

Vital Resource

2012 Annual Report



*“Opportunities presented by private enterprise and buttressed by
America’s system of economic freedom allow for our financial success.”*

★ JOE CRAFT ★

A decorative graphic consisting of four horizontal stripes. From top to bottom, the stripes are red, white, red, and white. The stripes are of equal width and span the entire width of the page.


Fellow Unitholders



America's free enterprise system drives our high-level performance and allows Alliance Resource Partners, L.P. (ARLP) and Alliance Holdings GP, L.P. (AHGP) to remain fully engaged amid changing market dynamics.

2012 was the twelfth consecutive year for the Alliance Partnership to set new operating and financial records. This achievement was possible

because of our focus on fundamental operating strategies and a vital resource: coal.

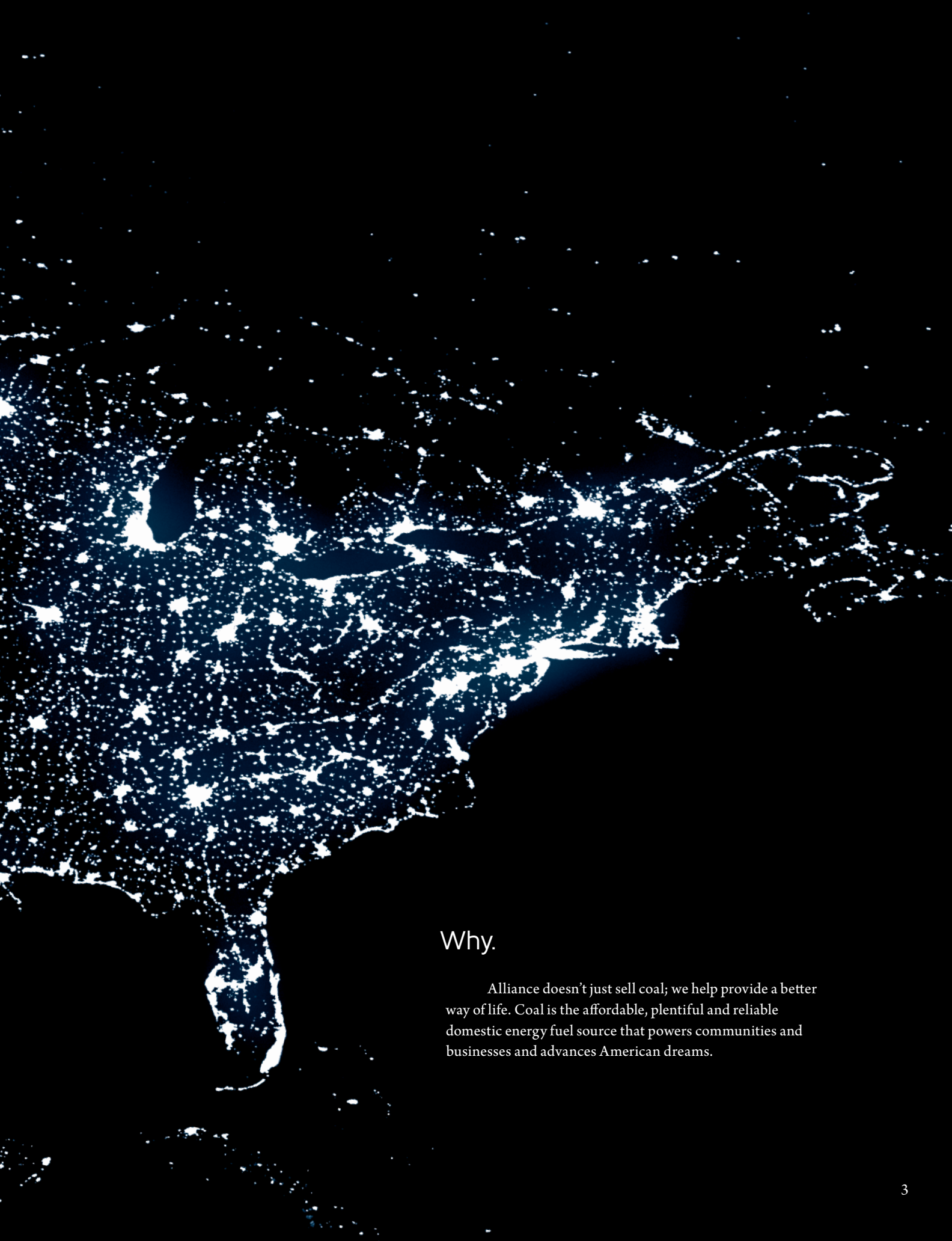


★
Alliance's American dream: Financial stability; job creation; economic growth.

