Exhibit E

Peabody Energy Q3 2007 Earnings Call Transcript

Executives

Vic Svec **-** IR

Rick Navarre **-** CFO and EVP of Corporate Development

Greg Boyce **-** Chairman and CEO

Analysts

Jim Rollyson - Raymond James

Sheneer Ghashuni - UBS

Paul Forward - Stifel Nicolaus

Brian Gamble - Simmons &Company

Jeremy Sussman - Natixis

David Connie - FBR

Lawrence Jawan - Lehman Brothers

Mark Liinamaa - Morgan Stanley

Michael Dudas - Bear Stearns

Justine Fisher - Goldman Sachs

Brett Levy - Jefferies &Company

Yuri Maslov - Nevsky Capital

Shneur Gershuni - UBS

Peabody Energy Corp (BTU) Q3 2007 Earnings Call November 6, 2007 11:00 AM ET

Operator

Ladies and gentlemen, thank youfor standing by and welcome to the Peabody Energy Quarterly Earnings Call. Forthe conference, all the participant lines are in a listen only mode, however,there will be an opportunity for your questions and instructions will be givenat that time. (Operator Instructions). As a reminder, today's call is beingrecorded. I would now like to turn the conference over to Mr. Vic Svec. Pleasego ahead, sir.

Vic Svec

Okay, John and good morningeveryone. Thanks for taking part in the conference call for the new BTU. TodayCFO and Executive Vice President of Corporate Development, Rick Navarre, willreview our results and our outlook. Chairman and CEO, Greg Boyce, will discussthe markets, as well as significant Peabodyinitiatives that we have underway.

As you know, we have completedthe spin-off of Patriot Coal, which has been trading now for several weeks. Ouractual results include Patriot's performance and we have offered information tohelp you determine our pro forma results, excluding Patriot. The same appliesto our targets.

We can address questionsregarding the effects of the spin-off on Peabody,but as Patriot is now independent, any questions regarding Patriot are moreappropriately answered by their management, their filings, or their website.

Forward-looking statements shouldbe considered along with the Risk Factors that we note at the end of ourrelease as well as the MD&A section of our 10-K. We also refer you to peabodyenergy.comfor additional information and I'll now turn the call over to Rick.

Rick Navarre

Thanks, Vic and good morningeveryone. I'd like to also thank you for joining our earnings review today.This is an exciting time to be discussing Peabody'sresults and prospects.

Our U.S. mining operations deliveredsolid third quarter results with a 24% margin improvement over the prior year.In addition, the reshaping of our business portfolio is nearly complete withthe recent spin-off of Patriot Coal, the major costs and productivity projectsin the Powder River Basin and the new mines at Australia that are now inproduction.

These are achievements with bothnear-term and long-term benefits for Peabody andthey happen at a time when global seaborne coal markets are setting new recordsand the U.S.market is steadily improving.

Most of the results I'll discusstoday will include Patriot Coal. However, beginning next quarter and for thefull year, Peabody'sresults will reflect the spin-off as a discontinued operation. You'll see ourrelease also includes a pro forma presentation, i.e., without Patriot of ourkey financial statements on a year-to-date basis and our full year targets for Peabody's continuingoperations. This should give you a sense for how the spin-off will affect Peabody's year-endresults.

Now, let me begin with a highlevel review of the quarter's performance starting with the income statement. Forthe third quarter, Peabodyachieved record revenues of $1.49 billion, on record sales volume of 68.5million tons. Our performance was driven by higher U.S.and Australia volumes andimproved U.S.pricing. This more than offset lower realizations associated with met coalcontracts that we signed last year and a significant change of product mix in Australia.

Our EBITDA for the quartertotaled $211 million reflecting improved U.S.mining contributions, which was in turn offset by impacts of port congestionand currency in Australiathat we advised you of in our last call.

Now, let me take you through thesupplemental schedule for a more detailed review. For the quarter, our U.S. operations achieved higher pricesthroughout all areas, led by a 27% improvement in Powder River Basinrealizations. And overall U.S.revenues grew 17% leading to a 24% expansion of U.S. margins over the prior year.

In the Midwest,we had price increases and stable costs, which drove third quarter Eastern marginsmore than 20% higher. In fact, 12 of 3 of our Midwestern operations that we areretaining realized improved prices.

In the West, this is the thirdquarter in a row of stable costs. Looking at the year-over-year results, you'llsee that nearly one-third of the increase was from higher sales related taxesdue to the price improvements that we discussed earlier. [Actually the] longwallmove at Twentymile mine in Colorado and a higher than normal maintenanceexpense in the PRB, our third quarter costs in fact would have been lower thanlast quarter.

Additionally, our major investmentsin the Powder River Basin are beginning to pay off. Forexample, the productivity in our flagship North Antelope Rochelle mine improved9% in the last quarter and we think there's a lot more to go. And we believethis is a start of a trend that is stable and improving western costs.

Turning now to the Australianoperations, you'll see revenues were $31 per ton lower due to both a change inmix toward thermal coal products and an average $22 per ton reduction of metpricing. We expect that we will fully regain the met margin in the upcomingmarket settlements, and Greg will talk more about the strength of the markets ina moment.

Also last quarter, we advised youthat significant demurrage, transportation and currency effects were expectedto heavily impact our third quarter results. In fact, combined, they reducedour EBITDA by $57 million or more than $9 per ton in the quarter. And it waslargely because of the variability of these items that we didn't give you thirdquarter targets with our focus remaining on full year results and expectationsfor a stronger fourth quarter.

While Australia's coal chain has improvedsince June's peak congestion, the company is pursuing proactive ways toincrease our export capabilities. Peabody hasjoined with other coal suppliers to evaluate a new terminal next to the Port of Newcastle. The NCIG project wouldinitially add 30 million tons of throughput capacity with 5 million metric tonsof dedicated throughput for Peabodyin the near time frame of around 2010.

