Arch Coal, Inc. Reports Second Quarter Results

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Highlights:

- Income available to common shareholders (excluding items discussed below) of $2.7 million, or $.05 per share, vs. income of $2.1 million, or $.04 per share, in 2Q02
- Adjusted EBITDA of $54.8 million, vs. $62.7 million in 2Q02
- Total revenues of $403.1 million, vs. $374.5 million in 2Q02
- Coal sales of 25.7 million tons, vs. 24.9 million tons in 2Q02
- Completion of $700 million Senior Notes offering by Arch Western subsidiary
- Announced agreement to acquire Triton Coal Company, the seventh largest U.S. coal company

St. Louis - Arch Coal, Inc. (NYSE:ACI) today reported that for its second quarter ended June 30, 2003, the company had income available to common shareholders of $2.7 million, or $.05 per share, before special items of $4.0 million principally related to fees associated with the early extinguishment of debt and severance costs of $2.0 million associated with ongoing cost-reduction efforts at the company's eastern operations. In the same quarter of 2002, Arch had income of $2.1 million, or $.04 per share.

"During the second quarter, sales volumes increased at both our eastern and western operations, which had a positive impact on both revenues and costs," said Steven F. Leer, Arch Coal's president and chief executive officer. (Sales volumes were 1.7 million tons higher at the company's western operations and 1.3 million tons higher at its eastern operations compared to the first quarter of 2003.) "In addition, we made good progress in our cost reduction program at our eastern mines, where we reduced costs by $1.55 per ton excluding severance costs. We will continue to pursue aggressive cost reductions across all of our operations in the year's second half. We are pleased with the trend line these efforts have established."

For the six months ended June 30, 2003, Arch Coal had a loss available to common shareholders of $11.1 million, or $.21 per share, excluding severance costs of $2.6 million, the aforementioned charge related to the early extinguishment of debt, and a $3.7 million non-cash charge related to the cumulative effect of an accounting change resulting from the adoption of FAS 143. That compares to a loss of $5.3 million, or $.10 per share, during the same period of 2002. Total revenues for the six months were $752.7 million and coal sales totaled 48.3 million tons, vs. $742.9 million and 49.6 million tons in the comparable period of 2002. Adjusted EBITDA totaled $93.5 million for the first six months of 2003, compared to $111.8 million in the same period of 2002.

Triton acquisition

On May 29, Arch announced that it had signed a definitive agreement to acquire Vulcan Coal Holdings LLC, which owns all of the equity of Triton Coal Company, for a purchase price of $364 million. Triton is the nation's seventh largest coal producer and the operator of two mines in Wyoming's Powder River Basin.

"We are excited about this acquisition and its potential to create long-term value for our shareholders and substantial benefits for our customers," said Steven F. Leer, Arch Coal's president and chief executive officer. "We view Triton as an ideal fit with our existing operations in the Powder River Basin, which is the nation's largest and fastest growing coal supply region."

Consummation of the transaction is conditioned upon obtaining all necessary governmental and regulatory consents and other customary conditions.

Senior Notes offering

On June 25, Arch Western Finance LLC, which is a subsidiary of Arch Western Resources LLC, closed on an offering of $700 million of 6-3/4% senior notes due 2013. (Arch Western Resources is an Arch Coal subsidiary.)

"We were pleased with the strong demand for the Arch Western notes and the favorable coupon we were able to secure," Leer said. "By capitalizing on the very low interest rate environment that prevailed at the end of June, Arch Western was able to lock in attractive rates for a period of 10 years. We believe this transaction will greatly enhance the company's financial flexibility in the years ahead."

Arch Western used the proceeds to repay term loans expiring in 2007 and 2008 and totaling $675 million, as well as for general corporate purposes and fees and expenses related to the offering.

Arch expects to incur after-tax charges in future periods related to interest rate swap agreements entered into in connection with the term loans discussed above, which no longer qualify as hedge instruments. The after-tax impact will be recorded in the following periods: $4.1 million in the second half of 2003; $8.3 million in 2004; $7.7 million in 2005; $4.8 million in 2006; and $1.9 million in 2007. For the five-day period from June 25th through month end, Arch recognized $115,000 in after-tax charges related to these interest rate swap positions.

In addition to the charges described above, the interest rate swap agreements will be marked to market against current interest rates on a quarterly basis, with changes in market value affecting Arch's results of operations for as long as these positions are in effect. As of June 30, 2003, Arch recognized a $1.0 million gain on the re-measurement of these agreements. The company cannot predict what impact future changes in market value might have on its financial position.

U.S. coal markets

During the second quarter, U.S. coal markets continued to show signs of a rebound, despite a slow start to the summer cooling season, according to Leer.

