UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 1999

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition period from to

Commission File Number: 1-13105

ARCH COAL, INC.
(Exact name of registrant as specified in its charter)

Delaware	43-0921172
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
CityPlace One, Suite 300, St. Louis, MO	63141
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (314) 994-2700

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $.01 par value	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [_]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

At March 1, 2000, based on the closing price of the registrant's common stock on the New York Stock Exchange on that date, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $103,718,446. In determining this figure, the registrant has assumed that all of its executive officers and directors, and persons known to it to be the beneficial owners of more than five percent of its common stock are affiliates. Such assumption shall not be deemed conclusive for any other purpose.

At March 1, 2000, there were 38,164,482 shares of the registrant's common stock outstanding.

Documents incorporated by reference:

1. Portions of the registrant's definitive proxy statement, to be filed with the Securities and Exchange Commission no later than May 1, 2000 are incorporated by reference into Part III of this Form 10-K.

2. Portions of the registrant's Annual Report to Stockholders for the year ended December 31, 1999 are incorporated by reference into Parts II and IV of this Form 10-K.

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PART I

ITEM 1. BUSINESS

General

Arch Coal, Inc. ("Arch Coal" or the "Company") is the second largest coal producer in the United States. The Company mines, processes and markets compliance and low-sulfur coal from 31 surface, underground and auger mines located in coal fields in the western United States and in the central Appalachian region. Compliance and low-sulfur coal are types of coal that, when burned, emit 1.2 pounds and 1.6 pounds or less of sulfur dioxide per million Btu, respectively. As of December 31, 1999, the Company controlled approximately 3.5 billion tons of measured and indicated coal reserves, of which approximately 1.8 billion tons were located in coal fields in the western United States and 1.3 billion tons were located in coal fields in central Appalachia. The remaining reserves were located in midwestern coal fields. In December 1999, the Company closed its last mining operation in the midwest due to a lack of demand for the mine's high-sulfur coal.

The Company owns a 99% membership interest in Arch Western Resources, LLC ("Arch Western"), a joint venture that was formed in connection with the Company's acquisition of the United States coal operations of Atlantic Richfield Company on June 1, 1998 (the "Arch Western transaction"). The principal operating units of Arch Western are Thunder Basin Coal Company, L.L.C., which operates the Black Thunder and Coal Creek mines in the Southern Powder River Basin in Wyoming; Mountain Coal Company, L.L.C., which operates the West Elk mine in Colorado; Canyon Fuel Company, LLC ("Canyon Fuel"), which operates three mines in Utah; and Arch of Wyoming, LLC, which operates two mines in the Hanna Basin of Wyoming. Arch Western owns 100% of the membership interests of Thunder Basin Coal Company, L.L.C., Mountain Coal Company, L.L.C. and Arch of Wyoming, LLC. Arch Western owns a 65% membership interest in Canyon Fuel, with the remaining 35% membership interest owned by ITOCHU Coal International Inc., a subsidiary of ITOCHU Corporation of Japan.

The Company and its operating subsidiaries (other than Canyon Fuel, the results of operations of which are accounted for using the equity method) sold approximately 111.2 million tons of coal in 1999, 107.1 million tons of which were produced by the Company and the balance of which was purchased for resale. Approximately 82% of this tonnage was sold under long-term contracts (contracts having a term greater than one year) and the balance was sold on the spot market (contracts having a term of one year or less). Approximately 76% of 1999 total revenues were derived from sales of coal under long-term contracts. Sales of steam coal in 1999 totaled 108.7 million tons, or approximately 98% of the Company's 1999 coal sales, while sales of metallurgical coal in 1999 totaled 2.5 million tons, or approximately 2% of the Company's 1999 coal sales. In 1999, sales of coal in the export market totaled approximately 3.5 million tons. Sales of steam coal accounted for approximately 59% of these export sales, while the balance of export sales consisted of sales of metallurgical coal.

Recent Developments

West Elk Operations. The Company temporarily idled its West Elk underground mine in Gunnison County, Colorado, on January 28, 2000 following the detection of higher-than-normal levels of carbon monoxide in a portion of the mine. Higher-than-normal readings of carbon monoxide indicate that combustion is present somewhere within the affected portion of the mine. The Company has sealed the affected portion of the mine while it further isolates the affected area and determines the cause of and solutions to the problem. West Elk produced approximately 7.3 million tons of coal in 1999, employs approximately 300 people and generated approximately $13.1 million of the Company's total operating income in 1999. The Company does not believe the mine's closure will have a material long-term effect on the Company's financial condition, but it could have a material adverse effect on the Company's results of operations until the mine is reopened and fully operating.

Ashland Inc. Proposal. Ashland Inc. ("Ashland"), which owns approximately 58% of the outstanding common stock of the Company, announced on March 16, 2000 that its Board of Directors has declared a taxable distribution to Ashland's stockholders of approximately 17.4 million of its 22.1 million shares of the Company's common stock. The shares will be distributed on or around March 27, 2000 to Ashland's stockholders of record as of March 24, 2000. Ashland also confirmed that it plans to dispose of its remaining 4.7 million shares of the Company's common stock in a tax efficient manner after the distribution, subject to then-existing market conditions. There will be no impact on the operations of the Company as a result of the distribution by Ashland. Ashland first announced its interest in exploring strategic alternatives for its investment in the Company on June 22, 1999.

West Virginia Operations. Recent regulatory developments in West Virginia have adversely affected the Company's ability to economically exploit its mining properties. On October 20, 1999, the U.S. District Court for the Southern District of West Virginia permanently enjoined the West Virginia Division of Environmental Protection (the "West Virginia DEP") from issuing any new permits that authorize the construction of valley fills as part of coal mining operations. The West Virginia DEP complied with the injunction by issuing an order banning the issuance of nearly all new permits involving valley fills and prohibiting the further advancement of nearly all existing fills. On October 29, 1999, the district court granted a stay of its injunction, pending the outcome of an appeal of the court's decision filed by the West Virginia DEP with the U.S. Court of Appeals for the Fourth Circuit. The West Virginia DEP rescinded its order in response to the stay granted by the court. It is impossible to predict the outcome of the West Virginia DEP's appeal to the Fourth Circuit. If, however, the district court's ruling is not overturned or if a legislative or other solution is not achieved, then the ability of the Company and other coal producers to mine coal in West Virginia would be seriously compromised.

Business Environment

Demand for Coal. Coal is the fuel used to generate 51% of all electricity produced in the United States. Coal has consistently maintained a 51-53% market share over competing energy sources during the past 10 years because of its relatively low cost and its availability throughout the United States. On an average, all-in cost per megawatt-hour basis, coal-fired generation is substantially less expensive than electricity generated utilizing natural gas, oil or nuclear power. Hydroelectric power is inexpensive but is limited geographically, and there are few suitable sites for new hydroelectric power dams. Consequently, nearly 85% of the approximate 1.1 billion tons of coal produced in the United States in 1999 was sold in the domestic market as a fuel to generate electricity. The remaining tons were sold into the export market (6%), were sold as metallurgical coal (2%), or were sold as steam coal for other industrial/residential purposes (7%). In addition to the relative competitiveness of coal-fired generation plants, coal consumption patterns are also influenced by the demand for electricity, governmental regulation impacting coal production and power generation, technological developments and the location, availability, and quality of competing sources of coal, as well as alternative fuels (natural gas, oil and nuclear) and alternative energy sources (hydroelectric).

Long-term demand for electric power will depend on a variety of economic, regulatory, technological and climatic factors beyond the Company's control. Historically, domestic demand for electric power has generally increased as the U.S. economy has grown. Two important regulatory initiatives, one designed to increase competition among utilities and lower the cost of electricity for consumers (see "Electricity Utility Deregulation," below), and another to improve air quality by reducing the level of sulfur emitted from coal-burning power generation plants (see "Clean Air Act Amendments," below) have had and are expected to continue to have significant effects on the electric utility industry and its coal suppliers.

Electric Utility Deregulation. Electric utility deregulation is expected to continue to cause utilities to focus on minimizing their fuel costs, be more aggressive in negotiating prices with coal suppliers and be more willing to switch to alternative fuels. To the extent utility deregulation affects the Company's customers, the Company believes some aspects of deregulation may adversely affect the Company's business and operating results while other aspects of deregulation may have a positive effect. Deregulation should result in increased utilization of low cost coal-fired generating plants, but at the same time should increase pricing pressure on coal producers since fuel costs account for a high percentage of the cost of operating a generating plant.

Clean Air Act Amendments. A major regulatory change affecting the coal industry is Title IV of the Clean Air Act Amendments (the "Amendments") enacted in 1990. The Amendments have had, and will continue to have, a significant effect on the domestic coal industry. In general, Phase I of the Amendments, which became effective in 1995, regulates the level of emissions of sulfur dioxide from power plants and targets the highest sulfur dioxide emitters. Phase II, which became effective on January 1, 2000, extends the restrictions of the Amendments to all power plants of greater than a 75 megawatt capacity. The Amendments do not define allowable emission levels on a per plant basis, but instead allocate emission allowances to the affected plants and allow the emission allowances to be traded so that market participants can fashion more efficient and flexible compliance strategies. The emission allowance allocations for Phase I units were based on 2.5 pounds of sulfur dioxide per million Btus and Phase II allocations are based on 1.2 pounds of sulfur dioxide per million Btus.

Industry Competition, Market Prices and the Cost of Production. Even assuming that Clean Air Act Phase II requirements and electric utility deregulation will strengthen demand for low-sulfur coal, the Company still faces substantial competition from other coal producers in an overall market characterized by excess supply. The coal industry has historically been prone to oversupply situations as there have been few barriers to entry. At the same time, profit margins from remaining above-market contracts, coupled with high exit costs in the form of environmental and employee-related liabilities, have encouraged the perpetuation of marginal operations.

The price at which the Company's production can be sold is dependent upon a variety of factors, many of which are beyond the Company's control. The Company sells coal under long-term contracts and on the spot market. See the "Sales and Marketing" section below. Generally, the relative competitiveness of coal vis-a-vis other fuels or other coals is evaluated on a delivered cost per heating value unit basis. In addition to competition from other fuels, coal quality, the marginal cost of producing coal in various regions of the country and transportation costs are major determinants of the price for which the Company's production can be sold. Coal production costs vary widely depending upon the region in which the coal is produced. Factors that directly influence production cost include geological characteristics (including seam thickness), overburden ratios, depth of underground reserves and transportation costs. Western coal is relatively inexpensive to mine because the seams are thick and typically close to the surface. As a result, open-cast mining methods are used. The large capital costs associated with dragline mining and truck and shovel mining are amortized over a relatively large amount of coal produced. Western mines are also highly productive and labor is a much smaller component of the cost structure. Eastern coal is more expensive to mine than western coal because there is a high percentage of underground coal in the east and eastern surface coal tends to have thinner coal seams. Additionally, underground mining has higher labor (including reserves for future costs associated with labor benefits and health care) and capital (including modern mining equipment and construction of extensive ventilation systems) costs than those of surface mining. In recent years, increased development of large surface mining operations, particularly in the western United States, and more efficient mining equipment and techniques, have contributed to the excess coal production capacity in the United States. Competition resulting from excess capacity encourages producers to reduce prices and to pass productivity gains through to customers. The lower production cost in the western mines is offset somewhat by the higher quality of many eastern coals and higher transportation cost from these western mines to many coal-fired power plants in the country.

Demand for the Company's low-sulfur coal and the prices that the Company will be able to obtain for it will also be affected by the price and availability of high-sulfur coal, which can be marketed in tandem with emissions allowances. Intraregional and interregional competition is keen as producers seek to position themselves as the low-cost producer and supplier of high-demand product to the electricity generating industry.

Transportation of Coal. Transportation costs are another fundamental factor affecting coal industry competition, particularly interregional competition. Nearly 65% of coal deliveries to utilities are made by rail. Coordination of the many eastern loadouts, the large number of small shipments, terrain and labor issues all combine to make shipments originating in the eastern United States inherently more expensive on a per-mile basis than shipments originating in the western United States. Historically, coal transportation rates from the

Powder River Basin into central Appalachian markets limited the use of Powder River Basin coal in those markets. More recently, however, lower rail rates from the Powder River Basin to markets served by eastern producers have created major competitive challenges for eastern producers.

Barge transportation is the lowest-cost method of transporting coal long distances in the eastern United States, and the large numbers of eastern producers with river access keep coal prices competitive. The Company believes that many utilities with plants located on the Ohio River system are well positioned for deregulation as competition for river shipments should remain high for central Appalachian coal. With close proximity to competitively-priced central Appalachian coal and the ability to receive western coals, the Company believes utilities with plants located on the Ohio River system will become price setters in a deregulated environment. The ability of these utilities to blend western and eastern coal will also create a new, dynamic fuel procurement environment that could place western and eastern coals in even greater competition and limit rail price premiums. River transport is an important transportation option not available to Powder River Basin producers between Wyoming and midwestern river terminals.

Most coal mines are served by a single rail company, but many of the Powder River Basin mines are served by two competing rail carriers. Rail competition in this producing region is important, since rail costs constitute up to 75% of the delivered cost of Powder River Basin coal in remote markets.

Although undergoing significant consolidation, the coal industry in the United States remains highly fragmented. There can be no assurance that the Company's costs will permit it to compete effectively with other producers seeking to provide coal to a customer. To prosper in the business environment described above, a coal producer must be able to maintain low production costs, offer a variety of products and have access to multiple transportation systems.

Sales and Marketing

The Company sells coal under long-term contracts (contracts having a term of greater than 12 months) as well as on a current market, or spot basis. When the Company's coal sales contracts expire, the Company is exposed to the risk of having to sell coal into the spot market, where demand is variable and prices are therefore subject to greater volatility. Historically, the price of coal sold pursuant to contracts exceeded then-prevailing spot prices for coal. However, due to deregulation and other factors discussed previously, in the past several years new contracts have been priced at or near existing spot rates.

The terms of coal sales contracts result from bidding and extensive negotiations with customers. Consequently, the terms of such contracts vary significantly in many respects, including price adjustment features, price reopener terms, coal quality requirements, quantity parameters, flexibility and adjustment mechanisms, permitted sources of supply, treatment of environmental constraints, options to extend, and force majeure, termination and assignment provisions.

Frequently, base prices are set at the beginning of the term of a contract and are then adjusted at intervals for changes due to inflation or deflation and, in many cases, changes in costs such as taxes, reclamation fees, black lung excise taxes and royalties. The inflation or deflation adjustments are measured by public indices, the most common of which is the implicit price deflator for the gross domestic product as published by the United States Department of Commerce. The base price is also often adjusted to a market price which is either negotiated or determined in a predetermined manner when there is a price reopener.

Price reopeners are present in many of the more recently executed long-term contracts and usually occur midway through the term of a contract. Reopeners typically allow the contract price to be renegotiated in order to be in line with the then-prevailing market price. In some circumstances, customers have the option to terminate the contract if the parties do not agree on a new price. The length of sales contracts has decreased significantly over the last few years as electricity generators have prepared for federal Clean Air Act requirements and the impending deregulation of their industry.

Quality and volumes for coal are stipulated in coal sales contracts, although customers normally have the option to vary volume to some limited extent. Variations in the quality and volumes of coal may lead to adjustments in the contract price. Coal sales contracts typically stipulate procedures for quality control, sampling and weighing.

Contract provisions in some cases specify how coal will be supplied in the event of a force majeure, including such events as strikes, adverse mining conditions, serious transportation problems or, in certain instances, changes in laws. More recent contracts stipulate that this tonnage can be made up by mutual agreement or at the discretion of the customer. Coal sales contracts typically contain termination clauses if either party fails to comply with the terms and conditions of the contract.

In certain contracts, the Company has a right of substitution, allowing it to provide coal from different mines as long as it is of a certain specified quality and will be sold at the same delivered cost.

There are certain contracting terms that differ between a standard "eastern U.S." contract and a standard "western U.S." contract. In the eastern United States, many customers require that the coal be sampled, analyzed and weighed at the destination, whereas in the western United States most of that activity is conducted at the source. More eastern United States coal is purchased on the spot market. The eastern United States market has traditionally been a more short-term market because of the larger number of smaller mining operations in that region. Western U.S. contracts may stipulate that certain production taxes and coal royalties be reimbursed in full by the buyer rather than being a pricing component within the contract. These items are a significant portion of western U.S. coal pricing.

Another factor that may impact the sale of coal in the future is the development of coal commodity trading. The New York Mercantile Exchange initiated electricity commodity trading a few years ago and has been developing standards for coal contracts. The Exchange has announced its intention to initiate coal contract trading based on a Huntington, West Virginia barge loading hub. However, to date, the Exchange has not initiated such trading. The development of standards to determine pricing has been difficult because of the non-homogeneous character of coal and diversity in mining locations, conditions and operations. Nonetheless, in anticipation of commodity trading, some brokerage and marketing firms have entered the coal markets and devised transactions that mimic commodity activity. Today, over-the-counter trading is being conducted to a limited extent on both firm forward transactions as well as put, call and other options. The trend to more commodity type transactions could mark a significant change in how coal is sold. It is too early to determine whether this trend will have a material effect on the Company and its operating results.

Reliance on Major Customers

The Company's total sales to American Electric Power Company, Inc. ("AEP") and Southern Company and their respective affiliates accounted for approximately 10.0% and 10.5%, respectively, of the Company's total revenues in 1999. AEP and Southern Company and/or their affiliates each currently has multiple long-term contracts with the Company. If the Company experienced an unanticipated and immediate loss of all of the contracts with either of these customers, the loss could have a material adverse effect on the Company's business and results of operations.

Operations

As of December 31, 1999, the Company operated a total of 33 mining complexes, all located in the United States. Coal is transported from the Company's mining complexes to customers by means of railroad cars, river barges or trucks, or a combination of these means of transportation. The following table provides the location and a summary of information regarding the Company's principal mining complexes and the coal reserves associated with these operations as of December 31, 1999:

Mining Complex (Location)	Captive Mine(s)*	Contract Mine(s)*	Mining Equipment(/1/)	Transportation	Tons Produced in 1999 (in millions)	Recoverable Reserves (in millions)	Cost(/2/)/ Book Value (in millions)
Central Appalachia							
Mingo Logan (WV)...........	S, U	U(3), S(2)	L, LW, C	NS	12.2	22.4	$133/$67
Coal-Mac (KY)(/3/)..........	S(2)	--	L	CSX	1.0	5.9	14/4
Dal-Tex (WV)(/4/)..........	S, U	--	D, L, S	CSX	2.3	84.2	10/3
Hobet 21 (WV)..............	S, U	U(2)	D, L, S(/5/)	CSX	5.1	88.9	45/31
Arch of West Virginia (WV)..	S	U	D, L, S(/6/)	CSX	4.7	19.6	120/25
Samples (WV)...............	S	--	D, L, S(/7/)	Barge, CSX	5.9	27.5	115/48
Campbells Creek (WV)........	--	U(2)	--	Barge	1.2	11.6	3/1
Lone Mountain (KY)..........	U(2)	--	C	NS	2.3	60.6	85/36
Pardee (VA)................	S, U	U	L, C	NS	1.7	9.3	34/11
Western United States							
Black Thunder (WY)..........	S	--	D, S(/8/)	UP, BN	50.9	1,052.5	226/203
Coal Creek (WY)............	--	S	--	UP, BN	11.4	238.6	41/37
West Elk (CO)(/9/)..........	U	--	LW, C	UP	7.3	141.3	96/71
Skyline (UT)...............	U	--	LW, C	UP	3.8	79.6	(/10/)
SUFCO (UT).................	U	--	LW, C	UP	5.8	117.9	(/10/)
Dugout Canyon (UT)..........	U	--	C((/11/)	UP	.8	34.1	(/10/)
Arch of Wyoming (WY)........	S(2)	--	D, S(/12/)	UP	1.0	.4	58/4
Midwestern United States							
Arch of Illinois (IL)(/13/).	--	--	C	UP, IC	2.4	20.0	107/3

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S = Surface Mine
U = Underground Mine

D = Dragline
L = Loader/Truck
S = Shovel/Truck
LW = Longwall
C = Continuous Miner

UP = Union Pacific Railroad
IC = Illinois Central Railroad
BN = Burlington Northern Railroad
NS = Norfolk Southern Railroad

* Multiple captive and contract mines are included in parentheses.
(/1/Reported)for captive operations only.
(/2/Reflects)purchase accounting adjustments.
(/3/The)Company idled the two captive mining operations at its Coal-Mac (KY) complex on January 3, 2000 because of the small surface mines' high cost structure compared to the Company's larger mines.
(/4/The)Company idled its mining operations at the Dal-Tex complex on July 23, 1999 due to a delay in obtaining mining permits resulting from legal action in the U.S. District Court for the Southern District of West Virginia. See "Part I, Item 3. Legal Proceedings--Dal-Tex Litigation" for further discussion regarding this legal action.
(/5/Utilizes)an 83-cubic-yard dragline and a 51-cubic-yard shovel.
(/6/Utilizes)a 49-cubic-yard dragline, a 43-cubic-yard shovel, a 22-cubic-yard shovel and a 28-cubic-yard loader at the Ruffner Mine.
(/7/Utilizes)a 110-cubic-yard dragline, two 53-cubic-yard shovels, a 22-cubic-yard hydraulic excavator and two 28-cubic-yard loaders.

(/8/Utilizes)170-cubic-yard, 130-cubic-yard, 90-cubic-yard and 45-cubic-yard draglines and 53-cubic-yard, 60-cubic-yard and 82-cubic-yard shovels.
(/9/The)Company temporarily idled its mining operations at West Elk on January 28, 2000 following the detection of higher-than-normal levels of carbon monoxide in a portion of the mine. See "Part 1, Item 1. Business--Recent Developments" for further information regarding this matter.
(/10/Canyon)Fuel is an equity investment and its financial statements are not consolidated into the Company's financial statements.
(/11/Currently)under development; full production projected to begin with the addition of a longwall in the 3rd quarter of 2001.
(/12/Utilizes)76-cubic-yard and 64-cubic-yard draglines at Medicine Bow and a 32-cubic-yard dragline at Seminoe II.
(/13/The)Company idled its remaining operations at the Arch of Illinois mining complex and sealed the underground mine in December 1999 due to a lack of demand for the mine's high-sulfur coal. The mining complex was the last of the Company's mining operations in the midwestern United States.

All mining complexes described above have unit train load-out facilities except Campbell's Creek. Preparation plants are located at the following complexes: Mingo Logan, Hobet 21, Arch of West Virginia, Samples, Campbell's Creek, Pardee, and Lone Mountain, as well as the idled Dal-Tex complex. The mining complexes, mines and related facilities described above are accessible by public road, and power to the complexes, mines and facilities is supplied by public utility companies doing business in the area of such operations. The plant and equipment at each of the mining complexes are suitable for the mining operations undertaken at each complex.

All of the coal reserves at the mining complexes described above are either compliance or low-sulfur coal, with the exception of the coal reserves at the idled Arch of Illinois mining complex.

Although the Company believes it has a strong reserve base relative to its competition, the Company's profitability depends substantially on having access to coal reserves that have the geologic characteristics that enable them to be mined at competitive costs. There can be no assurance that replacement reserves, particularly in central Appalachia, will be available when required or, if available, that such replacement reserves can be mined at costs comparable to those characteristic of the depleting mines. Exhaustion of reserves at particular mines can also have an adverse effect on operating results that is disproportionate to the percentage of overall production represented by the tonnage produced at such mines.

The Company may experience significant fluctuations in operating results in the future, both on an annual and quarterly basis, as a result of one or more factors beyond its control, including expiration or termination of, or sales price redeterminations or suspensions of deliveries under, long-term contracts; disruption of transportation services; changes in mine operating conditions; changes in laws or regulations, including permitting requirements; unexpected results in litigation; work stoppages or other labor difficulties; competitive and overall coal market conditions; and general economic conditions. The Company's mining operations are subject to conditions or events beyond the Company's control that can affect the cost of mining at particular mines for varying lengths of time and could have an adverse effect on results of operations. These factors include weather conditions; fires and explosions; equipment replacement and repair requirements; variations in coal seam thickness; amount of overburden, rock and other natural materials; and other surface or subsurface conditions. Such production factors frequently result in significant fluctuations in operating results.

Third quarter results of operations are frequently adversely affected by lower production and resultant higher costs due to scheduled vacation periods at the Company's union mines. In addition, costs are typically somewhat higher during vacation periods because of maintenance activity carried on during those periods. These adverse effects may make the third quarter not comparable to the other quarters and not indicative of results to be expected for the full year.

Transportation

Coal from the mines of the Company's subsidiaries is transported by rail, truck and barge to domestic customers and to Atlantic or Pacific coast terminals for shipment to domestic and international customers.

The Company's Arch Coal Terminal is located on a 60-acre site on the Big Sandy River approximately seven miles upstream from its confluence with the Ohio River. Arch Coal Terminal provides coal storage and transloading services.

The Company's Paint Creek Terminal is located on leased property on the Kanawha River at Crown Hill, West Virginia. The facility transloads coal trucked from the Campbells Creek and Samples mines for shipment by barge to the Company's customers.

Company subsidiaries together own a 17.5% interest in Dominion Terminal Associates ("DTA"), which leases and operates a ground storage-to-vessel coal transloading facility (the "DTA Facility") in Newport News, Virginia. The DTA Facility has a rated throughput capacity of 20 million tons of coal per year and ground storage capacity of approximately 1.7 million tons. The DTA Facility serves international customers, as well as domestic coal users located on the eastern seaboard of the United States.

As of December 31, 1999, Arch Western owned a 5.3% equity interest and Canyon Fuel owned a 9.0% equity interest in the Los Angeles Export Terminal ("LAXT"), which owns and operates a dry bulk terminal operation within the Port of Los Angeles. LAXT is served by the Union Pacific railroad. Current annual rated capacity at the terminal is 10 million tons. The City of Los Angeles owns the land upon which the facility has been constructed. LAXT has entered into a 35 year lease with the City which provides compensation for its contribution of cash and land to the venture. The total cost of the facility was approximately $144 million.

Regulations Affecting Coal Mining

Federal, state and local governmental authorities regulate the coal mining industry on matters as diverse as employee health and safety, air quality standards, water pollution, groundwater quality and availability, plant and wildlife protection, the reclamation and restoration of mining properties, the discharge of materials into the environment and surface subsidence from underground mining. These regulations have had and will continue to have a significant effect on the Company and the coal mining industry.

Permits and Environmental Matters. Mining companies must obtain numerous permits that impose strict regulations on various environmental and health and safety matters in connection with coal mining. For example, regulations are imposed on the emission of air and water borne pollutants, the manner and sequencing of coal extractions and reclamation, the storage, use and disposal of waste and other substances, some of which may be hazardous, and the construction of fills and impoundments. Regulatory authorities have considerable discretion in the timing of permit issuance and both private individuals and the public at large possess rights to comment on and otherwise engage in the permitting process, including through intervention in the courts. The Company idled its Dal-Tex operation in West Virginia on July 23, 1999, due to a delay in obtaining mining permits which resulted from legal action in the U.S. District Court for the Southern District of West Virginia. See "Part 1. Item 3. Legal Proceedings--Dal-Tex Litigation" for a discussion of the legal action.

Certain Environmental Legislation. The federal Surface Mining Control and Reclamation Act of 1977 ("SMCRA") was enacted to regulate certain surface mining of coal and the surface effects of underground mining. All states in which the Company's subsidiaries operate have similar laws and regulations enacted pursuant to SMCRA which regulate surface and deep mining and that impose, among other requirements, reclamation and environmental requirements and standards.

The federal Clean Water Act affects coal mining operations in two principal ways. First, the U.S. Army Corps of Engineers (the "Corps") issues permits under Section 404 of the Clean Water Act whenever a mine operator proposes to build a fill or impoundment in waters of the United States. In addition, the Environmental Protection Agency (the "EPA") must approve the issuance by a state agency of National Pollutant Discharge Elimination System ("NPDES") permits under Section 402 of the Clean Water Act. These permits encompass storm water discharges from a mine facility. Regular monitoring and compliance with reporting requirements and performance standards are preconditions for the issuance and renewal of NPDES permits governing the discharge of pollutants into waters. All states in which the Company's subsidiaries operate also have laws restricting discharge of pollutants into the waters of those states.

The federal Resource Conservation and Recovery Act ("RCRA") and the federal regulations thereunder exclude from the definition of hazardous waste all coal extraction, beneficiation and processing wastes. Additionally, other coal mining wastes which are subject to a SMCRA permit are exempt from RCRA permits and standards. Each of the states in which the Company's subsidiaries are currently engaged in mining similarly exempt coal mining waste from their respective state hazardous waste laws and regulations. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act, affects coal mining operations by subjecting them to liability for the remediation of releases of hazardous substances (other than waste excluded from federal and state regulation, as noted above) that may endanger public health or welfare or the environment.

The federal Clean Air Act, as amended in 1990, imposes numerous requirements on various categories of emission sources, and West Virginia state air regulations impose permitting obligations and performance standards on certain coal preparation plants and coal handling facilities, such as crushers and screens.

Certain Health and Safety Legislation. The federal Mine Safety and Health Act of 1977 imposes health and safety standards on all mining operations. Regulations are comprehensive and affect numerous aspects of mining operations, including training of mine personnel, mining procedures, blasting, and the equipment used in mining operations. The Black Lung Benefits Reform Act of 1977 generally requires each coal mine operator to secure payment of federal and state black lung benefits to its employees through insurance, bonds or contributions to a state-controlled fund. The Black Lung Benefits Reform Act of 1977 also provides for the payment from a trust fund of benefits and medical expenses to employees for whom no benefits have been obtainable from their employer. This trust is financed by a tax on coal sales.

The Coal Industry Retiree Health Benefit Act of 1992 ("Benefit Act") addressed two under-funded trust funds which were created to provide medical benefits for certain United Mine Workers Association ("UMWA") retirees. The Benefit Act provides for the funding of medical and death benefits for certain retired members of the UMWA through premiums to be paid by assigned operators (former employers), transfers of monies in 1993 and 1994 from an overfunded pension trust established for the benefit of retired UMWA members, and transfers that commenced in 1995 from the Abandoned Mine Lands Fund (funded by a federal tax on coal production).

Compliance with Regulatory Requirements and Existing Environmental Liability. The Company's operating subsidiaries endeavor to conduct their operations in compliance with all applicable federal, state, and local laws and regulations. However, because of the extensive and comprehensive regulatory requirements, violations during mining operations are not unusual in the industry. From time to time the Company and its subsidiaries are party to civil and administrative proceedings as a result of alleged failures to comply with mandatory federal or state health and safety regulations. See "Part 1. Item 3. Legal Proceedings."

Employees

As of January 31, 2000, the Company and its subsidiaries (including Canyon Fuel) employed a total of 3,764 persons (including 19 part-time employees), 623 of whom were represented by the UMWA under a collective bargaining agreement that expires in 2002.

EXECUTIVE OFFICERS

The following is a list of the Company's executive officers, their ages and their positions and offices held with the Company during the last five years.

Bradley M. Allbritten, 42, is Vice President--Human Resources of the Company and has served in such capacity since March 1, 2000. Mr. Allbritten served as the Company's Director of Human Resources from February 1999 through February 2000.

C. Henry Besten, Jr., 51, is Vice President--Strategic Marketing of the Company and President of the Company's Arch Energy Resources, Inc. subsidiary and has served in such capacities since July 1997. Mr. Besten is also serving as Chief Financial Officer of the Company, on an interim basis, until the Company names a permanent Chief Financial Officer. During the past five years, Mr. Besten has also served as Senior Vice President--Marketing for Ashland Coal, Inc., ("Ashland Coal"), which merged with a subsidiary of the Company in July 1997.

John W. Eaves, 42, is Senior Vice President--Marketing of the Company and President of the Company's Arch Coal Sales Company, Inc. and has served in such capacities from March 1, 2000 and September 1995, respectively. Mr. Eaves served as Vice President--Marketing of the Company from July 1997 through February 2000.

Robert G. Jones, 43, is Vice President--Law & General Counsel of the Company and has served in such capacity since March 1, 2000. Mr. Jones served the Company as Assistant General Counsel from July 1997 through February 2000 and as Senior Counsel from August 1993 to July 1997.

Steven F. Leer, 47, is President and Chief Executive Officer of the Company and has served in such capacity since 1992.

Terry L. O'Connor, 54, is Vice President--External Affairs of the Company and has served in such capacity since June 1998.

David B. Peugh, 45, is Vice President--Business Development of the Company and has served in such capacity since 1993.

Robert W. Shanks, 46, is Vice President--Operations of the Company and has served in such capacity since July 1997. During the past five years, Mr. Shanks has also served as President of the Company's Apogee Coal Company subsidiary.

Kenneth G. Woodring, 50, is Executive Vice President--Mining Operations of the Company and has served in such capacity since July 1997. During the past five years, Mr. Woodring has also served as Senior Vice President--Operations of Ashland Coal.

ITEM 2. PROPERTIES

Arch Coal and its operating subsidiaries (other than Canyon Fuel, the results of operations of which are accounted for using the equity method) sold 111.2 million tons of coal in the twelve months ended December 31, 1999, as compared to 81.1 and 40.5 million tons sold in the twelve months ended December 31, 1998 and 1997, respectively. The growth in tons sold is due to the Ashland Coal, Inc. merger which was effective July 1, 1997 and the Arch Western transaction which was effective June 1, 1998. Of the total tonnage sold in the twelve months ended December 31, 1999, approximately 82% was sold under long-term contracts, as compared to 76% and 72% for the twelve months ended December 31, 1998 and 1997, respectively, with the balance being sold on the spot market. In the twelve months ended December 31, 1999, Arch Coal and its operating subsidiaries (excluding Canyon Fuel) sold 3.5 million tons of coal in the export market, compared to 3.7 and 1.9 million tons in the twelve months ended December 31, 1998 and 1997, respectively.

The Company estimates that as of December 31, 1999 it owned or controlled measured (proven) and indicated (probable) coal reserves of approximately 3.5 billion tons, as set forth in the following table. Reserve estimates are prepared by the Company's engineers and geologists and are reviewed and updated periodically. Total reserve estimates will change from time to time reflecting mining activities, analysis of new engineering and geological data, changes in reserve holdings and other factors. Anticipated losses from extraction and, where applicable, washing of the coal have been eliminated from the estimate. The Company believes that a majority of these reserves are comprised of low-sulfur coal, and a substantial portion of such low-sulfur coal is so-called "compliance coal." Compliance coal emits 1.2 pounds or less of sulfur dioxide per million Btu upon combustion without the aid of sulfur reduction technology, and is referred to as such because combustion of such coal results in sulfur emissions within the parameters required by the Clean Air Act.

Recoverable Coal:

	Measured	Indicated	Total
	(thousands of tons)		
Wyoming	1,430.6	24.3	1,454.9
Central Appalachia	913.7	418.0	1,331.7
Illinois	218.2	80.8	299.0
Utah*	159.4	73.3	232.7
Colorado	118.0	23.2	141.2
Total	2,839.9	619.6	3,459.5

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* Represents 100% of the reserves held by Canyon Fuel

The Company's coal properties are either owned outright or controlled by lease. As of December 31, 1999, the Company's subsidiaries owned, or controlled primarily through long-term leases, approximately 106,000, 57,000 and 15,000 acres of coal lands in Wyoming, Utah and Colorado, respectively; 273,000, 101,000 and 10,000 acres of coal lands in West Virginia, Eastern Kentucky, and Virginia, respectively; and 102,000 acres of coal lands in the Illinois Basin.

Approximately 92,201 acres of the Company's 664,000 acres of coal land (which totals include 100% of the acreage held by Canyon Fuel) are leased from the federal government with terms expiring between 1999 and 2018, subject to readjustment and/or extension and to earlier termination for failure to meet diligent development requirements. Additionally, private term leases covering principal reserves under the Company's current mining plans are not scheduled to expire prior to expiration of projected mining activities. The Company's subsidiaries also control through ownership or long-term leases approximately 5,880 acres of land which are used either for its coal processing facilities or are being held for possible future development. Royalties are paid to lessors either as a fixed price per ton or as a percentage of the gross sales price of the mined coal. The majority of the significant leases are on a percentage royalty basis. The terms of most of these leases extend until the exhaustion of mineable and merchantable coal. The remaining leases have primary terms ranging from one to 40 years from the date of their execution, with most containing options to renew. In certain cases, a lease bonus (prepaid royalty) is required, payable either at the time of execution of the lease or in annual installments following such execution. In most cases, the prepaid royalty amount is applied to reduce future production royalties. Mining plans are not necessarily indicative of the life of the mine. The extent to which reserves will eventually be mined depends upon a variety of factors, including future economic conditions and governmental actions affecting both the mining and marketability of coal.

The Pine Creek, Black Bear, Campbells Creek, Samples, Ruffner and Holden 25/Ragland preparation plants and related loadout facilities are located on properties held under leases which expire at varying dates over the next thirty years with either optional 20-year extensions or with unlimited extensions, and the balance of the Company's preparation plants and loadout facilities are located on property owned by the Company.

All of the identified coal reserves held by the Company's subsidiaries have been subject to preliminary coal seam analysis to test sulfur content. Of these reserves, approximately 69% consist of compliance coal while an additional 21% could be sold as low-sulfur coal. The balance is classified as high-sulfur coal. Some of the Company's low-sulfur coal can be marketed as compliance coal when blended with other compliance coal. Accordingly, most of the Company's reserves are primarily suitable for the domestic steam coal markets. However, a substantial portion of the low-sulfur and compliance coal reserves at the Mingo Logan operations may also be used as a high-volatile, low-sulfur, metallurgical coal.

Title to coal properties held by lessors or grantors to the Company and its subsidiaries and the boundaries of properties are normally verified at the time of leasing or acquisition. However, in cases involving less significant properties and consistent with industry practices, title and boundaries are not completely verified until such time as the Company's independent operating subsidiaries prepare to mine such reserves. If defects in title or boundaries of undeveloped reserves are discovered in the future, control of and the right to mine such reserves could be adversely affected.

