

PEABODY ENERGY CORP

Form DEF 14A

April 02, 2004

Table of Contents

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**SCHEDULE 14A
(RULE 14A-101)**

**Information Required in Proxy Statement
Schedule 14A Information**

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
 Filed by a Party other than the Registrant o

Check the appropriate box:

- o Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-12

PEABODY ENERGY CORPORATION

(Name of Registrant as Specified In Its Charter)

[COMPANY NAME]

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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Table of Contents

April 2, 2004

Dear Stockholder:

You are cordially invited to attend the 2004 Annual Meeting of Stockholders of Peabody Energy Corporation (the Company), which will be held on Thursday, May 6, 2004, at 10:00 A.M., Central Time, at the Ritz-Carlton Hotel, 100 Carondelet Plaza, Clayton, Missouri 63105.

During this meeting, stockholders will vote on the following items:

1. Election of four Class III Directors for three-year terms;
2. Ratification of the appointment of Ernst & Young LLP as the Company's independent public accountants;
3. Approval of the Company's 2004 Long-Term Equity Incentive Plan;
4. One stockholder proposal; and
5. Consideration of such other matters as may properly come before the meeting.

The accompanying Notice of Annual Meeting of Stockholders and Proxy Statement contain complete details on these proposals and other matters. We also will be reporting on the Company's operations and responding to stockholder questions. If you have questions that you would like to raise at the meeting, we encourage you to submit written questions in advance (by mail or e-mail) to the Corporate Secretary. This will help us respond to your questions during the meeting. If you would like to e-mail your questions, please send them to stockholder.questions@peabodyenergy.com.

Your participation in the affairs of Peabody Energy is important, regardless of the number of shares you hold. To ensure your representation at the Annual Meeting, we encourage you to vote over the telephone or Internet or to complete and return the enclosed proxy card as soon as possible. If you attend the Annual Meeting, you may then revoke your proxy and vote in person if you so desire.

Thank you for your continued support of Peabody Energy. We look forward to seeing you on May 6.

Very truly yours,

IRL F. ENGELHARDT
Chairman & Chief Executive Officer

Table of Contents

PEABODY ENERGY CORPORATION

701 Market Street
St. Louis, Missouri 63101-1826

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

Peabody Energy Corporation (the Company) will hold its Annual Meeting of Stockholders at the Ritz-Carlton Hotel, 100 Carondelet Plaza, Clayton, Missouri, on Thursday, May 6, 2004, at 10:00 A.M., Central Time, to:

Elect four Class III Directors for three-year terms;

Ratify the appointment of Ernst & Young LLP as the Company's independent public accountants;

Approve the Company's 2004 Long-Term Equity Incentive Plan;

Consider one stockholder proposal and transact any other business that may properly come before the Annual Meeting.

The Board of Directors has fixed March 15, 2004, as the record date for determining stockholders who will be entitled to receive notice of and vote at the Annual Meeting or any adjournment. Each share of Common Stock is entitled to one vote. As of the record date, there were 55,062,630 shares of Common Stock outstanding.

If you own shares of the Company's Common Stock as of March 15, 2004, you can vote those shares by completing and mailing the enclosed proxy card or by attending the Annual Meeting and voting in person. Stockholders of record also may submit their proxies electronically or by telephone as follows:

By visiting the website at <http://www.eproxyvote.com/btu> and following the voting instructions provided; or

By calling **1-877-PRX-VOTE (1-877-779-8683)** in the United States, Canada or Puerto Rico on a touch-tone phone and following the recorded instructions.

An admittance card or other proof of ownership is required to attend the Annual Meeting. Please retain the top portion of your proxy card for this purpose. Also, please indicate your intention to attend the Annual Meeting by checking the appropriate box on the proxy card, or, if voting by the Internet or by telephone, when prompted. If your shares are held by a bank or broker, you will need to ask them for an admission card in the form of a confirmation of beneficial ownership. If you do not receive a confirmation of beneficial ownership or other admittance card from your bank or broker, you must bring proof of share ownership (such as a copy of your brokerage statement) to the Annual Meeting.

Your vote is important. Whether or not you plan to attend the Annual Meeting, please cast your vote by telephone or the Internet, or complete, date and sign the enclosed proxy card and return it in the envelope provided. If you attend the meeting, you may withdraw your proxy and vote in person, if you so choose.

FREDRICK D. PALMER
Executive Vice President
Legal and External Affairs
and Secretary

April 2, 2004

Table of Contents

TABLE OF CONTENTS

	<u>Page No.</u>
<u>NOTICE OF ANNUAL MEETING OF STOCKHOLDERS</u>	
<u>QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING</u>	
<u>AND VOTING</u>	1
<u>ELECTION OF DIRECTORS (PROXY ITEM NO. 1)</u>	5
<u>Class III Director Nominees Terms Expiring in 2007</u>	5
<u>Class I Directors Terms Expiring in 2005</u>	6
<u>Class II Directors Terms Expiring in 2006</u>	6
<u>INFORMATION REGARDING BOARD OF DIRECTORS AND</u>	
<u>COMMITTEES</u>	7
<u>Director Independence</u>	7
<u>Compensation of Directors</u>	11
<u>Board Attendance and Executive Sessions</u>	11
<u>Committees of the Board of Directors</u>	12
<u>Compensation Committee</u>	12
<u>Executive Committee</u>	12
<u>Nominating and Corporate Governance Committee</u>	13
<u>Audit Committee</u>	13
<u>REPORT OF THE AUDIT COMMITTEE</u>	14
<u>APPOINTMENT OF INDEPENDENT AUDITORS AND FEES</u>	15
<u>CORPORATE GOVERNANCE MATTERS</u>	16
<u>Stockholder Communications with the Board of Directors</u>	17
<u>Overview of Director Nominating Process</u>	18
<u>OWNERSHIP OF COMPANY SECURITIES</u>	20
<u>Beneficial Owners of More Than Five Percent, Directors and</u>	
<u>Management</u>	20
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	21
<u>EXECUTIVE COMPENSATION</u>	21
<u>Summary Compensation Table</u>	21
<u>Option Grants in Last Fiscal Year</u>	22
<u>Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End</u>	
<u>Option Values</u>	23
<u>Long-Term Incentive Plans Awards in Last Fiscal Year</u>	23
<u>Equity Compensation Plan Information</u>	24
<u>Pension Benefits</u>	24
<u>Employment Agreements</u>	24
<u>Report of the Compensation Committee</u>	26
<u>Compensation Committee Interlocks and Insider Participation</u>	30
<u>RELATED PARTY TRANSACTIONS</u>	30
<u>Transactions With Affiliates of Lehman Brothers</u>	30
<u>Transactions With Management</u>	31
<u>STOCK PERFORMANCE GRAPH</u>	31
<u>APPROVAL OF INDEPENDENT PUBLIC ACCOUNTANTS</u>	
<u>(PROXY ITEM NO. 2)</u>	32
<u>APPROVAL OF 2004 LONG-TERM EQUITY INCENTIVE PLAN</u>	
<u>(PROXY ITEM NO. 3)</u>	33
<u>STOCKHOLDER PROPOSAL (PROXY ITEM NO. 4)</u>	39
<u>Company's Statement in Opposition to Stockholder Proposal</u>	40

Table of Contents

	<u>Page No.</u>
<u>ADDITIONAL INFORMATION</u>	41
<u>Information About Stockholder Proposals</u>	41
<u>Householding of Proxies</u>	42
<u>Additional Filings</u>	42
<u>Costs of Solicitation</u>	42
<u>OTHER BUSINESS</u>	43
<u>ANNEX A PEABODY ENERGY CORPORATION 2004</u>	
<u>LONG-TERM EQUITY INCENTIVE PLAN</u>	44
<u>ANNEX B PEABODY ENERGY CORPORATION AUDIT</u>	
<u>COMMITTEE CHARTER, RESPONSIBILITIES CHECKLIST AND</u>	
<u>PRE-APPROVAL PROCEDURES</u>	52

Table of Contents

PEABODY ENERGY CORPORATION

**PROXY STATEMENT
FOR THE
2004 ANNUAL MEETING OF STOCKHOLDERS**

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND VOTING

Q: Why did I receive this Proxy Statement?

A: Because you are a stockholder of Peabody Energy Corporation as of the record date and are entitled to vote at the 2004 Annual Meeting of Stockholders, the Board of Directors is soliciting your proxy to vote at the meeting.

This Proxy Statement summarizes the information you need to know to vote at the Annual Meeting. This Proxy Statement and proxy card were first mailed to stockholders on or about April 2, 2004.

Q: What am I being asked to vote on?

A: You are being asked to vote on the following items:

Election of William A. Coley, Irl F. Engelhardt, William C. Rusnack and Alan H. Washkowitz as Class III Directors, each for a term of three years.

Ratification of Ernst & Young LLP as the Company's independent public accountants for the fiscal year ending December 31, 2004.

Approval of the Company's 2004 Long-Term Equity Incentive Plan.

One stockholder proposal.

Any other matter properly introduced at the meeting.

Q: What are the voting recommendations of the Board of Directors?

A: The Board recommends the following votes:

FOR each of the director nominees (Item 1).

FOR ratification of Ernst & Young LLP as the Company's independent public accountants for the fiscal year ending December 31, 2004 (Item 2).

FOR approval of the Company's 2004 Long-Term Equity Incentive Plan (Item 3).

AGAINST the stockholder proposal (Item 4).

Q: Will any other matters be voted on?

A: We are not aware of any other matters that will be brought before the stockholders for a vote at the Annual Meeting. If any other matter is properly brought before the meeting, your proxy will authorize each of Blanche M. Touhill, Richard A. Navarre and Fredrick D. Palmer to vote on such matters in their discretion.