This capacity will supplement theexisting allocation from the current PWCS Newcastle Portand should enable us to fully utilize our installed production capacity. Inaddition, we recently put in our nomination for volumes through Abbot Point aspart of the Northern Missing Link development project in Queensland.

Now, let me focus your attentionon the pro forma results excluding Patriot. I would note that the pro formainformation is not intended to track our 10-Q filing that is due later thismonth or to be representative of Patriot's future results.

Let me first focus on the balancesheet and draw your attention to the pro forma income statement, where theyear-to-date revenues and EBITDA from continuing operations were a full 12% and8% higher compared to the prior year period.

And looking at the pro forma balancesheet, you'll see significantly lower legacy liabilities as a result of thespin-off. Our retiree, healthcare liability and related expense will be reducedby about 40%. Workers compensation liability will be cut nearly 90% and assetretirement obligations will be one-third lower and the combined fund andmulti-employer co-act obligations will now fully reside with Patriot. In total,our legacy liabilities, expenses and cash flows will be nearly cut in half.

The spin-off marks the completionof a major strategic initiative for Peabody.Our portfolio was now comprised of assets with longer average lives, we havereduced our operating risk and cost profile, we've lowered our per ton capitalcosts, we've cut our legacy liabilities and related uncertainties, and we'vegiven the company a greater focus on high growth, high margin opportunities.And Peabody is extremely well positioned now tobenefit in the robust international markets as well as the strong U.S. dynamics.

Let me wrap up with Peabody's 2007expectations. Here we continue to maintain our full year 2007 targets excludingthe discontinued operations associated with Patriot Coal and expected one-timecharge that's related to the spin-off.

Our full year EBITDA fromcontinuing operations is targeted in the range of $900 million to $1 billion,with earnings per share of $1.50 to 1.75. You'll note we are also tighteningthe range as we approach year-end.

So, in conclusion, the resultsfor the quarter were as expected. We are closely monitoring the Australian coalchain and taking action to improve our long-term position. Our new Australianmines that were in development are now online. The benefits of significant costand productivity projects completed over the last 12 months are beginning todeliver very promising results. And we are excited that the prices, the piecesof our plan are coming together just as the coal markets around the globe gainmomentum, positioning Peabodyvery well as we move into 2008.

And I'll now turn the call overto our Chairman and Chief Executive Officer, Greg Boyce. Greg?

Greg Boyce

Good morning, everyone andthanks, Rick. As Rick has reviewed our quarter's solid performance andexpectations for the remainder of 2007, I'd like to focus on the factors thatare driving greater coal demand and increasing prices, as well as the stepswe've taken to convert favorable markets into shareholder value.

Let's start with theinternational picture. Three sustained trends are leading the world to use morecoal. First, massive economic development by the world's largest populationcenters; second, persistently high and rising oil prices, and most importantly,coal's low costs and security of supply.

Now regarding the C1 thermal coalmarket specifically, China'snet importer status has sent Asian utilities to sources as far away as South Africa. Indianow imports 25 million tons of thermal coal per year, yet a third of it'splants have stockpiles of one week or less. Therefore, India plans toat least triple its thermal coal imports again over the next five years. Japanis raising its coal use as it struggles with nuclear safety issues and the highcost of LNG.

The traditional exporters, Indonesia, Russiaand South Africaare keeping more coal at home to serve their domestic needs. So, Europe must nowlook to the West for supplies and we believe South American coals willincreasingly be diverted to Europe from theEast Coast, at the same time that U.S. Exports are rising.

The metallurgical coal is equallyas tight. Steel demand continues to grow from new infrastructure and developingcountries and to rebuild legacy infrastructure in the developed world. Russia's limiting its metallurgical coal exportsand planned new capacity for Mozambiqueand Mongoliais longer term in nature.

Australia is the world's largestcoal exporting nation, and the port and rail system continues to strugglelimiting throughput of both thermal and coking coal, it's at the same time theprices for both products are setting records around the world. Newcastle thermal coal, for example, that wasselling for $ 46 per metric ton a year ago has moved past $80. Metallurgicalcoal that was settled for $98 per ton this year has been sold recently on aspot basis for $140.

Such a level or higher for thenew contracting season would have precedent. In fact, taking the $125 per tonmetallurgical coal prices of two years ago would come in at more than $150 perton today, simply adjusting for the stronger Australian dollar. It's in theserobust markets Peabodyis pleased to begin contract discussions for 2008 thermal and coking coaldeliveries.

You'll recall Peabody has 11 to 13million tons of Australian coal available for pricing for calendar 2008, whichwould benefit results in the second through fourth quarters of next year.

This market strength is verytimely given Peabody'sdecision to expand Australian capacity. We produced just 6 million tons from Australiaseveral years ago and now we're moving to 30 million tons or more over the nextseveral years and as Rick said, securing more port capacity for the future.Now, this global strength is one of several factors that leads to U.S. marketimprovements.

European generators are beginningto compete with U.S. plants forcoal from the Midwest and Appalachia. Webelieve the strong global coal demand and weak dollar are increasing U.S. exports bysome 35% in the second half over the first half of this year. You factor in thereduced imports and we could see a near tripling in U.S. net coal exports over a two-yearperiod, drawing from around 13 million tons in 2006 to 35 to 40 million tons in2008.

In fact, we've secured more thana million tons of Illinois basin coal salesinto the Gulf export market over the past year, and as the U.S. net export advantage builds, we expect agreater pull on PRB and Coloradocoal fields as has occurred in the past. Already we're seeing forward publishedprices for PRB coal as much as two-thirds higher for 2009 than spot sales forimmediate deliveries were at the beginning of this year.

