

# STILLWATER MINING COMPANY

TWO THOUSAND-ONE • ANNUAL REPORT

## CORPORATE PROFILE

**Stillwater Mining Company (NYSE: SWC) produces palladium and platinum, precious metals used in jewelry, electronic and dental applications, and essentials in automotive catalysts to convert otherwise harmful air pollutants into harmless emissions. The Company is the only producer of palladium and platinum in the United States. Its mining operations are in south central Montana where the Company operates two mines along the J-M Reef, the world's richest known deposit of platinum group metals (PGMs).**



## NEW YORK STOCK EXCHANGE LISTING

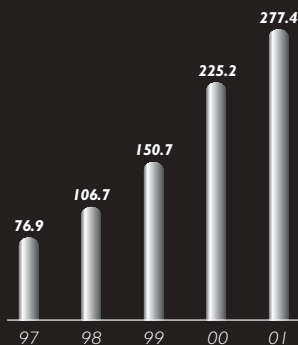
The Company moved its stock listing to the New York Stock Exchange from the American Stock Exchange, effective Tuesday, June 26, 2001. The move to the NYSE provides increased liquidity to existing shareholders and helps introduce those in the investment community, not yet Stillwater shareholders, to one of the mining industries most unique precious metal companies. The NYSE's global focus also provides Stillwater the opportunity to broaden its investor base and further enhance its visibility in the United States as well as international markets.

*Private Securities Litigation Reform Act of 1995. Some statements contained in this annual report are forward-looking and involve uncertainties or risks that could cause actual results to differ materially. Such statements include comments regarding expansion plans, timing of production goals, development of reserves, future production, costs, grade, recovery rates, potential mine life, permitting and palladium and platinum markets. Factors that could cause actual results to differ materially include supply and demand of palladium and platinum, unexpected events during expansion, results of independent engineering studies, fluctuations in ore grade, tons mined, crushed or milled, variations in smelter or refinery operation, amounts and prices of the Company's forward metals sales and geological, technical, permitting, mining or processing issues. These and other factors are discussed in the Company's 10-K report. Descriptions of palladium and platinum markets are not intended to be complete, and readers are advised to obtain their own information on these markets. The Company disclaims any obligations to update forward-looking statements.*

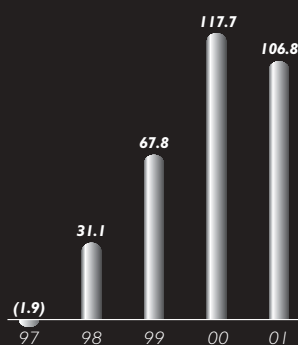
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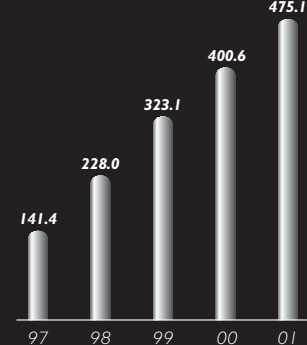
REVENUE (\$MM)



OPERATING CASH FLOW (\$MM)



SHAREHOLDERS' EQUITY (\$MM)



## FINANCIAL HIGHLIGHTS

(\$ in millions, except share, production, production costs and metal price data) **December 31,** **2001** **2000** **% Change**

### FINANCIAL

Revenues	\$ 277.4	\$ 225.2	+23
Operating income	\$ 84.2	\$ 94.0	-10
Net income	\$ 65.8	\$ 61.5	+7
Net income per share			
Basic earnings per share	\$ 1.70	\$ 1.60	+6
Diluted earnings per share	\$ 1.68	\$ 1.57	+7
Operating cash flow	\$ 106.8	\$ 117.7	-9
Shareholders' Equity	\$ 475.1	\$ 400.6	+19
Weighted average common shares outstanding (millions)			
Basic	38.7	38.5	+0.5
Diluted	39.2	39.3	-0.1

### PALLADIUM & PLATINUM PRODUCTION (ounces)

Stillwater Mine	504,000	430,000	+17
East Boulder Mine (development)	22,000	0	—
Total	526,000	430,000	+22

### OPERATIONS

<i>Stillwater Mine</i>			
Ore tons mined	825,000	684,000	+21
Total tons milled (includes sub-grade)	912,000	756,000	+21
Combined mill head grade (ounce per ton)	0.62	0.64	-3
Mill recovery	90%	91%	-1

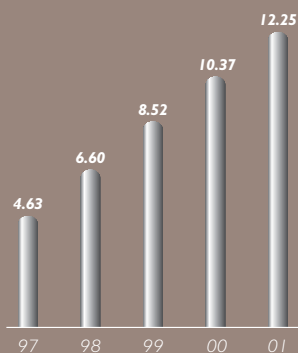
### PRODUCTION COSTS (per ounce)

<i>Stillwater Mine</i>			
Total cash costs	\$ 264	\$ 264	—
Depreciation & amortization	47	41	+15
Total production costs	\$ 311	\$ 305	+2

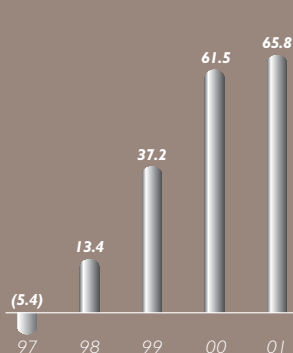
### METALS PRICES

Average realized price per palladium ounce	\$ 570	\$ 560	+2
Average realized price per platinum ounce	\$ 498	\$ 481	+4
Combined average realized price ounce	\$ 554	\$ 541	+2
Average market price per palladium ounce	\$ 604	\$ 680	-11
Average market price per platinum ounce	\$ 529	\$ 544	-3
Combined average market price per ounce	\$ 586	\$ 649	-10

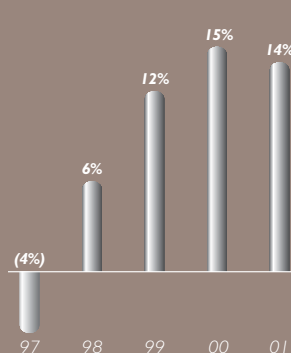
BOOK VALUE PER SHARE\* (\$) **2001**



NET INCOME (\$MM) **2001**



RETURN ON SHAREHOLDERS' EQUITY (%) **2001**



\*Adjusted for the 3-for-2 stock split effected on December 31, 1998

## LETTER TO THE *SHAREHOLDERS*

### **TO OUR SHAREHOLDERS:**

To say that extreme price volatility was experienced in the palladium and, to a lesser degree, the platinum markets during 2001 would be an understatement. Palladium peaked at \$1,090 per ounce in January; an all time high, fell to \$315 in October, ended the year at \$440 and averaged \$604. Platinum peaked at \$640 per ounce in January, fell to \$415 in November, ended the year at \$477 and averaged \$529. The greater volatility for palladium particularly affects Stillwater, as it produces about three times as much palladium as it does platinum.

