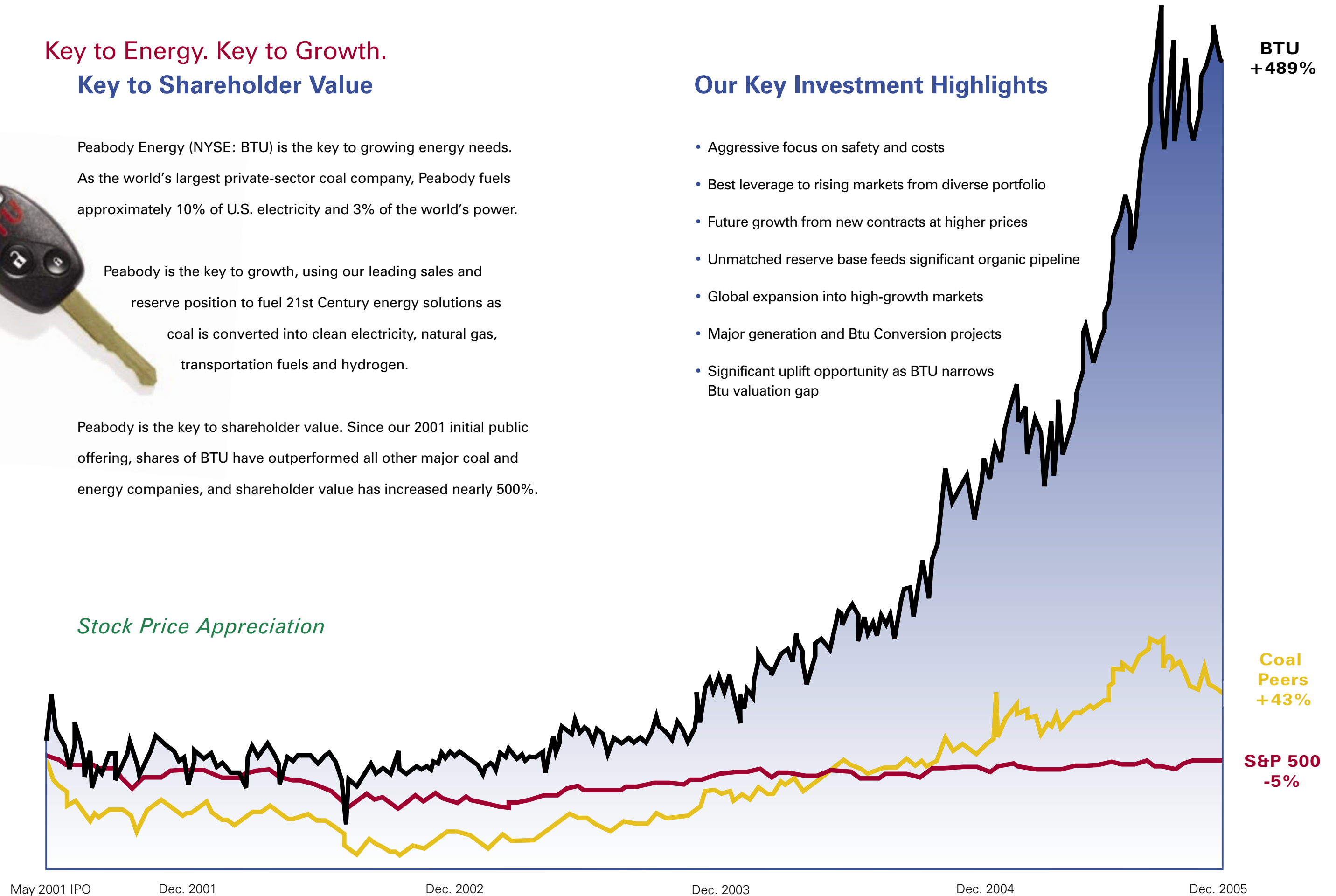
Peabody is the key to growth, using our leading sales and reserve position to fuel 21st Century energy solutions as coal is converted into clean electricity, natural gas, transportation fuels and hydrogen.

Peabody is the key to shareholder value. Since our 2001 initial public offering, shares of BTU have outperformed all other major coal and energy companies, and shareholder value has increased nearly 500%.

Our Key Investment Highlights

- Aggressive focus on safety and costs
- Best leverage to rising markets from diverse portfolio
- Future growth from new contracts at higher prices
- Unmatched reserve base feeds significant organic pipeline
- Global expansion into high-growth markets
- Major generation and Btu Conversion projects
- Significant uplift opportunity as BTU narrows Btu valuation gap

Stock Price Appreciation



Letter to Shareholders

President and Chief Executive Officer Gregory H. Boyce

“Your company performed very well in 2005. I believe that we are in the early stages of a long period of sustainable growth and increasing cash flow generation.”

DEAR SHAREHOLDER:

2005 was a year of outstanding performance for Peabody Energy. The team of 8,300 employees around the world achieved record safety results and financial performance, leading to record shareholder returns.

Your company performed very well in 2005. I believe that we are in the early stages of a long period of sustainable growth and increasing cash flow generation. Peabody has the best assets and strongest team to capitalize on fast-growing demand for coal in the United States and around the world.

Let’s briefly review our key accomplishments from this past year:

SAFETY: At a time of increased national attention on safety, be assured that our focus on safety is unwavering. This constant value is a cornerstone of our success. In 2005, Peabody’s emphasis on safe, low-cost operations resulted in another 33 percent improvement to the already-low accident rate, to just 2.8 incidents per 200,000 hours worked. This record improved 48 percent in just the past three years. Four mines and three preparation plants met the goal of zero accidents embodied in our safety vision statement.

FINANCIAL: Increased pricing and volume led to record financial results in 2005. Sales volume reached an industry-record 240 million tons as revenues increased \$1 billion to \$4.6 billion. EBITDA rose 56 percent, while operating income, net income, earnings per share and operating cash flow all more than doubled. These

strong results are only a platform for substantial future growth.

SHAREHOLDER RETURN: Peabody’s shareholders received a 105 percent total return in 2005, following a 96 percent total return in 2004. Peabody was ranked among the 10 best-performing “large-cap” stocks in the world in 2005. Shares of BTU split two-for-one in March 2005 and two-for-one again in February 2006. The company also increased the dividend by 27 percent in July 2005 and 26 percent in February 2006.

Peabody fuels 10 percent of U.S. electricity and 3 percent of worldwide electricity. We serve global coal demand from electricity generators and steel producers, and we’re growing to serve new global customers and emerging “Btu Conversion” markets.

While some have called coal a bridge to the future... my view is: It is the future. I believe that coal – and BTU – are key to solving some of the world’s toughest energy and economic challenges. Both near and long-term dynamics emphasize the value of companies rich in Btus like Peabody.

The current global markets for coal are the strongest that I have seen in my 30 years of mining experience. Coal is fueling power plants that are running at ever-higher capacity levels, and meeting growing global steel demand. Supplies are tight and transportation systems are strained. Prices have increased dramatically in our largest markets, while still not keeping pace with the rising price of oil and natural gas. This creates enormous opportunity for coal values to rise to narrow this gap.



Longer term, we are seeing a significant shift among the world’s major energy producers and users. World energy demand faces strong growth as developing economies mature and increase their per-capita energy use. Consider China, which uses approximately one-tenth the electricity per capita as the United States... and has just 1 percent of U.S. per-capita passenger vehicle ownership. Yet the growth in China’s aggregate energy demand is great, and ripples through the global energy markets. A similar outlook exists in India, and sustained trends in these enormous economic centers suggest that the huge global demand for energy and coal will continue.