From time to time, lessors or sublessors of land leased by the Company's subsidiaries have sought to terminate such leases on the basis that such subsidiaries have failed to comply with the financial terms of the leases or that the mining and related operations conducted by such subsidiaries are not authorized by the leases. Some of these allegations relate to leases upon which the Company conducts operations material to the Company's consolidated financial position, results of operations and liquidity, but the Company does not believe any pending claims by such lessors or sublessors have merit or will result in the termination of any material lease or sublease.

The carrying cost of the Company's coal reserves at December 31, 1999 (which does not include the Company's 65% share of Canyon Fuel) was $916.6 million, consisting of $1.3 million of prepaid royalties included in current assets and $915.3 million net book value of coal lands and mineral rights.

The Company's executive headquarters occupy approximately 50,000 square feet of leased space at CityPlace One, St. Louis, Missouri. See "Item 1. Business" incorporated by reference herein for a further description of the Company's subsidiaries' mining complexes, mines, transportation facilities and other operations. The Company's subsidiaries currently own or lease the equipment that is utilized in their mining operations.

ITEM 3. LEGAL PROCEEDINGS

Dal-Tex Litigation. On July 16, 1998, ten individuals and The West Virginia Highlands Conservancy filed suit in U.S. District Court for the Southern District of West Virginia against the director of the West Virginia DEP and officials of the Corps alleging violations of SMCRA and the Clean Water Act. The plaintiffs alleged that the West Virginia DEP and the Corps have violated their duties under SMCRA and the Clean Water Act by authorizing the construction of "valley fills" under certain surface coal mining permits. These fills are the large, engineered works into which the excess earth and rock extracted above and between the seams of coal that are removed during surface mining are placed. The plaintiffs also alleged that the West Virginia DEP has failed to require (i) that lands mined are restored to "approximate original contour" and (ii) that approved post-mining land uses are enforced following reclamation.

Four indirect, wholly owned subsidiaries of the Company hold nine permits that were identified in the complaint as violating the legal standards that the plaintiffs requested the district court interpret. In addition, a pending permit application for the Company's Dal-Tex operation (known as the "Spruce Fork Permit") was specifically identified as a permit the issuance of which should be enjoined. Three subsidiaries of the Company intervened in the lawsuit in support of the Corps and the West Virginia DEP on August 6, 1998.

A partial settlement between the plaintiffs and the Corps was reached on December 23, 1998. Pursuant to that settlement, all claims were dismissed against the Corps for its alleged failure to execute its duties under the Clean Water Act. The settlement agreement reached between the Corps and the plaintiffs requires the preparation of a programmatic environmental impact statement (an "EIS") under the National Environmental Policy Act of 1969 ("NEPA") to evaluate the environmental effects of mountaintop mining. This EIS is scheduled to be completed by January 2001. Until it is completed, any proposed fill greater than 250 acres in size must secure an individual Clean Water Act Section 404 "dredge and fill" permit, instead of a general permit like the one the Corps indicated it would issue for the Dal-Tex operation under its nationwide authorization program. The Spruce Fork Permit was not included in the settlement, and the claims against the Corps with respect to that permit were not dismissed.

On March 3, 1999, the district court issued a preliminary injunction which prohibited the Corps from issuing a general Clean Water Act Section 404 dredge and fill permit for the Dal-Tex operation and enjoined the Company from future operations on the permit until a full trial on the merits could be held. As a result of the entry of the preliminary injunction, the Company idled the Dal-Tex mine on July 23, 1999.

On July 26, 1999, the plaintiffs and the West Virginia DEP tendered to the district court a proposed consent decree which would resolve most of the remaining issues in the case. Pursuant to the proposed consent decree, the West Virginia DEP agreed in principal to amend its regulations and procedures to correct alleged deficiencies. In addition, the parties agreed in principal on a new definition of approximate original contour as it applies to mountaintop mining, as well as to certain regulatory changes involving post-mining land uses. After inviting public comment of the proposed consent decree, the court entered the consent decree in a final order on February 17, 2000.

The Company's Hobet Mining subsidiary agreed as part of the consent decree to revise portions of its Spruce Fork Permit application to conform to the new definition of approximate original contour to be adopted by the West Virginia DEP. Hobet Mining also agreed to seek an individual Clean Water Act Section 404 dredge and fill permit from the Corps as part of its future mining operation. Before issuing that permit, the Corps must first complete an EIS to comply with the provisions of NEPA. The completion of this EIS and issuance of all permits are not expected until mid-2001 at the earliest.

The plaintiffs' allegation that the West Virginia DEP violated its duties under the Clean Water Act by authorizing the construction of valley fills under certain coal mining permits was not resolved by the consent decree. On October 20, 1999, the district court entered a permanent injunction against the West Virginia DEP prohibiting the issuance of any new permits that authorize the construction of valley fills as part of mining operations. The court concluded that the excess earth and rock that is placed in a valley fill during mining is not fill material, but rather is waste, which may not be placed in intermittent and perennial streams because the disposal of such material cannot meet applicable water quality standards.

The West Virginia DEP immediately complied with the district court's injunction by issuing an administrative order banning the expansion of nearly all existing valley fills as well as prohibiting the issuance of nearly all new permits for valley fills. The West Virginia DEP also filed an appeal of the district court's decision with the U.S. Court of Appeals for the Fourth Circuit. On October 29, 1999, the district court granted a stay of its decision, pending the outcome of the appeal. The West Virginia DEP rescinded its administrative order on November 1, 1999 in response to the district court's action.

It is impossible to predict the outcome of the West Virginia DEP's appeal. If, however, the district court's decision is upheld, the Company and other coal producers may be forced to close all or a portion of their mining operations in West Virginia because of the prohibition on constructing valley fills for their existing and future mines. Regardless of the outcome of the appeal, the Company determined that significant changes were necessary in the manner and extent in which certain central Appalachia coal assets would be deployed.

Cumulative Hydrologic Impact Assessment ("CHIA") Litigation. On January 20, 2000, two environmental organizations, the Ohio Valley Environmental Coalition and the Hominy Creek Watershed Association, filed suit against the West Virginia DEP in U.S. District Court in Huntington, West Virginia. In addition to allegations that the West Virginia DEP violated state law and provisions of the Clean Water Act, the plaintiffs allege that the West Virginia DEP's issuance of permits for surface and underground coal mining has violated certain non-discretionary duties mandated by SMCRA. Specifically, the plaintiffs allege that the West Virginia DEP has failed to require coal operators seeking permits (i) to conduct water monitoring to verify stream flows and ascertain water quality, (ii) to always include certain water quality information in their permit applications and (iii) to analyze the probable hydrologic consequences of their operations. The plaintiffs also allege that the West Virginia DEP has failed to analyze the cumulative hydrologic impacts of mining operations on specific watersheds.

The plaintiffs seek an injunction to prohibit the West Virginia DEP from issuing any new permits which fail to comply with all of the elements identified in their complaint. The complaint identifies, and seeks to enjoin, three pending permits that are sought by the Company's Mingo Logan subsidiary to continue existing surface mining operations at the Phoenix reserve. If the permits are not issued, it is possible that those operations will have to be suspended by the subsidiary early in 2001. On February 17, 2000, the West Virginia DEP filed a motion to dismiss all claims in the lawsuit. Depending upon the disposition of the motion, the Mingo Logan subsidiary may choose to intervene in the matter.

It is impossible to predict whether this litigation will result in a suspension of the affected surface mining operations. If, however, the operations are suspended, the Company's financial condition and results of operations could be adversely affected and, depending upon the length of the suspension, the effect could be material.

Lone Mountain Litigation. On October 24, 1996, the rock strata overlaying an abandoned underground mine adjacent to the coal-refuse impoundment used by the Lone Mountain preparation plant failed, resulting in the discharge of approximately 6.3 million gallons of water and fine coal slurry into a tributary of the Powell River in Lee County, Virginia.

The U.S. Department of the Interior has notified the Company that it intends to file a civil action under the Clean Water Act and the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") to recover the natural resource damages suffered as a result of the discharge. The Interior Department alleges that fresh water mussels listed on the federal Endangered Species List that reside in the Powell River were affected as a consequence of the discharge. The Company and the Interior Department have reached an agreement in principal to settle this matter, which would require a payment of $2.5 million by the Company. The settlement is subject to the Company and the Interior Department entering into a definitive agreement. The Company's consolidated balance sheet as of December 31, 1999 reflects a reserve for the full amount of this settlement.

Skyline Partners Litigation. In February 2000, Canyon Fuel and Skyline Partners entered into a definitive settlement agreement to settle the litigation between them. The settlement included a $7.2 million payment by Canyon Fuel to Skyline Partners representing disputed amounts of advance minimum royalties, interest, reimbursement of legal fees, a grant of an overriding royalty interest to Skyline Partners covering land adjacent to the Skyline Mine reserves and a reduction in the total amount of advance minimum royalties available for recoupment by Canyon Fuel.

Other Litigation. On October 31, 1997, the EPA notified a Company subsidiary that it was a potentially responsible party in the investigation and remediation of two hazardous waste sites located in Kansas City, Kansas, and Kansas City, Missouri. The Company's involvement arises from the subsidiary's sale, in the mid-1980s, of fluids containing small quantities of polychlorinated biphenyls ("PCBs") to a company authorized to engage in the processing and disposal of these wastes. Some of these waste materials were sent to one of the sites for final disposal. The Company responded to the information request submitted by the EPA on December 1, 1997. Any liability which might be asserted by the EPA against the Company is not believed to be material because of the de minimis quantity and concentration of PCBs linked to the Company. Moreover, the party with which the subsidiary contracted to dispose of the waste material has agreed to indemnify the Company for any costs associated with this action.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders of the Company through the solicitation of proxies or otherwise during the fourth quarter of 1999.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information required by this Item is contained in the Company's 1999 Annual Report to Stockholders under the caption "Stockholder Information" and is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this Item is contained in the Company's 1999 Annual Report to Stockholders under the caption "Selected Financial Information" and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this Item is contained in the Company's 1999 Annual Report to Stockholders under the caption "Management's Discussion and Analysis," and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this Item is contained in the Company's 1999 Annual Report to Stockholders under the caption "Management's Discussion and Analysis," and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reference is made to Part IV, Item 14 of this Annual Report for the information required by Item 8.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

There is hereby incorporated by reference into this Annual Report on Form 10-K the information appearing under the subcaption "Nominees for Director" which appears under the caption "Election of Directors" in the Company's Proxy Statement to be distributed to Company stockholders in connection with the Company's 2000 Annual Meeting (the "2000 Proxy Statement"). See also the list of the Company's executive officers and related information under "Executive Officers" in Part I, Item 1. herein.

ITEM 11. EXECUTIVE COMPENSATION

There is hereby incorporated by reference into this Annual Report on Form 10-K the information appearing in the "Summary Compensation Table", the "Option Grants in Last Fiscal Year" table, the "Aggregated Option Exercise in Last Fiscal Year and Fiscal Year-End Option Values" table, the Pension Plan section (including the table therein), the Employment and Retention Agreements section, the Compensation of Directors section, and the Compensation Committee Interlocks and Insider Participation section in the Company's 2000 Proxy Statement. No portion of the Personnel and Compensation Committee Report on Executive Compensation for 1999 or the Arch Coal Performance Graph is incorporated herein in reliance on Regulation S-K, Item 402(a)(8).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

There is hereby incorporated by reference into this Annual Report on Form 10-K the information appearing under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Company's 2000 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There is hereby incorporated by reference into this Annual Report on Form 10-K the information appearing under the caption "Certain Relationships and Related Transactions" in the Company's 2000 Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) The following consolidated financial statements of Arch Coal, Inc. and subsidiaries included in the Company's 1999 Annual Report to Stockholders are incorporated by reference:

Consolidated Statements of Operations--Years Ended December 31, 1999, 1998 and 1997

Consolidated Balance Sheets--December 31, 1999 and 1998

Consolidated Statements of Stockholders' Equity--Years Ended December 31, 1999, 1998 and 1997

Consolidated Statements of Cash Flows--Years Ended December 31, 1999, 1998 and 1997

Notes to Consolidated Financial Statements

The following financial statements of Canyon Fuel Company, LLC are incorporated by reference to Exhibit 99 to this Annual Report on Form 10-K:

Statements of Income--Years Ended December 31, 1999 and 1998 and the period from December 20, 1996 (inception) through December 31, 1997

Balance Sheets--December 31, 1999 and 1998

Statements of Members' Equity--Years Ended December 31, 1999 and 1998 and the period from December 20, 1996 (inception) through December 31, 1997

Statements of Cash Flows--Years Ended December 31, 1999 and 1998 and the period from December 20, 1996 (inception) through December 31, 1997

Notes to Financial Statements

(a)(2) The following consolidated financial statement schedule of Arch Coal, Inc. and subsidiaries is included in Item 14 at the page indicated:

II--Valuation and Qualifying Accounts at page 25.

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

(a)(3) Exhibits filed as part of this Report are as follows:

2.1	Purchase and Sale Agreement dated as of March 22, 1998 among Atlantic Richfield Company, ARCO Uinta Coal Company, Arch Coal, Inc. and Arch Western Acquisition Corporation (incorporated herein by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed June 15, 1998)
2.2	Contribution Agreement among Arch Coal, Inc., Arch Western Acquisition Corporation, Atlantic Richfield Company, Delta Housing, Inc. and Arch Western Resources LLC, dated as of March 22, 1998 (incorporated herein by reference to Exhibit 2.2 of the Company's Current Report on Form 8-K filed June 15, 1998)
3.1	Restated Certificate of Incorporation of Arch Coal, Inc. (incorporated herein by reference to Exhibit 3.2 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)
3.2	Restated and Amended Bylaws of Arch Coal, Inc. (incorporated herein by reference to Exhibit 3.4 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)
4.1	Stockholders Agreement, dated as of April 4, 1997, among Carboex International, Ltd., Ashland Inc. and Arch Coal, Inc. (formerly Arch Mineral Corporation) (incorporated herein by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)
4.2	Assignment of Rights, Obligations and Liabilities under the Stockholders Agreement between Carboex International, Limited and Carboex, S.A. effective as of October 15, 1998 (incorporated herein by reference to Exhibit 4.2 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)
4.3	Registration Rights Agreement, dated as of April 4, 1997, among Arch Coal, Inc. (formerly Arch Mineral Corporation), Ashland Inc., Carboex International, Ltd. and the entities listed on Schedules I and II thereto (incorporated herein by reference to Exhibit 4.2 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)
4.4	Assignment of Registration Rights between Carboex International, Limited and Carboex, S.A. effective as of October 15, 1998 (incorporated herein by reference to Exhibit 4.4 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)
4.5	Agreement Relating to Nonvoting Observer, executed as of April 4, 1997, among Carboex International, Ltd., Ashland Inc., Ashland Coal, Inc. and Arch Coal, Inc. (formerly Arch Mineral Corporation) (incorporated herein by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)
4.6	Assignment of Right to Maintain a Non-Voting Observer at Meetings of the Board of Directors of Arch Coal, Inc. between Carboex International, Limited and Carboex, S.A. effective as of October 15, 1998 (incorporated herein by reference to Exhibit 4.6 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)
4.7	Agreement for Termination of the Arch Mineral Corporation Voting Agreement and for Nomination of Directors, dated as of April 4, 1997, among Hunt Coal Corporation, Petro-Hunt, L.L.C., each of the trusts listed on Schedule I thereto, Ashland Inc. and Arch Mineral Corporation (incorporated herein by reference to Exhibit 4.4 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)

4.8	$600,000,000 Revolving Credit Facility, $300,000,000 Term Loan Credit Agreement by and among Arch Coal, Inc., the Lenders party thereto, PNC Bank, National Association, as Administrative Agent, Morgan Guaranty Trust Company of New York, as Syndication Agent, and First Union National Bank, as Documentation Agent, dated as of June 1, 1998 (incorporated herein by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed June 15, 1998)
4.9	Amendment 1 to Credit Agreement by and among Arch Coal, Inc., the Lenders party thereto, PNC Bank, National Association, as Administrative Agent, Morgan Guaranty Trust Company of New York, as Syndication Agent, and First Union National Bank, as Documentation Agent, dated as of January 21, 2000 (filed herewith)
4.10	$675,000,000 Term Loan Credit Agreement by and among Arch Western Resources LLC, the Banks party thereto, PNC Bank, National Association, as Administrative Agent, Morgan Guaranty Trust Company of New York, as Syndication Agent, and NationsBank N.A., as Documentation Agent dated as of June 1, 1998 (incorporated herein by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed June 15, 1998)
4.11	Omnibus Amendment Agreement dated as of June 1, 1998 in respect to Arch Coal Trust no. 1998-1, Parent Guaranty and Suretyship Agreement, Lease Intended as Security, Subsidiary Guaranty and Suretyship Agreement, each dated as of January 15, 1998, among Apogee Coal Company, Catenary Coal Company, Hobet Mining, Inc., Arch Coal, Inc., Great-West Life & Annuity Insurance Company, Bank of Montreal, Barclays Bank, PLC, First Union National Bank, BA Leasing and Capital Corporation, First Security Bank, National Association, Arch Coal Sales Company, Inc., Ark Land Company and Mingo Logan Coal Company (incorporated herein by reference to Exhibit 4.3 of the Company's Current Report on Form 8-K filed June 15, 1998)
4.12	Lease Intended as Security dated as of January 15, 1998, among Apogee Coal Company, Catenary Coal Company and Hobet Mining, Inc., as Lessees; The First Security Bank, National Association, as Lessor, and the Certificate Purchasers named therein. (incorporated herein by reference to Exhibit 4.5 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1997)
4.13	Form of Rights Agreement, dated March 3, 2000, between Arch Coal, Inc. and First Chicago Trust Company of New York, as Rights Agent (incorporated herein by reference to Exhibit 1 to a current report on Form 8-A filed on March 9, 2000)
10.1	Coal Off-Take Agreement, executed as of April 4, 1997, among Arch Coal, Inc. (formerly Arch Mineral Corporation), Carboex International, Ltd. and Ashland Inc. (incorporated herein by reference to Exhibit 10.1 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)
10.2	Sales Agency Agreement, executed as of April 4, 1997, among Arch Coal, Inc. (formerly Arch Mineral Corporation), Ashland Inc. and Carboex S.A. (incorporated herein by reference to Exhibit 10.2 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)
10.3	Assignment, Assumption and Amendment of Coal Sales Agency Agreement, executed as of April 4, 1997, among Arch Coal, Inc. (formerly Arch Mineral Corporation), Ashland Coal, Inc., Saarbergwerke AG and Carboex International, Ltd. (incorporated herein by reference to Exhibit 10.3 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)

10.4 Shareholder Services Contract, executed as of April 4, 1997, among Arch Coal, Inc. (formerly Arch Mineral Corporation), Ashland Coal, Inc., Carboex International, Ltd. and Ashland Inc. (incorporated herein by reference to Exhibit 10.4 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)

10.5 Deed of Lease and Agreement between Dingess-Rum Coal Company and Amherst Coal Company (predecessor to Ark Land Company), dated June 1, 1962, as supplemented January 1, 1968, June 1, 1973, July 1, 1974, November 12, 1987, Lease Exchange Agreement dated July 2, 1979 amended as of January 1, 1984 and January 7, 1993; February 24, 1993; Partial Release dated as of May 6, 1988; Assignments dated March 15, 1990, October 5, 1990 (incorporated herein by reference to Exhibit 10.8 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)

10.6 Agreement of Lease by and between Shonk Land Company, Limited Partnership and Lawson Hamilton (predecessor to Ark Land Company), dated February 8, 1983, as amended October 7, 1987, March 9, 1989, April 1, 1992, October 31, 1992, December 5, 1992, February 16, 1993, August 4, 1994, October 1, 1995, July 31, 1996 and November 27, 1996 (incorporated herein by reference to Exhibit 10.9 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)

10.7 Lease between Little Coal Land Company and Ashland Land & Development Co., a wholly-owned subsidiary of Ashland Coal, Inc. which was merged into Allegheny Land Company, a second tier subsidiary of the Company (incorporated herein by reference to Exhibit 10.11 of a Post-Effective Amendment No. 1 to a Registration Statement on Form S-1 (Registration No. 33-22425), as amended, filed by Ashland Coal, Inc., a subsidiary of the Company, on August 11, 1988)

10.8 Agreement of Lease dated January 1, 1988, between Courtney Company and Allegheny Land Company (legal successor by merger with Allegheny Land Co. No. 2, the assignee of Primeacre Land Corporation under October 5, 1992, assignments), a second-tier subsidiary of the Company (incorporated herein by reference to Exhibit 10.3 to the Annual Report on Form 10-K for the Year Ended December 31, 1995, filed by Ashland Coal, Inc., a subsidiary of the Company)

10.9 Lease between Dickinson Properties, Inc., the Southern Land Company, and F. B. Nutter, Jr. and F. B. Nutter, Sr., predecessors in interest to Hobet Mining & Construction Co., Inc., an independent operating subsidiary of the Company that subsequently changed its name to Hobet Mining, Inc. (incorporated herein by reference to Exhibit 10.14 of a Post-Effective Amendment No. 1 to a Registration Statement on Form S-1 (Registration No. 33-22425), as amended, filed by Ashland Coal, Inc., a subsidiary of the Company, on August 11, 1988)

10.10 Lease Agreement between Fielden B. Nutter, Dorothy Nutter and Hobet Mining & Construction Co., Inc., an independent operating subsidiary of the Company that subsequently changed its name to Hobet Mining, Inc. (incorporated herein by reference to Exhibit 10.22 of a Post-Effective Amendment No. 1 to a Registration Statement on Form S-1 (Registration No. 33-22425), as amended, filed by Ashland Coal, Inc., a subsidiary of the Company, on August 11, 1988) 10.11 Lease and Modification Agreement between Horse Creek Coal Land Company, Ashland and Hobet Mining & Construction Co., Inc., an independent operating subsidiary of the Company that subsequently changed its name to Hobet Mining, Inc. (incorporated herein by reference to Exhibit 10.24 of a Post-Effective Amendment No. 1 to a Registration Statement on Form S-1 (Registration No. 33-22425), as amended, filed by Ashland Coal, Inc., a subsidiary of the Company, on August 11, 1988)

10.12 Lease Agreement between C. C. Lewis Heirs Limited Partnership and Allegheny Land Company, a second-tier subsidiary of the Company (incorporated herein by reference to Exhibit 10.25 of a Post-Effective Amendment No. 1 to a Registration Statement on Form S-1 (Registration No. 33-22425), as amended, filed by Ashland Coal, Inc., a subsidiary of the Company, on August 11, 1988) 10.13 Sublease between F. B. Nutter, Sr., et al., and Hobet Mining & Construction Co., Inc., an independent operating subsidiary of the Company that subsequently changed its name to Hobet Mining, Inc. (incorporated herein by reference to Exhibit 10.27 of a Post-Effective Amendment No. 1 to a Registration Statement on Form S-1 (Registration No. 33-22425), as amended, filed by Ashland Coal, Inc., a subsidiary of the Company, on August 11, 1988)

10.14 Coal Lease Agreement dated as of March 31, 1992, among Hobet Mining, Inc. (successor by merger with Dal-Tex Coal Corporation) as lessee and UAC and Phoenix Coal Corporation, as lessors, and related Company Guarantee (incorporated herein by reference to a Current Report on Form 8-K dated April 6, 1992 filed by Ashland Coal, Inc., a subsidiary of the Company)

10.15 Lease dated as of October 1, 1987, between Pocahontas Land Corporation and Mingo Logan Collieries Company whose name is now Mingo Logan Coal Company (incorporated herein by reference to Exhibit 10.3 to Amendment No. 1 to a Current Report on Form 8-K filed on February 14, 1990 by Ashland Coal, Inc., a subsidiary of the Company)

10.16 Consent, Assignment of Lease and Guaranty dated January 24, 1990, among Pocahontas Land Corporation, Mingo Logan Coal Company, Mountain Gem Land, Inc. and Ashland Coal, Inc. (incorporated herein by reference to Exhibit 10.4 to Amendment No. 1 to a Current Report on Form 8-K filed on February 14, 1990 by Ashland Coal, Inc., a subsidiary of the Company)

10.17 Federal Coal Lease dated as of June 24, 1993 between the United States Department of the Interior and Southern Utah Fuel Company (incorporated herein by reference to Exhibit 10.17 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)

10.18 Federal Coal Lease between the United States Department of the Interior and Utah Fuel Company (incorporated herein by reference to Exhibit 10.18 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)

10.19 Federal Coal Lease dated as of July 19, 1997 between the United States Department of the Interior and Canyon Fuel Company, LLC (incorporated herein by reference to Exhibit 10.19 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)

10.20 Federal Coal Lease dated as of January 24, 1996 between the United States Department of the Interior and the Thunder Basin Coal Company (incorporated herein by reference to Exhibit 10.20 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)

10.21 Federal Coal Lease Readjustment dated as of November 1, 1967 between the United States Department of the Interior and the Thunder Basin Coal Company (incorporated herein by reference to Exhibit 10.21 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)

10.22 Federal Coal Lease effective as of May 1, 1995 between the United States Department of the Interior and Mountain Coal Company (incorporated herein by reference to Exhibit 10.22 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)

10.23	Federal Coal Lease dated as of January 1, 1999 between the Department of the Interior and Ark Land Company (incorporated herein by reference to Exhibit 10.23 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)
10.24	Federal Coal Lease dated as of October 1, 1999 between the United States Department of the Interior and Canyon Fuel Company, LLC (incorporated herein by reference to Exhibit 10 of the Company's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 1999)
10.25	Employment Agreement between Arch Mineral Corporation and Steven F. Leer, dated March 1, 1992 (incorporated herein by reference to Exhibit 10.12 to the Company's Registration Rights Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)
10.26	Form of Indemnity Agreement between Arch Coal, Inc. and Indemnitee (as defined therein) (incorporated herein by reference to Exhibit 10.15 of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)
10.27	Arch Coal, Inc. 1998 Incentive Compensation Plan (incorporated herein by reference to Exhibit 10.22 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1997)
10.28	Arch Coal, Inc. (formerly Arch Mineral Corporation) Deferred Compensation Plan (incorporated herein by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-8 (Registration No. 333-68131) filed on December 1, 1998)
10.29	Arch Coal, Inc. 1997 Stock Incentive Plan (incorporated herein by reference to Annex E to Appendix A to the Proxy Statement/Prospectus forming part of the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)
10.30	Arch Mineral Corporation 1996 ERISA Forfeiture Plan (incorporated herein by reference to Exhibit 10.20 to the Company's Registration Statement on Form S-4 (Registration No. 333-28149) filed on May 30, 1997)
10.31	Arch Coal, Inc. Outside Directors' Deferred Compensation Plan effective January 1, 1999 (incorporated herein by reference to Exhibit 10.30 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)
10.32	Second Amendment to the Arch Mineral Corporation Supplemental Retirement Plan effective January 1, 1998 (incorporated herein by reference to Exhibit 10.31 of the Company's Annual Report on Form 10-K for the Year Ended December 31, 1998)
13	Portions of the Company's Annual Report to Stockholders for the year ended December 31, 1999 (filed herewith)
18	Preferability Letter of Ernst & Young LLP dated May 11, 1999 (incorporated herein by reference to Exhibit 18 of the Company's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1999)
21	Subsidiaries of the Company (filed herewith)
23.1	Consent of Ernst & Young LLP (filed herewith)
23.2	Consent of PricewaterhouseCoopers LLP (filed herewith)
24	Power of Attorney (filed herewith)
27	Financial Data Schedule (filed herewith)
99	Financial Statements of Canyon Fuel Company, LLC (filed herewith)

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*Exhibits 10.27, 10.28, 10.29, 10.30 and 10.32 are executive compensation plans.

**Upon written or oral request to the Company's Secretary, a copy of any of the above exhibits will be furnished at cost.

(b) Reports on Form 8-K

A report on Form 8-K dated October 7, 1999 (confirming (i) the Company's receipt of a proposal from Ashland Inc. that contemplates a tax-free spin-off of Ashland's interest in the Company and (ii) that a Special Committee of the Company's Board of Directors is in discussions with Ashland concerning such proposal) was filed by the Company in the quarter ended December 31, 1999.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Arch Coal, Inc.
(Registrant)

By: /s/ John W. Lorson
John W. Lorson
Controller (Chief Accounting Officer)

Date: March 16, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 16, 2000.

Signature	Capacity
/s/ Steven F. Leer Steven F. Leer	President and Chief Executive Officer and Director
/s/ John W. Lorson John W. Lorson	Controller (Chief Accounting Officer)
* Philip W. Block	Director
* James R. Boyd	Director
* Paul W. Chellgren	Director
Ignacio Dominguez Urquijo	Director
* Thomas L. Feazell	Director
* Robert L. Hintz	Director
* Douglas H. Hunt	Director
* James L. Parker	Director

Signature	Capacity
* ______________________________ A. Michael Perry	Director
* ______________________________ J. Marvin Quin	Director
* ______________________________ Theodore D. Sands	Director

Robert G. Jones
*By: ______________________________
Robert G. Jones
As Attorney-in-fact

ORIGINAL POWERS OF ATTORNEY AUTHORIZING STEVEN F. LEER AND ROBERT G. JONES, AND EACH OF THEM, TO SIGN THIS ANNUAL REPORT ON FORM 10-K AND AMENDMENTS THERETO ON BEHALF OF THE ABOVE-NAMED PERSONS HAVE BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION AS EXHIBIT 24 TO THIS REPORT.

ARCH COAL, INC. AND SUBSIDIARIES

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

(In thousands)

Description	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions(/1/)	Other(/2/)	Balance at End of Year
Year Ended December 31, 1999					
Reserves Deducted from Asset Accounts					
Property, Plant, and Equipment..........	$ --	$ --	$ --	$ --	$ --
Other Assets--Other Notes and Accounts Receivable.........	582	325	366	--	541
Current Assets--Supplies Inventory.	23,901	5,966	6,325	--	23,542
Year Ended December 31, 1998					
Reserves Deducted from Asset Accounts					
Property, Plant, and Equipment..........	$ --	$ --	$ --	$ --	$ --
Other Assets--Other Notes and Accounts Receivable.........	471	306	195	--	582
Current Assets--Supplies Inventory.	17,681	2,292	5,999	9,927	23,901
Year Ended December 31, 1997					
Reserves Deducted from Asset Accounts					
Property, Plant, and Equipment..........	$ 100	$ --	$ 100	$ --	$ --
Other Assets--Other Notes and Accounts Receivable.........	410	61	--	--	471
Current Assets--Supplies Inventory.	11,313	1,218	282	5,432	17,681

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(/1/Reserves)utilized, unless otherwise indicated.
(/2/Balances)acquired in the Arch Western transaction and Ashland Coal merger.

EXHIBIT 4.9

AMENDMENT NO. 1 TO CREDIT AGREEMENT

This Amendment No. 1 to Credit Agreement (the "Amendment") is dated as of January 21, 2000 and is made by and among ARCH COAL, INC., a Delaware corporation (the "Borrower"), the LENDERS party to the Credit Agreement (as hereinafter defined), MORGAN GUARANTY TRUST COMPANY OF NEW YORK, in its capacity as Syndication Agent, FIRST UNION NATIONAL BANK, in its capacity as Documentation Agent and PNC BANK, NATIONAL ASSOCIATION, in its capacity as Administrative Agent (the Syndication Agent, Documentation Agent and Administrative Agent are hereinafter collectively referred to as the "Agents").

WHEREAS, the parties hereto are parties to that certain Credit Agreement dated as of June 1, 1998 (the "Credit Agreement"), pursuant to which the Lenders provided a $600,000,000 revolving credit facility and a $300,000,000 term loan facility to the Borrower (the outstanding amount of such term loan facility as of the date hereof being $135,000,000); and

WHEREAS, the Borrower, the Lenders and the Agents desire to amend the Credit Agreement as hereinafter provided.

NOW, THEREFORE, the parties hereto, in consideration of their mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, covenant and agree as follows:

1. Definitions.

Defined terms used herein unless otherwise defined herein shall have the meanings ascribed to them in the Credit Agreement, as amended by this Amendment.

2. Amendments to Credit Agreement.

(a) Section 1.1 [Certain Definitions] of the Credit Agreement is hereby amended by the addition of the following new definitions:

"Apogee Synthetic Lease shall mean the lease dated as of January 15, 1998 among Apogee Coal Company, Catenary Coal Company, Hobet Mining, Inc., collectively as Lessees, First Security Bank, National Association, as Lessor, and certain other Persons listed therein, as Certificate Purchasers, as amended by the Omnibus Amendment Agreement, dated as of June 1, 1998."

"Collateral shall mean the Pledged Collateral, the UCC Collateral, the Intellectual Property Collateral and the Real Property."

"Collateral Documents shall mean collectively, the Indemnity Agreements, the Mortgages, the Pledge Agreements, the Security Agreements, the Patent, Trademark and Copyright Assignments, the Intercreditor Agreements and each other agreement providing for a security interest in and/or lien on the Collateral."

"Environmental Complaint shall mean any written complaint by any Person or Official Body setting forth a cause of action for personal injury or property damage, natural resource damage, contribution or indemnity for response costs, civil or administrative penalties, criminal fines or penalties, or declaratory or equitable relief arising under any Environmental Laws or any order, notice of violation, citation, subpoena, request for information or other written notice or demand of any type issued by an Official Body pursuant to any Environmental Laws."

"Environmental Condition shall mean any conditions of the environment, including the workplace, the ocean, natural resources (including flora or fauna), soil, surface, water groundwater, any actual or potential drinking water supply sources, substrata or the ambient air, relating to or arising out of, or caused by, the use, handling, storage, treatment, recycling, generation, transportation, release, spilling, leaking, pumping, emptying, discharging, injecting, escaping, leaching, disposal, dumping, threatened release or other management or mismanagement of Regulated Substances resulting from the use of, or operations on, any owned or leased real property of the Borrower or any Subsidiary."

"First Amendment Effective Date shall mean January 21, 2000, which is the effective date of Amendment No. 1 to the Credit Agreement."

"Hobet Dragline Lease shall mean the lease dated as of March 1, 1983, between Kanawha Valley Bank, N.A., as Owner Trustee, Lessor, and Hobet Mining & Construction Co., Inc., as Lessee, as amended through the Sixth Amendment thereto, dated as of June 1, 1998."

"Indemnity Agreements shall mean collectively the Indemnity Agreements with respect to the Real Property subject to a Mortgage, in form and substance acceptable to the Administrative Agent, executed and delivered by each of the applicable Loan Parties to the Administrative Agent for the benefit of the Lenders, and Indemnity Agreement shall mean any of the Indemnity Agreements."

"Intellectual Property Collateral shall mean all of the property described in the Patent, Trademark and Copyright Assignments."

"Intercreditor Agreements shall mean collectively the Intercreditor Agreements in form and substance acceptable to the Administrative Agent, and Intercreditor Agreement shall mean any of the Intercreditor Agreements."

"Mortgages shall mean collectively all of the mortgages and leasehold mortgages in form and substance acceptable to the Administrative Agent, with respect to certain Real Property of the Borrower and its Significant Subsidiaries, executed and delivered by Borrower and each other applicable Loan Party to the Administrative Agent for the benefit of the Lenders, and Mortgage shall mean any of the Mortgages."

"Patent, Trademark and Copyright Assignments shall mean collectively the Patent, Trademark and Copyright Collateral Assignments in form and substance acceptable to the Administrative Agent, executed and delivered by each of the Loan Parties to the Administrative Agent for the benefit of the Lenders, and Patent Trademark and Copyright Assignment shall mean any of the Patent Trademark and Copyright Assignments."

"Pledge Agreements shall mean collectively the Pledge Agreements in form and substance acceptable to the Administrative Agent, as executed and delivered by the applicable Loan Parties to the Administrative Agent for the benefit of the Lenders, and Pledge Agreement shall mean any of the Pledge Agreements."

"Pledged Collateral shall mean the property of the applicable Loan Parties in which security interests are to be granted under the Pledge Agreements."

"Prior Security Interest shall mean a valid and enforceable perfected first-priority security interest under the Uniform Commercial Code in the UCC Collateral and the Pledged Collateral which is subject only to Liens for taxes not yet due and payable to the extent such prospective tax payments are given priority by statute or, in the case of the UCC Collateral, Purchase Money Security Interests as permitted hereunder."

"Real Property shall mean the real estate owned or leased by certain of the Loan Parties, which is encumbered by the Mortgages."

"Security Agreements shall mean collectively the Security Agreements in form and substance acceptable to the Administrative Agent, executed and delivered by each of the applicable Loan Parties to the Administrative Agent for the benefit of the Lenders and Security Agreement shall mean any of the Security Agreements."

"Subordination Agreement shall mean the Subordination Agreement (Intercompany) in form and substance acceptable to the Administrative Agent executed and delivered by each Loan Party to the Administrative Agent for the benefit of the Lenders."

"UCC Collateral shall mean the property of the Loan Parties in which security interests are to be granted under the Security Agreements."

"Uniform Commercial Code shall have the meaning assigned to that term in Section 5.1.24."

(b) The definitions of Base Net Worth, Guaranty Agreement and Loan Documents contained in Section 1.1 [Certain Definitions] of the Credit Agreement are hereby amended and restated in their entirety as follows:

"Base Net Worth shall mean the sum of $163,000,000, plus 50% of consolidated net income of the Borrower and its Subsidiaries (before the after-tax effect of changes in accounting principles) for each fiscal quarter in which net income was earned plus 80% of the net increase in Consolidated Tangible Net Worth resulting from the issuance of any equity securities by the Borrower, for the period from January 1, 2000 through the date of determination. In no event shall Base Net Worth be reduced on account of a consolidated net loss for any fiscal period."

