

THE  
**WINNING  
LINEUP.**

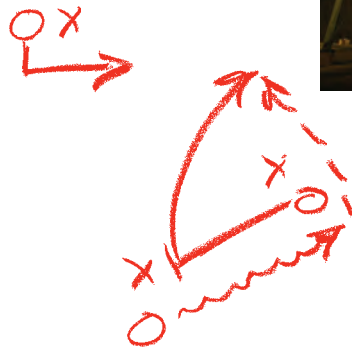
*2011 Annual Report*





## FELLOW UNITHOLDERS

Alliance Resource Partners, L.P. (ARLP) and Alliance Holdings GP, L.P. (AHGP) are on a winning streak. For the 11<sup>th</sup> consecutive year, the Alliance Partnerships set new financial and operating records. Once considered the up-and-comer among coal producers, it's rewarding to know that Alliance's people, strategy and execution have delivered winning results. Alliance's team has stayed focused and gone 11-for-11, an incredible achievement on any scorecard. What matters now, though, is what's next. Alliance remains focused on expanding and adjusting to ever-changing dynamics. The following provides background statistics, plus a look at what lies ahead for this team in 2012.



### Following A Powerful Playbook.

Alliance has grown to become the third-largest coal producer in the eastern United States – an impressive achievement, reflecting extraordinary growth and a vision fulfilled. In 1999, ARLP emerged in the public markets committed to delivering results and rewarding those who supported our vision.

long-term relationships with our customers. We invest in ways that broaden our capabilities. We keep a conservative balance sheet. We grow strategically. We recruit the best people in our industry. All of these things keep our team in balance and allow us to thrive.

*Our **PROFITS JUMPED 21.3 PERCENT** to \$389.4 million and we expect them to be even higher in 2012.*

ARLP's 11<sup>th</sup> record-breaking year in a row was accomplished by growing our production 6.6% and revenues by 14.5% in 2011. Consistent with the previous 10 years, we continued to execute on our strategy to create sustainable growth in cash flow and deliver consistent growth in unitholder distributions.

So how are we doing it? Discipline. Alliance understands that coal is the workhorse of the nation's energy infrastructure and our team strives to ensure the availability of this critical resource. We take measured steps to keep our competitive position strong. We maintain highly valued

Alliance operates 10 underground mining complexes in five states, including Tunnel Ridge, our new mining complex in West Virginia, and controls more than 911 million tons of coal reserves. In addition, construction is underway at our new Gibson South mine in southern Indiana. Through our recent transactions with White Oak Resources, LLC, we are also purchasing and funding development of reserves, constructing surface facilities and making equity investments in a new mining complex in southern Illinois.

Our energy is focused on moving Alliance forward and achieving another record year.



WARRIOR  
COAL LLC  
HAZARDING  
ENGINEER  
1234

Erica

RIVER VIEW COAL, LLC

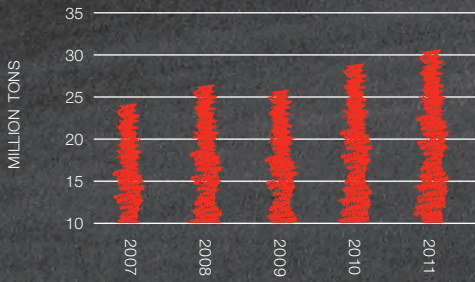


Good stats:

 97% of Alliance's anticipated 2012 coal volumes are contractually committed and priced.