In the United States, new coal-fueled plants are being developed at a pace unmatched since the 1970s. Continued industrial growth and a significant infrastructure buildout paint a picture of high future energy demand. Limited U.S. oil and natural gas supplies lead to increased long-term estimates for coal use. National calls for decreased energy imports and greater energy security also favor coal.

Activity is also very high regarding Btu Conversion projects, particularly to turn coal into natural gas and liquids for

transportation fuels. We believe that pipeline-quality natural gas and transportation fuels from coal are competitive at long-term costs well below current natural gas and oil prices. For Peabody, Btu Conversion represents enormous value creation potential, as we seek to close the valuation gap between coal, oil and natural gas.

BTU is uniquely positioned to succeed against this strong global energy outlook. I outlined four key focus areas when I was elected Chief Executive Officer in March 2005. I am pleased to report that we are making significant progress on all fronts.

- **Executing the basics.** Safe, low-cost operations provide Peabody the foundation to grow and create value. Building on our 2005 performance, I expect continuing improvements in both safety and productivity. I am particularly targeting cost and productivity improvements that require little or no additional capital. Executing the basics also means environmental excellence, and Peabody was recognized with nine awards including five top awards from the U.S. Department of the Interior in 2005. Peabody swept the Gold, Silver and Bronze Good Neighbor awards.

The key to Peabody’s success is its team of 8,300 employees, led by an Executive Management Team that includes (from lower left) Greg Boyce, Jiri Nemec, Rick Whiting, Fred Palmer, Rick Navarre, (top left) Sharon Fiehler, Roger Walcott, Chuck Burggraf, Ian Craig and Kemal Williamson.

“I believe that coal – and BTU – are key to solving some of the world’s toughest energy and economic challenges. Both near and long-term dynamics emphasize the value of companies rich in Btus like Peabody.”

“Record safety, financial and shareholder performance... unmatched assets and people... strong corporate governance... and a global marketplace that increasingly needs the resources that BTU provides. The outlook is very bright indeed for the world’s leading coal company.”

- **Capitalizing upon organic growth opportunities.** We have the best resource base in the industry, and you will continue to see Peabody invest in operations and reserves to serve growing markets.

Recognizing the enormous potential in the Powder River Basin, we purchased 1 billion tons of reserves before the market prices more than doubled for this ultra-low sulfur coal. We also announced the development of School Creek, the largest new U.S. coal mine in the past 10 years. We are seeing very high demand for School Creek’s premium product.

Our track record of being able to construct, develop and deliver on organic growth initiatives is unmatched. In fact, Peabody has developed new and expanded capacity that is equivalent to two-thirds of U.S. coal industry growth



Peabody Energy President and Chief Executive Officer Greg Boyce.

over the past five years. We have the best teams and reserves to meet our aggressive targets, and we have the sales visibility to support this growth.

- **Expanding into global markets.** The United States, China and India represent nearly 90 percent of the growth in the world’s coal industry. Peabody sells coal to customers in 15 countries on six continents. We also have opened an office in Beijing, increased our import activities for South American coal into the United States, and are preparing to enter the European trading markets. I believe that international expansion represents another dimension of Peabody’s growth. This is true in our sales and trading business, as well as our business development function. We look to continue to build upon our strong record of accretive acquisitions and strategic investments.

- **Participating in advanced clean coal generation and Btu Conversion markets.** Peabody is making significant progress with the Prairie State Energy Campus. We are evaluating a large coal-to-natural-gas plant in Illinois. We are supporting industrial gasification projects through our ownership interests. We continue to receive interest from technology providers, large potential customers and developers for coal-to-liquids projects using our coal. We are also one of the major energy companies advancing FutureGen, which is planned to be the world’s first zero-emissions generating plant that captures carbon dioxide and produces hydrogen. In short, coal-to-liquids and coal-to-gas applications will significantly expand the future markets for coal.

Peabody’s governance has been enhanced from its already-strong position. The board has increased its independence

to include all 12 non-management directors and revised Peabody’s governance guidelines to clarify voting for directors, along with director membership on other boards, job changes and disclosure of ownership guidelines. Also in 2005, the board welcomed John F. Turner as a new director. John’s experience includes former positions as U.S. Assistant Secretary of State for Oceans and International Environmental and Scientific Affairs, and President and Chief Executive Officer of the Conservation Fund. I also joined the board in March and serve as Chairman of the Executive Committee.

Record safety, financial and shareholder performance... unmatched assets and people... strong corporate governance... and a global marketplace that increasingly needs the resources that BTU provides. The outlook is very bright indeed for the world’s leading coal company.

I would like to recognize the key to Peabody’s success: our customers, our suppliers, and most of all our team of employees for their outstanding performance in 2005. We look forward to another record year on all fronts. We will be focused on our safety and productivity programs... on our many growth initiatives... and our ability to unlock far greater value from the Btus in your coal reserves.

These are the keys to success... and the keys to unlocking long-term shareholder value.

A handwritten signature in black ink that reads "Greg Boyce".

Gregory H. Boyce
President and Chief Executive Officer
March 15, 2006

Board Recognizes Irl Engelhardt for 15 years of Success as CEO



Irl Engelhardt remains Chairman of Peabody following 15 years as Chief Executive Officer.

Peabody’s Board of Directors recognizes Irl Engelhardt following 15 years of outstanding success as Chief Executive Officer.

Over the past decade, Mr. Engelhardt navigated Peabody through wide-ranging market conditions and multiple ownership structures first as a subsidiary, then a highly leveraged private company, small-cap public company and ultimately large-cap company. Shareholder value increased 20-fold since taking the company private in 1998.

During Mr. Engelhardt’s tenure as Chief Executive Officer, Peabody’s accident rate improved 83 percent while productivity more than tripled. The company received more than 60 environmental awards in the past decade. Mr. Engelhardt also consistently pursued a vision of continuous environmental improvement toward an ultimate goal of zero emissions from coal, and advanced the cause of sustainable development in mining and energy.

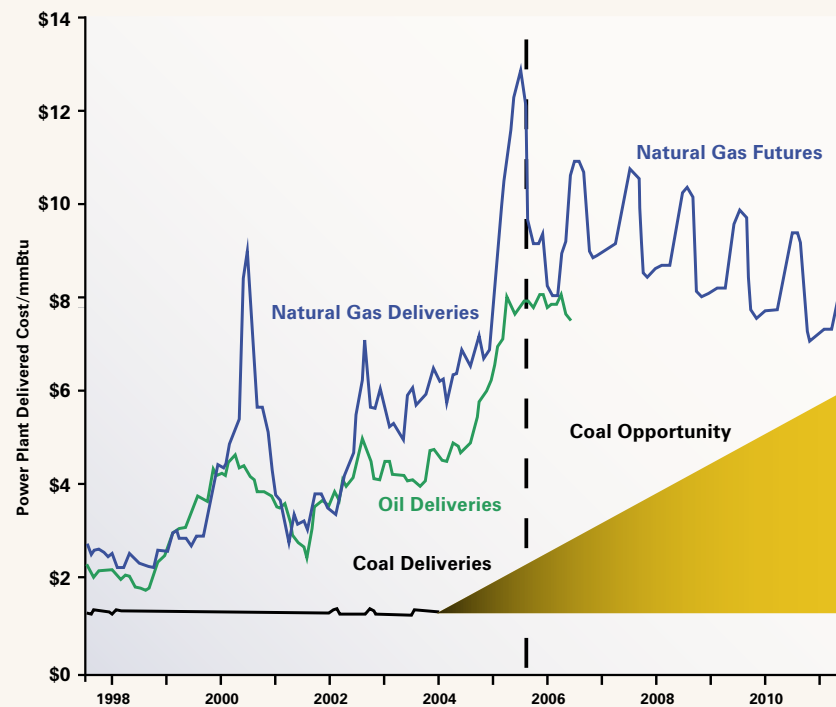
In addition to serving as Chairman of Peabody’s Board of Directors, Irl is Deputy Chairman of The Federal Reserve Bank of St. Louis, and a member of the Board of Directors of The Williams Companies, Inc. and Valero Energy Corporation.

