Arch Coal, Inc. Reports Second Quarter Results

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Highlights:

- Net income of $2.1 million, or $.04 per share, vs. net income of $0.8 million, or $.02 per share, in 2Q01
- Adjusted EBITDA of $62.7 million, vs. $68.3 million in 2Q01
- Total revenues of $374.5 million, vs. $368.6 million in 2Q01
- Coal sales of 24.9 million tons, vs. 26.7 million tons in 2Q01

St. Louis – July 18, 2002 - Arch Coal, Inc. (NYSE:ACI) today announced that it had net income of $2.1 million, or $.04 per share, for its second quarter ended June 30, 2002. In the same quarter of 2001, Arch had net income of $0.8 million, or $.02 per share.

"Our decision to reduce production in response to weak coal demand and pricing continues to be the single most significant factor in our financial performance," said Steven F. Leer, Arch Coal's president and chief executive officer. "We remain confident that this decision is in the best interest of the company and its shareholders. However, it has had an adverse impact on our financial performance during the first two quarters of the year."

Arch had announced in March that it would reduce production at its mining operations by an estimated 7% due to weak coal demand resulting from a very mild winter and the U.S. economic downturn. In keeping with this announcement, Arch's shipped volumes were down approximately 7% in the second quarter compared to the same period of 2001.

Late in the quarter, Arch settled certain coal contracts with a customer that was unwinding its coal supply position and desired to buy out of the remaining terms of those contracts. These settlements resulted in a pre-tax gain of $5.6 million. Without the settlements, Arch's results would have been within the projected range announced by the company in April.

U.S. coal markets

"Although stockpiles at coal-fired power plants remain at higher-than-optimal levels, we are optimistic about the potential for a rebound in U.S. coal markets in the near future," Leer said. "Several recent developments support that view. First, above-average temperatures during the first half of the summer have led to substantially higher air conditioning load, which has likely resulted in a draw-down of stockpiles. The summer months have been 19% warmer than normal when measured by cooling degree days. Second, U.S. coal production is down nearly 4% year to date through July 6, according to the U.S. Energy Information Administration."

Coal supply is likely to remain constrained in the near term, especially in the eastern United States, Leer added. "Not only are eastern producers struggling to remain profitable given recent spot coal prices, but they are also facing challenges related to permitting, trucking, bonding, access to capital and insurance. Smaller producers continue to be most distressed."

Given these trends, and the potential for a stronger U.S. economy in the year's second half, the prospects for better supply-demand balance and stronger coal pricing appear strong, according to Leer.

"Although we are continuing to restrict production, we are seeing signs that the market is progressing towards a healthier balance between supply and demand," Leer said. In fact, coal prices have begun to move higher in recent weeks.

"Spot pricing for eastern coal has strengthened by $1 to $2 per ton in recent weeks, and we expect further increases as the summer wears on," Leer said. "In the west, we have committed in recent weeks approximately 3 million tons of Powder River Basin coal for delivery in 2003 or 2004, at an average price of approximately $7 per ton."

Leer noted that the company had participated in recent contract negotiations in a limited fashion only. "We are very comfortable with our position and feel no sense of urgency to sign contracts at current pricing levels," Leer said. "We continue to believe that the current market has far more upside potential than downside."

Operating statistics

Regional analysis: Of the 24.9 million tons of coal that Arch sold during the second quarter, approximately 8.0 million tons originated at its eastern operations and 16.9 million tons originated at its western operations. Arch Coal had an average realized sales price of $14.40 per ton and average operating costs of $13.67 per ton. The eastern operations had an average realized sales price of $30.47 per ton and an average cost of $29.12 per ton during the quarter. The western operations had an average realized sales price of $6.85 per ton and an average cost of $6.39 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 third quarter of 2002: In the east, Arch expects to sell a total of approximately 7.4 million tons of coal in the third quarter of 2002 from its mines in Central Appalachia, excluding brokered tons. In the west, Arch expects to sell approximately 18 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 3.4 million tons for the quarter.