"Guaranty Agreement shall mean the continuing Guaranty and Suretyship Agreement in substantially the form of Exhibit 1.1(G)(2) executed and delivered by each of the Guarantors to the Administrative Agent for the benefit of the Lenders, as such agreement may be amended, restated, supplemented or replaced from time to, with such amendment, restatement, supplement or replacement to be in form and substance satisfactory to the Administrative Agent."

"Loan Documents shall mean this Agreement, the Administrative Agent's Letter, the Guaranty Agreement, the Notes, the Pledge Agreements, the Mortgages, the Security Agreements, the Indemnity Agreements, the Intercreditor Agreements, the Patent, Trademark and Copyright Assignment, Subordination Agreement, and any other instruments, certificates or documents delivered or contemplated to the delivered hereunder or thereunder or in connection herewith or therewith as the same may be supplemented, amended, modified, restated or replaced from time to time in accordance herewith or therewith, and Loan Document shall mean any of the Loan Documents."

(c) Section 4.4.5 [Mandatory Prepayment Upon Issuance of Certain Debt and Certain Equity] is hereby amended and restated in its entirety as follows:

"4.4.5 Mandatory Prepayment Upon Issuance of Certain Debt and Certain Equity; Mandatory Reduction of Revolving Credit Commitments.

Within five (5) Business Days of the issuance by the Borrower or any Subsidiary of the Borrower (other than Excluded Subsidiaries), of any debt or equity securities for cash proceeds (including any hybrid equity securities), the Borrower shall make a mandatory prepayment of principal on the Term Loans equal to 100% of the Net Cash Proceeds of any debt securities and equal to 50% of the Net Cash Proceeds of any equity securities (each a "Mandatory Prepayment"). Each Mandatory Prepayment first shall be applied to payment in full of the principal amount of the Term Loans by application to the unpaid installments of principal in the inverse order of scheduled maturities and second to the payment of the principal amount of the Revolving Credit Loans (with the Revolving Credit Commitments automatically and permanently reduced simultaneously with and in an amount equal to the amount of Revolving Credit Loans prepaid), provided, however that the Revolving Credit Commitments shall not be required to be reduced below $150,000,000 with respect to prepayments pursuant to this Section 4.4.5. Any prepayment hereunder shall be subject to the Borrower's Obligation to indemnify the Banks under Section 4.5.2 [Indemnity]. If the Borrower's senior unsecured long-term debt, on a consolidated basis, is rated Investment Grade, then at any time thereafter when the Borrower issues debt or equity securities if the senior unsecured long-term debt of the Borrower is rated, as of the date of issuance of such debt or equity securities, by either Moody's at Baa3 or better or Standard & Poor's at BBB- or better, no Mandatory Prepayment pursuant to this Section 4.4.5 will be required to be made."

(d) Section 4.4.6 [Mandatory Prepayment Upon Sale of Assets.] is hereby amended and restated in its entirety as follows:

"4.4.6 Mandatory Prepayment Upon Sale of Assets, Mandatory Reduction of Revolving Credit Commitments.

Within five (5) Business Days of any sale of assets by any member of the Arch Coal Group authorized by Section 7.2.4(v) [Disposition of Assets or Subsidiaries], the Borrower shall make a mandatory prepayment in an amount equal to the Net Cash Proceeds of such sale (as estimated in good faith by the Borrower), with such prepayment to be applied first, to payment in full of the principal amount of the Term Loans by application to the unpaid installments of principal in the inverse order of scheduled maturities and second to the payment of the principal amount of the Revolving Credit Loans (with the Revolving Credit Commitments automatically and permanently reduced simultaneously with and in an amount equal to the amount of Revolving Credit Loans prepaid), in either case, together with accrued interest on such principal amount, provided, however that the Revolving Credit Commitments shall not be required to be reduced below $150,000,000 with respect to prepayments pursuant to this Section 4.4.6.. Any prepayment hereunder shall be subject to the Borrower's Obligation to indemnify the Banks under Section 4.5.2 [Indemnity]. If the Borrower's senior unsecured long-term debt, on a consolidated basis, is rated Investment Grade, then at any time thereafter when any member of the Arch Coal Group sells assets in accordance with Section 7.2.4(v), if the senior unsecured long-term debt of the Borrower is rated, as of the date of such asset sale, by either Moody's at Baa3 or better or by Standards & Poor's at BBB- or better, no prepayment pursuant to this Section 4.4.6 will be required to be made."

(e) The first sentence of Section 5.1.6 [Litigation] is hereby amended and restated in its entirety as follows:

"Except as set forth on Schedule 5.1.6, there are no actions, suits, proceedings or investigations pending or, to the knowledge of any Loan Party, threatened against such Loan Party or any Subsidiary of such Loan Party at law or equity before any Official Body which individually or in the aggregate could reasonably be expected to result in a Material Adverse Change."

(f) The second sentence of clause (ii)(a) [Accuracy of Financial Statements] of Section 5.1.7 [Financial Statements] is hereby amended and restated in its entirety as follows:

"Since December 31, 1997, no Material Adverse Change has occurred, except as set forth on Schedule 5.1.7."

(g) Section 5.1.18 [Environmental Matters] is hereby amended and restated in its entirety as follows:

"5.1.18 Environmental Matters.

Except as set forth on Schedule 5.1.18:

(a) the Loan Parties and their Subsidiaries are and have been in substantial compliance with all Environmental Laws, except where the failure to so comply could not reasonably be expected to result in a Material Adverse Change;

(b) neither any property of any Loan Party or any Subsidiary of any Loan Party nor their respective operations conducted thereon violates any order of any court of governmental authority made pursuant to Environmental Laws except for noncompliance with respect thereto which could not reasonably be expected to result in a Material Adverse Change;

(c) there are no threatened or pending Environmental Claims against any Loan Party or any Subsidiary of any Loan Party which could reasonably be expected to result in a Material Adverse Change; and

(d) neither any Loan Party nor any Subsidiary of any Loan Party has received any notice from any governmental or regulatory authority regarding actual or contingent liability in connection with any release or threatened release of any Hazardous Substance into the environment which actual or contingent liability could reasonably be expected to result in a Material Adverse Change."

(h) The following new Sections 5.1.23 through 5.1.27 are hereby added to Section 5 [Representations and Warranties] of the Credit Agreement:

"5.1.23 Patents, Trademarks, Copyrights, Licenses, Etc.

Each Loan Party and each Subsidiary of each Loan Party owns or possesses all the material patents, trademarks, service marks, trade names, copyrights, licenses, registrations and franchises necessary to own and operate its properties and to carry on its business as presently conducted and planned to be conducted by such Loan Party or Subsidiary, without known possible, alleged or actual conflict with the rights of others. All material patents, trademarks, service marks, trade names, copyrights, licenses, registrations and franchises of each Loan Party and each Subsidiary of each Loan Party are listed and described on Schedule 5.1.23.

5.1.24 Security Interests.

The Liens and security interests granted to the Administrative Agent for the benefit of the Lenders pursuant to the Patent, Trademark and Copyright Assignment, the Pledge Agreements and the Security Agreements in the Collateral (other than the Real Property) constitute and will continue to constitute Prior Security Interests under the Uniform Commercial Code as in effect in each applicable jurisdiction (the "Uniform Commercial Code") or other applicable Law entitled to all the rights, benefits and priorities provided by the Uniform Commercial Code or such Law. Upon the filing of financing statements relating to said security interests in each office and in each jurisdiction where required in order to perfect the security interests described above, taking possession of any stock certificates or other certificates evidencing the Pledged Collateral and recordation of the Patent, Trademark and Copyright Assignment in the United States Patent and Trademark Office and United States Copyright Office, as applicable, all such action as is necessary or advisable to establish such rights of the Agent will have been taken, and there will be upon execution and delivery of the Patent, Trademark and Copyright Assignment, the Pledge Agreements and the Security Agreements, such filings and such taking of possession, no necessity for any further action in order to preserve, protect and continue such rights, except the filing of continuation statements with respect to such financing statements within six months prior to each five-year anniversary of the filing of such financing statements or within not less than six months prior to such other longer anniversary date in any jurisdiction (and the Borrower shall notify the Administrative Agent, in writing if such anniversary date is other than five years). All filing fees and other expenses in connection with each such action have been or will be paid by the Borrower.

5.1.25 Mortgage Liens.

The Liens granted to the Administrative Agent for the benefit of the Lenders pursuant to the Mortgages constitute valid first priority Liens under applicable law. All such action as will be necessary or advisable to establish such Liens of the Administrative Agent and their priority as described in the preceding sentence will be taken at or prior to the time required for such purpose, and there will be as of the date of execution and delivery of the Mortgages no necessity for any further action in order to protect, preserve and continue such Liens and such priority, except for the approval of the U.S. Bureau of Land Management necessary for the Lenders to exercise their rights and remedies under the Mortgage for the Thundercloud property.

5.1.26 Status of Pledged Collateral.

All the shares of capital stock, Partnership Interests or LLC Interests included in the Pledged Collateral to be pledged pursuant to the Pledge Agreements are or will be upon issuance validly issued and nonassessable and owned beneficially and of record by the pledgor free and clear of any Lien or restriction on transfer, except as otherwise provided by the Pledge Agreements and except as the right of the Lenders to dispose of the shares of capital stock, Partnership Interests or LLC Interests may be limited by the Securities Act of 1933, as amended, and the regulations promulgated by the SEC thereunder and by applicable state securities laws. There are no shareholder, partnership, limited liability company or other agreements or understandings with respect to the shares of capital stock, Partnership Interests or LLC Interests included in the Pledged Collateral except for the partnership agreements and limited liability company agreements described on Schedule 5.1.26. The Loan Parties have delivered true and correct copies of such partnership agreements and limited liability company agreements to the Administrative Agent.

5.1.27 Maintenance of Patents and Trademarks

Except as set forth on Schedule 5.1.27, each Loan Party shall, and shall cause each of its Subsidiaries to, maintain in full force and effect all patents, trademarks, service marks, trade names, copyrights, licenses and franchises necessary for the ownership and operation of its properties and business if the failure so to maintain the same would constitute a Material Adverse Change."

(i) Section 7.1.3 [Maintenance of Insurance] is hereby amended and restated in its entirety as follows:

"7.1.3 Maintenance of Insurance.

Each Loan Party shall, and shall cause each of its Subsidiaries to, insure its properties and assets against loss or damage by fire and such other insurable hazards as such assets are commonly insured (including fire, extended coverage, property damage, workers' compensation, public liability and business interruption insurance) and against other risks (including errors and omissions) in such amounts as similar properties and assets are insured by prudent companies in similar circumstances carrying on similar businesses, and with reputable and financially sound insurers, including self-insurance to the extent customary. At the request of the Administrative Agent, the Loan Parties shall deliver to the Administrative Agent and each of the Lenders (x) on each anniversary of the Closing Date and such other date as the Administrative Agent shall reasonably request an original certificate of insurance signed by the Loan Parties' independent insurance broker describing and certifying as to the existence of the insurance on the Collateral required to be maintained by this Agreement and the other Loan Documents, together with a copy of the endorsement described in the next sentence attached to such certificate and (y) from time to time a summary schedule indicating all insurance then in force with respect to each of the Loan Parties. Such policies of insurance shall contain special endorsements required by the provisions of the Collateral Documents and shall be in form and substance acceptable to the Administrative Agent, including, without limitation, specifying the Collateral Agent as an additional insured, mortgagee and lender loss payee as its interests may appear, with the understanding that any obligation imposed upon the insured (including the liability to pay premiums) shall be the sole obligation of the applicable Loan Parties and not that of the insured. The applicable Loan Parties shall notify the Administrative Agent promptly of any occurrence causing a material loss or decline in value of the Collateral and the estimated (or actual, if available) amount of such loss or decline. If no Event of Default exists, any monies received by the Loan Parties constituting insurance proceeds or condemnation proceeds (pursuant to the Mortgages) may, at the option of the Borrower (i) be applied by the Borrower to the payment of the Loans in such manner as the Borrower may reasonably determine, or (ii) be disbursed for the repair or restoration of such property and/or replacement with other operating assets. If an Event of Default exists, any monies received by the Loan Parties or the Administrative Agent constituting insurance proceeds or condemnation proceeds (pursuant to the Mortgages) may, at the option of the Administrative Agent, (i) be applied by the Administrative Agent to the payment of the Loans in such manner as the Administrative Agent may reasonably determine, or (ii) be disbursed to the applicable Loan Parties on such terms as are deemed appropriate by the Administrative Agent for the repair, restoration and/or replacement of property in respect of which such proceeds were received."

(j) Section 7.1 [Affirmative Covenants] is hereby amended to add the following new Sections 7.1.12 through 7.1.14:

"7.1.12 Execution and Delivery of Collateral Documents.

The Borrower shall, and shall cause each of its Significant Subsidiaries to use its best efforts to complete the following on or before March 17, 2000, but if after so endeavoring such matters are not completed by March 17, 2000, the Borrower shall, and shall cause each of its Significant Subsidiaries to complete the following as promptly as possible thereafter, but no later than May 17, 2000:

(a) grant to the Collateral Agent for the benefit of the Lenders a Prior Security Interest in the accounts receivable, inventory and the material patents, trademarks and copyrights of the Borrower and each Significant Subsidiary (other than a pledge of such assets of Apogee Coal Company, a Delaware corporation), and in the equity interests of the Subsidiaries of the Borrower set forth on Schedule 7.1.12, including, without limitation, by executing a Security Agreement, a Pledge Agreement, the Subordination Agreement, and a Patent, Trademark and Copyright Assignment;

(b) cause the Borrower to grant to the Collateral Agent for the benefit of the Lenders a Prior Security Interest in all of the outstanding capital stock of AWAC, including, without limitation, by executing a Pledge Agreement;

(c) as applicable, execute and deliver Mortgages on a first priority perfected basis and Indemnity Agreements, with respect to the Real Property set forth on Schedule 7.1.12 hereto;

(d) execute and deliver Intercreditor Agreements (i) required by any other creditor of the Borrower or any of its Significant Subsidiaries under the Apogee Synthetic Lease and the Hobet Dragline Lease, (ii) to the extent necessary for the Borrower and its Significant Subsidiaries to provide the Collateral to the Collateral Agent in accordance with the requirements of this Section 7.1.12, and (iii) necessary to share the Collateral on a pro-rata, pari passu basis with any lender entering into, on a secured basis, any interest rate swap or similar transaction with the Borrower or any Significant Subsidiary of the Borrower;

(e) amend, restate, ratify and confirm the Guaranty Agreement to which such Significant Subsidiary is a party to give effect to the Prior Security Interest of the Collateral Agent for the benefit of the Lenders in the Collateral pursuant to the Collateral Documents;

(f) provide such UCC, lien, judgment, and tax lien searches with respect to the properties and assets of the Borrower and its Significant Subsidiaries as the Administrative Agent may request, all at the expense of the Borrower, with all such searches and the results thereof to be in scope, form and substance satisfactory to the Administrative Agent;

(g) in connection with the granting of the liens and security interests under the Collateral Documents and the execution, delivery and performance of the Intercreditor Agreements, provide such opinions of counsel as the Administrative Agent may request, with such opinions to be satisfactory in form and substance to the Administrative Agent;

(h) deliver to the Administrative Agent copies of all filing receipts and acknowledgments issued by any governmental authority to evidence any recordation or filing necessary to perfect the Lien of the Lenders on the Collateral or other satisfactory evidence of such recordation and filing, together with evidence in a form acceptable to the Administrative Agent that such Lien constitutes a Prior Security Interest for the benefit of the Lenders and, in the case of the Mortgages, a valid and perfected first priority Lien;

(i) deliver to the Administrative Agent copies of all consents and approvals of third parties or any Official Body required for the Borrower and its Significant Subsidiaries to grant the Liens and security interests required by this Section 7.1.12, other than approvals and consents from the U.S. Bureau of Land Management necessary for the Lenders to exercise their rights and remedies with respect to the Mortgage applicable to Borrower's Thundercloud tract.;

(j) make available to the Administrative Agent a list of all Real Property of the Borrower and its Significant Subsidiaries together with a copy of all lease agreements with respect to their respective leased Real Property and make available to the Administrative Agent the books and records of the Borrower and its Significant Subsidiaries with respect to such Real Property, including without limitation, copies of any property maps, surveys, title commitments, title reports, mining permits and title insurance;

(k) deliver to the Administrative Agent a list of all Significant Subsidiaries of the Borrower specifying the authorized and outstanding equity interests thereof, the owner of such equity interests, the jurisdiction of formation thereof, and each jurisdiction where such Significant Subsidiary owns assets or operates its business;

(l) deliver to the Administrative Agent (i) an original certificate of insurance signed by the Loan Parties' independent insurance broker describing and certifying as to the existence of the insurance on the Collateral required to be maintained by this Agreement and the other Loan Documents, together with a copy attached thereto of the endorsements required by the provisions of the Collateral Documents, all in form and substance acceptable to the Administrative Agent, including, without limitation, an endorsement specifying the Collateral Agent as an additional insured, mortgagee and lender loss payee as its interests may appear, and (ii) a summary schedule indicating all insurance then in force with respect to each of the Loan Parties; and

(m) deliver to the Administrative Agent such reports and assessments as the Administrative Agent reasonably requests with respect to the environmental condition of the Loan Parties' and their Significant Subsidiaries' assets and shall cause an Authorized Officer of the applicable Loan Parties to deliver to the Administrative Agent, in form and substance satisfactory to the Administrative Agent, a certificate from the Borrower's General Counsel to the effect that to his best knowledge, the Loan Parties have made known to the Administrative Agent all information known to them and their Significant Subsidiaries concerning material Environmental Conditions and Environmental Complaints which could reasonably be expected to result in a Material Adverse Change.

7.1.13 Further Assurances.

Each Loan Party shall, from time to time, at its expense, faithfully preserve and protect the Collateral Agent's Lien on and Prior Security Interest in the Collateral as a continuing first priority perfected Lien, subject only to Permitted Liens, and shall do such other acts and things as the Administrative Agent or the Collateral Agent in their sole discretion may deem necessary or advisable from time to time in order to preserve, perfect and protect the Liens granted under the Loan Documents and to exercise and enforce its rights and remedies thereunder with respect to the Collateral, including, without limitation, obtaining necessary approvals and consents from the U.S. Bureau of Land Management necessary for the Lenders to exercise their rights and remedies with respect to the Mortgage applicable to Borrower's Thundercloud tract.

7.1.14 Subordination of Intercompany Loans.

Each Loan Party shall cause any intercompany Indebtedness, loans or advances owed by any Loan Party to any other Loan Party to be subordinated pursuant to the terms of the Subordination Agreement."

(k) Clause (ii) of Section 7.2.1 [Indebtedness] is hereby amended to delete "$300,000,000" therein and insert in lieu thereof "$150,000,000".

(l) Section 7.2.2 [Liens] of the Credit Agreement is hereby amended and restated in its entirety as follows:

"7.2.2 Liens.

The Borrower shall not, and shall not permit AWAC or any member of the Arch Coal Group to, (i) at any time create, incur, assume or suffer to exist any Lien on any of its respective property or assets, tangible or intangible, now owned or hereafter acquired, or agree or become liable to do so, except Liens in favor of the Collateral Agent for the benefit of the Lenders under the Loan Documents and, in the case of the Borrower and the Arch Coal Group, except Permitted Liens so long as the aggregate amount of all payments by any such Person in respect of all Indebtedness secured by such Permitted Liens does not at any time exceed five percent (5%) of the total assets of the Arch Coal Group (exclusive of Investment in the Arch Western Group), as determined and consolidated in accordance with GAAP; or (ii) at any time, directly or indirectly, enter into any agreement (other than the Apogee Synthetic Lease and the Hobet Dragline Lease), understanding or other arrangement which purports to prohibit or limit in any manner the ability of AWAC or any member of the Arch Coal Group to grant security interests or Liens with respect to any of its respective property or assets that have not theretofore been encumbered or made subject to the grant of a security interest."

(m) Subclause (ii) of Clause (3) of Section 7.2.3 [Liquidations, Mergers, Consolidations, Acquisitions.] is hereby amended and restated in its entirety as follows:

"(ii) the business acquired, or the business conducted by the Person whose ownership interests are being acquired, as applicable, shall be substantially the same as one or more line or lines of business conducted by the Loan Parties and shall comply with Section 7.2.7 [Continuation of or Change in Business], all of the accounts receivable, inventory, owned real property, material patents, trademarks and copyrights and equity interests of the business or Person acquired shall be pledged to the Administrative Agent for the benefit of the Lenders on a first priority perfected basis pursuant to Pledge Agreements, Mortgages, Security Agreements, Patent, Trademark and Copyright Assignments, and such other Collateral

Documents as are necessary to create a Prior Security Interest in such assets, to the extent that a Significant Subsidiary is acquired or formed in connection with or as a result of such acquisition, the Loan Parties shall comply with the provisions of Section 7.2.6 [Subsidiaries, Partnerships and Joint Ventures] and Section 10.18 [Joinder of Guarantors], and in connection with such acquisition and the granting of such Liens and security interests, the Borrower shall deliver to the Administrative Agent for the benefit of the Lenders such opinions of counsel, certificates and such other Loan Documents as the Administrative Agent may reasonably request;"

(n) Clause (c) of subsection (iv) of Section 7.2.4 [Dispositions of Assets or Subsidiaries.] is hereby amended and restated in its entirety as follows:

"(c) the aggregate net book value, as determined in accordance with GAAP, of all assets so sold by the Borrower and its Subsidiaries shall not exceed in any calendar year $40,000,000;"

(o) Section 7.2.6 [Subsidiaries, Partnership, and Joint Ventures] of the Credit Agreement is hereby amended and restated in its entirety as follows:

"7.2.6 Subsidiaries, Partnerships and Joint Ventures.

The Borrower shall not, and shall not permit any of its Subsidiaries to, own or create directly or indirectly any Subsidiaries other than (i) the Excluded Subsidiaries, (ii) Subsidiaries which are not Significant Subsidiaries and (iii) any Significant Subsidiary which has joined the Guaranty Agreement as Guarantor, whose accounts receivable, inventory, owned real property, material patents, trademarks and copyrights and equity interests owned in any other Person (other than any member of the Arch Western Group) are pledged to the Collateral Agent for the benefit of the Lenders on a first priority perfected basis pursuant to a Security Agreement, Mortgage(s), Patent, Trademark and Copyright Assignment, and Pledge Agreement, who has executed all other Loan Documents, who has also delivered to the Administrative Agent such opinions of counsel and other documents in connection therewith as the Administrative Agent may reasonably request, and who has caused all of the issued and outstanding capital stock, partnership interests, member interests or other equity interest of such Significant Subsidiary that are owned by the Borrower or another Subsidiary of the Borrower to be pledged on a first priority perfected basis to the Collateral Agent for the benefit of the Lenders pursuant to the Pledge Agreement, all in form and substance satisfactory to the Administrative Agent. Neither the Borrower nor any Subsidiary of the Borrower shall become or agree to become a general or limited partner in any general or limited partnership or become a member or manager of, or hold a limited liability company interest in, a limited liability company, except that (1) the Loan Parties may make an Investment in a Permitted Joint Venture; provided, however, that the aggregate permitted Investments in all Permitted Joint Ventures shall not at any time exceed, for all Loan Parties and their Subsidiaries, $50,000,000, or (2) the Loan Parties may be general or limited partners in other Loan Parties or be members or managers of, or hold limited liability company interests in, other Loan Parties and except that the Borrower may hold a limited liability company interest in Arch Western and Arch Western may hold limited liability company interests in its Subsidiaries which are members of the Arch Western Group."

(p) Section 7.2.9 [Off-Balance Sheet Financing] is hereby amended by deleting in the first sentence thereof "7.5%" and inserting in lieu thereof "5%".

(q) Section 7.2.10 [Maximum Leverage Ratio] of the Credit Agreement is hereby amended and restated in its entirety as follows:

"7.2.10 Maximum Leverage Ratio.

The Borrower shall not at any time permit the Leverage Ratio to exceed the ratio set forth below for the periods specified below:

Period	Ratio
Closing Date through and including December 31, 1998	4.50 to 1.00
January 1, 1999 through and including September 30, 2000	4.25 to 1.00
October 1, 2000 through and including December 31, 2001	4.00 to 1.00
January 1, 2002 and thereafter	3.00 to 1.00"

(r) Section 7.2.11 [Minimum Fixed Charge Coverage Ratio] is hereby amended and restated in its entirety as follows:

"7.2.11 Minimum Fixed Charge Coverage Ratio.

The Borrower shall not permit the Fixed Charge Coverage Ratio to be less than the ratio set forth below for the periods specified below:

Period	Ratio
Closing Date through and including December 31, 1998	2.50 to 1.00
January 1, 1999 through and including September 30, 2000	2.75 to 1.00

October 1, 2000 through and including December 31, 2000	3.00 to 1.00
January 1, 2001 and thereafter	3.25 to 1.00"

(s) Section 7.2. [Negative Covenants] is hereby amended to add the following new Section 7.2.16 [Prohibited Transactions With Respect to AWAC]:

"7.2.16 Prohibited Transactions With Respect to AWAC

The Borrower shall not permit AWAC to: (i) incur any indebtedness or other obligation or liabilities (whether matured or unmatured, liquidated or unliquidated, direct or indirect, absolute or contingent, or joint or several); and (ii) own any asset other than its member interest in Arch Western."

(t) Section 10.18 [Joinder of Guarantors] is hereby amended and restated in its entirety to read as follows:

"10.18 Joinder of Guarantors.

Any Significant Subsidiary of the Borrower which is required to become a Guarantor pursuant to Section 7.2.6. [Subsidiaries, Partnerships and Joint Ventures] shall execute and deliver to the Administrative Agent (i) a Guarantor Joinder in substantially the form attached hereto as Exhibit 1.1(G)(1) pursuant to which it shall join as a Guarantor each of the documents to which the Guarantors are parties; (ii) all of the other Loan Documents required by Section 7.2.6, and (iii) documents in the forms described in Section 6.1 [First Loans and Letters of Credit] modified as appropriate to relate to such Subsidiary."

(u) Schedule 1.1(A) Part A- Pricing Grid of the Credit Agreement is hereby amended and restated in its entirety as set forth on the schedule titled as Schedule 1.1(A) Part A attached hereto.

(v) Schedule 1.1(B) of the Credit Agreement [Commitments of Banks and Addresses for Notices] is hereby amended and restated in its entirety as set forth on the schedule titled as Schedule 1.1(B) attached hereto.

(w) Exhibit 7.3.3 of the Credit Agreement [Quarterly Compliance Certificate] is hereby amended and restated in its entirety as set forth on the exhibit titled as Exhibit 7.3.3 attached hereto.

(x) The following new schedules and exhibits attached hereto are hereby added as new schedules and exhibits to the Credit Agreement:

Schedules

5.1.6	Litigation
5.1.7	Certain Disclosures Regarding Financial Statements
5.1.18	Certain Disclosures Regarding Environmental Matters
5.1.23	Patents, Trademarks, Copyrights, Licenses, etc.
5.1.26	Partnership Agreements; LLC Agreements
7.1.12	Owned and Leased Real Property of Loan Parties; Certain Equity Interests of Subsidiaries to be Pledged

3. Conditions of Effectiveness of Amendments.

The effectiveness of the Amendments of Credit Agreement set forth in Section 2 hereof is expressly conditioned upon satisfaction of each of the following conditions precedent:

(a) Officer's Certificate.

The representations and warranties of the Borrower contained in Section 5 of the Credit Agreement including as amended by the modifications and additional representations and warranties of this Amendment, and of each Loan Party in each of the other Loan Documents shall be true and accurate on and as of the date hereof with the same effect as though such representations and warranties had been made on and as of such date (except representations and warranties which relate solely to an earlier date or time, which representations and warranties shall be true and correct on and as of the specific dates or times referred to therein), and each of the Loan Parties shall have performed and complied with all covenants and conditions hereof and thereof, no Event of Default or Potential Default shall have occurred and be continuing or shall exist; and there shall be delivered to the Administrative Agent for the benefit of each Lender a certificate of the Borrower dated the date hereof and signed by the Chief Executive Officer, President or Chief Financial Officer of the Borrower to each such effect.

(b) Secretary's Certificate.

There shall be delivered to the Administrative Agent for the benefit of each Lender a certificate dated the date hereof and signed by the Secretary or an Assistant Secretary of each of the Loan Parties, certifying as appropriate as to:

(1) all action taken by each Loan Party in connection with this Amendment and the other Loan Documents;

(2) the names of the officer or officers authorized to sign this Amendment and the other Loan Documents and the true signatures of such officer or officers and specifying the Authorized Officers permitted to act on behalf of each Loan Party for purposes of

this Agreement and the true signatures of such officers, on which the Administrative Agent and each Lender may conclusively rely; and

(3) copies of its organizational documents, including its certificate of incorporation and bylaws as in effect on the date hereof and, in the case of the certificate of incorporation of the Borrower, certified by the appropriate state official where such documents are filed in a state office, together with certificates from the appropriate state officials as to the continued existence and good standing of the Borrower in the state of its formation and the state of its principal place of business.

(c) Opinion of Counsel.

There shall be delivered to the Administrative Agent for the benefit of each Lender a written opinion of Jeffry Quinn, the General Counsel for the Loan Parties (who may rely on the opinions of such other counsel as may be acceptable to the Administrative Agent), dated the date hereof and in form and substance satisfactory to the Administrative Agent and its counsel as to such matters incident to the transactions contemplated herein as the Administrative Agent may reasonably request.

(d) No Actions or Proceedings.

No action, proceeding, investigation, regulation or legislation shall have been instituted, threatened or proposed before any court, governmental agency or legislative body to enjoin, restrain or prohibit, or to obtain damages in respect of, this Amendment, the other Loan Documents or the consummation of the transactions contemplated hereby or thereby or which, in the Administrative Agent's sole discretion, would make it inadvisable to consummate the transactions contemplated by this Agreement or any of the other Loan Documents.

(e) Payment of Fees.

The Borrower shall pay or cause to be paid to the Administrative Agent for itself and for the account of the Lenders an amendment fee (the "Amendment Fee") payable to those Lenders which approve this Amendment on or before noon (Pittsburgh, Pennsylvania time) on Friday, January 21, 2000, in the amount of the product of 25 basis points multiplied by the amount of such Lender's Commitments and the other fees, costs and expenses payable to the Administrative Agent or for which the Administrative Agent is entitled to be reimbursed, including but not limited to the fees and expenses of the Administrative Agent's legal counsel.

(f) Consents.

All material consents required to effectuate the transactions contemplated by the Amendment and the other Loan Documents and shall have been obtained.

(g) Officer's Certificate.

There shall have been delivered to the Administrative Agent for the benefit of each Lender a certificate dated the date hereof, in form and substance satisfactory to the Administrative Agent and signed by the Chief Executive Officer, President or Chief Financial Officer of the Borrower certifying the accuracy of all representations and warranties by the Loan Parties under the Loan Documents, the compliance with all covenants under the Loan Documents and the absence of any Event of Default or Potential Default.

(h) Legal Details.

All legal details and proceedings in connection with the transactions contemplated by this Amendment and the other Loan Documents shall be in form and substance satisfactory to the Administrative Agent and counsel for the Administrative Agent, and the Administrative Agent shall have received all such other counterpart originals or certified or other copies of such documents and proceedings in connection with such transactions, in form and substance satisfactory to the Administrative Agent and its counsel, as the Administrative Agent or its counsel may reasonably request.

4. Consent to Negotiation, Execution and Delivery of the Collateral Documents by the Administrative Agent. By execution of this Amendment, each Agent and each Lender acknowledges that it has reviewed a copy of the Credit Agreement as amended hereby and hereby consents and agrees to: (a) the acceptance by the Administrative Agent on behalf of each Lender of the Collateral from the Loan Parties to secure the Obligations of the Borrower, AWAC and each Significant Subsidiary of the Borrower to the Lenders; (b) the service by the Administrative Agent as Collateral Agent (as defined in the Intercreditor Agreements) on behalf of each Agent and each Lender with respect to the Collateral Documents and the Collateral; and (c) the negotiation, execution and delivery or acceptance, as applicable, of the Collateral Documents by the Administrative Agent on behalf of each Agent and each Lender.

5. Force and Effect. Except as otherwise expressly modified by this Amendment, the Credit Agreement and the other Loan Documents are hereby ratified and confirmed and shall remain in full force and effect after the date hereof.

6. Governing Law. This Amendment shall be deemed to be a contract under the laws of the Commonwealth of Pennsylvania and for all purposes shall be governed by and construed and enforced in accordance with the internal laws of the Commonwealth of Pennsylvania without regard to its conflict of laws principles.

7. Effective Date; Certification of the Borrower. This Amendment shall be dated as of and shall be binding, effective and enforceable upon the date of (i) satisfaction of all conditions set forth in Section 3 hereof and (ii) receipt by the Administrative Agent of duly executed original counterparts of this Amendment from the Borrower and the Required Banks,

and from and after such date this Amendment shall be binding upon the Borrower, each Lender and the Agents, and their respective successors and assigns permitted by the Credit Agreement. The Borrower by executing this Amendment, hereby certifies that this Amendment has been duly executed and that as of the date hereof no Event of Default or Potential Default exists under the Credit Agreement or the other Loan Documents.

8. No Novation. This Amendment amends the Credit Agreement, but is not intended to constitute, and does not constitute, a novation of the Obligations of the Loan Parties under the Credit Agreement.

[Intentionally Blank]

IN WITNESS WHEREOF, the parties hereto, by their officers thereunto duly authorized, have executed this Amendment No. 1 to Credit Agreement as of the day and year first above written.

ARCH COAL, INC.

By: /s/ Patrick A. Kriegshauser
Name: Patrick A. Kriegshauser
Title: Senior Vice President

PNC BANK, NATIONAL ASSOCIATION, individually and as Administrative Agent

By: /s/ Richard C. Munsick
Title: Vice President

MORGAN GUARANTY TRUST COMPANY OF NEW YORK, individually and as Syndication Agent

By: /s/ Robert Bottamedi
Title: Vice President

FIRST UNION NATIONAL BANK, individually and as Documentation Agent

By: /s/ Frank Meade
Title: Vice President

BANK OF AMERICA, N.A. (formerly NationsBank, N.A.)

By: /s/ Paul L. Colon
Title: Vice President

BANK OF MONTREAL

By: /s/ Ian M. Plester
Title: Director

THE BANK OF NEW YORK

By: /s/ Raymond J. Palmer

Title: Vice President

THE BANK OF NOVA SCOTIA

By: /s/ F. C. H. Ashby

Title: Senior Manager Loan Operations

BARCLAYS BANK PLC

By: /s/ Nicholas A. Bell

Title: Director, Loan Transaction Management

THE CHASE MANHATTAN BANK

By: /s/ Peter S. Predun

Title: Vice President

THE BANK OF TOKYO-MITSUBISHI,
LTD., CHICAGO BRANCH

By: /s/ Hisashi Miyashiro

Title: Deputy General Manager

CREDIT LYONNAIS NEW YORK
BRANCH

By: /s/ Illegible Signature

Title: Vice President

NATIONAL BANK OF KUWAIT, SAK

By: /s/ Robert J. McNeill

Title: Executive Manager

By: /s/ Muhannad Kamal

Title: General Manager

BANQUE NATIONALE DE PARIS

By: /s/ Arnaud Collin du Bocage

Title: Executive Vice President and General Manager

BANK ONE, NA (formerly known as The First National Bank of Chicago)

By: /s/ Mary Lu D. Cramer

Title: Vice President

THE DAI-ICHI KANGYO BANK, LTD.

By: /s/ Nobuyasu Fukatsu

Title: General Manager

THE INDUSTRIAL BANK OF JAPAN, LIMITED

By: /s/ Walter Wolff

Title: Joint General Manager

MERCANTILE BANK NATIONAL ASSOCIATION

By: /s/ Gregory Dryden

Title: Vice President

ABN AMRO BANK, N.V.

By: /s/ Philip J. Leigh

Title: Vice President

By: /s/ Kevin S. McFaddin

Title: Vice President

DRESDNER BANK A.G. NEW YORK
AND GRAND CAYMAN BRANCHES

By: /s/ P. Douglas Sherrod

Title: Vice President

By: /s/ Michael E. Higgins

Title: Vice President

BANK HAPOALIM B.M.

By: /s/ Illegible Signature

Title: Vice President

By: /s/ Illegible Signature

Title: Vice President

CIBC, INC.

By: /s/ Howard Palmer

Title: Executive Director

FLEET NATIONAL BANK

By:

Title:

KEYBANK NATIONAL BANK

By: /s/ Frank Jancar

Title: Vice President

GENERAL ELECTRIC CAPITAL
CORPORATION

By: /s/ William S. Richardson

Title: Duly Authorized Signatory

GULF INTERNATIONAL BANK

By: /s/ Abdel-Fattah Tahoun

Title: Senior Vice President

By: /s/ William B. Shepard

Title: Vice President

BANK POLSKA KASA OPIEKI S.A.,
NEW YORK BRANCH (formerly Bank
Polska Kasa Opieki S.A. Pekao S.A. Group,
New York Branch)

By: /s/ Illegible Signature

Title: Vice President

ARAB BANK PLC

By: /s/ Illegible Signature

Title: Executive Vice President &

Regional Manager

CREDIT INDUSTRIEL ET
COMMERCIAL (formerly Compagnie
Financiere de Cic et de L'Union
Europeenne)

By: /s/ Brian O'Leary

Title: Vice President

By: /s/ Anthony Rock

Title: Vice President

BANK LEUMI USA

By: /s/ Joung Hee Hong

Title: Vice President

SCHEDULE 1.1(A)
PART (A)

PRICING GRID

Level	Applicable Leverage Ratio	Facility Fee	Revolving Credit Euro-Rate Spread	Letter of Credit Fee	Term Loan Euro-Rate Spread
I	Less than or equal to 2.0 to 1.0	.20%	.675%	.675%	.875%
II	Greater than 2.0 to 1.0 but less than or equal to 2.5 to 1.0	.225%	.75%	.750%	.975%
III	Greater than 2.5 to 1.0 but less than or equal to 3.0 to 1.0	.25%	.775%	.775%	1.025%
IV	Greater than 3.0 to 1.0 but less than or equal to 3.5 to 1.0	.275%	.975%	.975%	1.250%
V	Greater than 3.5 to 1.0 but less than or equal to 4.0 to 1.0	.30%	1.20%	1.20%	1.500%
VI	Greater than 4.0 to 1.0	.40%	1.35%	1.35%	1.750%

(a) Applicable Leverage Ratio means, at any date, the Leverage Ratio as at the last day of the fiscal quarter of the Borrower most recently ended prior to such date, for which the Borrower has delivered financial statements pursuant to Section 7.3.1 or 7.3.2, as the case may be, together with the duly executed compliance certificate required by Section 7.3.3; provided that if the Borrower shall fail to timely deliver the financial statements required to be delivered by it pursuant to Section 7.3.1 or 7.3.2, as the case may be, together with the duly executed compliance certificate required by Section 7.3.3, the Applicable Leverage Ratio for each date from and including the date on which such statements are required to be delivered until the date on which such statements are delivered shall be deemed to be greater than 4.0:1.