Contributing to the high price of palladium had been speculation of potential shortages of the metal in late 2000 and early 2001. Then, as a result of the high price, it was reported that auto companies were shifting back to platinum or otherwise thrifting down their use of palladium, electronic customers were substituting base metals, and the dental market was using more gold. These actions did occur in 2001, but to what extent is difficult to determine due to the occurrence of two additional factors. First, the deterioration of palladium and platinum prices as the economy softened in mid-year, and then the collapse in the palladium price that followed the terrorist attacks in September. However, a recovery in the price of palladium and narrowing of the price gap between it and platinum by year-end, suggested less substitution or stronger continuing demand than reported and a greater correlation between palladium and platinum prices than market pundits would admit. In fact the substitutability between the two metals specifically for autocatalysts, begs the argument that the two metals should trade in closer proximity.

Early in 2001, the Company renegotiated and extended existing long-term sales contracts with its customers, and entered into several hedging contracts in an effort to

protect itself in the event of a fall in prices. Stillwater continued with its expansion plans until late September, when it became obvious that the contracts and hedges were insufficient to protect the Company's expansion plan from the effect of the collapse in the price of palladium. At that time it was concluded that the Company would require either additional funding or a revision to its expansion spending plans. Which, or if both, would be required was not yet known at that time.

The Company retained financial advisors to assist in assessing strategic alternatives and the Board established a Special Committee consisting of three outside directors, Messrs. Gilbert, James and Kearney, to work with management and the financial advisors on the various alternatives to be pursued.

Stillwater invited a number of companies to propose strategic investments or transactions in an effort to enhance shareholder value. At the same time Stillwater management considered revisions to optimize expansion and operating plans. The Stillwater Mine was producing at about 2,500 tons of ore per day, on its way to 3,000 tons. East Boulder Mine development had proceeded to the point that commercial production could begin ramping up to 2,000 tons per day during 2002. Furthermore, the Columbus Metallurgical Complex was finalizing installation of the remaining equipment to process the expanded mine output.

In early November the Company announced a revised operating plan which would pause further expansion for the time being. With demand and pricing for expanded output uncertain, production at the Stillwater Mine would be held at its then achieved production level of 2,500 tons of ore per day. The East Boulder Mine would be put into production with Company crews at 1,000 tons of ore per day, 50

percent of its original design rate. The plan would require amendments to bank loan covenants to bring them in line with the revised operating plan and the Company indicated it would seek \$50 million to \$75 million of additional equity financing to reduce dependence on the Company's revolving credit facility.

The revised operating plan was put into effect in November. The Stillwater Mine produced 504,000 ounces of palladium and platinum (PGMs) as projected for 2001, a great achievement, up from the 430,000 ounces produced in 2000, and is projected to produce 590,000 ounces of PGMs in 2002. The East Boulder Mine completed its 2,000 ton per operating day plan in late October. Then, as indicated above because of the dramatic decrease in metal prices in October, the Company reevaluated its production goals, demobilized all of the contractor crews and set about to complete infrastructure construction to accommodate production at 1,000 tons a day by mid-year 2002. East Boulder recovered 22,000 ounces of PGMs from construction and development activities in 2001, is expected to achieve the 1,000-ton per day production rate by the start of the third quarter of 2002 and produce 150,000 ounces of PGMs for the year. Thus, both mines together are projected to produce 740,000 ounces of PGMs in 2002.

In early December the Company's financing agreement was amended to be consistent with the revised business plan. After a careful review of all available options for an equity placement, the Company announced it had raised \$60 million through a private placement of 4.3 million common shares to a number of funds at \$14.00 per share during the first quarter of 2002. The additional capital strengthens the Company's finances. Other mining industry participants met with the Company and reviewed its operations. The

Company was approached about joint venturing the remaining mine development at East Boulder but concluded that this would eliminate important upside potential for the Company and its shareholders. The Company continues to work on strategic planning but has nothing further to report on at this time. The economy, financial markets, and palladium price complicate and slow the process, while the recent equity offering should allow for a more deliberate approach, the Company remains open to considering a strategic transaction which benefits all shareholders. The Company is also sharply focused on reducing operating and capital costs, meeting its revised operating plan and increasing productivity.

In the process of making these changes management has been careful to preserve the Company's significant operational production upside. Judging by the Company's revised 2001 proven and probable ore reserve base, which is the result of development drilling at both mines, ore reserve life exceeds 28 years even at the ultimate production objective of 1 million ounces of PGMs per year. Overall, the revised ore reserve is lower grade but the ounces of PGMs have increased. At East Boulder the ore reserve is lower grade as compared to 2000, but the contained ounces of PGMs have increased as a result of greater continuity. Greater continuity meaning that, while the ounces of PGMs per ton are lower the number of contained ounces is actually higher as a product of more ore tons per foot of mine development.

All in all the above actions constitute a remarkably adroit effort for your Company to have so rapidly adjusted operating plans in the midst of a major expansion in response to changing economic circumstances. Importantly, the somewhat abrupt change in plans was implemented with minimum disruption throughout the Company, in particular at the East Boulder Mine where contractor construction crews were demobilized in days.



Director and management changes made subsequent to last year's annual meeting include the addition of Stephen Kearney, former CEO at Impala Platinum in South Africa as a director, and the retirement of Harry Smith as the Company's President and COO. As Harry will not be replaced immediately, Steve Kearney has agreed to act in the capacity of a management specialist to assist Company management in its efforts to increase productivity and decrease costs. In addition, two of our directors, Ted Schwinden and Doug Donald retired at the conclusion of last year's annual meeting. They are replaced by Malcolm MacNaught and Joseph Mazurek both of whom are well suited to advise the Company during the upcoming years. We wish Harry, Ted and Doug the best in their retirement and are delighted that Steve, Malcolm and Joe have agreed to join us at Stillwater in their new capacities.