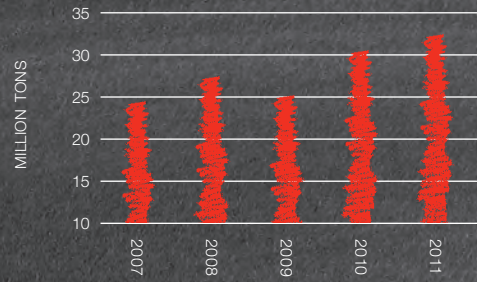
**ARLP Coal – Tons Produced**

2007-2011



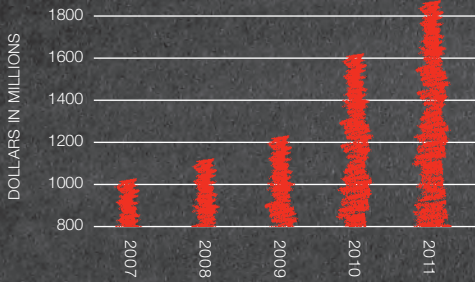
**ARLP Coal – Tons Sold**

2007-2011



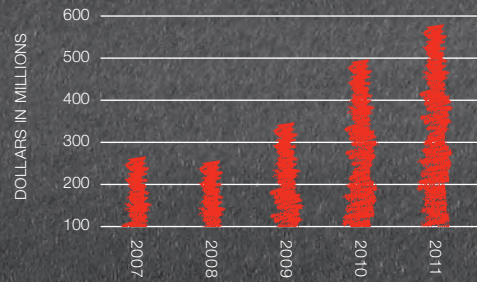
**ARLP Revenues**

2007-2011



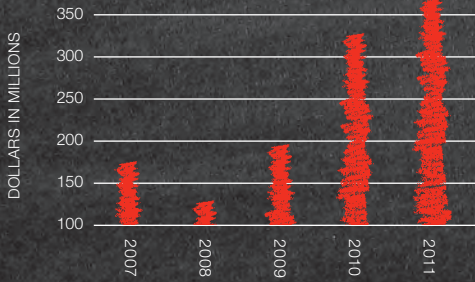
**ARLP EBITDA**

2007-2011



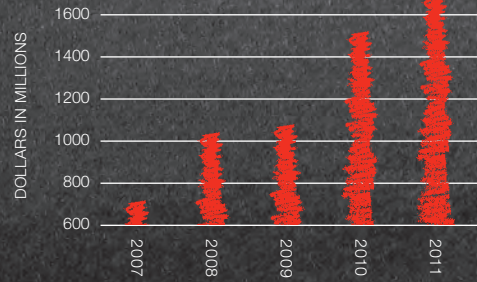
**ARLP Net Income**

2007-2011



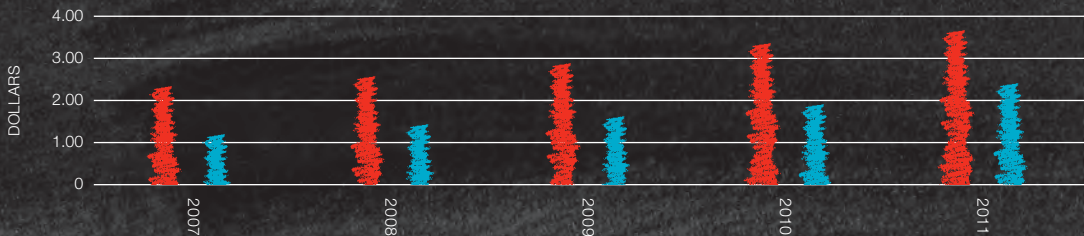
**ARLP Total Assets**

2007-2011



**ARLP Distributions Paid**  **AHGP Distributions Paid**  *Distributions paid per lp unit*

2007-2011







## Every Number Tells A Story.

It's tough to contain our enthusiasm after wrapping up the best performance in our Partnerships' history. Take a look at the charts on the facing page. The upward-moving lines reflect production increases, solid sales contracts, strong customer relationships and disciplined investments. Our focus on the fundamentals has allowed Alliance to deliver these results.

Alliance's 2011 performance provided solid building blocks for current operations. Revenues – driven by increased coal sales volumes and higher price realizations – totaled \$1.8 billion, up 14.5 percent from 2010. EBITDA\*\* grew to \$570.8 million, a 14.3 percent increase compared with the prior year. Net income jumped 21.3 percent to \$389.4 million, or \$8.13 per unit.

