



Arch Coal, Inc.



Regulatory & Other Constraints on CAPP Coal Supply

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Forward-Looking Information

This presentation contains “forward-looking statements” – that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance, and often contain words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” or “will.” Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For us, particular uncertainties arise from changes in the demand for our coal by the domestic electric generation industry; from legislation and regulations relating to the Clean Air Act and other environmental initiatives; from operational, geological, permit, labor and weather-related factors; from fluctuations in the amount of cash we generate from operations; from future integration of acquired businesses; and from numerous other matters of national, regional and global scale, including those of a political, economic, business, competitive or regulatory nature. These uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. We do not undertake to update our forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law. For a description of some of the risks and uncertainties that may affect our future results, you should see the risk factors described from time to time in the reports we file with the Securities and Exchange Commission.



Structure of Presentation

- Clean Water Act (CWA) Section 404 permit (Chambers) litigation
 - CAPP coal industry structure
 - Importance of surface mine permits to production stability
- Safety-related factors affecting coal production
- Other factors affecting CAPP coal supply and costs
- Recent CAPP coal prices and demand
- Conclusions about mid-term supply and price prospects

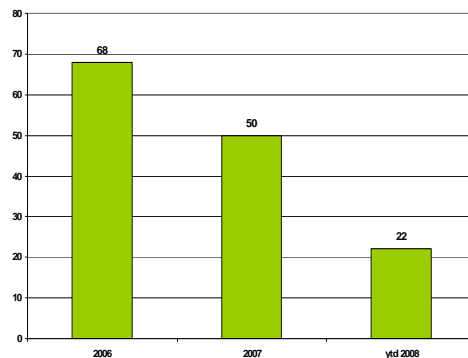


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Litigation over the CWA (Sec. 404) permitting has slowed WV surface mine production

- March 2007, (So. District of WV) Judge Chambers ruled that the USACE illegally authorized valley fills at 4 WV surface mines;
- "...absence of...scientifically valid method of measuring and mitigating...harm"
- USACE appeal pending (4th US Dist. Court of Appeals) awaiting ruling—due late 2008 or early 2009
- Currently up to two year waits for WV section 404 permits—with 'individual permits' (IP's) facing near certain legal intervention
- Eleven WV IP's have been issued so far in 2008—at least three subject to reduced production agreements with the Chambers plaintiffs

Sec. 404 permits issued—Huntington USACE District



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Controversy over CWA permitting is increasing

- Litigation related to section 404 NWP permits in KY (E. District of KY)
 - USACE permits have been suspended in EKY
 - USACE permitting delays have postponed mine development in WKY—force majeure imposed
- Recent OSM rule making clarifies NWP definitions and procedures, but does not address “measuring and mitigation” ruling
- An opinion favorable to the coal industry will not necessarily remove the road blocks to maintaining surface production
 - Affirm Chambers (favors plaintiffs): prevents new permits while USACE develops acceptable procedures and reporting standards
 - Reject Chambers (favors industry): allows permits, but USACE remains exposed to CWA litigation (trace element discharge is a major issue)
 - Remand to District Court (a tie?): not a tie relative to timely issuance of permits as the USACE will still have to promulgate mutually acceptable procedures and reporting standards mediated by the court



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Why Is the delay issuing sec. 404 permits an issue for CAPP coal producers and consumers?



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Surface mines sustain CAPP coal production—especially when price increases

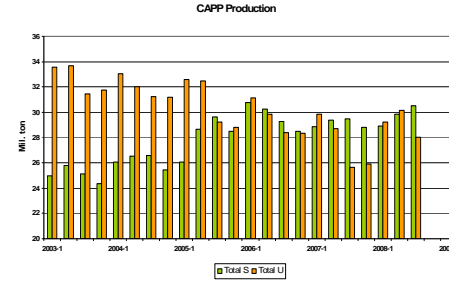
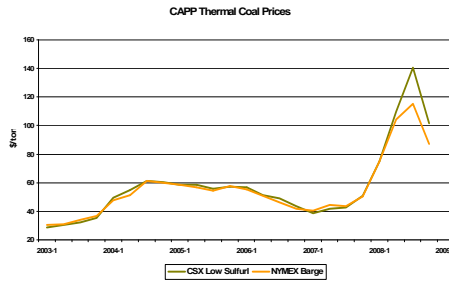
- A virtual collapse of production from underground mines 2003-2005
- Surface mines are the incremental suppliers 2006-2008
- Surface mines are the marginal cost suppliers

High prices also stimulate more underground production, but with timing and investment considerations