Q: How do I vote?

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- A: If you are a stockholder of record or hold stock through the Peabody Holding Company, Inc. Employee Retirement Account (or other 401(k) plans sponsored by the Company's subsidiaries), you may vote using any of the following methods:

Via the Internet, by going to the website <http://www.eproxyvote.com/btu> and following the instructions for Internet voting on your proxy card;

If you reside in the United States, Canada or Puerto Rico, by dialing 1-877-PRX-VOTE (1-877-779-8683) and following the instructions for telephone voting on your proxy card;

Table of Contents

By completing and mailing your proxy/ voting instruction card; or

By casting your vote in person at the Annual Meeting.

Please be aware that if you vote over the Internet, you may incur costs such as telephone and Internet access charges for which you will be responsible. The telephone and Internet voting facilities for the stockholders of record of all shares, other than those held in the Peabody Holding Company, Inc. Employee Retirement Account (or other 401(k) plans sponsored by our subsidiaries), will close at 11 P.M. Central Time on May 5, 2004. The Internet and telephone voting procedures are designed to authenticate stockholders by use of a control number and to allow you to confirm that your instructions have been properly recorded.

If you participate in a Company Stock Fund under the Peabody Holding Company, Inc. Employee Retirement Account (or other 401(k) plans sponsored by our subsidiaries), and had shares of the Company's common stock credited to your account on March 15, 2004, you will receive a single proxy/ voting instruction card with respect to all shares registered in the same name, whether inside or outside of the plan. If your accounts inside and outside of the plan are not registered in the same name, you will receive a separate proxy/ voting instruction card with respect to the shares credited to your plan account. Voting instructions regarding plan shares must be received by 11:00 P.M. Central Time on May 3, 2004, and all telephone and Internet voting facilities with respect to plan shares will close at that time.

Shares of common stock in the Peabody Holding Company, Inc. Employee Retirement Account (or other 401(k) plans sponsored by our subsidiaries) will be voted by Vanguard Fiduciary Trust Company (Vanguard), as trustee of the plan. Plan participants should indicate their voting instructions to Vanguard for each action to be taken under proxy by completing and returning the proxy/ voting instruction card, by using the toll-free telephone number or by indicating their instructions over the Internet. All voting instructions from plan participants will be kept confidential. If a participant fails to sign or to timely return the proxy/ voting instruction card or otherwise timely indicate his or her instructions by telephone or over the Internet, the shares allocated to such participant, together with unallocated shares, will be voted in the same proportion as directed shares are voted.

If you return your signed proxy card or vote by Internet or telephone, your shares will be voted as you indicate. If you do not indicate how your shares are to be voted on a matter, the shares represented by your properly completed proxy/ voting instruction card will be voted FOR the nominees for director, FOR ratification of the appointment of Ernst & Young LLP, FOR the approval of the Company's 2004 Long-Term Equity Incentive Plan, and AGAINST the stockholder proposal.

If your shares are held in a brokerage account in your broker's name (also known as street name), you should follow the voting directions provided by your broker or nominee. You may complete and mail a voting instruction card to your broker or nominee or, if your broker allows, submit voting instructions by Internet or telephone. If you provide specific voting instructions by mail, telephone or Internet, your broker or nominee will vote your shares as you have directed. Please note that shares in the Peabody Energy Corporation Employee Stock Purchase Plan are held in street name by A. G. Edwards, the plan administrator.

Ballots will be passed out during the Annual Meeting to anyone who wants to vote in person at the meeting. If you hold your shares in street name, you must request a confirmation of beneficial ownership from your broker to vote in person at the meeting.

Q: Can I change my vote?

A: Yes. If you are a stockholder of record, you can change your vote or revoke your proxy any time before the Annual Meeting by:

Submitting a valid, later-dated proxy;

Submitting a valid, subsequent vote by telephone or the Internet at any time prior to 11:00 P.M. Central Time on May 5, 2004;

Table of Contents

Notifying the Company's Secretary in writing that you have revoked your proxy; or

Completing a written ballot at the Annual Meeting.

You can revoke your voting instructions with respect to shares held in the Peabody Holding Company, Inc. Employee Retirement Account (or other 401(k) plans sponsored by our subsidiaries) at any time prior to 11:00 P.M. Central Time on May 3, 2004 by timely delivery of a properly executed, later-dated voting instruction card (or an Internet or telephone vote), or by delivering a written revocation of your voting instructions to Vanguard.

Q: Is my vote confidential?

A: Yes. All proxies, ballots and vote tabulations that identify how individual stockholders voted will be kept confidential and not be disclosed to the Company's directors, officers or employees, except in limited circumstances, including:

When disclosure is mandated by law;

During any contested solicitation of proxies; or

When written comments by a stockholder appear on a proxy card or other voting material.

Q: What will happen if I do not instruct my broker how to vote?

A: If your shares are held in street name and you do not instruct your broker how to vote, your broker may vote your shares at its discretion on routine matters such as the election of directors or the ratification of independent public accountants.

On non-routine matters, brokers and other nominees cannot vote without instructions from the beneficial owner, resulting in so-called broker non-votes. Broker non-votes have the same effect as votes cast against a particular proposal, except for purposes of approving the 2004 Long-Term Equity Incentive Plan under the New York Stock Exchange listing standards. For such approval, broker non-votes will be excluded from the tabulation of votes cast, and therefore will not affect the outcome of the vote (except to the extent such broker non-votes result in a failure to obtain total votes cast on the proposal representing more than 50% in interest of all shares entitled to vote thereon).

Q: How will my Company stock in the Peabody Holding Company, Inc. Employee Retirement Account or other 401(k) plans sponsored by the Company's subsidiaries be voted?

A: Vanguard, as the plan trustee, will vote your shares in accordance with your instructions if you send in a completed proxy/ voting instruction card or vote by telephone or the Internet before 11:00 P.M. Central Time on May 3, 2004. All telephone and Internet voting facilities with respect to plan shares will close at that time. Vanguard will vote allocated shares of Company Common Stock for which it has not received direction, as well as shares not allocated to individual participant accounts, in the same proportion as directed shares are voted.

Q: How many shares must be present to hold the Annual Meeting?

A: Holders of a majority of the shares of outstanding Common Stock as of the record date must be represented in person or by proxy at the Annual Meeting in order to conduct business. This is called a quorum. If you vote, your shares will be part of the quorum. Abstentions, withhold votes and broker non-votes also will be counted in determining whether a quorum exists, and will have the same effect as votes cast against such proposals, except as described above with respect to the 2004 Long-Term Equity Incentive Plan.

Table of Contents

Q: What vote is required to approve the proposals?

A: In the election of directors, the four nominees receiving the highest number of FOR votes will be elected. All other proposals require the affirmative vote of the holders of at least a majority of the shares represented in person or by proxy at the Annual Meeting. Accordingly, abstentions and broker non-votes will count as votes against such proposals, except for purposes of approving the 2004 Long-Term Equity Incentive Plan under the New York Stock Exchange listing standards. For such approval, broker non-votes will be excluded from the tabulation of votes cast, and therefore will not affect the outcome of the vote (except to the extent such broker non-votes result in a failure to obtain total votes cast on the proposal representing more than 50% in interest of all shares entitled to vote thereon). In order for the 2004 Long-Term Equity Incentive Plan to be approved, the votes on the proposal must be sufficient to meet the approval requirements under both the Company's by-laws and the rules of the New York Stock Exchange.

Q: What does it mean if I receive more than one proxy card?

A: It means that your shares are held in more than one account at the transfer agent and/or with banks or brokers. Please vote all of your shares.

Q: Who can attend the Annual Meeting?

A: All Peabody Energy Corporation stockholders as of March 15, 2004 may attend the Annual Meeting.

Q: What do I need to do to attend the Annual Meeting?

A: If you are a stockholder of record or a participant in the Peabody Holding Company, Inc. Employee Retirement Account (or other 401(k) plans sponsored by the Company's subsidiaries), your admission card is attached to your proxy card or voting instruction form. You will need to bring this admission card with you to the Annual Meeting.

If you own shares in street name, you will need to ask your bank or broker for an admission card in the form of a confirmation of beneficial ownership. You will need to bring a confirmation of beneficial ownership with you to vote at the Annual Meeting. If you do not receive your confirmation of beneficial ownership in time, bring your most recent brokerage statement with you to the Annual Meeting. We can use that to verify your ownership of Common Stock and admit you to the meeting; however, you will not be able to vote your shares at the meeting without a confirmation of beneficial ownership.

Q: Where can I find the voting results of the Annual Meeting?

A: We plan to announce preliminary voting results at the Annual Meeting and to publish final results in our Quarterly Report on SEC Form 10-Q for the Quarter Ended June 30, 2004.

Table of Contents

ELECTION OF DIRECTORS (PROXY ITEM NO. 1)

In accordance with the terms of the Company's certificate of incorporation, the Board of Directors is divided into three classes, with each class serving a staggered three-year term. At this year's Annual Meeting, the terms of current Class III Directors will expire. The terms of Class I Directors and Class II Directors will expire at the Annual Meetings to be held in 2005 and 2006, respectively.

The Board of Directors has nominated the following individuals for election as Class III Directors with terms expiring in 2007: William A. Coley, Irl F. Engelhardt, William C. Rusnack and Alan H. Washkowitz. Each of the nominees currently is serving as a director of the Company. All nominees have consented to serve for the new term. Should any one or more of the nominees become unavailable for election, your proxy authorizes us to vote for such other persons, if any, as the Board of Directors may recommend.

