



Newsmaker Interview

World is Embracing Coal, Says Craft

Coal News: *Alliance Resource Partners is the sixth largest coal producer in America in 2013 producing 38.8 million tons or 3.9% of the nation's production. Joe Craft, we appreciate you talking to readers of Coal News as we celebrate our 10th Anniversary. Our readers would be very interested in your background and how you came to be President and CEO of Alliance Resource Partners, L.P.?*

Joe Craft: I am originally from Hazard, Kentucky. While attending the University of Kentucky's College of Law in the 70's, our Country was experiencing the worst energy crisis in its history! The answer to this crisis was replacing oil and natural gas with coal and nuclear power. Significant job opportunities were created in "coal country" as a result. I joined the coal industry right out of law school, to do my part in helping solve this crisis. In 1980, I was recruited by MAPCO Inc., a fortune 500 energy company, to serve as the general counsel for MAPCO's coal operating subsidiary, MAPCO Coal, Inc. in Tulsa Oklahoma. I later served as Senior Vice President, general counsel, and chief financial officer for the parent company, MAPCO Inc. before they appointed me in 1986 to be President of MAPCO Coal, Inc., overseeing the company's coal business.

In the mid-90s, while I was leading MAPCO's coal subsidiary, MAPCO decided to exit the coal business. In 1996, I led a team of management investors with the backing of the Beacon Group, a private equity firm, and purchased MAPCO Coal, Inc. and formed Alliance. In 1999, we formed the first publicly-traded coal master limited partnership, Alliance Resource Partners, L.P. ("ARLP").

Coal News: ARLP has an interesting history. Tell us about that please.

Joe Craft: The story of Alliance began in 1971 when MAPCO Inc., entered the coal-production business, acquiring the Dotiki mine. This underground operation in Webster County, Kentucky, soon became, and remains to this day, one of the most productive coal mines in the country.

MAPCO Coal eventually owned and operated five mining complexes in three states — Kentucky, Illinois, and Maryland. It also owned and operated the Mt. Vernon Terminal Facility, a rail-to-barge loading terminal on the Ohio River.

As mentioned previously, in 1996, management formed Alliance Coal Corporation and led a buyout of MAPCO Inc.'s coal operations with the financial support of The Beacon Group. Within two years, Alliance acquired Hopkins County Coal, a surface/underground operation in Hopkins County, Kentucky, and developed MC Mining, an underground mine in Pike County, Kentucky. By 1998, Alliance sold 15.1 million tons of coal and was recognized as the sixth-largest coal producer in the eastern United States.

During 1999, Alliance Resource Partners, L.P. was formed, and after completion of its initial public offering as the coal industry's

first publicly-traded master limited partnership, acquired the coal operations of the Alliance Coal Corporation. The new company soon broke ground for a new underground mining complex in Gibson County,



Joe Craft

Indiana. Production began at Gibson County Coal the following year.

Since that time, Alliance has experienced substantial growth. Alliance expanded our Pattiki and Dotiki mines and acquired and expanded Warrior Coal. We also acquired reserves and opened the River View Mine in 2009. River View is now the largest underground continuous mining operation in the United States. Alliance began building the Tunnel Ridge Mine, a long wall operation in West Virginia in 2010. In 2011, Alliance reached an agreement with White Oak Resources, LLC to serve as an equity investor, own reserves and surface rights, and provide coal handling services for a new longwall mine in Hamilton County, Illinois. Alliance acquired the Onton Mine in 2012 and, just recently in the first quarter of 2014, began initial production at a new greenfield development, the Gibson South mine in Southern Indiana. With significant reserves, Alliance is positioned to meet the nation's energy needs well into the future.

Coal News: Describe for us please the operations and production of ARLP.

Joe Craft: Alliance is the third largest coal producer in the eastern half of the United States. Alliance operates ten mining complexes in two operating regions: Illinois Basin and Appalachia (see map below). Alliance also operates a coal loading terminal on the Ohio River at Mt. Vernon, Indiana.

Alliance's production has grown steadily since its inception (see below). Alliance produced a record 38.8 million tons last year and expects to produce between 40.25 and 41 million tons in 2014. For more information on each of our opera-

tions, visit our website at: www.arlp.com
Coal News: Safety is number one for everyone in the industry. Please give us your views on coal mine safety?