## *Alliance unitholders' CASH DISTRIBUTIONS have increased for 15 consecutive quarters.*

Alliance's strong financial results allow us to consistently enhance the rewards for our owners. During the past decade, ARLP delivered a 27.2 percent compounded annual return to unitholders. That statistic places ARLP – for the third year in a row – in the top 1 percent of more than 7,000 companies ranked by Standard & Poor's.\*

Growth at AHGP has also been impressive. Since its 2006 IPO, AHGP's distributions to unitholders have more than tripled and its unit price has more than doubled.

During 2011, ARLP's distributions to unitholders increased 15.1 percent ending the year at an annualized \$3.96 per unit, while AHGP's distributions to unitholders grew by nearly 21 percent ending the year at an annualized \$2.55 per unit. Based on our current operating plans, we expect distributions for 2012 to grow at a similar pace.

So what about our lineup for the new season? Alliance's strong balance sheet provides the resources needed to support operational momentum. Expansion projects continue to strengthen our presence in critical, growing markets. And, anticipated increases in price realizations and coal sales volumes will drive revenues to new highs. Collectively, these indicators translate into the following expectations° for our operating activities in 2012:

Revenues°° – \$2.0 billion to \$2.1 billion  
EBITDA – \$590.0 million to \$680.0 million  
Net income – \$360.0 million to \$440.0 million

\* Standard & Poor's, *Capital IQ*, November 2011 ranking.

\*\* Please see the inside back cover for a definition of EBITDA and GAAP to non-GAAP reconciliation information.

° Excludes the impact on ARLP's 2012 consolidated financial results from its commitments to and preferred equity investments in White Oak Resources, LLC.

°° Excludes transportation revenues.

## Alliance Is The Dream Team.

Meet the Alliance team members and you understand the lifeblood of our business. Bringing their talents together creates an organization that is second to none.

At Alliance we have a saying, "It's who you're with." We believe that success begins with people working toward shared goals and that inspired players are game changers. It's why we provide our team with ongoing training, the best equipment and a steadfast commitment to safety. We've also created a network of health clinics for our workers and their families. The clinics provide our team with excellent medical services – fostering wellness and enhancing productivity.

Our 3,800+ employees prove daily that they have the resilience to adapt to challenges and the tenacity to reach new performance goals. Alliance's 11-year, record-breaking streak is a culmination of our team's shared spirit and determination to be successful. We are gratified by past performance and eagerly anticipating what our team will accomplish next.