This comes at a time when the strongfall generation has added to good growth in coal consumption in 2007. So inshort, we see the potential for substantial continued reductions in coalinventories through 2008.

Now, against this back drop of U.S. market strength,we're pleased to have increased our premium PRB product contract prices, 45%for forward years over realized 2006 pricing. We've signed Illinois basin contracts at levels 21% above2006 average realized pricing.

Peabodystill is 15 to 20 million tons of U.S. coal available for pricing for2008 and 80 to 90 million tons for 2009. We've finished two of three majorprojects in the Powder River Basin to secure ourrole there as the low-cost producer. And we'll start our El Segundo mine in New Mexico in the secondhalf of 2008.

Now, you'll hear some otherproducers talk of having 4 or 5 million tons of seaborne coal sales exposure,but no U.S. based company comes close to our position. Adjusting for the spin, Peabody expects to ship nearly 30 million tons of seabornecoal this year from Australia,Venezuela, the U.S. andthrough our global trading platform. And we expect these sales will be re-pricedat higher levels beginning next April.

Now, the near-term markets arestrong and improving, and longer term we continue to see the largest new coalbuild-out in both the global and U.S. markets in several decades.The U.S.now has 45 coal units in 21 states that are new, under construction or in late stagedevelopment.

One such plant is the Prairie State Energy Campus, and I'mpleased to say that in the recent months Peabodyhas completed its financial close, we gave notice to Bechtel to proceed withconstruction and have broken ground on the plan. I'm also pleased to reportthat we continue to advance our coal-to-gas project with ConocoPhillips.

So let me summarize. We've discussed for some time the majoractions that we are under way to transform our portfolio. We're now positionedto deliver improved results from these activities. If you consider that inlittle more than a year, we've made a major acquisition in Australia and completed three newmines there. We've moved to the final stages of three major projects in the Powder River Basin aimed at lowering cost and boostingproductivity. We concluded the spinoff of our operations in West Virginia and Kentucky.We expanded our coal trading activities in the US,London, Australiaand Beijing.We've advanced Business Development activities in China,Mongolia, and other highgrowth regions, broken ground on Prairie State and advanced thedevelopment of the coal-to-gas project.

Simply put, we have dramatically reshaped our portfolio totire at the highest growth Markets at a time of record coal demand and prices.

As always, I want to thank Peabody employees around the globe for theirhard work and accomplishments and we also appreciate your support and we wouldbe happy to take your questions at this time.

Question-and-AnswerSession

Operator

(Operator Instructions) And we will go to Jim Rollyson withRaymond James. Please go ahead.

Jim Rollyson -Raymond James

Good morning, everyone. Sorry about that.

Greg Boyce

Good morning, Jim.

Jim Rollyson -Raymond James

Greg, you mentioned the Australian pricing really for both markets,but specifically let's talk about thermal coal being north of 80 bucks a metricton at Newcastle.You guys have 11 million to 13 million tons still open for next year in total.When do you suspect you might start locking some of that up?

Greg Boyce

Well, that's obviously a good question, Jim, and discussionsare starting on both thermal and met-coal. But as you can imagine, that processmay take a little longer than normal, only because of the price increases thatare anticipated. Realistically, if history is any guide, we'll take through theend of the year, likely we'll see some settlements before the end of the year,although some will also carryover into the first quarter of next year.

Jim Rollyson -Raymond James

And you think those discussions will be just for ‘08 oranything on ‘09 as well?

Greg Boyce

The vast majority of it would be for ‘08. I mean, it wouldbe for the fiscal year, Japan fiscal year which is the last three quarters of‘08 and the first quarter of ‘09 would be the vast majority of what would becontracted for over the course of the next three or four months.

Jim Rollyson -Raymond James

Understood, and then just for a follow-up, staying with Australia;you kind of detailed some of the issues that hit profitability or cost with themerge, and currency translations, etcetera. Can you maybe detail how you seeyour cost curve kind of heading out into next year as you start bringing onproduction from your mine portfolio changes?

Greg Boyce

Well, sure. I mean, in general, at the high level our coststructure in Australiais coming down. If you'll go back a number of years ago, we had the NorthGoonyella operation and the surface operations at Burton and Eagle Field. With our recentacquisition and new mines, we now have a large surface operation at Millennium,Wilpinjong. We've expanded Wambo and also installed and started up a lower costlongwall mine at North Wambo. So, the entiremix of our productive capacity in Australia has been increases in lowercost production.

Jim Rollyson -Raymond James

Thanks.

Operator

And next, we'll go to the line of [Sheneer Ghashuni] withUBS. Please go ahead.

Sheneer Ghashuni -UBS

Hi, good morning.

Rick Navarre

Good morning.

Sheneer Ghashuni -UBS

Just a couple quick questions; one, I was wondering if youcan reconcile with your guidance a little bit with respect to the income taxbenefit that you expect to achieve on a full year basis. Are we talking aboutover $100 million benefit just in the fourth quarter alone and kind of how thatcomes about?

Greg Boyce

Sure. We talked about this in the past. I think if youfollowed us, you'll know that we usually have a benefit in the fourth quarterand to try to just give you kind of an abbreviated discussion of what happened.Essentially during the year we book taxes on an interim basis, based upon anormalized tax rate and then when we get to our budget cycle in the fourthquarter and look at our forward-looking earnings, based upon our projections,we would expect to fully utilize our net operating losses which are tax assets.

Some time ago when these tax assets were established back inthe ‘90s on our balance sheet, there was a full valuation allowance establishedagainst them and these tax assets were on our books for zero. So, as we look abit forward at our five year plan and see profitability and taxability, we haveclarity enough to then release the valuation allowance and we kind of said atthe very beginning of the year that we thought this tax benefit would occur forthe full year. We thought, it's been in our guidance in the very beginning andso this should be the last year of this type of transaction as it relates tothe tax and then we should go to more of a 15% standard tax rate going forwardinto ‘08 and then ramping up into the 20% to 25% range over the next fiveyears.