One last note of importance; "Safety First – Production Will Follow" is the first of ten values Stillwater's employees practice. Yet during 2001 the Company experienced three fatalities, a stunning blow to all of us and to the communities in which we live, the effects of which live with us daily. Despite these losses, or perhaps as a contributing factor, our safety record for 2001 actually improved 30 percent over 2000. While a seeming contradiction in reporting, the

improvement was real. Safety practices and initiatives in place or underway as the year 2001 began, were expanded upon during the year with a safety system focused on loss control becoming the backbone of these initiatives. However, in the end, key to a safe workplace is the sincerity with which each employee approaches living the value; Safety First – Production Will Follow.

Recognizing the East Boulder Mine's approaching commissioning, its employees are featured at work ramping up production in the collage of pictures on the following pages of the annual report. Also shown is headquarters based employee Shauna Lee Geigle, who helped carry the 2002 Olympic torch as it passed through our communities on its way to Salt Lake City.

We appreciate the continued support of our shareholders and other stakeholders essential to our success – our employees, our neighbors and the communities in which we operate and our business partners.

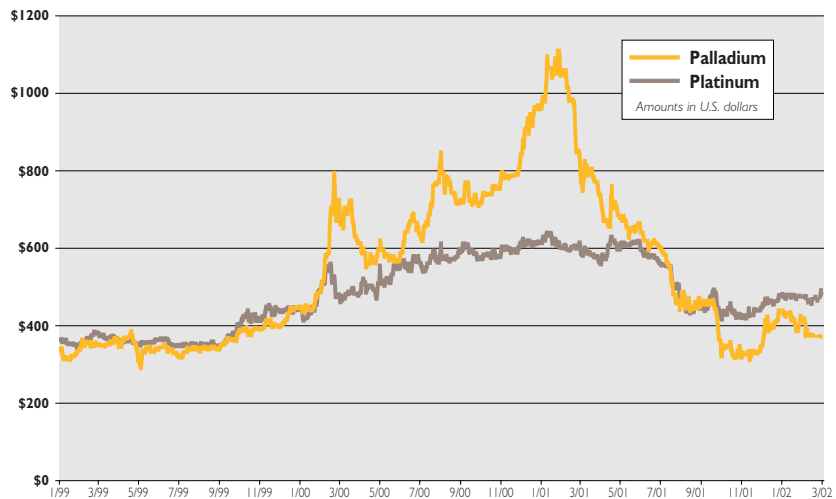
Frank McAllister  
Chairman and Chief Executive Officer  
February 11, 2002



Courtesy of Johnson Matthey – catalytic converter

Platinum group metal prices during 2001 reached a record high in the case of palladium and a 12-year high in the case of platinum.

Both palladium and platinum experienced swings caused by relative scarcities and excesses of spot market metal. This led to extremely thin and illiquid trading conditions as traditional trading houses backed away from the market because of the uncertainty that existed in supply and demand. Palladium traded as high as \$1,090 per ounce and as low as \$315 per ounce, a \$775 per ounce spread between the high and low, and averaged \$604 per ounce for the year. Platinum traded as high as \$640 per ounce and as low as \$415 per ounce, and averaged \$529 per ounce for the year.



the year proceeded, the onset of the global economic slowdown, culminating with the terrorist acts upon the United States in September, caused the sharp price drop as holders of the metal sold into the thin market.

During the year it became clear that Russia took advantage of the price spike early in the year by delivering nearly 2.5 million ounces into Zurich

in the first quarter. Then, in an attempt to minimize the effect of that action, entities that control the Russian palladium supplies and sales, Ghokran, the Central Bank, Almaz and Norilsk Nickel, made announcements supportive of the market. The announcements suggested a centralized sales policy was being put in place, that Russian stockpiles of palladium were sufficient but would not be

Courtesy of Johnson Matthey - platinum



Courtesy of Johnson Matthey - platinum bars and beads

“dumped” onto the market, and that the excessive downward price movement was not acceptable. No new Russian supplies were delivered during the last months of 2001 when the price was near its lows. In addition, Norilsk’s proposal to increase the production and recovery of PGMs announced early in the year when prices were high, was no longer mentioned.

Overall supply of palladium from all sources decreased 3.5 percent to 7.5 million ounces in 2001 according to the latest Johnson Matthey PGM market analysis. Russia is reported to have supplied 4.6 million ounces of the total, 3.0 million ounces from current production and 1.6 million ounces from inventories. South African producers supplied 2.0 million ounces and the remainder came from North American suppliers.

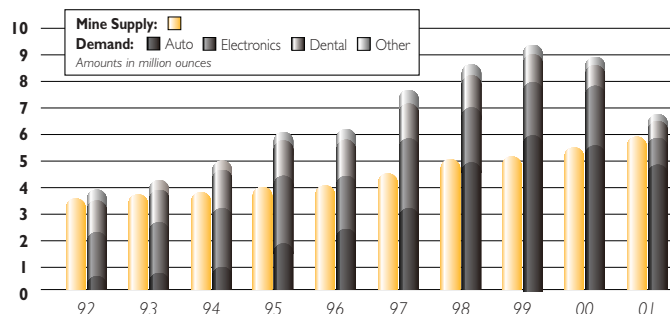
Overall demand for palladium fell approximately 24 percent to 6.8 million ounces in 2001, according to Johnson Matthey. The automotive market consumed 4.8 million new