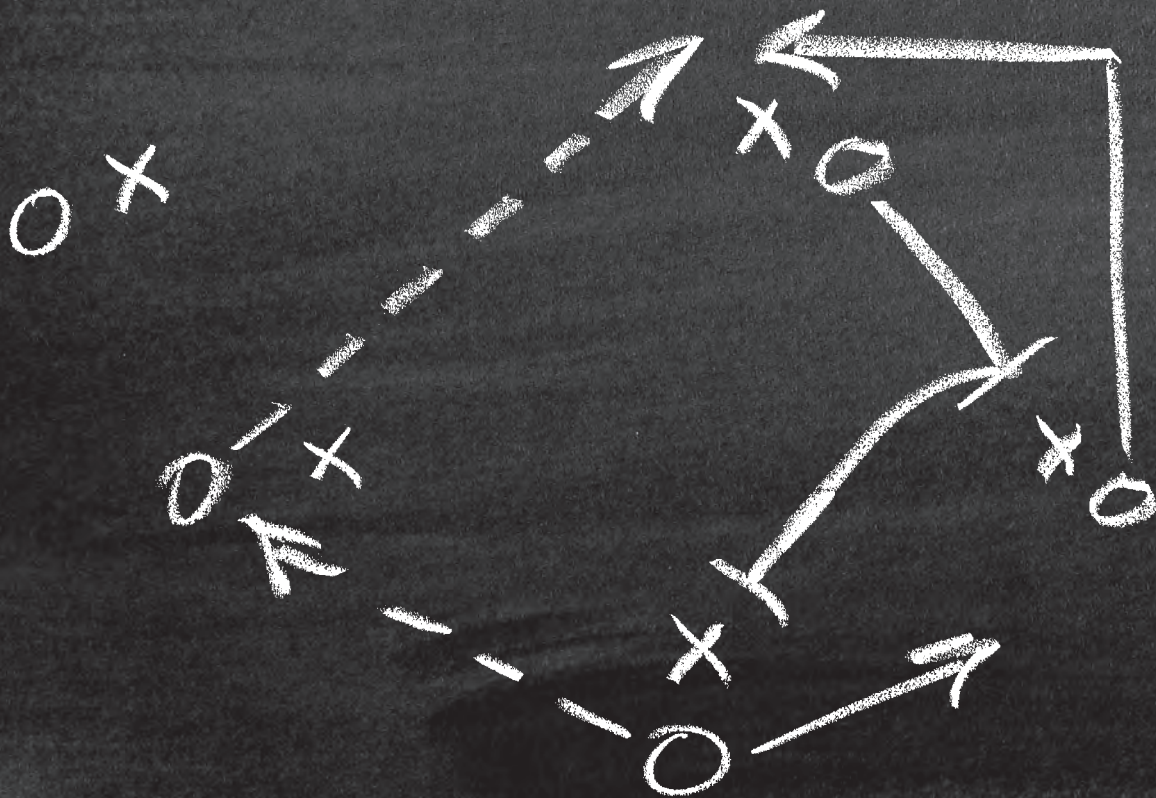






## Operations hub:

*Low-cost producing regions with growing market opportunities.*



## Expansion Is On The Horizon.

Alliance's commitment and focus continue to create opportunities for the future. The Illinois Basin and Northern Appalachia continue to be Alliance's favorite plays. Both are incredibly rich in low-cost, scrubber-quality coal, highly desired by power generators.

**NEW OPPORTUNITIES** *must offer volume growth and attractive returns, plus meet our well-defined objectives.*

When considering expansion options, Alliance follows a disciplined approach. We also make sure Alliance has the bench strength and resources to maximize the performance of assets added to our lineup.

Tunnel Ridge, our newest addition to the team, is on the cusp of becoming a solid contributor. With this Northern Appalachian longwall scheduled to start production in the second quarter of this year, Tunnel Ridge is expected to produce up to 3.4 million tons of coal in 2012, ultimately growing to an annual production capacity of 6.5 to 6.8 million tons in 2013 and beyond.

Next up is Gibson South, Alliance's newest continuous mining operation under construction in the Illinois Basin. We currently expect this new mine to begin initial production in the third quarter of 2014, reaching full annual production capacity of approximately 3.0 to 3.5 million tons in 2015.

Our White Oak Resources investment, announced in 2011, brings us a substantial reserve base that's ideal for longwall operations. The transaction's low-risk structure is designed to provide consistent, long-term cash flows from royalty, throughput and equity distribution payments. We expect White Oak to begin making meaningful financial contributions in 2015 once its Mine No. 1 longwall production has begun. Alliance's capital expenditures, including maintenance, for 2012 are estimated to be in the range of \$400 million to \$425 million.\*

### Building for the Future

Organic Growth Project  
*New Tunnel Ridge Complex  
Northern Appalachia*

Organic Growth Project  
*New Gibson South Mine  
Illinois Basin*

Preferred Equity Investment  
*White Oak Mine No. 1  
Illinois Basin*

### Special Teams

*Matrix Design Group, LLC*  
Designs, develops and markets innovative safety and productivity technology used in underground mining.

## The Importance Of Depth.

Coupling volume growth with an impressive contract portfolio allows Alliance to stay on the offense despite facing tough coal market challenges. Sometimes, though, the unexpected happens and interrupts production flow. For example, a regulatory dispute in 2011 resulted in the decision that our Pontiki Complex must operate with one less mining unit in the future.