Sticking to the basics, Alliance has increased payments to unitholders for 19 consecutive quarters, growing ARLP's distributions by 89.3 percent and AHGP's distributions by 157.4 percent during this period.

Why do we remain vigilant to our mission? How do we continue accomplishing our goals and achieving superior results? Keep reading.





Why.

Alliance doesn't just sell coal; we help provide a better way of life. Coal is the affordable, plentiful and reliable domestic energy fuel source that powers communities and businesses and advances American dreams.



Why ▶ Demand

America's appetite for electricity to enhance our standard of living is undeniable, and that hunger spurs Alliance onward.

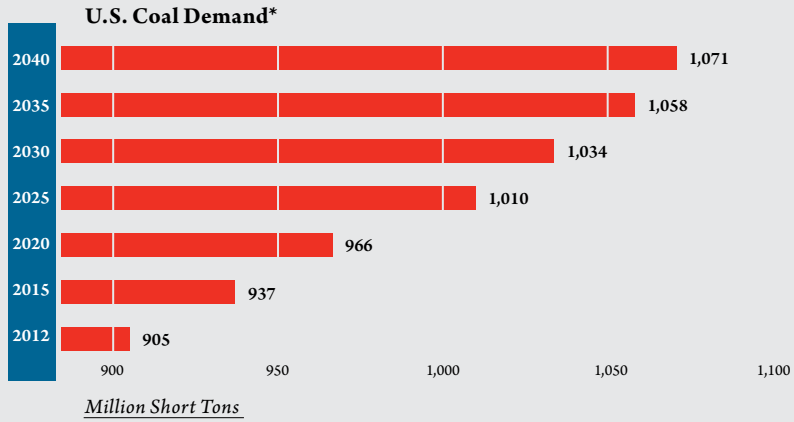
ARLP coal is the feedstock to deliver reasonably-priced electricity to American communities. That power gives industries muscle, makes homes comfortable, drives communication networks, provides links to all forms of entertainment and illuminates the way.

The United States currently consumes an estimated 3.8 trillion kilowatt-hours of electricity on an annual basis.* Coal remains the largest source for that power, last year fueling 38 percent of U.S. electricity generation.* American coal consumption is expected to grow for years to come and the need is clear. Even as we become more efficient, the nation's demand for electricity is expected to flourish in the next quarter-century. Current forecasts show annual U.S. electricity consumption increasing nearly 29 percent to 4.9 trillion kilowatt-hours by 2040.*

Our nation must depend on coal as a vital resource to meet this increased future demand and remain competitive in the worldwide marketplace. While the spotlight often shines on new methods of natural gas extraction and the aspirations of renewable energy, coal has been the predominant energy source for America's base load electricity for the last 60 years. More than any other fuel, coal is easy to transport and rooted in economic and price stability.

This consistency and reliability is the reason coal is projected to continue to serve as the fundamental fuel source to meet America's electricity needs for the foreseeable future.* Alliance is proud that the coal industry will continue leading the energy charge and continue to spur our nation's prosperity.

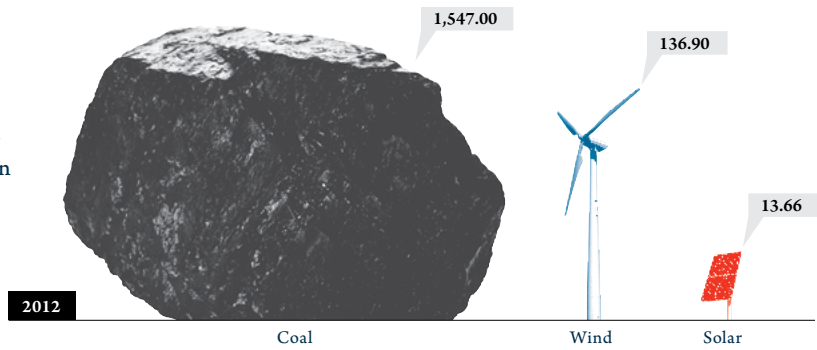
*Annual Energy Outlook 2013
Early Release Overview prepared
by the Energy Information
Agency (EIA), which is part of
the U.S. Department of Energy.