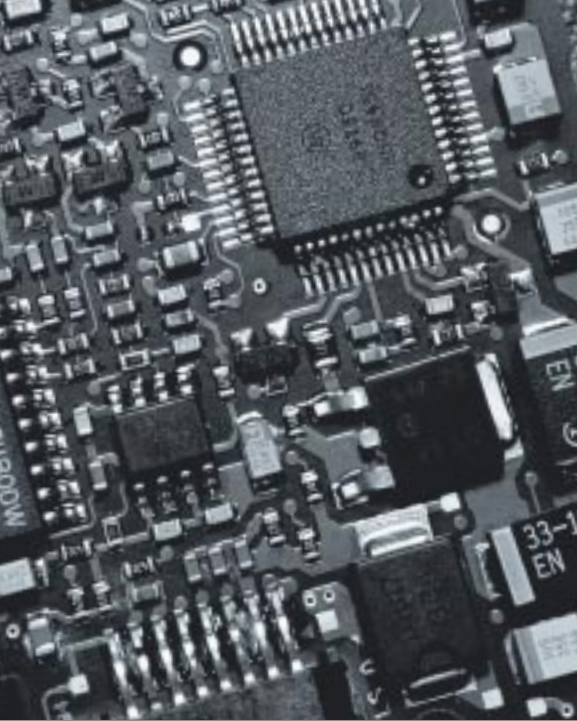
ounces, down 14.2 percent as it thrifted out unnecessary loadings and used metal from inventories to meet demand requirements. Substitution, along with the slowing economy, reduced electronics demand by 51 percent. The dental market substituted gold for palladium in many applications. Unfortunately, Russia’s actions created uncertainties in supply, higher prices and price volatility – actions that discourage long-term consumer commitments to palladium. Thus, in 2001 the industry saw reduced demand in its three largest markets – auto, electronics and dental.

Finally, the U.S. government announced that it would sell up to 600,000 ounces of palladium starting October 1, 2001, a quantity equal to more than one month’s supply of newly mined metal, or an 11 percent increase in supply based upon newly mined metal.

Importantly, after sorting through the 2001 inventory movements, it turns out that demand continued to exceed new mine supply for the ninth year in a row; with reported demand at 6.8 million ounces and reported new mine supply at 5.9 million ounces. Further, reported

### PALLADIUM MINE SUPPLY & DEMAND





Courtesy of Johnson Matthey – electronic circuit board

substitution to platinum, consumption of palladium will remain close to current levels. As large quantities of in-house palladium inventories were consumed in 2001 by both the auto and electronics industries, demand could increase as early as 2002 as fresh purchases of metal occur in those markets. Further, the much-touted switch back to platinum from palladium was driven by palladium's higher price. With palladium now a bargain compared to platinum the switching is expected to slow and in time to reverse itself maintaining the two metals to closer price proximity.

seven years; plans that are in line with the expected growth in demand.

Jewelry is the largest market for platinum. The popularity of platinum jewelry continued to increase in China where demand rose a remarkable 18 percent reaching 1.3 million ounces in 2001. While the surge puts China ahead of Japan as the world's largest market for platinum jewelry, it was insufficient to offset a large drop in Japanese and lesser drops in North American and European demand. As a result overall jewelry consumption declined 11 percent to approximately 2.5 million ounces.

demand reflects a draw down of inventories by the auto and electronic companies, just as it had in past years included purchases added to inventory. However, the apparent draw down for consumption of the above ground palladium inventories, held mostly by Russia, since 1992 is estimated to exceed 21 million ounces or 32 percent of all palladium demand during that time period.

Thus, the most critical issues for palladium continue to be not only the rate at which substitution occurs compared to newly mined material but also the rate at which the above ground inventories are being depleted. Any attempt to determine the rate of depletion must include inventories held by Russia, by auto and electronic companies, by the U.S. Government and by market speculators.

With the above ground inventories nearing exhaustion, the outlook for palladium continues to show strong long-term market fundamentals. Increasingly tighter automotive and truck emission standards scheduled for North America and Europe will increase autocatalyst demand for palladium such that, even with some

### PLATINUM

Although South African producers dominate platinum production, its price movement is influenced by demand and by the swing supplier – Russia. According to Johnson Matthey, South Africa supplied approximately 73 per cent or 4 million ounces of newly mined platinum during 2001. While Russia supplied a majority of the 1 million-ounce balance, the timing and magnitude of their sales had a significant effect on the price.

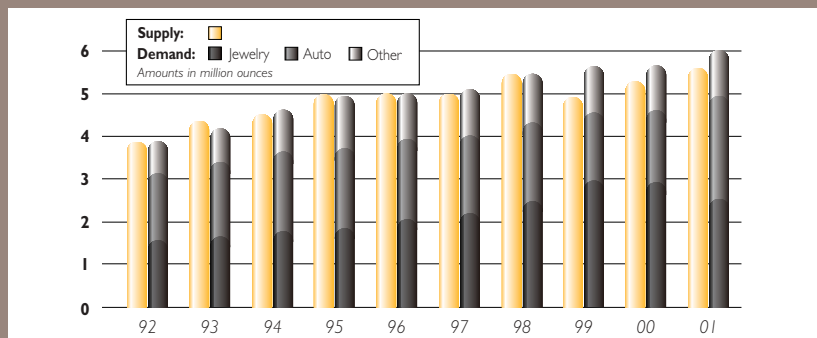
In 2001, demand for platinum increased by 5 percent to 5.9 million ounces while supply increased 5 percent as well, to 5.6 million ounces.

During 2001, South African producers announced aggressive plans to increase production over the next

Demand grew 25 percent in autocatalyst, the second largest market for platinum. This surge in demand included increased use of platinum for the European diesel engine catalyst market and the early in the year price induced substitution of platinum for palladium in autocatalysts.

The outlook for platinum shows a balanced growth between supply and demand. Growth is expected to continue in jewelry, especially in the Chinese markets. A further switching back to platinum autocatalysts for gasoline vehicles in North America and Europe, increased emission standards for diesel engines in North America and Europe, and the ultimate use of platinum for fuel cell technology, are all promising future markets.

### PLATINUM SUPPLY & DEMAND



## ORE RESERVES



Stillwater Mining Company's ore reserve is found in the J-M Reef, a 28-mile long, world-class orebody in the Beartooth Mountain Range in south central Montana.

During the fourth quarter of 2001, the Company received new patents on 126 mining claims covering 2,126 acres along the surface trend of the J-M Reef. At year-end 2001, patents had been issued for all submitted applications involving the claims owned directly by the Company. The reserve and resources of the J-M Reef are owned or controlled in their entirety by the Company. As of December 31, 2001, Stillwater Mining Company had total proven and probable reserves of 45 million tons at a grade of 0.61 ounce per ton, containing 28 million ounces of palladium and platinum at a 3.5:1 ratio. The total reserve represents an increase of 10 million tons or 28 percent, a decrease in reserve grade of 0.10 ounce per ton, or 14 percent,

and an increase of 2.4 million contained ounces of PGMs, or 10 percent, over that reported for the year 2000. During the year more than 616,000 feet of reserve definition drilling was completed, 475,000 feet at the Stillwater Mine and 141,000 feet at the East Boulder Mine.