(b) It is expressly agreed that through and including the Initial Delivery Date, the Applicable Margin, Applicable Facility Fee Rate and Applicable Letter of Credit Fee Rate shall be such rates as determined in accordance with paragraph (a) above but shall be no less than the respective amounts set forth under Level IV of Part (A) of Schedule 1.1(A). It is expressly agreed that after the Initial Delivery Date until such time as the Borrower's senior unsecured long-term debt, on a consolidated basis, has been rated Investment Grade, the Applicable Margin, Applicable Facility Fee Rate and Applicable Letter of Credit Fee Rate shall be determined based upon Part (A) of Schedule 1.1(A), and for any period thereafter when a Debt Rating is in effect, the Applicable Margin, Applicable Facility Fee Rate and Applicable Letter of Credit Fee Rate shall be the respective amounts determined under Part (B) of Schedule 1.1(A). If, at any time during any period when Applicable Margin, Applicable Facility Fee Rate and Applicable Letter of Credit Fee Rate are determined based upon this Part (A) of Schedule 1.1(A), the Borrower's "senior corporate credit rating" is rated either BB- or lower by Standard & Poor's or the Borrower's "senior implied issuer rating" is rated Ba3 or lower by Moody's, the Applicable Margin and the Applicable Letter of Credit Rate set forth above will be increased by .50%.

SCHEDULE 1.1(B)

COMMITMENTS OF BANKS AND ADDRESSES FOR NOTICES

ARCH COAL, INC. CREDIT FACILITY

Part 1 - Commitments of Banks and Addresses for Notices to Banks

	Bank	Amount of Commitment for Revolving Credit Loans	Revolving Credit Ratable Share	Amount of Commitment for Term Loans	Term Loan Ratable Share
Name:	PNC Bank, National Association	79,398,305.03	13.233051%	14,677,118.56	10.871940%
Address:	One PNC Plaza 3rd Floor 249 Fifth Avenue Pittsburgh, PA 15222				
Attention:	Richard Munsick, Vice President				
Telephone:	(412) 762-4299				
Telecopy:	(412) 762-2571				
Name:	Morgan Guaranty Trust Company of New York	33,290,743.15	5.548457%	12,948,750.54	9.591667%
Address:	60 Wall Street 5th Floor New York, NY 10260				
Attention:	Rob Bottamedi, Vice President				
Telephone:	(212) 648-1349				
Telecopy:	(212) 648-5018				
Name:	First Union National Bank	47,457,627.12	7.909605%	10,677,966.09	7.909605%
Address:	213 South Jefferson St. 15th Floor Mail Code VA7406 Roanoke, VA 24011				
Attention:	Frank Meade				
Telephone:	(540) 563-7501				
Telecopy:	(540) 563-6320				

Bank		Amount of Commitment for Revolving Credit Loans	Revolving Credit Ratable Share	Amount of Commitment for Term Loans	Term Loan Ratable Share
Name:	Bank of America, N.A. (formerly NationsBank, N.A.)	50,847,457.63	8.474576%	11,440,677.96	8.474576%
Address:	333 Clay Street 45th floor Houston, TX 77002				
Attention:	Daryl G. Patterson, Managing Director				
Telephone:	(713) 651-4950				
Telecopy:	(713) 651-4808				
Name:	Bank of Montreal	30,508,474.58	5.084746%	6,864,406.79	5.084746%
Address:	430 Park Avenue 14th Floor New York, NY 10022				
Attention:	Ian Plester, Director				
Telephone:	(212) 605-1417				
Telecopy:	(212) 605-1451				
Name:	The Bank of New York	30,508,474.58	5.084746%	6,864,406.79	5.084746%
Address:	The Energy Industries Division One Wall Street 19th Floor New York, NY 10286				
Attention:	Kevin C. Walker				
Telephone:	(212) 635-7609				
Telecopy:	(212) 635-7923				
Name:	The Bank of Nova Scotia	30,508,474.58	5.084746%	6,864,406.79	5.084746%
Address:	181 West Madison Street Suite 3700 Chicago, IL 60602				
Attention:	Michael Manick				
Telephone:	(312) 201-4061				
Telecopy:	(312) 201-4108				

	Bank	Amount of Commitment for Revolving Credit Loans	Revolving Credit Ratable Share	Amount of Commitment for Term Loans	Term Loan Ratable Share
Name:	The Bank of Tokyo-Mitsubishi, Ltd., Chicago Branch	14,039,548.03	2.339925%	2,033,898.30	1.506591%
Address:	227 West Monroe Street Suite 2300 Chicago, IL 60606				
Attention:	William Murray				
Telephone:	(312) 696-4653				
Telecopy:	(312) 696-4535				
Name:	Barclays Bank PLC	30,508,474.58	5.084746%	6,864,406.79	5.084746%
Address:	222 Broadway New York, NY 10038				
Attention:	Nicholas A. Bell				
Telephone:	(212) 412-4029				
Telecopy:	(212) 412-7589				
Name:	The Chase Manhattan Bank	30,508,474.58	5.084746%	6,864,406.79	5.084746%
Address:	270 Park Avenue 23rd Floor New York, NY 10017				
Attention:	Peter Predun				
Telephone:	(212) 270-7005				
Telecopy:	(212) 270-4724				
Name:	ABN AMRO Bank, N.V.	20,338,983.05	3.389831%	4,576,271.19	3.389831%
Address:	135 South LaSalle Street Suite 710 Chicago, IL 60603				
Attention:	David Wright				
Telephone:	(312) 904-5212				
Telecopy:	(312) 904-9387				

	Bank	Amount of Commitment for Revolving Credit Loans	Revolving Credit Ratable Share	Amount of Commitment for Term Loans	Term Loan Ratable Share
Name:	Credit Lyonnais New York Branch	20,338,983.05	3.389831%	4,576,271.19	3.389831%
Address:	227 West Monroe Street 38th Floor Chicago, IL 60606				
Attention:	Joe Philbin				
Telephone:	(312) 220-7314				
Telecopy:	(312) 641-0527				
Name:	Dresdner Bank A.G. New York and Grand Cayman Branches	20,338,983.05	3.389831%	4,576,271.19	3.389831%
Address:	75 Wall Street New York, NY 10005				
Attention:	Andrew Cullinan				
Telephone:	(212) 429-2226				
Telecopy:	(212) 429-2192				
Name:	Bank One, NA (formerly known as The First National Bank of Chicago)	30,508,474.58	5.084746%	6,864,406.79	5.084746%
Address:	1 Bank One Plaza Mail Code IL1-0363 Chicago, IL 60670				
Attention:	Mary Lu Cramer				
Telephone:	(312) 732-7579				
Telecopy:	(312) 732-3055				
Name:	Bank Hapoalim B.M.	10,169,491.53	1.694915%	2,288,135.60	1.694915%
Address:	1177 Avenue of the Americas New York, NY 10036-2790				
Attention:	Laura Raffa				
Telephone:	(212) 782-2177				
Telecopy:	(212) 782-2187				

Bank		Amount of Commitment for Revolving Credit Loans	Revolving Credit Ratable Share	Amount of Commitment for Term Loans	Term Loan Ratable Share
Name:	The Industrial Bank of Japan, Limited	10,169,491.53	1.694915%	2,288,135.60	1.694915%
Address:	1251 Avenue of the Americas New York, NY 10020				
Attention:	Ed Jones				
Telephone:	(212) 282-3421				
Telecopy:	(212) 282-4480				
Name:	Mercantile Bank National Association	10,169,491.53	1.694915%	2,288,135.60	1.694915%
Address:	#1 Mercantile Center St. Louis, MO 63101				
Attention:	Gregory Dryden				
Telephone:	(314) 418-3983				
Telecopy:	(314) 418-2203				
Name:	The Dai-Ichi Kangyo Bank, Ltd.	10,000,000.00	1.666667%	2,250,000.00	1.666667%
Address:	10 S. Wacker 26th Floor Chicago, IL 60606				
Attention:	Brian W. Riley, Vice President				
Telephone:	(312) 715-6364				
Telecopy:	(312) 876-2011				
Name:	CIBC, Inc.	10,169,491.53	1.694915%	2,288,135.60	1.694915%
Address:	425 Lexington Avenue New York, NY 10017				
Attention:	Howard Palmer				
Telephone:	(212) 856-3504				
Telecopy:	(212) 856-3761				

Bank		Amount of Commitment for Revolving Credit Loans	Revolving Credit Ratable Share	Amount of Commitment for Term Loans	Term Loan Ratable Share
Name:	Fleet National Bank	8,333,333.33	1.388889%	1,875,000.00	1.388889%
Address:	100 Federal Street Mail Stop 01-08-04 Boston, MA 02110				
Attention:	Christopher Holmgren, Director				
Telephone:	(617) 434-4067				
Telecopy:	(617) 434-3652				
Name:	Bank Polska Kasa Opieki S.A., New York Branch (formerly Bank Polska Kasa Opieki S.A. Pekao S.A. Group, New York Branch)	3,333,333.33	0.555556%	750,000.00	0.555556%
Address:	470 Park Avenue South 15th Floor New York, NY 10016				
Attention:	Hussein B. El-Tawil				
Telephone:	(212) 251-1245				
Telecopy:	(212) 679-5910				
Name:	Banque Nationale de Paris	8,135,593.22	1.355932%	1,830,508.47	1.355932%
Address:	209 South LaSalle Street Suite 500 Chicago, IL 60604				
Attention:	Jo Ellen Bender				
Telephone:	(312) 977-2225				
Telecopy:	(312) 977-1380				
Name:	Arab Bank Plc	5,000,000.00	0.833333%	2,250,000.00	1.666667%
Address:	520 Madison Avenue 2nd Floor New York, NY 10022				
Attention:	William Marquardt				
Telephone:	(212) 715-9715				
Telecopy:	(212) 593-4632				

Bank	Amount of Commitment for Revolving Credit Loans	Revolving Credit Ratable Share	Amount of Commitment for Term Loans	Term Loan Ratable Share
Name: Bank Leumi USA Address: 579 Fifth Avenue 2nd Floor New York, NY 10017 Attention: Benjamin Huang Telephone: (212) 407-4305 Telecopy: (212) 407-4317	3,389,830.51	0.564972%	762,711.87	0.564972%
Name: Credit Industriel et Commercial (formerly Compagnie Financiere de Cic et de L'Union Europeene) Address: 520 Madison Avenue 37th Floor New York, NY 10022 Attention: Brian O'Leary Telephone: (212) 715-4422 Telecopy: (212) 715-4535	7,692,307.70	1.282051%	1,730,769.23	1.282051%
Name: National Bank of Kuwait, SAK Address: 299 Park Avenue New York, NY 10171 Attention: Jeff Ganter Telephone: (212) 303-9868 Telecopy: (212) 319-8269	2,500,00.00	0.416667%	3,750,000.00	2.777778%
Name: Gulf International Bank Address: 380 Madison Avenue New York, NY 10017 Attention: Mireille Khalidi Telephone: (212) 922-2327 Telecopy: (212) 922-2339	6,666,666.67	1.111111%	1,666,666.67	1.234568%

	Bank	Amount of Commitment for Revolving Credit Loans	Revolving Credit Ratable Share	Amount of Commitment for Term Loans	Term Loan Ratable Share
Name:	KeyBank National Bank	25,000,000.00	4.166667%	-0-	-0-
Address:	127 Public Square OH-01-27-0606 Cleveland, OH 44114				
Attention:	Frank Jancar				
Telephone:	(216) 689-4442				
Telecopy:	(216) 689-4981				
Name:	General Electric Capital Corporation	10,169,491.53	1.694915%	2,288,135.60	1.694915%
Address:	60 Long Ridge Road Stamford, CT 06927				
Attention:	William Richardson				
Telephone:	(203) 316-7589				
Telecopy:	(203) 316-7978				
	TOTAL	$ 600,000,000	100%	$ 135,000,000	100%

Part 2 - Addresses for Notices to Administrative Agent and to Borrower:

ADMINISTRATIVE AGENT

Name: PNC Bank, National Association
Address: One PNC Plaza
3rd Floor
249 Fifth Avenue
Pittsburgh, PA 15222
Attention: Richard Munsick, Vice President
Telephone: (412) 762-4299
Telecopy: (412) 762-2571

BORROWER:

Name: Arch Coal, Inc.
Address: CityPlace One
CityPlace Drive
St. Louis, MO 63141
Attention: James Florczak
Telephone: (314) 994-2785
Telecopy: (314) 994-2739

SCHEDULE 5.1.6
LITIGATION

Without regard to whether a Material Adverse Change has occurred, Borrower hereby discloses the information in its Form 10-K for the period ending December 31, 1998 and Form 10-Q's for the periods ending March 31, 1999, June 30, 1999 and September 30, 1999 with respect to its Dal-Tex property.

SCHEDULE 5.1.7
CERTAIN DISCLOSURES REGARDING
FINANCIAL STATEMENTS

Without regard to whether a Material Adverse Change has occurred, Borrower hereby discloses (i) the information in its Form 10-K for the period ending December 31, 1998 and Form 10-Q's for the periods ending March 31, 1999, June 30, 1999 and September 30, 1999 with respect to its Dal-Tex property and (ii) the one-time charges to Borrower's financial statements for the period ending December 31, 1999 due to the restructuring of its administrative work force and to the write-down of assets at its Dal-Tex and Hobet 21 operations and certain coal reserves in central Appalachia.

SCHEDULE 5.1.18
CERTAIN DISCLOSURES REGARDING
ENVIRONMENTAL MATTERS

Without regard to whether a Material Adverse Change has occurred, Borrower hereby discloses the information in its Form 10-K for the period ending December 31, 1998 and Form 10-Q's for the periods ending March 31, 1999, June 30, 1999 and September 30, 1999 with respect to its Dal-Tex property.

SCHEDULE 5.1.23
PATENTS, TRADEMARKS,
COPYRIGHTS, LICENSES, ETC.

None

SCHEDULE 5.1.26
PARTNERSHIP AGREEMENTS; LLC AGREEMENTS

Limited Liability Company Agreement of Arch Western Resources, LLC, a Delaware Limited Liability Company, dated as of June 1, 1998

Limited Liability Company Agreement of Arch of Wyoming, LLC, a Delaware Limited Liability Company, dated as of April 15, 1998

Limited Liability Company Agreement of Arch Uinta, LLC, a Delaware Limited Liability Company, dated as of April 29, 1998

Limited Liability Company Agreement of AU Sub, LLC, a Delaware Limited Liability Company, dated as of April 8, 1998

Third Amended and Restated Limited Liability Company Agreement of Canyon Fuel Company, LLC, a Delaware Limited Liability Company, dated as of June 1, 1998

Limited Liability Company Agreement of Mountain Coal Company, L.L.C., a Delaware Limited Liability Company, dated as of March 6, 1998

Limited Liability Company Agreement of State Leases LLC, a Delaware Limited Liability Company, dated as of April 8, 1998

Limited Liability Company Agreement of Thunder Basin Coal Company, L.L.C., a Delaware Limited Liability Company, dated as of July 10, 1997, as amended

SCHEDULE 7.1.12
OWNED AND LEASED REAL PROPERTY;
CERTAIN EQUITY INTERESTS OF SUBSIDIARIES TO BE PLEDGED

Owned Real Property. Borrower's fee interest in the coal reserves with respect to the following properties:

- RP-9729 at Hobet Mine/Allegheny Land (West Ridge/Conley Branch)
- RP-9238 at Hobet Mine (Borrower has an undivided partial interest in the coal reserves with respect to this property.)
- RP-9117 (Borrower has an undivided partial interest in the coal reserves with respect to this property.)
- RP-9123
- RP-9124
- RP-9154 (Borrower has an undivided partial interest in the coal reserves with respect to this property.)
- H21-004213-3
- RP-9729

Leasehold Property: Thundercloud Tract

Subsidiaries:

- Ark Land Company
- Arch Western Acquisition Corp.
- Mountaineer Land Company
- Mountain Mining, Inc.
- Julian Tipple, Inc.
- Hobet Mining, Inc.
- Mountain Gem Land, Inc.
- Allegheny Land Company
- Catenary Coal Holdings, Inc.
- Mingo Logan Coal Company
- Arch Coal Sales Company, Inc.

EXHIBIT 7.3.3

form of
QUARTERLY COMPLIANCE CERTIFICATE

____________________, _____

PNC Bank, National Association, as Administrative Agent
249 Fifth Avenue
Pittsburgh, PA 15222-2707

Ladies and Gentlemen:

I refer to the Credit Agreement dated as of _______________, 1998 (as amended, restated, modified or supplemented from time to time, the "Credit Agreement") between Arch Coal, Inc. (the "Borrower"), the Lenders party thereto, Morgan Guaranty Trust Company of New York as syndication agent, First Union National Bank as documentation agent and PNC Bank, National Association, as administrative agent (the "Administrative Agent"). Unless otherwise defined herein, terms defined in the Credit Agreement are used herein with the same meanings.

I, ______________________, [Chief Executive Officer/President/Chief Financial Officer] of the Borrower, do hereby certify in my capacity as [Chief Executive Officer/President/Chief Financial Officer] as of the [quarter/year ended ______________, ____] (the "Report Date"), as follows (each calculation determined in accordance with GAAP):

(1) Off Balance-Sheet Financing/1/. The aggregate amount of off-balance sheet transactions (i.e., the liabilities in respect of which do not appear on the liability side of the balance sheet) for the Borrower and its Subsidiaries, providing the functional equivalent of borrowed money (including asset securitizations [other than accounts receivable or inventory securitizations], sale/leasebacks or Synthetic Leases) is $____________, which amount does not exceed the amount shown in item (iv) below, each determined as of the Report Date.

(i)	total consolidated assets of Borrower and its Subsidiaries	$__________
(ii)	sum of the total assets of each Special Subsidiary, each multiplied by the Appropriate Percentage /2/	$__________
(iii)	sum of (i) and (ii), without duplication	$__________
(iv)	5% of item (iii)	$__________

- -----------------
/1/ See Section 7.2.9 of the Credit Agreement.
/2/ For each Special Subsidiary, attach a detailed schedule showing the applicable Appropriate Percentage and calculation of "total assets" for each.

(2) Maximum Leverage Ratio/3/. The ratio of (A) Debt to (B) EBITDDA is ________ to 1.00, determined as of the end of each fiscal quarter of the Borrower for the four fiscal quarters then ended, which ratio does not exceed the permitted ratio for the period as set forth in Section 7.2.10 of the Credit Agreement, Debt and EBITDDA being determined as in (A) and (B) below.

(A) Debt of the Borrower and its Subsidiaries/4/, computed as follows:

(i) all indebtedness for borrowed money (including without limitation all subordinated indebtedness but excluding obligations under any interest rate swap, cap, collar or floor agreement or other interest rate management device)

$____

(ii) all amounts raised under or liabilities in respect of any note purchase or acceptance credit facility

$____

(iii) all indebtedness in respect of any other transaction (including production payments [excluding royalties], installment purchase agreements, forward sale or purchase agreements, capitalized leases and conditional sale agreements) having the commercial effect of a borrowing of money entered into by the Borrower or any of its Subsidiaries to finance its operations or capital requirements

$____

(iv) reimbursement obligations (contingent or otherwise) under any letter of credit EXCLUDING (a) contingent reimbursement obligations aggregating at any time up to $10,000,000 and (b) contingent reimbursement obligations in respect of the Letter of Credit issued to support the Port Bond

$____

(v) all indebtedness (whether matured or unmatured, liquidated or unliquidated, direct or indirect, absolute or contingent or joint or several) in respect of all Guarantees by the Borrower

- --------------

/3/ See Section 7.2.10 and the definition of "Leverage Ratio" in Section 1.1 of the Credit Agreement.

/4/ See definition of "Debt" in Section 1.1 of the Credit Agreement and attach a schedule for each Special Subsidiary showing the applicable Appropriate Percentage and calculation of Debt for each.

and its Subsidiaries of Debt of other Persons EXCLUDING indebtedness in respect of the Guaranty by the Borrower of the Port Bond

$____

(vi) adjustment for the difference between actual funded indebtedness and the fair market value of funded indebtedness recorded as required by Accounting Principles Board Opinion No. 16 as in effect on the Closing Date

$____

(vii) sum of items (i) through (v) as adjusted by item (vi) equals Debt $__________

(B) EBITDDA of Borrower and its Subsidiaries/5/ for the four fiscal quarters ending as of the Report Date, computed as follows:

(i) income from operations before the effect of changes in accounting principles, nonrecurring charges, and extraordinary items

$____

(ii) net interest expense $__________

(iii) income taxes $__________

(iv) depreciation $__________

(v) depletion $__________

(vi) amortization $__________

(vii) sum of items (i) through (vi) equals EBITDDA $__________

- --------------

/5/ See definition of "EBITDDA" in Section 1.1 of the Credit Agreement for assumptions regarding (1) calculation of EBITDDA of the Special Subsidiaries and (2) calculation of EBITDDA for the fiscal quarters ending March 31, 1998, June 30, 1998, and September 30, 1998, attaching a detailed schedule showing the calculation of EBITDDA for Arch Western Resources, LLC and its Subsidiaries for each of those three fiscal quarters. To each Compliance Certificate submitted, attach a schedule showing the applicable Appropriate Percentage and calculation of EBITDDA for each Special Subsidiary.

(3) Minimum Fixed Charge Coverage Ratio/6/. The ratio of (A) fixed charges to (B) consolidated net interest expense of the Borrower and its Subsidiaries, in each case determined on a consolidated basis as of the last day of each fiscal quarter for the four fiscal quarters of the Borrower then ended, is _____ to 1.00, which is not less than the minimum required ratio for the period, as set forth in Section 7.2.11 of the Credit Agreement, fixed charges and interest expense being calculated as in (A) and (B) below.

(A) Fixed charges are computed as follows:

(i) operating lease expense of the Borrower and its Subsidiaries/7/ $________

(ii) EBITDDA of Borrower and its Subsidiaries (from item (2)(B)(vii) above) $________

(iii) item (i) plus (ii) without duplication equals fixed charges $________

(B) Interest expense of the Borrower and its Subsidiaries for the four fiscal quarters ending as of the Report Date is computed as follows:

(i) operating lease expense (from item (3)(A)(i) above) $________

(ii) interest expense of Borrower and its Subsidiaries/8/ $________

(iii) Permitted Loan Origination Expense

$____

(iv) sum of items (i) and (ii) less item (iii) equals interest expense

$____

- -------------

/6/ See Section 7.2.11 of the Credit Agreement.

/7/ See definition of "Fixed Charge Coverage Ratio" in Section 1.1 of the Credit Agreement for assumptions regarding (1) calculation of "operating lease expense" of the Special Subsidiaries and (2) calculation of operating lease expense for the fiscal quarters ending June 30, 1998, September 30, 1998, and December 31, 1998, attaching a detailed schedule hereto showing the calculation of operating lease expense for Arch Western Resources, LLC and its Subsidiaries for each of those three fiscal quarters. To each Compliance Certificate submitted, attach a schedule showing the applicable Appropriate Percentage and calculation of operating lease expense for each Special Subsidiary.

/8/ See definition of "Fixed Charge Coverage Ratio" in Section 1.1 of the Credit Agreement for assumptions regarding (1) calculation of "interest expense" of the Special Subsidiaries and (2) calculation of interest expense for the fiscal quarters ending June 30, 1998, September 30, 1998, and December 31, 1998, attaching a detailed schedule hereto showing the calculation of interest expense for Arch Western Resources, LLC and its Subsidiaries for each of those three fiscal quarters. To each Compliance Certificate submitted, attach a schedule showing the applicable Appropriate Percentage and calculation of interest expense for each Special Subsidiary.

(4) Minimum Net Worth/9/. The Borrower's Consolidated Tangible Net Worth as of the Report Date is $___________, which is not less than the Borrower's Base Net Worth of $_______________, as calculated in (A) and (B) below.

(A) Consolidated Tangible Net Worth of the Borrower and its Subsidiaries as of the Report Date, computed as follows:

(i) total stockholders' equity

$____

(ii) intangible assets of the Borrower and its Subsidiaries

$____

(iii) the amount of the Investment by the Borrower and its Subsidiaries in Permitted Joint Ventures in excess of $30,000,000, adjusted to exclude the after-tax effect of any changes in accounting principles subsequent March 31, 1998

$____

(iv) item (i) less items (ii) and (iii) equals Consolidated Tangible Net Worth

$____

(B) Base Net Worth, computed as follows:

(i) [fixed amount]

$____

(ii) 50% of consolidated net income of the Borrower and its Subsidiaries (before the after-tax effects of changes in accounting principles) for each fiscal quarter in which net income was earned (but not to be less than $0 if the Borrower and its Subsidiaries experienced a consolidated net loss during any fiscal quarter)

$____

- -------------------

/9/ See Section 7.2.12 of the Credit Agreement.

(iii) 80% of net increase in Consolidated Tangible Net Worth resulting from the issuance of equity securities by the Borrower for the period from January 1, 2000, through the Report Date

$____

(iv) sum of items (i) through (iii) equals Base Net Worth

$____

(5) Liens/10/. The consolidated aggregate amount of all payments in respect to all Indebtedness of the Arch Coal Group secured by Permitted Liens as of the Report Date is $__________, which amount is not greater than item (iv) below, each determined as of the Report Date.

(i)	total assets of Arch Coal Group	$________
(ii)	Investment of Arch Coal Group in Arch Western Group	$________
(iii)	item (i) less item (ii)	$________
(iv)	5% of item (iii)	$________

(6) Investments in Permitted Joint Ventures. As of the date hereof, the aggregate of all permitted Investments in Permitted Joint Ventures of the Borrower and its Subsidiaries (each such Investment being listed on the attached schedule, showing the name and nature of the Joint Venture, amount of the Investment, the Person making such Investment, and the other Person(s) party to the Joint Venture), totals $______________, which amount does not exceed, for the Borrower and all Significant Subsidiaries, the amount set forth in Section 7.2.6 of the Credit Agreement.

(7) Permitted Investments in Arch Western. The Borrower's Permitted Investment in Arch Western totals as of the Report Date totals $____________________, which amount does not exceed the limit on such Investments set forth in Section 7.2.14(v) of the Credit Agreement.

(8) As of the date hereof, the Borrower has performed and complied with all covenants and conditions of the Credit Agreement; all of the representations and warranties contained in Section 5 of the Credit Agreement and in the other Loan Documents are true on and as of the date hereof with the same effect as though such representations and warranties had been made on the date hereof (except representations and warranties which expressly relate solely

- -----------------

/10/ See Section 7.2.2 of the Credit Agreement.

to an earlier date or time, which representations and warranties shall be true and correct on and as of the specific dates or times referred to therein); no Event of Default or Potential Default exists and is continuing.

IN WITNESS WHEREOF, the undersigned has executed this Certificate this _____ day of ____________, _____.

ARCH COAL, INC.

By:

Name:
Title: [Chief Executive Officer/
President/Chief Financial Officer]

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This annual report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements in the "Outlook" and "Liquidity and Capital Resources" sections below. Words such as "anticipates," "believes," "estimates," "expects," "is likely," "predicts," "may" and variations of such words and similar expressions are intended to identify such forward-looking statements. Although the Company believes that its expectations are based on reasonable assumptions, it cannot assure that the expectations contained in such statements will be achieved. Important factors which could cause actual results to differ materially from those contained in such statements are discussed in the "Contingencies" and "Certain Trends and Uncertainties" sections below.

RESULTS OF OPERATIONS

Ashland Coal, Inc. ("Ashland Coal") merged with Arch Mineral Corporation effective July 1, 1997 (the "Ashland Coal merger") to form Arch Coal, Inc. (the "Company"). The Company acquired the U.S. coal operations of Atlantic Richfield Company (the "Arch Western operations") effective June 1, 1998 (the "Arch Western transaction"). Results of operations do not include activity of Ashland Coal or the Arch Western operations prior to the effective dates of these transactions. Accordingly, the Company's results of operations for 1999, 1998 and 1997 are not directly comparable.

1999 Compared to 1998

The Company incurred a net loss in 1999 of $346.3 million compared to net income of $30.0 million in 1998. Current year results include operating results of the Arch Western operations for the entire year, whereas the prior year only includes results of the Arch Western operations from June 1, 1998, including a 65% share of Canyon Fuel Company, LLC ("Canyon Fuel") income, net of purchase accounting adjustments.

Results of operations for 1999 include various one-time charges which are detailed below.

During the fourth quarter of 1999, the Company determined that significant changes were necessary in the manner and extent in which certain central Appalachia coal assets would be deployed. The anticipated changes were determined during the Company's annual planning process and were necessitated by the adverse legal and regulatory rulings related to surface mining techniques (see additional discussion in the "Contingencies--Legal Contingencies--Dal-Tex Litigation" section of this report) as well as the continued negative pricing trends related to central Appalachia coal production experienced by the Company. As a result of the planned changes in the deployment of its long-lived assets in the central Appalachia region and pursuant to FAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, the Company evaluated the recoverability of its active mining operations and its coal reserves for which no future mining plans exist. This evaluation indicated that the future undiscounted cash flows of three mining operations, Dal-Tex, Hobet 21 and Coal-Mac, and certain coal reserves with no future mining plans were below the carrying value of such long-lived assets. Accordingly, during the fourth quarter of 1999, the Company adjusted the operating assets and coal reserves to their estimated fair value of approximately $99.7 million, resulting in a non-cash impairment charge of $364.6 million (including $50.6 million relating to operating assets and $314.0 million relating to coal reserves). The estimated fair value for the three mining operations was based on anticipated future cash flows discounted at a rate commensurate with the risk involved. The cash flow assumptions used in this determination are consistent with the Company's future plans for those operations and consider the impact of inflation on coal prices and operating costs which are expected to offset each other. The estimated fair value for the coal reserves with no future mining plans was based upon the fair value of these properties to be derived from subleased operations. Management does not expect the impairment charge to have a material impact on the operating results of the Company in any future period.

During the current year, the Company also recorded pre-tax charges totaling $23.1 million related to (i) the restructuring of its administrative workforce; (ii) the closure of its Dal-Tex mine in West Virginia due to permitting problems; and (iii) the closure of several mines in Kentucky and the one remaining underground mine in Illinois due to depressed coal prices, which was caused in part by increased competition from western coal mines. Of the $23.1 million charge, $20.3 million was recorded in cost of coal sales, $2.3 million was recorded in selling, general and administrative expenses and $.5 million was recorded in other expenses in the consolidated statements of operations. The following are the components of severance and other exit costs included in the restructuring charge along with related 1999 activity:

(in thousands)	1999 Charge	Utilized in 1999	Balance at December 31, 1999
Employee costs..........	$7,354	$ 704	$6,650
Obligations for non-cancelable lease payments........	9,858	484	9,374
Reclamation liabilities...........	3,667	1,200	2,467
Depreciation acceleration..........	2,172	2,172	--
	$23,051	$4,560	$18,491

Except for the charge related to depreciation acceleration, all of the 1999 restructuring charge will require the Company to use cash. Also, the Company expects to utilize the balance of the amounts reserved for employee costs in 2000, while the obligations for non-cancelable lease payments and reclamation liabilities will be utilized in future periods as lease payments are made and reclamation procedures are performed.

During 1999, the Company also recorded a $112.3 million valuation allowance for a portion of its deferred tax assets that management believes, more likely than not, will not be realized. These deferred tax assets include a portion of the alternative minimum tax credits and some of the deductible temporary differences that will likely not be realized at the maximum effective tax rate. The valuation allowance has been recorded in the benefit for income taxes line item in the consolidated statements of operations.

Effective January 1, 1999, the Company changed its method of depreciation on preparation plants and loadouts from a straight-line basis to a units-of-production basis, which is based upon units produced, subject to a minimum level of depreciation. These assets are usage-based assets and their economic lives are typically based and measured on coal throughput. The Company believes the units-of-production method is preferable to the method previously used because the new method recognizes that depreciation of this equipment is related substantially to physical wear due to usage as well as the passage of time. This method, therefore, more appropriately matches production costs over the lives of the preparation plants and loadouts with coal sales revenue and results in a more accurate allocation of the cost of the physical assets to the periods in which the assets are consumed. The cumulative effect of applying the new method for years prior to 1999 is an increase to income of $3.8 million net-of-tax ($6.3 million pre-tax) reported as a cumulative effect of accounting change in the consolidated statement of operations for 1999.

Total revenues increased in 1999 from 1998 by 4.1% primarily as a result of the inclusion of a full year of operating results from the Arch Western operations compared to only seven months of operating results from the Arch Western operations in 1998. Revenues were also favorably impacted by increased production and sales at the Company's Samples mine. The increase was partially offset by reduced production and sales at the Company's Dal-Tex and Wylo operations, both located in central Appalachia, and the Company's Arch of Illinois surface operation. The Wylo and Arch of Illinois surface operations ceased production in December 1999 and June 1998, respectively, due to the depletion of their recoverable coal reserves. As planned, the Company idled the Dal-Tex operation on July 23, 1999 due to a delay in obtaining new mining permits which resulted from legal action in the U.S. District Court for the Southern District of West Virginia (the "Dal-Tex Litigation") (see additional discussion in the "Contingencies--Legal Contingencies--Dal-Tex Litigation" section of this report). On a per-ton-sold basis, the Company's average selling price decreased by $4.03, primarily because of the inclusion of the Arch Western operations for all of 1999 compared to only seven months during 1998. Western coal has a significantly lower average sales price than that provided from the Company's eastern coal operations, due in part to the lower Btu content of Powder River Basin coal.

Excluding the one-time charges discussed above, income from operations decreased $27.2 million despite the inclusion of the Arch Western operations for the entire year compared to only seven months in 1998. Net gains on the disposition of assets were $7.5 million in 1999 compared to $41.5 million in 1998. The gain in 1998 included a pre-tax gain of $18.5 million on the sale of certain idle properties in eastern Kentucky and a pre-tax gain of $7.5 million on the sale of the Company's idle Big Sandy Terminal. The operating results in 1999 also include pre-tax gains of $5.0 million related to settlements with various suppliers. Operating results in 1999 were negatively affected by production shortfalls, deterioration of mining conditions and resulting lower operating income from the Company's idled Dal-Tex mine complex. Operating results were also negatively affected in 1999 at Mingo Logan, where, despite another strong year from the Company's longwall operation (Mountaineer Mine) which contributed $46.6 million of income to the Company's results of operations, results were significantly below the $77.8 million contributed to income from operations in 1998. The decrease was primarily caused by depressed coal prices, generally less favorable mining conditions and increased mine development expenses associated with the start-up of the Alma seam during 1999. During the first half of 1999, the Company continued to experience production shortfalls and operating challenges at its Black Thunder Mine in Wyoming due to geologic, water drainage and sequencing problems. The negative impacts discussed above were partially offset by lower operating losses in 1999 at the Arch of Kentucky operation compared to 1998. The Arch of Kentucky operation shut-down in January of 1998. Results during 1998 were impacted by the costs associated with the shut-down of that operation.

Selling, general and administrative expenses increased $1.6 million primarily due to the inclusion of the Arch Western operations for the entire year compared to only seven months in 1998, the restructuring charge (see discussion above) and additional legal and other expenses related to surface-mining issues in West Virginia.

Sales contract amortization increased $2.0 million primarily from the inclusion of a full year of the Arch Western operations compared to seven months in 1998.

Interest expense increased $27.9 million due to the increase in debt associated with the June 1998 Arch Western transaction.

The income tax benefit recorded in 1999 resulted from the generation of the pre-tax loss (primarily attributable to the asset impairment and restructuring charges) offset by the valuation allowance recorded against the Company's deferred tax assets. Management believes that taxable income will be generated by the Company in future periods that is consistent with historical income levels and will, more likely than not, permit the realization of the remaining net deferred tax assets at December 31, 1999. The Company's effective tax rate is sensitive to changes in annual profitability and percentage depletion.

EBITDA (income (loss) from operations before the effect of changes in accounting principles and extraordinary items; merger-related costs, unusual items, asset impairment and restructuring charges; net interest expense; income taxes; depreciation, depletion and amortization of Arch Coal, its subsidiaries and its ownership percentage in its equity investments) was $325.9 million for 1999 compared to $313.5 million for 1998. The increase in EBITDA is primarily attributable to the additional sales that resulted from the inclusion of an entire year of Arch Western compared to only seven months in 1998. EBITDA is a widely accepted financial indicator of a company's ability to incur and service debt, but EBITDA should not be considered in isolation or as an alternative to net income, operating income, or cash flows from operations or as a measure of a company's profitability, liquidity or performance under generally accepted accounting principles. The Company's method of computing EBITDA also may not be the same method used to compute similar measures reported by other companies, or EBITDA may be computed differently by the Company in different contexts (e.g., public reporting versus computations under financing agreements).