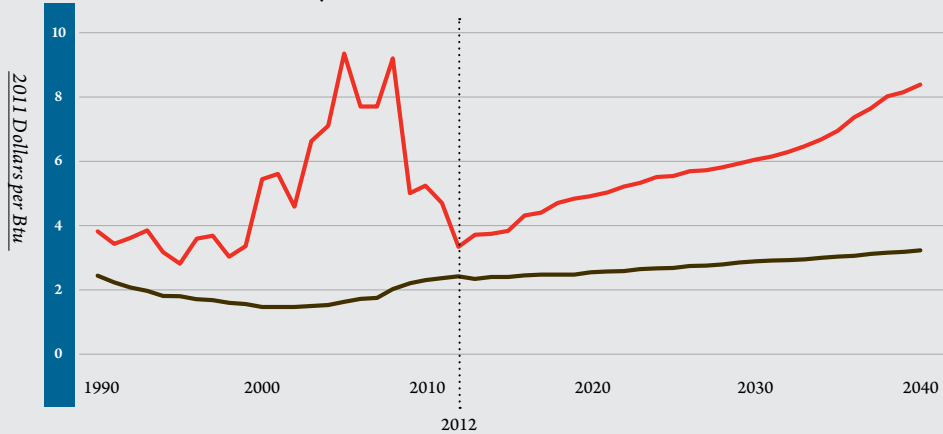
Renewables in Perspective*

In 2012, coal continued to serve as America's *prime source* for electricity generation and is expected to remain in that role for years to come.

Billion Kilowatt-hours



Coal: The Economically Stable Fuel*





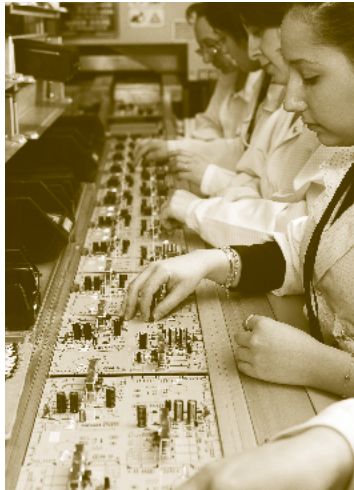
Why ▶ Opportunities

After a dozen consecutive record-breaking years, Alliance remains inspired by customer needs and aspirations.

More than 464* years. Based on current U.S. production levels, that's how much longer our nation's coal supply – the largest estimated set of recoverable reserves in the world – is expected to last.* That fact also reinforces this point: Alliance's journey has just begun.

The coal industry is highly competitive, and ARLP is up to the challenge. Our people are skilled; our strategies are clear; and our focus creates opportunities that will benefit our customers and investors.

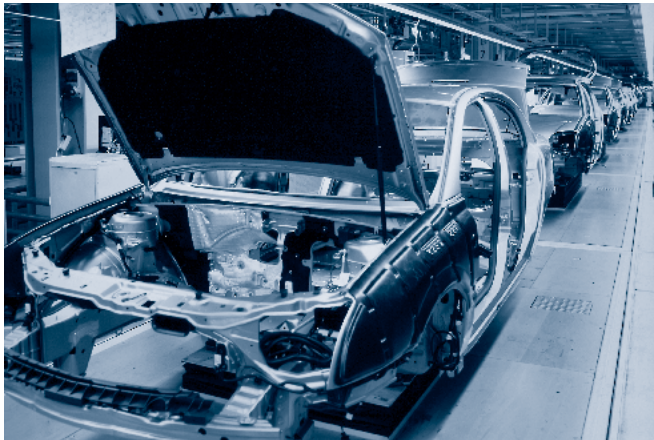
**Institute for Energy Resources
Analysis of U.S. Government Data.*



Working hard to meet their needs, Alliance has forged strong, long-standing relationships with our customers. Alliance's operating flexibility, reliability and dependability help our customers deliver affordable, uninterrupted power to their end-users. In turn, they reward us with long-term coal supply agreements. These priced and contracted tons provide stability to Alliance's performance during inevitable economic cycles and also result in greater sales volume and price predictability. During 2012, ARLP's marketing team secured new commitments to deliver approximately 31.7 million tons of coal through 2018 at prices comparable to current realizations. This allowed us to enter 2013 with a solid contract book and sales commitments including:

★
ARLP is the third-largest coal producer in the eastern U.S.

2013 – 38.5 million tons
2014 – 30.7 million tons
2015 – 23.4 million tons
2016 – 18.7 million tons



Alliance carefully weighs acquisition opportunities that can expand our footprint in the eastern, low-cost producing regions of the U.S. That quest led us to the Onton No. 9 Mining Complex located in Kentucky. Due diligence proved it to be a solid match with our objectives and in April 2012, we completed the purchase of this operation. This underground mining complex currently operates three continuous mining units and has about 40 million tons of coal reserves. Onton further enhances Alliance's strong presence in the growing Illinois Basin and currently is contributing about 2.1 million tons of coal annually.

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Alliance grows through high-return organic development projects and disciplined acquisitions.

