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Questioning Market Leaders For Long Term Investors

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COMPANY INTERVIEW

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Natural Resource Partners LP

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Natural Resource Partners LP (NRP)



NICK CARTER is the President and Chief Operating Officer of GP Natural Resource Partners LLC. He has also served as President of the general partner of Western Pocahontas Properties Limited Partnership and New Gauley Coal Corporation since 1990 and as President of the general partner of Great Northern Properties Limited Partnership from 1992 to 1998. Western Pocahontas Properties Limited Partnership, Great Northern

Properties Limited Partnership and New Gauley Coal Corporation are all affiliates of Natural Resource Partners LP. Prior to 1990, Mr. Carter held various positions with MAPCO Coal Corporation and was engaged in the private practice of law. He is Chairman of the National Council of Coal Lessors, a past Chair of the West Virginia Chamber of Commerce and a Board member of both the Kentucky Coal Association and the West Virginia Coal Association.

SECTOR – METALS & MINING

(AHR600) TWST: What is Natural Resource Partners?

Mr. Carter: Natural Resource Partners is a master limited partnership, one of three master limited partnerships engaged in the coal business. We have a rather unique role in that we do not mine coal, don't produce any coal, and don't sell any coal to any of the end users. We are an owner of coal reserves and lease those reserves to the mining companies. They in turn pay us a royalty based upon the gross selling price of the coal with a minimum fixed dollar amount for each ton that's produced. In addition to that, we also own coal infrastructure. We own a lot of surface property and are able to charge wheelage or throughput for that and also have a large sand and gravel operation in Washington State that we purchased 11 months ago. We are really in three separate businesses: coal reserves, coal infrastructure and aggregates.

TWST: Give us an idea of those specific geographies.

Mr. Carter: We have coal in the three major coal producing regions. Our principal region, based upon our history, is Appalachia. We are very unique in that respect in that we own coal in every state in the Appalachian coal chain, all the way from Alabama, north to Pennsylvania and every coal producing state in between. The Appalachian coal is used both within the region and is also exported, mainly to Europe, for use in both the steel making process as well as for generating electricity. Additionally, we have coal in Indiana and Illinois in the Illinois Basin. That's the coal basin that really is experiencing, and we think will continue to experience over the next few years, a fairly rapid growth because it's a high-sulfur coal. It contains thicker coal seams because it was not mined in its normal course during the

1980s and 1990s because of the requirements of the Clean Air Act that caused lower-sulfur coal to be mined. Now, because of scrubbers being installed on power plants, there is a growing demand for high-sulfur coal, because we now have the technological ability to remove the sulfur from the plants and can mine and sell that quality of coal to the utilities that can now burn it in compliance with the Clean Air Act. In the West, we have coal in Montana on a very large surface mine in Colstrip, Montana. Most of the coal that's mined there goes to a power plant that is on site. Our aggregates operation is on Puget Sound. It is operated by a large Japanese cement company. Our business plan there is the same as it is with regard to our coal: we own the reserves, lease them to a mining company and they pay us a royalty. Those aggregates can be shipped by barge around the Puget Sound to the Greater Seattle-Tacoma area.

"We have a five-year history with 18 increases in distributions and 17 straight increases in distributions. We are a company that's made smart acquisitions and then been able to integrate those acquisitions in part because of the way we do due diligence. When performing due diligence we have the people who will be in charge of managing the property actively working on the acquisition team. We've used our revenue streams from those acquisitions to increase distributions. We have a very strong balance sheet to back up the company and the distributions."

TWST: Is there a growth element at this point? Are you actively acquiring? Are you bringing more land into production through these lease and other partnerships?

Mr. Carter: Yes, we have completed 29 acquisitions in the five years that we've been public. We just celebrated our fifth anniversary as a public company on October 11 and have completed acquisitions totaling in excess of \$1.1 bil-

lion. We've doubled the size of the reserves that we owned at the time we went public and we've added the aggregates as a growth platform. We've purchased four coal preparation plants. Additionally we purchased some coal transportation facilities, rail loadouts and coal handling facilities. Our infrastructure business is rapidly growing. We hope to grow the aggregates business as well, and our coal royalty business and coal reserves are continuing to grow.