We're excited about our Tunnel Ridge startup. With this new mine, Alliance estimates its 2012 coal production will be in the range of 34 million to 35 million tons and coal sales volumes will be between 34.75 million to 35.85 million tons. We also expect our sales prices to increase by 2 to 4 percent.

*We expect **DOUBLE-DIGIT GROWTH** in 2012 for both coal production and sales volumes.*

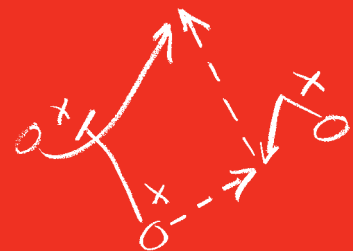
Challenges just make us work harder and focus on our game plan. Strong performance with Alliance's other operations drove 2011's production to 30.8 million tons, a 6.6 percent increase when compared with 2010. By capitalizing on pricing and brokerage opportunities, Alliance's 2011 average coal sales price increased \$4.74 per ton sold and sales volumes climbed to 31.9 million tons. The result was more than \$1.8 billion in revenues.

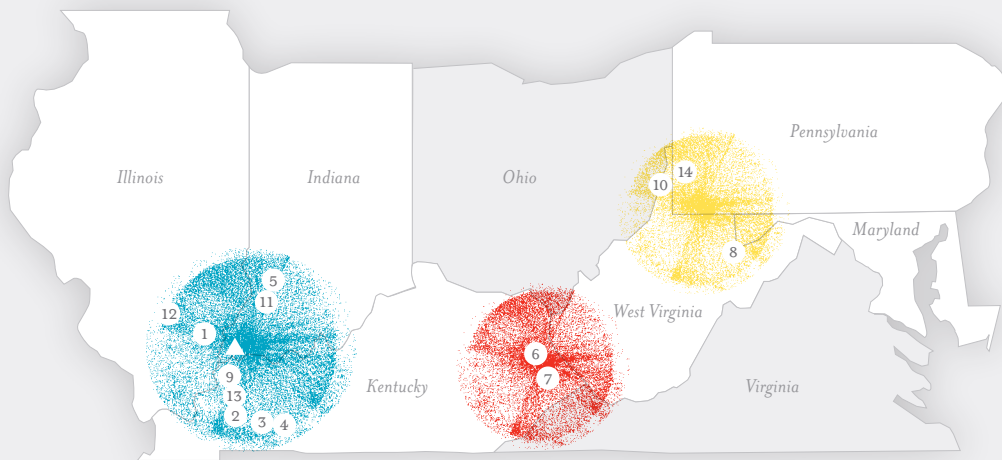
Alliance's sales team already has secured commitments for approximately 33.5 million tons in 2013, 27.2 million tons in 2014 and 19.8 million tons in 2015. A lion's share of each of those amounts has pricing in place.

## Equipment Check.

While our eye is always surveying the field, Alliance has an unwavering commitment to keep current assets in top-performing condition. Significant 2012 maintenance projects include transitions into

new reserve areas at our Dotiki, MC Mining and Mountain View operations. We'll also complete the Dotiki Mining Complex's new coal preparation plant that's currently under construction.





**Mining Complexes**

● Illinois Basin

● Central Appalachia

● Northern Appalachia

1. Pattiki  
*Pattiki Mine*

2. Dotiki  
*Dotiki Mine*

3. Warrior  
*Warrior Mine*

4. Hopkins  
*Elk Creek Mine*

5. Gibson  
*Gibson North Mine*

6. Pontiki  
*Excel No. 2 Mine*

7. MC Mining  
*Excel No. 3 Mine*

8. Mettiki  
*Mountain View Mine*

9. River View  
*River View Mine*

10. Tunnel Ridge  
*Estimated reserves: 100 million tons*  
*Development production: 2011 & full startup 2012*

**Under Construction**

11. Gibson South Mine  
*Estimated reserves: 61 million tons*  
*Production startup: 2014*

12. White Oak Resources Mine No. 1  
*Estimated reserves: 205 million tons*  
*Production startup: 2015*

**Mine Development Projects**

13. Sebree  
*Estimated reserves: 25 million tons*

14. Penn Ridge  
*Estimated reserves: 57 million tons*

**Transfer Terminal**

▲ Mount Vernon Transfer Terminal  
*Operates a coal loading terminal on the Ohio River*

