



The North American Coal Corporation



NAACCO

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2002 Results

North American Coal achieved strong operating results in 2002. Its mines sold 34.2 million tons of lignite coal in 2002 compared to 31.4 million tons in 2001, maintaining North American Coal's position as the nation's largest lignite coal producer and among the top 10 coal producers nationwide. The Florida Dragline Operations had a good year with deliveries 22 percent higher compared to 2001. Lignite reserves total 2.5 billion tons, of which 1.3 billion tons are committed to current customers.

Although North American Coal sold more tons of lignite coal in 2002 than in 2001, net income declined to \$19.6 million in 2002 compared to \$25.6 million in 2001. The decrease was primarily the result of a \$9.6 million after-tax decrease in liquidated damages payments received by the Mississippi Lignite Mining Company

in 2002, compared to 2001, which was not fully offset by additional net income generated from mining more tons of lignite coal. Liquidated damages ceased when the customer's power plant reached commercial operation early in 2002.

Net income in 2002 also was reduced by a return to contractually agreed lignite coal sales at the Red River Mining Company in Louisiana, compared to unusually high volumes in 2001. A \$1.9 million after-tax charge for the write-off of an investment in undeveloped reserves was more than offset by a gain on the sale in 2002 of undeveloped Eastern coal reserves

and favorable tax adjustments. In 2002, North American Coal, excluding project mining subsidiaries, generated \$29.4 million in cash flow before financing activities.

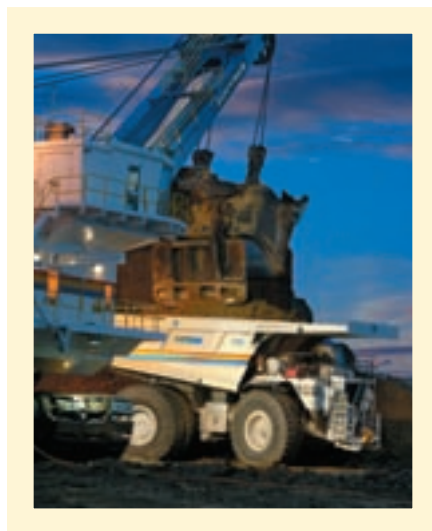
Vision, Strategy And Core Competencies

North American Coal's vision is to be the leading low-cost miner of lignite coal used in electric generation and coal gasification plants and to provide selected value-added services for other natural resources companies.

North American Coal's strategy is to pursue mining opportunities that allow it to leverage its low-cost mining expertise while minimizing its exposure to the market price of coal. While North American Coal may appear to be a typical coal mining company, it has carefully structured most of its coal supply agreements to be cost reimbursable with a manage-

ment fee. As a result, North American Coal and its customers share a common goal of minimizing costs. Implementation of North American Coal's strategies allow it to earn a solid margin for its services and to earn, on a regular basis, returns on invested capital substantially in excess of its cost of capital.

North American Coal's core competencies, all of which are critical to supporting its strategy, include outstanding operational and technical mining skills, highly efficient heavy equipment utilization and an outstanding commitment to environmental responsibility and employee safety.



The Coteau Properties Company's Freedom Mine, North American Coal's largest mining operation, uses a variety of heavy duty equipment to remove overburden (dirt) and lignite coal. ■ Top Left: A Bucyrus dragline, among the largest pieces of equipment at the mine, can remove as much as 120 cubic yards of overburden in one bucket. ■ Bottom Left: A Bucyrus shovel loads overburden into a fleet of Caterpillar trucks. ■ Bottom Middle: A Marion shovel removes a bucket of lignite coal. ■ Bottom Right: Both the Bucyrus dragline (background) and Marion shovel (foreground) work in tandem to remove efficiently overburden and lignite coal. ■ Top: A Caterpillar truck hauls away overburden at the Freedom Mine.

Key Programs To Enhance Profitability

Mississippi Lignite Mining Company. Early in 2002, the power plant served by this mine began commercial operation. Although the mine delivered lignite coal at its design capacity of 300,000 tons per month in the fourth quarter of 2002, the mine's profitability and cash flow in 2002 were adversely affected by inefficiencies related to power plant start-up delays. With the mine's start-up now fully under way, North American Coal is aggressively focused on achieving planned profitability at this mine through the application of its extensive mining expertise.