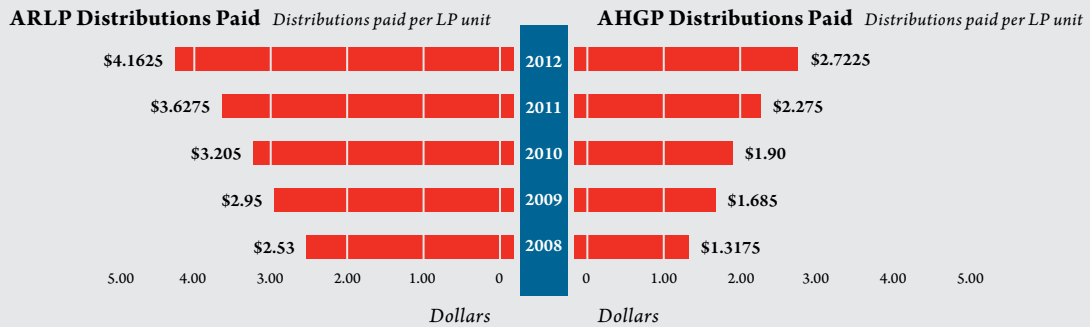
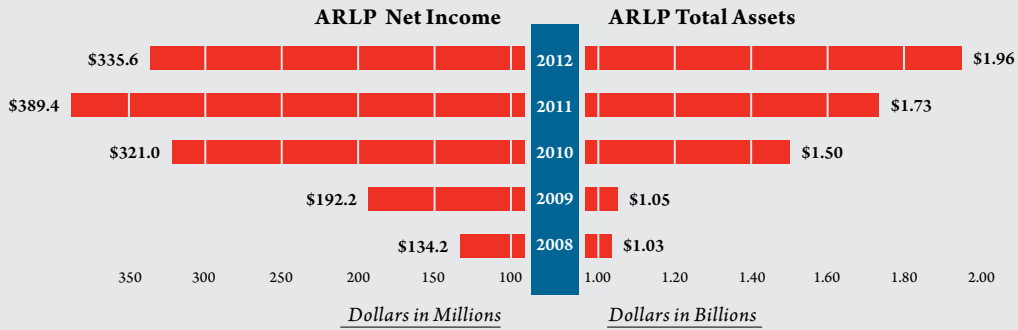
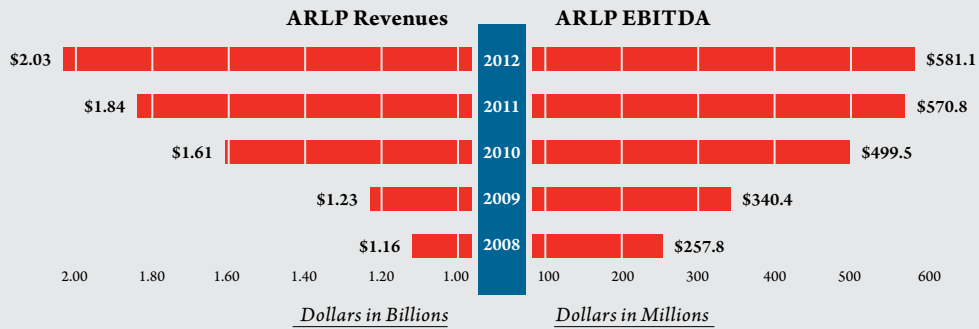
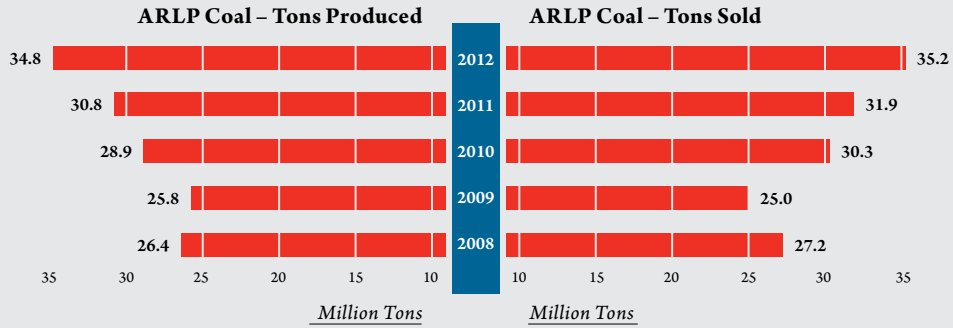
Why does Alliance patiently stay the course when rhetoric heats up and naysayers can be unrelenting? Because coal is a vital resource to America's economic prosperity. Coal is widely available, easy to transport, efficient to burn, reliable and inexpensive. For the foreseeable future, coal will continue to offer our country those same benefits.





How.

Financial discipline, hard work and talented people create Alliance's competitive advantage. These blended critical assets enable us to deliver product to customers and unit distribution growth to investors.



★
New bank financing – a \$700.0 million revolving credit facility and a \$250.0 million term loan – further strengthens Alliance’s balance sheet, liquidity and financial flexibility.

