Arch Coal, Inc. Reports Results for Third Quarter

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St. Louis, Missouri – October 21, 1999 - Arch Coal, Inc. (NYSE:ACI) today reported a net loss of $1.8 million, or $.05 per share, for its third quarter ended September 30, 1999. For the third quarter of 1998, Arch had net income of $.5 million, or $.01 per share, which included a one-time after-tax gain of $11.3 million related to the sale of certain inactive coal properties in eastern Kentucky. The company recorded revenues of $382.2 million and coal sales of 28.0 million tons for the quarter, compared to $424.1 million and 25.9 million tons for the same period last year.

Earnings Before Unusual Items, Interest, Taxes, Depreciation, Depletion and Amortization (EBITDA) totaled $80.9 million. For the same period of 1998, Arch had EBITDA of $89.6 million, which included $18.5 million related to the sale of the previously mentioned eastern Kentucky coal properties.

"An extremely difficult eastern coal market and rail supply problems in the east contributed to a poor earnings performance for the quarter," said Steven F. Leer, Arch Coal's president and chief executive officer, adding that the third quarter is traditionally Arch's weakest due to miners' vacations. "Despite that fact, we again generated very healthy levels of cash and made good progress toward one of our top financial objectives, which is to pay down debt at an accelerated pace."

During the quarter, Arch reduced its debt by $27.1 million, bringing to $127.9 million the total amount of debt it has paid down so far in 1999. "Principally because of this effort, our interest expense of $21.7 million was 12% lower than in the same quarter of 1998," Leer said.

For the nine months ended September 30, 1999, Arch's net income was $2.1 million, or $.05 per share. The nine-month results included an after-tax charge of $4.0 million related to the closure of the Dal-Tex mining complex in southern West Virginia, as well as an offsetting after-tax benefit of $3.8 million related to the cumulative effect of a change in the method in which the company accounts for the depreciation of certain assets from straight-line to the units-of-production basis. For the first nine months of 1998, Arch had net income of $29.9 million, or $.75 per share, which included the previously mentioned one-time after-tax gain of $11.3 million related to the sale of eastern Kentucky properties, offset in part by a one-time after-tax charge of $1.5 million related to the early termination of debt. EBITDA for the first nine months of 1999 totaled $255.1 million, an increase of 12% compared to the $228.2 million the company recorded in the same period last year.

Factors affecting third quarter results

"Since the beginning of the year, when mild winter weather led to higher-than-normal stockpiles at coal-fired power plants, the eastern coal market has been extremely depressed," Leer said. "Weak overseas demand and record-high utilization at U.S. nuclear plants have exacerbated this difficult situation. As a consequence, realizations for eastern tonnage that was uncommitted at the beginning of 1999 – roughly 20% of our total eastern production – were substantially lower than expected."

"In addition to weak market conditions, a number of our eastern mines have been hurt by poor rail service that appears to be attributable to the recent consolidation in the eastern rail market," he continued. "While we expect these problems to be addressed in the near future, they did result in a number of missed shipments during the quarter."

Other developments

Yesterday the United States District Court for the Southern District of West Virginia issued a Memorandum Opinion and Order adverse to the coal industry in the mountaintop mining lawsuit currently pending in that court. In the decision Judge Charles H. Haden II granted a permanent injunction enjoining the Director of the West Virginia Division of Environmental Protection from approving any further surface mining permits under current law that would authorize placement of excess spoil in intermittent and perennial streams for the primary purpose of waste disposal.

"We are extremely disappointed in this decision," Leer said. "We are in the process of evaluating the decision and its potential long-term adverse effect on our operations if it is not set aside or if the buffer zone issue is not resolved legislatively. However, this decision will not have any immediate impact on our operations."

Looking Ahead

"Despite continuing challenges, we believe that there is good reason for optimism in U.S. low-sulfur coal markets," Leer said. "In the east, utility stockpiles appear to have returned to more normal levels and some of the region's excess capacity has been shut down. In addition, several utilities have announced plans to take their nuclear units off-line for refueling and routine maintenance over the course of the next few months. Together, these events should contribute to a strengthening eastern coal market." He added that pricing for eastern compliance coal, while still disappointing, had held up much better than pricing for non-compliance products. Compliance coal is coal that meets the requirements of Phase II of the Clean Air Act, which takes effect on January 1, 2000, without the use of expensive scrubbing technology.

"Market conditions in the west remain generally favorable," Leer said. "Demand for coal from the southern Powder River Basin of Wyoming is up 8% vs. last year, and double what it was just 10 years ago. Furthermore, pricing for southern PRB coal has increased by roughly 5% during the past year." The southern Powder River Basin is the location of Arch's 50-million-ton-per-year Black Thunder mine and 12-million-ton-per-year Coal Creek mine. "With Phase II of the Clean Air Act scheduled to take effect on January 1, 2000, we expect another significant jump in demand for compliance coal, especially in the Powder River Basin." All of Arch's western coal and approximately half of its eastern production is compliance quality.

Following the planned start-up of a fourth dragline at the Black Thunder mine at the end of 1999, production at that complex is expected to exceed 60 million tons next year. "Although we still have significant work to do, we have made progress toward reducing costs and increasing productivity at Black Thunder even as we aggressively expand production there," Leer said. "We expect the mine to be in a substantially stronger cost position by the end of 1999."

"In summary, despite being dissatisfied with our recent performance, we see many indications that our basic strategy is on target," Leer continued. "The move towards compliance coal has accelerated as Phase II of the Clean Air Act approaches, and it is becoming clear that such coal will earn a premium in the marketplace. With a leadership position in each of the three major U.S. low-sulfur coal basins, Arch Coal is strategically positioned to capitalize on those developments."

"In addition, we are continuing to focus on reducing costs in all areas of our business," Leer added. "We are committed to being a low-cost producer in this industry."

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. This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including Arch Coal's expectations with respect to value creation and the company's relative competitive position. Although Arch Coal, Inc. believes the expectations reflected in such forward-looking statements are based on reasonable assumptions, it can give no assurance that its expectations will be attained. Factors that could cause actual results to differ materially from expectations include, but are not limited to, changes in local or national economic conditions; 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 quarterly reports on Form 10-Q, reports on Form 8-K, and annual reports on Form 10-K.

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