Class III Director Nominees Terms Expiring in 2007

WILLIAM A. COLEY, age 60, has been a director of the Company since March 2004. Mr. Coley served as President of Duke Power, the U.S.-based global energy company, from 1997 until his retirement in February 2003. During his 37-year career at Duke Power, Mr. Coley held various officer level positions in the engineering, operations and senior management areas, including Vice President, Operations (1984-1986), Vice President, Central Division (1986-1988), Senior Vice President, Power Delivery (1988-1990), Senior Vice President, Customer Operations (1990-1991), Executive Vice President, Customer Group (1991-1994) and President, Associated Enterprises Group (1994-1997). Mr. Coley was elected to the board of Duke Power in 1990 and was named President following Duke Power's acquisition of PanEnergy in 1997. Mr. Coley earned his B.S. in electrical engineering from Georgia Institute of Technology and is a registered professional engineer. He is also a director of CT Communications, Inc., SouthTrust Corporation and British Energy plc.

IRL F. ENGELHARDT, age 57, has been a director of the Company since 1998. He is Chairman and Chief Executive Officer of the Company, a position he has held since 1998. He served as Chief Executive Officer of a predecessor of the Company from 1990 to 1998. He also served as Chairman of a predecessor of the Company from 1993 to 1998 and as President from 1990 to 1995. Since joining a predecessor of the Company in 1979, he has held various officer level positions in the executive, sales, business development and administrative areas, including Chairman of Peabody Resources Ltd. (Australia) and Chairman of Citizens Power LLC. Mr. Engelhardt also served as Co-Chief Executive Officer and executive director of The Energy Group from February 1997 to May 1998, Chairman of Cornerstone Construction & Materials, Inc. from September 1994 to May 1995 and Chairman of Suburban Propane Company from May 1995 to February 1996. He also served as a director and Group Vice President of Hanson Industries from 1995 to 1996. Mr. Engelhardt is Chairman of the Center for Energy and Economic Development, Co-Chairman of the Coal Based Generation Stakeholders Group and Co-Chairman of the National Mining Association's Sustainable Development and Health Care Reforms Committees. He has previously served as Chairman of the National Mining Association, the Coal Industry Advisory Board of the International Energy Agency, and the Coal Utilization Research Council. He also serves on the advisory board of U.S. Bank, N.A. (St. Louis).

WILLIAM C. RUSNACK, age 59, has been a director of the Company since January 2002. Mr. Rusnack is Former President and Chief Executive Officer of Premcor Inc., one of the largest independent oil refiners in the United States. He served as President, Chief Executive Officer and Director of Premcor from 1998 to February 2002. Prior to joining Premcor, Mr. Rusnack was President of ARCO Products Company, the refining and marketing division of Atlantic Richfield Company. During a 31-year career at ARCO, he was also President of ARCO Transportation Company and Vice President of Corporate Planning. He is also a director of Sempra Energy and Flowserve Corporation.

ALAN H. WASHKOWITZ, age 63, has been a director of the Company since 1998. He is also a Managing Director of Lehman Brothers Inc. (Lehman Brothers), an investment banking firm, and part of the firm's Merchant Banking Group, with responsibility for oversight of Lehman Brothers Merchant Banking Partners II L.P. Mr. Washkowitz joined Kuhn Loeb & Co. in 1968 and became a general partner of Lehman Brothers in 1978 when it acquired Kuhn Loeb & Co. Prior to joining the Merchant Banking Group, he headed

Table of Contents

Lehman Brothers Financial Restructuring Group. He is also a director of CP Kelco Inc., L-3 Communications Corporation and K&F Industries, Inc.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR EACH OF THE CLASS III DIRECTOR NOMINEES NAMED ABOVE.

Class I Directors Terms Expiring in 2005

B. R. BROWN, age 71, has been a director of the Company since December 2003. Mr. Brown is the retired Chairman, President and Chief Executive Officer of CONSOL Energy, Inc., a domestic coal and gas producer and energy services provider. He served as Chairman, President and Chief Executive Officer of CONSOL and predecessor companies from 1977 to 1999. He also served as a Senior Vice President of E. I. Du Pont De Nemours & Co., CONSOL's controlling shareholder, from 1982 to 1992. Before joining CONSOL, Mr. Brown was a Senior Vice President at Conoco. From 1990 to 1995, he also was President and Chief Executive Officer of Remington Arms Co., Inc. Mr. Brown has previously served as Director and Chairman of the Bituminous Coal Operators Association Negotiating Committee, Chairman of the National Mining Association, and Chairman of the Coal Industry Advisory Board of the International Energy Agency. He also was a member of the reorganized Board of Directors of AEI Resources Holding Inc. from May 2002 until February 2003. He is currently a director of Delta Trust & Bank and Remington Arms Co., Inc.

HENRY GIVENS, JR., PhD, age 71, has been a director of the Company since March 2004. Dr. Givens is President of Harris-Stowe State College in St. Louis, Missouri, a position he has held since 1979. Dr. Givens is actively involved with several civic and charitable boards and has received over one hundred national, state and local awards and recognitions. He earned his baccalaureate degree at Lincoln University in Missouri, his master's degree at the University of Illinois and his PhD at St. Louis University. Dr. Givens is also a director of The Laclede Group Inc. and serves on the advisory board of U.S. Bank, N.A. (St. Louis).

JAMES R. SCHLESINGER, PhD, age 75, has been a director of the Company since 2001. He is Chairman of the Board of Trustees of MITRE Corporation, a not-for-profit corporation that provides systems engineering, research and development and information technology support to the government, a position he has held since 1985. Dr. Schlesinger also serves as Senior Advisor and Consultant to Lehman Brothers, a role he has held since 1980, and as Counselor to the Center for Strategic and International Studies. Dr. Schlesinger served as U.S. Secretary of Energy from 1977 to 1979. He also held senior executive positions for three U.S. Presidents, serving as Chairman of the U.S. Atomic Energy Commission from 1971 to 1973, Director of the Central Intelligence Agency in 1973 and Secretary of Defense from 1973 to 1975. Other past positions include Assistant Director of the Office of Management and Budget, Director of Strategic Studies at the Rand Corporation, Associate Professor of Economics at the University of Virginia and consultant to the Federal Reserve Board of Governors. Dr. Schlesinger is also a director of BNFL, Inc., KFx Inc. and Sandia Corporation.

SANDRA VAN TREASE, age 43, has been a director of the Company since January 2003. Ms. Van Trease is President and Chief Executive Officer of UNICARE, an operating affiliate of WellPoint Health Networks Inc., one of the nation's largest publicly traded managed care companies. She has held that position since 2002, when her prior employer, RightCHOICE Managed Care, Inc., was acquired by WellPoint. Ms. Van Trease served as President, Chief Financial Officer and Chief Operating Officer of RightCHOICE from 2000 to 2002, and as Executive Vice President, Chief Financial Officer and Chief Operating Officer from 1997 to 2000. Prior to joining RightCHOICE in 1994, she was a Senior Audit Manager with Price Waterhouse LLP. She is a Certified Public Accountant and Certified Management Accountant. Ms. Van Trease also serves on the advisory board of U.S. Bank, N.A. (St. Louis).

Class II Directors Terms Expiring in 2006

WILLIAM E. JAMES, age 58, has been a director of the Company since 2001. Since July 2000, Mr. James has been Founding Partner of RockPort Capital Partners LLC, a venture fund specializing in energy and environmental technology and advanced materials. He is also Chairman of RockPort Group, a

Table of Contents

holding company engaged in international oil trading, banking and communications. Prior to joining RockPort, Mr. James co-founded and served as Chairman and Chief Executive Officer of Citizens Power LLC, a leading power marketer. He also co-founded the non-profit Citizens Energy Corporation and served as the Chairman and Chief Executive Officer of Citizens Corporation, its for-profit subsidiary, from 1987 to 1996. Mr. James periodically provides consulting services to Lehman Brothers on matters unrelated to the Company. He also serves on the Boards of The United Bank for Africa and The Pan African Health Foundation.

ROBERT B. KARN III, age 62, has been a director of the Company since January 2003. Mr. Karn is a financial consultant and former managing partner in financial and economic consulting with Arthur Andersen LLP in St. Louis. Before retiring from Arthur Andersen in 1998, Mr. Karn served in a variety of accounting, audit and financial roles over a 33-year career, including Managing Partner in charge of the global coal mining practice from 1981 through 1998. He is a Certified Public Accountant and has served as a Panel Arbitrator with the American Arbitration Association. Mr. Karn is also a director of Natural Resource Partners, a coal-oriented master limited partnership that is listed on the New York Stock Exchange.

HENRY E. LENTZ, age 59, has been a director of the Company since 1998. Mr. Lentz is an Advisory Director of Lehman Brothers. He joined Lehman Brothers in 1971 and became a Managing Director in 1976. He left the firm in 1988 to become Vice Chairman of Wasserstein Perella Group, Inc., an investment banking firm. In 1993, he returned to Lehman Brothers as a Managing Director and served as head of the firm's worldwide energy practice. In 1996, he joined Lehman Brothers Merchant Banking Group as a Principal and in January 2003 became a consultant to the Merchant Banking Group. He assumed his current role with Lehman Brothers effective January 2004. Mr. Lentz is also a director of Rowan Companies, Inc., CARBO Ceramics, Inc. and Antero Resources, Inc.