"Despite generally mild temperatures in May and June, coal demand strengthened modestly in the second quarter," Leer said. "Moreover, we continue to see encouraging trends in the marketplace - trends that should translate into increased coal demand and an improving pricing environment in future quarters."

Increasing electricity demand and high natural gas prices resulted in an increase in coal consumption at U.S. power plants of 20 million tons, or 8.7%, during the first three months of 2003 compared to the same period of 2002, according to the most recent data available from the U.S. Energy Information Administration. During that same period, coal production declined by 18 million tons, or 6.5%, driven in large part by a rapidly rationalizing eastern coal market and continuing pressure on high-sulfur coal markets.

Until recently, excess coal inventories at U.S. power plants had dampened the market's response to these broad trends, according to Leer. However, Arch estimates that utility stockpiles are currently 10% to 15% lower than at the same time last year.

"We believe that the inventory correction that has been under way at U.S. power plants since early last year is nearing an end," Leer said. "Stockpiles now appear to be approaching the new and historically very low target levels set by our customers, who have been aggressively seeking to reduce working capital in the face of highly competitive U.S. power markets. In coming months, we expect growing electricity demand to boost customer fuel requirements, and that should provide an impetus for improving coal demand and pricing."

Edison Electric Institute estimates that U.S. electricity requirements increased 2.4% during the first six months of 2003 vs. the same period of 2002.

Arch continues to have significant leverage to improvements in coal prices, according to Leer. At the end of the second quarter, the company had approximately 35% of its expected 2004 production open to market-based pricing, and 50% of its 2005 production. (Arch has committed nearly all of its expected production for the remainder of 2003.)

Other developments

The value of Arch's equity investment in Natural Resource Partners continued to grow during the quarter. In October 2002, Arch contributed reserves to NRP that had been valued on the company's balance sheet at $84.9 million. In exchange, Arch received 1.9 million common units of NRP that it sold in an initial public offering for $33.6 million; an additional 7.7 million common and subordinated units that the company continues to hold; and 42.25% of the general partner interest. At NRP's closing price of $32.74 on July 17, Arch's 7.7 million units of NRP were worth more than $250 million.

"We continue to be pleased with the performance of Natural Resource Partners," Leer said. "The creation of this new entity has been a great vehicle for unlocking value for our shareholders."

As previously announced, Arch agreed to terms in early April with a large customer seeking to buy out of the remaining term of an above-market contract. The buyout resulted in the receipt of approximately $52 million in cash during the quarter. Arch recorded a deferred gain of approximately $15 million related to this transaction, which will be recognized ratably through 2012.

Operating statistics

Second Quarter 2003 Regional Analysis:

	Eastern Operations	*Western Operations*	*Total*
Tons sold (in mm)	8.1	17.6	25.7
Sales price per ton	$30.74	$7.37	$14.76
Cost per ton	$31.67	$6.55	$14.50
Margin	$ (.93)	$ .82	$ .26

Note: Western operations data do not include the results of 65%-owned Canyon Fuel Company, which is accounted for on the equity method.

Capital spending and DD&A (in millions):

	Q2 2003	*Q2 2002*	*FY 2003 (projected)*
Capital spending	$21.4	$26.4	$160
DD&A	$45.4	$50.4	$190

Note: Actual and projected data on capital spending and depreciation, depletion and amortization include Arch's ownership percentage in Canyon Fuel Company.

Looking ahead

"During the year's second half, Arch will continue to focus on reducing costs across the corporation as we seek to ensure that we are positioned to capitalize fully on a rebounding coal market, and to operate profitably during periods of market weakness," Leer said. "The trends in U.S. coal markets continue to be encouraging. U.S. coal consumption is on the rise, eastern coal production continues to rationalize, and natural gas remains prohibitively expensive for power generation. Moreover, there is a growing consensus in Washington, D.C. and within the power generation industry that coal must play a still greater role in meeting America's future electricity requirements. With our highly productive mines, experienced workforce, and extensive reserves of clean-burning, low-sulfur and compliance coal in both the eastern and western United States, Arch Coal should be well positioned to capitalize on such an environment."

Leer indicated that Arch expected breakeven results in the third quarter of 2003, excluding mark-to-market adjustments and charges related to the termination of hedge accounting for the interest rate swap agreements discussed above. Rising interest rates could have a positive impact on the mark-to-market adjustments, and thus may offset the impact related to the termination of hedge accounting described above.

A conference call concerning second quarter earnings will be webcast live today at 11 a.m. EDT. The conference call can be accessed via the "investor" section of the Arch Coal Web site (www.archcoal.com).

