Arch Coal, Inc. Reports Fourth Quarter Results

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- Net income of $1.1 million, or $.02 per share, vs. net income of $8.4 million, or $.16 per share, in 4Q01
- Adjusted EBITDA of $57.9 million, vs. $75.1 million in 4Q01
- Total revenues of $390.4 million, vs. $385.4 million in 4Q01
- Coal sales of 28.4 million tons, vs. 28.5 million tons in 4Q01
- Debt reduction of $51.5 million during the quarter

St. Louis - Jan 23 2003 - Arch Coal, Inc. (NYSE:ACI) today announced that it had net income of $1.1 million, or $.02 per share, for its fourth quarter ended December 31, 2002. In the same quarter of 2001, Arch had net income of $8.4 million, or $.16 per share.

"We achieved solid operating performances at nearly all of our mines during the fourth quarter, albeit at reduced operating rates," said Steven F. Leer, Arch Coal's president and chief executive officer. "We continue to see many positive signs that a rebound in U.S. coal demand and pricing may be forthcoming, and we are managing our operations in a manner that should enable us to capitalize when that rebound occurs."

During most of 2002, a weak economy and high coal stockpile levels at U.S. power plants exerted downward pressure on U.S. coal markets. In response, Arch made the strategic decision in early 2002 to reduce production until market fundamentals improved. During the fourth quarter, lower production levels, principally at Arch's eastern operations, again had an adverse impact on the company's results. Offsetting that impact somewhat was a nearly 400,000-ton increase in shipped volumes from the company's West Elk mine in Colorado compared to the same quarter of 2001. (Production at West Elk in the fourth quarter of 2001 was curtailed by high methane levels.) Brokered volumes also increased in the fourth quarter compared to the same period a year ago.

For the year ended December 31, 2002, Arch Coal had a net loss of $2.6 million, or $.05 per share, compared to net income of $7.2 million, or $.15 per share, in 2001. Total revenues for the year totaled $1,534.1 million and coal sales totaled 106.7 million tons, vs. $1,488.7 million and 109.5 million tons in 2001. Adjusted EBITDA totaled $228.9 million for the year, compared to $282.3 million in 2001.

Natural Resource Partners

In October, Arch completed the sale of 1.9 million units of Natural Resource Partners (NYSE:NRP), a newly formed joint venture created to manage coal royalty properties. Net proceeds to Arch, after the underwriting discount and expenses, totaled $33.6 million, which were applied to debt reduction efforts. The transaction is expected to be accretive to earnings. Arch continues to hold 34.1% of the NRP limited partnership units and 42.25% of the general partner interest.

Using the funds from the sale of NRP units and cash available from ongoing operations, the company reduced its debt by $51.5 million, or 6%, from levels at Sept. 30, 2002.

Arch's continuing interest in Natural Resource Partners contributed $2.3 million to equity income during the quarter. (Arch's equity income from its investment in NRP is reported on a one-month time lag and includes the effects of Arch's historical basis in the assets it contributed to NRP. As such, Arch's equity income from NRP may not be indicative of the results to be reported by NRP for the noted period.) Offsetting the increase in equity income related to NRP, equity income from Arch's 65%-owned Canyon Fuel Company declined from $11.9 million to $5.5 million, reflecting the expiration of a favorable sales contract at the end of 2001 and a weak market environment for Utah coal in the fourth quarter of 2002.

Operating statistics

Regional analysis: Of the 28.4 million tons of coal that Arch sold during the fourth quarter, approximately 7.7 million tons originated at its eastern operations and 20.7 million tons originated at its western operations. Arch Coal had an average realized sales price of $13.04 per ton and average operating costs of $12.57 per ton. The eastern operations had an average realized sales price of $29.93 per ton and an average cost of $29.34 per ton during the quarter. The western operations had an average realized sales price of $6.80 per ton and an average cost of $6.36 per ton during the quarter. (Western operations data does not include the results of 65%-owned Canyon Fuel Company, which is accounted for on the equity method.)

Expected sales volume for the first quarter of 2003: In the east, Arch expects to sell a total of approximately 6.0 million tons of coal in the first quarter of 2003 from its mines in Central Appalachia, excluding brokered tons. In the west, Arch expects to sell approximately 16.0 million tons of coal at its Black Thunder mine in the Powder River Basin of Wyoming, and roughly 1.5 million tons at the West Elk mine in Colorado, excluding brokered tons. Total sales (on a 100% basis) at Arch's 65%-owned Canyon Fuel operations in Utah are expected to be approximately 3.7 million tons for the quarter.

