Arch Coal, Inc. Reports First Quarter Results

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- **Earnings per fully diluted share increases to $1.14**
- **Coal sales revenues increase 23% vs. same period in 2003**
- **Adjusted EBITDA totals $147.4 million vs. $38.7 million in 1Q03**
- **Excluding special items, earnings per fully diluted share climbs to $0.14**
- **Debt to total capitalization ratio improves to 47%**
- **Cash balance grows to $323.0 million**

St. Louis (April 21, 2004) - Arch Coal, Inc. (NYSE:ACI) today announced that it had income available to common shareholders of $68.2 million, or $1.14 per fully diluted share, for its first quarter ended March 31, 2004. Included in the company's first quarter results were certain gains related to the sale of a significant portion of the company's remaining interest in Natural Resource Partners (NRP), as well as charges related to severance costs at the soon-to-be-idled Skyline Mine and the termination of hedge accounting for interest rate swaps.

Excluding these items, Arch had income available to common shareholders of $7.7 million, or $0.14 per fully diluted share, for the first quarter of 2004. (See the attached table for a more complete reconciliation.) During the same period of 2003, Arch recorded a net loss available to common shareholders of $18.0 million, or $0.34 per fully diluted share, which included the cumulative effect of an accounting change resulting from the adoption of FAS 143, "Accounting for Asset Retirement Obligations."

"As expected, higher average realizations in both the east and west led to improved margins and stronger overall results during the first quarter," said Steven F. Leer, Arch Coal's president and chief executive officer. "These results were supported by a solid overall performance by our mining operations despite challenges related to rail service."

The March disposition of most of the company's remaining stake in Natural Resource Partners was another highlight of the quarter, according to Leer. "In a period of just 18 months, Arch has been able to convert non-strategic assets valued at $85 million on its balance sheet into proceeds of nearly $250 million," he said. Arch ended the quarter with a cash balance of $323.0 million.

The results for the quarter include the effects of implementing FASB Staff Position FAS 106-b "Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FAS 106-b) in anticipation of its ratification by the Financial Accounting Standards Board (FASB) in April 2004. Implementation of FAS 106-b resulted in a reduction in Arch's postretirement benefit obligation of $68 million and a reduction in its anticipated 2004 postretirement medical expenses of $18.1 million. Of this amount, $4.5 million is reflected in Arch's results of operations for the quarter ended March 31, 2004. If the FASB does not ratify the pronouncement prior to the company's filing of its quarterly financial statements on Form 10-Q, Arch will revise its quarterly results to exclude its impact. The impact of this implementation offsets the effects of changes to other actuarial assumptions incorporated at the beginning of the year.

U.S. coal markets strengthened further during the quarter

During the quarter, U.S. coal markets benefited from a strengthening economy, declining utility stockpiles and continuing pressure on natural gas supplies. Through the first three months of 2004, U.S. power output increased approximately 2.8% compared to the comparable period in 2003, according to Edison Electric Institute, due in part to increased industrial activity. Based on recent trends, it appears likely that coal consumption is increasing at an even faster pace than electric generation. As a result, Arch estimates that stockpiles at U.S. power plants declined by more than 15% during the quarter, despite entering January at relatively low levels. In addition, the rebound in global steel demand has boosted requirements for metallurgical coal.

"We believe the drivers are in place for a long and sustained period of growth in U.S. coal demand," Leer said.

Although Arch entered the year with the vast majority of its expected first quarter output already committed and priced, the company benefited from strong pricing on the small volume of coal it had available for spot sales. Arch directed some of that coal into metallurgical markets, with metallurgical shipments increasing by approximately 200,000 tons, or 50%, compared to the same period of last year. At present, Arch expects metallurgical sales to exceed 2.5 million tons for 2004, or roughly double the level of last year.

Arch continues to have unpriced tonnage for delivery in the second half of 2004, due in part to ongoing efforts to add incremental production at the company's eastern operations. "With a relatively modest investment, we believe we can add approximately 500,000 tons of incremental production at our eastern mines this year," Leer said. As a result of these efforts, Arch has raised its 2004 forecast for capital spending from $160 million to approximately $185 million.

