Arch Coal, Inc. Reports First Quarter Results

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Highlights:

- **Net loss of $7.4 million, or $.14 per share, vs. net income of $6.1 million, or $.15 per share, in 1Q01**
- **Adjusted EBITDA of $49.1 million, vs. $80.3 million in 1Q01**
- **Total revenues of $368.5 million, vs. $381.4 million in 1Q01**
- **Coal sales of 24.7 million tons, vs. 27.2 million tons in 1Q01**

St. Louis – April 22, 2002 **-** Arch Coal, Inc. (NYSE:ACI) today announced that it had a net loss of $7.4 million, or $.14 per share, for its first quarter ended March 31, 2002. The company had previously announced that it expected a net loss of between $.05 and $.15 for the quarter. In the same quarter of 2001, Arch had net income of $6.1 million, or $.15 per share.

U.S. coal markets are currently in a state of oversupply following an extremely mild winter and a period of economic weakness that dampened electricity demand in recent quarters. In response to this unfavorable near-term spot market environment, Arch announced in March that it had reduced the rate of production at its mining operations by approximately 7%. At the same time, the company announced that it would cut 2002 capital spending from its previous estimate of between $180 million and $200 million, to an expected $150 million.

"The single biggest influence on the quarter's performance was our decision to curtail production at our mines in response to the weak market environment," Leer said. "As a market-driven company, we don't believe it is wise to force tonnage into an oversupplied market. These actions increase our per-ton costs in the short term, but should have a significant long-term benefit."

"We continue to take steps to align our costs with reduced production levels, and we expect this effort to lead to an improved performance in the year's second half and thereafter," Leer added. "However, most of our costs are relatively fixed in the near term – and the fact that those costs are now being spread over fewer tons will have a continuing impact on our operating results as we enter the second quarter. Nevertheless, we are confident that we are doing the right thing for the company, its shareholders and its employees by electing not to sell coal into the spot market at very low prices."

Market environment

Stockpile levels at power producers remain high, and, in keeping with its market-driven philosophy, Arch has tried to work with its customers to address that issue. However, Leer noted that there is good reason for optimism in the intermediate and longer term. "Industrial activity appears to be picking up, natural gas prices have climbed higher on the expectation of more robust demand, and coal prices – especially for coal to be delivered in future periods – are showing signs of a rebound," Leer said. "If normal weather patterns return – and I might note that we have seen an early start to the air-conditioning season – we expect the market to continue to strengthen as we move into summer."

Leer pointed out that the company should be in a strong position to respond as a stronger market environment materializes. "The steps that we have taken to curtail production will enhance our ability to provide low-cost coal to the market as electricity demand rebounds, and should serve the company well as it makes commitment for future periods," he said.

Leer reiterated that the decision to curtail production instead of participating in the spot market would continue to have an adverse impact on revenues and margins in the near term, and indicated that the company currently expects a loss of between $.04 and $.12 in the second quarter absent a change in the current market environment. "With continued cost control efforts and the prospects of a stronger demand and pricing environment, we are optimistic that the company will have a much stronger second half," Leer said. "We believe that the operational challenges at two of our mines, West Elk and Samples, are behind us, and we are well positioned to capitalize when coal markets strengthen."

Other developments

Arch Coal and its Arch Western Resources subsidiary completed the refinancing of their existing credit facilities on April 18. The new credit facilities include five- and six-year term loans totaling $675 million at Arch Western Resources, and a five-year revolver totaling $350 million for Arch Coal. Arch expects its blended cost of debt to be generally consistent with the level of past years.

The company also announced on April 19 that it had created a limited partnership, Natural Resource Partners L.P., with three affiliated private companies – Western Pocahontas Properties Limited Partnership, Great Northern Properties Limited Partnership and New Gauley Coal Corporation (collectively, the "WPP Group"). Natural Resource Partners was formed to engage principally in the business of owning and managing coal royalty properties in the three major coal-producing regions of the United States: Appalachia, the Illinois Basin and the Western United States. The partnership has filed a registration statement on Form S-1 with the Securities and Exchange Commission relating to a proposed underwritten initial public offering of common units representing limited partner interests in Natural Resource Partners. Arch is contributing approximately 454 million tons of its 3.4 billion tons of total reserves to Natural Resource Partners.

Operating statistics

Regional analysis: Of the 24.7 million tons of coal that Arch sold during the first quarter, approximately 8.1 million tons originated at its eastern operations and 16.6 million tons originated at its western operations. Arch Coal had an average realized sales price of $14.53 per ton and average operating costs of $14.07 per ton. The eastern operations had an average realized sales price of $30.39 per ton and an average cost of $29.30 per ton during the quarter. The western operations had an average realized sales price of $6.73 per ton and an average cost of $6.53 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 the second quarter of 2002: In the east, Arch expects to sell a total of approximately 7.2 million tons of coal in the second quarter from its mines in Central Appalachia, excluding brokered tons. In the west, Arch expects to sell approximately 15.0 million tons of coal at its Black Thunder mine in the Powder River Basin of Wyoming, and roughly 1.7 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 exceed 3.0 million tons for the second quarter.