Sheneer Ghashuni -UBS

Okay, and if we can continue on, you know, looking at yourguidance and subtracting out Patriot and so fourth, it kind of looks likeyou're looking for a reversal of what occurred in Australia this quarter. Canyou sort of give us a little bit of color on what the items are going to changethat's going to fix the cost structure and the price realizations in the fourthquarter with respect to the Australian operation?

Greg Boyce

Well, in Australia obviously we're still going to continueto incur higher demerge charges, and obviously we said we signaled that earlyon when we had our last call, we expected about which $80 million in demergecost and we said 50 of it was going to occur in the second half. Some of thatgot pushed out of the third into the fourth quarter, so it still has an impacton us. But we're starting to ramp up the operations at Waambo, the new longwalljust started so we're going to see higher volumes come out of that particularproperty. You are going to see an increase in volumes coming out of Wilpinjongas those properties begin to ramp up as well as Millennium too. So, we'reseeing higher volumes and that's going to help as we move forward.

Sheneer Ghashuni -UBS

And then one last final question. You talked about the portcongestion issues and what you're doing to mitigate the issues. Can you talk alittle bit about rail congestion in Australia as well too and will thatbeat the next bottleneck that we have to deal with on a go forward basis?

Greg Boyce

Yes, just to cover the rail for a second you're absolutelyright. There's a combination of coal chain capacity in Australia, whether it's Newcastleor through Dalrymple Bay in Queensland.So, it is a combined effect of what the port side capacity is along with therail capacity. In the case of DalrympleBay, the Queensland rail is adding rolling stock coalwagons. They've added some in the fourth quarter of this year and they've gotplans to -- as they take deliveries, continue to add through three quarters ofnext year to significantly increase their capabilities of turning around coalto the port. That's all-time to be in place when the port completes some of itsexpansions during the course of next year.

So, we expect DalrympleBay capacities and the coal chaincapacities in Newcastleto continue to increase through ‘08 into ‘09 and then ultimately, as we look tothe northern missing link in 2010 and beyond to add additional capacity formet-coal.

Out of Newcastle,again, the port has been running reasonably well. It's been rail issues. Again,there's a significant program for track upgrading, additional horsepower,additional people, similar to the types of programs that we went throughseveral years ago out in the western part of the US, when we were building railcapacity there. So, again, during the course of next year, we expect to seesome improvement and then into ‘09 and then ultimately as Rick talked about, bythe time you get to 2010, potentially see the impacts over the Newport ofNewcastle Coal Infrastructure Group, which we're a part of.

Sheneer Ghashuni -UBS

Great. Thank you very much.

Operator

Our next question is from the line of Paul Forward withStifel Nicolaus. Please go ahead.

Paul Forward - StifelNicolaus

Thanks. Just a couple questions here. What's your latestthinking on both timing and cost and maybe size of the School Creek project?

Greg Boyce

Well, Paul, in terms of School Creek, we continue to look atwhat’s the best size, timing and cost relative to the market. We've actuallybeen very successful in our productivity improvements at North AntelopeRochelle and that Caballo in Rawhide; frankly beyond our beyond our originalexpectations. This has given us an option for some additional tons there in thenear term that's allowed us to, if you will, rethink the timing of SchoolCreek. We don't have a specific timing that we've put out to the market at thispoint, suffice it to say, it will not be starting up in a major way in 2008 or2009.

Now, having said that, we do have a [load-out] facility atSchool Creek that we are looking at potentially sending some of our coal fromthe North Antelope Rochelle complex through that facility as that capacitybecome as available to us under our agreement with Arch.

Paul Forward - StifelNicolaus

Okay, and I guess just as maybe as far as the size of thatproject, is that still 30 million to 40 million tons or can you ramp it up whenyou eventually do start it up, do you start it up at a smaller pace?

Greg Boyce

We would start up at a smaller pace and ramp it up overtime. The existing infrastructure there is capable of 25 plus million tons. So,we've got the ability to bring on and add mining equipment at a lower rate, usethat facility that's already in place, add mining equipment until we get up tothat capacity and it would only be until we needed to get above that upper 20number where we would have to begin to add capital for additionalinfrastructure.

Paul Forward - StifelNicolaus

Okay, thanks and on this coal-to-gas project with ConocoPhillips,just wondering if you had -- is there a number you keep in mind as far asdollars per MCF of natural gas production that you think that cost would be allin?

Greg Boyce

Well, obviously, we would like to continue to look at thatplant and hope that those numbers are around that $6 range. We're alsocontinuing to do engineering to see what the cost of the carbon capture and sequestrationthat would also need to go into that factor. But suffice to say, our viewcurrently is that we'll be able to bring that plant online with significantmargin above and beyond gas forecast prices going forward, certainly when youlook at the five year strip as it exists today.

Paul Forward - StifelNicolaus

Great. Thanks a lot.

Operator

Next we'll go to the line of [Brian Gamble] with Simmons& Company. Please go ahead.

Brian Gamble -Simmons & Company

Yes, good morning, guys.

Greg Boyce

Good morning.

Rick Navarre

Good morning.

Brian Gamble -Simmons & Company

You mentioned your exposure to the seaborn market, youtalked about a 30 million ton number. I was wondering if you could break thatout by market and then possibly talk about incremental opportunities that youhave and the capacity for getting that coal out via the various markets thatyou currently export from?

