Arch Coal, Inc. Announces One Time Charges, Reports Results for Its Fourth Quarter

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St. Louis, Missouri – January 24, 2000 - Arch Coal, Inc. (NYSE:ACI) announced today that it was taking one-time charges of $344.7 million ($380.9 million pre-tax), or $9.03 per share, related principally to the write-down of assets at its Dal-Tex, Hobet 21 and Coal-Mac operations and the write-down of certain other coal reserves in central Appalachia. Included in these charges was a $16.3 million pre-tax charge related to the restructuring of the company's administrative work force and the closure of mines in Illinois and Kentucky.

Excluding these items, the company recorded a net loss of $3.7 million, or $0.10 per share, for the quarter ended December 31, 1999, compared to net income of $0.1 million, or $.00 per share, for the fourth quarter of 1998. Including these items, the company recorded a pre-tax net loss of $348.4 million, or $9.12 per share, for the quarter just ended.

Earnings before one-time charges, interest, taxes, depreciation, depletion and amortization (EBITDA) for the fourth quarter totaled $70.8 million, or $1.85 per share, vs. $85.3 million, or $2.16 per share, for the same period of 1998. The company recorded revenues of $372.7 million and coal sales of 28.5 million tons in the quarter just ended, compared to $415.5 million and 26.6 million tons for the fourth quarter of 1998.

The depressed eastern coal market and recent regulatory pressures in the east were major factors in the asset write-downs. "As we have stated in the past, coal prices in the east have declined significantly in real terms, especially in the past 12 months, as a result of very mild weather patterns, reduced overseas demand, productivity improvements, and pressure from competing supply regions in the west," said Steven F. Leer, Arch Coal's president and chief executive officer. "In addition, litigation resulted in the delay of a new mining permit at Dal-Tex and forced the closure of that operation. In light of these developments and their likely continuing impact on future operations, we were required by generally accepted accounting principles to evaluate the expected future cash flows of each of our mining complexes. In doing so, we determined that the Dal-Tex, Hobet 21 and Coal-Mac operations, as well as certain other coal reserves in central Appalachia, met the criteria for impairment of long-lived assets under Financial Accounting Standard 121." These charges were offset by a tax benefit of only $36.2 million as Arch established a valuation allowance against its deferred tax asset of $112.3 million in the fourth quarter of 1999.

Arch does not expect these write-downs, which are principally related to inactive coal properties, to have a material impact on future pre-tax earnings. As it relates to future income taxes, the company does not anticipate recognizing alternative minimum tax carry-forwards generated in the future and, as a result, expects to record its tax provision at the alternative minimum tax rate of approximately 24%.

The Dal-Tex mine in southern West Virginia shut down in July 1999 after failing to obtain permits necessary for continued surface mining. No operational changes are anticipated at the Hobet 21 mine, also located in southern West Virginia.

"During the quarter, eastern coal prices remained at extremely depressed levels and rail service at our eastern mines was erratic," Leer said. "Despite these difficulties, we again demonstrated our ability to generate substantial levels of cash and made excellent progress toward our top financial objectives, which are to generate cash flow and pay down debt. During the fourth quarter, we paid down $61.2 million in debt, bringing our total debt reduction for the year to $189.1 million. In addition, we reduced our total lease obligations by $35.1 million and bought back 1.4 million shares of our common stock for $15.6 million during 1999. Our strong cash-generating ability is a fundamental strength that has allowed us to significantly reduce our debt despite the weak market."

Leer noted that the rail problems were related to ongoing consolidation in the eastern rail industry. "The integration of the former Conrail assets caused problems for eastern rail carriers and prevented Arch from meeting anticipated shipping levels," Leer said. "We continue to view this problem as short-term in nature, and in fact we have seen substantial improvements in service in recent weeks."

In addition, the Mingo Logan operation in southern West Virginia experienced a difficult longwall move that reduced its operating income for the quarter. "Instead of the normal four-day duration, the move took 15 days to complete as a result of adverse roof conditions in a section of the Mountaineer Mine," Leer said. "We believe that the adverse geologic conditions were isolated and we do not anticipate a reoccurrence." The mine has operated at its usual, highly productive levels since the move was completed in November.

"In addition to paying down debt, we took several other major steps during the quarter to improve our competitive position, including reducing the size of our administrative staff and shutting down three mines that were no longer competitive," Leer said. "We also completed the planned deployment of a fourth dragline at our Black Thunder mine in Wyoming which should enable us to increase production substantially in the southern portion of the Powder River Basin, where demand growth remains strong."

Staff reductions and mine closings

As part of its corporate-wide effort to reduce general and administrative costs, the company eliminated approximately 58 administrative jobs through layoffs and attrition. "We endeavored to restructure and streamline all administrative functions at all levels of the organization," Leer said. "Included in this effort was the elimination of nine corporate vice president and subsidiary executive positions. In total, we believe we will have reduced our general and administrative costs by nearly 25%, or more than $11 million a year."