Arch continues to have significant volumes open to market-based pricing in 2005 and 2006. At present, Arch has priced approximately 65% of its expected output for 2005, and approximately 50% of its expected output for 2006.

As for the remainder of 2004, Arch still has nearly 5% of its expected production yet to be priced based on expected levels of production and rail availability.

NRP sale enhances financial condition

In March, Arch sold 2.6 million of its 2.9 million common units in Natural Resource Partners in a private transaction for $100 million. The transaction, which resulted in a gain of approximately $81.5 million, nearly completes a multi-phased effort to unlock the value of certain non-strategic assets that had been undervalued on the company's balance sheet.

"Through this effort which began with the formation of Natural Resource Partners in October 2002, we believe we have created tremendous value for our shareholders, while greatly enhancing Arch's financial flexibility," Leer said.

Arch still holds approximately 279,000 shares of NRP, which had a market value of approximately $10.5 million based on the closing price of NRP on April 20.

Arch is currently in its strongest financial condition since it acquired its western assets in July 1998. Arch's debt to total capitalization has declined by 37 points in the past three years and currently stands at 47%. Arch's net debt to total capitalization - which reflects the corporation's current cash balance of $323.0 million - now stands at just 33%.

"We are in an excellent position to grow in a marketplace that is likely to create many exciting opportunities in the years ahead," Leer said. "We are particularly excited about the potential for internal growth on our large and strategic reserve base."

Arch plans to defend Triton acquisition in court

In early April, the Federal Trade Commission filed a lawsuit in federal district court to block Arch's proposed acquisition of Triton Coal Company. Arch continues to view the acquisition of Triton as pro-competitive and plans to defend the transaction in court.

"We believe that the FTC incorrectly excluded from its analysis the fact that competition in the coal business is intense," Leer said. "Coal companies must work tirelessly to reduce costs and improve productivity in order to survive in this challenging marketplace, which includes hundreds of competitors in many different coal supply regions. Consumers of electricity are the clear beneficiaries of this effort to continuously improve."

The hearing is scheduled to begin on June 21 in U.S. District Court. "We look forward to presenting the facts in court," Leer said.

Operating statistics

Arch Coal, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(In thousands, except per share data)

	Three Months Ended March 31 2003	2002
	(Unaudited)	
Revenues		
Coal sales	$ 327,390	$ 358,595
Income from equity investments	11,110	1,268
Other revenues	11,089	8,604
	349,589	368,467
Costs and expenses		
Cost of coal sales	333,639	347,211
Selling, general and administrative expenses	11,873	9,870
Amortization of coal supply agreements	5,793	5,114
Other expenses	4,549	7,592
	355,854	369,787
Loss from operations	(6,265)	(1,320)
Interest expense, net:		
Interest expense	(11,552)	(12,002)
Interest income	332	268
	(11,220)	(11,734)
Loss before income taxes and cumulative effect of accounting change	(17,485)	(13,054)
Benefit from income taxes	(4,300)	(5,700)
Loss before cumulative effect of accounting change	(13,185)	(7,354)
Cumulative effect of accounting change, net of taxes	(3,654)	-
Net Loss	(16,839)	(7,354)
Preferred stock dividends	(1,198)	-
Net loss available to common shareholders	$ (18,037)	$ (7,354)
Earnings per common share		
Loss before cumulative effect of accounting change	$ (0.27)	$ (0.14)
Cumulative effect of accounting change	(0.07)	-
Basic and diluted loss per common share	$ (0.34)	$ (0.14)
Weighted average shares outstanding	52,384	52,356
Common dividends declared per share	$ 0.0575	$ 0.0575
Adjusted EBITDA [(A)]	$ 38,739	$ 49,138