At the Stillwater Mine near Nye, Montana, proven and probable reserves total 23.8 million tons at a grade of 0.68 ounce per ton, containing 16 million ounces of palladium and platinum at a 3.3 to 1 ratio.

At the nearby East Boulder Mine south of Big Timber, Montana, proven and probable reserves total 21.7 million tons at a grade of

0.53 ounce per ton, containing 11.6 million ounces of palladium and platinum at a 3.7 to 1 ratio. The reduction in reserve ore grade is consistent with early drill results reported for the East Boulder Mine for the year 2001. The consistency of the proven ore per foot of footwall lateral at East Boulder is 100 tons at a level spacing of 215 feet and continues to exceed that experienced to-date at the Stillwater Mine of 60 tons per foot of footwall at a level spacing of 300 feet.

At East Boulder approximately 64 percent of the J-M reef material will report to the mill, compared to approximately 43 percent at the Stillwater Mine.



## 2002 Outlook

In 2002, the Company expects underground drilling and development to replace production from the proven reserves. Currently, total proven and probable ore reserves equate to over 35 years of production from both mines, with the Stillwater Mine maintaining mine production at a rate of 2,500 ore tons per day and the East Boulder Mine producing at a mine production rate of 1,000 ore tons per day. East Boulder is expected to reach this initial mining rate when it is fully operational in July 2002. At the Company's ultimate production objective of 1 million ounces of PGMs per year, total proven and probable ore reserve life would exceed 28 years.

## PROVEN AND PROBABLE RESERVES\*

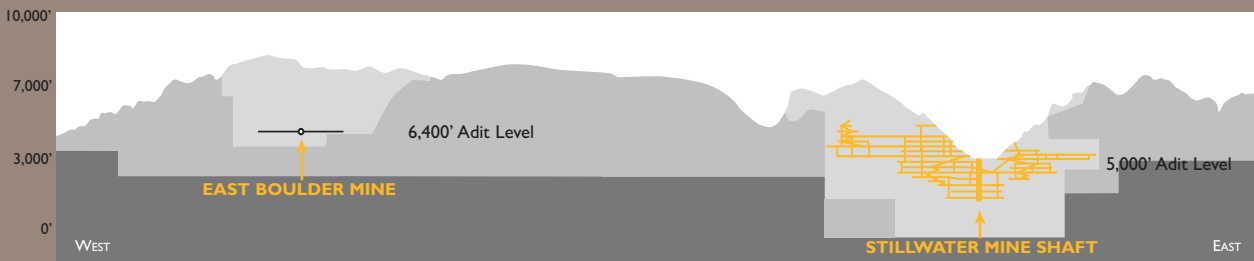
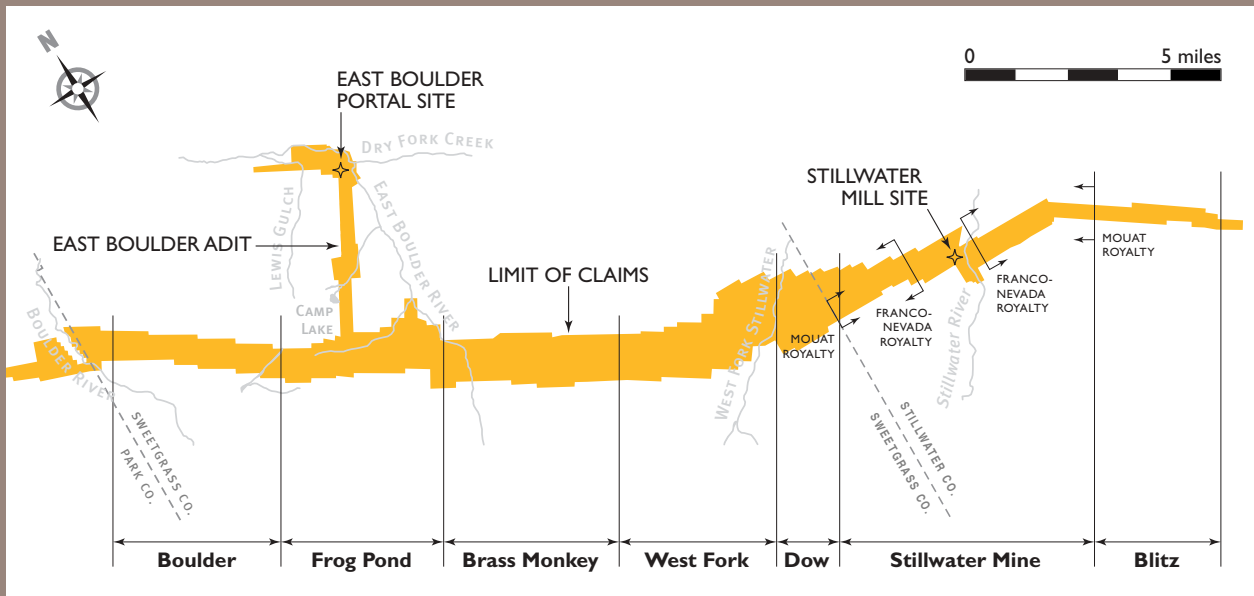
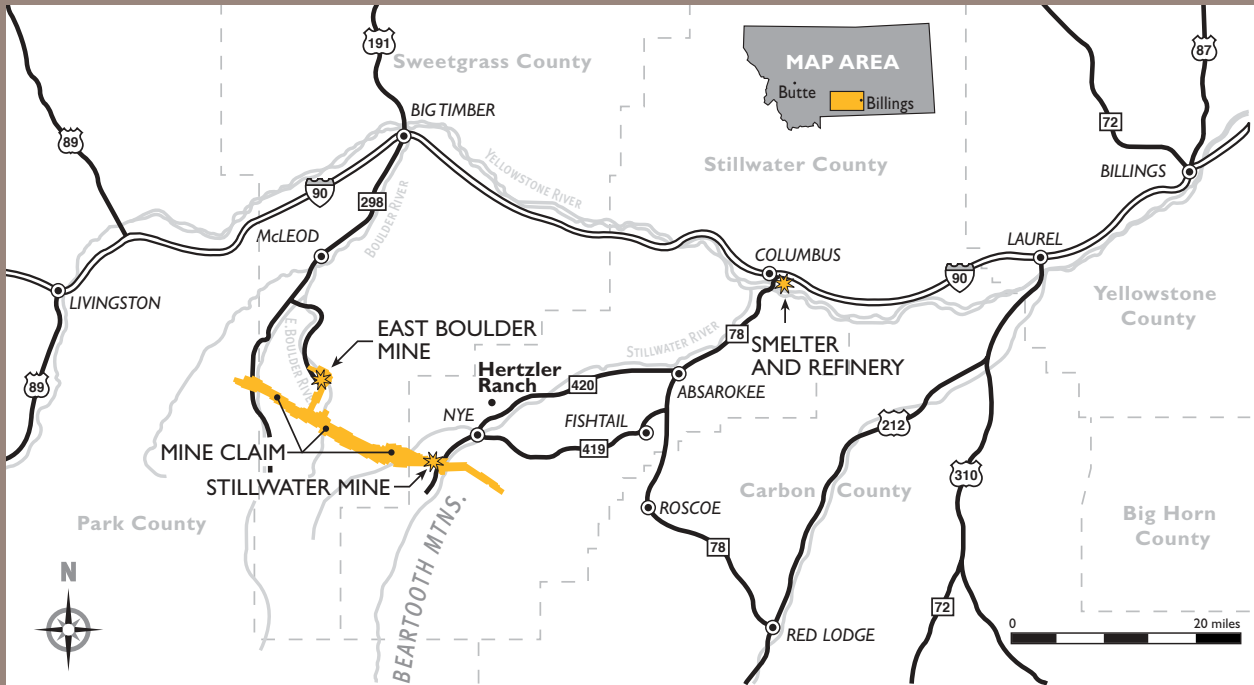
<i>December 31, 2001</i>	<b>Tons (000)</b>	<b>Oz/Ton Pd + Pt</b>	<b>Ounces (000)</b>
<b>Stillwater Mine</b>			
Proven Mining Reserve	2,779	0.71	1,983
Probable Mining Reserve	20,986	0.67	14,155
Total Stillwater Mine	23,765	0.68	16,138
<b>East Boulder Mine</b>			
Proven Mining Reserve	529	0.48	252
Probable Mining Reserve	21,181	0.53	11,301
Total East Boulder Mine	21,710	0.53	11,553
<b>Total Proven and Probable</b>	<b>45,475</b>	<b>0.61</b>	<b>27,691</b>