1998 Compared to 1997

Net income for 1998 was $30.0 million compared to $30.3 million for 1997. The 1998 results include a full year of operating results from the former Ashland Coal operations, whereas 1997 included only six months of results from those operations. In addition, 1998 includes results of the Arch Western operations from June 1, 1998, including a 65% share of Canyon Fuel income, net of purchase accounting adjustments.

Total revenues increased 41% as a result of the inclusion of a full year of results from the former Ashland Coal operations in 1998 and seven months of operating results from the Arch Western operations, including income from the Company's equity investment in Canyon Fuel. On a per-ton-sold basis, however, the Company's average selling price decreased by $7.93, primarily because of the inclusion of the Arch Western operations. Western coal has a significantly lower average sales price than that provided from the Company's eastern coal operations, due in part to the lower Btu content of Powder River Basin coal. Selling prices were also affected by adverse market conditions in certain western U.S. and export markets, as well as by reduced seasonal demand caused by unusually warm winter weather.

Net income for 1998 approximated that for 1997 despite the Arch Western transaction and the inclusion of a full year of results from the former Ashland Coal operations. Operating results were favorably impacted in 1998 by increased production from the Company's Mingo Logan longwall operation (Mountaineer Mine). This positive result was offset, in part, by production shortfalls, deterioration of mining conditions and resulting lower net income contributions from the Company's Dal-Tex and Hobet mining complexes in central Appalachia and the June 1998 closure of the Company's large surface operation in Illinois as a result of reserve depletion. In particular, as a result of the continued delay in receiving new mining permits because of the Dal-Tex Litigation, the Dal-Tex operation was forced to operate in less favorable mining areas with higher overburden ratios and lower productivity, resulting in higher production costs. The Company's 1998 results were also significantly impacted by operating difficulties at the Arch Western operations. The Company experienced production shortfalls and operating challenges at its Black Thunder mine in Wyoming due to geologic, water drainage and equipment sequencing problems and substantial transportation delays at its West Elk mine in Colorado. In addition, Canyon Fuel experienced difficult geologic conditions at its Skyline Mine. Other items adversely affecting 1998 results, as compared to 1997 results, included the expiration of an above-market-price long-term coal supply contract with Georgia Power in December 1997, reduced shipments under another above-market-price long-term coal supply contract in 1998, the completion in 1997 of $10.8 million annual accretion of a 1993 unrecognized net gain related to pneumoconiosis (black lung) liabilities, and a net increase in reclamation costs of $4.9 million in 1998 as compared to a benefit in 1997 of $4.4 million resulting from the Company's recosting of its reclamation liability. Operating results in 1998 include gains from the disposition of assets of $41.5 million compared to $4.8 million in 1997. The gain in 1998 includes pre-tax gains of $18.5 million on the sale of certain idle properties in eastern Kentucky and $7.5 million on the sale of the Company's idle Big Sandy Terminal. Results for 1997 were also affected by a one-time charge of $39.1 million ($23.8 million after-tax) related to the Ashland Coal merger.

Selling, general and administrative expenses increased $15.9 million primarily due to the effects of the Ashland Coal merger and the Arch Western transaction.

As a result of the amortization of the carrying value of the sales contracts acquired in the Ashland Coal merger and the Arch Western transaction, amortization of coal supply agreements increased $16.5 million.

Interest expense increased $44.4 million due to the increase in debt as a result of the Arch Western transaction.

The Company's effective tax rate is sensitive to changes in annual profitability and percentage depletion.

During 1998, the Company incurred an extraordinary charge of $1.5 million (net of a tax benefit of $.9 million) related to the early extinguishment of debt in conjunction with the refinancing of Company debt resulting from the Arch Western transaction.

EBITDA was $313.5 million for 1998 compared to $224.6 million for 1997. The increase in EBITDA is primarily attributable to the additional sales that resulted from the Ashland Coal merger and the Arch Western transaction.

OUTLOOK

Ashland Distribution. Ashland Inc. ("Ashland"), which owns approximately 58% of the outstanding common stock of the Company, announced on March 16, 2000 that its Board of Directors has declared a taxable distribution of approximately 17.4 million of its 22.1 million shares of the Company's common stock. The distribution will be in the form of a taxable dividend, to be distributed on or around March 27, 2000 to Ashland's stockholders of record as of March 24, 2000. Ashland also confirmed that it plans to dispose of its remaining 4.7 million shares of the Company's common stock in a tax efficient manner after the distribution, subject to then-existing market conditions. There will be no impact on the operations of the Company as a result of the distribution by Ashland. Ashland first announced its interest in exploring strategic alternatives for its investment in the Company on June 22, 1999.

West Virginia Operations. On October 20, 1999, the U.S. District Court for the Southern District of West Virginia permanently enjoined the West Virginia Division of Environmental Protection (the "West Virginia DEP") from issuing any new permits that authorize the construction of valley fills as part of coal mining operations. The West Virginia DEP complied with the injunction by issuing an order banning the issuance of nearly all new permits for valley fills and prohibiting the further advancement of nearly all existing fills. On October 29, 1999, the district court granted a stay of its injunction, pending the outcome of an appeal of the court's decision filed by the West Virginia DEP with the U.S. Court of Appeals for the Fourth Circuit. The West Virginia DEP rescinded its order in response to the stay granted by the court. It is impossible to predict the outcome of the West Virginia DEP's appeal to the Fourth Circuit. If, however, the district court's ruling is not overturned or if a legislative or other solution is not achieved, then the ability of the Company and other coal producers to mine coal in West Virginia would be seriously compromised.

The injunction discussed above was entered as part of the litigation that caused the delay in obtaining mining permits for the Company's Dal-Tex operation (see additional discussion of this litigation in the "Contingencies--Legal Contingencies--Dal-Tex Litigation" section of this report). As a result of such delay, the Company idled its Dal-Tex mining operation on July 23, 1999. The Company remains hopeful that it can reopen the Dal-Tex operation after all necessary permits are obtained, which is not expected to occur until mid-2001 at the earliest. Reopening the mine is, however, contingent upon the district court's injunction being overturned or a legislative or other solution being achieved, as well as then-existing market conditions.

West Elk Mine. The Company temporarily idled its West Elk underground mine in Gunnison County, Colorado, on January 28, 2000 following the detection of higher-than-normal levels of carbon monoxide in a portion of the mine. Higher-than-normal readings of carbon monoxide indicate that combustion is present somewhere within the affected portion of the mine. The Company has sealed the affected portion of the mine while it further isolates the affected area and determines the cause of and solutions to the problem. West Elk produced approximately 7.3 million tons of coal in 1999, employs approximately 300 people and generated approximately $13.1 million of the Company's total operating income in 1999. The Company does not believe the mine's closure will have a material long-term effect on the Company's financial condition, but it could have a material adverse effect on the Company's results of operations until the mine is reopened and fully operating. The Company expects the mine to incur after-tax losses of between $4 million and $6 million per month until normal operations can be resumed. The Company also expects a portion of these losses to be covered by business interruption insurance which will be received at some point in the future.

Mine Closures. During 1999, in addition to idling the Dal-Tex mine as discussed above, the Company closed two surface mines in Kentucky and its last mining operation in the midwestern United States, the Conant underground mine in southern Illinois. The Kentucky surface mines are affiliated with the Coal-Mac operation and were closed as a result of its cost structure not being competitive in the current market. The Conant Mine was affiliated with the Arch of Illinois operation and was closed due to a lack of demand for the mine's high-sulfur coal. Demand for high-sulfur coal has declined rapidly as a result of the stringent Clean Air Act requirements that are driving a shift to low-sulfur coal. The Coal-Mac and the Arch of Illinois operations combined, produced 3.4 million tons of coal and had an operating loss of $12.4 million in 1999, which included a $6.0 million impairment charge at Coal-Mac and a combined restructuring charge of $5.7 million (discussed previously), offset by a $2.5 million gain on the sale of a dragline at the Illinois operation.

Restructuring. As part of its corporate-wide effort to reduce costs, the Company streamlined the structure of its organization and as a result eliminated approximately 81 administrative jobs, 58 of which were corporate and the remainder of which were subsidiary positions. The elimination of jobs occurred through layoffs and attrition. The Company believes that the corporate-wide restructuring will likely reduce future operating costs by approximately $11 million a year compared to 1999.

Tax Provision. During 1999, the Company recorded a $112.3 million valuation allowance for a portion of its deferred tax asset that management believes, more likely than not, will not be realized (see additional discussion in the "Results of Operations" section above). In analyzing its tax provision for 1999, the Company determined that as it relates to future income taxes, the Company does not anticipate recognizing all of its alternative minimum tax credit carry-forwards in the future and, as a result, expects to recognize part of the benefit of its deferred tax asset at the alternative minimum tax rate of approximately 24%.

Coal Markets. Mild weather patterns over the last year, a depressed export coal market and excessive production capacity continue to depress coal prices. The Company does not believe that prices are likely to improve in the near term. Despite these conditions, the Company will continue to focus on solidifying its position in low-sulfur coal markets. With Phase II of the Clean Air Act taking effect on January 1, 2000, the Company believes that in the long term, compliance coal will command a premium in the marketplace, particularly in the Powder River Basin. Compliance coal is coal that meets the requirements of Phase II of the Clean Air Act without the use of expensive scrubbing technology. All of Arch's western coal production and approximately half of its eastern coal production is compliance quality.

The Company's acquisition of the Arch Western operations on June 1, 1998 strongly positioned the Company in western compliance coal markets. The acquisition also helped solidify the Company's future as reserves of its other operations deplete, most notably Mingo Logan's Mountaineer Mine, which will deplete its long-wall-mineable reserves in 2002.

The Company continues to develop its assets at the Arch Western operations, including the Black Thunder mine near Gillette, Wyoming. On March 12, 1999, the Company entered into an agreement to transfer ownership of a portion of the 412-million-ton Thundercloud federal coal lease (the "Thundercloud lease"), which is part of the Company's Black Thunder mine, to Kennecott Energy Company ("Kennecott Energy"). The reserves, located adjacent to the western border of Kennecott Energy's Jacobs Ranch mine, are estimated to contain 35 million tons of coal. In exchange for that portion of the lease, the Company received approximately $12 million along with baseline environmental data with respect to the Thundercloud lease. The environmental data has allowed the Company to expedite permitting of the property on which development is underway. In addition, the Black Thunder mine recently completed the construction of a fourth dragline.

Chief Financial Objectives. Despite the ongoing challenges of the coal industry, the Company continues to believe that it 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. The Company will continue to take the necessary steps to realize the substantial potential of its assets and maximize shareholder value by focusing on its five chief financial objectives:
(i) aggressively paying down debt, (ii) further strengthening cash generation, (iii) improving earnings, (iv) increasing productivity and (v) reducing costs throughout the Company.

LIQUIDITY AND CAPITAL RESOURCES

The following is a summary of cash provided by or used in each of the indicated types of activities during the past three years:

	Year Ended December 31,		
(in thousands)	1999	1998	1997
Cash provided by (used in)			
Operating activities	$ 279,963	$ 188,023	$ 190,263
Investing activities	(84,358)	(1,271,371)	(80,009)
Financing activities	(219,736)	1,101,585	(114,793)

Cash provided by operating activities increased in 1999 compared to 1998 primarily as a result of increased operating activity from the Arch Western transaction (which during 1999 was included for a full year compared to only seven months in 1998), including distributions from the Company's investment in Canyon Fuel. This increase was partially offset by increased interest payments resulting from increased borrowings associated with the Arch Western transaction and less favorable operating results in 1999 as discussed previously. The slight decrease in cash provided by operating activities from 1998 to 1997 was principally due to increased interest expense as a result of increased borrowings associated with the Arch Western transaction, and tax payments related to adjustments to income taxes payable in prior years. This slight decrease was mostly offset by increased operating activity resulting from the Arch Western transaction and distributions from the Company's investment in Canyon Fuel.

A portion of the 1999 distributions from the Company's investment in Canyon Fuel resulted from Canyon Fuel amending its coal supply agreements with the Intermountain Power Agency's Intermountain Power Project ("IPA") during January 1999. Pursuant to the amended coal supply agreements, Canyon Fuel will supply coal to IPA through 2010 with a mutual option to extend the terms of the agreements to 2015 at a rate of approximately 2.2 million tons per year. The amended coal supply agreements were entered into in connection with the settlement of arbitration and litigation between Canyon Fuel and IPA. The members of Canyon Fuel also agreed to terminate certain indemnification rights, including indemnification rights relating to the IPA coal supply agreements, arising in connection with the December 1996 acquisition of Canyon Fuel from The Coastal Corporation, and the Company agreed to terminate certain indemnification rights relating to the IPA coal supply agreements under agreements relating to the Arch Western transaction. In the aggregate, the Company will receive $29.9 million over three years for termination of the indemnity rights. The proceeds from the termination of the indemnity rights will be used to repay debt and for other corporate purposes.

The decrease in cash used for investing activities in 1999 compared to 1998 primarily resulted from the payment of $1.1 billion in cash in the Arch Western transaction. In addition, the Company amended another coal supply agreement during 1999 that was acquired in the Arch Western transaction. The amendment changed the contract terms from above-market to market-based pricing. As a result of the amendment, the Company received proceeds of $14.1 million (net of royalty and tax obligations) from the customer. The increase in cash used for investing activities in 1998 from the 1997 level primarily resulted from the payment of $1.1 billion in the Arch Western transaction. The Company's expenditures for property, plant and equipment were $98.7 million, $141.7 million and $77.3 million in 1999, 1998 and 1997, respectively. Capital expenditures are made to improve and replace existing mining equipment, expand existing mines, develop new mines and improve the overall efficiency of mining operations. Capital expenditures for 1998 included $31.6 million for the first of five federal lease bonus payments on the Thundercloud lease. The four remaining payments will be made in January of 2000 through 2003. The Company estimates that its capital expenditures (excluding acquisitions) may be as much as $105 million during 2000. It is anticipated that these capital expenditures will be funded by available cash and existing credit facilities.

Cash used in financing activities principally reflects reductions in borrowings of $189.1 million in 1999. The Company was able to reduce debt from the higher amount of cash flow generated from operations. Cash provided by financing activities in 1998 reflects an increase in borrowings of $1.1 billion associated with the Arch Western transaction, net of associated debt repayment. The Company repaid approximately

$35.7 million of senior notes concurrently with its borrowings to finance the Arch Western transaction. In addition, a January 1998 sale and leaseback of equipment resulted in proceeds of $45.4 million. Cash used in financing activities in 1997 principally reflects reductions in borrowings of $102.2 million. On September 29, 1998, the Company's Board of Directors authorized the Company to repurchase up to 2 million shares of Company common stock. The timing of the purchase and the number of shares to be purchased are dependent on market conditions. Under this authorization, 1.7 million shares had been acquired by the Company through December 31, 1999. The Company paid dividends of $17.6 million, $18.3 million and $13.6 million in 1999, 1998 and 1997, respectively. On February 24, 2000, Arch declared a quarterly dividend of 5.75 cents per share on the Company's common stock which represents a 50% reduction in the Company's 1999 quarterly dividends. The reduction is attributable to the Company's goal to aggressively pay down debt. The Company expects to continue paying regular cash dividends although, there is no assurance as to the amount or payment of dividends in the future because they are dependent on the Company's future earnings, capital requirements and financial condition.

In connection with the Arch Western transaction, the Company entered into two new five-year credit facilities: a $675 million non-amortizing term loan in the name of Arch Western ("Arch Western credit facility"), the entity owning title to coal reserves and operating assets acquired in the Arch Western transaction, and a $900 million credit facility in the name of the Company ("Arch Coal credit facility"), including a $300 million fully amortizing term loan and a $600 million revolver. Borrowings under the Arch Coal credit facility were used to finance the acquisition of ARCO's Colorado and Utah coal operations, to pay related fees and expenses, to refinance existing corporate debt and for general corporate purposes. Borrowings under the Arch Western credit facility were used to fund a portion of a $700 million cash distribution by Arch Western to ARCO, which distribution occurred simultaneously with ARCO's contribution of its Wyoming coal operations and certain other assets to Arch Western. The $675 million term loan is secured by Arch Western's membership interests in its subsidiaries. The Arch Western credit facility is not guaranteed by the Company. The rate of interest on the borrowings under the agreements is, at the Company's option, the PNC Bank base rate or a rate based on LIBOR.

The Company periodically establishes uncommitted lines of credit with banks. These agreements generally provide for short-term borrowings at market rates. At December 31, 1999, there were $65 million of such agreements in effect, under which no borrowings were outstanding.

At December 31, 1999, as a result of the effect of the write-down of impaired assets and other restructuring costs, the Company did not comply with certain restrictive covenant requirements associated with the Company's credit facilities. The Company received an amendment to the credit facilities on January 21, 2000. These amendments contain, among other things, provisions for the payment of fees of .25% and an increase in the interest rate of .375% associated with the Company's term loan and the $600 million revolver. In addition, the amendments require the pledging of assets to collateralize the term loan and the $600 million revolver by May 20, 2000. The assets to be pledged are expected to include equity interests in wholly owned entities, certain real property interests, accounts receivable and inventory of the Company.

The Company is exposed to market risk associated with interest rates. At December 31, 1999, debt included $1.175 billion of floating-rate debt which is, at the Company's option, the PNC Bank base rate or a rate based on LIBOR, and current market rates for bank lines of credit.

To manage these exposures, the Company enters into interest-rate swap agreements to modify the interest characteristics of outstanding Company debt. At December 31, 1999, the Company had interest-rate swap agreements having a total notional value of $780.0 million. These swap agreements are used to convert variable-rate debt to fixed-rate debt. Under these swap agreements, the Company pays a weighted average fixed rate of 5.53% (before the credit spread over LIBOR) and is receiving a weighted average variable rate based upon 30-day and 90-day LIBOR. The remaining terms of the swap agreements at December 31, 1999 ranged from 32 to 56 months. All instruments are entered into for other than trading purposes.

The discussion below presents the sensitivity of the market value of the Company's financial instruments to selected changes in market rates and prices. The range of changes chosen reflects the Company's view of changes which are reasonably possible over a one-year period. Market values are the present value of projected future cash flows based on the market rates and prices chosen. The major accounting policies for these instruments are described in Note 1 to the consolidated financial statements.

Changes in interest rates have different impacts on the fixed- and variable-rate portions of the Company's debt portfolio. A change in interest rates on the fixed portion of the debt portfolio impacts the net financial instrument position but has no impact on interest incurred or cash flows. A change in interest rates on the variable portion of the debt portfolio impacts the interest incurred and cash flows but does not impact the net financial instrument position.

The sensitivity analysis related to the fixed portion of the Company's debt portfolio assumes an instantaneous 100-basis-point move in interest rates from their levels at December 31, 1999, with all other variables held constant. A 100-basis-point decrease in market interest rates would result in an increase in the net financial instrument position of the fixed portion of debt of $20.4 million at December 31, 1999. Based on the variable-rate debt included in the Company's debt portfolio as of December 31, 1999, after considering the effect of the swap agreements, a 100-basis-point increase in interest rates would result in an annualized additional $4.0 million of interest expense incurred based on year-end debt levels.

At December 31, 1999, the Company's debt level amounted to $1.181 billion, compared to $1.370 billion at December 31, 1998. The decrease resulted from a debt reduction program instituted by the Company. Stockholders' equity decreased $376.9 million during 1999 primarily as a result of the operating losses incurred during 1999, which included the one-time charges discussed above. At December 31, 1999, the Company's debt represented 83% of capital employed, an increase from 69% at December 31, 1998 as a result of the one-time charges discussed above. The current assets to current liabilities ratio was .8 to 1.0 at December 31, 1999 compared to 1.1 to 1.0 at December 31, 1998.

CONTINGENCIES

Reclamation

The federal Surface Mining Control and Reclamation Act of 1977 ("SMCRA") and similar state statutes require that mine property be restored in accordance with specified standards and an approved reclamation plan. The Company accrues for the costs of final mine closure reclamation over the estimated useful mining life of the property. These costs relate to reclaiming the pit and support acreage at surface mines and sealing portals at deep mines. Other costs of final mine closure common to surface and underground mining are related to reclaiming refuse and slurry ponds, eliminating sedimentation and drainage control structures and dismantling or demolishing equipment or buildings used in mining operations. The Company also accrues for significant reclamation that is completed during the mining process prior to final mine closure. The establishment of the final mine closure reclamation liability and the other ongoing reclamation liability are based upon permit requirements and require various estimates and assumptions, principally associated with costs and productivities.

The Company reviews its entire environmental liability periodically and makes necessary adjustments, including permit changes and revisions to costs and productivities to reflect current experience. These recosting adjustments are recorded to cost of coal sales. Adjustments included a net increase in the liability of $4.3 million and $4.9 million in 1999 and 1998, respectively, and a net decrease in the liability of $4.4 million in 1997. The Company's management believes it is making adequate provisions for all expected reclamation and other associated costs.

Reclamation and mine closing costs for operations as of December 31, 1999, in the aggregate, are estimated to be approximately $308.4 million. At December 31, 1999 and 1998, the accrual for such costs, which is included in accrued reclamation and mine closure and in accrued expenses, was $156.4 million and $157.5 million, respectively.

Legal Contingencies

The Company is a party to numerous claims and lawsuits with respect to various matters, including those discussed below. The Company provides for costs related to contingencies, including environmental matters, when a loss is probable and the amount is reasonably determinable. The Company estimates that its probable aggregate loss as a result of such claims as of December 31, 1999 is $5.2 million (included in other noncurrent liabilities). The Company estimates that its reasonably possible aggregate losses from all material litigation that is currently pending could be as much as $.5 million (before taxes) in excess of the loss previously recognized.

Dal-Tex Litigation. On July 16, 1998, ten individuals and The West Virginia Highlands Conservancy filed suit in U.S. District Court for the Southern District of West Virginia against the director of the West Virginia DEP and officials of the U.S. Army Corps of Engineers (the "Corps") alleging violations of SMCRA and the Clean Water Act. The plaintiffs alleged that the West Virginia DEP and the Corps have violated their duties under SMCRA and the Clean Water Act by authorizing the construction of "valley fills" under certain surface coal mining permits. These fills are the large, engineered works into which the excess earth and rock extracted above and between the seams of coal that are removed during surface mining are placed. The plaintiffs also alleged that the West Virginia DEP has failed to require (i) that lands mined are restored to "approximate original contour" and (ii) that approved post-mining land uses are enforced following reclamation.

Four indirect, wholly owned subsidiaries of the Company hold nine permits that were identified in the complaint as violating the legal standards that the plaintiffs requested the district court interpret. In addition, a pending permit application for the Company's Dal-Tex operation (known as the "Spruce Fork Permit") was specifically identified as a permit the issuance of which should be enjoined. Three subsidiaries of the Company intervened in the lawsuit in support of the Corps and the West Virginia DEP on August 6, 1998.

A partial settlement between the plaintiffs and the Corps was reached on December 23, 1998. Pursuant to that settlement, all claims were dismissed against the Corps for its alleged failure to execute its duties under the Clean Water Act. The settlement agreement reached between the Corps and the plaintiffs requires the preparation of a programmatic environmental impact statement (an "EIS") under the National Environmental Policy Act of 1969 ("NEPA") to evaluate the environmental effects of mountaintop mining. This EIS is scheduled to be completed by January 2001. Until it is completed, any proposed fill greater than 250 acres in size must secure an individual Clean Water Act (S)404 "dredge and fill" permit, instead of a general permit like the one the Corps indicated it would issue for the Dal-Tex operation under its nationwide authorization program. The Spruce Fork Permit was not included in the settlement, and the claims against the Corps with respect to that permit were not dismissed.

On March 3, 1999, the district court issued a preliminary injunction which prohibited the Corps from issuing a general Clean Water Act (S)404 "dredge and fill" permit for the Dal-Tex operation and enjoined the Company from future operations on the permit until a full trial on the merits could be held. As a result of the entry of the preliminary injunction, the Company idled the Dal-Tex mine on July 23, 1999.

On July 26, 1999, the plaintiffs and the West Virginia DEP tendered to the district court a proposed consent decree which would resolve most of the remaining issues in the case. Pursuant to the proposed consent decree, the West Virginia DEP agreed in principal to amend its regulations and procedures to correct alleged deficiencies. In addition, the parties agreed in principal on a new definition of "approximate original contour" as it applies to mountaintop mining, as well as to certain regulatory changes involving post-mining land uses. After inviting public comment of the proposed consent decree, the court entered the consent decree in a final order on February 17, 2000.

The Company's Hobet Mining subsidiary agreed as part of the consent decree to revise portions of its Spruce Fork Permit application to conform to the new definition of "approximate original contour" to be adopted by the West Virginia DEP. Hobet Mining also agreed to seek an individual Clean Water Act (S)404 "dredge and fill" permit from the Corps as part of its future mining operation. Before issuing that permit, the Corps must first complete an EIS to comply with the provisions of NEPA. The completion of this EIS and issuance of all permits are not expected until mid-2001 at the earliest.

The plaintiffs' allegation that the West Virginia DEP violated its duties under the Clean Water Act by authorizing the construction of "valley fills" under certain coal mining permits was not resolved by the consent decree. On October 20, 1999, the district court entered a permanent injunction against the West Virginia DEP prohibiting the issuance of any new permits that authorize the construction of valley fills as part of mining operations. The court concluded that the excess earth and rock that is placed in a valley fill during mining is not fill material, but rather is "waste," which may not be placed in intermittent and perennial streams because the disposal of such material cannot meet applicable water quality standards.

The West Virginia DEP immediately complied with the district court's injunction by issuing an administrative order banning the expansion of nearly all existing valley fills as well as prohibiting the issuance of nearly all new permits for valley fills. The West Virginia DEP also filed an appeal of the district court's decision with the U.S. Court of Appeals for the Fourth Circuit. On October 29, 1999, the district court granted a stay of its decision, pending the outcome of the appeal. The West Virginia DEP rescinded its administrative order on November 1, 1999 in response to the district court's action.

It is impossible to predict the outcome of the West Virginia DEP's appeal. If, however, the district court's decision is upheld, the Company and other coal producers may be forced to close all or a portion of their mining operations in West Virginia because of the prohibition on constructing "valley fills" for their existing and future mines. Regardless of the outcome of the appeal, the Company determined that significant changes were necessary in the manner and extent in which certain central Appalachia coal assets would be deployed.

Cumulative Hydrologic Impact Assessment ("CHIA") Litigation. On January 20, 2000, two environmental organizations, the Ohio Valley

Environmental Coalition and the Hominy Creek Watershed Association, filed suit against the West Virginia DEP in U.S. District Court in Huntington, West Virginia. In addition to allegations that the West Virginia DEP violated state law and provisions of the Clean Water Act, the plaintiffs allege that the West Virginia DEP's issuance of permits for surface and under-ground coal mining has violated certain non-discretionary duties mandated by SMCRA. Specifically, the plaintiffs allege that the West Virginia DEP has failed to require coal operators seeking permits (i) to conduct water monitoring to verify stream flows and ascertain water quality, (ii) to always include certain water quality information in their permit applications and (iii) to analyze the probable hydrologic consequences of their operations. The plaintiffs also allege that the West Virginia DEP has failed to analyze the cumulative hydrologic impacts of mining operations on specific watersheds.

The plaintiffs seek an injunction to prohibit the West Virginia DEP from issuing any new permits which fail to comply with all of the elements identified in their complaint. The complaint identifies, and seeks to enjoin, three pending permits that are sought by the Company's Mingo Logan subsidiary to continue existing surface mining operations at the Phoenix reserve. If the permits are not issued, it is possible that those operations will have to be suspended by the subsidiary early in 2001. On February 17, 2000, the West Virginia DEP filed a motion to dismiss all claims in the lawsuit. Depending upon the disposition of the motion, the Mingo Logan subsidiary may choose to intervene in the matter.

It is impossible to predict whether this litigation will result in a suspension of the affected surface mining operations. If, however, the operations are suspended, the Company's financial condition and results of operations could be adversely affected and, depending upon the length of the suspension, the effect could be material.

Lone Mountain Litigation. On October 24, 1996, the rock strata overlaying an abandoned underground mine adjacent to the coal-refuse impoundment used by the Lone Mountain preparation plant failed, resulting in the discharge of approximately 6.3 million gallons of water and fine coal slurry into a tributary of the Powell River in Lee County, Virginia.

The U.S. Department of the Interior has notified the Company that it intends to file a civil action under the Clean Water Act and the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") to recover the natural resource damages suffered as a result of the discharge. The Interior Department alleges that fresh water mussels listed on the federal Endangered Species List that reside in the Powell River were affected as a consequence of the discharge. The Company and the Interior Department have reached an agreement in principal to settle this matter, which would require a payment of $2.5 million by the Company. The settlement is subject to the Company and the Interior Department entering into a definitive agreement. The Company's consolidated balance sheet as of December 31, 1999 reflects a reserve for the full amount of this settlement.

Other Litigation. On October 31, 1997, the EPA notified a Company subsidiary that it was a potentially responsible party in the investigation and remediation of two hazardous waste sites located in Kansas City, Kansas, and Kansas City, Missouri. The Company's involvement arises from the subsidiary's sale, in the mid-1980s, of fluids containing small quantities of polychlorinated biphenyls ("PCBs") to a company authorized to engage in the processing and disposal of these wastes. Some of these waste materials were sent to one of the sites for final disposal. The Company responded to the information request submitted by the EPA on December 1, 1997. Any liability which might be asserted by the EPA against the Company is not believed to be material because of the de minimis quantity and concentration of PCBs linked to the Company. Moreover, the party with which the subsidiary contracted to dispose of the waste material has agreed to indemnify the Company for any costs associated with this action.

CERTAIN TRENDS AND UNCERTAINTIES

Substantial Leverage; Variable Interest Rates; Restrictive Covenants

The Company has substantial leverage and significant debt service and lease and royalty payment obligations. As of December 31, 1999, the Company had outstanding consolidated indebtedness of approximately $1.2 billion, representing approximately 83% of the Company's total capitalization.

The Company's ability to satisfy its debt service and lease payment obligations will depend upon the future operating performance of its subsidiaries, which will be affected by prevailing economic conditions in their markets, as well as financial, business and other factors, certain of which are beyond their control. Based upon current levels of operations, the Company believes that cash flow from operations and available cash, together with available borrowings under the Company's credit facilities, will be adequate to meet the Company's future liquidity needs for at least the next several years. However, there can be no assurance that the Company's business will generate sufficient cash flow from operations or that future borrowings will be available in an amount sufficient to enable the Company to fund its debt service and lease payment obligations or its other liquidity needs.

The degree to which the Company is leveraged could have material consequences to the Company and its business, including, but not limited to; (i) making it more difficult for the Company to satisfy its debt service, lease payment and other obligations; (ii) increasing the Company's vulnerability to general adverse economic and industry conditions; (iii) limiting the Company's ability to obtain additional financing to fund future acquisitions, working capital, capital expenditures or other general corporate requirements; (iv) reducing the availability of cash flow from operations to fund acquisitions, working capital, capital expenditures or other general corporate purposes; (v) limiting the Company's flexibility in planning for, or reacting to, changes in its business and the industry in which it competes; and (vi) placing the Company at a competitive disadvantage when compared to competitors with less debt.

A portion of the Company's indebtedness bears interest at variable rates that are linked to short-term interest rates. If interest rates rise, the Company's costs relative to those obligations would also rise.

Terms of the Company's credit facilities and leases contain financial and other restrictive covenants that limit the ability of the Company to, among other things, pay dividends, effect acquisitions or dispositions and borrow additional funds and require the Company to, among other things, maintain various financial ratios and comply with various other financial covenants. Failure by the Company to comply with such covenants could result in an event of default which, if not cured or waived, could have a material adverse effect on the Company.

Environmental and Regulatory Factors

Federal, state and local governmental authorities regulate the coal mining industry on matters as diverse as employee health and safety, air quality standards, water pollution, groundwater quality and availability, plant and wildlife protection, the reclamation and restoration of mining properties, the discharge of materials into the environment and surface subsidence from underground mining. In addition, federal legislation mandates certain benefits for various retired coal miners represented by the United Mine Workers of America ("UMWA"). These regulations and legislation have had and will continue to have a significant effect on the Company's costs of production and competitive position.

New legislation, regulations or orders may be adopted or become effective which may adversely affect the Company's mining operations or cost structure or the ability of the Company's customers to use coal. For example, new legislation, regulations or orders may require the Company to incur increased costs or to significantly change its operations. New legislation, regulations or orders may also cause coal to become a less attractive fuel source, resulting in a reduction in coal's share of the market for fuels used to generate electricity. Any such regulation, legislation or order could have an adverse effect on the Company's business, results of operations and financial condition and, depending upon the nature and scope of the legislation, regulations or orders, the effect could be material.

Permits. Mining companies must obtain numerous permits that impose strict regulations on various environmental and health and safety matters in connection with coal mining, including the emission of air- and water-borne pollutants, the manner and sequencing of coal extractions and reclamation, the storage, use and disposal of waste and other substances, some of which may be hazardous, and the construction of fills and impoundments. Because regulatory authorities have considerable discretion in the timing of permit issuance and because both private individuals and the public at large possess rights to comment on and otherwise engage in the permitting process, including through intervention in the courts, no assurance can be made (i) that permits necessary for mining operations will be issued or, if issued, that such issuance would be timely or (ii) that permitting requirements will not be changed or interpreted in a manner that would have a materially adverse effect on the Company's financial condition or results of operations.

As indicated by the Dal-Tex Litigation which is discussed in "Contingencies--Legal Contingencies--Dal-Tex Litigation" above, the regulatory environment in West Virginia is changing with respect to coal mining. No assurance can be made that the Fourth Circuit will overturn the district court's decision in such legal action or that a legislative or other solution will be achieved. If the district court's ruling is not overturned or a legislative or other solution is not achieved, there could be a material adverse effect on the Company's financial condition and results of operations.

NOx Emissions. The use of explosives in surface mining causes oxides of nitrogen ("NOx") to be emitted into the air. The emission of NOx from the use of explosives at surface mines in the Powder River Basin is gaining increased scrutiny from regulatory agencies and the public. The Company has taken steps to monitor the level of NOx emissions from blasting activities at its surface mines in the Powder River Basin and is continuing efforts to find a method of reducing these NOx emissions. Any increase in the regulation of NOx emissions from blasting activities could have an adverse effect on the Company's Powder River Basin surface mines. Depending upon the nature and scope of any such regulations, the effect on the mines could be material.

Kyoto Protocol. On December 11, 1997, the U.S. government representatives at the climate change negotiations in Kyoto, Japan, agreed to reduce the emissions of greenhouse gases (including carbon dioxide and other gas emissions that are believed by some to be trapping heat in the atmosphere and warming the earth's climate) in the United States. The U.S. adoption of the requirements of the Kyoto protocol is subject to conditions which may not occur, including the protocol's ratification by the U.S. Senate. The U.S. Senate has indicated that it will not ratify an agreement unless certain conditions, not currently provided for in the Kyoto protocol, are met. At present, it is not possible to predict whether the Kyoto protocol will attain the force of law in the United States or what its impact would be on the Company. Further developments in connection with the Kyoto protocol could have a material adverse effect on the Company's financial condition and results of operations.

Customers. In July 1997, the EPA proposed that twenty-two eastern states, including states in which many of the Company's customers are located, make substantial reductions in nitrous oxide emissions. The EPA expects the states to achieve these reductions by requiring power plants to reduce their nitrous oxide emissions by an average of 85%. To achieve such reductions, power plants would be required to install reasonably available control technology ("RACT") and additional control measures. Installation of RACT and additional control measures required under the EPA's proposal would make it more costly to operate coal-fired utility power plants and, depending on the requirements of individual state implementation plans and the development of revised new source performance standards, could make coal a less attractive fuel alternative in the planning and building of utility power plants in the future.

The EPA is also proposing to implement stricter ozone standards by 2003. The U.S. Court of Appeals for the District of Columbia has, however, enjoined the EPA from implementing the new ozone standards on constitutional and other legal grounds. Implementation of the standards may be delayed or precluded because of the injunction. The injunction may also result in modification of the proposed ozone standards.

The U.S. Department of Justice, on behalf of the EPA, recently filed a lawsuit against seven investor-owned utilities and brought an administrative action against one government-owned utility for alleged violations of the Clean Air Act. The EPA claims that over thirty of these utilities' power stations have failed to obtain permits required under the Clean Air Act for major improvements which have extended the useful service of the stations or increased their generating capacity. The Company supplies coal to seven of the eight utilities. It is impossible to predict with certainty the outcome of this legal action. Any outcome that adversely affects the Company's customers or makes coal a less attractive fuel source could, however, have a material adverse effect on the Company's financial condition or results of operations.

Reserve Degradation and Depletion

The Company's profitability depends substantially on its ability to mine coal reserves that have the geologic characteristics that enable them to be mined at competitive costs. There can be no assurance that replacement reserves, particularly in central Appalachia, will be available when required or, if available, that such replacement reserves can be mined at costs comparable to those characteristic of the depleting mines. Exhaustion of reserves at particular mines can also have an adverse effect on operating results that is disproportionate to the percentage of overall production and operating income represented by such mines. Mingo Logan's Mountaineer Mine is estimated to exhaust its longwall mineable reserves in 2002. The Mountaineer Mine generated $46.6 million of the Company's total operating income in 1999.

Reliance on and Terms of Long-Term Coal Supply Contracts

The Company sells a substantial portion of its coal production pursuant to long-term coal supply agreements and, as a consequence, may experience fluctuations in operating results due to the expiration or termination of such contracts, or sales price redeterminations or suspensions of deliveries under such coal supply agreements. Other short- and long-term contracts define base or optional tonnage requirements by reference to the customer's requirements, which are subject to change as a result of factors beyond the Company's (and in certain instances the customer's) control, including utility deregulation. In addition, certain price adjustment provisions permit a periodic increase or decrease in the contract price to reflect increases and decreases in production costs, changes in specified price indices or items such as taxes or royalties. Price reopener provisions provide for an upward or downward adjustment in the contract price based on market factors. The Company has from time to time renegotiated contracts after execution to extend the contract term or to accommodate changing market conditions. The contracts also typically include stringent minimum and maximum coal quality specifications and penalty or termination provisions for failure to meet such specifications and force majeure provisions allowing suspension of performance or termination by the parties during the duration of certain events beyond the control of the affected party. Contracts occasionally include provisions that permit a utility to terminate the contract if changes in the law make it illegal or uneconomic for the utility to consume the Company's coal or if the utility has unexpected difficulties in utilizing the Company's coal. Imposition of new emissions limits for NOx in connection with Phase II of the Clean Air Act could result in price adjustments or in affected utilities seeking to terminate or modify long-term contracts in reliance on such termination provisions. If the parties to any long-term contracts with the Company were to modify, suspend or terminate those contracts, the Company could be adversely affected to the extent that it is unable to find alternative customers at a similar or higher level of profitability.