BLANCHE M. TOUHILL, PhD, age 72, has been a director of the Company since 2001. Dr. Touhill is Chancellor Emeritus and Professor Emeritus at the University of Missouri - St. Louis. She previously served as Chancellor and Professor of History and Education at the University of Missouri - St. Louis from 1991 through 2002. Prior to her appointment as Chancellor, Dr. Touhill held the positions of Vice Chancellor for Academic Affairs and Interim Chancellor at the University of Missouri - St. Louis. Dr. Touhill also has served on the Boards of Directors of Trans World Airlines and Delta Dental. She holds bachelor's and doctoral degrees in history and a master's degree in geography from St. Louis University.

INFORMATION REGARDING BOARD OF DIRECTORS AND COMMITTEES

Director Independence

As required by the rules of the New York Stock Exchange, the Board of Directors evaluates the independence of its members at least annually, and at other appropriate times (e.g., in connection with a change in employment status or other significant status changes) when a change in circumstances could potentially impact the independence of one or more directors. This process is administered by the Nominating and Corporate Governance Committee, which consists entirely of directors who are independent under applicable New York Stock Exchange rules. After carefully considering all relevant relationships with the Company, the Nominating and Corporate Governance Committee submits its recommendations regarding independence to the full Board, which then makes an affirmative determination with respect to each director.

Under New York Stock Exchange rules, a director is independent if the Board determines that he or she currently has no direct or indirect material relationship with the Company, and for the last three years:

The director has not been an employee of the Company, and no member of the director's immediate family has served as an executive officer of the Company.

Neither the director nor any member of the director's immediate family has received more than \$100,000 per year in direct compensation from the Company (excluding director fees, pensions or deferred compensation for prior service).

Table of Contents

The director has not been affiliated with or employed by, and no member of the director's immediate family has been affiliated with or employed in a professional capacity by, the Company's present or former internal or external auditors.

Neither the director nor any member of the director's immediate family has been employed as an executive officer by any company whose compensation committee includes an executive officer of the Company.

The director has not been employed by, and no member of the director's immediate family has been an executive officer of, any company that makes payments to, or receives payments from, the Company for property or services in annual amounts exceeding the greater of \$1 million, or 2% of such other company's consolidated gross revenues.

In making this determination, the Nominating and Corporate Governance Committee and the Board broadly consider all relevant facts and circumstances, including (1) the nature of any relationships with the Company, (2) the significance of the relationship to the Company, the other organization and the individual director, (3) whether or not the relationship is solely a business relationship in the ordinary course of the Company's and the other organization's businesses and does not afford the director any special benefits, and (4) any commercial, banking, consulting, legal, accounting, charitable and familial relationships.

In the Company's case, the issue of independence is affected by the fact that prior to May 2001, Lehman Brothers Merchant Banking Partners II L.P. and affiliated entities (collectively, the Merchant Banking Fund) owned in excess of 90% of the Company's outstanding common stock. Since that time, the Merchant Banking Fund has periodically decreased its interest in the Company by selling shares through registered public offerings. Following the completion of a secondary offering on March 23, 2004, the Merchant Banking Fund owned approximately 3,500 shares of Company Common Stock. In view of the Merchant Banking Fund's prior ownership levels and its affiliation with Lehman Brothers, special procedures (Service Review Procedures) have been put in place whereby the Audit Committee reviews in advance all investment banking and other services provided by Lehman Brothers. Those directors who are affiliated with Lehman Brothers and/or the Merchant Banking Fund do not participate in any decisions or discussions related to these services. During the past year, the Company paid Lehman Brothers an aggregate of approximately \$7.4 million for investment banking and related services, which amount represented approximately 35% of the Company's total investment banking and related fees. While confident that the Service Review Procedures ensure an independent review, the Board also carefully considers the potential impact that these services and fees could have on the perceived independence of its members who are affiliated with the Merchant Banking Fund and/or Lehman Brothers.

After considering the standards for independence adopted by the New York Stock Exchange and the various other factors described above, the Board of Directors has determined that nine of its current twelve members are independent, including Messrs. Brown, Coley, James, Karn and Rusnack, Drs. Givens, Schlesinger and Touhill, and Ms. Van Trease. In making these determinations, the Board has considered all relevant facts and circumstances, including the relationships set forth below. The Board also has determined that, except as described below, there are no other relationships, whether industrial, banking, consulting, legal, accounting, charitable or familial, which would impair the independence of any of the directors or nominees. None of the directors other than Mr. Engelhardt receives any compensation from the Company other than customary director and committee fees.

The Board of Directors has determined that B. R. Brown makes valuable contributions and is independent under guidelines established by the New York Stock Exchange. In making this determination, the Board noted that prior to his retirement in 1999 Mr. Brown served on various industry-related committees and other organizations along with Mr. Engelhardt and other members of the Company's management team during his tenure as Chairman and CEO of CONSOL Energy, a competitor in the coal industry. The Board has concluded that these relationships are not material and do not impair, or appear to impair, Mr. Brown's independent judgment.

Table of Contents

Upon his election to the Board of Directors in March 2004, the Board determined that Mr. Coley is independent under guidelines established by the New York Stock Exchange. In making this determination, the Board noted Mr. Coley's role prior to February 2003 as President of Duke Power, a customer of the Company. The Board has determined that this relationship is not material, since Mr. Coley is no longer affiliated with Duke Power and the aggregate value of coal purchases and other commercial transactions between the Company and Duke has been far less than 2% of either company's consolidated gross revenues during each of the past five years. In addition, Mr. Coley has indicated that he will not participate in any future discussions or deliberations with respect to transactions between the Company and Duke Power. Based on the foregoing, the Board of Directors has determined that this relationship does not impair, or appear to impair, Mr. Coley's independent judgment.

The Board of Directors has determined that Irl F. Engelhardt makes valuable contributions as Chairman and Chief Executive Officer of the Company. Under New York Stock Exchange rules, Mr. Engelhardt cannot be deemed independent due to his current position as a Company employee.

Upon his election to the Board of Directors in March 2004, the Board determined that Dr. Givens is independent under guidelines established by the New York Stock Exchange. In making this determination, the Board noted that the Company contributes \$25,000 annually to each of Harris-Stowe State College and the St. Louis Science Center. Dr. Givens is President of Harris-Stowe and he serves on the Board of the Science Center, a St. Louis-based non-profit organization. The Board has concluded that these relationships are not material, since the Company's annual contributions represent substantially less than 2% of each organization's total charitable contributions. The Board also noted that Dr. Givens serves on the advisory board of U.S. Bank, N.A. (St. Louis) along with Mr. Engelhardt and Ms. Van Trease. U.S. Bank has various commercial banking relationships with the Company, as described below. Dr. Givens, Ms. Van Trease and Mr. Engelhardt did not solicit these commercial relationships with U.S. Bank, and they were not involved in any related discussions or deliberations. The Board of Directors has concluded that these relationships are not material to the Company and do not impair, or appear to impair, Dr. Givens' independent judgment.

The Board of Director has determined that William E. James makes valuable contributions and is independent under guidelines established by the New York Stock Exchange. In making this determination, the Board considered the fact that nearly four years has elapsed since Mr. James served as Chairman of Citizens Power LLC, a former Company subsidiary. The Board also noted Mr. James' current role as a consultant to Lehman Brothers. The Board has reviewed Mr. James' annual income from Lehman Brothers and determined that it does not impair his independence relative to the Company. The Board also has determined that Mr. James' consulting relationship is not related to the Company, and that he has no direct or indirect control over any of the funds affiliated with Lehman Brothers that previously owned Company stock. Finally, the Board has determined that Mr. James receives no direct or indirect benefit from any fees that Lehman Brothers has received for providing investment-banking services to the Company, which constitute substantially less than 2% of Lehman Brothers' annual consolidated gross revenues. After considering all relevant facts and circumstances, the Board has determined that none of these relationships impairs, or appears to impair, Mr. James' independent judgment.

The Board of Directors has determined that Robert B. Karn III makes valuable contributions and is independent under guidelines established by the New York Stock Exchange. In making this determination, the Board considered the fact that Mr. Karn served as a party-appointed arbitrator in a commercial arbitration proceeding involving one of the Company's subsidiaries from 2000-2002. Mr. Karn received approximately \$60,000 in total compensation over a two year period for these services. Mr. Karn is also a director of Natural Resource Partners, a coal-oriented master limited partnership. To date, the Board of Directors has not considered any transactions involving Natural Resource Partners. If any such transactions arise in the future, Mr. Karn has indicated that he will not participate in any related discussions or deliberations. The Board has concluded that these relationships are not material to the Company or Mr. Karn and do not impair, or appear to impair, Mr. Karn's independent judgment.

The Board of Directors has determined that Henry E. Lentz makes valuable contributions, but he has not been deemed independent at this time. In making this determination, the Board considered Mr. Lentz's

Table of Contents

current role as an Advisory Director of Lehman Brothers. The Board also noted Mr. Lentz's prior employment (through 2002) as a Managing Director of Lehman Brothers and his former role with Lehman Brothers Merchant Banking Group, which manages Lehman Brothers Merchant Banking Partners II, L.P. Mr. Lentz is not involved with Lehman Brothers banking activities related to the Company, and the Board of Directors believes he meets all technical requirements for independence established by the New York Stock Exchange. However, out of an abundance of caution and in view of the potential perception issues that could be raised by his employment relationship with Lehman Brothers and the investment banking services it provides to the Company, the Board of Directors has decided not to declare Mr. Lentz independent at this time. The Board of Directors intends to reevaluate Mr. Lentz's independence at least annually and as circumstances warrant, taking into consideration among other things the Service Review Procedures described above and their potential impact on his perceived independence. Based on subsequent reviews, the Board of Directors could potentially reach a different conclusion regarding Mr. Lentz's independence in the future.

