Arch Coal, Inc. Reports Fourth Quarter Results

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Highlights:

- Net income of $8.4 million, or $.16 per share, vs. net income of $9.6 million, or $.25 per share, in 4Q00
- Adjusted EBITDA of $75.1 million, vs. $94.7 million in 4Q00 .
- Total revenues of $385.4 million, vs. $347.4 million in 4Q00
- Coal sales of 28.5 million tons, vs. 26.1 million tons in 4Q00

St. Louis – January 24, 2002 - Arch Coal, Inc. (NYSE:ACI) today announced that it had net income of $8.4 million, or $.16 per share, for its fourth quarter ended December 31, 2001. The company had previously announced that it expected net income of between $.12 and $.18 for the quarter. In the same quarter of 2000, Arch had net income of $9.6 million, or $.25 per share.

"Arch's fourth quarter results benefited from strong performances by our Black Thunder and Mingo Logan operations, improved results at West Elk, and increased income from our equity investment in Canyon Fuel Company," said Steven F. Leer, Arch's president and chief executive officer. "We are enthusiastic about moving into 2002, when a more favorable mix of contracts should lead to a stronger performance by the company."

For the year ended December 31, 2001, Arch Coal had net income of $7.2 million, or $.15 per share, compared to a net loss of $12.7 million, or $.33 per share, in 2000. Total revenues for the year totaled $1,488.7 million and coal sales totaled 109.5 million tons, vs. $1,404.6 million and 105.5 million tons in 2000. Adjusted EBITDA totaled $282.3 million, compared to $315.2 million in 2000.

Major factors

As previously noted, a number of Arch's mines performed well during the quarter. These strong performances were offset in part by another difficult quarter at Samples, where mining conditions continued to be adversely affected by a sandstone intrusion in the principal coal seam. However, in early January, Samples obtained the necessary permits to mine an adjacent reserve area with more favorable geologic conditions. Efforts to prepare the new area for mining are currently underway, and a significant portion of the operation will advance onto this new reserve area in mid-February.

"Because of a delay in obtaining the new permit, we will not begin to see improved results at Samples until late in the first quarter of 2002," Leer said. "However, this transition to reserves with more attractive mining ratios should lead to a significant improvement in Samples' performance as the year progresses." Samples is Arch's largest eastern mine, with annual production of nearly 7 million tons per year.

Other factors affecting the quarter included a state tax credit covering prior periods and the sale of certain inactive coal reserves in southern Wyoming, resulting in after-tax gains of $5.5 million and $3.1 million, respectively. Partially offsetting those gains were several litigation settlements totaling $3.1 million after tax.

Operating statistics

Regional analysis: Of the 28.5 million tons of coal that Arch sold during the fourth quarter, approximately 8.3 million tons originated at its eastern operations and 20.2 million tons originated at its western operations. Arch Coal had an average realized sales price of $12.49 per ton and average operating costs of $12.09 per ton. The eastern operations had an average realized sales price of $27.29 per ton and an average cost of $26.69 per ton during the quarter. The western operations had an average realized sales price of $6.44 per ton and an average cost of $6.10 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 2002: In the east, Arch expects to sell a total of approximately 32 million tons of coal in 2002 from its mines in Central Appalachia, excluding brokered tons. In the west, Arch expects to sell approximately 67 million tons of coal at its Black Thunder mine in the Powder River Basin of Wyoming, and roughly 6 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 14 million tons for the year.

Financial: Arch expects depreciation, depletion and amortization to total approximately $225 million in 2002. Capital expenditures are expected to total between $180 million and $200 million. (Projections for depreciation, depletion and amortization and capital expenditures include Arch's ownership percentage in Canyon Fuel Company.)

Market conditions

In recent months, spot coal pricing in both the east and west has declined as extremely mild winter weather and weak economic conditions have taken their toll on demand. Winter temperatures have been 15% warmer than normal based on heating degree days, and 22% warmer than last year.

Despite those factors, the long-term outlook for U.S. coal markets remains bright, according to Leer. "Fluctuations in weather will certainly affect demand quarter to quarter, but we believe that the underlying fundamentals remain strong and that the supply/demand trends in U.S. coal markets are in healthy balance," Leer said.

The company entered the year with a combined total in the east and west of roughly 4 million tons of uncommitted production, which includes 2 million tons of additional incremental production that Arch expects to achieve at Black Thunder. In addition, certain customers have the flexibility to take additional tons at relatively low prices, in keeping with the terms of their coal supply agreements. The company's assumption is that the prevailing prices of the past six months will cause these customers to elect to purchase these additional tons. If these customers do not elect to take these tons, the company would then have some additional unsold volume.

First quarter expectations

During 2001, Arch secured attractive pricing for roughly 30 million tons of its 2002 production. "While we expect to benefit substantially from higher average realizations in 2002, the impact will be less pronounced in the first quarter," Leer said.

The delay in obtaining the necessary permits at Samples – as well as the purchase of third-party coal to make up for the resulting production shortfall in the first quarter – will have an adverse effect on first quarter results. As a result, the company expects earnings of between $.15 and $.25 in the first quarter.

While operating costs are expected to be higher in 2002 due in part to increases in contract mining expenses, insurance premiums and bonding costs, Arch anticipates stronger quarterly results for the year's remaining three quarters.

Outlook

"The year just ended was an eventful one, with many significant accomplishments," Leer said. "We conducted two successful equity offerings that enabled us to pay down $376.9 million in debt and reduce the company's debt to equity ratio from 84% to 58%. We also capitalized on a strong market environment by substantially improving our portfolio of sales contracts. Several of our operations achieved record productivity. As we enter 2002, Arch is in the strongest competitive position that I can recall, with excellent potential for future growth."