Financial: Arch expects depreciation, depletion and amortization to total approximately $200 million for 2003. Capital expenditures are expected to total around $160 million, as the company continues to limit capital spending due to the weak market environment. (Projections for depreciation, depletion and amortization and capital expenditures include Arch's ownership percentage in Canyon Fuel Company.)

Other developments: During the quarter, the company reduced its days sales outstanding in accounts receivable, from 38 days at year-end 2001 to 33 days at year-end 2002.

U.S. coal markets

Although coal markets remain under significant pressure, there are many positive indications that a recovery in demand and pricing is possible in the near term, Leer said. Among them:

- Electricity demand is growing.
- Many regions of the country, including the major coal-burning regions, have experienced substantially colder temperatures this winter compared to last winter.
- Natural gas prices are trading at levels more than double those of a year ago, which should result in power producers seeking to maximize output at coal-fired power plants.
- Coal production declined by an estimated 2.5% in 2002, and announcements of eastern mine closures and curtailments have continued in recent weeks.
- Extremely dry conditions in the western half of the country are threatening to reduce hydroelectric generation this spring and summer, which could boost demand for coal-fired generation.

"We are already seeing the first signs of a recovery in coal prices," Leer said. "In recent weeks, eastern spot prices have increased approximately 10%, although volumes remain light. If temperatures remain at normal or colder-than-normal levels for the remainder of the winter, and economic activity does not falter, we anticipate a pick-up in demand for coal in the near term."

Leer reiterated that Arch is focused on being a market-driven company and would not seek to increase output at its mines until the improving pricing environment attains levels that will allow satisfactory returns on the company's investment. "In the current environment, we believe it is in the best interests of our shareholders to leave uncommitted, low-cost reserves in the ground, rather than produce and sell them for little or no return," Leer added.

Looking ahead

Leer said that the company is not expecting an improvement in its financial results until coal markets complete their rebound. "In the first quarter, we expect continued stability and consistency at our mining operations," he said. "We expect sales volumes to be somewhat lower than in the fourth quarter as we continue to refrain from selling coal into the spot market, and ship only that tonnage which is already committed under contract."

While results from mining operations are expected to be comparable in the first quarter to those achieved in the fourth quarter, the company does expect an increase in costs in 2003, principally due to higher expenses related to its post-retirement health care obligations. These obligations, coupled with a much smaller increase in pension-related expenses, are expected to increase costs by approximately $8.0 million per quarter, reducing earnings by approximately $.12 per share. As a result, the company expects to lose between $.05 and $.20 cents per share during the first quarter of 2003, absent improvements in coal demand and pricing in the near term.

"Our projection for the first quarter assumes that shipping volumes will be substantially lower in the first quarter than in future quarters," Leer said. "If eastern coal markets continue the trend of recent weeks by strengthening further, and if western markets follow suit, we could see increased shipping rates and a stronger performance in the first quarter."

"We are confident that power generators will require more coal in 2003 than they currently have under contract," he said. "While we can't predict exactly when demand will accelerate, market fundamentals continue to strengthen, and we expect an improving market to have a favorable impact on sales volumes and pricing as the year progresses."

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.

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

	Three Months Ended December 31		Twelve Months Ended December 31	
	2002	2001	2002	2001
	(Unaudited)		(Unaudited)	
Revenues				
Coal sales	$ 369,676	$ 355,867	$1,473,558	$1,403,370
Income from equity investments	7,800	11,878	10,092	26,250
Other revenues	12,966	17,671	50,489	59,108
	390,442	385,416	1,534,139	1,488,728
Costs and expenses				
Cost of coal sales	356,347	344,491	1,412,541	1,336,788
Selling, general and administrative expenses	10,344	9,245	40,019	43,834
Amortization of coal supply agreements	6,311	6,082	22,184	27,460
Other expenses	9,262	5,569	30,118	18,190
	382,264	365,387	1,504,862	1,426,272
Income from operations	8,178	20,029	29,277	62,456
Interest expense, net:				
Interest expense	(12,140)	(13,002)	(51,922)	(64,211)
Interest income	284	383	1,083	4,264
	(11,856)	(12,619)	(50,839)	(59,947)
Income (loss) before income taxes	(3,678)	7,410	(21,562)	2,509
Benefit from income taxes	(4,750)	(1,000)	(19,000)	(4,700)
Net Income (loss)	$ 1,072	$ 8,410	$ (2,562)	$ 7,209
Basic and diluted earnings (loss) per common share	$ 0.02	$ 0.16	$ (0.05)	$ 0.15
Weighted average shares outstanding				
Basic	52,382	52,349	52,374	48,650
Diluted	52,533	52,506	52,374	48,918
Dividends declared per share	$ 0.0575	$ 0.0575	$ 0.2300	$ 0.2300
Adjusted EBITDA (A)	$ 57,853	$ 75,108	$ 228,910	$ 282,285