### Coal: The Home-Field Advantage.



For more than a century, coal has been America's low-cost natural resource to generate electricity. That's something to celebrate: affordable energy empowers economic growth, which results in jobs and provides tax revenue. Coal fuels ingenuity, industry and prosperity.

Other countries in the world, seeking to emulate America's success, understand coal's importance in helping to drive gross domestic product. China, which currently leads the world in GDP growth, has increased its coal production from 1 billion tons per year to 3 billion tons per year in the last decade.

The U.S. Congressional Research Service records America's recoverable coal reserves as being 262 billion short tons, meaning the nation holds more than 28 percent of the world's supply. That places the U.S. as number one in domestic coal resources – with Russia, China and India ranking distant second, third and fourth places, respectively. Interestingly, China currently generates 71 percent of its electricity with coal. Meanwhile, coal's market share for power generation in the United States has slipped from 50 percent to 45 percent.

It is time for coal to be recognized as a power of U.S. growth. Coal is cost effective, provides critical, high-paying jobs, and helps the U.S. retain its competitive and secure home-field advantage.





**Alliance's Focus:**

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*Expanding Market Opportunities*

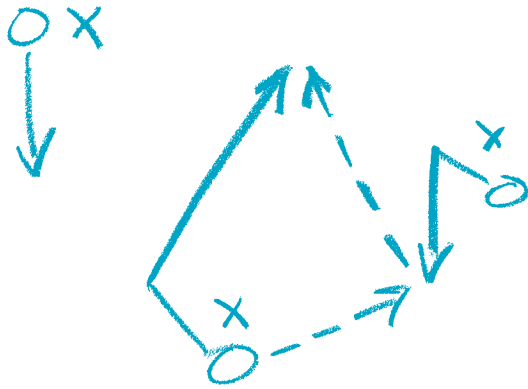
*Low-Cost Producing Regions*

*High-Return Organic Development Projects*

*Disciplined Acquisitions*

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Alliance believes that coal will continue to be the primary source of electric power generation in the United States for the next several decades. We remain committed to expanding our presence in the Illinois Basin and Northern Appalachian regions, which are poised to power the eastern U.S. for years to come.

*No one sets the bar higher than Alliance. Our disciplined approach* **POSITIONS US TO WIN.**

For 2012, Alliance will continue to focus on executing the fundamentals that created our 11 past successful seasons. Those who invest in our Partnerships can be assured of our determination to maintain a clear strategy designed to extend our exceptional track record by delivering strong performance and an active growth profile. We remain committed to our strategy, and believe ARLP and AHGP will again provide our unitholders with attractive distribution growth.

The Alliance team made our record-breaking streak possible, and their dedication and persistence will continue to drive our success. After 11 record-breaking seasons and with new opportunities on deck in 2012, our team is ready to compete in what could be Alliance's most impressive year ever.

Joseph W. Craft III  
ARLP President, Chief Executive Officer and Director  
AHGP President, Chief Executive Officer and Chairman of the Board

March 7, 2012



## Reconciliation Of GAAP “Cash Flows Provided By Operating Activities” To Non-GAAP “EBITDA” Reconciliation Of Non-GAAP “EBITDA” To GAAP “Net Income”

