Arch Coal, Inc. Reports Second Quarter Results

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St. Louis – July 20, 2000 - Arch Coal, Inc. (NYSE:ACI) announced today that it had a net loss of $2.1 million, or $.06 per share, for its second quarter ended June 30, 2000. Results for the second quarter compared to net income of $2.5 million, or $.06 per share, in the same quarter of last year.

"The fire that had idled our West Elk mine in Gunnison County, Colorado, since late January was again the single biggest factor in our performance," said Steven F. Leer, Arch Coal’s president and chief executive officer. "With the commencement of longwall operations at the mine last week, we believe that the problem is now behind us and we expect West Elk to ramp up to normal levels of productivity within the next 30 days or so."

"I am pleased to report that nearly all of our other mines performed well during the quarter," Leer continued. "Black Thunder continues to produce and ship coal at record levels, and in the east the Mingo Logan and Hobet 21 mining complexes had strong quarters. Furthermore, coal prices have finally begun to strengthen after an extended slump. That upward movement is particularly important since we are now entering the principal coal-buying season when utilities will make commitments for coal to be supplied in 2001."

Revenues for the quarter totaled $340.2 million and coal sales totaled 24.8 million tons, compared to $391.3 million and 27.0 million tons in the second quarter of 1999. The change in revenues is due in part to West Elk’s idling as well as the company’s strategic decision to increase its emphasis on lower-cost and lower-priced production in the Powder River Basin of Wyoming. EBITDA in the second quarter of 2000 totaled $80.8 million compared to $88.2 million in the second quarter of 1999, with the decline attributable to the fire at West Elk.

For the six months ended June 30, 2000, Arch Coal had a net loss of $17.2 million, or $.45 per share, compared to net income of $3.9 million, or $.10 per share, for the first six months of 1999. Revenues totaled $698.0 million and coal sales totaled 52.6 million tons for the first half of 2000, vs. $812.4 million and 54.7 million tons for the same period of 1999. EBITDA for the first six months of 2000 totaled $144.4 million, compared to $174.2 million in the first six months of last year.

Progress at West Elk

As previously reported, the company resumed longwall production at its West Elk mine on July 12. West Elk had been idle since January 28, following the detection of combustion-related gases there.

In June Arch recognized a $12 million pre-tax partial insurance payment that offset a portion of the loss incurred at West Elk during the quarter. 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 interruption insurance. Arch expects to receive additional insurance payments, some of which may be received during the current fiscal year.

"We expect the large drain on the company’s financial resources to be significantly reduced as a result of the resumption of longwall operations at West Elk," Leer said. "However, we will continue to absorb some additional fire-related costs over the next five to six months as we reclaim the drilling sites and roads and eventually dismantle the pumping equipment."

Factors affecting second quarter results

Among the other factors affecting the quarter’s results was a reduction in the company’s reclamation liability at its idle mine properties in Illinois, resulting in $6.0 million of after-tax income for the quarter. The adjustment is primarily the result of recent permit revisions that changed the properties’ post-mining land use designation.

In addition, the IRS recently issued a notice outlining the procedures for obtaining tax refunds on certain excise taxes paid by the industry on export sales tonnage. The notice is the result of a 1998 federal district court decision that found such taxes to be unconstitutional. The company recorded $9.6 million of after-tax income related to such excise tax recoveries.

Other developments

In keeping with one of its top financial priorities, Arch paid down $18.5 million in total debt during the quarter, more than offsetting the $11.1 million increase in total debt the company experienced in the first quarter of 2000. In addition, the company reduced its operating lease obligations by $36.5 million during the first six months of 2000.

"One of our primary financial objectives is to reduce debt," Leer said. "Despite the fire at West Elk and the timing of certain budgeted capital expenditures in the year’s first half, we are pleased with our debt and lease reduction efforts so far this year. Furthermore, we anticipate paying down a substantial amount of debt in the year’s second half."

Leer also noted that the company was aggressively pursuing cost savings at every operation. "We recently initiated an effort to cut 6% from our annual operating costs by targeting the one, two or three processes at each mine that have the potential to deliver the greatest savings," Leer said. "We have made a good start and fully expect this effort to deliver significant benefits in the future."

In addition, the company is exploring Internet-based solutions that could reduce costs, especially in the procurement area. "In June, we conducted a successful on-line auction for the supply of a commodity item that we use at virtually every location," Leer said. "We were very pleased with the results and plan to conduct additional auctions in coming months, with the expectation that they will lead to substantial cost-savings."

Looking ahead

"The third quarter is historically our weakest earnings period as a result of miners’ vacations and the timing of certain maintenance projects that are scheduled to coincide with periods when the mines are idle or scaled back," Leer said. "Furthermore, the longwall at West Elk is not expected to return to normal levels of productivity until sometime around the middle of the quarter."

"However, we are encouraged by recent developments in U.S. energy markets," he continued. "So far this year, electric generation is up approximately 4.8% compared to 1999, and we expect that strong growth to continue. Furthermore, the price of natural gas, which competes directly with coal in U.S. electric generation markets, has reached record levels and is now trading at over $4 per thousand cubic feet, or roughly double the average price in 1999."

"These events are starting to have an impact on coal prices," Leer said. "Prices in the Powder River Basin are approximately 10% higher when compared to quoted prices at the beginning of May, and spot prices for compliance coal products in the east are up as much as $1.50 per ton over the same time frame. While we are almost completely sold out for 2000, this strengthening price picture should enable us to achieve a higher price for tonnage for delivery in 2001." Leer indicated that approximately 20% of the company’s projected production for 2001 is currently uncommitted.

"We remain very bullish about the outlook for coal," he added. "Economic expansion and the emergence of a new, Internet-based economy is increasing America’s dependence on electricity. Dramatically higher prices for natural gas and crude oil, coupled with projections of power shortages this summer and record-high home heating costs this winter, underscore coal’s advantages as a fuel source. It is our firm belief that low-sulfur coal is the best, lowest-cost and most environmentally sound option for meeting America’s future electricity needs."

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.

Forward-Looking Statements: 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 future insurance payments, earnings and cash flow, and other factors affecting future net income. Although Arch Coal 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.