Arch Coal is the nation's second largest coal producer, with subsidiary operations in West Virginia, Kentucky, Virginia, Wyoming, Colorado and Utah. Through these operations, Arch Coal provides the fuel for approximately 6% of the electricity generated in the United States.

Forward-Looking Statements: Statements in this press release which are not statements of historical fact are forward-looking statements within the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on information currently available to, and expectations and assumptions deemed reasonable by, the company. Because these forward-looking statements are subject to various risks and uncertainties, actual results may differ materially from those projected in the statements. These expectations, assumptions and uncertainties include: the company's expectation of continued growth in the demand for electricity; belief that legislation and regulations relating to the Clean Air Act and the relatively higher costs of competing fuels will increase demand for its compliance and low-sulfur coal; expectation of continued improved market conditions for the price of coal; expectation that the company will continue to have adequate liquidity from its cash flow from operations, together with available borrowings under its credit facilities, to finance the company's working capital needs; a variety of operational, geologic, permitting, labor and weather related factors; and the other risks and uncertainties which are described from time to time in the company's reports filed with the Securities and Exchange Commission.

FOR FURTHER INFORMATION:

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Arch Coal, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(In thousands, except per share data)

	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
	(Unaudited)		(Unaudited)	
Revenues				
Coal sales	$ 378,892	$ 358,990	$ 706,282	$ 717,585
Income from equity investments	12,191	(198)	23,301	1,070
Other revenues	11,995	15,684	23,085	24,287
	403,078	374,476	752,668	742,942
Costs and expenses				
Cost of coal sales	372,323	340,928	705,963	688,139
Selling, general and administrative expenses	11,890	10,071	23,763	19,940
Amortization of coal supply agreements	4,526	5,374	10,320	10,488
Other expenses	4,972	5,781	9,520	13,373
	393,711	362,154	749,566	731,940
Income from operations	9,367	12,322	3,102	11,002
Interest expense, net:				
Interest expense	(11,667)	(14,356)	(23,219)	(26,358)
Interest income	493	314	826	582
	(11,174)	(14,042)	(22,393)	(25,776)
Other nonoperating income (expense):				
Expenses resulting from early debt extinguishment	(4,823)	-	(4,823)	-
Other nonoperating income	873	-	873	-
	(3,950)	-	(3,950)	-
Loss before income taxes and cumulative effect of accounting change	(5,757)	(1,720)	(23,241)	(14,774)
Benefit from income taxes	(4,300)	(3,800)	(8,600)	(9,500)
Income (loss) before cumulative effect of accounting change	(1,457)	2,080	(14,641)	(5,274)
Cumulative effect of accounting change, net of taxes	-	-	(3,654)	-
Net income (loss)	(1,457)	2,080	(18,295)	(5,274)
Preferred stock dividends	(1,797)	-	(2,995)	-
Net income (loss) available to common shareholders	$ (3,254)	$ 2,080	$ (21,290)	$ (5,274)
Basic and diluted earnings (loss) per common share	$ (0.06)	$ 0.04	$ (0.41)	$ (0.10)
Weighted average shares outstanding				
Basic	52,418	52,377	52,401	52,367
Diluted	52,700	52,672	52,654	52,591
Dividends declared per common share	$ 0.0575	$ 0.0575	$ 0.1150	$ 0.1150
Adjusted EBITDA (A)	$ 54,779	$ 62,658	$ 93,518	$ 111,795

(A) Adjusted EBITDA is defined as net income before the effect of net interest expense; income taxes; our depreciation, depletion and amortization; our equity interest in the depreciation, depletion and amortization of Canyon Fuel Company, LLC; cumulative effect of accounting changes; expenses resulting from early extinguishment of debt; and mark-to-market adjustments in the value of derivative instruments.

Adjusted EBITDA is not a measure of financial performance in accordance with generally accepted accounting principles, and items excluded to calculate Adjusted EBITDA are significant in understanding and assessing our financial condition. Therefore, Adjusted EBITDA should not be considered in isolation nor as an alternative to net income, income from operations, cash flows from operations or as a measure of our profitability, liquidity or performance under generally accepted accounting principles. We believe that Adjusted EBITDA presents a useful measure of our ability to service and incur debt based on ongoing operations. Furthermore, analogous measures are used by industry analysts to evaluate operating performance. Investors should be aware that our presentation of Adjusted EBITDA may not be comparable to similarly titled measures used by other companies. The table below shows how we calculate Adjusted EBITDA.