The Board of Directors has determined that William C. Rusnack makes valuable contributions and is independent under guidelines established by the New York Stock Exchange. In making this determination, the Board noted that Mr. Rusnack serves on the Board of the St. Louis Science Center, a non-profit organization that receives annual contributions of approximately \$25,000 from the Company. The Board has concluded that this relationship is not material, since the Company's annual contributions represent substantially less than 2% of the Science Center's total charitable contributions. The Board also noted that Mr. Rusnack serves on the Board of Directors of Sempra Energy, an electric and gas utility. Sempra Energy is not a Company customer. The Board has concluded that these relationships do not impair, or appear to impair, Mr. Rusnack's independent judgment.

The Board of Directors has determined that Dr. James R. Schlesinger makes valuable contributions and is independent under guidelines established by the New York Stock Exchange. In making this determination, the Board noted the fact that Dr. Schlesinger has been a consultant to Lehman Brothers since 1980. The Board also noted that Dr. Schlesinger is an investor in Lehman Brothers Capital Partners IV, L.P., a fund that prior to March 23, 2004 owned approximately 1.5 million shares of Company common stock (Capital Partners IV). The Board has reviewed Dr. Schlesinger's annual income from Lehman Brothers, as well as his investment in Capital Partners IV, and determined that neither is significant enough to impair his independence relative to the Company. The Board also has determined that Dr. Schlesinger's consulting relationship is not related to the Company, and that he has no direct or indirect control over any of the funds affiliated with Lehman Brothers that previously owned Company stock. Finally, the Board has determined that Dr. Schlesinger receives no direct or indirect benefit from any fees that Lehman Brothers has received for providing investment-banking services to the Company, which constitute substantially less than 2% of Lehman Brothers' annual consolidated gross revenues. After considering all relevant facts and circumstances, the Board has determined that none of these relationships with Lehman Brothers impairs, or appears to impair, Dr. Schlesinger's independent judgment.

The Board of Directors has determined that Dr. Blanche M. Touhill makes valuable contributions and is independent under guidelines established by the New York Stock Exchange. In making this determination, the Board noted that the Company contributed approximately \$10,000 to the University of Missouri - St. Louis in 2002 during Dr. Touhill's tenure as Chancellor. The Company also contributed approximately \$10,000 to that institution in 2003, following Dr. Touhill's retirement. The Board has concluded that these relationships are not material and do not impair, or appear to impair, Dr. Touhill's independent judgment, since the Company's contributions represent substantially less than 2% of the total annual contributions received by the University of Missouri - St. Louis.

The Board of Directors has determined that Sandra Van Trease makes valuable contributions and is independent under guidelines established by the New York Stock Exchange. In making this determination, the Board noted that Ms. Van Trease serves on the advisory board of U.S. Bank, N. A. (St. Louis) along with Mr. Engelhardt and Dr. Givens. U.S. Bank provides various commercial banking services to the Company, including equipment leasing and cash management services. U.S. Bank is also a participating lender under the Company's \$900,000,000 revolving credit facility, with commitments totaling \$50,000,000. These services are offered to the Company on the same general terms and conditions as other large commercial customers.

Table of Contents

Ms. Van Trease, Dr. Givens and Mr. Engelhardt did not solicit these commercial relationships with U.S. Bank, and they were not involved in any related discussions or deliberations. The Board of Directors has concluded that this relationship is not material to the Company and does not impair, or appear to impair, Ms. Van Trease's independent judgment.

The Board of Directors has determined that Alan H. Washkowitz makes valuable contributions, but he has not been deemed independent at this time. In making this determination, the Board noted the fact that Mr. Washkowitz is an employee and Managing Director of Lehman Brothers, and part of Lehman Brothers' Merchant Banking Group, with responsibility for oversight of Lehman Brothers Merchant Banking Partners II L.P. Mr. Washkowitz is not involved with Lehman Brothers' banking activities related to the Company, and the Board of Directors believes he meets all technical requirements for independence established by the New York Stock Exchange. However, out of an abundance of caution and in view of the potential perception issues that could be raised by his employment relationship with Lehman Brothers and the investment banking services it provides to the Company, the Board of Directors has decided not to declare Mr. Washkowitz independent at this time. The Board of Directors intends to reevaluate Mr. Washkowitz's independence at least annually and as circumstances warrant, taking into consideration among other things the Service Review Procedures described above and their potential impact on his perceived independence. Based on subsequent reviews, the Board of Directors could potentially reach a different conclusion regarding Mr. Washkowitz's independence in the future.

The Board believes that its members have always acted independently and in the best interests of the Company and its stockholders, regardless of any potential perception issues or whether they satisfy the NYSE's technical independence criteria.

Compensation of Directors

Directors who are employees of the Company receive no additional pay for serving as directors. Prior to March 23, 2004, directors who were employed by Lehman Brothers also did not receive additional pay for serving as directors. Each director who is not an employee of the Company (a non-employee director) is paid an annual cash retainer of \$45,000. Committee chairpersons other than the Audit Committee Chair also receive an annual \$3,500 cash retainer for committee service. The Audit Committee Chair receives a \$10,000 annual cash retainer, and other Audit Committee members receive \$5,000 annual cash retainers for committee service. Non-employee directors also receive \$1,500 for each day that they attend Board and/or committee meetings. The Company pays the travel and accommodation expenses of directors to attend meetings and other corporate functions.

Non-employee directors receive options to purchase 1,000 shares of Company Common Stock and a grant of restricted stock valued at \$50,000 when they are first elected to the Board of Directors. Non-employee directors also receive annual stock option grants valued at \$25,000 (based on Black-Scholes methodology). The shares subject to the restricted stock awards vest after three years if the recipient continues to serve on the Board of Directors. All non-employee director stock options are granted at an exercise price equal to the fair market value of the Company's Common Stock on the date of grant. These options vest in one-third increments over three years and expire ten years after grant. In the event of a change of control of the Company, any previously unvested options will vest and all restrictions related to the restricted stock awards will lapse.

Board Attendance and Executive Sessions

The Board of Directors met eleven times in 2003. During that period, each incumbent director attended 75% or more of the aggregate number of meetings of the Board and the committees on which he or she served that were held during his or her tenure as director, and average attendance was 95%. Pursuant to the Company's Corporate Governance Guidelines, the non-management directors meet in executive session at least quarterly. In addition, if the Board of Directors determines that any non-management directors are not independent under criteria established by the New York Stock Exchange, an executive session comprised

Table of Contents

solely of independent directors will be held at least once a year. During 2003, the Company's non-management directors met in executive session six times. The chair of each executive session is selected in advance by non-management directors and is rotated at each meeting so that (i) the same non-management director does not lead two consecutive sessions, and (ii) to the extent practical, each non-management director has an opportunity to serve as chair before repeating the rotational cycle.

Committees of the Board of Directors

The Board has appointed four standing committees from among its members to assist it in carrying out its obligations. These committees include an Audit Committee, Compensation Committee, Executive Committee and Nominating and Corporate Governance Committee. Each standing committee has adopted a formal charter that describes in more detail its purpose, organizational structure and responsibilities. A copy of each committee charter can be found on the Company's website (www.peabodyenergy.com) by clicking on Investor Info, and then Corporate Governance. A description of each committee and its current membership follows:

Compensation Committee

The members of the Compensation Committee are Robert B. Karn III (Chair) (since January 2004), Blanche M. Touhill and B. R. Brown (since January 2004). Messrs. Washkowitz and Lentz served on the Compensation Committee until January 2004. The Board of Directors has affirmatively determined that, in its judgment, all current members of the Compensation Committee are independent under rules established by the New York Stock Exchange.

The Compensation Committee met eight times during 2003. Some of the primary responsibilities of the Compensation Committee include the following:

- To monitor performance and compensation of the Company's CEO, executive officers and other key employees;
- To review and recommend compensation policies, plans and programs for the Company's CEO, executive officers and other key employees;
- To approve Company-wide salary increase budgets and overall compensation and benefits plan design for Company employees;
- To administer the Company's annual and long-term incentive programs;
- To periodically assess the Company's director compensation program and, when appropriate, recommend modifications for Board consideration;
- To review and make recommendations to the Board of Directors with respect to succession planning and management development; and
- To make regular reports on its activities to the Board of Directors.

A separate Report of the Compensation Committee on Executive Compensation is set forth on pages 26 through 30 of this Proxy Statement.

Executive Committee

The members of the Executive Committee are Irl F. Engelhardt (Chair), Henry E. Lentz, William C. Rusnack (since January 2004) and Alan H. Washkowitz. The Executive Committee met thirteen times during 2003.

Table of Contents

When the Board of Directors is not in session, the Executive Committee will have all of the power and authority as delegated by the Board of Directors, except with respect to:

- Amending the Company's certificate of incorporation and by-laws;
- Adopting an agreement of merger or consolidation;
- Recommending to stockholders the sale, lease or exchange of all or substantially all of the Company's property and assets;
- Recommending to stockholders a dissolution of the Company or revocation of any dissolution;
- Declaring a dividend;
- Issuing stock; and
- Appointing members of Board committees.

Nominating and Corporate Governance Committee

The members of the Nominating and Corporate Governance Committee are Blanche M. Touhill (Chair), Robert B. Karn III (since October 2003) and William C. Rusnack (since October 2003). Messrs. Washkowitz and James and Dr. Schlesinger served on the Nominating and Corporate Governance Committee until October 2003. The Board of Directors has affirmatively determined that, in its judgment, all current members of the Nominating and Corporate Governance Committee are independent under rules established by the New York Stock Exchange.