Greg Boyce

I think you really have to focus first, Brian, on what'shappening in Australia,and that's where the lion’s share of that volume is going to come frominitially. As you look at it, obviously we're still trying to decide andworking with both of the ports to figure out what the allocation is next yearfor total capacity. So, we don't really have firm handle on exactly what thatnumber is going to be but we certainly think it's in the 20 plus million rangearound that number, around 20 million tons.

As far as incremental opportunities there, obviously we'llhave to be pretty smart about how we allocate our shipments and our productionto try to get the highest margin product out of a constrained situation overthe next 18 to 24 months as they continue to fix that situation. And obviouslywe do trading as well out of those regions that we ship coal out, and then in Venezuelawe continue to have an ownership there. I think of about 7 million ton coalmine and that will move on into the export market and most of that product willprobably go into Europe.

Brian Gamble -Simmons & Company

Were you trying to imply you could financially do any coalout of the western US towards Chinaor that direction or was that not part of what you would --

Greg Boyce

No, I think what we're saying is that we've seen exports,obviously significant export capacity out of the [cap and nap] regions. We'vealso personally shipped coal from Colorado in the Illinois basin on an exportbasis which is really starting to put a big pull on the market and we thinkthat coupled with what's happening in the east, you're going to see asignificant net increase in the export market in the US, which is going to pullin all of the other regions tighter.

Brian Gamble -Simmons & Company

Then looking at the potential to add port capacity in Australiaand your talking around a 5 million ton number coming online in 2010. Is thatthe only option you have on that particular port or if you wanted to secureanother 5 million on top of that, could you potentially layer that intocontracting and/or negotiations that are ongoing?

Rick Navarre

Well, there's a couple of opportunities there. There's the turnused expansion of PWCS which is the Newcastleport, as it comes online it will provide additional tonnage capabilities asthat expansion gets built. The NCIG is a new project, that is dedicated userfacility, demerge neutral, stockpiles on hand and should be at much lower costwhich relates to demerge that Peabodyis the second largest owner, shareholder. So that's where we would get that 5million tons of capacity, and the plans today are to start that facility up atabout 30 million tons of capacity but there are certainly other plans to takeit to 60 if need be, over time. So, there are other opportunities for us.

Brian Gamble -Simmons & Company

How quickly could it go to 60? Would that be 2012?

Greg Boyce

I think it would be dependent upon demand how quickly peoplewant to bring that on, I think you'd see that's probably some time, I'd have toguess now three to four years after the 2010 time frame if the demand wasthere. It's all going to depend on how quickly PWCS is able to achieve their expansionwhich is the current existing facility.

Brian Gamble -Simmons & Company

Fair enough. Thank you very much.

Operator

And next we'll go to the line of Jeremy Sussman with Natixis.Please go ahead.

Jeremy Sussman - Natixis

Hi, good morning.

Greg Boyce

Good morning Jeremy.

Jeremy Sussman - Natixis

Good morning. Just regarding the Illinois Basin,you mentioned that you had exported a million tons so far year-to-date. Giventhe rise in API to pricing in Europe, anyplans to increase that number in '08 or 2009?

Greg Boyce

Part of our trading platform expansion was opening ourtrading office in Londonearlier in the year. They've got a significant charge right now of continuingto look at ways to expand our Illinois exportbusiness into Europe as well as coupling our Colorado operations and tonnage into thatexport market as well. So, our view is the Markets will stay strong, continueto strengthen, Europe will be looking for coaland so we see that expanding through the course of the next several years.

Jeremy Sussman - Natixis

Great. And then when I'm taking a look at your pro formacosts, basically getting to a cross-decrease on a per ton basis, somewherebetween $2.50 and $3 with spinning off some of your higher cost production; howmuch of an effect does something like the reduced legacy liabilities have on anumber like that?

Rick Navarre

Well, it certainly has an impact on it. I guess in total, Ithink we probably have given these numbers out before, we're reducing ouroverall legacy liabilities roughly $1 billion, and reducing our expense andcash spending in the neighborhood of $100 million as well.

Jeremy Sussman - Natixis

Okay. Great. Thank you very much.

Operator

Our next question is from [David Connie] with FBR. Please goahead.

David Connie - FBR

Jeremy took one of my questions here, but how much is thehundred million that's cash on the legacy liabilities pro forma '07 is that theaccruals as well?

Rick Navarre

Yeah. They're pretty closely match, expense and casual matchpretty closely.

David Connie - FBR

How much steam coal is expected to stay within Australiafor next year '08, '09, '10?

Rick Navarre

Out of our operations, we would be just a little bit over 5million tons.

David Connie - FBR

Okay, a little over 5 million tons per year?

Rick Navarre

Yeah. It's under our long term contract we have with thedomestic Power Plant.

David Connie - FBR

And then I'm going to break the rule here, but how much coaldid you actually export out of Colorado,because that's a pretty interesting data point.

Rick Navarre

Well, right now we've put together -- we're talking abouttens of thousands of tons of export coal that we've coupled into our exportswith the Midwest that we have shipped to date.That number is starting to increase in terms of additional shipments goingforward.

Greg Boyce

We think there's more opportunities there because of its lowsulfur characteristics and it gets a premium into the European market.

David Connie - FBR

Are you saying you're blending it with some of your Midwest stuff to ship it abroad?

Greg Boyce

Yes.

Rick Navarre

Exactly.

Greg Boyce

That's typically what we would do. We would put togetherseveral sources for these cargos.

David Connie - FBR

Do you think you could do a substantial amount? Is thinkenough rail capacity to do that?

Rick Navarre

Well, they're performing quite well right now. So, we havenot found with what we've done to date that the rails have been a limitingfactor, so and out of Colorado, we don't expect the rails would be a limitingfactor given our -- we could achieve our productive capacity at 20 mile through bothdomestic and export.