How ► Commitment

Overcoming challenges, Alliance continues its history of robust growth in coal production, cash flow and distributions.

Alliance faced plenty of challenges during 2012: a difficult market environment for coal, an unseasonably warm winter, a significant dip in natural gas prices and governmental overreach. Yet it is during such cycles that Alliance’s patience and perseverance prove their worth.

Since inception, Alliance has prudently managed its balance sheet, focused on efficient operations in growing, low-cost regions and enhanced its strong long-term contract position. This approach provides cash-flow stability and helps Alliance successfully navigate industry turmoil.

Our 2012 results endorse our conservative approach. ARLP set new benchmarks for coal production, coal sales, revenues and EBITDA.*

ARLP produced a record 34.8 million tons of coal and sold a record 35.2 million tons. The average coal sales price realized in 2012 also hit a new high at \$56.28 per ton sold.

Revenues topped \$2.0 billion for the first time in ARLP’s history, reflecting these new records for average coal sales prices and volumes. Significant contributors to the record include: the start-up of longwall production at our new Tunnel Ridge Mine; the Onton Mine acquisition; and expanded production at our River View and Warrior Mines.

EBITDA climbed to a record \$581.1 million. These results underscore Alliance’s strong revenues and record coal production.

Net income for 2012 totaled \$335.6 million, compared with \$389.4 million in 2011. This decrease primarily reflects increased depreciation, depletion and amortization as a result of our growth projects, reduced coal sales into the metallurgical export markets, and \$26.6 million in losses and charges related to the temporary idling of ARLP’s Pontiki Mine.

Unitholders also share in the partnership’s success. During 2012’s fourth quarter, ARLP’s cash distribution was increased to an annualized rate of \$4.43 per unit, a year-over-year increase of 11.9 percent. AHGP’s unitholders also experienced growth. Their year-over-year distributions increased 16.1 percent, resulting in an annualized rate of \$2.96 per unit.

We expect continuing growth opportunities – driven by our new and expanding mines and ongoing ramp-up at Tunnel Ridge – to further enhance production and sales. Our guidance for 2013 includes:

Revenues[∞] – \$2.1 billion to \$2.2 billion

EBITDA – \$600.0 million to \$650.0 million

Net income – \$300.0 million to \$350.0 million

Obstacles and difficult times are to be expected. Alliance’s steadfast financial principles, coupled with a commitment to persevere, provide us the mettle to succeed.

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

Power-filled Investments

Our five-year planning horizon expands Alliance's resources and positions our business for emerging opportunities.

Expansion projects slated for 2013 include acquiring additional reserves, advancing the Gibson South Mine development and continuing investments in the White Oak project.

Financial projections for 2013 capital expenditures range from \$370.0 million to \$400.0 million. These amounts include maintenance capital expenditures of approximately \$5.70 per ton produced.



How ▶ Assets

Alliance's operations are focused east of the Mississippi, particularly in the fruitful Illinois Basin and Northern Appalachia producing regions.