From time to time, disputes with customers may arise under long-term contracts relating to, among other things, coal quality, pricing and quantity. The Company may thus become involved in arbitration and legal proceedings regarding its long-term contracts. There can be no assurance that the Company will be able to resolve such disputes in a satisfactory manner.

Although the Company cannot predict changes in its costs of production and coal prices with certainty, the Company believes that in the current economic environment of low to moderate inflation, the price adjustment provisions in its older long-term contracts will largely offset changes in the costs of providing coal under those contracts, except for those costs related to changes in productivity. However, the increasingly short terms of sales contracts and the consequent absence of price adjustment provisions in such contracts also make it more likely that inflation-related increases in mining costs during the contract term will not be recovered by the Company through a later price adjustment.

Potential Fluctuations in Operating Results; Seasonality

The Company may experience significant fluctuations in operating results in the future, both on an annual and a quarterly basis, as a result of one or more factors beyond its control, including expiration or termination of, or sales price redeterminations or suspensions of deliveries under, coal supply agreements; disruption of transportation services; changes in mine operating conditions; changes in laws or regulations, including permitting requirements; unexpected results in litigation; work stoppages or other labor difficulties; competitive and overall coal market conditions; and general economic conditions.

The Company's mining operations are also subject to factors beyond its control that can negatively or positively affect the level of production and thus the cost of mining at particular mines for varying lengths of time. These factors include weather conditions; equipment replacement and repair requirements; variations in coal seam thickness, amount of overburden, rock and other natural materials; and other surface or subsurface conditions. Such production factors frequently result in significant fluctuations in operating results.

Third quarter results of operations are frequently adversely affected by lower production and resultant higher costs due to scheduled vacation periods at the Company's UMWA mines. In addition, costs are typically somewhat higher during vacation periods because of maintenance activity carried on during those periods. These adverse effects may prevent the third quarter from being comparable to the other quarters and also prevent the third quarter results from being indicative of results to be expected for the full year.

Certain Contractual Arrangements

Arch Western Resources, LLC ("Arch Western") owns the rights to the coal reserves and operating assets acquired in the Arch Western transaction. The Limited Liability Company Agreement pursuant to which Arch Western was formed provides that a subsidiary of the Company, as the managing member of Arch Western, generally has exclusive power and authority to conduct, manage and control the business of Arch Western. However, if Arch Western at the time has a debt rating less favorable than Ba3 from Moody's Investors Service or BB- from Standard & Poor's Ratings Group or does not meet certain specified indebtedness and interest coverage ratios, then a proposal that Arch Western make certain distributions, incur indebtedness, sell properties or merge or consolidate with any other entity would require the consent of all the members of Arch Western.

In connection with the Arch Western transaction, the Company entered into an agreement pursuant to which the Company agreed to indemnify another member of Arch Western against certain tax liabilities in the event that such liabilities arise as a result of certain actions taken prior to June 1, 2013, including the sale or other disposition of certain properties of Arch Western, the repurchase of certain equity interests in Arch Western by Arch Western or the reduction under certain circumstances of indebtedness incurred by Arch Western in connection with the Arch Western transaction. Depending on the time at which any such indemnification obligation was to arise, it could have a material adverse effect on the business, results of operations and financial condition of the Company.

The membership interests in Canyon Fuel are owned 65% by Arch Western and 35% by a subsidiary of ITOCHU Corporation, a Japanese corporation. The agreement which governs the management and operations of Canyon Fuel provides for a Management Board to manage its business and affairs. Generally, the Management Board acts by affirmative vote of the representatives of the members holding more than 50% of the membership interests. However, certain actions require either the unanimous approval of the members or the approval of representatives of members holding more than 70% of the membership interests. The Canyon Fuel agreement also contains various restrictions on the transfer of membership interests in Canyon Fuel.

Ashland Inc. ("Ashland") currently owns approximately 58% of the Company's outstanding common stock. Pursuant to a stockholders agreement among the Company, Ashland and Carboex S.A. ("Carboex"), the Company has agreed to nominate for election as a director of the Company a person designated by Carboex, and Ashland has agreed to vote its shares of common stock in a manner sufficient to cause the election of such nominee, in each case for so long (subject to earlier termination in certain circumstances) as shares of common stock owned by Carboex represent at least 63% of the shares of common stock acquired by Carboex in the Company's merger with Ashland's subsidiary, Ashland Coal, Inc. In addition, for so long as the various trusts for the benefit of descendants of H.L. and Lyda Hunt and various corporations owned by trusts for the benefit of descendants of H.L. and Lyda Hunt (collectively the "Hunt Entities") have the collective voting power to elect by cumulative voting one or more persons to serve on the Board of Directors of the Company, the Company has agreed to nominate for election as directors of the Company that number of persons designated by certain of the Hunt Entities that could be elected to the Board by the Hunt Entities by exercise of such cumulative voting power.

The Company's Restated Certificate of Incorporation requires the affirmative vote of the holders of at least two-thirds of outstanding common stock voting thereon to approve a merger or consolidation and certain other fundamental actions involving or affecting control of the Company. The Company's Bylaws require the affirmative vote of at least two-thirds of the members of the Board of Directors of the Company in order to declare dividends and to authorize certain other actions.

Transportation

The coal industry depends on rail, trucking and barge transportation to deliver shipments of coal to customers. Disruption of these transportation services could temporarily impair the Company's ability to supply coal to its customers and thus adversely affect the Company's business and operating results. In addition, transportation costs are a significant component of the total cost of supplying coal to customers and can significantly affect a coal producer's competitive position and profitability. Increases in the Company's transportation costs, or changes in such costs relative to transportation costs incurred by providers of competing coal or of other fuels, could have an adverse effect on the Company's business and results of operations.

Importance of Acquisitions and Related Risks

The Company has grown, in part, through the acquisition of coal companies, coal properties, coal leases and related assets, and management believes that such acquisitions will continue to be important to the Company. Acquisitions involve a number of special risks, including diversion of management's attention, failure to retain key acquired personnel, risks associated with unanticipated events or liabilities and difficulties in the assimilation of the operations of the acquired companies, some or all of which could have a material adverse effect on the Company's business, results of operations and financial condition. There can be no assurance that the Company will be successful in the development of such acquisitions or that acquired operations will achieve anticipated benefits to the Company.

Reliance on Estimates of Reserves; Title

There are numerous uncertainties inherent in estimating quantities of recoverable reserves, including many factors beyond the control of the Company. Estimates of economically recoverable coal reserves and net cash flows necessarily depend upon the number of variable factors and assumptions, such as geological and mining conditions (which may not be fully identified by available exploration data and/or differ from experience in current operations), historical production from the area compared with production from other producing areas, the assumed effects of regulation by governmental agencies and assumptions concerning coal prices, operating costs, severance and excise taxes, development costs and reclamation costs, all of which may cause estimates to vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities attributable to any particular group of properties, classifications of such reserves based on risk of recovery and estimates of net cash flows expected therefrom prepared by different engineers or by the same engineers at different times may vary substantially. Actual coal tonnage recovered from identified reserve areas or properties and revenues and expenditures with respect to the Company's reserves may vary from estimates, and such variances may be material. No assurance can be given that these estimates are an accurate reflection of the Company's actual reserves.

The Company's mining operations are conducted on properties owned or leased by the Company. The loss of any lease could adversely affect the Company's ability to develop the applicable reserves. Because title to most of the Company's leased properties and mineral rights is not usually verified until a commitment is made by the Company to develop a property, which may not occur until after the Company has obtained necessary permits and completed exploration of the property, the Company's right to mine certain of its reserves may be adversely affected if defects in title or boundaries exist. In addition, there can be no assurance that the Company can successfully negotiate new leases or mining contracts for properties containing additional reserves or maintain its leasehold interests in properties on which mining operations are not commenced during the term of the lease.

Year 2000 Readiness Disclosure

In prior years, the Company discussed the nature and progress of its plans to become Year 2000-ready. In late 1999, the Company completed its remediation and testing of systems. As a result of those planning and implementation efforts, the Company experienced no significant disruption in mission-critical information technology and non-information technology systems and believes those systems successfully responded to the Year 2000 date change. The Company incurred approximately $9.3 million in capital expenditures since 1997 in connection with replacing its non-compliant systems. The Company is not aware of any material problems resulting from Year 2000 issues with its internal systems or the products and services of third parties. The Company will continue to monitor its mission-critical computer applications and those of its suppliers and vendors throughout the Year 2000 to ensure that any latent year 2000 matters that may arise are addressed promptly.

Factors Routinely Affecting Results of Operations

Any one or a combination of the following factors may occur at times or in a manner that causes results of the Company's operations to deviate from expectations: changing demand; fluctuating selling prices; contract penalties, suspensions or terminations; operational, geologic, transportation and weather-related factors; unexpected regulatory changes; results of litigation; or labor disruptions. Any event disrupting substantially all production at any of the Company's principal mines for a prolonged period would have a material adverse effect on the Company's current and projected results of operations. The effect of such a disruption at the Mingo Logan Mountaineer Mine would be particularly severe because of the high volume of coal produced by that mining operation and the relatively high contribution to operating income from the sale of such coal.

REPORT OF INDEPENDENT AUDITORS

To the Stockholders and Board of Directors
Arch Coal, Inc.

We have audited the accompanying consolidated balance sheets of Arch Coal, Inc. and subsidiaries as of December 31, 1999 and 1998 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above (appearing on pages 48 to 72 of this annual report) present fairly, in all material respects, the consolidated financial position of Arch Coal, Inc. and subsidiaries at December 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 3 to the financial statements, in 1999, the Company changed its method of accounting for depreciation of its preparation plants and loadouts.

Ernst & Young LLP

Louisville, Kentucky
January 21, 2000

REPORT OF MANAGEMENT

The management of Arch Coal, Inc. is responsible for the preparation of the consolidated financial statements and related financial information in this annual report. The financial statements are prepared in accordance with accounting principles generally accepted in the United States and necessarily include some amounts that are based on management's informed estimates and judgments, with appropriate consideration given to materiality.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance that financial records are reliable for purposes of preparing financial statements and that assets are properly accounted for and safeguarded. The concept of reasonable assurance is based on the recognition that the cost of a system of internal accounting controls should not exceed the value of the benefits derived. The Company has a professional staff of internal auditors who monitor compliance with and assess the effectiveness of the system of internal accounting controls.

The Audit Committee of the Board of Directors, composed of directors who are not officers or employees of Arch Coal, Inc., meets regularly with management, the internal auditors, and the independent auditors to discuss matters relating to financial reporting, internal accounting control, and the nature, extent and results of the audit effort. The independent auditors and internal auditors have full and free access to the Audit Committee, with and without management present.

Steven F. Leer	John W. Lorson
President and Chief Executive Officer	Controller

Consolidated Statements of Operations

(in thousands of dollars except per share data)

	Year Ended December 31		
	1999	1998	1997
Revenues			
Coal sales	$1,509,596	$1,428,171	$1,034,813
Income from equity investment	11,129	6,786	--
Other revenues	46,657	70,678	32,062
	1,567,382	1,505,635	1,066,875
Costs and expenses			
Cost of coal sales	1,426,105	1,313,400	916,802
Selling, general and administrative expenses	46,357	44,767	28,885
Amortization of coal supply agreements	36,532	34,551	18,063
Write-down of impaired assets	364,579	--	--
Merger-related expenses	--	--	39,132
Other expenses	20,835	25,070	22,111
	1,894,408	1,417,788	1,024,993
Income (loss) from operations	(327,026)	87,847	41,882
Interest expense, net:			
Interest expense	(90,058)	(62,202)	(17,822)
Interest income	1,291	756	721
	(88,767)	(61,446)	(17,101)
Income (loss) before income taxes, extraordinary loss and cumulative effect of accounting change	(415,793)	26,401	24,781
Benefit from income taxes	(65,700)	(5,100)	(5,500)
Income (loss) before extraordinary loss and cumulative effect of accounting change	(350,093)	31,501	30,281
Extraordinary loss from the extinguishment of debt, net of taxes	--	(1,488)	--
Cumulative effect of accounting change, net of taxes	3,813	--	--
Net income (loss)	$ (346,280)	$ 30,013	$ 30,281
Basic and diluted earnings (loss) per common share:			
Income (loss) before extraordinary item and cumulative effect of accounting change	$ (9.12)	$ .79	$ 1.00
Extraordinary loss from the extinguishment of debt, net of taxes	--	(.03)	--
Cumulative effect of accounting change, net of taxes	.10	--	--
Basic and diluted earnings (loss) per common share	$ (9.02)	$ .76	$ 1.00

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheets

(in thousands of dollars except share and per share data)

	December 31 1999	1998
Assets		
Current assets		
Cash and cash equivalents	$ 3,283	$ 27,414
Trade accounts receivable	162,802	202,871
Other receivables	25,659	24,584
Inventories	62,382	68,455
Prepaid royalties	1,310	13,559
Deferred income taxes	21,600	8,694
Other	8,916	7,757
Total current assets	285,952	353,334
Property, plant and equipment		
Coal lands and mineral rights	1,170,956	1,476,703
Plant and equipment	1,042,128	1,111,120
Deferred mine development	92,265	80,926
	2,305,349	2,668,749
Less accumulated depreciation, depletion and amortization	(826,178)	(732,005)
Property, plant and equipment, net	1,479,171	1,936,744
Other assets		
Prepaid royalties	--	31,570
Coal supply agreements	151,978	201,965
Deferred income taxes	182,500	83,209
Investment in Canyon Fuel	199,760	272,149
Other	33,013	39,249
Total other assets	567,251	628,142
Total assets	$2,332,374	$2,918,220
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 109,359	$ 129,528
Accrued expenses	145,561	142,630
Current portion of debt	86,000	61,000
Total current liabilities	340,920	333,158
Long-term debt	1,094,993	1,309,087
Accrued postretirement benefits other than pension	343,993	343,553
Accrued reclamation and mine closure	129,869	150,636
Accrued workers' compensation	105,190	105,333
Accrued pension cost	22,445	18,524
Other noncurrent liabilities	53,669	39,713
Total liabilities	2,091,079	2,300,004
Stockholders' equity		
Common stock, $.01 par value, 100,000,000 shares authorized, 38,164,482 issued and outstanding in 1999 and 39,371,581 issued and outstanding in 1998	397	397
Paid-in capital	473,335	473,116
Retained earnings (deficit)	(213,466)	150,423
Treasury stock, at cost (1,541,146 shares at December 31, 1999 and 333,952 shares at December 31, 1998)	(18,971)	(5,720)
Total stockholders' equity	241,295	618,216
Total liabilities and stockholders' equity	$2,332,374	$2,918,220

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Stockholders' Equity
Three years ended December 31, 1999
(in thousands of dollars except share and per share data)

	Common Stock	Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock at Cost	Total
Balance at December 31, 1996	$209	$ 8,392	$ 122,025	$ --	$ 130,626
Net income			30,281		30,281
Dividends paid ($.445 per share)			(13,630)		(13,630)
Issuance of 18,660,054 shares of common stock to stockholders of Ashland Coal, Inc. pursuant to the merger agreement	187	462,984			463,171
Issuance of 49,400 shares of common stock under the stock incentive plan	1	1,049			1,050
Balance at December 31, 1997	397	472,425	138,676	--	611,498
Net income			30,013		30,013
Dividends paid ($.46 per share)			(18,266)		(18,266)
Issuance of 47,635 shares of common stock under the stock incentive plan		691			691
Treasury stock purchases (333,952 shares)				(5,720)	(5,720)
Balance at December 31, 1998	397	473,116	150,423	(5,720)	618,216
Net loss			(346,280)		(346,280)
Dividends paid ($.46 per share)			(17,609)		(17,609)
Issuance of 95 shares of common stock under the stock incentive plan		1			1
Treasury stock purchases (1,396,700 shares), net of issuances (189,506 shares)		218		(13,251)	(13,033)
Balance at December 31, 1999	$397	$473,335	$(213,466)	$(18,971)	$ 241,295

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands of dollars)

	Year Ended December 31		
	1999	1998	1997
Operating activities			
Net income (loss)	$(346,280)	$ 30,013	$ 30,281
Adjustments to reconcile to cash provided by operating activities:			
Depreciation, depletion and amortization	235,658	204,307	143,632
Prepaid royalties expensed	14,217	19,694	8,216
Net gain on disposition of assets	(7,459)	(41,512)	(4,802)
Income from equity investment	(11,129)	(6,786)	-
Distributions from equity investment	83,178	18,850	-
Cumulative effect of accounting change	(3,813)	-	-
Merger-related expenses	-	-	33,096
Write-down of impaired assets	364,579	-	-
Changes in operating assets and liabilities	(69,471)	(24,671)	(28,842)
Other	20,483	(11,872)	8,682
Cash provided by operating activities	279,963	188,023	190,263
Investing activities			
Payments for acquisition	-	(1,126,706)	-
Additions to property, plant and equipment	(98,715)	(141,737)	(77,309)
Proceeds from coal supply agreements	14,067	-	-
Additions to prepaid royalties	(26,057)	(26,252)	(7,967)
Additions to notes receivable	-	(10,906)	-
Proceeds from disposition of property, plant and equipment	26,347	34,230	5,267
Cash used in investing activities	(84,358)	(1,271,371)	(80,009)
Financing activities			
Proceeds from (payments on) revolver and lines of credit	(37,884)	176,582	78,897
Net proceeds from (payments on) term loans	(151,210)	958,441	-
Payments on notes	-	(42,860)	(181,110)
Payments for debt issuance costs	-	(12,725)	-
Proceeds from sale and leaseback of equipment	-	45,442	-
Dividends paid	(17,609)	(18,266)	(13,630)
Proceeds from sale of common stock	-	691	1,050
Proceeds from sale of treasury stock	2,549	-	-
Purchases of treasury stock	(15,582)	(5,720)	-
Cash provided by (used in) financing activities	(219,736)	1,101,585	(114,793)
Increase (decrease) in cash and cash equivalents	(24,131)	18,237	(4,539)
Cash and cash equivalents, beginning of year	27,414	9,177	13,716
Cash and cash equivalents, end of year	$ 3,283	$ 27,414	$ 9,177
Supplemental cash flow information:			
Cash paid during the year for interest	$ 100,781	$ 48,760	$ 18,593
Cash paid during the year for income taxes, net of refunds	$ 11,251	$ 29,090	$ 21,918

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

(in thousands of dollars except share and per share data)

NOTE 1. ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Arch Coal, Inc. and its subsidiaries ("the Company"), which operate in the coal mining industry. The Company operates one reportable segment: the production of steam and metallurgical coal from surface and deep mines throughout the United States, for sale to utility, industrial and export markets. The Company's mines are primarily located in the central Appalachian and western regions of the United States. All subsidiaries (except as noted below) are wholly owned. Significant intercompany transactions and accounts have been eliminated in consolidation.

The Company's 65% ownership of Canyon Fuel, LLC ("Canyon Fuel") is accounted for on the equity method in the consolidated financial statements as a result of certain super-majority voting rights in the joint venture agreement. Income from Canyon Fuel is reflected in the consolidated statements of operations as income from equity investment. (See additional discussion in "Investment in Canyon Fuel" in Note 6.)

The Company's 17.5% partnership interest in Dominion Terminal Associates is accounted for on the equity method in the consolidated balance sheets. Allocable costs of the partnership for coal loading and storage are included in other expenses in the consolidated statements of operations.

Accounting Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost. Cash equivalents consist of highly liquid investments with an original maturity of three months or less when purchased.

Inventories

Inventories are comprised of the following:

	December 31	
	1999	1998
Coal	$ 28,183	$ 25,789
Supplies	34,199	42,666
	$ 62,382	$ 68,455

Coal and supplies inventories are valued at the lower of average cost or market. The Company has recorded a valuation allowance for slow-moving and obsolete supplies inventories of $23.5 million and $23.9 million at December 31, 1999 and 1998, respectively.

Coal Acquisition Costs and Prepaid Royalties

Coal lease rights obtained through acquisitions are capitalized and amortized primarily by the units-of-production method over the estimated recoverable reserves.

Rights to leased coal lands are often acquired through royalty payments. Where royalty payments represent prepayments recoupable against production, they are capitalized, and amounts expected to be recouped within one year are classified as a current asset. As mining occurs on these leases, the prepayment is charged to cost of coal sales.

Coal Supply Agreements

Acquisition costs allocated to coal supply agreements (sales contracts) are capitalized and amortized on the basis of coal to be shipped over the term of the contract. Accumulated amortization for sales contracts was $131.4 million and $94.8 million at December 31, 1999 and 1998, respectively.

Exploration Costs

Costs related to locating coal deposits and determining the economic mineability of such deposits are expensed as incurred.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Interest costs applicable to major asset additions are capitalized during the construction period. Expenditures which extend the useful lives of existing plant and equipment are capitalized. Costs of purchasing rights to coal reserves and developing new mines or significantly expanding the capacity of existing mines are capitalized and amortized using the units-of-production method over the estimated recoverable reserves. Except for preparation plants and loadouts, plant and equipment are depreciated principally on the straight-line method over the estimated useful lives of the assets, which range from three to 20 years. Effective January 1, 1999, preparation plants and loadouts are depreciated using the units-of-production method over the estimated recoverable reserves subject to a minimum level of depreciation (see additional discussion in "Change in Accounting Method" in Note 3). Prior to January 1, 1999, preparation plants and loadouts were depreciated on a straight-line basis over their estimated useful lives.

Asset Impairment

If facts and circumstances suggest that a long-lived asset may be impaired, the carrying value is reviewed. If this review indicates that the value of the asset will not be recoverable, as determined based on projected undiscounted cash flows related to the asset over its remaining life, then the carrying value of the asset is reduced to its estimated fair value. (See additional discussion in "Restructuring Charge and Write-Down of Impaired Assets" in Note 2.)

Revenue Recognition

Coal sales revenues include sales to customers of coal produced at Company operations and coal purchased from other companies. The Company recognizes revenue from coal sales at the time title passes to the customer. Revenues from sources other than coal sales, including gains and losses from dispositions of long-term assets, are included in other revenues and are recognized as services are performed or otherwise earned.

Interest Rate Swap Agreements

The Company enters into interest-rate swap agreements to modify the interest characteristics of outstanding Company debt. The swap agreements essentially convert variable-rate debt to fixed-rate debt. These agreements require the exchange of amounts based on variable interest rates for amounts based on fixed interest rates over the life of the agreement. The Company accrues amounts to be paid or received under interest-rate swap agreements over the lives of the agreements. Such amounts are recognized as adjustments to interest expense over the lives of agreements, thereby adjusting the effective interest rate on the Company's debt. The fair values of the swap agreements are not recognized in the financial statements. Gains and losses on terminations of interest-rate swap agreements are deferred on the balance sheets (in other long-term liabilities) and amortized as an adjustment to interest expense over the remaining original term of the terminated swap agreement.

Income Taxes

Deferred income taxes are based on temporary differences between the financial statement and tax basis of assets and liabilities existing at each balance sheet date using enacted tax rates for years during which taxes are expected to be paid or recovered.

(in thousands of dollars except share and per share data)

Stock-Based Compensation

These financial statements include the disclosure requirements of Financial Accounting Standards Board Statement No. 123 ("FAS 123"), Accounting for Stock-Based Compensation. With respect to accounting for its stock options, as permitted under FAS 123, the Company has retained the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 ("APB 25"), Accounting for Stock Issued to Employees, and related Interpretations.

NOTE 2. RESTRUCTURING CHARGE AND WRITE-DOWN OF IMPAIRED ASSETS

In 1999, the Company recorded a pre-tax charge of $23.1 million related to the restructuring of its administrative workforce, the closure of its Dal-Tex mining operation in West Virginia due to permitting problems and the closure of several mines in Kentucky and Illinois due to the depressed coal prices and increased competition from western coal mines. Of the $23.1 million charge, $20.3 million was recorded in cost of coal sales, $2.3 million was recorded in selling, general and administrative expenses and $.5 million was recorded in other expenses in the Company's consolidated statement of operations. The restructuring of the administrative workforce included the elimination of 81 administrative jobs, 58 of which were corporate and the remainder of which were subsidiary positions all of which was part of a corporate-wide effort to reduce general and administrative expenses. The mine closures included the termination of 161 employees. As of December 31, 1999, 74 administrative and 65 mine employees have been terminated. The following are the components of severance and other exit costs included in the restructuring charge along with related 1999 activity:

	1999 Charge	Utilized in 1999	Balance at December 31, 1999
Employee costs.............	$ 7,354	$ 704	$ 6,650
Obligations for non-cancelable lease payments...........	9,858	484	9,374
Reclamation liabilities..............	3,667	1,200	2,467
Depreciation acceleration.............	2,172	2,172	--
	$23,051	$4,560	$18,491

Except for the charge related to depreciation acceleration, all of the 1999 restructuring charge will require the Company to use cash. Also, the Company expects to utilize the balance of the amounts reserved for employee costs in 2000, while the obligations for non-cancelable lease payments and reclamation liabilities will be utilized in future periods as lease payments are made and reclamation procedures are performed.

In addition, during the fourth quarter of 1999, the Company determined that significant changes were necessary in the manner and extent in which certain central Appalachia coal assets would be deployed. The anticipated changes were determined during the Company's annual planning process and were necessitated by the adverse legal and regulatory rulings related to surface mining techniques (see Note 20), as well as the continued negative pricing trends related to central Appalachia coal production experienced by the Company. As a result of the planned changes in the deployment of its long-lived assets in the central Appalachia region and pursuant to FAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, the Company evaluated the recoverability of its active mining operations and its coal reserves for which no future mining plans exist. This evaluation indicated that the future undiscounted cash flows of three mining operations, Dal-Tex, Hobet 21 and Coal-Mac, and certain coal reserves with no future mining plans were below the carrying value of such long-lived assets. Accordingly, during the fourth quarter of 1999, the Company adjusted the operating assets and coal reserves to their estimated fair value of approximately $99.7 million, resulting in a non-cash impairment charge of $364.6 million (including $50.6 million relating to operating assets and $314.0 million relating to coal reserves). The estimated fair value for the three mining operations was based on anticipated future cash flows discounted at a rate commensurate with the risk involved. The estimated fair value for the coal reserves with no future mining plans was based upon the fair value of these properties to be derived from subleased operations. The impairment loss has been recorded as a loss from the write-down of impaired assets in the consolidated statements of operations.

NOTE 3. CHANGE IN ACCOUNTING METHOD

Through December 31, 1998, plant and equipment had principally been depreciated on the straight-line method over the estimated useful lives of the assets, which range from three to 20 years. Effective January 1, 1999, depreciation on the Company's preparation plants and loadouts was computed using the units-of-production method, which is based upon units produced, subject to a minimum level of depreciation. These assets are usage-based assets and their economic lives are typically based and measured on coal throughput. The Company believes the units-of-production method is preferable to the method previously used because the new method recognizes that depreciation of this equipment is related substantially to physical wear due to usage as well as to the passage of time. This method, therefore, more appropriately matches production costs over the lives of the preparation plants and loadouts with coal sales revenue and results in a more accurate allocation of the cost of the physical assets to the periods in which the assets are consumed. The cumulative effect of applying the new method for years prior to 1999 is an increase to income of $3.8 million net-of-tax ($6.3 million pre-tax) reported as a cumulative effect of accounting change in the consolidated statement of operations for the year ended December 31, 1999. In addition, the net loss of the Company, excluding the cumulative effect of accounting change, for the year ended December 31, 1999 is $.2 million less, or $.01 per share less, than it would have been if the Company had continued to follow the straight-line method of depreciation of equipment for preparation plants and loadouts.

The unaudited pro-forma amounts below reflect the retroactive application of units-of-production depreciation on preparation plants and loadouts and the corresponding elimination of the cumulative effect of the accounting change.

	Year Ended December 31		
	1999	1998	1997
Net income (loss) as reported	$(346,280)	$30,013	$30,281
Pro-forma net income (loss)	(350,093)	29,511	32,442
Basic and diluted earnings (loss) per common share as reported	(9.02)	0.76	1.00
Pro-forma basic and diluted earnings (loss) per common share	(9.12)	0.74	1.07

(in thousands of dollars except share and per share data)

NOTE 4. MERGER AND ACQUISITION

On June 1, 1998, the Company acquired the Colorado and Utah coal operations of Atlantic Richfield Company ("ARCO") and simultaneously combined the acquired ARCO operations and the Company's Wyoming operations with ARCO's Wyoming operations in a new joint venture named Arch Western Resources, LLC ("Arch Western"). The principal operating units of Arch Western are Thunder Basin Coal Company, L.L.C., owned 100% by Arch Western, which operates two coal mines in the Southern Powder River Basin in Wyoming; Mountain Coal Company, L.L.C., owned 100% by Arch Western, which operates a coal mine in Colorado; Canyon Fuel Company, LLC ("Canyon Fuel"), 65% owned by Arch Western and 35% by ITOCHU Coal International Inc., a subsidiary of ITOCHU Corporation, which operates three coal mines in Utah; and Arch of Wyoming, LLC, owned 100% by Arch Western, which operates two coal mines in the Hanna Basin of Wyoming.

Arch Western is 99% owned by the Company and 1% owned by ARCO. The transaction was valued at approximately $1.14 billion and a wholly owned subsidiary of the Company is the managing member of Arch Western. The transaction has been accounted for under the purchase method of accounting. Accordingly, the cost to acquire ARCO's U.S. coal operations has been allocated to the assets acquired and liabilities assumed according to their respective estimated fair values. Results of operations of the acquired operations are included in the consolidated statements of operations effective June 1, 1998. The acquired ARCO operations continue to produce low-sulfur coal for sale to primarily domestic utility customers.

On July 1, 1997, Ashland Coal, Inc. ("Ashland Coal") merged with a subsidiary of the Company. Under the terms of the merger, Ashland Coal's stockholders received one share of the Company's common stock for each common share of Ashland Coal and 20,500 shares of the Company's common stock for each share of Ashland Coal preferred stock. A total of 18,660,054 shares of Company common stock were issued in the merger, resulting in a total purchase price (including fair value of stock options and transaction-related fees) of approximately $464.8 million. The merger was accounted for under the purchase method of accounting. Results of operations of Ashland Coal are included in the consolidated statements of operations effective July 1, 1997.

Summarized below are the unaudited pro forma combined results of operations for the years ended December 31, 1998 and 1997. These results reflect the July 1, 1997 Ashland Coal merger as if it had occurred on January 1, 1997 and the June 1, 1998 Arch Western transaction as if it had occurred on January 1, 1998 and 1997.

	1998	1997
Revenues	$1,669,824	$1,792,582
Income before extraordinary item	22,994	36,175
Net income	21,506	36,175
Earnings per share before extraordinary loss	.58	.91
Earnings per share	.54	.91

In the opinion of the management of the Company, all adjustments necessary to present pro forma results of operations have been made. The unaudited pro forma results of operations do not purport to be indicative of the results that would have occurred had these transactions actually occurred at the beginning of the relevant periods or of the results of operations that may be achieved in the future.

NOTE 5. MERGER-RELATED EXPENSES

During 1997, in connection with the Ashland Coal merger, the Company recorded a one-time charge of $39.1 million (before tax), or $23.8 million (after tax), comprised of termination benefits and relocation costs of $8.1 million and costs of $31.0 million associated with the idling of duplicate facilities. The $8.1 million costs arising from the termination benefits and relocation costs have been paid. The $31.0 million costs associated with the idling of duplicate facilities reduced the book value of the duplicate facilities. A portion of this charge related to Big Sandy Terminal. As a result of a change in management strategy related to the Big Sandy Terminal, the assets were sold in 1998 for a pre-tax gain of $7.5 million.

NOTE 6. INVESTMENT IN CANYON FUEL

The following tables present unaudited summarized financial information for Canyon Fuel which, as part of the June 1, 1998 Arch Western transaction (described in Note 4), was acquired by the Company and is accounted for on the equity method.

Condensed Income Statement Information	Year Ended December 31, 1999	Seven Months Ended December 31, 1998
Revenues	$241,062	$155,634
Total costs and expenses	230,512	153,039
Net income	$ 10,550	$ 2,595
65% of Canyon Fuel net income	$ 6,858	$ 1,687
Effect of purchase adjustments	4,271	5,099
Arch Coal's income from its equity investment in Canyon Fuel	$ 11,129	$ 6,786

Condensed Balance Sheet Information	December 31 1999	1998
Current assets	$ 61,212	$ 87,620
Noncurrent assets	452,103	532,119
Current liabilities	37,065	31,459
Noncurrent liabilities	20,789	19,247
Members' equity	455,461	569,033

The Company's income from its equity investment in Canyon Fuel represents 65% of Canyon Fuel's net income after adjusting for the effect of its investment in Canyon Fuel. The Company's investment in Canyon Fuel reflects purchase adjustments primarily related to the reduction in amounts assigned to sales contracts, mineral reserves and other property, plant and equipment totaling $96.3 million at December 31, 1999 which are not reflected in the condensed balance sheet information above.

NOTE 7. ACCRUED EXPENSES

Accrued expenses consist of the following:

	December 31 1999	1998
Accrued payroll and related benefits	$ 27,830	$ 29,878
Accrued taxes other than income taxes	47,727	44,665
Accrued postretirement benefits other than pension	14,755	15,555
Accrued workers' compensation	11,144	15,869
Accrued interest	6,285	17,007
Accrued reclamation and mine closure	26,540	6,841
Other accrued expenses	11,280	12,815
	$145,561	$142,630

NOTE 8. INCOME TAXES

Significant components of the provision (benefit) for income taxes are as follows:

	December 31 1999	1998	1997
Current:			
Federal	$ 6,796	$ 8,077	$ 8,250
State	--	(260)	(250)

Total current	6,796	7,817	8,000
Deferred:			
Federal	(54,135)	(12,583)	(13,180)
State	(18,361)	(334)	(320)
Total deferred	(72,496)	(12,917)	(13,500)
	$(65,700)	$ (5,100)	$ (5,500)

A reconciliation of the statutory federal income tax expense (benefit) on the Company's pretax income (loss) before extraordinary loss and cumulative effect of accounting change to the actual provision (benefit) for income taxes follows:

(in thousands of dollars except share and per share data)

	December 31		
	1999	1998	1997
Income tax expense (benefit) at statutory rate	$(145,526)	$ 9,240	$ 8,673
Percentage depletion allowance	(15,000)	(14,437)	(13,543)
State taxes, net of effect of federal taxes	(18,361)	(594)	(570)
Change in valuation allowance	112,345	--	--
Non-deductible expenses	284	621	236
Other, net	558	70	(296)
	$(65,700)	$ (5,100)	$ (5,500)

The Company's federal income tax returns for the years 1995 and 1996 are currently under review by the Internal Revenue Service (IRS).

During 1997, the Company settled its protest of certain adjustments proposed by the IRS for the federal income tax returns for the years 1987 through 1989. A deposit of $8.0 million was made in April 1997 in anticipation of the settlement.

During 1998, the Company settled its protest of certain unagreed issues with the IRS for the federal income tax returns for the years 1990 and 1991. A final payment of $0.5 million was paid in June 1998 and charged against previously recorded reserves. The IRS audit of the federal income tax returns for the years 1992 through 1994 was completed during 1998 and agreed to at the examination level. A payment of $15.5 million was made in December 1998 in settlement of all issues. A significant number of the issues were timing in nature and the tax paid related to these temporary differences is accounted for as a deferred tax asset and the remaining tax and interest paid was charged against previously recorded reserves. A portion of the payment related to items that were settled in the 1987 through 1991 audits previously discussed. Permanent differences included a reduction in percentage depletion and a decrease in cost depletion related to the settlement for the adjustment in fair market value of certain coal reserves.

During 1999, the Company settled an audit of former Ashland Coal, Inc. for the years January 1995 through June 1997. A payment of $.1 million was made in January 1999 in settlement of all issues.

Management believes that the Company has adequately provided for any income taxes and interest which may ultimately be paid with respect to all open tax years.

Significant components of the Company's deferred tax assets and liabilities that result from carryforwards and temporary differences between the financial statement basis and tax basis of assets and liabilities are summarized as follows:

	December 31	
	1999	1998
Deferred tax assets:		
Postretirement benefits other than pension	$139,796	$136,004
Alternative minimum tax credit carryforward	91,604	70,897
Workers' compensation	43,029	29,345
Reclamation and mine closure	30,016	22,567
Net operating loss carryforwards	11,507	10,232
Plant and equipment	49,069	--
Advance royalties	24,064	--
Other	25,514	17,983
Gross deferred tax assets	414,599	287,028
Valuation allowance	(112,345)	--
Total deferred tax assets	302,254	287,028
Deferred tax liabilities:		
Coal lands and mineral rights	8,965	78,869
Plant and equipment	--	78,359
Leases	21,990	7,884
Coal supply agreements	36,750	17,390
Other	30,449	12,623

Total deferred tax liabilities....	98,154	195,125
Net deferred tax asset........	204,100	91,903
Less current asset................	21,600	8,694
Long-term deferred tax asset..	$182,500	$ 83,209

The Company has a net operating loss carryforward for regular income tax purposes of $35.4 million which will expire in the years 2008 to 2019. The Company has an alternative minimum tax credit carryforward of $91.6 million which may carry forward indefinitely to offset future regular tax in excess of alternative minimum tax.