[(A)] Adjusted EBITDA is defined as income (loss) from operations before the effect of net interest expense; income taxes; our depreciation, depletion and amortization; our equity interest in the depreciation, depletion and amortization of Canyon Fuel Company, LLC, and the cumulative effect of accounting changes. Adjusted EBITDA is not a measure of financial performance in accordance with generally accepted accounting principles, and items excluded to calculate Adjusted EBITDA are significant in understanding and assessing our financial condition. Therefore, Adjusted EBITDA should not be considered in isolation nor as an alternative to net income, income from operations, cash flows from operations or as a measure of our profitability, liquidity or performance under generally accepted accounting principles. We believe that Adjusted EBITDA presents a useful measure of our ability to service and incur debt based on ongoing operations. Furthermore, analogous measures are used by industry analysts to evaluate operating performance. Investors should be aware that our presentation of Adjusted EBITDA may not be comparable to similarly titled measures used by other companies.
The table below shows how we calculate Adjusted EBITDA.

	Three Months Ended March 31	
	2003	2002
Loss from operations	$ (6,265)	$ (1,320)
Depreciation, depletion and amortization of Arch Coal, Inc.	39,511	42,741
Arch Coal's equity interest in depreciation, depletion and amortization of Canyon Fuel Company, LLC	5,493	7,717
Adjusted EBITDA	$ 38,739	$ 49,138

Note: Western operations data do not include the results of 65%-owned Canyon Fuel Company, which is accounted for on the equity method.

(1) Per ton realizations and costs as detailed above exclude transportation costs that are billed to customers. Eastern transportation costs totaled $10.4 million in the first quarter of 2004 and $9.0 million in the first quarter of 2003. Western transportation costs totaled $1.5 million in the first quarter of 2004 and $2.4 million in the first quarter of 2003.

(2) Per ton costs detailed above exclude postretirement medical costs totaling $13.8 million in the first quarter of 2004 and $14.7 million in the first quarter of 2003.

Arch Coal, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands)

	March 31, 2003	December 31, 2002
Assets	(Unaudited)	
Current assets		
Cash and cash equivalents	$ 65,787	$ 9,557
Trade receivables	127,549	135,903
Other receivables	23,124	30,927
Inventories	75,741	66,799
Prepaid royalties	6,250	4,971
Deferred income taxes	27,775	27,775
Other	13,285	15,781
Total current assets	339,511	291,713
Property, plant and equipment, net	1,335,614	1,284,968
Other assets		
Prepaid royalties	67,078	51,078
Coal supply agreements	53,447	59,240
Deferred income taxes	228,513	221,116
Equity investments	231,862	231,551
Other	44,617	43,142
	625,517	606,127
Total assets	$ 2,300,642	$ 2,182,808

Liabilities and stockholders' equity

Current liabilities		
Accounts payable	$ 99,438	$ 113,527
Accrued expenses	153,090	133,287
Current portion of debt	4,650	7,100
Total current liabilities	257,178	253,914
Long-term debt	700,195	740,242
Accrued postretirement benefits other than pension	331,169	324,539
Asset retirement obligations	145,554	117,804
Accrued workers' compensation	81,771	80,985
Other noncurrent liabilities	132,792	130,461
Total liabilities	1,648,659	1,647,945
Stockholders' equity		
Preferred stock	29	-
Common stock	528	527
Paid-in capital	974,877	835,763
Retained deficit	(274,992)	(253,943)
Treasury stock, at cost	(5,047)	(5,047)
Accumulated other comprehensive loss	(43,412)	(42,437)
Total stockholders' equity	651,983	534,863
Total liabilities and stockholders' equity	$ 2,300,642	$ 2,182,808

NOTE: Certain amounts in the December 31, 2002 balance sheet have been reclassified to conform with the classifications in the 2003 balance sheet with no effect on previously reported stockholders' equity.

Note: Data on capital spending and depreciation, depletion and amortization include Arch's ownership percentage in Canyon Fuel Company. Projected capital spending and DD&A do not include Triton Coal Company, other potential acquisitions or reserve additions.

Looking ahead

During 2004, Arch expects to benefit significantly from higher average sales prices in both the east and west, despite the fact that the vast majority of its expected output was committed and priced prior to the recent strengthening in coal markets. "We believe Arch has great potential for higher levels of profitability over the course of the next several years, as an increasing percentage of our contracts expire and is repriced in the prevailing market environment," Leer said.