The Nominating and Corporate Governance Committee met nine times during 2003. Some of the primary responsibilities of the Nominating and Corporate Governance Committee include the following:

- To identify, evaluate and recommend qualified candidates for election to the Board of Directors;
- To advise the Board of Directors on matters related to corporate governance;
- To assist the Board of Directors in conducting its annual assessment of Board performance;
- To recommend the structure, composition and responsibilities of other Board committees;
- To advise the Board of Directors on matters related to corporate social responsibility; and
- To make regular reports on its activities to the Board of Directors.

Audit Committee

The members of the Audit Committee are William C. Rusnack (Chair), Robert B. Karn III and Sandra Van Trease. The Board of Directors has affirmatively determined that, in its judgment, each member of the Audit Committee meets all applicable independence standards established by the New York Stock Exchange. The Board of Directors also has determined that each of Messrs. Rusnack and Karn and Ms. Van Trease is an audit committee financial expert under rules and regulations adopted by the Securities and Exchange Commission.

The Audit Committee met nine times during 2003. The Audit Committee's primary purpose is to provide assistance to the Board of Directors in fulfilling its oversight responsibility with respect to:

- The quality and integrity of the Company's financial statements and financial reporting processes;
- The Company's systems of internal accounting and financial controls and disclosure controls;

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The independent auditor's qualifications and independence;

The performance of the Company's internal audit function and independent auditor; and

Compliance with legal and regulatory requirements, and codes of conduct and ethics programs established by management and the Board of Directors.

Table of Contents

Some of the primary responsibilities of the Audit Committee include the following:

To appoint the Company's independent auditor, which shall report directly to the Audit Committee;

To approve all audit engagement fees and terms and all permissible non-audit engagements with the Company's independent auditor;

To ensure that the Company maintains an internal audit function and review the appointment of the senior internal audit team and/or provider;

To approve the terms of engagement for the internal audit provider;

To meet on a regular basis with the Company's financial management, internal audit management and independent external auditors to review matters relating to the Company's internal accounting controls, internal audit program, accounting practices and procedures, the scope and procedures of the outside audit, the independence of the external auditors and other matters relating to the Company's financial condition;

To oversee the Company's financial reporting process and to review in advance the Company's quarterly reports on Form 10-Q, annual reports on Form 10-K, annual reports to stockholders, proxy materials and earnings press releases;

To review the Company's guidelines and policies with respect to risk assessment and risk management, and to monitor the Company's major financial risk exposures and steps management has taken to control such exposures; and

To make regular reports to the Board of Directors regarding the activities and recommendations of the Audit Committee.

The Audit Committee has adopted a formal charter that describes in more detail the committee's purpose, organizational structure and responsibilities. A copy of the Audit Committee charter is attached to this Proxy Statement as Annex B.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee has reviewed and discussed the Company's audited financial statements for the fiscal year ended December 31, 2003 with management and Ernst & Young LLP, the Company's independent external auditor (Ernst & Young). Management is responsible for the Company's internal controls, financial reporting processes and financial statements, while Ernst & Young is responsible for conducting its audit in accordance with generally accepted auditing standards and expressing an opinion on the Company's financial statements in accordance with generally accepted accounting principles.

The Audit Committee reviewed with Ernst & Young the overall scope and plans for their audit of the Company's financial statements. The Audit Committee also discussed with Ernst & Young matters relating to the quality and acceptability of the Company's accounting principles, as applied in its financial reporting processes, as required by Statement of Auditing Standards (SAS) No. 61 and SAS No. 90. In addition, the Audit Committee reviewed and discussed with Ernst & Young the auditor's independence from management and the Company, as well as the matters included in written disclosures received from Ernst & Young as required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees. As part of its review, the Audit Committee reviewed fees paid to Ernst & Young and considered whether Ernst & Young's performance of non-audit services for the Company was compatible with the auditor's independence.

Table of Contents

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 for filing with the Securities and Exchange Commission.

MEMBERS OF THE AUDIT COMMITTEE:

WILLIAM C. RUSNACK, CHAIR
ROBERT B. KARN III
SANDRA VAN TREASE

APPOINTMENT OF INDEPENDENT AUDITORS AND FEES

Ernst & Young LLP served as the Company's independent auditors for the fiscal year ended December 31, 2003 and has been appointed to serve in that capacity again for fiscal 2004, subject to ratification by the Company's stockholders (see Item 2 - Approval of Independent Public Accountants on page 32 of this Proxy Statement).

The following fees were paid to Ernst & Young for services rendered during the Company's last two fiscal years:

Audit Fees: \$1,043,000 (for the fiscal year ended December 31, 2003) and \$797,000 (for the fiscal year ended December 31, 2002) for professional services rendered for the audit of the Company's annual financial statements, review of financial statements included in the Company Forms 10-Q and services that are normally provided by Ernst & Young in connection with statutory and regulatory filings or engagements for those fiscal years.

Audit-Related Fees: \$185,000 (for the fiscal year ended December 31, 2003) and \$191,000 (for the fiscal year ended December 31, 2002) for assurance related services for audits of employee benefit plans, due diligence services related to acquisitions or divestitures and consultation services related to proposed or newly released accounting standards.

Tax Fees: \$551,000 (for the fiscal year ended December 31, 2003) and \$813,000 (for the fiscal year ended December 31, 2002) for tax compliance, tax advice and tax planning services.

All Other Fees: \$0 (for the fiscal year ended December 31, 2003) and \$142,000 (for the fiscal year ended December 31, 2002). Other services in 2002 related to internal audit and arbitration support services incurred prior to the release of the new rules and regulations governing such services.

Under procedures established by the Board of Directors, the Audit Committee is required to pre-approve all audit and non-audit services performed by the Company's independent auditor to ensure that the provisions of such services do not impair the auditor's independence. The Audit Committee may delegate its pre-approval authority to one or more of its members, but not to management. The member or members to whom such authority is delegated shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting. A copy of the Audit Committee's pre-approval procedures is set forth in Annex B to this Proxy Statement, following the Audit Committee Charter and Responsibilities Checklist.

Each fiscal year, the Audit Committee reviews with management and the independent auditor the types of services that are likely to be required throughout the year. Those services are comprised of four categories, including audit services, audit-related services, tax services and all other permissible services. At that time, the Audit Committee pre-approves a list of specific services that may be provided within each of these categories, and sets fee limits for each specific service or project. Management is then authorized to engage the independent auditor to perform the pre-approved services as needed throughout the year, subject to providing the Audit Committee with regular updates. The Audit Committee reviews all billings submitted by the independent auditor on a regular basis to ensure that their services do not exceed pre-defined limits. The Audit Committee must review and approve in advance, on a case-by-case basis, all other projects, services and fees

Table of Contents

to be performed by or paid to the independent auditor. The Audit Committee also must approve in advance any fees for pre-approved services that exceed the pre-established limits, as described above.

Under Company policy and/or applicable rules and regulations, since April 2003 the independent auditor is prohibited from providing the following types of services to the Company: (1) bookkeeping or other services related to the Company's accounting records or financial statements, (2) financial information systems design and implementation, (3) appraisal or valuation services, fairness opinions or contribution-in-kind reports, (4) actuarial services, (5) internal audit outsourcing services, (6) management functions, (7) human resources, (8) broker-dealer, investment advisor or investment banking services, (9) legal services, and (10) expert services unrelated to audit.

During the fiscal year ended December 31, 2003, 76% of the services described under the headings "Audit-Related Fees," "Tax Fees" and "All Other Fees" were approved by the Audit Committee pursuant to the procedures described above, which were adopted by the Board of Directors effective April 15, 2003. Fees incurred prior to that date, while not subject to these procedures, were also reviewed and approved by the Audit Committee upon adoption of the procedures noted above.

CORPORATE GOVERNANCE MATTERS

Good corporate governance has been a priority at Peabody Energy for many years—long before the recent public focus on corporate reforms. For a decade, our Statement of Mission and Principles has been displayed in our conference rooms to help guide difficult decision-making. Our managers annually commit to the Company's Code of Business Conduct and Ethics. Even before our initial public offering, we issued an annual report and our Chief Executive Officer and Chief Financial Officer signed off on the financial statements.

During the past two years, our Board of Directors has performed an exhaustive review of our corporate governance policies and practices in light of:

The Company's 2001 initial public offering;

Subsequent reductions in ownership by a majority stockholder;

The provisions of the Sarbanes-Oxley Act of 2002, the new and proposed rules of the Securities and Exchange Commission and the New York Stock Exchange's new governance standards; and

Practices suggested by various authorities in corporate governance and those of other public companies.

Based on this review, the Board of Directors has adopted a number of enhancements to the Company's policies and practices, including the following:

The Board has greatly expanded the representation of independent directors and increased the financial skills and industry experience of its members;

The Board has adopted a set of Corporate Governance Guidelines to provide clear corporate governance policies;

The Board has amended and restated the charters of its standing committees to clearly establish their respective roles and responsibilities;

The Audit, Compensation, and Nominating and Corporate Governance Committees have been realigned to ensure that each member is independent under New York Stock Exchange rules;

The Company maintains a clear Code of Business Conduct and Ethics (including a financial code of ethics) applicable to directors, officers and employees;

The Company has established a procedure for receipt and treatment of anonymous and confidential complaints or concerns regarding audit or accounting matters; and

Table of Contents

The Audit Committee must pre-approve all audit and non-audit services performed by the Company's independent auditor to ensure that such services do not impair the auditor's independence.

