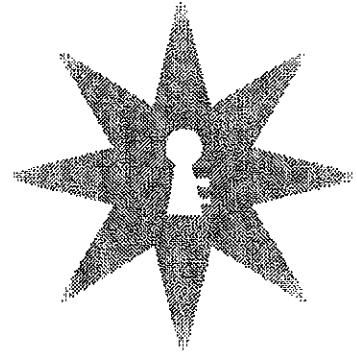


DECEMBER 1995



To Disabled Employees:

This letter outlines changes to the benefits program, for employees receiving long-term disability benefits. It includes information to help you complete an enrollment form. The changes, which affect the medical plan, your term life insurance and accidental death and dismemberment coverage, will become effective January 1, 1996.

#### WHAT'S DRIVING THIS CHANGE?

The coal market continues to be difficult, and cost pressures are greater than ever in our industry. At the same time, we have provided a competitive benefits package for retirees and active employees. Our commitment to providing a competitive benefits package at the lowest possible cost continues in 1996. We continue to pay the vast majority of expenses for coverage and are constantly monitoring our programs to ensure the greatest value for our benefit dollars. The changes described in this letter were made following a careful review of our program and were based on the amount of benefits dollars we are able to spend.

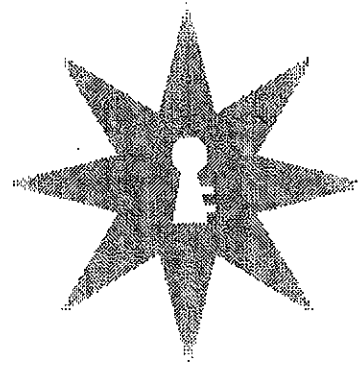
#### MEDICAL PLAN CHANGES

There are four changes to the medical plan.

★ First, you and all active employees will share in the cost to provide medical coverage for yourself and your eligible dependents. As a result, if you wish to continue your medical coverage in 1996, you will need to make monthly premium payments to pay for a portion of this expense. Retirees, disabled employees, and active employees will contribute 15% of the respective cost of their coverage—the company pays the rest. This contribution will be recalculated each year based upon the prior year's experience. If costs increase, your monthly premium will increase. If costs go down, you will also share in premium decreases. If you elect to continue your coverage in the medical plan, your premiums will be deducted from your monthly disability checks.

**In order to authorize the deductions for these contributions for 1996, you must complete and submit an enrollment form postmarked by December 22, 1995. A form and return envelope are enclosed.**

★ Second, your deductible (the amount you pay before the plan begins to pay) will increase if you seek treatment from **out-of-network** providers. Your deductible won't change if you seek care from network providers.



ANNUAL DEDUCTIBLES FOR MEDICAL COVERAGE

	CURRENT INDIVIDUAL/FAMILY	1996 INDIVIDUAL/FAMILY
Network service	\$250/\$500	\$250/\$500
Out-of-network service	\$250/\$500	\$400/\$800

- ★ The third change is that the annual out-of-pocket maximum (the most you will pay before the plan pays the full cost of eligible expenses) will increase. The ceiling on what you could pay is higher if you seek treatment from an out-of-network provider.

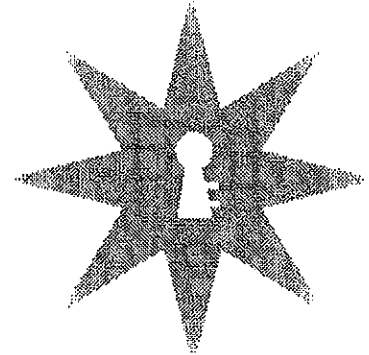
ANNUAL OUT-OF-POCKET MAXIMUMS FOR MEDICAL COVERAGE

	CURRENT INDIVIDUAL/FAMILY	1996 INDIVIDUAL/FAMILY
Network service	\$1,250/\$3,000	\$1,500/\$3,000
Out-of-network service	\$1,250/\$3,000	\$2,000/\$4,000

- ★ Fourth, you will pay the difference in the cost of prescription drugs if you select a brand-name drug when a generic equivalent is available and approved by your physician.

**REMINDER: HOW MEDICARE AFFECTS YOUR BENEFITS**

For disabled employees who are eligible for Medicare, as well as their dependents covered under the company medical plan, Medicare is the primary plan and the company plan is secondary. There is no change to the way your benefits are coordinated with Medicare. The company plan's benefits are reduced by the amount of Medicare's benefits for the same claim. This is explained in your summary plan description booklet.