For the second quarter of 2004, Arch expects profits of between $0.20 and $0.30 per fully diluted share, excluding charges related to the termination of hedge accounting for interest rate swaps. The company expects each quarter of 2004 to be stronger than the last, due principally to the timing of when new commitments were signed.

A conference call concerning first quarter earnings will be webcast live today at 11 a.m. Eastern. The conference call can be accessed via the "investor" section of the Arch Coal Web site (www.archcoal.com).

Arch Coal is one of the nation's largest coal producers, 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.

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 Cash Flows
(In Thousands)

	Three Months Ended March 31,	
	2003	2002
	(Unaudited)	
Operating activities		
Net loss	$ (16,839)	$ (7,354)
Adjustments to reconcile to cash provided by operating activities:		
Depreciation, depletion and amortization	39,511	42,741
Prepaid royalties expensed	3,105	1,874
Accretion on asset retirement obligations	3,442	-
Net gain on disposition of assets	(148)	(187)
Income from equity investments	(11,110)	(1,268)
Net distributions from equity investments	9,660	15,346
Cumulative effect of accounting change	3,654	-
Changes in:		
Receivables	16,157	11,016
Inventories	(8,942)	(9,994)
Accounts payable and accrued expenses	(8,662)	11,218
Income taxes	(4,438)	(5,700)
Accrued postretirement benefits other than pension	6,630	(480)
Asset retirement obligations	(3,266)	2,313
Accrued workers' compensation benefits	786	293
Other	2,457	3,440
Cash provided by operating activities	31,997	63,258
Investing activities		
Additions to property, plant and equipment	(48,085)	(73,068)
Proceeds from dispositions of property, plant and equipment	168	1,706
Additions to prepaid royalties	(20,384)	(18,812)
Cash used in investing activities	(68,301)	(90,174)
Financing activities		
Net (payments on) proceeds from revolver and lines of credit	(42,497)	24,999
Deferred financing costs	(1,101)	-
Reductions of obligations under capital lease	-	(519)
Dividends paid	(3,012)	(3,010)
Proceeds from sale of preferred stock	139,078	-
Proceeds from sale of common stock	66	158
Cash provided by financing activities	92,534	21,628
Increase (decrease) in cash and cash equivalents	56,230	(5,288)
Cash and cash equivalents, beginning of period	9,557	6,890
Cash and cash equivalents, end of period	$ 65,787	$ 1,602

Canyon Fuel Company cash flow information (Arch Coal ownership percentage)		
Depreciation, depletion and amortization	5,493	7,717
Additions to property, plant and equipment	(2,666)	(1,634)

Arch Coal, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands)

	March 31, 2004	December 31, 2003
Assets	(Unaudited)	
Current assets		
Cash and cash equivalents	$ 323,007	$ 254,541
Trade receivables	146,720	118,376
Other receivables	27,529	29,897
Inventories	75,841	69,907
Prepaid royalties	6,027	4,586
Deferred income taxes	7,400	19,700
Investment in Natural Resource Partners, LP, at market	10,738	-
Other	14,437	16,638
Total current assets	611,699	513,645
Property, plant and equipment, net	1,310,737	1,315,135
Other assets		
Prepaid royalties	86,897	70,880
Coal supply agreements	5,788	6,397
Deferred income taxes	242,651	246,024
Equity investments	146,846	172,045
Other	79,719	63,523
	561,901	558,869
Total assets	$ 2,484,337	$ 2,387,649
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 113,675	$ 89,975
Accrued expenses	152,674	180,314
Current portion of debt	4,250	6,349
Total current liabilities	270,599	276,638
Long-term debt	700,022	700,022
Accrued postretirement benefits other than pension	360,618	352,097
Asset retirement obligations	144,156	143,545
Accrued workers' compensation	77,461	77,672
Other noncurrent liabilities	142,304	149,640
Total liabilities	1,695,160	1,699,614
Stockholders' equity		
Preferred stock	29	29
Common stock	550	536