- New 'green field' underground capacity = +\$75 per annual ton capital costs
- Underground mines take longer to open
- Lack of appropriate reserves limits mine scale and mine life

Cost issues at surface mines, but often lower capital costs and mining flexibility

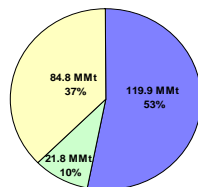
- Before an 'inventory' of existing permits allowed quick response; that inventory no longer exists



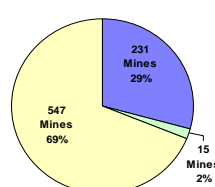
CAPP Production Profile

- Three major production segments
- Top eight companies
 - Large mines (> 1 MMTPY) 63 MMt, Mid-sized mines (>500 MTPY) 29MMt
 - 47% Surface vs 53% Deep
- > 1 Million tpy mines
 - Controlled by other producers
 - Surface mining 62%
- Small producers
 - < 250 MTPY mines (420) produced 13% of the region's production
 - 55% Surface vs 45% Deep
 - State split: KY 54%, WV 27%, VA 16%, TN 3%

**Total CAPP
226.5 Million Tons Produced in 2007**



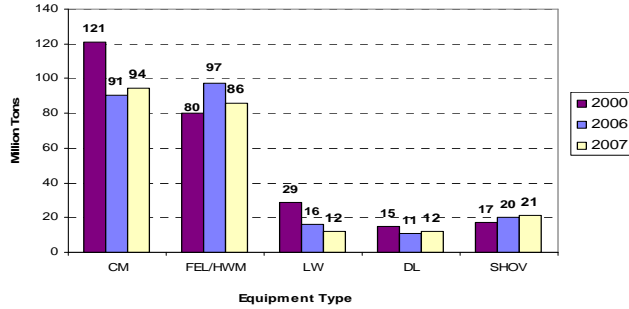
**Total CAPP
793 Mines**



■ Top Eight Companies □ >1 MMt Mines □ Small Producers



CAPP – Production by Mining Method

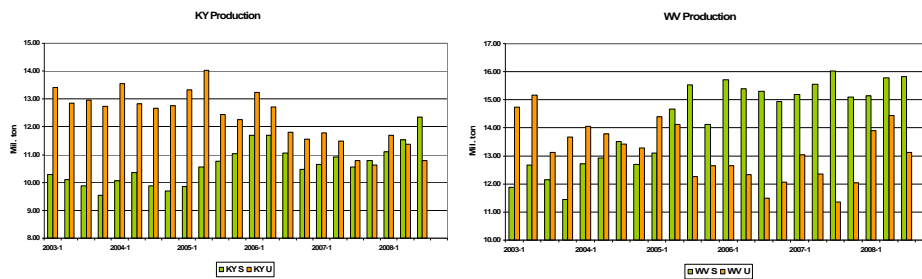


- Production by deep mine methods decreased 44 MMt while production by surface mine methods increased 7 MMt
- Productivity has followed this trend
- Surface mines utilizing loaders/dozers/HWM added some production overcoming permitting issues
- Drop in production at large mines was mostly a deep mine trend
- Reserves in support of large scale operations are limited in the future



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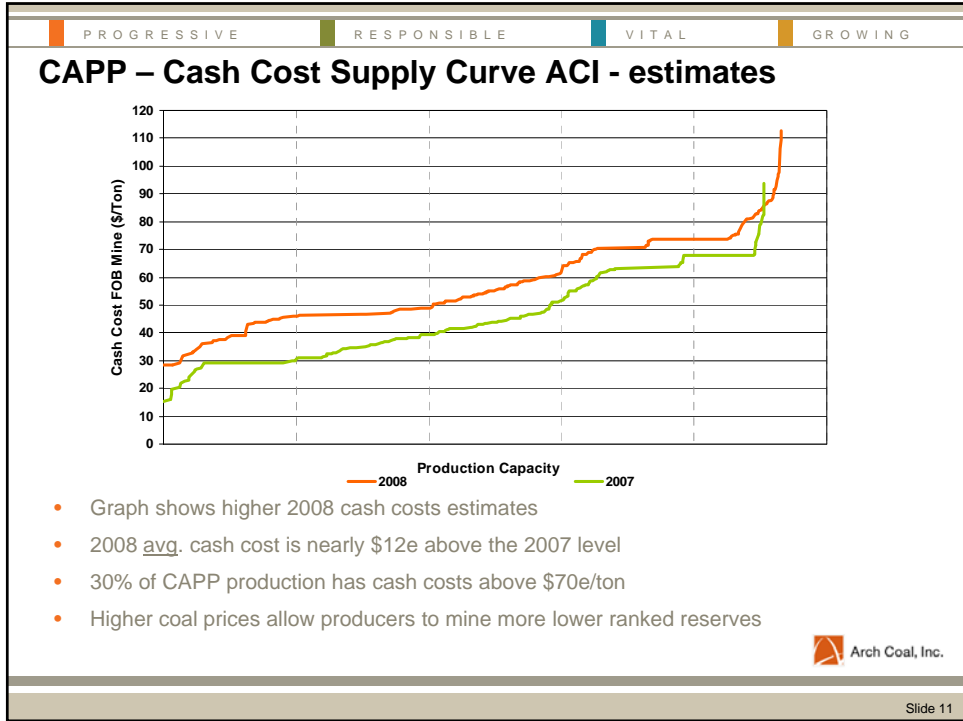
Comparison of KY and WV coal production