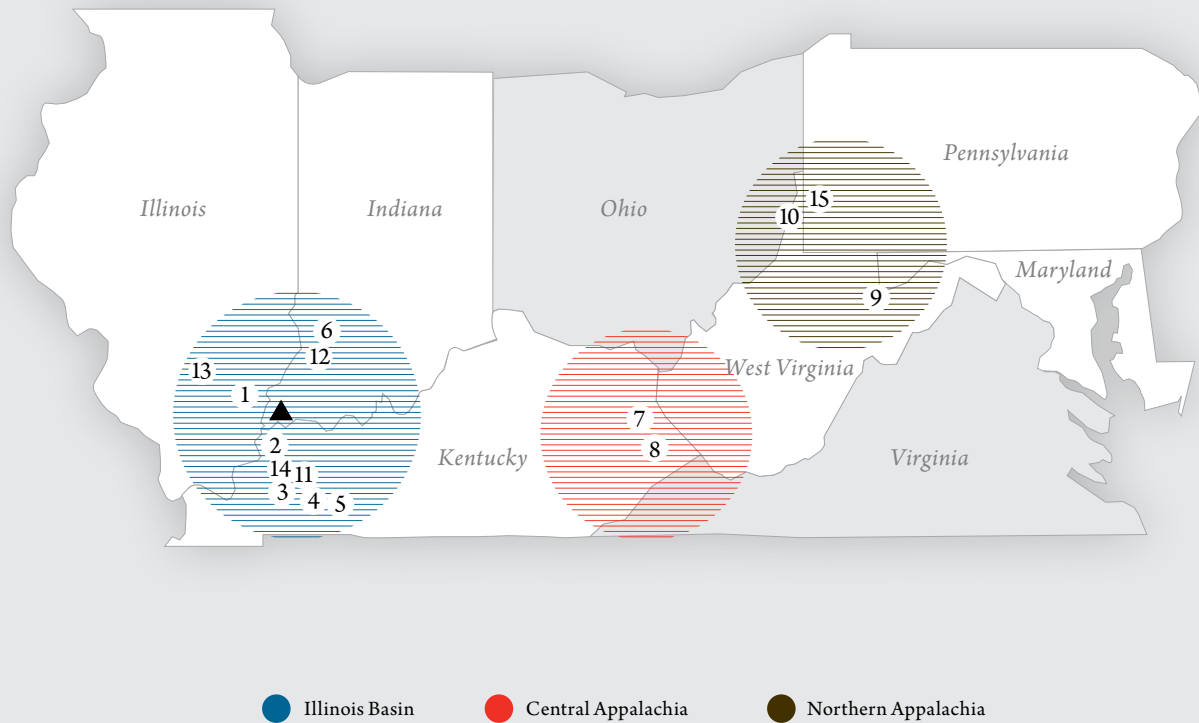


ARLP's 11 mining complexes touch six states: Kentucky, Illinois, Indiana, West Virginia, Pennsylvania and Maryland. Alliance controls approximately 919.5 million tons of coal reserves in these strategic eastern U.S. locations. Equally important, there are growing opportunities in these low-cost producing areas.

During 2012, our mines set new ARLP records by producing 34.8 million tons of coal, up 13.2 percent over 2011 production. This robust growth was led by partial-year contributions from ARLP's acquisition of the Onton Mine in April and the May start-up of longwall production at our new Tunnel Ridge Mine. With full-year contributions from both of these assets, we expect 2013 coal volumes to increase to between 38.1 million tons and 39.1 million tons produced and sold.

Alliance also has an additional mine development project under construction in the Illinois Basin. Our Gibson South Mine is expected to begin production in late 2014 and ultimately increase to about 5.2 million tons of coal produced annually by 2016.

Our investments in the White Oak development project will further expand ARLP's presence in the Illinois Basin. When the White Oak Mine No. 1 commences longwall production in 2014, Alliance will begin receiving payments from three different cash flow streams – royalties from coal production, throughput payments as coal is processed through our surface facilities and preferred distributions from our equity ownership in the mine. In essence, Alliance will capture essentially all of the economics from the project until we receive a preferred return and will then enjoy a continuing residual cash flow stream for the life of the asset. In the meantime, ARLP records substantially all of White Oak's losses related to mine development which totaled about \$15.3 million in 2012.



Current Mining Operations

- 1. Pattiki Complex
- 2. River View Complex
- 3. Dotiki Complex
- 4. Warrior Complex
- 5. Hopkins Complex
- 6. Gibson Complex
- 7. Pontiki Complex
- 8. MC Mining Complex
- 9. Mettiki Complex
- 10. Tunnel Ridge Complex
- 11. Sebree Mining Complex

Mine Under Construction

12. Gibson South Project
Estimated reserves: 67 million tons
Production start-up: 2014

**Mine Development/
Reserve Investment**

13. Investment in White Oak Resources
Estimated reserves: 205 million tons
Production start-up: 2014

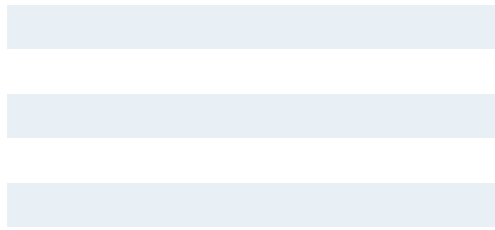
Mine Development Projects

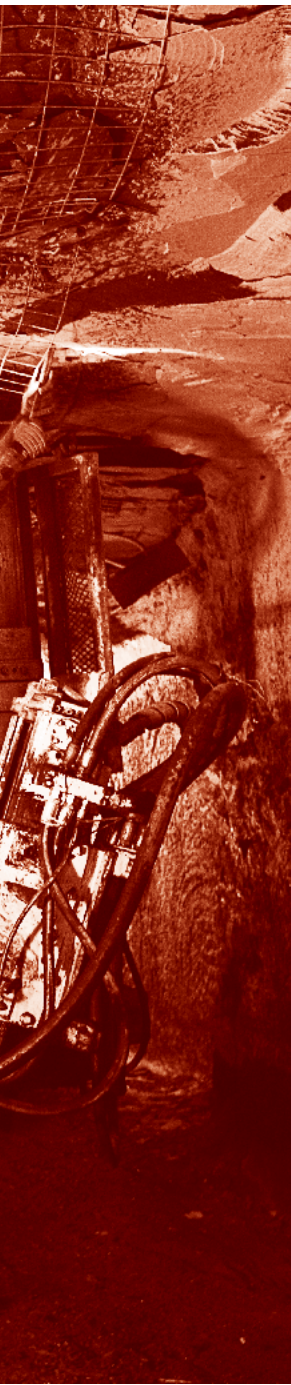
14. Sebree Reserve Project
Estimated reserves: 26 million tons