In addition, the company closed two surface mines in Pike County, Kentucky, where the cost structures were not competitive. As planned, Arch also closed its last remaining high-sulfur mine – the Conant Mine in southern Illinois – in December. Demand for high-sulfur southern Illinois coal has declined dramatically as a result of increasingly stringent clean air requirements that are driving a shift to low- sulfur coal.

"In this challenging market environment, it is imperative that we operate in the leanest and most efficient manner possible," Leer said. "We believe such discipline is in the best interests of the organization and its shareholders."

Changes in debt agreements

Subsequent to the end of the quarter the company amended certain of its debt agreements so that, despite the previously mentioned charges, it would remain in compliance with certain covenants contained in those agreements. The amended agreements are expected to increase interest expense by approximately $2.4 million in 2000.

Other developments

"In the current weak market environment, we believe that reducing debt quickly and aggressively is the best way to create long-term shareholder value, and management is dedicated to this objective," Leer said. In light of that fact, management will recommend to the board of directors at the regularly scheduled February board meeting that the company’s quarterly dividend be reduced 50% from its recent quarterly level of 11.5 cents per share. "This proposed dividend reduction will free up additional cash for our already strong debt reduction efforts," Leer noted.

In addition, the board recently reaffirmed authorization of the existing stock repurchase plan. To date, the company has repurchased 1.7 million shares of its common stock under the current two-million-share authorization. "We continue to view our stock as a very attractive value at current prices," Leer said.

Results for the full year

For 1999, Arch Coal had a net loss of $346.3 million, or $9.02 per share, including the previously discussed fourth-quarter charges, a $4.0 million charge in the first quarter related to the closure of the Dal-Tex operation, and a $3.8 million benefit from the cumulative accounting change, also in the first quarter. Excluding one-time charges, the company had a net loss for the year of $1.4 million, or $.04 per share. In 1998, Arch had net income of $30.0 million, or $.76 per share, which included a one-time after-tax charge of $1.5 million related to the early extinguishment of debt. Results for 1998 also included $11.3 million on the sale of certain idle properties in eastern Kentucky and $4.6 million on the sale of the company’s idle Big Sandy Terminal.

Arch had EBITDA of $325.9 million, or $8.49 per share, in 1999 vs. $313.5 million, or $7.91 per share, a year ago. Revenues totaled $1.6 billion in 1999 compared to $1.5 billion in 1998. Coal sales totaled 111.2 million tons vs. 81.1 million tons in 1998. These results included the acquisition of Atlantic Richfield’s U.S. coal operations as of June 1, 1998.

As previously mentioned, Arch reduced its financial obligations during 1999 by a total of $224.1 million through the repayment of debt and the reduction of its lease obligations. In addition, Arch bought back 1.4 million shares of its common stock for $15.6

million.

Looking ahead

"Barring a dramatic change in the weather or other unexpected developments, conditions in eastern coal markets are not likely to improve in the near term," Leer said. "Coal inventories at coal mines and electric generating stations are extremely high and those inventories will continue to exert pressure on prices. Furthermore, there is still too much production capacity in the east and the market isn’t likely to rebound until additional capacity shuts down."

Leer noted that, in regions other than the Powder River Basin, weak market conditions had adversely affected the price Arch was able to secure for coal it plans to ship in 2000. "While we remain bullish on the future of the coal industry, we do not expect our earnings from ongoing operations to improve in 2000. We do, however, expect to continue to generate strong cash flow and to reduce debt still further."

Leer went on to say that the company’s principal challenges will continue to be in the eastern United States, where coal prices hit record lows during the quarter. "Pricing trends are generally favorable in the Powder River Basin of Wyoming. Our Black Thunder and Coal Creek operations are expected to produce more than 70 million tons of coal in 2000, almost all of which have been sold," he said. Leer added that management is confident that the operational problems encountered at Black Thunder during the first half of 1999 have been resolved.

"Despite facing many challenges, we continue to believe that Arch Coal is uniquely positioned to capitalize on growing demand for electricity, the deregulation of the electric utility industry, and the ongoing shift to lower-sulfur coals," Leer said. "We intend to continue to take the steps necessary to realize the very substantial potential of our assets, which we contend are the best in the industry. As always, our top priority will be to create value for our shareholders by operating the safest, most productive and most environmentally responsible mines in the 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 earnings and cash flow, other factors affecting future net income, its relative competitive position, its operating plans, and its cost of capital. 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, Wyoming, Colorado and Utah. Through these operations, Arch Coal provides the fuel for approximately 6% of the electricity generated in the United States.