Key to Energy... BTU is the Key to Meet Global Energy Needs

Coal market fundamentals, both in the United States and around the world, are excellent. Against a backdrop of expensive oil and natural gas and concerns about energy security, Peabody is experiencing record coal demand to satisfy electricity plants that are operating at higher rates. New generating plants are being developed at a record pace, global steel demand continues to grow, and interest in projects to turn coal into natural gas, transportation fuels and hydrogen is rapidly increasing.

Oil and natural gas prices have risen to much higher levels, creating significant opportunity for coal prices to increase and still retain a competitive advantage over alternatives.

Oil and Gas Prices Magnify Coal's Advantage



Delivered cost of fossil fuel at steam electric utility plants.
Source: Platts, EIA February 2006 Short-Term Energy Outlook, NYMEX Henry Hub Futures, ino.com on Feb. 7, 2006.

Near-term supply-demand balance remains tight

Near term, the global supply-demand balance for coal remains extremely tight. This is driven by fast-growing United States and China economies and increasing demand for electricity generation and steel production in the Pacific Rim. Coal-fueled generation is expected to reach record levels in 2006. U.S. generator stockpiles of 100 to 105 million tons at year-end 2005 were at historic low levels, and replenishing these inventories could take considerable time due to strong underlying demand growth and limited rail performance. Demand for metallurgical coal remains very strong around the world.

Sulfur emissions allowances, which more than doubled during 2005, are expected to remain high due to delayed scrubber installations and tightening emissions regulations. This particularly benefits ultra-low sulfur coal products from Peabody's vast North Antelope Rochelle Mine and the planned School Creek Mine.

Competing fuels remain very limited. U.S. nuclear units continue to operate near capacity and the cost of oil and natural gas remains high due to limited supplies and very strong global demand.

Coal prices have increased dramatically in all of Peabody's largest markets. Yet even these coal prices have not kept up with the rising price of oil and natural gas, representing great opportunity for coal demand.

Long-term coal demand forecasts continue to increase

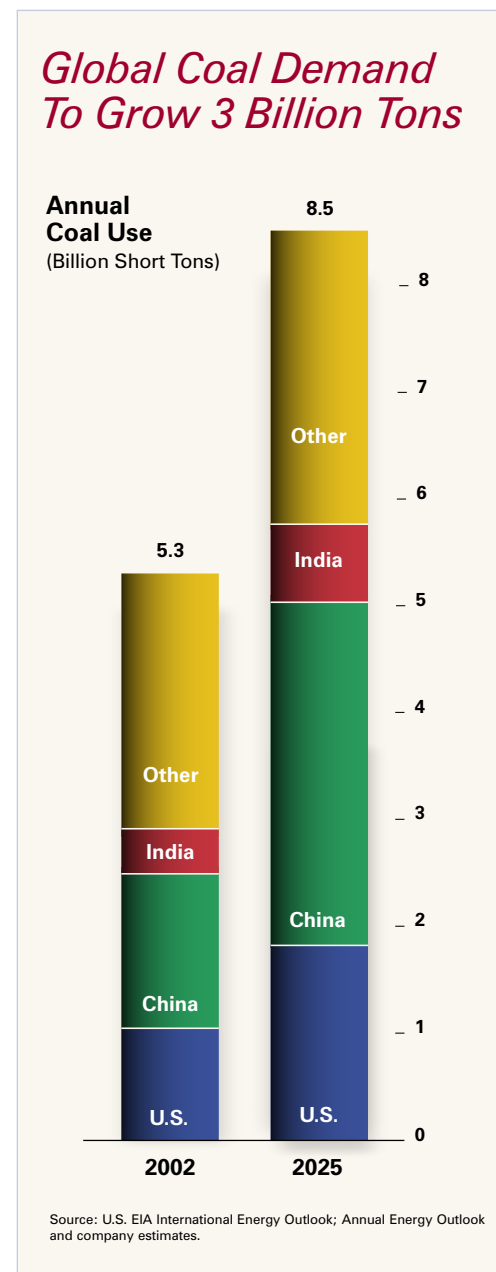
The global energy landscape reflects

When she is 25, the U.S. Energy Information Administration expects that coal use will have grown by 60%; coal's market share for electricity will have grown to 57%; and coal will be used for natural gas, transportation fuels and hydrogen.

“Coal use is growing more than five times faster than forecast... and has increased by 25 percent over the past three years.”

growing appreciation for companies rich in Btus like Peabody.

Consider several events regarding global energy near year end: China and India announced an agreement to jointly secure energy assets around the world; Russia temporarily halted natural gas shipments to Eastern Europe; Iran threatened to withhold oil to satisfy their nuclear ambitions; Nigeria rebels held oil workers



Global coal use is expected to grow dramatically in coming decades. India expects to nearly double coal use to serve its fast-growing economy of 1 billion people. China, the world's largest coal market, is increasing coal use by 150 to 200 million tons per year and expanding imports to fuel the fastest-growing major economy. The United States has dramatically raised its coal use estimate to satisfy a growing market share, new coal generation and coal use for transportation fuels.

hostage; and the United States called for a 75 percent decrease in Middle East oil imports by 2025.

World energy demand faces strong growth, as developing economies mature and increase their per-capita energy use. China uses less than 10 percent of the electricity per capita as the United States... and 1 percent of U.S. per-capita passenger vehicle ownership. Yet even at these low levels, their economic growth and energy demand have forever changed the energy markets. These same dynamics occur for the 1 billion people in India.

It took the United States a century to move through booms in industrialization... urbanization... transportation... and information. China and India are experiencing many of these trends at the same time. This means an enormous increase in energy and coal. In fact, if China used the same per-capita amount of coal as the United States, China would consume the world's entire coal production by itself. Combined, China, India and the United States will account for nearly 3 billion tons of growth over the next two decades or so... from a current base of less than 6 billion tons.

In recent years, most primary energy forms have exceeded forecast demand. Coal has stepped up to meet the void created by other limited fuels. In fact, coal use is growing more than five times faster than forecast... and has increased by 25 percent over the past three years. Oil, natural gas, and nuclear have each grown less than 10 percent in aggregate.

Our view of global steel markets is also based on long-term trends. Developing countries, trying to meet the needs of expanding cities and middle classes, have embarked on an era of new infrastructure development. In addition, the United States

needs significant steel-based construction to rebuild the Gulf Coast and develop new highways, bridges, power plants, transmission lines and pipelines.