Paid-in capital	1,025,223	988,476
Retained deficit	(190,846)	(255,936)
Unearned compensation	(3,783)	-
Treasury stock, at cost	(5,047)	(5,047)
Accumulated other comprehensive loss	(36,949)	(40,023)
Total stockholders' equity	789,177	688,035
Total liabilities and stockholders' equity	$ 2,484,337	$ 2,387,649

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

	Three Months Ended March 31,	
	2004	2003
	(Unaudited)	
Operating activities		
Net income (loss)	$ 69,983	$ (16,839)
Adjustments to reconcile to cash provided by operating activities:		
Depreciation, depletion and amortization	36,105	39,511
Prepaid royalties expensed	3,730	3,105
Accretion on asset retirement obligations	2,947	3,442
Net gain on disposition of assets	(318)	(148)
Gain on sale of units of Natural Resource Partners, LP	(81,467)	-
Mark to market adjustment for investment in Natural Resource Partners, LP	(8,171)	-
Income from equity investments	(3,690)	(11,110)
Net distributions from equity investments	2,461	9,660
Cumulative effect of accounting change	-	3,654
Other nonoperating expense	1,895	-
Changes in:		
Receivables	(25,977)	16,157
Inventories	(5,934)	(8,942)
Accounts payable and accrued expenses	(3,524)	(8,662)
Income taxes	15,031	(4,438)
Accrued postretirement benefits other than pension	8,521	6,630
Asset retirement obligations	(2,336)	(3,266)
Accrued workers' compensation benefits	(211)	786
Other	2,300	2,457
Cash provided by operating activities	11,345	31,997
Investing activities		
Additions to property, plant and equipment	(31,654)	(48,085)
Proceeds from sale of units of Natural Resource Partners, LP	100,121	-
Proceeds from dispositions of property, plant and equipment	717	168
Additions to prepaid royalties	(21,188)	(20,384)
Cash provided by (used in) investing activities	47,996	(68,301)
Financing activities		
Net payments on revolver and lines of credit	-	(42,497)
Payments on long-term debt	(2,099)	-
Debt financing costs	(957)	(1,101)
Dividends paid	(4,893)	(3,012)
Proceeds from issuance of preferred stock	-	139,078
Proceeds from sale of common stock	17,074	66

Cash provided by financing activities	9,125	92,534
Increase in cash and cash equivalents	68,466	56,230
Cash and cash equivalents, beginning of period	254,541	9,557
Cash and cash equivalents, end of period	$ 323,007	$ 65,787
Canyon Fuel Company cash flow information (Arch Coal ownership percentage)		
Depreciation, depletion and amortization	4,390	5,493
Additions to property, plant and equipment	(1,860)	(2,666)

Arch Coal, Inc. and Subsidiaries
Reconciliation of Non-GAAP Measures
(In thousands, except per share data)

Included in the accompanying release, we have disclosed income available to common shareholders for the quarter ending March 31, 2004 excluding gains related to the sale of of a significant portion of the company's investment in Natural Resource Partners, as well as charges related to severance costs at the soon-to-be-idled Skyline mine, certain charges related to incentive compensation plans, and the termination of hedge accounting for interest rate swaps. This measure is considered a non-GAAP measure as defined by the SEC's Regulation G. The following reconciles this amount to net income available to common shareholders reported under GAAP:

	Three Months Ended March 31 2004 (Unaudited)
Net income available to common shareholders	$ 68,186
Gain on sale of units of Natural Resource Partners, LP	(81,467)
Mark to market adjustment for investment in Natural Resource Partners, LP	(8,171)
Severance costs related to Skyline idling	1,235
Incentive compensation plan expense	5,003
Other non-operating expense	1,895
Tax impact of the excluded items	20,990
Net income available to common shareholders excluding items	$ 7,671
Fully diluted shares outstanding	61,592
Adjustment to exclude impact of convertible preferred shares that would not be dilutive	(6,896)
Fully diluted shares outstanding	54,696
Earnings per common share excluding items	$ 0.14