Greg Boyce

And the export business for the rails is all incrementalbusiness. So they're pretty keen to try to take that business if they can getit.

David Connie - FBR

Great. Thanks.

Operator

And our next question is from Lawrence Jawan with LehmanBrothers.

Lawrence Jawan - Lehman Brothers

Good morning. Just moving back to Australia, can you talk a bit aboutyour hedges in place regarding the Australian dollar? I'm just trying to get asense for operating expenses next year.

Rick Navarre

Sure, sure. Obviously, the Australian dollar and the U.S.dollar have been at odds this year with an increase of over 20% probably sincelast year. For this year, we're pretty well hedged out at about probably 85%hedge for the rest of the year, so just not a lot of exposure for the rest ofthe year here, but roughly about 78 to 79% hedge into 2008 at a rate that'sprobably high 78, 79 range. So in today's rate it's 93.

Lawrence Jawan - Lehman Brothers

Now, if you quoted 57 million I believe of impacts in thequarter -- EBITDA impacts related to demurrage, transportation, and FX. If Istrip that out, I get to roughly a $40 per ton cost in Australia. Is that what you guysare striving for and should we see a sequential decline from the $49 --

Rick Navarre

Yeah, that's what we think. Even our total cost, you shouldsee a low $40-ish number and you're exactly right. If you take out the $9 ofhigher currency, you should see that number come down. But remember that thecurrency is going to be in next year as long as rates stay up where they aretoday, so we may have it hedged. We just, it's versus what we had forecasted atthe beginning of the year when rates were in the high 70s. So, you got to be alittle careful with the currency because it will still be there next yearunless you know better than I do that currency is coming down, but I don'tpredict it's going to come down from much from where it's at right now.

Lawrence Jawan - Lehman Brothers

Okay, and then lastly just on your leverage levels, youroughly three times levered as I calculated pro forma today, can you give us asense for what peak leverage levels you're comfortable operating in? And howthat potential acquisition might impact?

Rick Navarre

Well, I think we've always said with our long-term contractposition and portfolio we're obviously comfortable with the levels that we'reat now and we could go higher if we chose to do so, but we don't think it's theright thing to do right now. We're not looking to do that but we think that theoptimum level from a cost of capital standpoint for the management of thebusiness is somewhere around 40%, the low 40s, debt to total capital. So,that's what we're shooting for.

And we think next year, you'll find us with a lower capitalprofile than we had this year; one, we won't have Patriot; and two, as wetalked earlier, a significant number of projects were completed this yearincluding the Australian new mine developments, three big projects in thePowder River Basin, so we'll get back to a sustaining CapEx level with a fewsmaller projects and you should see our CapEx come down.

Lawrence Jawan - Lehman Brothers

Thanks very much.

Operator

And your next question is from Mark Liiinamaa with MorganStanley. Please go ahead.

Mark Liinamaa -Morgan Stanley

Hi, guys.

Greg Boyce

Hi, Mark.

Mark Liinamaa -Morgan Stanley

I'd be interested in any update you could provide on PRB growthopportunities in the Eastern markets, as those markets are tightening up?

Greg Boyce

Well, I think history has shown us that the Powder River Basin coals have the ability to extend all theway into the Eastern Markets. It's not an issue of burnability anymore, and aswe said in our comments, while the export market is as strong as it is todayand then our view is it will continue, we're seeing exports from Columbia, Venezueladiverted out of the U.S. andwe're seeing additional exports out of the U.S. And we're also seeing thermalcoal that was available a year ago in the U.S. being washed and produced as amet coal, because of the strength of the met coal markets.

All of that says that the Powder River Basinis going to have to move further to the east to replace all of these coals thatare no longer available for the Eastern utilities. So, what that volume is wehaven't put a number on it yet, but suffice it to say, we don't believe there'srail limitation and we don't believe that there's burnability limitations tothe PRB coals getting pulled into the Eastern market.

Mark Liinamaa -Morgan Stanley

Great. Thanks, and with the issue of the mine permits, couldyou give any update, do you have any issues and are you seeing change with thefairly rapid price improvement in evolution of the export opportunities inproduction plans in the Eastern United States?

Greg Boyce

Well, of course, where we sit right now, with the new BTU,we don't have any Eastern permits that we're trying to obtain, and we're fullypermitted everywhere else within our operating platform in the Midwest and inthe West and Australia.There's been some talk about additional volumes over the course of 2008 and2009 in the East. I guess, I would just say we'll count those chickens whenthey hatch, but we do not have any issues at this point within our portfolio onany permitting.

Mark Liinamaa -Morgan Stanley

And would you expect there to be some ratcheting back inEastern production because of the various issues, even with the strengtheningexport opportunity?

Greg Boyce

Well, we've said all along, we think that the AppalachiaMarkets from a geologic perspective are in a long-term decline. Things arethinner, the geology is getting tougher. You've got safety regulations that arebeing very costly to implement. You've got the lack of synfuel credits thatwere supporting a significant piece of that business. You can go through thatwhole list which says while there are people that are going to try andpotentially can add some additional capacity, the question we all have to askourselves is will it ever overcome the natural decline that we'll see in theEast over a long period of time. Our view is not on a trend line -- and maybeon a quarter to quarter basis but not on a trend line.

Mark Liinamaa -Morgan Stanley

Great. Thanks very much.

Operator

And our next question is from Michael Dudas with BearStearns. Please go ahead.

Michael Dudas - BearStearns

Good morning, everyone.

Greg Boyce

Good morning.

Michael Dudas - BearStearns

A couple of things. One, can you talk about pace ofacquisition or [lack thereof] in the U.S., now that you're out of theAppalachia region, do you sense that there could be some consolidationopportunities, especially maybe in the Illinois basin where there's been alittle bit of overinvestment maybe in the last year or two? Andinternationally, would Peabody's strategy be abit more on the greenfieldbasis or there are certain other parts of the world that you would lock tooperating companies? And is it a mix of -- rather it's a thermal or cokingopportunity would suit Peabodybetter?