	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Net income (loss)	$ (1,457)	$ 2,080	$ (18,295)	$ (5,274)
Cumulative effect of accounting change	-	-	3,654	-
Benefit from income taxes	(4,300)	(3,800)	(8,600)	(9,500)
Interest expense, net	11,174	14,042	22,393	25,776
Depreciation, depletion and amortization - Arch Coal, Inc.	39,586	43,848	79,097	86,589
DD&A - Equity interest in Canyon Fuel Company, LLC	5,826	6,488	11,319	14,204
Expenses from early debt extinguishment and other nonoperating	3,950	-	3,950	-
Adjusted EBITDA	$ 54,779	$ 62,658	$ 93,518	$ 111,795

Arch Coal, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands)

	June 30, 2003	December 31, 2002
Assets	(Unaudited)	
Current assets		
Cash and cash equivalents	$ 108,779	$ 9,557
Trade receivables	131,123	135,903
Other receivables	29,344	30,927
Inventories	69,434	66,799
Prepaid royalties	4,916	4,971
Deferred income taxes	27,775	27,775
Other	12,612	15,781
Total current assets	383,983	291,713
Property, plant and equipment, net	1,319,251	1,284,968
Other assets		
Prepaid royalties	67,078	51,078
Coal supply agreements	12,700	59,240
Deferred income taxes	235,958	221,116
Equity investments	230,092	231,551
Other	52,160	43,142
	597,988	606,127
Total assets	$ 2,301,222	$ 2,182,808
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 95,427	$ 113,527
Accrued expenses	146,025	133,287
Current portion of debt	106	7,100
Total current liabilities	241,558	253,914
Long-term debt	700,062	740,242
Accrued postretirement benefits other than pension	337,483	324,539
Asset retirement obligations	144,990	117,804
Accrued workers' compensation	80,261	80,985
Other noncurrent liabilities	154,523	130,461
Total liabilities	1,658,877	1,647,945
Stockholders' equity		
Preferred stock	29	-
Common stock	529	527
Paid-in capital	976,350	835,763
Retained deficit	(281,266)	(253,943)
Treasury stock, at cost	(5,047)	(5,047)
Accumulated other comprehensive loss	(48,250)	(42,437)
Total stockholders' equity	642,345	534,863
Total liabilities and stockholders' equity	$ 2,301,222	$ 2,182,808

NOTE: Certain amounts in the December 31, 2002 balance sheet have been reclassified to conform with the classifications in the 2003 balance sheet with no effect on previously reported stockholders' equity.

Arch Coal, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(In Thousands)

	Six Months Ended June 30, 2003	2002
	(Unaudited)	
Operating activities		
Net loss	$ (18,295)	$ (5,274)
Adjustments to reconcile to cash provided by operating activities:		
Depreciation, depletion and amortization	79,097	86,589
Prepaid royalties expensed	7,259	3,674
Accretion on asset retirement obligations	7,204	-
Net gain on disposition of assets	(1,688)	(607)
Income from equity investments	(23,301)	(1,070)
Net distributions from equity investments	23,622	17,778
Cumulative effect of accounting change	3,654	-
Expenses resulting from early debt extinguishment	4,823	-
Changes in:		
Receivables	6,363	3,971
Inventories	(2,635)	(15,951)
Accounts payable and accrued expenses	(21,556)	13,898
Income taxes	(8,668)	(9,640)
Accrued postretirement benefits other than pension	12,944	(2,527)
Asset retirement obligations	(7,592)	3,796
Accrued workers' compensation benefits	(724)	3,863
Other	4,326	(1,029)
Cash provided by operating activities	64,833	97,471
Investing activities		
Additions to property, plant and equipment	(66,941)	(96,089)
Proceeds from dispositions of property, plant and equipment	1,839	2,162
Proceeds from coal supply agreements	52,548	-
Additions to prepaid royalties	(23,204)	(20,037)
Cash used in investing activities	(35,758)	(113,964)
Financing activities		
Net (payments on) proceeds from revolver and lines of credit	(72,174)	23,283
Payments on term loans	(675,000)	-
Proceeds from issuance of senior notes	700,000	-
Debt financing costs	(15,468)	(8,127)
Proceeds from sale and leaseback of equipment	-	9,213
Reductions of obligations under capital lease	-	(7,691)
Dividends paid	(7,829)	(6,021)
Proceeds from issuance of preferred stock	139,024	-
Proceeds from sale of common stock	1,594	289
Cash provided by financing activities	70,147	10,946
Increase (decrease) in cash and cash equivalents	99,222	(5,547)
Cash and cash equivalents, beginning of period	9,557	6,890
Cash and cash equivalents, end of period	$ 108,779	$ 1,343
Canyon Fuel Company cash flow information (Arch Coal ownership percentage)		
Depreciation, depletion and amortization	11,319	14,204
Additions to property, plant and equipment	(5,164)	(5,021)