During 1999, the Company recorded a valuation allowance for a portion of its deferred tax assets that management believes, more likely than not, will not be realized. These deferred tax assets include a portion of the alternative minimum tax credits and some of the deductible temporary differences that will likely not be realized at the maximum effective tax rate.

NOTE 9. DEBT AND FINANCING ARRANGEMENTS

Debt consists of the following:

	December 31	
	1999	1998
Indebtedness to banks under lines of credit (weighted average rate at December 31, 1998--5.40%)	$ --	$ 12,884
Indebtedness to banks under revolving credit agreement, expiring May 31, 2003 (weighted average rate at December 31, 1999--7.61%; December 31, 1998--6.27%)	365,000	390,000
Variable rate fully amortizing term loan payable quarterly from July 1, 2001 through May 31, 2003 (weighted average rate at December 31, 1999--7.49%; December 31, 1998--6.16%)	135,000	285,000
Variable rate non-amortizing term loan due May 31, 2003 (weighted average rate at December 31, 1999--7.85%; December 31, 1998--6.87%)	675,000	675,000
Other	5,993	7,203
	1,180,993	1,370,087
Less current portion	86,000	61,000
Long-term debt	$1,094,993	$1,309,087

In connection with the Arch Western transaction, the Company entered into two new five-year credit facilities: a $675 million non-amortizing term loan in the name of Arch Western, the entity owning the right to the coal reserves and operating assets acquired in the Arch Western transaction, and a $900 million credit facility in the name of the Company, including a $300 million fully amortizing term loan and a $600 million revolver. Borrowings under the Company's new credit facilities were used to finance the acquisition of ARCO's Colorado and Utah coal operations, to pay related fees and expenses, to refinance existing corporate debt and for general corporate purposes. The Company recognized an extraordinary charge of $1.5 million (net of a tax benefit of $.9 million) related to the refinancing of a July 1, 1997 credit facility and the prepayment of certain other notes. Borrowings under the Arch Western credit facility were used to fund a portion of a $700 million cash distribution by Arch Western to ARCO, which distribution occurred simultaneously with ARCO's contribution of its Wyoming coal operations and certain other assets to Arch Western. The $675 million term loan is secured by Arch Western's membership interests in its subsidiaries. The Arch Western credit facility is not guaranteed by the Company. The rate of interest on the borrowings under the agreements is, at the Company's option, the PNC Bank base rate or a rate based on LIBOR.

On August 23, 1999, the Company prepaid $105 million or seven required quarterly installments on the $300 million fully amortizing term loan. The next required quarterly installment will be July 1, 2001. The prepayments were funded by additional borrowings under the $600 million revolver.

The Company periodically establishes uncommitted lines of credit with banks. These agreements generally provide for short-term borrowings at market rates. At December 31, 1999, there were $65 million of such agreements in effect, of which no borrowings were outstanding.

Except for amounts expected to be repaid in 2000, amounts borrowed under the revolving credit agreement and the bank lines of credit are classified as long-term as the Company has the intent and the ability to maintain these borrowings on a long-term basis. Aggregate maturities of debt at December 31, 1999 for the next five years are $86.0 million in 2000, $30.5 million in 2001, $60.5 million in 2002, $1.0 billion in 2003 and $.6 million in 2004.

Terms of the Company's credit facilities and leases contain financial and other restrictive covenants that limit the ability of the Company to, among other things, pay dividends, effect acquisitions or dispositions and borrow additional funds, and require the Company to, among other things, maintain various financial ratios and comply with various other financial covenants. Failure by the Company to comply with such covenants could result in an event of default which, if not cured or waived, could have a material adverse effect on the Company. At December 31, 1999, as a result of the effect of the write-down of impaired assets and other restructuring costs, the Company did not comply with certain of these restrictive covenant requirements, for which the Company received an amendment on January 21, 2000. These amendments contain, among other things, provisions for the payment of fees of .25% and an increase in the interest rate of .375% associated with the Company's term loan and the $600 million revolver. In addition, the amendments require the pledging of assets to collateralize the term loan and the $600 million revolver by May 20, 2000. The assets to be pledged are expected to include equity interests in wholly owned entities, certain real property interests, accounts receivable and inventory of the Company.

The Company enters into interest-rate swap agreements to modify the interest characteristics of the Company's outstanding debt. At December 31, 1999, the Company had interest-rate swap agreements having a total notional value of $780 million. These swap agreements are used to convert variable-rate debt to fixed-rate debt. Under these swap agreements, the Company pays a weighted-average fixed rate of 5.53% (before the credit spread over LIBOR) and is receiving a weighted-average variable rate based upon 30-day and 90-day LIBOR. At December 31, 1999, the remaining terms of the swap agreements ranged from 32 to 56 months.

NOTE 10. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts approximate fair value.

Debt: The carrying amounts of the Company's borrowings under its revolving credit agreement, lines of credit, variable rate term loans and other long-term debt approximate their fair value.

Interest rate swaps: The fair values of interest rate swaps are based on quoted prices, which reflect the present value of the difference between estimated future amounts to be paid and received. At December 31, 1999 and 1998, the fair value of these swaps is an asset of $27.4 million and a liability of $14.2 million, respectively.

NOTE 11. ACCRUED WORKERS' COMPENSATION

The Company is liable under the federal Mine Safety and Health Act of 1977, as amended, to provide for pneumoconiosis (black lung) benefits to eligible employees, former employees, and dependents with respect to claims filed by such persons on or after July 1, 1973. The Company is also liable under various states' statutes for black lung benefits. The Company currently provides for federal and state claims principally through a self-insurance program. Charges are being made to operations as determined by independent actuaries, at the present value of the actuarially computed present and future liabilities for such benefits over the employees' applicable years of service. In addition, the Company is liable for workers' compensation benefits for traumatic injuries which are accrued as injuries are incurred. Workers' compensation costs (credits) include the following components:

	1999	1998	1997
Self-insured black lung benefits:			
Service cost	$ 1,671	$ 1,022	$ 678
Interest cost	3,522	3,173	2,353
Net amortization and deferral	327	111	(10,084)
	5,520	4,306	(7,053)
Other workers' compensation benefits	13,241	19,396	12,182
	$18,761	$23,702	$ 5,129

The actuarial assumptions used in the determination of black lung benefits included a discount rate of 7.50% as of December 31, 1999 (7.00% and 7.25% as of December 31, 1998 and 1997, respectively) and a black lung benefit cost escalation rate of 4% in 1999, 1998 and 1997. In consultation with independent actuaries, the Company changed the discount rate, black lung benefit cost escalation rate, rates of disability and other assumptions used in the actuarial determination of black lung liabilities as of January 1, 1993, to better reflect actual experience. The effect of these changes was a significant increase in the unrecognized net gain. This gain was amortized through 1997 and totaled $10.8 million (before tax) and $6.6 million (after tax) in 1997.

Summarized below is information about the amounts recognized in the consolidated balance sheets for workers' compensation benefits:

	December 31	
	1999	1998
Actuarial present value for self-insured black lung:		
Benefits contractually recoverable from others	$ 3,254	$ 4,649
Benefits for Company employees	48,267	51,137
Accumulated black lung benefit obligation	51,521	55,786
Unrecognized net gain (loss)	4,890	(1,722)
	56,411	54,064
Traumatic and other workers' compensation	59,923	67,138
Accrued workers' compensation	116,334	121,202
Less amount included in accrued expenses	11,144	15,869
	$105,190	$105,333

Receivables related to benefits contractually recoverable from others of $3.3 million in 1999 and $4.7 million in 1998 are recorded in other long-term assets.

NOTE 12. ACCRUED RECLAMATION AND MINE CLOSING COSTS

The federal Surface Mining Control and Reclamation Act of 1977 and similar state statutes require that mine property be restored in accordance with specified standards and an approved reclamation plan. The Company accrues for the costs of final mine closure reclamation over the estimated useful mining life of the property. These costs relate to reclaiming the pit and support acreage at surface mines and sealing portals at deep mines. Other costs of final mine closure common to both types of mining are related to reclaiming refuse and slurry ponds. The Company also accrues for significant reclamation that is completed during the mining process prior to final mine closure. The establishment of the final mine closure reclamation liability and the other ongoing reclamation liability is based upon permit requirements and requires various estimates and assumptions, principally associated with costs and productivities. The Company accrued $12.9 million, $12.5 million and $10.8 million in 1999, 1998 and 1997, respectively, for current and final mine closure reclamation, excluding reclamation recosting adjustments identified below. Cash payments for final mine closure reclamation and current disturbances approximated $15.8 million, $15.0 million and $8.5 million for 1999, 1998 and 1997, respectively. Periodically, the Company reviews its entire environmental liability and makes necessary adjustments for permit changes as granted by state authorities, additional costs resulting from accelerated mine closures, and revisions to costs and productivities, to reflect current experience. These recosting adjustments are recorded in cost of coal sales. Adjustments included a net increase in the liability of $4.3 million and $4.9 million in 1999 and 1998, respectively, and a net decrease in the liability of $4.4 million in 1997. The Company's management believes it is making adequate provisions for all expected reclamation and other costs associated with mine closures.

13. EMPLOYEE BENEFIT PLANS

Defined Benefit Pension and Other Postretirement Benefit Plans

The Company has non-contributory defined benefit pension plans covering certain of its salaried and non-union hourly employees. Benefits are generally based on the employee's years of service and compensation. The Company funds the plans in an amount not less than the minimum statutory funding requirements nor more than the maximum amount that can be deducted for federal income tax purposes.

The Company also currently provides certain postretirement health and life insurance coverage for eligible employees. Generally, covered employees who terminate employment after meeting the eligibility requirements for pension benefits are also eligible for postretirement coverage for themselves and their dependents. The salaried employee postretirement medical and dental plans are contributory, with retiree contributions adjusted periodically, and contain other cost-sharing features such as deductibles and coinsurance. The postretirement medical plan for retirees who were members of the UMWA is not contributory. The Company's current funding policy is to fund the cost of all postretirement health and life insurance benefits as they are paid. Summaries of the changes in the benefit obligations, plan assets (primarily listed stocks and debt securities) and funded status of the plans are as follows:

	Pension benefits		Other postretirement benefits	
	1999	1998	1999	1998
Change in benefit obligations				
Benefit obligations at January 1	$139,433	$ 84,085	$335,823	$333,908
Service cost	7,118	5,841	2,424	3,715
Interest cost	8,980	8,137	21,580	23,101
Benefits paid	(13,462)	(8,562)	(14,736)	(13,224)
Plan amendments	(435)	(3,809)	--	(15,924)
Acquisition of ARCO Coal operations	--	39,674	--	13,625
Other-primarily actuarial (gain) loss	(9,851)	14,067	(14,245)	(9,378)
Benefit obligations at December 31	$131,783	$139,433	$330,846	$335,823
Change in plan assets				
Value of plan assets at January 1	$127,274	$ 64,577	$ --	$ --
Actual return on plan assets	31,308	21,771	--	--
Employer contributions	2,097	8,346	14,736	13,224
Acquisition of ARCO Coal operations	--	41,142	--	--
Benefits paid	(13,462)	(8,562)	(14,736)	(13,224)
Value of plan assets at December 31	$147,217	$127,274	$ --	$ --
Funded status of the plans				
Accumulated obligations less plan assets	$(15,434)	$ 12,159	$330,846	$335,823
Unrecognized actuarial gain	37,513	6,920	16,341	6,918
Unrecognized net transition asset	689	887	--	--
Unrecognized prior service gain	2,815	2,667	11,561	16,367
Net liability recognized	$ 25,583	$ 22,633	$358,748	$359,108
Balance sheet liabilities (assets)				
Prepaid benefit costs	$ --	$ (1,092)	$ --	$ --
Accrued benefit liabilities	25,583	23,725	358,748	359,108
Net liability recognized	25,583	22,633	358,748	359,108
Less current portion	3,138	4,109	14,755	15,555
	$ 22,445	$ 18,524	$343,993	$343,553

Changes in demographic information associated with the defined benefit pension plan resulted in a $9.9 million actuarial gain in 1999 and a $14.1 million actuarial loss for 1998. The Company's primary defined benefit pension plan was amended January 1998 to a cash balance plan, which resulted in a $3.8 million gain. The $14.2 million actuarial gain in the postretirement benefit plan during 1999 results primarily from reduced obligations associated with the Dal-Tex closure. A January 1997 amendment to the postretirement benefit plan resulted in a $15.9 million gain in 1998. The gain resulted from the implementation of a defined dollar benefit cap which limits the Company's disbursements under the plan. The $9.4 million actuarial gain in 1998 resulted from favorable claims experience compared to previous projections.

(in thousands of dollars except share and per share data)

	Pension benefits		Other postretirement benefits	
	1999	1998	1999	1998
Weighted Average Assumptions as of December 31				
Discount rate	7.50%	7.00%	7.50%	7.00%
Rate of compensation increase	5.25%	4.75%	N/A	N/A
Expected return on plan assets	9.00%	9.00%	N/A	N/A
Health care cost trend on covered charges	N/A	N/A	5.0%	4.5%

The following table details the components of pension and other postretirement benefit costs.

	Pension benefits			Other postretirement benefits		
	1999	1998	1997	1999	1998	1997
Service cost	$ 7,118	$ 5,841	$ 2,788	$ 2,424	$ 3,715	$ 3,717
Interest cost	8,980	8,137	4,970	21,580	23,101	19,546
Expected return on plan assets	(9,929)	(7,521)	(4,391)	--	--	--
Other amortization and deferral	(1,122)	790	(503)	(9,628)	(2,884)	(2,573)
	$ 5,047	$ 7,247	$ 2,864	$14,376	$23,932	$20,690

The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rate by one percentage point each year would increase the accumulated postretirement obligation as of December 31, 1999 by $44.5 million, or 13.5%, and the net periodic postretirement benefit cost for 1999 by $3.1 million, or 21.6%.

Multiemployer Pension and Benefit Plans

Under the labor contract with the United Mine Workers of America ("UMWA"), the Company made payments of $.2 million, $1.3 million and $2.0 million in 1999, 1998, and 1997, respectively, into a multiemployer defined benefit pension plan trust established for the benefit of union employees. Payments are based on hours worked and are expensed as paid. Under the Multiemployer Pension Plan Amendments Act of 1980, a contributor to a multiemployer pension plan may be liable, under certain circumstances, for its proportionate share of the plan's unfunded vested benefits (withdrawal liability). The Company has estimated its share of such amount to be $29.6 million at December 31, 1999. The Company is not aware of any circumstances which would require it to reflect its share of unfunded vested pension benefits in its financial statements. At December 31, 1999, approximately 23% of the Company's workforce was represented by the UMWA. The current UMWA collective bargaining agreement expires at December 31, 2002.

The Coal Industry Retiree Health Benefit Act of 1992 ("Benefit Act") provides for the funding of medical and death benefits for certain retired members of the UMWA through premiums to be paid by assigned operators (former employers), transfers of monies in 1993 and 1994 from an overfunded pension trust established for the benefit of retired UMWA members, and transfers from the Abandoned Mine Lands Fund (funded by a federal tax on coal production) commencing in 1995. The Company treats its obligation under the Benefit Act as a participation in a multiemployer plan and recognizes expense as premiums are paid. The Company recognized $2.7 million in 1999, $3.7 million in 1998, and $3.9 million in 1997 in expense relative to premiums paid pursuant to the Benefit Act.

Other Plans

The Company sponsors savings plans which were established to assist eligible employees in providing for their future retirement needs. The Company's contributions to the plans were $8.4 million in 1999, $6.8 million in 1998, and $4.6 million in 1997.

NOTE 14. CAPITAL STOCK

On April 4, 1997, the Company changed its capital stock whereby the number of authorized shares was increased to 100,000,000 common shares, the par value was changed to $.01 per share, and a common stock split of 338.0857-for-one was effected. All share and per share information reflect the stock split.

On September 29, 1998, the Company's Board of Directors authorized the Company to repurchase up to 2 million shares of Company common stock. The timing of the purchases and the number of shares to be purchased are dependent on market conditions. Through December 31, 1999, the Company had acquired 1,726,900 shares under the repurchase program at an average price of $12.29 per share compared to 330,200 shares at an average price of $17.08 per share through December 31, 1998.

On February 25, 1999, the Company's Board of Directors authorized the Company to amend its Automatic Dividend Reinvestment Plan to provide, among other things, that dividends may be reinvested in the Company's common stock by purchasing authorized but unissued shares (including treasury shares) directly from the Company, as well as by purchasing shares in the open market. On May 4, 1999, the Company filed a Form S-3 with the Securities and Exchange Commission to register 2 million shares of the Company's common stock for issuance under the amended Plan. As reflected in the Prospectus filed therewith, the amended Plan provides that the Company determines whether the Plan's administrator should reinvest dividends in shares purchased in the open market or in shares acquired directly from the Company. The Company authorized and directed its Plan administrator (for all shareholders who had elected to reinvest their dividends in Company stock) to reinvest the June 15, 1999 and September 15, 1999 dividends in the Company's treasury stock. As of December 31, 1999, approximately $2.5 million of the Company's dividends were reinvested in 189,506 shares of treasury stock. In accordance with the terms of the amended Plan, the treasury stock was reissued by the Company at the average of the high and low per share sales price as reported by the New York Stock Exchange on the date of the dividends, which averaged $13.446 per share. The Company accounts for the issuance of the treasury stock using the average cost method.

NOTE 15. STOCK INCENTIVE PLAN

On April 22, 1998, the stockholders ratified the adoption of the 1997 Stock Incentive Plan (the "Company Incentive Plan"), reserving 6,000,000 shares of Arch Coal common stock for awards to officers and other selected key management employees of the Company. The Company Incentive Plan provides the Board of Directors with the flexibility to grant stock options, stock appreciation rights (SARs), restricted stock awards or units, performance stock or units, merit awards, phantom stock awards and rights to acquire stock through purchase under a stock purchase program ("Awards"). Awards the Board of Directors elect to pay out in cash do not count against the 6,000,000 shares authorized in the 1997 Stock Incentive Plan. Stock options outstanding under the Ashland Coal stock incentive plans at the date of the Ashland Coal merger were substituted for fully vested stock options in the Company Incentive Plan (and are exercisable on the same terms and conditions including per share exercise prices as were applicable to such options when granted). Stock options generally become exercisable in full or in part one year from the date of grant and are granted at a price equal to 100% of the fair market value of the stock on the date of grant. SAR's entitle employees to receive a payment equal to the appreciation in market value of the stated number of common shares from the SAR's exercise price to the market value of the shares on the date of its exercise. Unexercised options and SAR's lapse 10 years after the date of grant. Restricted stock awards and restricted stock units entitle employees to purchase shares or stock units at a nominal cost. Such awards entitle employees to vote shares acquired and to receive any dividends thereon, but such shares cannot be sold or transferred and are subject to forfeiture if employees terminate their employment prior to the prescribed period, which can be from one to five years. Restricted stock units generally carry the same restrictions and potential forfeiture, but are generally paid in cash upon vesting. Merit awards are grants of stock without restriction and at a nominal cost. Performance stock or unit awards can be earned by the recipient if the Company meets certain pre-established performance measures. Until earned, the performance awards are nontransferable, and when earned, performance awards are payable in cash, stock, or restricted stock as determined by the Company's Board of Directors. Phantom stock awards are based on the appreciation of hypothetical underlying shares or the earnings performance of such shares and may be paid in cash or in shares of common stock. As of December 31, 1999, performance units and stock options were the only types of awards granted. As of December 31, 1999, 361,550 performance units had been granted and will be earned by participants based on Company performance for the years 1998 through 2001. Information regarding stock options under the Company Incentive Plan is as follows for the years ended December 31, 1999, 1998 and 1997:

(in thousands of dollars except share and per share data)

	1999		1998		1997	
	Common Shares	Weighted Average Price	Common Shares	Weighted Average Price	Common Shares	Weighted Average Price
Options outstanding at January 1	1,128	$24.86	926	$25.23	--	$ --
Issued in exchange for Ashland Coal stock options	--	--	--	--	675	23.69
Granted	744	10.69	360	22.88	300	27.88
Exercised	--	--	(48)	14.50	(49)	21.25
Canceled	(63)	16.28	(110)	25.88	--	--
Options outstanding at December 31	1,809	19.33	1,128	24.86	926	25.23
Options exercisable at December 31	837	$24.77	600	$25.04	626	$23.88
Options available for grant at December 31	4,094		4,775		5,025	

The Company applies APB 25, Accounting for Stock Issued to Employees, and related Interpretations in accounting for the Company Incentive Plan. Accordingly, no compensation expense has been recognized for the fixed stock option portion of the Company Incentive Plan. Had compensation expense for the fixed stock option portion of the Company Incentive Plan been determined based on the fair value at the grant dates for awards under this plan consistent with the method of FAS 123, Accounting for Stock-Based Compensation, the Company's net income (loss) and earnings (loss) per common share would have been changed to the pro forma amounts as indicated in the table below. The fair value of options granted in 1999, 1998 and 1997 was determined to be $2.9 million, $2.3 million and $2.5 million, respectively, using the Black-Scholes option pricing model and the weighted average assumptions noted below. For purposes of these pro forma disclosures, the estimated fair value of the options is recognized as compensation expense over the options' vesting period. The stock options granted in 1999 vest over four years, while the stock options granted in 1998 and 1997 vest ratably over three years.

	1999	1998	1997
Pro forma (unaudited)			
Net income (loss) (in millions)	$(347.7)	$29.3	$30.1
Basic and diluted earnings (loss) per share	$ (9.06)	$ .74	$ .98
Weighted average fair value per share of options granted	$ 4.13	$7.22	$8.36
Assumptions (weighted average)			
Risk-free interest rate	6.6%	6.0%	6.3%
Expected dividend yield	2.0%	2.0%	2.0%
Expected volatility	41.4%	31.8%	29.0%
Expected life (in years)	5.0	5.0	5.0

The pro forma effect on net income (loss) for 1999, 1998 and 1997 is not representative of the pro forma effect on net income (loss) in future years because it does not take into consideration pro forma compensation expense related to grants issued prior to 1996.

Exercise prices for options outstanding as of December 31, 1999, range from $10.6875 to $34.375, and the weighted average remaining contractual life at that date was 7.3 years. The table below shows pertinent information on options outstanding at December 31, 1999:

(Options in thousands)	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$10 - $18	754	8.63	$11.08	65	$15.24
$22 - $23	544	6.84	$22.58	342	$22.41
$25 - $35	511	5.77	$28.04	430	$28.07

NOTE 16. CONCENTRATION OF CREDIT RISK AND MAJOR CUSTOMERS

The Company places its cash equivalents in investment-grade short-term investments and limits the amount of credit exposure to any one commercial issuer.

The Company markets its coal principally to electric utilities in the United States. As of December 31, 1999 and 1998, accounts receivable from electric utilities located in the United States totaled $120.2 million and $152.1 million, respectively. Generally, credit is extended based on an evaluation of the customer's financial condition, and collateral is not generally required. Credit losses are provided for in the financial statements and historically have been minimal.

The Company is committed under long-term contracts to supply coal that meets certain quality requirements at specified prices. These prices are generally adjusted based on indices. Quantities sold under some of these contracts may vary from year to year within certain limits at the option of the customer. Sales (including spot sales) to major customers were as follows:

	1999	1998	1997
AEP	$157,278	$195,682	$129,981
Southern Company	163,826	170,452	187,800

(in thousands of dollars except share and per share data)

NOTE 17. EARNINGS (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted earnings (loss) per common share:

	1999	1998	1997
Numerator:			
Income (loss) before extraordinary loss and cumulative effect of accounting change	$(350,093)	$31,501	$30,281
Extraordinary loss from the extinguishment of debt, net of taxes	--	(1,488)	--
Cumulative effect of accounting change, net of taxes	3,813	--	--
Net income (loss)	$(346,280)	$30,013	$30,281
Denominator:			
Weighted average shares-denominator for basic	38,392	39,626	30,374
Dilutive effect of employee stock options	--	25	34
Adjusted weighted average shares-denominator for diluted	38,392	39,651	30,408
Basic and diluted earnings (loss) per common share before extraordinary loss and cumulative effect of accounting change	$ (9.12)	$ .79	$ 1.00
Basic and diluted earnings (loss) per common share	$ (9.02)	$ .76	$ 1.00

At December 31, 1999, 1998 and 1997, 1.8 million, 1.1 million and .4 million shares, respectively, were not included in the diluted earnings per share calculation since the shares are antidilutive.

NOTE 18. SALE AND LEASEBACK

On January 29, 1998, the Company sold mining equipment for approximately $74.2 million and leased back the equipment under an operating lease with a term of three years. This included the sale and leaseback of equipment purchased under an existing operating lease that expired on the same day. The proceeds of the sale were used to purchase the equipment under the expired lease for $28.3 million and to pay down debt. At the end of the lease term, the Company has the option to renew the lease for two additional one-year periods or purchase the equipment. Alternatively, the equipment may be sold to a third party. In the event of such a sale, the Company will be required to make a payment to the lessor in the event, and to the extent, that the proceeds are below a certain threshold. The gain on the sale and leaseback of $10.7 million was deferred and is being amortized over the base term of the lease as a reduction of rental expense. Effective April 1, 1999, as a result of the shutdown of the Dal-Tex operation, the Company purchased for $14.4 million several pieces of equipment under lease that were included in this transaction and transferred them to the Company's Wyoming operations. A pro-rata portion of the deferred gain, or $3.1 million, was offset against the cost of the assets. After the effect of this purchase, at the end of the lease term, the remaining assets can be purchased for $40.1 million or sold to a third party with the Company required to make a payment to the lessor in the event, and to the extent that, proceeds are below $31.3 million.

NOTE 19. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company receives certain services and purchases fuel, oil and other products on a competitive basis from subsidiaries of Ashland Inc., which totaled $4.8 million in 1999, $7.2 million in 1998, and $4.7 million in 1997. At December 31, 1999, Ashland Inc. owns approximately 58% of the Company's outstanding shares of common stock. Management believes that charges between the Company and Ashland Inc. for services and purchases were transacted on terms equivalent to those prevailing among unaffiliated parties.

As described in Note 1, the Company has a 65% ownership interest in Canyon Fuel which is accounted for on the equity method. The Company receives administration and production fees from Canyon Fuel for managing the Canyon Fuel operations. The fees recognized as other income by the Company and as expense by Canyon Fuel were $7.0 million and $4.1 million for the years ended December 31, 1999 and 1998, respectively.

NOTE 20. COMMITMENTS AND CONTINGENCIES

The Company leases equipment, land and various other properties under noncancelable long-term leases, expiring at various dates. Rental expense related to these operating leases amounted to $44.2 million in 1999, $31.4 million in 1998, and $14.9 million in 1997. The Company has also entered into various noncancelable royalty lease agreements and federal lease bonus payments under which future minimum payments are due. On October 1, 1998, the Company was the successful bidder in a federal auction of certain mining rights in the 3,546 acre Thundercloud tract in the Powder River Basin of Wyoming. The Company's lease bonus bid amounted to $158 million for the tract, of which $31.6 million was paid on October 1, 1998 (the remaining lease bonus payments are reflected below under the caption "Royalties"). The tract contains approximately 412 million tons of demonstrated coal reserves and is contiguous with the Company's Black Thunder mine. Geological surveys performed by outside consultants indicate that there are sufficient reserves relative to these properties to permit recovery of the Company's investment.

Minimum payments due in future years under these agreements in effect at December 31, 1999 are as follows:

	Leases	Royalties
2000........	$ 29,878	$ 63,421
2001........	23,731	63,026
2002........	17,728	62,799
2003........	10,427	62,485
2004........	6,389	30,474
Thereafter..	21,950	196,805
	$110,103	$479,010

On October 20, 1999, the U.S. District Court for the Southern District of West Virginia permanently enjoined the West Virginia Division of Environmental Protection (the "West Virginia DEP") from issuing any new permits that authorize the construction of valley fills as part of coal mining operations in West Virginia. The West Virginia DEP complied with the district court's injunction by issuing an order banning the issuance of nearly all new permits for valley fills and prohibiting the further advancement of nearly all existing fills. The West Virginia DEP also filed an appeal of the district court's decision with the U.S. Court of Appeals for the Fourth Circuit. On October 29, 1999, the district court granted a stay of its injunction, pending the outcome of the West Virginia DEP's appeal. It is impossible to predict the outcome of the appeal. If, however, the district court's decision is not overturned or if a legislative or other solution is not achieved, then the Company's and other coal producer's ability to mine coal in West Virginia will be seriously compromised. This injunction was entered as part of the litigation that caused the delay in obtaining mining permits for the Company's Dal-Tex operation. As a result of such delay, the Company idled its Dal-Tex mining operation on July 23, 1999. Reopening the Dal-Tex operation is contingent upon the district court's injunction being overturned or a legislative or other solution being achieved, as well as then-existing market conditions.

The Company is a party to numerous claims and lawsuits with respect to various matters. The Company provides for costs related to contingencies when a loss is probable and the amount is reasonably determinable. As of December 31, 1999, the Company estimates that its probable aggregate loss as a result of such claims is $5.2 million (included in other noncurrent liabilities). The Company estimates that its reasonably possible aggregate losses from all currently pending litigation could be as much as $.5 million (before tax) in excess of the loss previously recognized.

(in thousands of dollars except share and per share data)

After conferring with counsel, it is the opinion of management that the ultimate resolution of these claims, to the extent not previously provided for, will not have a material adverse effect on the consolidated financial condition, results of operations or liquidity of the Company.

The Company holds a 17.5% general partnership interest in Dominion Terminal Associates ("DTA"), which operates a ground storage-to-vessel coal transloading facility in Newport News, Virginia. DTA leases the facility from Peninsula Ports Authority of Virginia ("PPAV") for amounts sufficient to meet debt-service requirements. Financing is provided through $132.8 million of tax-exempt bonds issued by PPAV (of which the Company is responsible for 17.5%, or $23.2 million) which mature July 1, 2016. Under the terms of a throughput and handling agreement with DTA, each partner is charged its share of cash operating and debt-service costs in exchange for the right to use its share of the facility's loading capacity and is required to make periodic cash advances to DTA to fund such costs. On a cumulative basis, costs exceeded cash advances by $10.3 million at December 31, 1999 (included in other noncurrent liabilities). Future payments for fixed operating costs and debt service are estimated to approximate $3.3 million annually through 2015 and $26.0 million in 2016.

In connection with the Arch Western transaction, the Company entered into an agreement pursuant to which the Company agreed to indemnify another member of Arch Western against certain tax liabilities in the event that such liabilities arise as a result of certain actions taken prior to June 1, 2013, including the sale or other disposition of certain properties of Arch Western, the repurchase of certain equity interests in Arch Western by Arch Western or the reduction under certain circumstances of indebtedness incurred by Arch Western in connection with the Arch Western transaction. Depending on the time at which any such indemnification obligation was to arise, it could have a material adverse effect on the business, results of operations and financial condition of the Company.

NOTE 21. CASH FLOW

The changes in operating assets and liabilities as shown in the consolidated statements of cash flows are comprised of the following:

	1999	1998	1997
Decrease (increase) in operating assets:			
Receivables	$ 38,356	$(35,464)	$(12,179)
Inventories	5,188	6,723	16,323
Increase (decrease) in operating liabilities:			
Accounts payable and accrued expenses	(15,593)	30,229	5,403
Income taxes	(76,952)	(35,057)	(27,448)
Accrued postretirement benefits other than pension	440	6,813	7,437
Accrued reclamation and mine closure	(20,767)	1,936	(9,370)
Accrued workers' compensation	(143)	149	(9,008)
Changes in operating assets and liabilities	$(69,471)	$(24,671)	$(28,842)

NOTE 22. ACCOUNTING DEVELOPMENT

In June 1998, the Financial Accounting Standards Board issued FAS 133, Accounting for Derivative Instruments and Hedging Activities, which is required to be adopted in years beginning after June 15, 2000. FAS 133 permits early adoption as of the beginning of any fiscal quarter after its issuance. FAS 133 will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company has not yet determined what effect FAS 133 will have on the earnings and financial position of the Company.

NOTE 23. SUBSEQUENT EVENTS (UNAUDITED)

The Company temporarily idled its West Elk underground mine in Gunnison County, Colorado, on January 28, 2000 following the detection of higher-than-normal levels of carbon monoxide in a portion of the mine. Higher-than-normal readings of carbon monoxide indicate that combustion is present somewhere within the affected portion of the mine. The Company has sealed the affected portion of the mine while it further isolates the affected area and determines the cause of and solutions to the problem. West Elk produced approximately 7.3 million tons of coal in 1999, employs approximately 300 people and generated approximately $13.1 million of the Company's total operating income in 1999. The Company does not believe the mine's closure will have a material long-term effect on the Company's financial condition, but it could have a material adverse effect on the Company's results of operations until the mine is reopened and fully operating.

Ashland Inc., which owns approximately 58% of the outstanding common stock of the Company, announced on March 16, 2000 that its Board of Directors has declared a taxable distribution of approximately 17.4 million of its 22.1 million shares of the Company's common stock. The distribution will be in the form of a taxable dividend, to be distributed on or around March 27, 2000 to Ashland's stockholders of record as of March 24, 2000. Ashland also confirmed that it plans to dispose of its remaining 4.7 million shares of the Company's common stock in a tax efficent manner after the distribution, subject to then-existing market conditions.

Subsequent to December 31, 1999, the Company's Board of Directors adopted a stockholder rights plan under which preferred share purchase rights ("Rights") are to be distributed as a dividend to holders of Company common stock on March 20, 2000 (the "Record Date"). The Rights will become exercisable only if a person or group (other than certain affiliated entities, including Ashland Inc., except in certain circumstances, an "Acquiring Person") acquires 20% or more of the Company common stock or announces a tender or exchange offer which would result in the Acquiring Person becoming the beneficial owner of 20% or more of the Company's outstanding shares of common stock. When exercisable, each Right entitles the holder to purchase 1/100 of a share of a series of junior participating preferred stock at an exercise price of $42 per 1/100 of a share, or in certain circumstances, will allow the holder (except for the Acquiring Person) to purchase common stock from the Company or voting stock of the Acquiring Person at one-half the then current market price. At its option, the Company's Board may allow holders (except for the Acquiring Person) to exchange their Rights for Company common stock. The Rights will expire on March 20, 2010, subject to earlier redemption by the Company.

(in thousands, except share and per share data)

NOTE 24. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarterly financial data for 1999 and 1998 is summarized below:

	March 31	June 30	Sept. 30	Dec. 31
1999:				
Coal sales, equity income and other revenues	$421,126	$391,292	$382,236	$ 372,728
Income (loss) from operations	13,983/(1)/	20,739	12,602	(374,350)/(3)/
Income (loss) before cumulative effect of accounting change	(2,380)	2,459	(1,820)	(348,352)
Net income (loss)	1,433/(2)/	2,459	(1,820)	(348,352)
Basic and diluted earnings (loss) per common share before cumulative effect of accounting change/(7)/	(0.06)	0.06	(0.05)	(9.12)
Basic and diluted earnings (loss) per common share/(7)/	0.04	0.06	(0.05)	(9.12)
1998:				
Coal sales, equity income and other revenues	$312,564/(4)/	$353,238	$424,123/(5)/	$ 415,710
Income from operations	22,359	27,450	23,909	14,129/(6)/
Income before extraordinary loss	15,821	14,999	544	137
Net income	15,821	13,511	544	137
Basic and diluted earnings per common share before extraordinary loss/(7)/	0.40	0.38	0.01	0.00
Basic and diluted earnings per common share/(7)/	0.40	0.34	0.01	0.00

(1) During the first quarter of 1999, the Company recorded a charge of $6.5 million related to severance costs, obligations for non-cancelable lease payments and a change in the reclamation liability due to the shut-down of the Company's Dal-Tex operation.
(2) During the first quarter of 1999, the Company changed its depreciation method on preparation plants and loadouts and recorded a cumulative effect adjustment which increased income by $3.8 million (net of tax) from applying the new method for years prior to 1999.
(3) During the fourth quarter of 1999, the Company recorded a one-time pre-tax charge of $364.6 million to write-down the assets at its Dal-Tex, Hobet 21 and Coal-Mac operations and write-down certain other coal reserves in central Appalachia and 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, Kentucky and West Virginia.
(4) During the first quarter of 1998, the Company recorded gains on the sale of surplus land totaling $7.9 million.
(5) During the third quarter of 1998, the Company sold idle assets and reserves in eastern Kentucky for a gain of $18.5 million.
(6) During the fourth quarter of 1998, the Company sold its idle Big Sandy Terminal for a gain of $7.5 million. This was partially offset by a net unfavorable adjustment of $4.9 million associated with the Company's routine, periodic review of reclamation accruals.
(7) The sum of the quarterly earnings (loss) per common share amounts may not equal earnings (loss) per common share for the full year because per share amounts are computed independently for each quarter and for the year based on the weighted average number of common shares outstanding during each period.