[A] Adjusted EBITDA is defined as income from operations before the effect of net interest expense; income taxes; our depreciation, depletion and amortization; and our equity interest in the depreciation, depletion and amortization of Canyon Fuel Company, LLC. 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 December 31		Twelve Months Ended December 31	
	2002	2001	2002	2001
Income from operations	$ 8,178	$ 20,029	$ 29,277	$ 62,456
Depreciation, depletion and amortization of Arch Coal, Inc.	43,917	45,207	174,752	177,504
Arch Coal's equity interest in depreciation, depletion and amortization of Canyon Fuel Company, LLC	5,758	9,872	24,881	42,325
Adjusted EBITDA	$ 57,853	$ 75,108	$ 228,910	$ 282,285

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

	December 31, 2002	December 31, 2001
Assets	(Unaudited)	
Current assets		
Cash and cash equivalents	$ 9,557	$ 6,890
Trade receivables	135,903	149,956
Other receivables	30,927	32,303
Inventories	66,799	60,133
Prepaid royalties	4,971	1,997
Deferred income taxes	27,775	23,840
Other	15,781	14,337
Total current assets	291,713	289,456
Property, plant and equipment, net	1,284,968	1,396,786
Other assets		
Prepaid royalties	51,078	35,216
Coal supply agreements	59,240	81,424
Deferred income taxes	221,116	195,411
Equity investments	231,551	170,686
Other	43,142	34,580
	606,127	517,317
Total assets	$ 2,182,808	$ 2,203,559
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 113,527	$ 99,081
Accrued expenses	133,287	134,062
Current portion of debt	7,100	6,500
Total current liabilities	253,914	239,643
Long-term debt	740,242	767,355
Accrued postretirement benefits other than pension	324,539	326,098
Accrued reclamation and mine closure	130,097	123,761
Accrued workers' compensation	80,985	78,768
Accrued pension cost	-	22,539
Obligations under capital leases	-	8,210

Other noncurrent liabilities	118,168	66,443
Total liabilities	1,647,945	1,632,817
Stockholders' equity		
Common stock	527	527
Paid-in capital	835,763	835,427
Retained deficit	(253,943)	(239,336)
Treasury stock, at cost	(5,047)	(5,047)
Accumulated other comprehensive loss	(42,437)	(20,829)
Total stockholders' equity	534,863	570,742
Total liabilities and stockholders' equity	$ 2,182,808	$ 2,203,559

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

	Twelve Months Ended December 31,	
	2002	2001
	(Unaudited)	
Operating activities		
Net income (loss)	$ (2,562)	$ 7,209
Adjustments to reconcile to cash provided by operating activities:		
Depreciation, depletion and amortization	174,752	177,504
Prepaid royalties expensed	8,503	7,274
Net gain on disposition of assets	(751)	(14,627)
Income from equity investments	(10,092)	(26,250)
Net distributions from equity investments	17,121	42,219
Changes in:		
Receivables	14,028	(1,992)
Inventories	(6,666)	(12,203)
Accounts payable and accrued expenses	(4,711)	(19,836)
Income taxes	(15,826)	1,053
Accrued postretirement benefits other than pension	(1,559)	(10,565)
Accrued reclamation and mine closure	6,336	4,833
Accrued workers' compensation benefits	2,217	175
Other	(4,373)	(9,133)
Cash provided by operating activities	176,417	145,661
Investing activities		
Additions to property, plant and equipment	(137,089)	(123,414)
Proceeds from sale of units of Natural Resource Partners, LP	33,603	-
Proceeds from dispositions of property, plant and equipment	2,522	18,930
Additions to prepaid royalties	(27,339)	(24,725)
Cash used in investing activities	(128,303)	(129,209)
Financing activities		
Net payments on revolver and lines of credit	(26,513)	(241,940)
Payments on term loans	-	(135,000)
Debt financing costs	(8,228)	-
Proceeds from sale and leaseback of equipment	9,213	-
Reductions of obligations under capital lease	(8,210)	(3,138)
Dividends paid	(12,045)	(11,565)
Proceeds from sale of common stock	336	381,100
Purchase of treasury stock	-	(5,047)
Cash used in financing activities	(45,447)	(15,590)
Increase in cash and cash equivalents	2,667	862
Cash and cash equivalents, beginning of period	6,890	6,028

Cash and cash equivalents, end of period	$ 9,557	$ 6,890
Canyon Fuel Company cash flow information (Arch Coal ownership percentage)		
Depreciation, depletion and amortization	24,881	42,325
Additions to property, plant and equipment	(21,773)	(19,399)