TWST: What's the financial balance sheet and P&L?

Mr. Carter: Our capital structure is very sound. We have always felt that our target was to get to a 50-50 debt-to-equity ratio. We've reached that only momentarily from time to time as we've done acquisitions, but right now we're at about a 39% debt-to-equity, so we have substantial room to grow. We have been able to quickly and efficiently access the debt markets through private placements, primarily to the insurance industry, and our senior notes have fixed interest rates less than 6%. We are a little different from most MLPs in that we are amortizing all of that debt and paying it off as we mine the reserves. We have a very strong balance sheet, a \$300 million credit facility and the ability to increase the size of that to \$450 million based on pre-approved credit availabilities from the banks that currently participate in that facility. We've increased distributions 17 straight quarters and have significantly grown our income while maintaining a strong balance sheet. We reported third quarter earnings with record revenue in excess of \$56 million, which was up 36% from a year ago.

TWST: What do you consider to be competition? How do you measure yourself?

Mr. Carter: We are the largest company in our space that buys and owns coal properties and

leases them to the mining companies. We have a relationship with 70 different mining companies through 189 leases. We're a very large company. There is one other company that's in our space that is public. There are a number of private companies that have historically, over a period of 100 years or more, owned coal properties. We know all of those companies. We work with them because they own properties adjacent to ours. We've been able to purchase some of those companies and believe that in the future we will continue to be able to purchase additional private companies and further consolidate our space within the coal sector. We have a great management team that is on the ground every day managing our relationship with our lessees and they are able to bring deals to us. The industry is consolidating from a production standpoint and we have been able to play a role in that consolidation also.

TWST: Introduce us to the top-level management team, yourself and two or three of your key individuals, please.

Mr. Carter: We run operations from Huntington, West Virginia. My title is Chief Operating Officer and I've been here at this company for 12 years prior to when the company went public, so for a total now of 17 years. I am a lawyer who went to work in the mining business 25 years ago. I spent eight years with the company that is now Alliance Resources, a coal master limited partnership, but then came over here to the private company that preceded NRP in 1990, and have been here ever since. I've worked within the industry and serve on the Board of the Kentucky Coal Association, West Virginia's Coal Association and am now in my fourth year as Chairman of the National Council of Coal Lessors.

My right arm here is Kevin Wall, who is our Vice President and Chief Engineer. He is a Virginia

Tech grad and has been involved with this company for longer than I've been here, I think, about 27 years. He is very knowledgeable of all of our properties, and manages all of the people who really are the core of our management team: the guys who we call regional managers who are in the field, managing our relationship with the lessees, doing mine inspections, making sure that the terms of the lease are being complied with, negotiating amendments to the lease, and in many instances working on due diligence for acquisitions. We also have three regional managers who run shops in London and Hazard, Kentucky and in Logan, West Virginia where we manage some of our properties because of the remote nature of those properties. In addition, we have Kevin Craig here, who is our Vice President of Business Development. He is in charge of our acquisition program. He and an analyst who works for him are really the only two people who work full time on acquisitions. The rest of our due diligence team is made up of the operations people, those regional managers who I talked about. In Houston is Corby Robertson Jr., our Chairman and CEO, Kathy Hager, our Vice President of Investor Relations, Dwight Dunlap, our Chief Financial Officer, and Wyatt Hogan, our General Counsel. They all work in our Houston headquarters.

TWST: What historically has been the shareholder base with the company? Has that base undergone any recent changes?

Mr. Carter: It has changed a lot over the last two years. When we first went public, most of our owners were retail or individual owners who bought, and, in large part, held our units. We've noticed a transition over the last couple of years. Really, in 2006, we began to notice a larger and larger percentage of our units were being held by institutions. Now, approximately 20% of our units are held by institutions, up from approximately 5% when we went public. There were some changes in

the tax laws that allow them to now invest in MLPs. In addition, approximately 34% is held by retail investors and approximately 46% is held by insiders.