Selected Financial Information

(in thousands, except share and per share data)

	Year Ended December 31,				
	1999/(2,3)/	1998/(4,5)/	1997/(6,7)/	1996	1995/(8,9)/
Statement of Operations Data:					
Coal sales, equity income and other revenues..........	$1,567,382	$1,505,635	$1,066,875	$780,621	$737,838
Costs and expenses:					
Cost of coal sales..................................	1,426,105	1,313,400	916,802	669,295	657,529
Selling, general and administrative expenses........	46,357	44,767	28,885	20,435	19,680
Amortization of coal supply agreements..............	36,532	34,551	18,063	12,604	13,374
Write-down of impaired assets.......................	364,579	--	--	--	10,241
Merger-related expenses.............................	--	--	39,132	--	--
Restructuring expenses/(1)/.........................	--	--	--	--	8,250
Other expenses......................................	20,835	25,070	22,111	22,175	18,739
Income (loss) from operations.........................	(327,026)	87,847	41,882	56,112	10,025
Interest expense, net.................................	88,767	61,446	17,101	17,592	22,962
Provision (benefit) for income taxes..................	(65,700)	(5,100)	(5,500)	5,500	(1,900)
Income (loss) before extraordinary loss and cumulative effective of accounting change...	(350,093)	31,501	30,281	33,020	(11,037)
Extraordinary loss....................................	--	(1,488)	--	--	--
Cumulative effect of accounting change................	3,813	--	--	--	--
Net income (loss).....................................	$ (346,280)	$ 30,013	$ 30,281	$ 33,020	$(11,037)
Balance Sheet Data:					
Total assets..	$2,332,374	$2,918,220	$1,656,324	$ 885,521	$940,768
Working capital.......................................	(54,968)	20,176	40,904	33,166	40,077
Long-term debt, less current maturities...............	1,094,993	1,309,087	248,425	212,695	274,314
Other long-term obligations...........................	655,166	657,759	594,127	421,754	429,993
Stockholders' equity..................................	241,295	618,216	611,498	130,626	113,692
Common Stock Data:					
Basic and diluted earnings (loss) per common share before extraordinary loss and cumulative effect of accounting change.............	$ (9.12)	$ 0.79	$ 1.00	$ 1.58	$ (0.53)
Basic and diluted earnings (loss) per common share.......................................	$ (9.02)	$ 0.76	$ 1.00	$ 1.58	$ (0.53)
Dividends per share...................................	$ .46	$ .46	$ .445	$ .38	$ .32
Shares outstanding at year-end........................	38,164	39,372	39,658	20,948	20,948
Cash Flow Data:					
Cash provided by operating activities.................	$ 279,963	$ 188,023	$ 190,263	$ 138,471	$ 98,159
Depreciation, depletion and amortization..............	235,658	204,307	143,632	114,703	100,101
Purchases of property, plant and equipment............	98,715	141,737	77,309	62,490	80,347
Dividend payments.....................................	17,609	18,266	13,630	8,000	6,697
EBITDA/(10)/..	325,949	313,500	224,646	170,815	128,617
Operating Data:					
Tons sold...	111,177	81,098	40,525	29,443	26,742
Tons produced...	109,524	75,817	36,698	26,887	25,562
Tons purchased from third parties.....................	3,781	4,997	2,906	2,062	1,218

(1) During 1995, the Company classified a restructuring charge as a separate component of costs and expenses. Subsequent to 1995, any restructuring charges have not been identified separately.
(2) The Company changed its depreciation method on preparation plants and loadouts during the first quarter of 1999 and recorded a cumulative effect of applying the new method for years prior to 1999 which resulted in a decrease to net loss in 1999 of $3.8 million net-of-tax.
(3) The loss from operations for 1999 reflects one-time pre-tax charges of $364.6 million 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 and a $23.1 million pre-tax charge related to the restructuring of the Company's administrative work force and the closure of mines in Illinois, Kentucky and West Virginia.
(4) Information for 1998 reflects the acquisition of Atlantic Richfield Company's domestic coal operations on June 1, 1998. As a result of the refinancing of Company debt resulting from the acquisition, the Company incurred an extraordinary charge of $1.5 million (net of tax benefit) related to the early extinguishment of debt which existed prior to the acquisition.
(5) Income from operations for 1998 reflects pre-tax gains of $41.8 million from the disposition of assets including $18.5 million and $7.5 million on the sale or certain assets and property in eastern Kentucky and the sale of the Company's idle Big Sandy Terminal, respectively.
(6) Information for 1997 reflects the merger with Ashland Coal on July 1, 1997.
(7) Income from operations for 1997 reflects a $39.1 million charge in connection with the Ashland Coal merger comprised of termination benefits, relocation costs and costs associated with duplicate facilities.
(8) Income from operations for 1995 reflects charges of $18.5 million for restructuring and asset write-downs.
(9) On July 31, 1995, the Company sold its timber rights to approximately 100,000 acres of property in the eastern United States for a gain of $8.4 million.
(10) EBITDA is defined as income (loss) from operations before the effect of changes in accounting principles and extraordinary items (Note 2 above); merger-related costs, unusual items, asset impairment and restructuring charges (Notes 3, 4, 7 and 8 above); net interest expense; income taxes; depreciation, depletion and amortization of Arch Coal, its subsidiaries and its ownership percentage in its equity investments. EBITDA is presented 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 nor 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 U.S. generally accepted accounting principles. This measure of EBITDA may not be comparable to similar measures reported by other companies, or EBITDA may be computed differently by the Company in different contexts (i.e., public reporting versus computations under financing arrangements).

Directors

James R. Boyd c d
Chairman of the Board, Arch Coal, Inc.;
Senior Vice President & Group Operating Officer, Ashland Inc.

Philip W. Block d
Administrative Vice President of Human Resources, Ashland Inc.

Paul W. Chellgren b* d
Chairman of the Board & Chief Executive Officer, Ashland Inc.

Ignacio Dominguez Urquijo a c
Chief Executive Officer & Administrator, Carboex, S.A.;
Senior Vice President, Endesa Group

Thomas L. Feazell b d*
Retired Senior Vice President, Ashland Inc.

Robert L. Hintz a* b
Chairman of the Board, R.L. Hintz & Associates;
Retired Executive Vice President, CSX Corporation

Douglas H. Hunt a b d
Director of Acquisitions, Petro-Hunt, L.L.C.

Steven F. Leer b c
President & Chief Executive Officer, Arch Coal, Inc.

James L. Parker a c*
President, Hunt Petroleum Corporation

A. Michael Perry a c
Chairman of Bank One, West Virginia, N.A.

J. Marvin Quin c
Senior Vice President & Chief Financial Officer, Ashland Inc.

Theodore D. Sands a c d
President, HAAS Capital, LLC;
Retired Managing Director, Investment Banking for the Global Metals/Mining
Group, Merrill Lynch & Co.

a Audit Committee
b Committee on Directors
c Finance Committee
d Personnel and Compensation Committee
* Committee Chairman

Officers

Executive Officers

Steven F. Leer
President & Chief Executive Officer

Kenneth G. Woodring
Executive Vice President, Mining Operations

John W. Eaves
Senior Vice President, Marketing

Bradley M. Allbritten
Vice President, Human Resources

C. Henry Besten Jr.
Chief Financial Officer & Vice President, Strategic Marketing

Robert G. Jones
Vice President, Law & General Counsel

Terry L. O'Connor
Vice President, External Affairs

David B. Peugh
Vice President, Business Development

Robert W. Shanks
Vice President, Operations, & President, Arch Western Resources, LLC

Other Officers

Larry R. Brown
Vice President & Chief Information Officer

William H. Rose
Vice President, Tax Planning

James E. Florczak
Treasurer

Rosemary L. Klein
Secretary & Assistant General Counsel

John W. Lorson
Controller

C. David Steele
Auditor

Stockholder Information

COMMON STOCK

Arch Coal's Common Stock is listed and traded on the New York Stock Exchange and also has unlisted trading privileges on the Chicago Stock Exchange. The ticker symbol is ACI.

	Quarter Ended			
	March 31 1998	June 30 1998	Sept. 30 1998	Dec. 31 1998
Dividends per common share	$ .115	$ .115	$ .115	$ .115
High	$29	$27 7/16	$25	$19 1/2
Low	$25 1/4	$23 1/4	$14 1/2	$14 7/16
Close	$27	$24 7/8	$14 7/8	$17 1/8

	Quarter Ended			
	March 31 1999	June 30 1999	Sept. 30 1999	Dec. 31 1999
Dividends per common share	$ .115	$ .115	$ .115	$ .115
High	$16 3/4	$14 13/16	$15 5/16	$13
Low	$ 9 3/4	$10 13/16	$11 3/8	$ 8 3/4
Close	$13 1/4	$13 7/8	$12 5/16	$11 5/16

On March 8, 2000, Arch Coal's common stock closed at $8 1/8 on the New York Stock Exchange. At that date, there were 750 holders of record of Arch Coal's common stock.

DIVIDENDS

In 1999, Arch Coal paid dividends totaling $17.6 million, or $.46 per share, on its outstanding shares of common stock. In 1998, Arch Coal paid dividends totaling $18.3 million, or $.46 per share, on its outstanding shares of common stock. On February 24, 2000, Arch declared a quarterly dividend of 5.75 cents per share on the company's common stock which represents a 50% reduction in the company's recent quarterly dividends. The reduction is attributable to the company's goal to aggressively pay down debt. The company expects to continue paying regular cash dividends, although there is no assurance as to the amount or payment of dividends in the future because they are dependent on Arch Coal's future earnings, capital requirements and financial condition.

STOCK INFORMATION

Questions by stockholders regarding stockholder records, stock certificates, dividends, the Dividend Reinvestment Plan or other stock inquiries should be directed to:

First Chicago Trust Company of New York
a division of EquiServe
P.O. Box 2500
Jersey City, NJ 07303
Telephone: (800) 317-4445
Website: www.equiserve.com

FINANCIAL INFORMATION

Inquiries from stockholders and security analysts should be directed to:

Investor Relations
Arch Coal, Inc.
CityPlace One, Suite 300
St. Louis, MO 63141
Telephone: (314) 994-2700
Fax: (314) 994-2878

WEBSITE

Arch Coal's quarterly financial results as well as other corporate information are available at www.archcoal.com.

CORPORATE COMMUNICATIONS

Copies of the Securities and Exchange Commission Form 10-K are available without charge. Requests for this document and other inquiries should be directed to:

External Affairs
Arch Coal, Inc.
CityPlace One, Suite 300
St. Louis, MO 63141
Telephone: (314) 994-2700
Fax: (314) 994-2878

GENERAL OFFICES

Arch Coal, Inc.
CityPlace One, Suite 300
St. Louis, MO 63141
Telephone: (314) 994-2700

INDEPENDENT AUDITORS

Ernst & Young LLP
Suite 2100
400 West Market Street
Louisville, KY 40202

EXHIBIT 21

SUBSIDIARIES OF ARCH COAL, INC.

The following is a complete list of the direct and indirect subsidiaries of Arch Coal, Inc., a Delaware corporation:

	NAME	JURISDICTION OF INCORPORATION/FORMATION
	Allegheny Land Company	Delaware
	Apogee Coal Company	Delaware
	Arch Coal International, Ltd.	Barbados
	Arch Coal Sales Company, Inc.	Delaware
	Arch Coal Terminal, Inc.	Delaware
	Arch Energy Resources, Inc.	Delaware
(1)	Arch of Wyoming, LLC	Delaware
	Arch Reclamation Services, Inc.	Delaware
(1)	Arch Uinta, LLC	Delaware
	Arch Western Acquisition Corporation	Delaware
(2)	Arch Western Resources, LLC	Delaware
	Ark Land Company	Delaware
	Ashland Terminal, Inc.	Delaware
(1)	AU Sub, LLC	Delaware
(3)	Canyon Fuel Company, LLC	Delaware
	Catenary Coal Company	Delaware
	Catenary Coal Holdings, Inc.	Delaware
	Coal-Mac, Inc.	Kentucky
	Cumberland River Coal Company	Delaware
	Energy Development Co.	Iowa
	Hobet Mining, Inc.	West Virginia
	Julian Tipple, Inc.	Delaware
	Lone Mountain Processing, Inc.	Delaware
	Mingo Logan Coal Company	Delaware
(1)	Mountain Coal Company, L.L.C.	Delaware
	Mountain Gem Land, Inc.	West Virginia
	Mountain Mining, Inc.	Delaware
	Mountaineer Land Company	Delaware
	P. C. Holding, Inc.	Delaware
	Paint Creek Terminals, Inc.	Delaware
(1)	State Leases LLC	Delaware
(1)	Thunder Basin Coal Company, L.L.C.	Delaware

(1) Owned by Arch Western Resources, LLC.
(2) Arch Western Acquisition Corporation owns a 99% membership interest in Arch Western Resources, LLC.
(3) Arch Western Resources, LLC owns a 65% membership interest in Canyon Fuel Company, LLC.

Exhibit 23.1

Independent Auditor's Consent

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Arch Coal, Inc. of our report dated January 21, 2000, included in the 1999 Annual Report to Stockholders of Arch Coal, Inc.

Our audits also included the financial statement schedule of Arch Coal, Inc. listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in (1) the Registration Statement (Form S-8 No. 333-30565) pertaining to the Arch Coal, Inc. 1997 Stock Incentive Plan and in the related Prospectus, (2) the Registration Statement (Form S-8 No. 333-32777) pertaining to the Arch Coal, Inc. Employees Thrift Plan and in the related Prospectus and (3) the Registration Statement (Form S-8 No. 333-68131) pertaining to the Arch Coal, Inc. Deferred Compensation Plan and in the related Prospectus, of our report dated January 21, 2000 (except for Note 8, for which the date is February 24, 2000), with respect to the consolidated financial statements of Canyon Fuel Company, LLC included in, of our report dated January 21, 2000, with respect to the consolidated financial statements of Arch Coal, Inc. and subsidiaries incorporated by reference in, and of our opinion with respect to the financial statement schedule of Arch Coal, Inc. listed in Item 14(a) included in, the Arch Coal, Inc. Annual Report (Form 10-K) for the year ended December 31, 1999.

/s/ Ernst & Young LLP

Louisville, Kentucky
March 14, 2000

Exhibit 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements on Form S-8 (File No.'s 333-32777, 333-68131 and 333-30565) of our report dated March 20, 1998 on our audit of the financial statements of Canyon Fuel Company, LLC for the period from December 20, 1996 (inception) through December 31, 1997 which report is included in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Denver, Colorado
March 14, 2000

EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS: That each of the undersigned directors and the undersigned Director/Officer of ARCH COAL, INC., a Delaware corporation ("Arch Coal"), hereby constitutes and appoints Steven F. Leer, and Robert G. Jones, and each of them, his true and lawful attorneys-in-fact and agents, with full power to act without the others, to sign Arch Coal's Annual Report on Form 10-K for the year ended December 31, 1999, to be filed with the Securities and Exchange Commission under the provisions of the Securities Exchange Act of 1934, as amended; to file such Annual Report and the exhibits thereto and any and all other documents in connection therewith, including without limitation amendments thereto, with the Securities and Exchange Commission; and to do and perform any and all other acts and things requisite and necessary to be done in connection with the foregoing as fully as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

Dated: March 16, 2000

/s/ Steven F. Leer Steven F. Leer	President and Chief Executive Officer and Director
/s/ James R. Boyd James R. Boyd	Chairman of the Board and Director
/s/ Philip W. Block Philip W. Block	Director
/s/ Paul W. Chellgren Paul W. Chellgren	Director
Ignacio Dominguez Urquijo	Director
/s/ Thomas L. Feazell Thomas L. Feazell	Director
/s/ Robert L. Hintz Robert L. Hintz	Director
/s/ Douglas H. Hunt Douglas H. Hunt	Director
/s/ James L. Parker James L. Parker	Director
/s/ A. Michael Perry A. Michael Perry	Director
/s/ J. Marvin Quin J. Marvin Quin	Director
/s/ Theodore D. Sands Theodore D. Sands	Director

5

This schedule contains summary financial information extracted from Form 10-K
and is qualified in its entirety by reference to such financial statements.

12-MOS
DEC-31-1999
DEC-31-1999
3,283
0
188,461
0
62,382
285,952
2,305,349
826,178
2,332,374
340,920
0
0
0
397
240,898
2,332,374
1,509,596
1,567,382
1,426,105
1,894,408
0
0
88,767
(415,793)
(65,700)
(350,093)
0
0
3,813
(346,280)
(9.02)
(9.02)

Exhibit 99

Financial Statements

Canyon Fuel Company, LLC

Years ended December 31, 1999 and 1998
and the period from December 20, 1996
(inception) through December 31, 1997
with Report of Independent Auditors

Report of Independent Auditors

To the Members of Canyon Fuel Company, LLC:

We have audited the accompanying balance sheets of Canyon Fuel Company, LLC (a Delaware limited liability company) (the "Company") as of December 31, 1999 and 1998 and the related statements of income, members' equity, and cash flows for the two years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Canyon Fuel Company, LLC at December 31, 1999 and 1998, and the results of its operations and its cash flows for the two years then ended in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Louisville, Kentucky
January 21, 2000,
except for Note 7, for which
the date is February 24, 2000

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Members of the Canyon Fuel Company, LLC:

In our opinion, the accompanying statements of income, members' equity and cash flows present fairly, in all material respects, the results of operations and cash flows of Canyon Fuel Company, LLC (a Delaware Limited Liability Company) (the "Company") for the period from December 20, 1996 (inception) through December 31, 1997, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

Denver, Colorado   /s/ PricewaterhouseCoopers LLP
March 20, 1998

Canyon Fuel Company, LLC
Statements of Income
(in thousands of dollars)

	Years ended December 31, 1999 and 1998 and the period from December 20, 1996 (inception) through December 31, 1997		
	1999	1998	1997
Revenues			
Coal sales	$240,264	$275,303	$251,818
Other revenues	798	905	2,018
	241,062	276,208	253,836
Costs and expenses			
Cost of coal sales	205,268	250,248	210,500
Amortization of coal supply agreements	17,897	19,044	18,089
Fees to members	7,751	5,945	4,805
	230,916	275,237	233,394
Income from operations	10,146	971	20,442
Interest, net:			
Interest expense	(230)	(205)	(294)
Interest income	634	1,110	1,120
	404	905	826
Net income	$ 10,550	$ 1,876	$ 21,268

The accompanying notes are an integral part of the financial statements.

Canyon Fuel Company, LLC
Balance Sheets
(in thousands of dollars)

	December 31	
	1999	1998
Assets		
Current assets		
Cash and cash equivalents	$ 436	$ 20,246
Trade accounts receivable	25,829	33,611
Other receivables	7,640	9,358
Inventories	25,430	23,842
Other	1,877	563
Total current assets	61,212	87,620
Property, plant and equipment		
Coal lands and mineral rights	266,956	263,576
Plant and equipment	229,280	199,631
Deferred mine development	10,037	9,350
	506,273	472,557
Less accumulated depreciation, depletion and amortization	(119,913)	(77,764)
Property, plant and equipment, net	386,360	394,793
Other assets		
Prepaid royalties	22,399	24,829
Coal supply agreements	43,324	112,347
Other	20	150
Total other assets	65,743	137,326
Total assets	$513,315	$619,739
Liabilities and members' equity		
Current liabilities		
Accounts payable	$ 25,334	$ 22,653
Accrued expenses	11,731	8,806
Total current liabilities	37,065	31,459
Accrued postretirement benefits other than pension	8,219	6,902
Accrued reclamation and mine closure	3,280	2,793
Accrued workers' compensation	6,204	7,037
Accrued pension cost	--	1,461
Other noncurrent liabilities	3,086	1,054
Total liabilities	57,854	50,706
Members' equity	455,461	569,033
Total liabilities and members' equity	$513,315	$619,739

The accompanying notes are an integral part of the financial statements.

Canyon Fuel Company, LLC
Statements of Members' Equity
(in thousands of dollars)

Years ended December 31, 1999 and 1998 and the period from
December 20, 1996 (inception) through December 31, 1997

	ARCO Uinta Coal Company Through June 1, 1998, Arch Western Resources, LLC Thereafter	ITOCHU Coal International Inc.	Total
Contributions	$410,643	$221,115	$631,758
Distributions	(48,750)	(26,250)	(75,000)
Net income for the period from December 20, 1996 (inception) through December 31, 1997	13,824	7,444	21,268
Members' equity, December 31, 1997	375,717	202,309	578,026
Contributions	11,785	6,346	18,131
Distributions	(18,850)	(10,150)	(29,000)
Net income	1,219	657	1,876
Members' equity, December 31, 1998	369,871	199,162	569,033
Distributions	(80,679)	(43,443)	(124,122)
Net income	6,858	3,692	10,550
Members' equity, December 31, 1999	$296,050	$159,411	$455,461

The accompanying notes are an integral part of the financial statements.

Canyon Fuel Company, LLC
Statements of Cash Flows
(in thousands of dollars)

	Years ended December 31, 1999 and 1998 and the period from December 20, 1996 (inception) through December 31, 1997		
	1999	1998	1997
Operating activities			
Net income	$ 10,550	$ 1,876	$ 21,268
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation, depletion and amortization	60,290	63,768	52,183
Prepaid royalties	3,344	2,704	2,954
Net loss (gain) on disposition of assets	111	260	(611)
Changes in operating assets and liabilities	14,489	1,691	8,716
Other	878	285	(3,205)
Cash provided by operating activities	89,662	70,584	81,305
Investing activities			
Acquisition of coal operations, net of cash acquired	--	--	(610,334)
Proceeds from coal supply agreements	11,155	--	--
Additions to property, plant and equipment	(34,071)	(43,499)	(20,819)
Additions to prepaid royalties	(912)	--	--
Cash used in investing activities	(23,828)	(43,499)	(631,153)
Financing activities			
Members' contributions	--	18,131	631,758
Members' cash distributions	(84,151)	(29,000)	(75,000)
Payments of other non-current liabilities	(1,493)	(1,413)	(1,467)
Cash (used in) provided by financing activities	(85,644)	(12,282)	555,291
Increase (decrease) in cash and cash equivalents	(19,810)	14,803	5,443
Cash and cash equivalents, beginning of period	20,246	5,443	--
Cash and cash equivalents, end of period	$ 436	$ 20,246	$ 5,443
Supplemental cash flow information			
Cash paid during the year for interest	$ 159	$ 241	$ 184

The accompanying notes are an integral part of the financial statements.

1. Formation of the Company

Effective December 20, 1996, Canyon Fuel Company, LLC (the "Company") was formed as a joint venture between ARCO Uinta Coal Company ("ARCO") (65% ownership) and ITOCHU Coal International Inc. (35% ownership) for the purpose of acquiring certain Utah coal operations and an approximate 9% interest in Los Angeles Export Terminal, Inc. ("LAXT") from Coastal Coal, Inc. and The Coastal Corporation (collectively, "Coastal"). Effective June 1, 1998, ARCO's ownership of the Company was acquired by Arch Western Resources, LLC ("Arch Western"). The owners of the Company are referred to herein as the "Members."

The Company operates one reportable segment: the production of steam coal from deep mines in Utah for sale primarily to utility companies in the United States. Net profits and losses are allocated to the Members based on their respective ownership percentage. Distributions of the Company's earnings are also allocated to the Members based on their respective ownership percentage.

On December 20, 1996, the Company acquired the western operations of Coastal for approximately $631.8 million in cash, plus assumed liabilities, for a total purchase price of approximately $669.6 million (the "Acquisition"). These operations primarily consist of three coal mines in central Utah. The Acquisition was funded through cash contributions by the Members in proportion to their respective ownership percentage. The Acquisition has been accounted for using the purchase method of accounting.

In the allocation of the purchase price, value was allocated to access rights associated with reserves located on properties which were adjacent to the properties acquired. During 1999, the Company was awarded a federal royalty lease which is associated with a portion of these adjacent reserves (see additional discussion in Note 7, "Commitments and Contingencies"). Accordingly, a portion of the value assigned to access rights was re-allocated to the mineral reserves under the acquired federal lease. As of December 31, 1999 and 1998, approximately $20.4 million and $77.8 million, respectively, were allocated to access rights associated with reserves located on properties adjacent to the properties acquired in 1996. In the event the Company is not successful in acquiring the remaining reserves located adjacent to the acquired properties, the amount of the purchase price allocated to such reserves will be written off in the period such determination is made.

2. Accounting Policies

Accounting Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost which approximates fair value. Cash equivalents consist of highly liquid investments with an original maturity of three months or less when purchased.

Inventories

Inventories consist of the following:

	December 31	
	1999	1998
	(In Thousands)	
Coal	$14,850	$11,892
Supplies	10,580	11,950
	$25,430	$23,842

Coal inventory is valued using the first-in, first-out ("FIFO") cost method and is stated at the lower of cost or market. Coal inventory costs include labor, equipment costs, and operating overhead. Supplies are valued using the average cost method and are stated at the lower of cost or market. The Company has recorded a valuation allowance for slow-moving and obsolete supplies inventories of $.8 million at December 31, 1999. No valuation allowance was deemed necessary at December 31, 1998.

Coal Acquisition Costs and Prepaid Royalties

Coal lease rights obtained through acquisition are capitalized and amortized primarily by the units-of-production method over the estimated recoverable reserves. Rights to leased coal lands are often acquired through royalty payments. Where royalty payments represent prepayments recoupable against future production, they are capitalized. As mining occurs on these leases, the prepayment is charged to cost of coal sales.

2. Accounting Policies (continued)

Coal Supply Agreements

Acquisition costs related to coal supply agreements (sales contracts) are capitalized and amortized on the basis of coal to be shipped over the term of the contract. Accumulated amortization for sales contracts was $54.9 million and $37.1 million at December 31, 1999 and 1998, respectively. In January 1999, the Company settled a coal supply agreement dispute with Intermountain Power Agency ("IPA") and Coastal. In return for termination of certain indemnification rights and settlement of outstanding receivables, the Company received cash of approximately $11.2 million and a note receivable of $43.7 million (collectively "the settlement"). In 1999, the Company distributed the settlement to its members. In addition, the Company has agreed to supply IPA with 2.2 million tons of coal annually through 2010 (with a mutual option to extend this supply agreement through 2015). The Company has adjusted the carrying value of the coal supply agreements with IPA in the accompanying balance sheet at December 31, 1999 to reflect this settlement.

Exploration Costs

Costs related to locating coal deposits and determining the economic mineability of such deposits are expensed as incurred.

Property, Plant and Equipment

Additions to property, plant and equipment are recorded at cost. Maintenance and repair costs are expensed as incurred. Mine development costs are capitalized and amortized on the units-of-production method. Depletion of mineral properties is computed on the units-of-production method based on estimated recoverable coal reserves.

Depreciation and amortization of other property, plant and equipment are computed by either the straight-line method over the expected lives of the assets, which range from 3 to 16 years, or on the units-of-production method, depending upon the type of asset. Fully depreciated assets are retained in property and depreciation accounts until they are removed from service. Upon disposal of depreciated assets, residual cost less salvage value is included in the determination of current income.

Asset Impairment

If facts and circumstances suggest that a long-lived asset may be impaired, the carrying value is reviewed. If this review indicates that the value of the asset will not be recoverable, as determined based on projected undiscounted cash flows related to the asset over its remaining life, then the carrying value of the asset is reduced to its estimated fair value.

2. Accounting Policies (continued)

Reclamation and Mine Closing Costs

The Company charges current reclamation costs to expense as incurred. Final reclamation costs, including dismantling and restoration, are estimated based upon current federal and state regulatory requirements and are accrued during operations using the units-of-production method on the basis of estimated costs as of the balance sheet date. The effect of changes in estimated costs and production is recognized on a prospective basis.

The Company is not aware of any events of noncompliance with environmental laws and regulations. The exact nature of environmental issues and costs, if any, which the Company may encounter in the future cannot be predicted, primarily because of the changing character of environmental requirements that may be enacted by governmental agencies.

Accrued Workers' Compensation Costs

The Company is liable under the federal Mine Safety and Health Act of 1977, as amended, to provide for pneumoconiosis (black lung) benefits to eligible employees, former employees and dependents with respect to claims filed by such persons on or after July 1, 1973. The Company is also liable under state statutes for black lung benefits. The Company currently provides for federal and state claims principally through a self-insurance program. Charges are being made to operations as determined by independent actuaries, at the present value of the actuarially computed present and future liabilities for such benefits over the employees' applicable years of service. In addition, the Company is liable for traumatic injuries which are accrued as injuries are incurred.

Revenue Recognition

Coal sales revenues include sales to customers of coal produced at Company operations and purchased from other companies. The Company recognizes revenue from coal sales at the time title passes to the customer. Revenues from sources other than coal sales, including gains and losses from dispositions of long-term assets, are included in other revenues and are recognized as services are performed or otherwise earned.

Income Taxes

The financial statements do not include a provision for income taxes, as the Company is treated as a partnership for income tax purposes and does not incur federal or state income taxes. Instead, its earnings and losses are included in the Members' separate income tax returns.

3. Accrued Expenses

Accrued expenses consist of the following:

	December 31	
	1999	1998
	(In Thousands)	
Accrued payroll and related benefits	$ 4,261	$2,225
Accrued pension	3,546	1,504
Accrued taxes other than income taxes	543	955
Accrued workers' compensation	798	1,100
Other accrued expenses	2,583	3,022
	$11,731	$8,806

4. Employee Benefit Plans

Defined Benefit Pension and Other Postretirement Benefit Plans

Essentially all of the Company's employees are covered by a defined benefit pension plan sponsored by the Company. The benefits are based on years of service and the employee's compensation, primarily during the last five years of service. The funding policy for the pension plan is to make annual contributions as required by applicable regulations.

The Company also provides certain postretirement medical and life insurance benefits to substantially all employees who retire with the Company. The Company has the right to modify the plans at any time. The Company's current policy is to fund the cost of postretirement health care and life insurance benefits as they are paid.

4. Employee Benefit Plans (continued)

Defined Benefit Pension and Other Postretirement Benefit Plans (continued)

Summaries of the changes in the benefit obligations and plan assets (primarily listed stocks and debt securities) and of the funded status of the plans follow:

	Pension Benefits		Other Postretirement Benefits	
	1999	1998	1999	1998
	(In Thousands)			
Change in benefit obligation				
Benefit obligations at January 1	$5,435	$2,465	$9,493	$5,703
Service cost	1,760	1,674	415	463
Interest cost	338	353	619	612
Benefits paid	(94)	(38)	(13)	-
Plan amendments	(482)	-	-	1,332
Other - primarily actuarial (gain) loss	(319)	981	(1,156)	1,383
Benefit obligations at December 31	$6,638	$5,435	$9,358	$9,493
Change in plan assets				
Value of plan assets at January 1	$1,305	$ 54	$ -	$ -
Actual return on plan assets	532	(106)	-	-
Employer contributions	1,504	1,395	13	-
Benefits paid	(94)	(38)	(13)	-
Value of plan assets at December 31	$3,247	$1,305	$ -	$ -
Funded status of the plans				
Accumulated obligations less plan assets	$3,391	$4,130	$9,358	$9,493
Unrecognized actuarial loss	(287)	(1,165)	(81)	(1,396)
Unrecognized prior service cost	442	-	(1,058)	(1,195)
Net liability recognized	$3,546	$2,965	$8,219	$6,902
Balance sheet liabilities				
Current portion of the liability	$3,546	$1,504	$ -	$ -
Long-term portion of the liability	-	1,461	8,219	6,902
Total accrued benefit liabilities	$3,546	$2,965	$8,219	$6,902

Demographic and assumption changes under the defined benefit pension plan resulted in a $.3 million gain and $1.0 loss in 1999 and 1998, respectively. Demographic and assumption changes in other postretirement benefits resulted in the $1.2 million gain and $1.4 million loss in 1999 and 1998, respectively. Plan changes in the postretirement benefit plan related to increased participant cost sharing associated with increased life insurance benefits resulted in a $1.3 million loss in 1998.

4. Employee Benefit Plans (continued)

Defined Benefit Pension and Other Postretirement Benefit Plans (continued)

	Pension Benefits		Other Postretirement Benefits	
	1999	1998	1999	1998
Weighted average assumptions as of December 31				
Discount rate	7.50%	7.00%	7.50%	7.00%
Rate of compensation increase	5.25%	4.75%	N/A	N/A
Expected return on plan assets	9.00%	9.00%	N/A	N/A
Health care cost trend on covered charges	N/A	N/A	5.00%	4.50%

The following table details the components of pension and other postretirement benefit costs.

	Pension Benefits			Other Postretirement Benefits		
	1999	1998	1997	1999	1998	1997
	(In Thousands)					
Service cost	$1,760	$1,674	$1,451	$ 415	$ 463	$ 313
Interest cost	338	353	58	619	612	347
Expected return on plan assets	(166)	(42)	-	-	-	-
Other amortization and deferral	153	194	-	296	383	-
	$2,085	$2,179	$1,509	$1,330	$1,458	$ 660

The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rate by one percentage point each year would increase the accumulated postretirement obligation as of December 31, 1999 by $55,000, or 0.6%, and the net periodic postretirement benefit cost for 1999 by $5,000, or 0.4%.

Other Plans

The Company sponsors a savings plan which was established to assist eligible employees in providing for their future retirement needs. The plan was noncontributory by the Company through December 31, 1998. On January 1, 1999, the Company amended the savings plan and now matches a certain percentage of employee contributions. The Company's contribution to the savings plan was $1.3 million in 1999.

5. Concentration of Credit Risk and Major Customers

The Company places its cash equivalents in investment-grade short-term investments and limits the amount of credit exposure to any one commercial issuer.

The Company markets its coal principally to electric utilities in the United States. Generally, credit is extended based on an evaluation of the customer's financial condition, and collateral is not generally required. Credit losses are provided for in the financial statements and historically have been minimal.

The Company is committed under long-term contracts to supply coal that meets certain quality requirements at specified prices. These prices are generally adjusted based on indices. Quantities sold under some of these contracts may vary from year to year within certain limits at the option of the customer. IPA accounted for approximately 34 percent, 29 percent and 34 percent of coal sales in 1999, 1998 and 1997, respectively. This same customer accounted for 39 percent and 34 percent of accounts receivable at December 31, 1999 and 1998, respectively. Sierra Pacific accounted for approximately 11 percent, 11 percent and 10 percent of coal sales in 1999, 1998 and 1997, respectively. Approximately 6 percent, 8 percent and 15 percent of coal sales in 1999, 1998 and 1997, respectively, were to ITOCHU Coal International Inc. for the export market.

6. Related Party Transactions

As described in Note 1, 65% of the Company was owned by ARCO and subsequent to June 1, 1998 is owned by Arch Western. ARCO and now Arch Western act as the Company's managing member. The Company pays administration and production fees to ARCO and now Arch Western for managing the Canyon Fuel operations. These fees were $7.8 million, $5.9 million and $4.8 million in 1999, 1998 and 1997, respectively. The Company has a payable balance to Arch Western of $6.4 million and $2.8 million at December 31, 1999 and 1998, respectively.

7. Commitments and Contingencies

The Company has entered into various non-cancelable royalty lease agreements and federal lease bonus payments under which future minimum payments are due. On May 24, 1999, the Company was the successful bidder in a federal auction of certain mining rights in the 7,172 acre Pines tract in Sevier and Emory counties in Utah. The Company's lease bonus bid amounted to $16.9 million for the tract, of which $3.4 million was paid on May 24, 1999. The tract contains approximately 60 million tons of demonstrated coal reserves and is contiguous with the Company's Sufco mine. Geological surveys indicate that there are sufficient reserves relative to these properties to permit recovery of the Company's investment. Minimum payments due in future years under lease agreements (including the Pines tract lease) are $4.5 million in 2000, $3.4 million in 2001, $3.4 million in 2002 and $3.4 million in 2003.

7. Commitments and Contingencies (continued)

The Company was in litigation with the Skyline Partners, lessors of the majority of the coal reserves which comprise the Company's Skyline Mine. The coal leases required the Company to make annual advance minimum royalty payments which are fully recoupable against a production royalty that is to be paid by the Company on each ton of coal mined and sold from the leaseholds. In 1997, the Company filed suit against Skyline Partners in Utah State Court alleging that the Company was not required to make the final minimum advance royalty payment. On February 24, 2000, the Company and Skyline Partners reached an agreement to settle the litigation. The settlement includes a $7.0 million recoupable payment by the Company to Skyline Partners which will be recorded as a prepaid royalty in 2000 and a grant of an overriding royalty interest to Skyline Partners covering land adjacent to the Skyline Partners' reserves.

The Company is also the subject of or party to a number of other pending or threatened legal actions. On the basis of management's best assessment of the likely outcome of these actions, expenses or judgments arising from any of these suits are not expected to have a material adverse effect on the Company's operations, financial position or cash flows.

Included in property, plant and equipment of the Company is an approximate 9 percent investment in LAXT (recorded at cost) amounting to $11.5 million and $12.3 million as of December 31, 1999 and 1998, respectively. LAXT began operations in 1997 and has been experiencing operating losses and negative cash flow since its inception principally due to weak demand for U.S. coal exports to the Pacific Rim countries. The ability of LAXT to continue as a going concern is dependent on its improving operating results and obtaining additional financing, if necessary. If these issues are not satisfactorily resolved in a timely manner, there can be no assurance that the Company's investment in LAXT will be recoverable.

8. Cash Flow

The changes in operating assets and liabilities as shown in the statements of cash flows are comprised of the following:

	1999	1998	1997
	(In Thousands)		
Decrease (increase) in operating assets:			
Receivables	$ 9,500	$(11,023)	$ 1,802
Inventories	(1,588)	8,552	(6,021)
Increase (decrease) in operating liabilities:			
Accounts payable and accrued expenses	5,606	25	10,046
Accrued postretirement benefits other than pension	1,317	1,463	2,160
Accrued reclamation and mine closure	487	406	332
Accrued workers' compensation	(833)	2,268	397
	$14,489	$ 1,691	$ 8,716

9. Accounting Development

In June 1998, the Financial Accounting Standards Board issued FAS 133, Accounting for Derivative Instruments and Hedging Activities, which is required to be adopted in years beginning after June 15, 2000. FAS 133 permits early adoption as of the beginning of any fiscal quarter after its issuance. FAS 133 will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged assets or liabilities through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company has not yet determined what effect FAS 133 will have on the earnings and financial position of the Company.

10. Year 2000 (Unaudited)

In prior years, the Company discussed the nature and progress of its plans to become Year 2000 ready. In late 1999, the Company completed its remediation and testing of systems. As a result of those planning and implementation efforts, the Company experienced no significant disruption in mission-critical information technology and non-information technology systems and believes those systems successfully responded to the Year 2000 date change. The Company is not aware of any material problems resulting from Year 2000 issues with its internal systems or the products and services of third parties. The Company will continue to monitor its misson-critical computer applications and those of its suppliers and vendors throughout the Year 2000 to ensure that any latent year 2000 matters that may arise are addressed promptly.