Arch Coal, Inc. Reports Third Quarter Results

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St. Louis – October 18, 2000 - Arch Coal, Inc. (NYSE:ACI) announced today that it had a net loss of $5.2 million, or $.14 per share, for its third quarter ended September 30, 2000. Results for the third quarter compared to a net loss of $1.8 million, or $.05 per share, in the same quarter of last year.

"Market conditions for U.S. coal strengthened markedly during the quarter," said Steven F. Leer, Arch Coal's president and chief executive officer. "However, as previously indicated, Arch entered the period with nearly all of its tonnage committed for the remainder of 2000. As a result, our third-quarter performance did not reflect the improved pricing environment. On the positive side, 15% of our projected production in 2001 and 30% of our projected tonnage in 2002 is currently open to market price movements, which should enable us to capitalize on this more attractive pricing environment."

Leer also noted that historically the company incurs higher-than-normal maintenance costs during the period, since major maintenance projects at several Arch mines are timed to coincide with periods when the mines are operating on reduced schedules due to miners' vacations.

Reduced output at West Elk, which resumed production on July 12 and began ramping up to normal levels of production, also had an adverse impact on the quarter.

Revenues for the quarter totaled $359.3 million and coal sales totaled 26.8 million tons, compared to $382.2 million and 28.0 million tons in the third quarter of 1999. The change in revenues is due in part to reduced production at the West Elk mine, and to Arch's increased emphasis on lower-cost and lower-priced production in the Powder River Basin of Wyoming. EBITDA in the third quarter of 2000 totaled $76.1 million compared to $80.9 million in the third quarter of 1999.

For the nine months ended September 30, 2000, Arch had a net loss of $22.4 million, or $.59 per share, compared to net income of $2.1 million, or $.05 per share, for the first nine months of 1999. Revenues totaled $1.1 billion and coal sales totaled 79.4 million tons for the first nine months of 2000, vs. $1.2 billion and 82.7 million tons for the same period of 1999. EBITDA for the first nine months of 2000 totaled $220.5 million, compared to $255.1 million in the first nine months of last year.

West Elk

As previously announced, the West Elk mine in Gunnison County, Colorado, resumed longwall operations during the quarter and began ramping up to normal levels of productivity. "As a result of limited production during the first six weeks of the quarter, West Elk again had a sizable operating loss," Leer said. "However, we are now confident that its fire-related difficulties are in the past."

Arch received a second $12 million pre-tax partial insurance payment in September, which offset a portion of the loss the mine experienced while idle. The company believes that a substantial percentage of the fire-related loss at West Elk – totaling between $4 million and $6 million per month after tax over a period of approximately six months – is covered by property and business insurance. Arch expects to receive additional insurance payments, although it can provide no assurance as to the likelihood or timing of such payments.

Debt reduction

During the quarter, Arch paid down $21.4 million in debt, bringing its total debt and operating lease reductions for the year to $67.6 million. Reduced lease obligations accounted for $38.8 million of this total.

"Although the fire at West Elk has slowed our progress this year, we remain committed to using our substantial free cash flow to reduce debt aggressively," Leer said. "We expect a strong performance in this area in the fourth quarter."

Market developments

"We continue to be encouraged by developments in U.S. energy markets," Leer said. "The price of natural gas, which competes directly with coal in domestic electric generation markets, is currently trading at over $5 per million Btu's, or roughly double the average price in 1999. Crude oil is trading at well over $30 per barrel, which is near a 10-year high. Such volatility only serves to enhance coal's already strong position as the lowest-cost and most attractive fuel for electric generation."

Furthermore, the recent run-up in the price of natural gas appears to be influencing utility decision-making concerning future investments, according to Leer. "In September, Wisconsin Electric Power Company (WEPCO) announced plans to construct two new coal-fired units with a combined generating capacity of 1,200 megawatts," Leer said. "While there is still ample available capacity at existing coal-fired plants, we are nevertheless pleased that U.S. power producers recognize the importance of investing in the next generation of cleaner-burning, coal-fired plants. The WEPCO announcement serves to underscore the fact that the United States will continue to rely on coal for a substantial percentage of its electricity for many years to come."

Leer also noted that the U.S. electric demand may be growing at a faster rate than previously anticipated. "During the first 8 months of the year, domestic demand for electricity increased by nearly 4%," Leer said. "Many experts believe that new digital technologies are responsible for this acceleration in demand growth. The new economy consumes power around the clock and throughout the entire year. Such growth translates into increases in the requirement for baseload power, which is the principal role that coal-fired power plays in the nation's electric grid."

Leer also pointed out that nuclear plants have operated at close to 90% of capacity year to date, or very near their effective limit. "As a result, coal and natural gas will likely be called upon to satisfy the lion's share of new demand growth in the foreseeable future," Leer said.

Looking ahead

Since May, prices for low-sulfur eastern coal products have increased 10%-15%. Western pricing has improved as well, although not as dramatically. "While we are sold out for the remainder of 2000, we are in a strong position to capitalize on these positive pricing trends as we commit our available coal for 2001 and thereafter," Leer said.

"The demand for coal-fired electric generation is growing strongly, and we possess one of the largest and most attractive reserve positions in the industry," he continued. "With West Elk back on line and most of our other mines performing well, we are optimistic that we can continue to generate high levels of cash flow and improve our balance sheet still further in coming quarters."

A conference call concerning third quarter earnings will be webcast live today at 11 a.m. Eastern Time. The conference call can be accessed via the "investor info" 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: EBITDA is presented above because it is a widely accepted financial indicator of a company's ability to incur and service debt. 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. EBITDA is defined as income from operations before the effect of changes in accounting principles; asset impairment and restructuring charges; net interest expense; income taxes; depreciation, depletion and amortization for Arch Coal, Inc., its subsidiaries and its ownership percentage in its equity investments.

Forward-Looking Statements: This press release contains forward-looking statements within the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995. These statements may generally be identified by the use of words such as "estimate," "expect," "anticipate," "believe," "intend," "plan," "continue," "may," "will," "should," or "shall." We have based these forward-looking statements on our current expectations and projections about future events, some of which may be incorrect. These expectations and assumptions include the following: our expectation of continued growth in the demand for electricity; our belief that legislation and regulations will increase demand for our compliance and low-sulfur coal; our expectation of improving market conditions for the price of our coal; our expectation that we will continue to have adequate liquidity from our cash flow from operations, together with available borrowings under our credit facilities, to pay down our debt and to finance our working capital needs; our expectations as to changes in mining rates and costs for a variety of operational, geologic, permitting, labor and weather-related reasons, including equipment availability; and other risks detailed from time to time in the company's reports filed with the Securities and Exchange Commission, including the registration statement filed on Form S-3 on September 6, 2000, quarterly reports on Form 10-Q, reports on Form 8-K, and annual reports on Form 10-K.