- Many underground mines closed in KY due to high costs and depletion
- Continued KY production relies on small producers at surface mines
- Underground mine production faded in WV but is coming back
 - Better reserve base for underground mines
 - More large operators who can raise the capital for underground mines
- But...WV surface mines supported the recent supply response!



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PROGRESSIVE RESPONSIBLE VITAL GROWING

New Safety-related mandates add costs and reduce production

- MINER Act of 2006 imposes new safety regulations
 - Mine seals
 - Safety chambers
 - Miner communication & tracking
 - Self rescue caches
 - Mine rescue team expansion & emergency response plans
- MSHA tightening enforcement
 - Increased frequency of inspections
 - Suspension of mining activity when problems are identified until corrections completed

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Source: Electric Power Research Institute

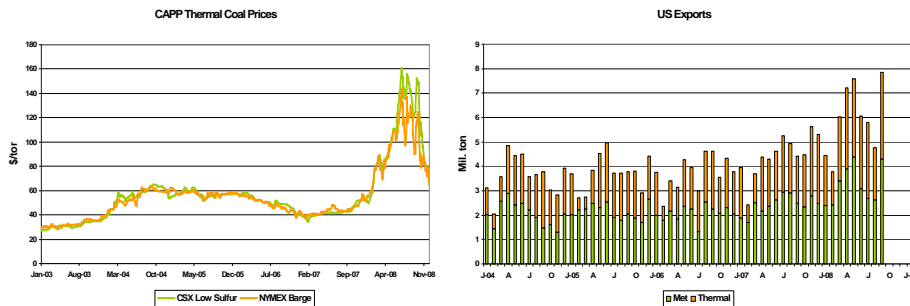
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Other factors affecting CAPP coal production and costs

- Reserve depletion—an ongoing production constraint; cost push dynamic
- A severe labor shortage constrained ongoing production and expansion even before higher demand
 - Demographics unfavorable—declining and aging population in many mining regions
 - Construction trades and experienced underground workers and supervisors in extreme short supply
 - Higher wages and benefits required to attract/retain staff
- Contractors for both surface and underground mining are in short supply
- Equipment has been hard to obtain—may be improving
 - Lead time for continuous miners, roof bolters and other equipment remains long
 - Availability of surface equipment is constrained
 - Availability of parts, tires and many commodities remains tight
 - Cost remain very high; and are often double costs of a few years ago
- The “credit crunch” has reduced the means for some producers to get financing for land acquisition, mine development and major equipment purchases and upgrades
- Credit issue could drive industry consolidation (watch this!)



Recent CAPP coal prices and demand:



- Q2 07 to Q2 08—an unprecedented run-up of CAPP thermal coal prices
- Much of the price effect was stimulated by high overseas demand
 - More thermal coal demand in the Atlantic Market
 - Global metallurgical coal shortage—especially after January 2008
- But supply constraints related to permitting, safety enforcement and input shortages also pushed up costs and prices



Conclusions about mid-term supply and price prospects

- The CWA permitting issue is not going away soon
 - Likely reduced production by 3-5 mm tons in 2008
 - Has potential to reduce production much more 2009-2010
- Health and safety standards could increase; enforcement will remain vigilant
- Reserve depletion is a “fact of life” in CAPP
- Shortages may ease as demand and prices come off, but the labor shortage is likely chronic rather than short term—especially for underground operations
- Credit availability will remain tight for at least a year; and will get worse in a low price environment; stimulates rationalization and consolidation

This recession will end, mild weather will return to normal; global thermal and metallurgical demand will recover; and other supply options remain limited

CAPP coal prices are set to ‘spike’ again—sooner rather than later



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