Year Ended December 31 (in thousands)	2011	2010	2009	2008	2007
Cash flows provided by operating activities	\$ 573,983	\$ 520,588	\$ 282,741	\$ 261,041	\$ 244,012
Non-cash compensation expense	(6,235)	(4,051)	(3,582)	(3,931)	(3,925)
Asset retirement obligations	(2,546)	(2,579)	(2,678)	(2,827)	(2,419)
Coal inventory adjustment to market	(386)	(498)	(3,030)	(452)	(21)
Equity in loss of affiliates, net	(3,404)				
Net gain (loss) on foreign currency exchange	-	(274)	653	-	-
Net gain (loss) on sale of property, plant and equipment	634	(234)	(136)	911	3,189
Gain on sale of coal reserves	-	-	-	5,159	-
Gain from insurance recoveries for property damage	-	-	-	-	2,357
Gain from insurance settlement proceeds received in a prior period	-	-	-	-	5,088
Loss on retirement of vertical hoist conveyor system	-	(1,204)	-	-	-
Other	(1,488)	(1,448)	(537)	(366)	(811)
Net effect of working capital changes	(10,870)	(42,402)	36,440	(19,661)	7,898
Interest expense, net	21,579	29,862	29,798	18,418	9,952
Income tax expense (benefit)	(431)	1,741	708	(480)	1,669
<b>EBITDA</b>	<b>570,836</b>	<b>499,501</b>	<b>340,377</b>	<b>257,812</b>	<b>266,989</b>
Depreciation, depletion and amortization	(160,335)	(146,881)	(117,524)	(105,278)	(85,310)
Interest expense, net	(21,579)	(29,862)	(29,798)	(18,418)	(9,952)
Income tax (expense) benefit	431	(1,741)	(708)	480	(1,669)
<b>Net income</b>	<b>389,353</b>	<b>321,017</b>	<b>192,347</b>	<b>134,596</b>	<b>170,058</b>
Net (income) loss attributable to noncontrolling interest	-	-	(190)	(420)	332
<b>Net income of ARLP</b>	<b>\$ 389,353</b>	<b>\$ 321,017</b>	<b>\$ 192,157</b>	<b>\$ 134,176</b>	<b>\$ 170,390</b>

EBITDA is defined as net income attributable to ARLP before net interest expense, income taxes, depreciation, depletion and amortization and net income attributable to noncontrolling interest. EBITDA is used as a supplemental financial measure by our management and by external users of our financial statements such as investors, commercial banks, research analysts and others to assess: the financial performance of our assets without regard to financing methods, capital structure or historical cost basis; the ability of our assets to generate cash sufficient to pay interest costs and support our indebtedness; our operating performance and return on investment as compared to those of other companies in the coal energy sector, without regard to financing or capital structures; and the viability of acquisitions and capital expenditure projects and the overall rates of return on alternative investment opportunities.

EBITDA should not be considered as an alternative to net income, income from operations, cash flows from operating activities or any other measure of financial performance presented in accordance with generally accepted accounting principles. EBITDA is not intended to represent cash flow and does not represent the measure of cash available for distribution. Our method of computing EBITDA may not be the same method used to compute similar measures reported by other companies, or EBITDA may be computed differently by us in different contexts (e.g., public reporting versus computation under financing agreements).

## Forward-Looking Statements

This Annual Report contains forward-looking statements and information that are based on the beliefs of Alliance Resource Partners, L.P. and Alliance Holdings GP, L.P. (the “Partnerships”) and those of their respective general partners (the “General Partners”), as well as assumptions made by and information currently available to them. When used in this Annual Report, words such as “anticipate,” “project,” “expect,” “plan,” “goal,” “forecast,” “intend,” “could,” “believe,” “may,” “continue,” “estimate,” “will” and similar expressions and statements regarding the plans and objectives of the Partnerships for future operations, are intended to identify forward-looking statements.

Although the Partnerships and their General Partners believe that such expectations reflected in such forward-looking statements are reasonable at the time such statements are made, neither the Partnerships nor the General Partners can give assurances that such expectations will prove to be correct. Such statements are subject to a variety of risks, uncertainties and assumptions. For a description of such risks and uncertainties, please see the forward-looking statements included in the Annual Reports on Form 10-K for Alliance Resource Partners, L.P. and Alliance Holdings GP, L.P. which are available by request or can be viewed on the Partnerships’ respective Web sites. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, actual results may vary materially from those the Partnerships anticipated, estimated, projected or expected.