The Nominating and Corporate Governance Committee of the Board of Directors is responsible for reviewing the Corporate Governance Guidelines from time to time and reporting and making recommendations to the Board concerning corporate governance matters. Among the matters addressed by the Corporate Governance Guidelines are the following:

At least a majority of the Company's directors must meet the criteria for independence established by the New York Stock Exchange;

The non-management members of the Board of Directors are required to meet at least quarterly in executive session, without management;

The Compensation Committee regularly evaluates the Company's management succession and development plan and reports its findings and recommendations to the Board at least annually;

Directors have full and free access to the Company's officers and employees;

The Board and each committee has the power to hire independent legal, financial and other advisors without consulting or obtaining the advance approval of any officer;

Each director participates in a director orientation program shortly after his or her election, and is encouraged to periodically pursue, at the Company's expense, appropriate continuing education programs; and

The Board and its committees conduct annual performance reviews to evaluate whether they are functioning effectively and to determine what actions, if any, could improve their performance. The Board and each committee completed their most recent performance evaluations in March 2004.

The Company maintains a Corporate Governance webpage which includes additional information about these and other important corporate governance initiatives. The Corporate Governance webpage can be found on the Internet at www.peabodyenergy.com, by clicking on "Investor Info," and then "Corporate Governance." The Corporate Governance webpage includes a copy of the Company's Code of Business Conduct and Ethics, which applies to the Company's Chief Executive Officer, Chief Financial Officer, Controller and other Company personnel.

Stockholder Communications with the Board of Directors

The Board of Directors has adopted the following procedures for stockholders and other interested persons to send communications to the Board, individual directors and/or Committee Chairs (collectively, "Stockholder Communications"):

Stockholders and other interested persons seeking to communicate with the Board should submit their written comments to the Chairman, Peabody Energy Corporation, 701 Market Street, St. Louis, MO 63101. The Chairman will forward such Stockholder Communications to each Board member (excluding routine advertisements and business solicitations, as instructed by the Board), and provide a report on the disposition of matters stated in such communications at the next regular meeting of the Board of Directors. If a Stockholder Communication (excluding routine advertisements and business solicitations) is addressed to a specific individual director or Committee Chair, the Chairman will forward that communication to the named director, and will discuss with that director whether the full Board and/or one of its committees should address the subject matter.

If a Stockholder Communication raises concerns about the ethical conduct of management or the Company, it should be sent directly to the Company's Vice President - Legal Services at 701 Market Street, St. Louis, Missouri 63101. The Vice President - Legal Services will promptly forward a copy of such Stockholder Communication to the Chairman of the Audit Committee and, if appropriate, the Chairman of

Table of Contents

the Board, and take such actions as they authorize to ensure that the subject matter is addressed by the appropriate Board committee, management and/or the full Board.

If a stockholder or other interested person seeks to communicate exclusively with the Company's non-management directors, such Stockholder Communications should be sent directly to the Corporate Secretary who will forward any such communications directly to the Chair of the Nominating and Corporate Governance Committee. The Corporate Secretary will first consult with and receive the approval of the Chair of the Nominating and Corporate Governance Committee before disclosing or otherwise discussing the communication with members of management or directors who are members of management.

At the direction of the Board, the Company reserves the right to screen all materials sent to its directors for potential security risks and/or harassment purposes.

Stockholders also have an opportunity to communicate with the Board of Directors at the Company's Annual Meeting of Stockholders. Pursuant to Board policy, each director is expected to attend the Annual Meeting in person and be available to address questions or concerns raised by stockholders, subject to occasional excused absences due to illness or unavoidable conflicts. Ten of the Company's then incumbent eleven directors attended the last Annual Meeting of Stockholders in May 2003.

Overview of Director Nominating Process

The Board of Directors believes that one of its primary goals is to advise management on strategy and to monitor the Company's performance. The Board also believes that the best way to accomplish this goal is by choosing directors who possess a diversity of experience, knowledge and skills that are particularly relevant and helpful to the Company. As such, current Board members possess a wide array of skills and experience in the coal industry, related energy industries and other important areas, including finance and accounting, operations, environmental management, education, governmental affairs and administration, and healthcare. When evaluating potential members, the Board seeks to enlist the services of candidates who possess the highest ethical standards, and a combination of skills and experience which the Board determines are the most appropriate at that time to meet its objectives. The Board believes all candidates should be committed to creating value over the long-term and to serving the best interests of the Company and all of its stockholders.

The Nominating and Corporate Governance Committee (Committee) is responsible for identifying, evaluating and recommending qualified candidates for election to the Board of Directors. The Committee will consider director candidates submitted by stockholders. Any stockholder wishing to submit a candidate for consideration should send the following information to the Corporate Secretary, Peabody Energy Corporation, 701 Market Street, St. Louis, Missouri 63101:

Stockholder's name, number of shares owned, length of period held, and proof of ownership;

Name, age and address of candidate;

A detailed resume describing among other things the candidate's educational background, occupation, employment history, and material outside commitments (*e.g.*, memberships on other boards and committees, charitable foundations, etc.);

A supporting statement which describes the candidate's reasons for seeking election to the Board of Directors, and documents his/her ability to satisfy the director qualifications described below;

A description of any arrangements or understandings between the stockholder and the candidate;

A signed statement from the candidate, confirming his/her willingness to serve on the Board of Directors.

The Corporate Secretary will promptly forward such materials to the Committee Chair and the Chairman of the Board. The Corporate Secretary also will maintain copies of such materials for future reference by the Committee when filling Board positions.

Table of Contents

Stockholders may submit potential director candidates at any time pursuant to these procedures. The Committee will consider such candidates if a vacancy arises or if the Board decides to expand its membership, and at such other times as the Committee deems necessary or appropriate. Separate procedures apply if a stockholder wishes to nominate a director candidate at the 2005 Annual Meeting. Those procedures are described below under the heading Information About Stockholder Proposals.

Pursuant to its charter, the Committee must review with the Board of Directors, at least annually, the requisite qualifications, independence, skills and characteristics of Board candidates, members and the Board as a whole. When assessing potential new directors, the Committee considers individuals from various and diverse backgrounds. While the selection of qualified directors is a complex and subjective process that requires consideration of many intangible factors, the Committee believes that candidates should generally meet the following criteria:

Candidates should possess broad training, experience and a successful track record at senior policy-making levels in business, government, education, technology, accounting, law, consulting and/or administration.

Candidates should possess the highest personal and professional ethics, integrity and values. Candidates also should be committed to representing the long-term interests of the Company and all of its stockholders.

Candidates should have an inquisitive and objective perspective, strength of character and the mature judgment essential to effective decision-making.

Candidates need to possess expertise that is useful to the Company and complementary to the background and experience of other Board members.

Candidates need to be willing to devote sufficient time to Board and Committee activities and to enhance their knowledge of the Company's business, operations and industry.

The Committee is willing to consider candidates submitted by a variety of sources (including, without limit, incumbent directors, stockholders, Company management and third party search firms) when reviewing candidates to fill vacancies and/or expand the Board. If a vacancy arises or the Board decides to expand its membership, the Committee generally asks each director to submit a list of potential candidates for consideration. The Committee then evaluates each potential candidate's educational background, employment history, outside commitments and other relevant factors to determine whether he/she is potentially qualified to serve on the Board. At that time, the Committee also will consider potential nominees submitted by stockholders in accordance with the procedures described above. The Committee seeks to identify and recruit the best available candidates, and it intends to evaluate qualified stockholder nominees on the same basis as those submitted by Board members or other sources.

After completing this process, the Committee will determine whether one or more candidates are sufficiently qualified to warrant further investigation. If the process yields one or more desirable candidates, the Committee will rank them by order of preference, depending on their respective qualifications and the Company's needs. The Committee Chair, or another director designated by the Committee Chair, will then contact the preferred candidate(s) to evaluate their potential interest and to set up interviews with members of the Committee. All such interviews are held in person, and include only the candidate and the independent Committee members. Based upon interview results and appropriate background checks, the Committee then decides whether it will recommend the candidate's nomination to the full Board.

The Committee believes this process has consistently produced highly qualified, independent Board members to date. However, the Committee may choose, from time to time, to use additional resources (including independent third party search firms) after determining that such resources could enhance a particular director search. The Committee has not used third party firms in connection with prior searches.

Dr. Henry Givens, Jr. and William A. Coley were first elected to the Board in March 2004. Those candidates were recommended to the Committee by non-management directors.

Table of Contents**OWNERSHIP OF COMPANY SECURITIES**

Unless otherwise noted, the following table sets forth information as of March 1, 2004 with respect to persons or entities who are known to beneficially own more than 5% of the Company's outstanding Common Stock, each director, each executive officer named in the Summary Compensation Table below, and all directors and executive officers as a group.

Beneficial Owners of More Than Five Percent, Directors and Management

(as of March 1, 2004)

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership ⁽¹⁾⁽²⁾	Percent of Class ⁽³⁾
Lehman Brothers Merchant Banking Partners II L.P. and affiliates c/o Lehman Brothers Holdings Inc. 745 Seventh Avenue, 25th Floor New York, New York 10019	10,267,169 ⁽⁵⁾	18.7% ⁽⁵⁾
FMR Corp. (Fidelity Management & Research Company)	4,379,143	8.0%
B. R. Brown	1,334	*
William A. Coley	(6)	*
Irl F. Engelhardt	648,540	1.2%
Henry Givens, Jr.	(6)	*
William E. James ⁽⁴⁾	30,046	*
Robert B. Karn III	2,962	*
Henry E. Lentz ⁽⁴⁾		*
Richard A. Navarre	82,636	*
Fredrick D. Palmer	31,403	*
William C. Rusnack	3,174	*
James R. Schlesinger ⁽⁴⁾	3,178	*
Blanche M. Touhill	3,178	*
Sandra Van Trease	4,162	*
Roger B. Walcott, Jr.	114,312	*
Alan H. Washkowitz ⁽⁴⁾		*
Richard M. Whiting	144,249	*
All directors and executive officers as a group (20 people)	1,673,293	3.0%

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting and investment power with respect to shares. Unless otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all shares beneficially owned.