The U.S. Energy Information Administration (EIA) further reinforced the favorable long-term markets for coal in its 2006 Annual Energy Outlook. The agency increased the long-term price estimate of crude oil by two-thirds to \$54 per barrel through 2025. Long-range estimates of liquid natural gas (LNG) supplies to the United States were reduced approximately one-third due to increased global demand that makes LNG less available and more expensive for U.S. deliveries. The estimate of coal's share of U.S. electricity generation has been raised to 57 percent by 2030. Total U.S. coal demand is now estimated to grow from 1.1 billion tons per year in 2005 to nearly 1.8 billion tons per year by 2030.

Interest in new coal-fueled generation remains high. Globally, approximately 435 gigawatts of new coal-based electricity generation are under various stages of planning and development, representing more than 1.5 billion tons of annual coal use. In the United States, the Department of Energy has identified 135 power plants that have been announced or are under development in 40 states, representing 80 gigawatts of electricity and more than \$100 billion of investment.

**Coal and Peabody:
Fueling a sustainable future**

Peabody views coal mining and coal use through a sustainable prism, unlocking value by ensuring that energy solutions meet the needs of individuals and also advance strong economies, clean environments and secure futures.

At a time of enormous energy needs, coal is the clean, versatile and sustainable solution.



Greg Boyce and other business leaders and officials join U.S. Secretary of State Condoleezza Rice and ambassadors from China, Korea, Japan, India and Australia at a 2006 Asia-Pacific Partnership on Clean Energy and Climate meeting.

There are 1.6 billion people around the world who still need electricity. In sub-Saharan Africa, about 80 percent of the population lacks power. China, the world's fastest-growing economy, relied on coal to electrify 98 percent of the country over 15 years and today represents half of the world's growth in raw materials and more than one-third of global coal demand.

In the United States, the lowest cost electricity is clearly defined by states that rely on coal. Peabody's coal is used to provide low-cost electricity around the world, which helps extend lives, improves the quality of life, strengthens economies and offers the best potential for energy security.

Peabody uses best practices for sustainable development and community and environmental stewardship in all aspects of planning, mining and reclaiming.

Peabody believes in continuous improvement in coal mining and coal use and is using technology to advance the ultimate goal of zero emissions from coal-fueled electricity. In the United States, coal use has more than tripled since 1970, while emissions have been reduced by nearly one-third. Advanced technologies

will allow increasing coal use as emissions continue to decline.

Peabody provides leadership toward energy security and continued environmental improvement while offering a roadmap to a zero-emissions power plant. Projects like Peabody's Prairie State Energy Campus and Thoroughbred Energy Campus will provide coal-fueled electricity that will be among the cleanest major coal plants in America, and emit carbon dioxide at a rate approximately 15 percent lower than existing plants.

Peabody also is a participant in the Power Systems Development Facility gasification project in Wilsonville, Alabama.

Peabody is a founding member of the FutureGen Industrial Alliance, a global coalition of coal companies and electric utilities working with the U.S. Department

of Energy to develop the ultimate coal-fueled power plant of the future offering zero emissions and carbon capture.

Peabody has improved its greenhouse gas intensity by 40 percent since 1990, and the company is a regular contributor under the U.S. Department of Energy's voluntary emissions reporting system. The company is a founding member of PowerTree Carbon Company, LLC, a voluntary carbon sequestration initiative involving major energy companies partnering on hardwood restoration projects in Arkansas, Mississippi and Louisiana.

While the uncertain and often conflicting effects of human interaction on the climate continue to be studied, Peabody supports a balanced approach toward carbon management that will:

- Promote voluntary programs to improve efficiency and greenhouse gas intensity;
- Improve the scientific understanding of the existence and cause of climate change;
- Develop a better understanding of natural carbon-absorbing sinks;
- Advance technologies that would capture and sequester carbon dioxide; and
- Promote increases in efficiencies to reduce the energy input needed for electricity generation.

Btu Conversion applications expand coal markets

New markets for coal are rapidly emerging via Btu Conversion initiatives. Coal to natural gas and coal to liquids greatly expand the product line for Peabody's coal long-term.

Coal is abundant and can be converted into natural gas, diesel fuel, jet fuel, even hydrogen. Btu Conversion technologies are available to transform coal into a range of

high-value, clean energy forms and reduce reliance on foreign oil and liquefied natural gas. This translates into energy security for countries like the United States and China, where coal comprises the vast majority of energy reserves.

Using a process called gasification, coal can produce synthetic gas for industrial power generation and pipeline-quality natural gas.

With a process called coal-to-liquids, coal can be turned into transportation fuels. Germans invented the process nearly 75 years ago, South Africans have been using coal-generated fuel for years, and China has earmarked tens of billions of dollars in coal-to-liquids investments to help transport their increasing mobile population.

For the first time, the U.S. EIA estimates that coal-to-liquids applications will consume significant quantities of coal, adding another 190 million tons per year of additional demand by 2030.

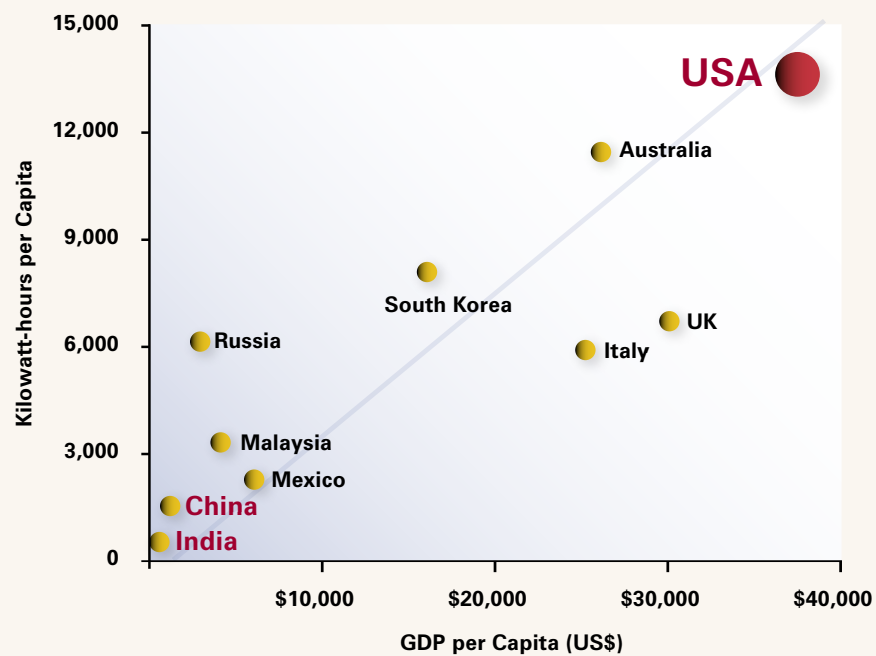
Using coal to produce hydrogen is another concept driving FutureGen. The U.S. Department of Energy estimates that coal could satisfy a significant amount of future U.S. hydrogen requirements.

Coal is the key to energy

Surging near-term coal demand; growing long-term coal estimates; and increasing markets from Btu Conversion applications... the outlook for coal is outstanding, and these markets have very favorable implications for coal... and Peabody's unique position to grow and create value.

Fast-growing nations such as China and India use less than one-tenth of the per-capita electricity of U.S. residents. Increasing electricity use corresponds with expanding economic prosperity worldwide.