Rick Navarre

Well, Michael, this is Rick and I think that we continue tolook at all of the opportunities that come in front of us. Obviously we're notgoing to be inquisitive in the Appalachian coal fields at this point in time.We are going to leave that to the other folks that are out there now. And thatwas part of our strategy with putting together the Patriot team and the Patriotspin-off, but as you look at the Illinoisbasin and other opportunities in the U.S.

We'll continue to be inquisitive at the right time for theright price, if it makes sense. We are not going to overpay for assets we don'thave a history of doing that and so we'll continue to look for those types ofopportunities, hopefully if we have synergies or contract synergies that makesense for us.

In the international market, I think we're going to continueto look at the high growth Asian Markets. We're seeing seaborne coal. The lasttwo years, seaborne coal has grown 100 million tons in the total market andit's on a compounded annual growth rate of 7% to 8%, much higher growth thanwe're seeing in the U.S.So we're going to continue to be inquisitive in the international markets, likeAustralia.If the right properties come along for the right price we'll continue to lookthere.

As we look at the developing countries, China, India,and other places, we are looking hard into Chinaas to how to play that, whether it be through a greenfield or partnering with someone in moredeveloped mine, mine expansion. Mongoliaobviously will be greenfield if we move forwardwith that, and then we're looking at some areas in Mozambique as well. So, those areall greenfield opportunities that are going toserve high growth metallurgical coal markets into Asia and India. So you'll see us continuingto look at that and more to come.

Michael Dudas - BearStearns

And Latin America?

Rick Navarre

We look at it, certain areas we're interested in and certainareas we're not interested in --.

Michael Dudas - BearStearns

I'm sure I could figure out which are which.

Rick Navarre

Tough place to do business at times.

Greg Boyce

Yeah, obviously, we spend a lot of time looking at all ofthe options that are out there, but I think what Rick said is I think our trackrecord is first class in terms of the acquisitions that we've made whetherthey've been in the U.S. or they've been international. And we do have a highfocus right now on the higher growth markets. International and then of coursewhat we believe are the higher growth markets within the U.S.

We talked about we did acquire additional reserves in theIllinois Basin this past quarter, about 350 million tons and that was to fillin and to put together some large additional blocks of reserves that the couldbe used either for new mining complexes for the utility market or forconversion sites for coal to gas or coal to liquids.

So, we're still very opportunistic when it comes to ouracquisition strategy, but again, as Rick said, the Patriot initiative was torestructure our portfolio and to enable another company to go out and pursuethe kinds of consolidations that make sense for them in their region in theEast.

Michael Dudas - BearStearns

Just one follow-up, Greg. Continuing on your thoughts onconversion, where would you anticipate we have this discussion a year from nowthat either Peabodyor the market opportunities will be there for a conversion technology? And willthe political noise kind of impact that in 2008 and push things out further?

Greg Boyce

Yeah, well, there's no question that there is a lot of"political noise" out there, but, as we said on this conference call,oil is what, $96, $97 a barrel and if we had the conversation three months agoit would have been lower. I think the cases are so compelling for the use ofcoal for either natural gas or for liquids that even through all of the publicdiscussions about how we do that, as long as in the industry we stay focused onwhat the are the cost points that we can build these plants and put them intothe market for and what is a reduced carbon path that we can take on buildingthese plants, I think we're going to be successful. My sense a year from nowand my hope is a year from now, we'll have a plant or two that's in finalengineering design, ultimately leading to permitting and construction.

Michael Dudas - BearStearns

Thank you, gentlemen.

Operator

Our next question is from Justine Fisher from Goldman Sachs.Please go ahead.

Justine Fisher -Goldman Sachs

Good morning.

Rick Navarre

Good morning, Justine.

Justine Fisher -Goldman Sachs

One other question on the Illinois Basin exports. On other conference callswhen companies have talked about exports out of the IllinoisBasin, they've highlighted a highmercury content as one reason why that coal might not be as advantageous forexporters to buy from the U.S.Can you tell us first of all how you might overcome that problem if that's beenidentified as a problem by your buyers and then maybe what types of buyersyou're seeing by your Illinois Basin coal?

Greg Boyce

Justine, I have to admit the mercury issue is not one thatwe've had to deal with any of our exports. It would be more. There is a higherlevel of chlorine in some of the Illinois Basin coals, which can bea problem if it's shifted to higher levels. That's true both here in the U.S.as well as on an international basis, so if we're focusing on any kind ofquality parameters, it would be blending for a sulfur need into a Europeanutility as well as blending for chlorine level into a European.

But at this point in time, we've had access to enoughvariety, remember we've got more than a dozen operations in the Midwest, pluswith our blending of Colorado coal, which is low in both sulfur and chlorine,we've not had any issues there and we expect we can continue to grow thatbusiness if the market is still available to us in 08 and 09.

Justine Fisher -Goldman Sachs

Okay. And then are the buyers who are looking to take yourIllinois Basin and Colorado coal, are they doing so on a spot basis or are theyactually looking to sign longer duration contracts with you guys?

Greg Boyce

Most of it right now has been on the spot basis, boththrough our trading activities as well as some direct sales. Most of it hasbeen through our trading activities, time of sales through the API index isback over into Europe.

Operator

Our next question is from the line of Brett Levy withJefferies & Company. Please go ahead.

Brett Levy -Jefferies & Company

Hi. It's Brett Levy here.

Rick Navarre

Good morning.