15. Penn Ridge Project
Estimated reserves: 57 million tons

Transfer Terminal

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





How ▶ Talent

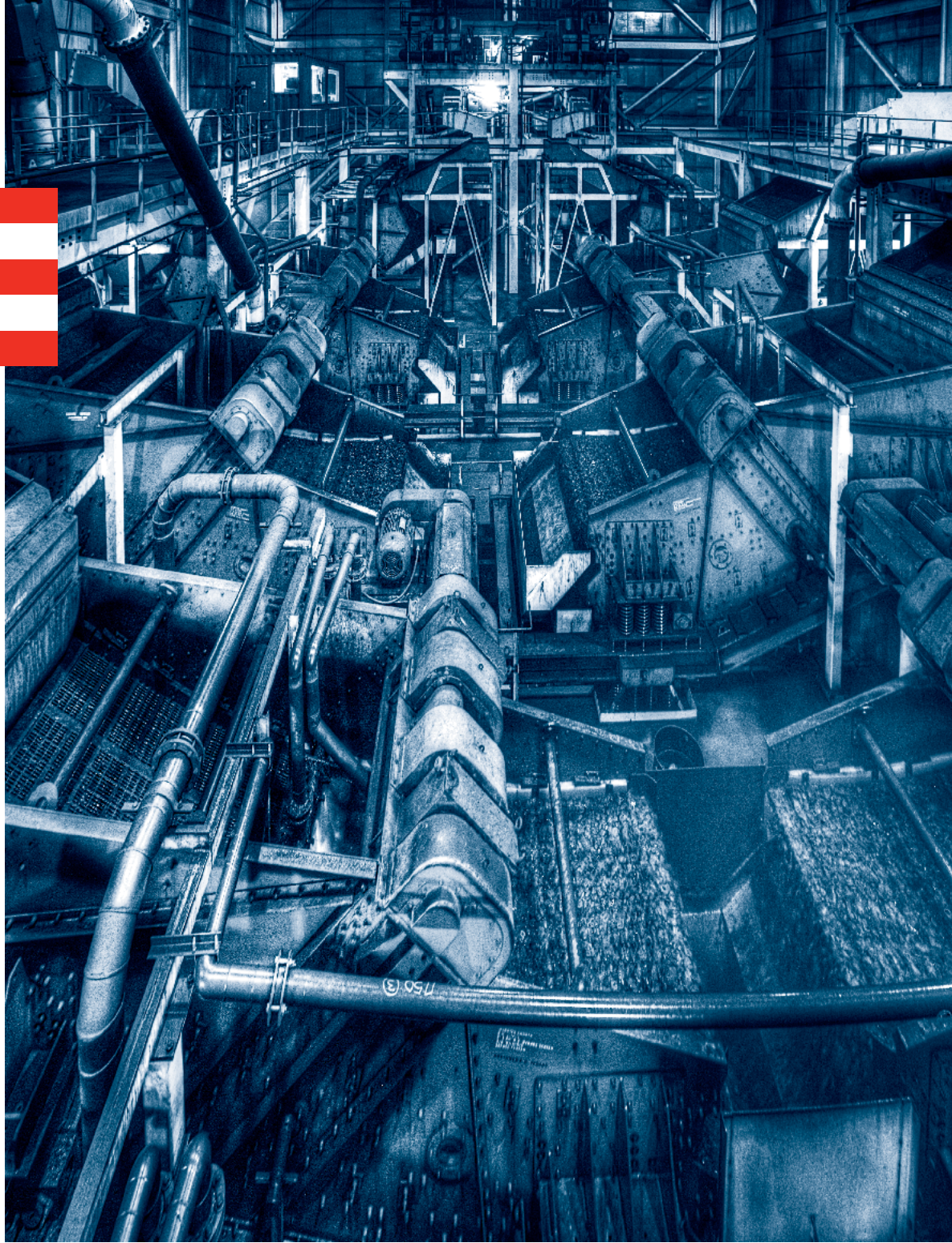
More than 4,300 strong, Alliance's dedicated workforce approaches challenges with talent and pride.

Our men and women understand their critical roles in the nation's energy industry, and their resolve defines Alliance's business priorities.

Alliance employees' breadth of experience and their commitment to our mission allow us to deliver strong returns for investors. As our operating teams stake their futures on our business, we continuously fine-tune processes and procedures to ensure that they have the best and safest systems available to accomplish their jobs. During 2012, our employees' lost-time accident rate was below the industry's average and was one of the best in ARLP's history.