The Partnerships have no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

## General Information

The following information applies to Alliance Resource Partners, L.P. (ARLP) and Alliance Holdings GP, L.P. (AHGP) unless specified otherwise.

### Partnership Offices

1717 South Boulder Avenue, Suite 400  
Tulsa, OK 74119  
(918) 295-7600

### Partnership Mailing Address

P.O. Box 22027  
Tulsa, OK 74121-2027

### Contact

Brian L. Cantrell  
Senior Vice President and Chief Financial Officer  
(918) 295-7674  
brian.cantrell@arlp.com

### Business Structure

Publicly traded master limited partnership.

### Common Unit Trading

Common units are traded on the NASDAQ Global Select Market.

### NASDAQ Ticker Symbols

Alliance Resource Partners, L.P.	ARLP
Alliance Holdings GP, L.P.	AHGP

### Common Units Outstanding (12/31/2011)

ARLP 36,775,741 common units  
AHGP 59,863,000 common units

### Independent Auditors

Ernst & Young LLP  
1700 One Williams Center  
Tulsa, OK 74172

## Unitholder Information

### Cash Distributions

The partnerships expect to make quarterly distributions to unitholders of record on the applicable record dates according to the following schedules:

*Alliance Resource Partners, L.P.*

Within 45 days after the end of each March, June, September and December.

*Alliance Holdings GP, L.P.*

Within 50 days after the end of each March, June, September and December.

## Partnership Tax Details

Unitholders are partners in the partnership and receive quarterly cash distributions. Cash distributions generally are not taxable as long as the individual unitholder's tax basis remains above zero.

A partnership generally is not subject to federal or state income tax. The annual income, gains, losses, deductions or credits of the partnership flow through to the unitholders, who are required to report their allocated share of these amounts on their individual tax returns, as though the unitholder had incurred these items directly.

### Schedule K-1

Unitholders of record receive Schedule K-1 packages that summarize their allocated share of the partnership's reportable tax items for the fiscal year. It is important to note that cash distributions received should not be reported as taxable income. Only the amounts provided on the Schedule K-1 should be entered on each unitholder's tax return.

Schedule K-1 information also is available on our Web sites. Please visit [www.arlp.com](http://www.arlp.com) and [www.ahgp.com](http://www.ahgp.com).

Unitholders should refer questions regarding their Schedule K-1 as follows:

#### *By Mail*

K-1 Support  
P.O. Box 799060  
Dallas, TX 75379-9060

#### *By Phone/Fax*

Alliance Resource Partners, L.P.  
Phone (800) 485-6875 Fax (866) 554-3842

Alliance Holdings GP, L.P.  
Phone (866) 867-4060 Fax (866) 554-3842

### Transfer Agent and Registrar

Direct requests regarding transfer of units, lost certificates, lost distribution checks or address changes to:

American Stock Transfer and Trust Company  
Attn: Shareholder Services  
59 Maiden Lane – Plaza Level  
New York, NY 10038  
(800) 937-5449

### Investor Information and Form 10-K

For more information or free copies of the 2011 Form 10-K, please contact the appropriate e-mail address or phone number listed below. Form 10-K also may be downloaded from the Partnerships' Web sites.

*Alliance Resource Partners, L.P.*

E-mail: [investorrelations@arlp.com](mailto:investorrelations@arlp.com)  
Phone: (918) 295-7674  
Web site: [www.arlp.com](http://www.arlp.com)

*Alliance Holdings GP, L.P.*

E-mail: [investorrelations@ahgp.com](mailto:investorrelations@ahgp.com)  
Phone: (918) 295-1415  
Web site: [www.ahgp.com](http://www.ahgp.com)