TWST: In your discussions with the investment community, are there any recurring questions or misperceptions? Is the Natural Resource Partners story understood?

Mr. Carter: I think it's pretty well understood now. We have certainly made an effort over the last five years to spend a lot of time with the investors, especially the larger investors. I think there is a concern among a lot of our investors with regard to some of the macro political issues relating to global warming and some of those issues that impact the end users of our coal, the electric utility industry, and what's going to happen on that aspect of it. As far as the industry is concerned, I think most people in the larger cities, where a lot of these institutions are headquartered, if they don't know a lot about the coal industry, they are always surprised that 50% of the electricity in the country is generated by coal-fired power plants. They are surprised at the volume of tonnage that is mined in this country, which is over 1.1 billion tons of coal mined every year. They are really surprised at what a global commodity it is, with a lot of production in China, Colombia, South Africa and Australia. The worldwide movement of those coal products is a surprise to a lot of people. I think people are becoming more aware of all of the impact that the coal industry has on their lives.

TWST: As investors track and access your performance, what are the key metrics and events they should focus on? What should matter to the investor? What matters to you?

Mr. Carter: To us, cash is king and we measure cash as distributable cash flow, which is the metric that, we believe, should be most important to

anyone who is investing in a master limited partnership. That's a metric that determines whether or not we have the ability to continue to increase distributions as we have done historically. That's the first number I'll look at when I am looking at our financial statements and trying to determine whether or not we're doing a good job. One of the things that investors should focus on with regard to NRP when looking at a potential investment is the tax attributes that they are going to receive from having an investment in us. A partnership doesn't pay income tax, but it passes through all of the tax liability and the tax attributes to the unitholders. We are able to currently defer a substantial amount of our taxable income through depletion. Additionally, coal royalty revenue, which constitutes the major portion of our entire revenue stream, is taxed under the federal tax code at the capital gains rate. That means that most of what revenue is taxable to the unitholders is taxed at the lower, long-term capital gains rate. When they look at how many dollars they get to keep in their pocket from this investment at the end of the year, I think they'll determine that NRP is very attractive. We believe distributable cash flow is the primary number that investors should be looking at and in our most recent earnings report, that number was up 10% over the third quarter of 2006. We reached \$34 million in distributable cash flow for this last quarter.

TWST: What's the agenda or the priorities for the next 12 to 18 months? What would make that time frame a success?

Mr. Carter: We need to keep doing what we've been doing! We need to always keep our eye on the ball and actively manage the properties that we already have. We need to generate a strong revenue stream from those properties first and foremost. We will be in the field actively managing those, making sure that the mine plans, which we have the right to approve, maximize the use of our

resource. Additionally, we also have the right to audit our lessees. We audit the royalty payments to insure that we are paid the correct amount of royalty. While doing that, we are also building a relationship with our lessees because we found that most of our acquisition leads come from our current lessees. Either they want to expand their business or they know somebody that is, and may refer them to us. We are always in a relationship building mode with our lessees. The second thing that we need to do as a growing company is to continue to focus on acquisitions and we work everyday on acquisitions. We've had a very strong deal flow and continue to have a strong deal flow and anticipate that the coal industry consolidation that we think will occur will afford us the opportunity to do a substantial number of deals over the next few years. We need to be geared up and prepared to do that, for every aspect of our business.

TWST: What today compels investors to include NRP as part of their current portfolios and longer-term investment strategies?

Mr. Carter: We have a five-year history with 18 increases in distributions and 17 straight increases in distributions. When we talk to investors and they want to know what to expect from us in the future, we tell them to look at the past and

that's probably the best indication of what they can expect from us in the future. What they'll see when they do that is that we are a company that's made smart acquisitions and then been able to integrate those acquisitions in part because of the way we do due diligence. When performing due diligence we have the people who will be in charge of managing the property actively working on the acquisition team. We've used our revenue streams from those acquisitions to increase distributions. We have a very strong balance sheet to back up the company and the distributions. Additionally, as I just mentioned, I think they need to look at the after-tax returns that they are going to achieve. Those are the key points that we try to stress when we are out meeting with investors.

TWST: Thank you. (DWA)

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