(2) Includes shares issuable pursuant to stock options exercisable within 60 days after March 1, 2004, as follows: Mr. Engelhardt, 433,837; Mr. Navarre, 26,296; Mr. Palmer, 29,131; Mr. Walcott, 39,844; Mr. Whiting, 81,346; Mr. James, 28,166; Mr. Karn, 334; Mr. Rusnack, 1,266; Dr. Schlesinger, 1,266; Dr. Touhill, 1,266; Ms. Van Trease, 334; and all directors and executive officers as a group, 1,045,240. Also includes shares of restricted stock that remain unvested as of March 1, 2004 as follows: Mr. Brown, 1,334; Mr. James, 1,880; Mr. Karn, 1,828; Mr. Rusnack, 1,908; Dr. Schlesinger, 1,912; Dr. Touhill, 1,912; Ms. Van Trease, 1,828; and all directors and executive officers as a group, 22,602.

(3) Asterisk (*) indicates that the applicable person owns less than one percent of the outstanding shares.

(4) Messrs. James and Schlesinger are consultants of Lehman Brothers. Mr. Washkowitz is a Managing Director of Lehman Brothers and part of Lehman Brothers Merchant Banking Group. Mr. Lentz is an

Table of Contents

Advisory Director of Lehman Brothers. Messrs. James, Lentz, Schlesinger and Washkowitz disclaim beneficial ownership of the shares held or controlled by these entities or their affiliates.

- (5) On March 23, 2004, Lehman Brothers Merchant Banking Partners II L.P. and affiliates sold these shares in a public secondary offering.
- (6) On March 22, 2004, William A. Coley and Dr. Henry Givens each received 1,131 restricted shares of Company Common Stock upon election to the Board of Directors.

Section 16(a) Beneficial Ownership Reporting Compliance

The Company's executive officers and directors and persons beneficially holding more than ten percent of the Company's Common Stock are required under the Securities Exchange Act of 1934 to file reports of ownership and changes in ownership of Company Common Stock with the Securities and Exchange Commission and the New York Stock Exchange. The Company files these reports of ownership and changes in ownership on behalf of its executive officers and directors. During the fiscal year ended December 31, 2003, the Company inadvertently made one late filing on behalf of each of the following officers when reporting their annual stock option grants in January 2003: Ian Craig, Irl Engelhardt, Sharon Fiehler, Jeffery Klinger, Richard Navarre, Jiri Nemec, Fredrick Palmer, Richard Whiting, Roger Walcott and John Wasik. To the best of the Company's knowledge, based solely on its review of the copies of such reports furnished to the Company during the fiscal year ending December 31, 2003, and written representations from certain reporting persons that no additional reports were required, all other required reports were timely filed.

EXECUTIVE COMPENSATION

The following table summarizes the annual and long-term compensation paid to the Chief Executive Officer and the four other most highly compensated executive officers of the Company for their service to the Company during the periods indicated.

Summary Compensation Table

Name and Principal Position	Fiscal Period Ended ⁽¹⁾	Long-Term Compensation					
		Annual Compensation		Restricted Stock Awards (#)	Securities Underlying Options (#) ⁽³⁾	LTIP Payments (\$) ⁽⁴⁾	All Other Compensation (\$) ⁽⁵⁾
		Salary (\$)	Bonus (\$) ⁽²⁾				
Irl F. Engelhardt Chairman, Chief Executive Officer and Director	12/31/03	875,000	1,500,000		41,110	594,484	94,693
	12/31/02	739,583	280,000		40,488		69,673
	12/31/01	543,750	1,270,895		38,839		63,227
	3/31/01	700,000	1,050,000		64,019		56,434
Richard M. Whiting Executive Vice President Sales, Marketing and Trading	12/31/03	462,200	410,136		15,074	232,331	48,467
	12/31/02	432,500	70,400		15,823		39,389
	12/31/01	318,750	412,590		15,179		35,628
	3/31/01	400,000	600,000		22,696		31,630
Richard A. Navarre Executive Vice President and Chief Financial Officer	12/31/03	432,438	420,000		14,560	164,004	44,000
	12/31/02	323,542	119,000		11,169		28,737
	12/31/01	225,000	451,520		10,714		23,720
	3/31/01	250,000	406,250		55,084		19,615

Table of Contents

Name and Principal Position	Fiscal Period Ended ⁽¹⁾	Annual Compensation		Long-Term Compensation			
		Salary (\$)	Bonus (\$) ⁽²⁾	Restricted Stock Awards (#)	Securities Underlying Options (#) ⁽³⁾	LTIP Payments (\$) ⁽⁴⁾	All Other Compensation (\$) ⁽⁵⁾
Roger B. Walcott, Jr.	12/31/03	421,225	374,000		14,217	218,672	43,040
Executive Vice President	12/31/02	407,500	80,000		14,892		37,094
Corporate Development	12/31/01	300,000	490,720		14,286		32,465
	3/31/01	350,000	525,000		22,696		27,530
Fredrick D. Palmer ⁽⁶⁾	12/31/03	364,500	320,000		12,333	191,321	28,383
Executive Vice President	12/31/02	355,000	57,600		13,031		24,074
Legal and External Affairs	12/31/01	262,500	343,980		12,500		18,731
	3/31/01	49,135	43,225		63,000		1,879

(1) Due to a change in the Company's fiscal year-end, amounts shown for the period ended December 31, 2001 relate to the nine-month fiscal period ended December 31, 2001.

(2) Amounts for the nine months ended December 31, 2001 include special bonuses paid with respect to the Company's initial public offering and prorated annual incentive bonuses paid for the nine-month period.

(3) Represents number of shares of Common Stock underlying options.

(4) Long-term performance awards earned in fiscal year 2003 were based on achievement of performance objectives for the period May 22, 2001 to December 31, 2003.

(5) Includes annual matching contributions and performance contributions to qualified and non-qualified savings and investment plans on behalf of the named executives in the following amounts: Mr. Engelhardt, \$90,500; Mr. Whiting, \$47,732; Mr. Navarre, \$43,541; Mr. Walcott, \$42,372; and Mr. Palmer, \$26,760. All remaining amounts are for group term life insurance.

(6) Mr. Palmer was employed by the Company effective February 12, 2001.

The following table sets forth information concerning the grant of stock options to each of the Company's executive officers listed on the Summary Compensation Table above during the fiscal year ended December 31, 2003. The exercise price for all options granted is equal to the fair market value of the Company's Common Stock on the date of grant.

Option Grants in Last Fiscal Year

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
	Number of Securities Underlying Options Granted (#) ⁽¹⁾	Percent of Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/share)	Expiration Date	5% ⁽²⁾ (\$)	10% ⁽²⁾ (\$)
Irl F. Engelhardt	41,110	4.3%	29.19	1/02/13	754,674	1,912,492
Richard M. Whiting	15,074	1.6%	29.19	1/02/13	276,720	701,263
Richard A. Navarre	14,560	1.5%	29.19	1/02/13	267,284	677,351
Roger B. Walcott, Jr.	14,217	1.5%	29.19	1/02/13	260,988	661,394
Fredrick D. Palmer	12,333	1.3%	29.19	1/02/13	226,402	573,748

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- (1) Other material terms of these options are described under the caption "Stock Options" in the Report of the Compensation Committee below.
- (2) The dollar amounts under these columns are the result of calculations at the 5% and 10% rates set by the SEC, and therefore are not intended to forecast possible future appreciation, if any, of the Company's

Table of Contents

Common Stock price. The dollar amounts reflect an assumed annualized growth rate, as indicated, in the market value of the Company's Common Stock from the date of grant to the end of the option term.

The following table sets forth information concerning the exercise of stock options by the executive officers listed on the Summary Compensation Table above, and the number and value of securities underlying unexercised options held by such executive officers as of December 31, 2003.

Aggregated Option Exercises in Last Fiscal Year**and Fiscal Year-End Option Values⁽¹⁾**

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-The-Money Options at Fiscal Year-End	
			Exercisable (#)	Unexercisable (#)	Exercisable (\$)	Unexercisable (\$)
Irl F. Engelhardt	85,000	1,559,158	406,637	392,616	10,625,349	9,636,213
Richard M. Whiting	110,000	2,055,412	71,047	139,484	1,743,071	3,398,088
Richard A. Navarre	140,000	2,671,348	17,719	122,670	341,126	3,004,113
Roger B. Walcott, Jr.	150,000	2,759,990	30,141	137,709	633,495	3,374,066
Fredrick D. Palmer	34,000	615,589	20,677	46,187	398,114	916,361

(1) Values are calculated based on the closing price of Peabody Energy Corporation Common Stock on December 31, 2003 (i.e., \$41.71 per share) less the applicable exercise price.

The following table sets forth information concerning the grant of performance units to each of the Company's executive officers listed on the Summary Compensation Table above during the fiscal year ended December 31, 2003. The performance period with respect to such awards is January 2, 2003 through December 31, 2005.

Long-Term Incentive Plans**Awards in Last Fiscal Year**

Name	Number of Shares, Units or Other Rights(#) ⁽¹⁾	Performance or Other Period Until Maturation or Payout
Irl F. Engelhardt	43,828	1/2/03 - 12/31/05
Richard M. Whiting		