\*Based on a combined Palladium and Platinum price of \$305 per ounce.

## MINERALIZED J-M REEF MATERIAL

<i>December 31, 2001</i>	<b>Tons (000)</b>	<b>Oz/Ton Pd + Pt</b>
<b>Stillwater Mine</b>		
Mineralized J-M Reef Material	53,600	0.64
<b>East Boulder Mine</b>		
Mineralized J-M Reef Material	66,700	0.49
<b>Total Mineralized J-M Reef Material</b>	<b>120,300</b>	<b>0.56</b>

Mineralized Material — A mineralized body which has been delineated by appropriately spaced drilling and/or underground sampling to support a sufficient tonnage and average grade of metals. Such a deposit does not qualify as a reserve until a comprehensive evaluation based upon unit cost, grade, recoveries, and other material factors conclude legal and economic feasibility.



J-M Reef and mines – looking north through the Beartooth Mountains

- Proven and probable reserves
- Mineral resource inventory

## METAL PRODUCTION



The Company revised its operating plan in the fourth quarter of 2001 by pausing its expansion plans at the Stillwater Mine and completing construction at East Boulder for operations at 50 percent of the mine's ultimate 2,000 tons of ore per day design rate.

### **EXPANSION AND OPERATING PLANS REVISED IN LATE 2001**

The change in plans followed the palladium price collapse that occurred shortly after the terrorist attacks of September 11th. The fall in price sharply reduced cash flow from operations, which was an important source of financing for the Company's expansion program. Thus, following the drop in price, the Company acted to reduce capital spending.

Under the revised operating plan, combined PGM production for the Stillwater and East Boulder Mines will be 740,000 ounces in 2002, 730,000 ounces in 2003 and 730,000 ounces in 2004. Production under the original expansion plan was expected to have reached a rate of 1 million ounces during 2003. The Company will consider resuming its expansion under the right PGM price and economic circumstances.

Combined cash operating costs before royalties and taxes are expected to be \$214 per ounce in 2002, \$216 per ounce in 2003 and \$213 per ounce in 2004. Royalties and taxes at current metal prices are expected to add an additional \$25 per ounce in 2002 and \$28 per ounce in both 2003 and 2004. Combined capital required to sustain production is estimated at approximately \$80 million for 2002, \$60 million for 2003 and \$60 million for 2004.



### STILLWATER MINE OPERATIONS

The Stillwater Mine successfully met its 2001 production plan of 500,000 ounces of PGMs. During the fourth quarter of 2001, the mine achieved record PGM production of 134,000 ounces, which allowed it to meet its goal for the year. During the quarter the mine successfully operated at record 2,700 tons of ore per day, which should continue into the first

half of 2002. For the year, the mine operated at an average rate of 2,500 ore tons per day up from an average of 2,100 tons of ore per day at the beginning of 2001. Under the revised operating plan, expansion to the previously planned 3,000 ton per day mining rate has been deferred and the mine will hold its average annual mining rate at approximately 2,500 tons of ore per day for the time being.

Infrastructure improvements completed in 2001 facilitated the increased mining rate. Ore and waste passes were added and expanded. The 5,000-level main haulage railroad was improved. Redundant back-up lines were added to the paste plant distribution system. Mill capacity was increased by installing a cone crusher ahead of the sag mill. Mine ventilation and mine services improvements progressed as planned. Mine dewatering and service water supply systems were improved.



The underhand mining method was successfully tested during 2001 and incorporated into the mine's long-term plans. Ground water encountered in the west end of the mine late in 2000 was successfully controlled and production and development goals were achieved by year-end.



### **Production and Overall Operations**

The Stillwater Mine produced 504,000 ounces of palladium and platinum during 2001, a 17 percent increase over the 430,000 ounces produced in 2000 and a 23 percent increase over the 409,000 ounces produced in 1999.