Electricity Use and Prosperity Closely Related



Source: United Nations' Human Development Report 2005, World Energy Outlook & ConocoPhillips.



Coal is America's 21st Century energy source that can be converted into clean electricity, natural gas, transportation fuels and even hydrogen. 'Coal Can Do That...' That's the premise of Peabody's national information campaign that highlights Btu Conversion technologies.

Key to Growth...

BTU's Focus on Four Key Priorities

Key Focus Area One Executing the Basics

Peabody's industry-leading growth comes from consistently executing the basics, and safety comes first in everything we do. Peabody operations experienced the best safety performance in our 123-year history in 2005, improving the safety rate

33 percent over the prior year. Our record is 45 percent better than the industry average, based on the latest available data (see page 18).

Eight of our mines set new production records in 2005, and our Rawhide, Caballo, and North Antelope Rochelle mines were the three most productive mines in the nation.

Productivity is vital to expanding margins; consider that in today's market a 5 percent improvement in productivity translates into \$100 million in Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA).

Peabody's culture of continuous improvement allows the company to improve its already good safety performance and ease inflation pressures on commodities like diesel fuel, explosives and steel. Peabody effectively managed these increasing costs and is continuing to focus on higher productivity to alleviate these costs which translate to significant financial benefits.

Best practices in productivity and continuous improvement initiatives are being implemented across Peabody operations to address supply and cost issues.

For example, Peabody identified the potential for a worldwide tire shortage several years ago and created cross-company, cross-functional teams to analyze tire use, best practices and process improvements. The changes resulted in a 16 percent improvement

Massive trucks the size of houses carry a 400-ton payload at the North Antelope Rochelle Mine... enough to fill a 100-car train in about two dozen loads. Peabody's Rawhide, Caballo and North Antelope Rochelle mines were the nation's three most productive in 2005.



Advanced technologies are integrated into every aspect of Peabody operations, including this dragline that has been rated best-in-class in productivity.

Peabody's Rawhide Mine in the Powder River Basin recorded its ninth year without a lost-time accident and was the most productive operation in the United States in 2005.



BTU: Key to Growth (continued)

in the average life of large tires in 2005, ensuring availability to continue production.

Peabody has developed a new system that integrates draglines as part of an entire overburden removal system that also employs large dozers and direct casting. The new system results in a 40 percent savings in cost-per-yard of overburden removed and a related 40 percent reduction in diesel fuel costs.

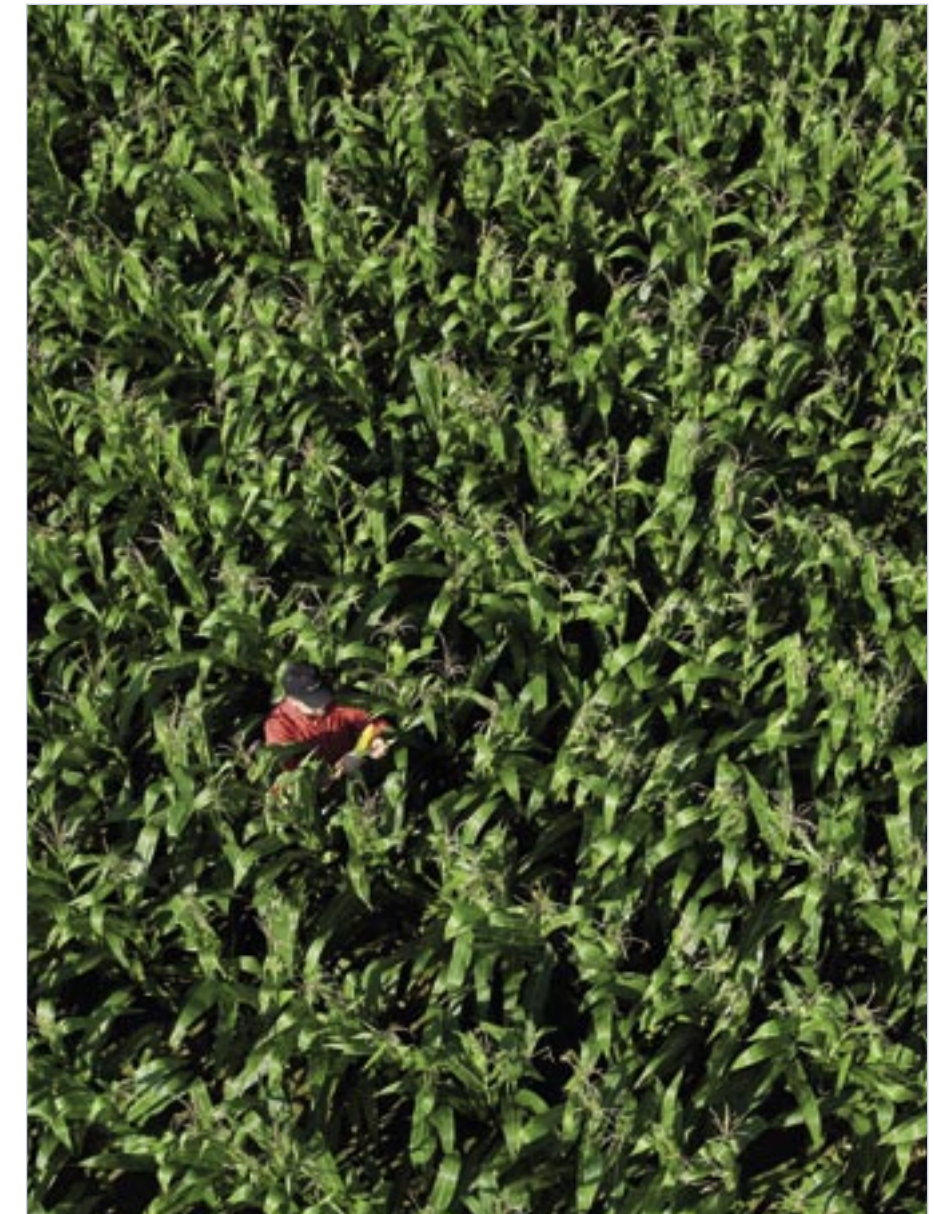
Environmental excellence is also key to executing the basics.

"To leave the land in a condition that is equal to or better than we found it" is a key principle of the company's mission.

In 2005, Peabody teams reclaimed more than 5,000 acres of land and planted nearly 750,000 trees.

Company scientists and agricultural specialists work with area residents to develop managed grazing programs on Native American lands. This sustains the livelihood for future generations and continues a tradition of environmental education and technology transfer. Peabody has earned more than 20 awards for stewardship and sustainable practices in the past two years, including five awards from the U.S. Department of the Interior this past year. Top 2005 awards include:

- The U.S. Department of the Interior's Gold Good Neighbor Award for environmental conservation, species preservation and ecosystem management at the North Antelope Rochelle Mine in Wyoming. The partnership included collaboration with the Thunder Basin Grasslands Prairie Ecosystem Association to study and assess the health of the sage grouse population and work with area schools to restore riparian habitat.



- The U.S. Department of the Interior's Silver Good Neighbor Award for working with Native American residents to implement managed grazing programs to preserve reclaimed lands at the Black Mesa and Kayenta mines in Arizona, adding to the Gold Good Neighbor honors already earned. This same initiative also was recognized with a National Excellence in Mining and Reclamation Award from the Department of the Interior.