"Furthermore, we remain very enthusiastic about the long-term prospects for U.S. coal," Leer concluded. "The economy will begin to grow again, and with it, the demand for electric power. We firmly believe that coal is the only economic option available for fueling the nation's ever-increasing demand for baseload power over the course of the next decade."

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 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	
	2001	2000	2001	2000
	(Unaudited)		(Unaudited)	
Revenues				
Coal sales	$ 355,867	$ 332,070	$1,403,370	$1,342,171
Income from equity investment	11,878	3,993	26,250	12,837
Other revenues	17,671	11,315	59,108	49,613
	385,416	347,378	1,488,728	1,404,621
Costs and expenses				
Cost of coal sales	344,491	290,761	1,336,788	1,237,378
Selling, general and administrative expenses	9,245	9,275	43,834	38,887
Amortization of coal supply agreements	6,082	9,013	27,460	39,803
Other expenses	5,569	3,060	18,190	14,569
	365,387	312,109	1,426,272	1,330,637
Income from operations	20,029	35,269	62,456	73,984
Interest expense, net:				
Interest expense	(13,002)	(22,845)	(64,211)	(92,132)
Interest income	383	290	4,264	1,412
	(12,619)	(22,555)	(59,947)	(90,720)
Income (loss) before income taxes	7,410	12,714	2,509	(16,736)
Provision (benefit) for income taxes	(1,000)	3,100	(4,700)	(4,000)
Net Income (loss)	$ 8,410	$ 9,614	$ 7,209	$ (12,736)
Basic and diluted earnings (loss) per common share	$ 0.16	$ 0.25	$ 0.15	$ (0.33)
Weighted average shares outstanding				
Basic	52,349	38,165	48,650	38,164
Diluted	52,506	38,168	48,918	38,164
Dividends declared per share	$ 0.0575	$ 0.0575	$ 0.2300	$ 0.2300
Adjusted EBITDA (A)	$ 75,108	$ 94,695	$ 282,285	$ 315,175

(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)

	December 31, 2001 (Unaudited)	December 31, 2000
Assets		
Current assets		
Cash and cash equivalents	$ 6,890	$ 6,028
Trade receivables	149,956	141,727
Other receivables	32,303	38,540
Inventories	60,133	47,930
Prepaid royalties	1,997	2,262
Deferred income taxes	23,840	27,440
Other	14,337	13,963
Total current assets	289,456	277,890
Property, plant and equipment, net	1,396,786	1,430,053
Other assets		
Prepaid royalties	35,216	17,500
Coal supply agreements	81,424	108,884
Deferred income taxes	195,411	179,343
Investment in Canyon Fuel	170,686	188,700
Other	34,580	30,244
	517,317	524,671
Total assets	$ 2,203,559	$ 2,232,614
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 99,081	$ 103,014
Accrued expenses	134,062	152,303
Current portion of debt	6,500	60,129
Total current liabilities	239,643	315,446
Long-term debt	767,355	1,090,666
Accrued postretirement benefits other than pension	326,098	336,663
Accrued reclamation and mine closure	123,761	118,928
Accrued workers' compensation	78,768	78,593
Accrued pension cost	22,539	19,287
Obligations under capital leases	8,210	11,348
Other noncurrent liabilities	66,443	41,809
Total liabilities	1,632,817	2,012,740
Stockholders' equity		
Common stock	527	397
Paid-in capital	835,427	473,428
Retained deficit	(239,336)	(234,980)
Treasury stock, at cost	(5,047)	(18,971)
Accumulated other comprehensive loss	(20,829)	-

Total stockholders' equity	570,742	219,874
Total liabilities and stockholders' equity	$ 2,203,559	$ 2,232,614

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

	Twelve Months Ended December 31,	
	2001	2000
	(Unaudited)	
Operating activities		
Net income (loss)	$ 7,209	$ (12,736)
Adjustments to reconcile to cash provided by operating activities:		
Depreciation, depletion and amortization	177,504	201,512
Prepaid royalties expensed	7,274	7,322
Net gain on disposition of assets	(14,627)	(20,444)
Income from equity investment	(26,250)	(12,837)
Net distributions from equity investment	42,219	23,897
Changes in:		
Receivables	(1,992)	8,194
Inventories	(12,203)	14,452
Accounts payable and accrued expenses	(19,836)	(4,515)
Income taxes	1,053	(2,683)
Accrued postretirement benefits other than pension	(10,565)	(7,330)
Accrued reclamation and mine closure	4,833	(10,941)
Accrued workers' compensation benefits	175	(26,597)
Other	(9,133)	(21,522)
Cash provided by operating activities	145,661	135,772
Investing activities		
Additions to property, plant and equipment	(123,414)	(115,080)
Proceeds from coal supply agreements	-	8,512
Proceeds from dispositions of property, plant and equipment	18,930	24,846
Additions to prepaid royalties	(24,725)	(25,774)
Cash used in investing activities	(129,209)	(107,496)
Financing activities		
Net payments on revolver and lines of credit	(241,940)	(30,198)
Payments on term loans	(135,000)	-
Proceeds from sale and leaseback of equipment	-	13,352
Reductions of obligations under capital lease	(3,138)	-
Dividends paid	(11,565)	(8,778)
Proceeds from sale of common stock	381,100	93
Purchase of treasury stock	(5,047)	-
Cash used in financing activities	(15,590)	(25,531)
Increase in cash and cash equivalents	862	2,745
Cash and cash equivalents, beginning of period	6,028	3,283
Cash and cash equivalents, end of period	$ 6,890	$ 6,028

Canyon Fuel Company cash flow information (Arch Coal ownership percentage)

Depreciation, depletion and amortization	42,325	39,679
Additions to property, plant and equipment	(19,399)	(18,672)