Mine dilution decreased four percent, the result of improved planning and increased attention from the underground crews. Total production and development tons mined increased nine percent to 1.96 million tons compared to 1.8 million tons in 2000.

The mill processed a total of 912,000 tons of ore and sub-grade material in 2001 with a mill head grade of 0.62 ounce per ton, a 20.6 percent increase over the 756,000 tons processed in 2000, at a head grade of 0.64 ounce per ton. The mill recovery rate was 90.2 percent in 2001 slightly lower than the previous year as a result of processing substantially more sub-grade material.

During 2001, total cash costs per ounce were \$264, the same as in 2000. Efficiencies achieved through increased production levels and lower royalties and taxes associated with the lower metal prices were offset by lower byproduct credits.

Development goals continued to be met during 2001 with 64,000 feet of development and 514,000 feet of total diamond drilling completed during the year. As a result proven reserves were increased slightly to 2.8 million tons replacing production during the year.

The Stillwater Mine MSHA (Mine Safety and Health Administration) reportable incident rate improved 38 percent to a 9.33 rate in 2001, from a 15.15 rate in 2000 and a 19.02 rate in 1999. The improvement is a result of employee involvement in safety stand-downs and workplace inspections, as well as safety system improvements. Though these efforts resulted in improved reportable injury incidence rate,

the Stillwater Mine suffered three fatalities, two involving Company employees and one involving an independent contractor's employee during the year. Thus, the recognition and elimination of all potentials for workplace fatalities is a highest priority at Stillwater Mining Company.

Total site manpower at the Stillwater Mine is 1,122 employees as compared with 963 at the end of 2000.

### **2002 Outlook**

Improvements in safety, planning, mine infrastructure, ore reserves, development, production, and costs are key focus for operations management during 2002. Planning, both short and long-term continues. Organizational development focused on employee involvement in developing and implementing systems for improved safety, production, and costs are major initiatives for 2002.



The near-term development and production focus at the Stillwater Mine is laterally into the lower grade ores from the upper west area of the mine. The aggressive development program initiated in late 1999 successfully positioned the mine for this move going forward. Capital expenditures for the next few years will be at a reduced rate as the infrastructure costs associated with expanding horizontally are lower. Production costs per ton of ore and per ounce of PGMs are expected to be reduced by utilizing the sub-level stoping mining method, thus, the impact of the lower grade ores in the upper west will be offset by increased ore tons and higher productivity.

In 2002, the mine is expected to produce 590,000 ounces of palladium and platinum from mining ore at an average rate of 2,600 tons of ore per day. Mine production will drop to an average of 2,500 tons of ore per day after 2002 resulting in production of 560,000 ounces of PGMs in 2003 and 2004. The mine intends to shift

the production in the future to produce ores from the upper west, which has a lower grade but higher productivity.

Mine development and ore delineation drilling is expected to replace reserves to sustain production for three years at an average of 2,500 tons of ore per day production rate. The projected total development footage planned for 2002 is approximately 46,000 feet and projected diamond drilling of 385,000 feet. Cash operating costs before royalties and taxes are expected to be \$200 per ounce in 2002, \$204 in 2003 and \$202 in 2004. Royalties and taxes at current metal prices are expected

to add an additional \$21 per ounce in 2002, \$24 per ounce in 2003 and \$26 per ounce in 2004. Capital required to sustain production at the 2,500 tons of ore per day rate is estimated at approximately \$60 million for 2002, \$40 million for 2003 and \$45 million for 2004.



#### **EAST BOULDER**

The J-M reef was accessed with twin three-mile access tunnels in the year 2000. Thus, the year 2001 was focused on the underground development of excavations required for the maintenance and warehouse complex, sand backfill plant, access ramp systems, and stope development. Underground mine footwall lateral development proceeded to the east and west. Ramp complexes were developed approximately every 1,000 feet along the footwall laterals to provide access to the ore, ventilation, muck raises and mine train load outs.

During the year, excavations for most of the major underground infrastructure excavation were completed. Currently, there are five ramp complexes in various stages of excavation with the central ramp having reached the 215-level. Sub-level long-hole stope mining, to extract ore, was successfully tested and is being implemented.

Surface construction was completed in June 2001 and the concentrator commissioned. The concentrator has a capacity of 2,000 tons per day and is currently being run approximately twice per month with 6,000 to 7,000 ton batches of development material. In late October the East Boulder Mine completed and presented its 2,000 ton per operating day plan. Concurrently and as a result of the dramatic decrease in PGM prices, the Company demobilized all contractor crews and revised the operating plan to 1,000 tons per day.

In November with the revised operating plan in place, Company employees took over the critical construction activities to complete infrastructure construction to accommodate ore production at 1,000 tons a day.

#### **Production and Overall Operations**

Development material processed during 2001 totaled 85,000 tons, which yielded 22,000 ounces of palladium and platinum. Mill recoveries of 86 percent, achieved on the low-grade development tonnage, are expected to rise to 90 percent once the initial mining rate of 1,000 tons per day is achieved.

Development goals continued to be met during 2001 with 6,800 feet of footwall lateral development and 154,000 feet of total diamond drilling completed during the year. As a result proven reserves of 530,000 tons were developed. At the 1,000 ton a day mining rate this equates to proven reserves of 1.5 years.

The East Boulder Mine's proven and probable tonnage reserve increase is due to the underground development and diamond drilling activities during 2001 that outlined for the first time a proven reserve and expanded the probable reserve area. The proven reserve of 530,000 tons is located in a developed ore block some 5,600 feet long by 215 feet high on the 6450-tunnel access level. The block was delineated by 141,000 feet of diamond drilling and confirmed by sill and panel mining. The proven reserve grade of 0.48 ounce per ton is based on a geological resource grade of 0.6 ounce per ton. The previously reported probable reserve grade of 0.71 ounce per ton in 2000 was based on the ability to selectively mine higher grade portions of the reef, as is commonly done at the Stillwater Mine. The mineralization of the J-M Reef at East Boulder has proven to be more consistent in grade at 0.6 ounce per ton allowing for very little opportunity for selectivity. The yield for the proven reserve is approximately 100-tons per foot of footwall lateral at a 215-foot level spacing, a substantial



increase over the 63-tons per foot of footwall lateral, estimated from previously reported probable reserves which was based on our experience at the Stillwater Mine.