The Farmersburg Mine in Indiana, which restores lands to prime farmland, earned the U.S. Department of the Interior's 2005 Bronze Good Neighbor Award for partnering with the state on a cooperative study for improving cropland. Peabody operations swept the Good Neighbor Awards in 2005, earning bronze, silver and gold honors.



Executing the basics also means returning lands to higher value for wildlife, grazing, farming and other community benefits.



- The U.S. Department of the Interior's Bronze Good Neighbor Award for industry education, cooperative study for developing the best conditions for reclaimed farmland and technology transfer between the mine and regulatory agencies at the Farmersburg Mine in Indiana. Farmersburg has been recognized numerous times by the Interior for restoring prime farmland, including National Reclamation Excellence and Director's awards.

- The U.S. Department of the Interior's National Excellence in Mining and Reclamation Award for restoring a former coal refuse pond into 80 acres of spectacular wetland at the former Universal Mine in Southern Indiana. Giant Canada Geese and other waterfowl frequent the secluded ponds.

- Multiple state awards for good neighbor practices in Wyoming; protecting water quality in Colorado; restoring wetlands, grading and contouring and developing a trout farm in West Virginia are among other initiatives recognized.

Peabody believes sustainability is achieved through reclamation practices that return lands to higher value for community benefit and continues leading research programs to promote best practices and an improved environment.

In 2005, Peabody also expanded conservation initiatives by recycling more than 10,000 tons of materials, including metals, oil, fuel and other items.

Sustainability of reclaimed lands is crucial for Native American families that have resided on Arizona's Black Mesa for generations. Peabody scientists and reclamation experts are implementing a managed grazing program on reclaimed lands that demonstrates best practices in conservation. Peabody's reclaimed rangeland is typically 20 times more productive than native land. The program earned a Silver Good Neighbor Award from the U.S. Department of the Interior.

Key to Safety... Peabody sets new safety record in 2005

Safety is a core value and part of Peabody's mission. Our vision for safety is to achieve zero incidents of any kind to ensure our employees safely return home to their families every day.

In addition to achieving record company-wide safety results in 2005, four Peabody mines and three preparation plants operated with zero reportable or lost-time accidents. Our North Antelope Rochelle Mine was honored as the safest Wyoming mine, and early this year our Federal No. 2 Mine earned West Virginia's highest honors for safety.

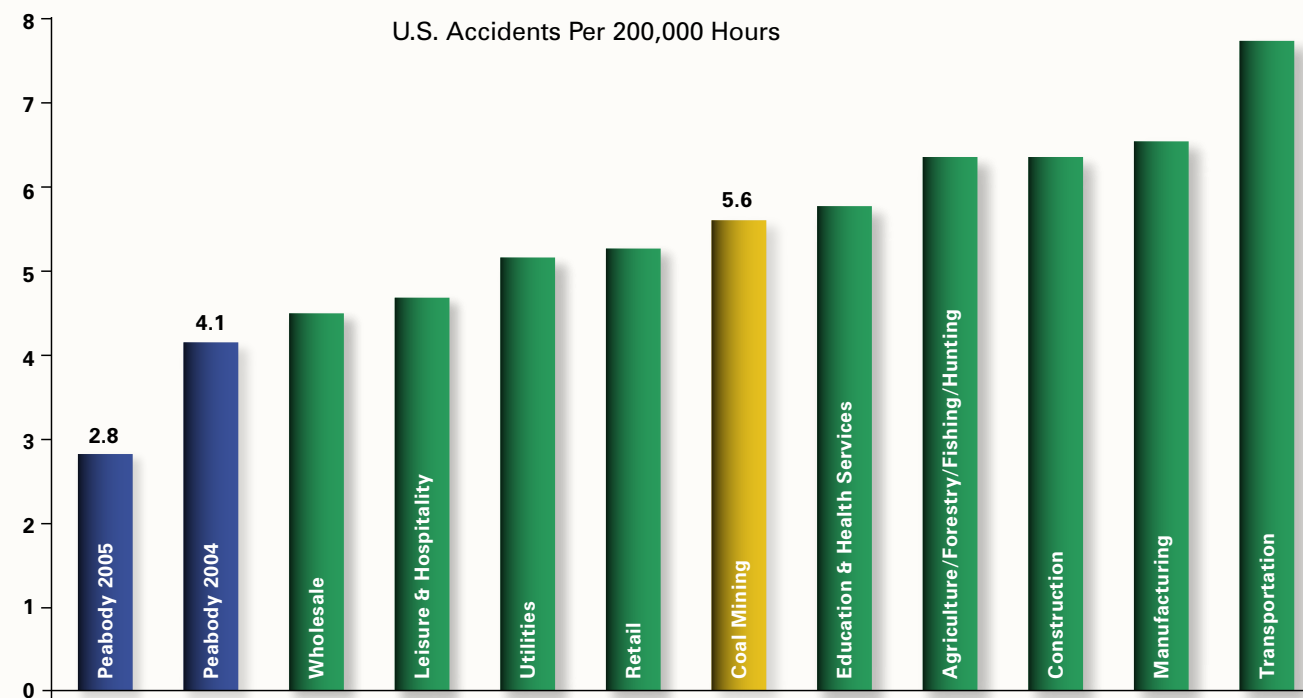
A keen focus on preparedness resulted in national recognition as Peabody mine rescue teams won four of seven national champion trophies presented by the U.S. Department of Labor. Our teams also swept competitions in Colorado, Illinois, Kentucky, New Mexico, Utah, West Virginia and Queensland, Australia.

Peabody continues to execute the fundamentals in safety through training, teamwork, communications and awareness. Every shift begins with a safety inspection. Our Safety Leadership and Central Safety and Health teams facilitate an exchange of best practices among operations. Every mine has safety teams that are dedicated to continuous improvement. Last year, nearly 1,400 front-line supervisors participated in extended skills training and safety awareness, and training is continuing this year for every mine employee.

Peabody supports state-of-the-art training that goes beyond mandated sessions and is pleased to work with the Mine Safety and Health Administration (MSHA) and other government agencies to test communication devices and identify promising new technologies to make the workplace safer.

Peabody achieved the best safety results in its history in 2005, improving 33 percent over the prior year and performing significantly better than the industry average. Peabody's accident rate is better than other major industries, including transportation, manufacturing, agriculture and even service sectors.