Joe Craft: Safety is Alliance's very top prior-

ity and in use on more than 175 continuous miners in underground coal mines throughout the United States, including many Alliance mines. Matrix, along with Alpha Natural Resources, was recently awarded the Mine Safety and Health Technologies Award from the National Institute for Occupational Safety and Health ("NIOSH"). The award was given for a sensor monitoring system Matrix developed specifically for use in Alpha mines. Matrix now supplies the sensor system to many other underground mines in the United States.

Coal News: These are challenging times for us all. Describe the financial results that ARLP has been able to achieve? What do you see as the core strengths of the company?

Joe Craft: ARLP has achieved 13 straight years of record operating and financial results and working on number 14.

The key to our success has been our people. We have a saying at Alliance, "it's who you're with." We believe the people you surround yourself with matters, and we are fortunate to have a dedicated and conscientious team. Our strong workforce has allowed us to succeed even during challenging times for the industry.

We have also maintained a clear and disciplined growth strategy, financed primarily by operating cash flow and focused on the domestic utility market. Our operations work diligently to remain low costs producers. We have invested in low-cost reserves with qualities and transportation options that our customers desire. All along our journey, we have maintained a highly contracted sales book and a stable balance sheet to reduce risk, facilitate steady growth, and ultimately allow us to deliver consistent increases in distributions to our unitholders. We are methodical and disciplined. We tend to be conservative in the investments we make and rely on our talented workforce of over 4,000 strong to meet our growth objectives.

Coal News: What changes do you forecast for the American coal industry?

Joe Craft: I expect continued uncertainty due to overreaching government regulations that have already been adopted. Therefore, additional retirements of coal-fired generation will occur. I believe demand loss from these retirements will be mostly offset by higher utilization in the remaining coal fleet since coal will still be lower cost than natural gas for electricity generation. I expect total demand for U.S. produced coal will continue to be around the one billion ton per year level for some time, unless the proposed GHG rules for new and existing sources become final and are legally upheld.

Coal switching between producing basins will continue as well, moving from higher cost regions, like Central Appalachia, to lower cost regions like the Illinois Basin, which we project will continue to grow through 2020.

The impact to Central Appalachia, which already has been affected by federal over-

reach, is unfortunate and unnecessary. The coal-fired retirements, mine shut downs, job losses and economic hardship is particularly troubling for me as someone who was born and raised in Eastern Kentucky.

We are hopeful the export markets will provide for future growth since the government policies will put a cap on domestic demand until the next energy crisis occurs, which I believe will occur sooner than later.

Coal News: What would you like your biggest contribution in the coal industry for you to be remembered?

Joe Craft: For the past 40 years the U.S. coal industry has been the backbone of America's economy, providing low cost energy creating hundreds of thousands, if not millions, of jobs throughout all industries and commercial enterprises that depend on low costs electricity to compete in a global economy. The low cost electricity has also led to a better standard of living and healthier life style for all Americans.

Alliance has played a major role in the economic success of this country. I am honored that I have had an opportunity to be on a team that has made a difference in the lives of so many and have done so with integrity.

Coal News: My final question is what do you see as the biggest challenges and how do you see the future of coal both here and around the world?

Joe Craft: The biggest challenges in the near-term will continue to be misguided and harmful government regulations. Those currently in power do not appear to understand or appreciate the role of affordable energy in powering economic growth and seem content to drive America toward a high-cost energy economy. This puts the United States at a disadvantage in the worldwide marketplace and hinders our domestic economic growth, not to mention depresses the natural market for coal.

The world will certainly continue to embrace coal because affordable energy is essential to human progress and economic growth. In a world where many people are still without electricity, coal will serve as a key driver for electrification and industrial development as people transition from poverty to a better way of life. Developed countries around the globe have also already learned the tough lessons of over-reliance on high-priced, less-stable sources of energy. These countries are now turning back to coal to boost economic growth.

Here at home, coal's future is more uncertain as the government continues to embrace cumbersome regulations on the backs of American consumers. Because of its scale, coal will remain a fundamentally important part of America's energy mix. Eventually, I hope our elected officials reach the same conclusion as other world leaders — coal is the ideal fuel for baseload electricity because of its abundance, price-stability, and affordability.

Coal News: Thank you very much for taking the time to talk to us.