**HOW TO ENROLL**

When you enroll in the medical plan in 1996, you will select coverage for one of the following categories:

- ★ Yourself only.
- ★ Yourself plus one dependent.
- ★ Yourself plus two or more dependents.

The table below shows the monthly premium for medical care for each coverage category, which also varies based on your Medicare eligibility status. You must complete and submit an enrollment form to indicate the level of coverage you wish. **If you do not complete an enrollment form, your medical coverage will end on December 31, 1995.**

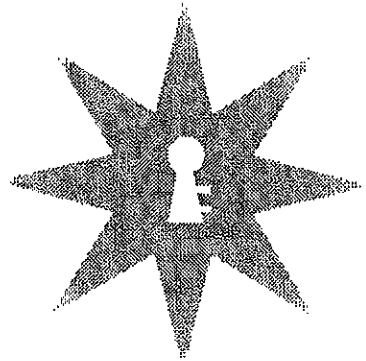
1996 MONTHLY PREMIUMS FOR MEDICAL COVERAGE

	YOURSELF ONLY			YOURSELF PLUS 1			YOURSELF PLUS 2 OR MORE		
	NOT MEDICARE ELIGIBLE	MEDICARE ELIGIBLE	ONE MEDICARE ELIGIBLE/ ONE NOT ELIGIBLE	NOT MEDICARE ELIGIBLE	MEDICARE ELIGIBLE	ONE MEDICARE ELIGIBLE/ ONE NOT ELIGIBLE	NOT MEDICARE ELIGIBLE	TWO MEDICARE ELIGIBLE, ONE OR MORE NOT ELIGIBLE	ONE MEDICARE ELIGIBLE, TWO OR MORE NOT ELIGIBLE
You Pay	\$37.96	\$16.64	N/A	\$75.92	\$33.28	\$54.60	\$97.78	\$55.14	\$76.46
Company Pays	\$215.10	\$94.28	N/A	\$430.20	\$188.57	\$309.38	\$554.11	\$312.48	\$433.29
Total Cost	\$253.06	\$110.92	N/A	\$506.12	\$221.85	\$363.98	\$651.89	\$367.62	\$509.75

Your enrollment into the medical plan is important. If you do not enroll in the plan for 1996 and wish to enroll at any time in the future, you will need to provide evidence of good health.

The only exception to this rule is if you lose coverage under another employer's plan as a result of a change in your or your spouse's employment status and you enroll in this plan within 31 days of the event. In this situation, benefits for pre-existing conditions will be limited.

Even if you do not want coverage, you must complete the form and return it indicating "No Coverage." Use the enclosed envelope to mail your form. Please make a copy of the form for your records. By signing this form and returning it by December 22, 1995, you authorize the appropriate premium to be deducted from your monthly disability check. Your new deductions will appear on your pension checks after January 1, 1996.



#### **TERM LIFE AND AD&D INSURANCE REVISION**

Another change affects the term life insurance and accidental death and dismemberment (AD&D) plan. If you are currently enrolled in the life insurance plan, you will continue to receive coverage equal to two times your basic annual salary as an active employee. When you reach age 65 or you elect disability retirement, your benefit amount will be reduced to 25% of this amount. When you reach age 70, your benefit amount will be reduced to a maximum of \$10,000, unless the original amount is already less than \$10,000. The survivor income benefit (Payment Option B) will also be eliminated. These changes will take place automatically, effective January 1, 1996.

The company will continue to provide basic AD&D insurance for current disabled employees until age 65 or disability retirement.

Finally, we realize this enrollment is a new process and we want to make it as simple as possible for you. If you have any questions about these changes to your benefits or need help completing your form, please call your local Human Resources Representative.

Sincerely,

W. Howard Carson  
President PWCC  
Peabody Western Coal Company

*This summary of material modifications is a part of your summary plan description and should be kept with your other booklets. This is not a complete detailed description. See your summary plan descriptions for more details about the program.*

*The benefits plan is operated according to the terms of legal documents including insurance contracts and plan documents. If there is a difference between this letter or the summary plan description and the actual plan documents, the plan documents will govern. This letter is not a substitute for the official plan documents nor is it an employment contract.*

*The company reserves the right to amend or terminate the program in whole or in part at any time.*