Innovative mining methods. North American Coal continues to be a leader in developing innovative mining methods, which have improved its mining efficiency

and coal recovery, reduced costs, enhanced safety and lessened the environmental impact of mining. These methods include:

- Pioneering the use of Global Positioning Systems (GPS) on mining equipment. GPS reduces the amount of dirt moved, improves efficiencies, lowers costs and reduces the environmental impact of mining. These systems also improve the precision of North American Coal's land reclamation activities.
- Developing specialized non-stick linings applied to the inside of truck beds and buckets on earth-moving equipment to improve efficiencies and lower costs.
- Utilizing Easi-Miners, equipment resembling road resurfacers, to extract thinner seams of coal, thereby improving coal recovery and reducing costs.
- Designing a unique slurry wall dewatering system at Red River Mining Company in Louisiana. This system, derived from drainage systems used to keep basements dry in wet areas, enables workers to mine lignite coal safely in a flood plain.

Environmental commitment. North American Coal is committed to protecting the environment by restoring mined lands to their original or better condition. In 2002, the Department of the Interior's Office of Surface Mining (OSM) recognized the Bellaire Corporation with a 25-year Silver Award for the quality of reclamation activities at its now-closed Indian Head Mine in North Dakota. The OSM cited the Indian Head Mine as an outstanding example of complete restoration of a mine site to productive farmland

and native grassland. The OSM also recognized The Falkirk Mining Company and Red River Mining Company in 2002 for their outstanding environmental achievements.

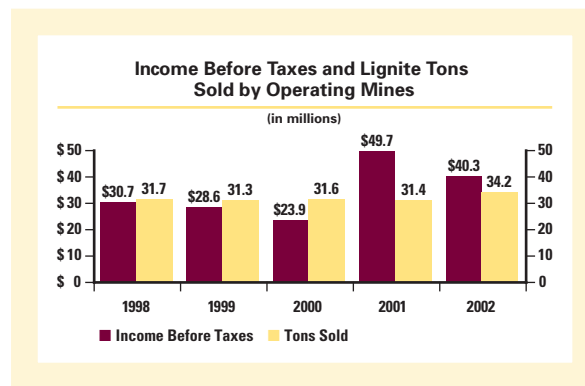
Employee safety.

At North American Coal, employee safety always comes first. Each of its mines

conducts extensive safety training courses annually, and these efforts continue to produce results. Red River Mining Company has worked 13 consecutive years without a lost-time accident. In addition, several of the company's operations, including Red River Mining Company, The Sabine Mining Company, San Miguel Lignite Mining Operations and the Florida Dragline Operations, had no lost-time accidents in 2002. The San Miguel Lignite Mining Operations and The Sabine Mining Company received *Sentinels of Safety* awards in 2002 from the U.S. Department of Labor Mine Safety Health Administration. North American Coal believes that its commitment to safety and strong employee relations improves productivity and employee retention and thereby enhances profitability.

Key Programs For Growth

North American Coal's reputation as a low-cost, highly professional, environmentally responsible provider of mining services benefits the company as it pursues growth opportunities.





Growth objectives include seeking new markets and customers for its own lignite coal reserves, and pursuing opportunities to develop coal reserves controlled by others. The company is optimistic that niche growth opportunities to provide high value-added services for other natural resource mining applications, such as limerock dragline services, will continue to emerge periodically.

Longer term, North American Coal continues to study and encourage new clean coal technologies that reduce power plant emissions. As U.S. energy policy evolves, the company is hopeful that these new technologies will become commercially viable, leading to enhanced opportunities for new coal-fired power generation projects in the United States.

Outlook For 2003 And Beyond

North American Coal's long-term goal is to achieve a minimum 10 percent operating profit target while also achieving growth. However, in the short term, achieving this operating profit target will be challenging. The challenges for the immediate future include:

- As mine development at the Mississippi Lignite Mining Company is completed and operations fully normalize, higher levels of operating cost, including depreciation of mine development costs and other depreciation and amortization, must be expensed. Finally, reaching full operating efficiency following start-up will take time.

- Cost pressures will continue at the San Miguel Lignite Mining Operations. North American Coal has initiatives in place that are expected to address this challenge over the next several years.
- The customer at Red River Mining Company has elected to take only the contractual minimum tons in the immediate future.
- The adoption of a new accounting rule that requires future mine closure costs to be recognized sooner than our previous methodology is expected to reduce future operating results, particularly in 2003, when a one-time cumulative effect charge for adopting this new rule will be incurred.

Nevertheless, in the face of these challenges, the company expects to continue generating returns on capital in excess of the cost of capital and substantial positive cash flow before financing activities.

Finally, on a personal note, I want to thank all North American Coal employees for their hard work and significant contributions to the company's successful record of accomplishment in 2002.



Clifford R. Miercort

Clifford R. Miercort
President and Chief Executive Officer
The North American Coal Corporation

Top: North American Coal is committed to protecting the environment by restoring mine lands to their original or better condition. The Coteau Properties Company's Freedom Mine planted trees to create a shelterbelt on reclaimed land that will protect it from wind erosion and also provide critical wildlife habitat.