Just as coal powers America, talented, hardworking employees are the fundamental essence of Alliance's ongoing success.

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Mission: Create sustainable cash flow growth. Deliver to unitholders consistent distribution increases.



The Alliance Partnership is focused and agile with a hardworking culture that inspires ongoing achievements.

It is easy to be part of the coal industry when you appreciate why coal makes a difference in the lives of Americans, and understand how to achieve operational success. Since 1999, Alliance has embraced a business model that allows us to manage our investments and assets for value, encourage our talented workforce, cultivate relationships, and use the best technology available to meet our customers' coal demand. That business model has proven effective even in economically difficult years like 2012. It bodes even better for the future.

The Alliance Partnership is poised to deliver our thirteenth consecutive year of record results in 2013. Coal production and sales volumes are expected to increase during the year as our expansion projects continue coming online. These increased volumes, coupled with ARLP's highly contracted sales portfolio, have us poised to deliver new financial highs for revenues and EBITDA. The resumption of more normal weather patterns and a strengthening of natural gas prices will afford additional market improvements and set the stage for higher spot coal prices during the year.

All of these factors provide a solid foundation for ARLP and AHGP unitholders to continue enjoying consistent distribution increases.

For the Alliance Partnership, 2013 is packed with fresh opportunities. We will be fully engaged in pursuing success and playing an important role in supporting American dreams.



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

March 19, 2013

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)	2012	2011	2010	2009	2008
Cash flows provided by operating activities	\$ 555,856	\$ 573,983	\$ 520,588	\$ 282,741	\$ 261,041
Non-cash compensation expense	(7,428)	(6,235)	(4,051)	(3,582)	(3,931)
Asset retirement obligations	(2,853)	(2,546)	(2,579)	(2,678)	(2,827)
Coal inventory adjustment to market	(2,978)	(386)	(498)	(3,030)	(452)
Equity in loss of affiliates, net	(14,650)	(3,404)			
Net gain (loss) on foreign currency exchange	-	-	(274)	653	-
Net gain (loss) on sale of property, plant and equipment	(147)	634	(234)	(136)	911
Gain on sale of coal reserves	-	-	-	-	5,159
Loss on retirement of vertical hoist conveyor system	-	-	(1,204)	-	-
Asset impairment charge	(19,031)	-	-	-	-
Other	3,815	(1,488)	(1,448)	(537)	(366)
Net effect of working capital changes	41,109	(10,870)	(42,402)	36,440	(19,661)
Interest expense, net	28,455	21,579	29,862	29,798	18,418
Income tax expense (benefit)	(1,082)	(431)	1,741	708	(480)
EBITDA	581,066	570,836	499,501	340,377	257,812
Depreciation, depletion and amortization	(218,122)	(160,335)	(146,881)	(117,524)	(105,278)
Interest expense, net	(28,455)	(21,579)	(29,862)	(29,798)	(18,418)
Income tax (expense) benefit	1,082	431	(1,741)	(708)	480
Net income	335,571	389,353	321,017	192,347	134,596
Net income attributable to noncontrolling interest	-	-	-	(190)	(420)
Net income of ARLP	\$ 335,571	\$ 389,353	\$ 321,017	\$ 192,157	\$ 134,176

EBITDA is defined as net income before interest income, interest expense, income taxes, and depreciation, depletion and amortization. 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 (12/31/2012)

ARLP 36,874,949 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 and 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 2012 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
Phone: (918) 295-7674
Web site: www.arlp.com

Alliance Holdings GP, L.P.

E-mail: investorrelations@ahgp.com
Phone: (918) 295-1415
Web site: www.ahgp.com

Executive Officers & Directors ARLP ★ AHGP ★

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

Brian L. Cantrell ★ ★
Senior Vice President and Chief Financial Officer

R. Eberley Davis ★ ★
Senior Vice President, General Counsel and Secretary

Robert G. Sachse ★
Executive Vice President

Charles R. Wesley ★
Executive Vice President and Director

Thomas M. Wynne ★
Senior Vice President and Chief Operating Officer

Michael J. Hall ★ ★
Director and Chairman of the Audit Committee for ARLP and AHGP, and member of Compensation Committee for ARLP

John P. Neafsey ★
Director, Chairman of the Board of Directors, Chairman of the Conflicts Committee and member of the Compensation Committee

John H. Robinson ★
Director, Chairman of the Compensation Committee and member of the Audit and Conflicts Committees

Wilson M. Torrence ★
Director, member of Audit, Compensation and Conflict Committees

Thomas M. Davidson, Sr. ★
Director, Chairman of the Conflicts Committee and member of the Audit Committee

Robert J. Druten ★
Director and member of the Audit and Conflicts Committees



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