Financial: Arch expects depreciation, depletion and amortization to total approximately $210 million for the full year. Capital expenditures are expected to total approximately $150 million. (Projections for depreciation, depletion and amortization and capital expenditures include Arch's ownership percentage in Canyon Fuel Company.)

Looking ahead

"While we are enthusiastic about recent developments in the contract market, demand for spot coal in the year's second half remains relatively light," Leer said. "As a result, we do not expect to increase shipments significantly during the third quarter, traditionally our weakest earnings period. At present, we expect roughly breakeven results for the third quarter."

Regardless of spot market activity, the fourth quarter should be stronger, but the company is not yet prepared to project earnings for that period, Leer said. "We continue to take steps to maximize the efficiency of our operations, without compromising our ability to return our mines to optimal levels of production when coal markets rebound," he added.

Leer also noted that the performances of both the West Elk and Samples mines had improved substantially in the second quarter. "We are increasingly confident that these mines have worked through their recent challenges and will once again make positive contributions to the company's financial results once market conditions rebound," he said.

"For the remainder of 2002, we will continue to ship most of our production under contracts that were signed during the latter half of the 1990s," Leer said. "Over the next 18 months, the vast majority of those contracts will roll off. If we are able to replace those low-priced contracts in an improved market environment, with commitments characterized by the more favorable terms and pricing that the market currently seems to be indicating, we should see significant improvements in our financial results."

A conference call concerning second quarter earnings will be webcast live today at 11 a.m. Eastern time. 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.

Definition: Adjusted EBITDA is presented above because it is a widely accepted financial indicator of a company's ability to incur and service debt. Adjusted EBITDA should not be considered in isolation or as an alternative to net income, operating income, cash flows from operations, or as a measure of a company's profitability, liquidity or performance under generally accepted accounting principles. Adjusted EBITDA is defined as income from operations before the effect of net interest expense, income taxes, and depreciation, depletion and amortization for Arch Coal, Inc., its subsidiaries and its ownership percentage in its equity investments.

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 June 30		Six Months Ended June 30	
	2002	2001	2002	2001
	(Unaudited)		(Unaudited)	
Revenues				
Coal sales	$ 358,990	$ 350,214	$ 717,585	$ 710,257
Income (loss) from equity investment	(198)	4,247	1,070	10,306
Other revenues	15,684	14,119	24,287	29,444
	374,476	368,580	742,942	750,007
Costs and expenses				
Cost of coal sales	340,928	332,577	688,139	662,102
Selling, general and administrative expenses	10,071	12,043	19,940	25,837
Amortization of coal supply agreements	5,374	7,575	10,488	15,161
Other expenses	5,781	4,196	13,373	8,525
	362,154	356,391	731,940	711,625
Income from operations	12,322	12,189	11,002	38,382
Interest expense, net:				
Interest expense	(14,356)	(14,726)	(26,358)	(36,080)
Interest income	314	3,386	582	3,637
	(14,042)	(11,340)	(25,776)	(32,443)
Income (loss) before income taxes	(1,720)	849	(14,774)	5,939
Benefit from income taxes	(3,800)	-	(9,500)	(1,000)
Net Income (loss)	$ 2,080	$ 849	$ (5,274)	$ 6,939
Earnings (loss) per common share				
Basic	$ 0.04	$ 0.02	$ (0.10)	$ 0.16
Diluted	$ 0.04	$ 0.02	$ (0.10)	$ 0.15
Weighted average shares outstanding				
Basic	52,377	48,194	52,367	44,721
Diluted	52,672	49,585	52,591	45,107
Dividends declared per share	$ 0.0575	$ 0.0575	$ 0.1150	$ 0.1150
Adjusted EBITDA [(A)]	$ 62,658	$ 68,274	$ 111,795	$ 148,586

[(A)] Adjusted EBITDA is defined as income from operations before the effect of net interest expense; income taxes; and depreciation, depletion and amortization for Arch Coal, Inc., its subsidiaries and its ownership percentage in its equity investments.