Brett Levy -Jefferies & Company

Good morning. Really most of my questions have beenanswered. As you look forward the next couple of years, whether it's equipmentor tires or shipping capacity, what do you think is going to be the constraintsto addressing the global growth in demand? Because I just, I can't imagine thatthis thing will happen without hiccups based on the history of the industry.

Greg Boyce

Well, I think you've mentioned a couple of the top ones. Iguess export, port and rail capacity for the seaborne trade probably willcontinue to be the top of a list for the regulating valve in terms of how muchcoal makes it on to the seaborne trade. Right now, with all of the vesselsparked off of Australia, it's hard to imagine that shipping capacity is aconstraint, and as we see new shipping capacity come on line, we think thatwill absent a lot of (inaudible) around the world will probably stabilize.

So, it's really the capacity for building ports and railsystems to get the coal to the ports is number one. Behind that, there are someissues still with tires on a global basis, and for adding capacity in a veryquick turnaround period, it's still the length or the lead time for majorpieces of equipment, whether it's draglines, loading shovels, or longwallsystems.

Brett Levy -Jefferies & Company

All right, thanks very much, guys.

Operator

And next we'll go to the line of Yuri Maslov with NevskyCapital. Please go ahead.

Yuri Maslov - NevskyCapital

Hello, thank you very much. I've got a follow-up question onyour full year guidance because as you kept your full year guidance pretty muchunchanged that implies that Q4 results should be very strong. So, specificallywhere do you see the improvements coming from? You mentioned some growth inoutput in Australiabut is there anything else beyond that? And specifically, how do you see EBITDAto turn in Australiain Q4 looking like? I mean it drops from $8 in Q2 to less than $2 in Q3, so howdo you see that positioning in Q4? Thank you.

Rick Navarre

Let me just add, probably won't be able to give you theexact number on EBITDA on a region basis going forward for Q4 because that's,kind of, little more specific guidance than what the we've traditionally givenbut I can tell you that Australia is one of the areas we would hoped to see abit of improvement in the fourth quarter and we would also expect thataccording to previous comments that we've made, our PRB production volume isgetting back up online where we were down in the first half of the year, andhad met our full expectations and commitments. We're now ramping back up tomake those commitments.

So, we should have a pretty strong quarter as our expectationout of the PRB, and if you look in the third quarter we also had a long wallmove in Coloradowhich is obviously a large item and a significant expense, we won't have alongwall move in the fourth quarter. So, Coloradooperations should be better than that were in the third quarter, so we shouldjust see overall better quarter at most of the operations.

Yuri Maslov - NevskyCapital

Okay, thanks.

Operator

We have a follow-up from Shneur Gershuni. Please go ahead.

Shneur Gershuni - UBS

Hi, actually just a question with respect to the previouscaller's question. With respect to your guidance, is it fair to say that you'velowered the higher end of the range going into the fourth quarter relative towhat it was for the second quarter once you adjust out PCX?

Rick Navarre

Well, what we've basically done if you look at the total isthat the original guidance that we had was 1 billion to 1. 2 billion and we'velowered the guidance down to essentially 100 on the low end and 200 on the topend, and you can draw whatever conclusion you like. But at the end of the day,Patriot for the nine months was $100 million plus inside of the number, soyou've got some additional earnings for Patriot for the last three months ofthe year that we had to pull out. So that kind of gets you maybe in the midpart of the range. And obviously when we gave you the guidance at the 1 to 1.2,we hadn't changed it from the previous quarter. We left it kind of flat knowingthat if you go back to the second quarter we told you that we had about $275million of items that were going to hit us with currency and demurrage. So, along way of saying, yeah, we tightened the guidance a bit on the top endbecause we knew we weren't going to hit the top end of the guidance two quarterago when we had the $275 million we notified you of, but we still havemaintained the range and we're still inside of the range.

Shneur Gershuni - UBS

Absolutely. Thank you for the clarification.

Operator

We have a follow-up from Justine Fisher. Please go ahead.

Justine Fisher -Goldman Sachs

Sorry, just one more question on School Creek. You guys weretalking about how you expect PRB coal to fill some of the gaps that has beenopened up by exports coming out of the East. So, how does that view affect thetiming of School Creek and why would you not be bringing on School Creektonnage sooner if that was the case

Greg Boyce

Well, first and foremost, we have always said with SchoolCreek as with any major new capacity, PowderRiver Basin or the Illinois Basin,is we would want to see a level of base load contracting complete prior todedicating the capital to bring on a major new operation. So, at the point intime that takes place is when we'll really look at what the time frames are forSchool Creek.

To date, we have not gotten to the levels of long termcontracting that we would like to be at and if that changes due to the kind ofpull that we're talking about and we think that's a possibility, then of coursewe'll revise our plans accordingly but we would not intend to bring on anoperation like School Creek predicated on spot sales into a future market.

Justine Fisher -Goldman Sachs

Okay, thanks.

Operator

And with no further questions, I'll turn it back to you, Mr.Boyce, for any closing comments.

Greg Boyce

Well, thank you all very much. It is exciting at this pointin time in BTU and I think Vic said it appropriately when he said welcome tothe new BTU. Now, as Rick described restructuring of the company, post thePatriot spin, we are a different company than we were a quarter ago and theprospects that we have for growth in our entire platform are significant as wego forward in time. So we appreciate all of your interest in BTU and we lookforward to reporting our results next quarter. Thank you.

Operator

Ladies and gentlemen, this conference is available forreplay. It starts today at 3:15 p.m. Central, will last for one month untilDecember 6 at midnight. You may access the replay at any time by dialing1-800-475-6701, international parties please dial 320-365-3844, the access codeis 887228. Those numbers again, 1-800-475-6701 or 320-365-3844 with the accesscode 887228. That does conclude your conference for today. Thank you for yourparticipation. You may now disconnect.

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