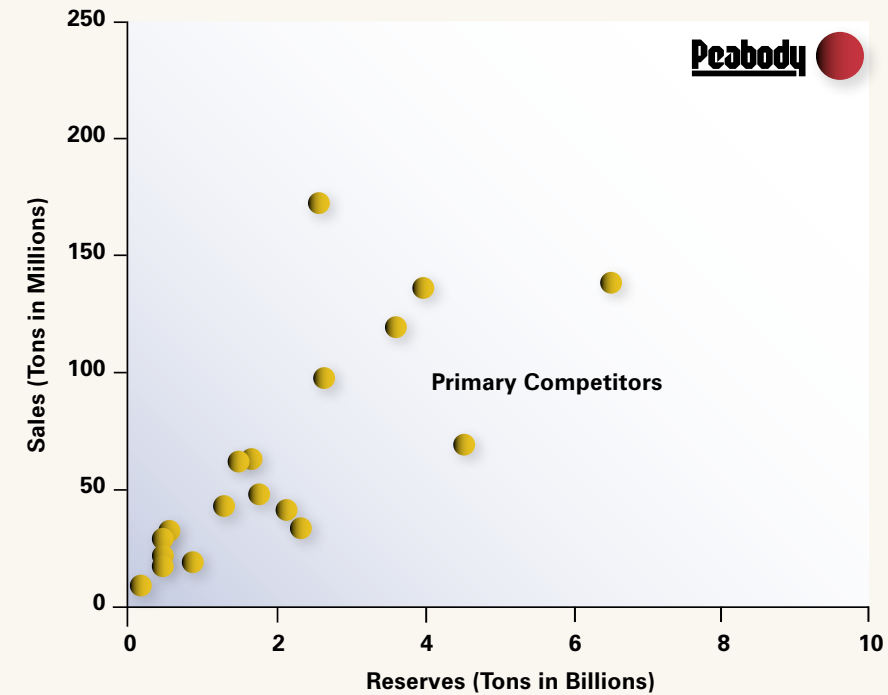
Peabody's Safety Record Improves 33% in 2005



Source: Peabody 2006; U.S. Department of Labor, Occupational Safety & Health Administration, 2004.

BTU: Key to Growth (continued)

Peabody's Leading Coal Sales and Reserves



Source: Industry reports for 2004 and 2005, and Peabody estimates.

Peabody's sales volume and coal reserves are far greater than any other private-sector coal company in the world.

Key Focus Area Two

Capitalizing on Organic Growth Opportunities

Peabody is positioned to grow and prosper by aggressively managing our portfolio of operations and capitalizing on organic growth opportunities.

Peabody is the world's largest coal company by a large margin both on tons of coal sold and on a reserve basis. In coal reserves, the company leads its nearest competitor by nearly 50 percent. Peabody is able to grow as other coal producers lag, having accounted for the equivalent of two-thirds of U.S. organic coal growth in the past five years.

Peabody continues to expand its product

portfolio through development of its power generation projects, acquisitions of reserves and facilities, and Btu Conversion initiatives. The company currently is expanding or developing mines in nearly every region, providing up to 75 million tons of new capacity by 2010.

In 2005, Peabody acquired 327 million tons of coal reserves in the Powder River Basin that will be combined with other holdings to create a contiguous block of nearly 800 million tons of ultra-low sulfur coal reserves. The reserves will be used to develop the new School Creek Mine, a 30 to 40 million ton-per-year operation.

Peabody also swapped 60 million tons of Powder River Basin coal reserves with another coal producer and also bought rail and surface facilities to allow Peabody to expand the mine into premium-quality coal more quickly and reduce development costs.



The Twentymile Mine in Colorado set safety and sales records in 2005 and is increasing production 40 percent from 2004 levels. Twentymile trained 100 new employees in 2005 and is installing a new, state-of-the-art longwall system in early 2006 to increase productivity and serve growing customer demand.

Peabody has several other projects in place to increase coal production capacity. We are expanding production at the Rawhide Mine by 5 million to 10 million tons per year.

Twentymile Mine, America's largest western underground coal mine, is increasing production 40 percent from 2004 levels, to ship up to 12 million tons of coal annually by 2008. Record customer demand for high-quality, low sulfur Western Bituminous coal is driving the expansion. Perennially one of America's largest and most productive underground operations, Twentymile last year produced a record 9.6 million tons of coal for customers in the Midwest, Southwest, Canada and Mexico.

Peabody also is developing the 6 million ton-per-year El Segundo Mine in New Mexico to serve a 19-year contract with a Southwestern U.S. utility.

Peabody is the largest coal company in the Illinois Basin, which is expected to experience strong growth over the next 10 years as existing coal-fueled generating plants install billions of dollars of emission control equipment and new plants are developed.

Peabody acquired more than 100 million tons of high-Btu Western Kentucky coal reserves, and purchased facilities in Indiana to further strengthen the company's position in the Illinois Basin and allow for future development.

Peabody also is ramping up production at its new 2.5 million ton-per-year Gateway Mine in Southern Illinois, using reserves and facilities acquired in 2005.

Also in the Illinois Basin, Peabody's Lively Grove Mine will produce 6 million tons per year to support the Prairie State power plant.

Key Focus Area Three

Expanding into High-Growth Global Markets

As the world's largest coal company, Peabody is in the best position to serve the fastest-growing coal markets in the world.

Coal is the primary generation fuel in the world's largest economy, the United States, and in the world's fastest growing economies, China and India.

Given increasingly competitive electricity markets, Peabody is expanding its leading role as a provider of energy and solutions to help customers succeed. Peabody continues to benefit from its industry leading reputation, as customers seek long-term contracts for reliable, high-quality coal supplies to fuel baseload generation.

Peabody sales volume increased 6 percent in 2005 to a new record level of 240 million tons.



The company's portfolio of long-term coal sales agreements is positioned to serve the needs of customers and Peabody. Peabody has a backlog of more than 1 billion tons. This offers high visibility into Peabody's future revenue streams, improves capital deployment decisions, allows operations to optimize their cost

Improving transportation performance from railroads, and ports such as the Dalrymple Bay Terminal in Queensland, can expand coal use by allowing coal to more quickly reach customers.

BTU is Best Positioned in Improving Markets

Region	Peabody Position	Two-Year Price Increase	Annual Production (Tons)
Powder River Basin	#1	150% - 220%	135 - 145 Million
Midwest	#1	35% - 65%	38 - 41 Million
Colorado	#1	90% - 120%	9 - 11 Million
Metallurgical Coal	#6	100% - 170%	12 - 14 Million

Source: Published traded prices for small volumes of coal; may not be representative of contracted pricing levels. Peabody position and 2006 production based on company estimates. Metallurgical coal position refers to seaborne shipments.

Peabody has leadership positions in markets that have enjoyed significant price increases in the past two years. The company is just beginning to realize earnings benefits from these higher prices as new long-term contracts are signed.



Core sampling demonstrates coal depth and consistency. Peabody is expanding or developing mines in all regions to meet growing global demand.

BTU: Key to Growth (continued)

structure, and creates future opportunities for alternative sourcing at higher value.

Peabody's sales, marketing, trading and risk management team uses extensive market knowledge, access to a broad product mix, and identification of trends affecting production, transportation, regulation, and customer demand patterns to create customer solutions and add value.

New coal supply agreements often feature provisions for market pricing reopeners and sourcing flexibility, enabling the company to use the best blend of market intelligence, risk management tools, production sourcing and traded coal products to ensure the lowest cost products at the highest possible returns.

Peabody is a leading trader of coal, which it can use to supplement its production position, hedge against price volatility, and satisfy demand for coal supplies from regions of the world where Peabody does not produce coal.