Financial: Arch expects depreciation, depletion and amortization to total approximately $210 million in 2002, which is lower than previously expected due to downward revisions in anticipated capital spending. Capital expenditures are expected to total approximately $150 million. (Projections for depreciation, depletion and amortization and capital expenditures include Arch's ownership percentage in Canyon Fuel Company.)

Looking ahead

"We are very optimistic about the future," Leer said. "We believe we have successfully addressed operating challenges that adversely affected the recent performances of two of our mines, and we are well-positioned to respond to an improving demand and price environment as we look beyond the current shoulder season."

Leer added that the long-term outlook for coal looks bright. "The driving forces that spurred last year's strong demand and pricing environment are still very much in place," Leer said. "Nuclear power plants are unlikely to improve on their record performances of recent years. High natural gas prices in the face of a strong storage picture suggest concerns about supply going forward. And an increasingly tense geopolitical environment may lead to a greater emphasis on domestic energy sources such as coal. We firmly believe that coal is the only economic option available for fueling the nation's ever-increasing demand for baseload electric power over the course of the next decade."

A conference call concerning first quarter earnings will be webcast live today at 11 a.m. EDT. The conference call can be accessed via the "investor" 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: 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 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 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)

	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)

Arch Coal, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(In thousands)

	March 31, 2002	December 31, 2001
Assets	(Unaudited)	
Current assets		
Cash and cash equivalents	$ 1,602	$ 6,890
Trade receivables	139,104	149,956
Other receivables	32,139	32,303
Inventories	70,127	60,133
Prepaid royalties	3,035	1,997
Deferred income taxes	23,840	23,840
Other	13,190	14,337
Total current assets	283,037	289,456
Property, plant and equipment, net	1,430,170	1,396,786
Other assets		
Prepaid royalties	51,116	35,216
Coal supply agreements	76,309	81,424
Deferred income taxes	197,209	195,411
Investment in Canyon Fuel	156,608	170,686
Other	36,750	34,580
	517,992	517,317
Total assets	$ 2,231,199	$ 2,203,559
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 115,228	$ 99,081
Accrued expenses	147,133	134,062
Current portion of debt	6,500	6,500
Total current liabilities	268,861	239,643
Long-term debt	792,354	767,355

Accrued postretirement benefits other than pension	325,618	326,098
Accrued reclamation and mine closure	126,074	123,761
Accrued workers' compensation	79,061	78,768
Accrued pension cost	5,353	22,539
Obligations under capital leases	7,691	8,210
Other noncurrent liabilities	59,548	66,443
Total liabilities	1,664,560	1,632,817
Stockholders' equity		
Common stock	527	527
Paid-in capital	835,585	835,427
Retained deficit	(249,700)	(239,336)
Treasury stock, at cost	(5,047)	(5,047)
Accumulated other comprehensive loss	(14,726)	(20,829)
Total stockholders' equity	566,639	570,742
Total liabilities and stockholders' equity	$ 2,231,199	$ 2,203,559

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

	Three Months Ended March 31,	
	2002	2001
	(Unaudited)	
Operating activities		
Net income (loss)	$ (7,354)	$ 6,090
Adjustments to reconcile to cash provided by operating activities:		
Depreciation, depletion and amortization	42,741	44,240
Prepaid royalties expensed	1,874	1,607
Net gain on disposition of assets	(187)	(3,435)
Income from equity investment	(1,268)	(6,059)
Net distributions from equity investment	15,346	20,755
Changes in:		
Receivables	11,016	2,334
Inventories	(9,994)	(3,358)
Accounts payable and accrued expenses	11,218	14,249
Income taxes	(5,700)	(5,767)
Accrued postretirement benefits other than pension	(480)	(3,826)
Accrued reclamation and mine closure	2,313	(2,795)
Accrued workers' compensation benefits	293	1,044
Other	3,440	413
Cash provided by operating activities	63,258	65,492
Investing activities		
Additions to property, plant and equipment	(73,068)	(48,547)
Proceeds from dispositions of property, plant and equipment	1,706	3,631
Additions to prepaid royalties	(18,812)	(18,804)
Cash used in investing activities	(90,174)	(63,720)

Financing activities		
Net proceeds from (payments on) revolver and lines of credit	24,999	(51,725)
Payments on term loans	-	(47,000)
Reductions of obligations under capital lease	(519)	(752)
Dividends paid	(3,010)	(2,495)
Proceeds from sale of common stock	158	96,521
Cash provided by (used in) financing activities	21,628	(5,451)
Increase in cash and cash equivalents	(5,288)	(3,679)
Cash and cash equivalents, beginning of period	6,890	6,028
Cash and cash equivalents, end of period	$ 1,602	$ 2,349
Canyon Fuel Company cash flow information (Arch Coal ownership percentage)		
Depreciation, depletion and amortization	7,717	9,880
Additions to property, plant and equipment	(1,634)	(2,901)