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

	June 30, 2002 (Unaudited)	December 31, 2001
Assets		
Current assets		
Cash and cash equivalents	$ 1,343	$ 6,890
Trade receivables	145,970	149,956
Other receivables	32,318	32,303
Inventories	76,084	60,133
Prepaid royalties	2,460	1,997
Deferred income taxes	23,840	23,840
Other	11,118	14,337
Total current assets	293,133	289,456
Property, plant and equipment, net	1,406,681	1,396,786
Other assets		
Prepaid royalties	51,116	35,216
Coal supply agreements	70,936	81,424
Deferred income taxes	202,178	195,411
Investment in Canyon Fuel	153,978	170,686
Other	45,021	34,580
	523,229	517,317
Total assets	$ 2,223,043	$ 2,203,559
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 124,036	$ 99,081
Accrued expenses	141,004	134,062
Current portion of debt	6,497	6,500
Total current liabilities	271,537	239,643
Long-term debt	790,641	767,355
Accrued postretirement benefits other than pension	323,571	326,098
Accrued reclamation and mine closure	127,557	123,761
Accrued workers' compensation	82,631	78,768
Accrued pension cost	839	22,539
Obligations under capital leases	519	8,210
Other noncurrent liabilities	61,517	66,443
Total liabilities	1,658,812	1,632,817
Stockholders' equity		
Common stock	527	527
Paid-in capital	835,716	835,427
Retained deficit	(250,631)	(239,336)
Treasury stock, at cost	(5,047)	(5,047)
Accumulated other comprehensive loss	(16,334)	(20,829)
Total stockholders' equity	564,231	570,742

Total liabilities and stockholders' equity	$ 2,223,043	$ 2,203,559

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

	Six Months Ended June 30,	
	2002	2001
	(Unaudited)	
Operating activities		
Net income (loss)	$ (5,274)	$ 6,939
Adjustments to reconcile to cash provided by operating activities:		
Depreciation, depletion and amortization	86,589	89,109
Prepaid royalties expensed	3,674	3,304
Net gain on disposition of assets	(607)	(3,862)
Income from equity investment	(1,070)	(10,306)
Net distributions from equity investment	17,778	27,245
Changes in:		
Receivables	3,971	962
Inventories	(15,951)	(3,701)
Accounts payable and accrued expenses	13,898	(4,081)
Income taxes	(9,640)	(7,639)
Accrued postretirement benefits other than pension	(2,527)	(9,174)
Accrued reclamation and mine closure	3,796	(2,325)
Accrued workers' compensation benefits	3,863	1,619
Other	(1,029)	(3,146)
Cash provided by operating activities	97,471	84,944
Investing activities		
Additions to property, plant and equipment	(96,089)	(64,635)
Proceeds from dispositions of property, plant and equipment	2,162	4,595
Additions to prepaid royalties	(20,037)	(20,114)
Cash used in investing activities	(113,964)	(80,154)
Financing activities		
Net proceeds from (payments on) revolver and lines of credit	23,283	(247,841)
Payments on term loans	-	(135,000)
Debt financing costs	(8,127)	-
Proceeds from sale and leaseback of equipment	9,213	-
Reductions of obligations under capital lease	(7,691)	(1,274)
Dividends paid	(6,021)	(5,524)
Proceeds from sale of common stock	289	380,985
Cash provided by (used in) financing activities	10,946	(8,654)
Decrease in cash and cash equivalents	(5,547)	(3,864)
Cash and cash equivalents, beginning of period	6,890	6,028
Cash and cash equivalents, end of period	$ 1,343	$ 2,164
Canyon Fuel Company cash flow information (Arch Coal ownership percentage)		
Depreciation, depletion and amortization	14,204	21,095
Additions to property, plant and equipment	(5,021)	(5,740)