In 2005, Peabody physically settled



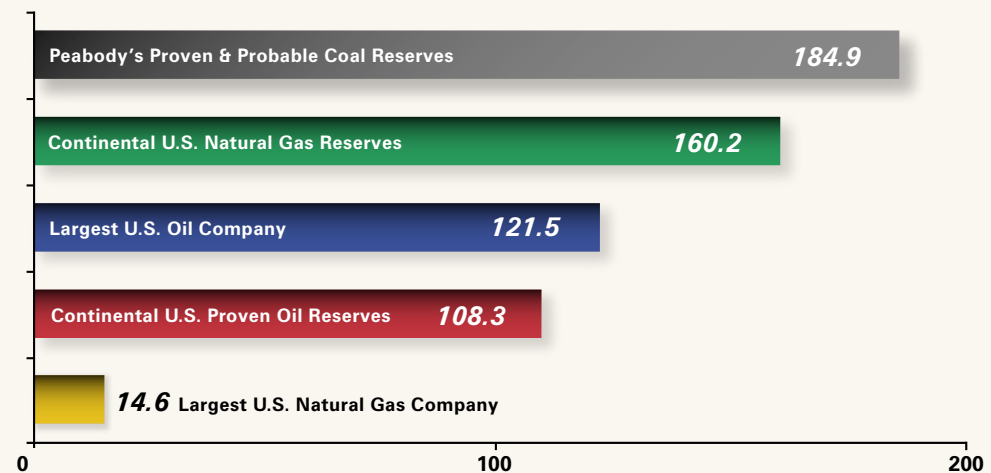
25 million tons of trading and brokerage coal transactions. We also increased our global trading capacity by accessing greater quantities of third-party coal supplies in Australia and secured coal supplies in Venezuela to enhance our U.S. import strategy.

In 2005, Peabody established an office in Beijing to build a presence in China and position the company to evaluate greater investments. The company also expanded its South American trading activities, and intends to develop a European coal trading portfolio in 2006.

Celebrating the ceremonial ribbon-cutting signaling the grand opening of Peabody's new office in Beijing are (from left) Director of the Department of International Cooperation for the China National Coal Association Sun Jiaohua, Peabody Executive Vice President and Chief Financial Officer Rick Navarre and Vice President of the China National Coal Association Dr. Zhu Deren.

BTU's Energy Reserves Are Unmatched

Energy Value in Quadrillion Btus



Source: 2004 annual reports for selected energy companies, Energy Information Administration's U.S. Crude Oil, Natural Gas Liquids Reserves.

Peabody has more energy value in its coal reserves than the comparable value in all the oil or gas in the continental United States, and more energy than the proven reserves of the largest oil or natural gas company.



An innovative sales and trading team and 9.8 billion ton reserve base make Peabody uniquely positioned as a reliable supplier of fuel for clean, baseload electricity generating plants such as the Springerville station in Arizona. Peabody's North Antelope Rochelle and Lee Ranch mines have long-term contracts to supply coal to the new generating unit.

Key Focus Area Four Participate in New Generation and Btu Conversion Projects

Peabody has multiple opportunities to participate in the industry growth resulting from generation and Btu Conversion technologies.

Peabody has made significant progress in the development of clean, low-cost mine-mouth generating plants in 2005. The Prairie State Energy Campus in Southern Illinois and the Thoroughbred Energy Campus in Western Kentucky would each feature 1,500 megawatt generating plants fueled by adjacent mines. The plants would be among the cleanest coal-fueled

plants in the United States, using state-of-the-art emission control technologies.

Since the beginning of 2005, Prairie State received its mine permit, began the engineering and procurement for the plant, and signed agreements with a group of Midwest rural electric agencies to acquire 49 percent ownership in the project and receive a proportional amount of the plant's annual electricity output. Thoroughbred continues to work through an administrative appeal of its final air quality permit.

Today's technologies can transform the energy in coal into other high-demand energy forms, such as diesel fuel, jet fuel, natural gas and even hydrogen. This greatly expands coal's markets beyond the fast-growth industries of electricity and steelmaking.

Peabody's coal reserves are double the proven oil reserves in the continental United States on a Btu-equivalent basis. They are greater than the reserves of the largest oil or natural gas companies in the United States. They also are greater than the natural gas reserves in the continental United States.

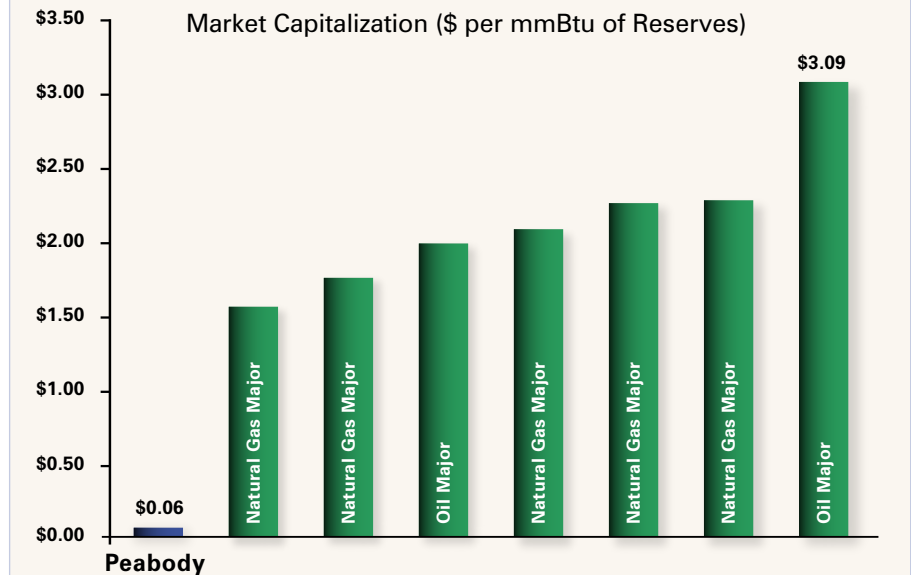
Peabody has a large number of sites with at least 100 million tons of coal reserves that offer excellent potential for future generation and Btu Conversion technology projects.

Peabody has several Btu Conversion investments in process, including: 1) an equity position of up to 30 percent in Econo-Power International Corporation (EPIC); 2) an agreement to advance a commercial scale coal-to-natural-gas facility in the Midwest using ConocoPhillips technology; and 3) participation in an alliance to develop FutureGen, the world's first coal-based electricity generation and hydrogen production facility targeting zero emissions.

EPIC owns and markets proprietary technology that converts coal into synthesis gas for industrial applications including boilers and kilns. EPIC has identified a target market of up to 2,000 cogeneration and industrial process plants.

Peabody is also teaming up with ArcLight Capital Partners, LLC to evaluate the development of one of the nation's largest coal-to-natural-gas facilities using Illinois Basin coal. ConocoPhillips and Fluor have begun preliminary engineering design work for the project, which would be sited in Illinois where Peabody has vast reserves. Peabody would develop a coal mine to fuel the plant, and the project would require at least 3 million tons of coal per year to fuel two gasifier units that would produce more than 35 billion cubic feet of synthetic natural gas.

Goal: Narrow the BTU Valuation Gap



Source: Company filings and reports. Market capitalization values per Bloomberg on Feb. 7, 2006.

As a founder of the FutureGen Industrial Alliance, Peabody is advancing development of the world's cleanest coal plant, partnering with the U.S. Department of Energy to demonstrate advanced coal-based technologies through a \$1 billion, 275-megawatt prototype. FutureGen would generate zero-emissions electricity, produce hydrogen to power fuel cells and capture the carbon dioxide.

In 2006 and beyond, Peabody expects to continue to execute the basics, capitalize on organic growth opportunities, expand into high-growth markets, and participate in new generation and Btu Conversion projects. We believe that we are in the early stages of a long period of significant growth in earnings and cash flow generation, and look forward to leveraging these key focus areas to continue to create shareholder value.

Peabody seeks to continue to narrow the significant valuation gap between the company and leading oil and gas companies on a reserve basis.