The probable reserve at East Boulder consists of some 21.2 million tons at a grade of 0.53 ounce per ton, a 60 percent increase from 2000. The reserve area was expanded in 2001 based on positive results from the underground development and drilling and represents an increase in the percent mineable area and an increase in tonnage yield to approximately 100-tons per foot of footwall lateral which offsets the lower grade.

The East Boulder Mine established an excellent safety record for a new operation. Notably during November the mine surpassed 500,000 man-hours worked, and completed the year 2001, without a lost time accident.

Total site manpower at the East Boulder Mine is 306 employees as compared with 171 employees at the end of 2000.

### **2002 Outlook**

The East Boulder Mine will be placed into commercial production at a rate of 1,000 tons per day. During the first half of 2002, Company crews will continue the work of developing the underground infrastructure to support a 1,000-ton per day operation. This work includes installation of the sand plant and of train load-out facilities at the central, east and west ramps.

Mine production at East Boulder will be ramped up to reach and sustain 1,000 tons per day by the third quarter 2002. Primary development will focus on the vertical extent of the deposit. Six ramps will be continually developed providing ore production.

Based upon the revised plan, production is expected to be 150,000 ounces in 2002 and rise to 170,000 ounces of PGMs annually at the initial design rate of 1,000 ore tons per day. Cash operating costs before royalties and taxes are expected to be \$271 per ounce in 2002. After a full year of production in 2003, when the facility achieves its design rate of 1,000 tons of ore per day cash operating costs before royalties and taxes are expected to be \$256 per ounce and \$244 per ounce in 2004. Royalties and taxes at current metal prices are expected to add an additional \$42 per ounce in 2002, \$40 per ounce in 2003 and \$38 per ounce in 2004. Capital required to sustain production at the 1,000 ton per day rate is estimated at approximately \$16 million for 2002, \$13 million for 2003 and \$14 million for 2004.

The revised production plan dramatically reduces the capital required to place East Boulder into production. In addition, this option allows the mine to be ready to react to changes in PGM prices more quickly than had the property been placed on standby. It also preserves the Company's ability, under the right PGM price and economic outlook, to gradually move production to the original 2,000 ton per day target or accelerate and increase to the original design rate of 2,000 tons per day in a 18-month time period at a preliminary estimated cost of \$65 million.



Mined ore is initially processed through concentrator facilities located at both the Stillwater and East Boulder Mines.

**METALLURGICAL COMPLEX**

The resulting concentrate is trucked to the Company's smelter and refinery complex in Columbus, Montana. During subsequent processes at these two facilities, the concentrate is refined to produce a semi-finished product in filter cake form, which contains approximately 60 percent palladium and platinum. Final refining, under contract with companies in New Jersey and California, produces a palladium and platinum sponge primarily sold for use in catalytic converters.

**SMELTER**

Expansion of the smelter continued in 2001. A concentrate sampling and drying facility for production from both mines was commissioned in May. A second top blown rotary converter was commissioned in

November and other ancillary equipment to support the simultaneous operation of two converters was in place by year-end.

The Company's automotive catalyst recycling operation continued to grow. During 2001, the smelter processed spent autocatalyst at a rate of over three and half tons per day, recovering 68,800 ounces of platinum and palladium, more than double the 29,900 ounces recovered in 2000. Currently, autocatalysts typically contain two parts platinum to one part palladium, reflecting the former metal usage in clean air technology. This ratio will shift in time as the current palladium-dominated catalysts begin to be recycled. In 2002, Stillwater Mining expects its autocatalyst recycling effort to continue to grow.



The smelter recorded a 27 percent increase in ounces produced last year, while maintaining sulfur dioxide emissions at essentially the same level as 2000. During the first quarter 2001 the smelter shipped its 3 millionth ounce.

The smelter completed its 90th month with no lost time accidents. Total site manpower at the Smelter is 60 employees compared with 51 employees at the end of 2000.

### REFINERY

Smelter matte containing approximately 500 to 600 ounces of palladium and platinum per ton is transferred to the adjacent refinery for further treatment. The refining process removes small amounts of copper, nickel, selenium and tellurium to produce the final palladium and platinum product, which contains small amounts of rhodium, gold and silver.

In 2001, the refinery's throughput was increased with the commissioning of two new circuits.



The first is a copper dissolve pressure leach circuit, whose primary function is to increase PGM production and provide ideal solution feed to the electrowinning circuit. Acid produced from electrowinning copper is subsequently returned to the leaching process in a closed loop, which economically and environmentally benefits the plant.

The second is a nickel sulfate crystallizer circuit. The crystallizer circuit produces a nickel sulfate byproduct as a solid rather than a liquid, thereby providing a marketable product and reduced shipping costs. The first nickel sulfate crystal was shipped for further refining in the second quarter of 2001.

In 2001, the refinery shipped 582,000 ounces of PGMs including 433,000 ounces of palladium, 149,000 ounces of platinum. In addition, the refinery shipped as byproducts 9,000 ounces of rhodium, 8,100 ounces of gold, 3,000 ounces of silver, 503,000 pounds of copper and 789,000 pounds of nickel in solutions and crystals.

The refinery completed its 67th month with no lost time accidents. Total site manpower at the Refinery is 40 employees as compared with 28 employees at the end of 2000.

## STAFFING AND TRAINING



As of December 31, 2001, Stillwater Mining Company employed 1,617 employees, a 25 percent increase over the 1,290 employees at the end of 2000 and a 69 percent increase over the 954 employees at year-end 1999.

### STAFFING

In spite of this large increase in manpower, attrition in 2001 decreased 25 percent to 18 percent. The additional employees were utilized to support the Company's growth at the mining operations and the Metallurgical Complex in Columbus, Montana.

### Organizational Development

In January of 2001 senior management launched a continuous improvement process. Although initially focused on the front line supervisor all employees are effected. The process includes training focused on cultural change and strategic partnering with employees designed to provide the Company with a competitive

advantage. The process expectations are defined in a Stillwater Mining Company Vision-Mission-Values statement. The "Vision" declares Stillwater will strive to become a "Premier Company" providing sustainable growth through Performance, Products, Processes, Practices, People and Profit. The "Mission" focus is for PGMs to be produced profitably, through operating safely, promoting community and environmental stewardship, minimizing costs, and investing in our workforce. Ten core competency "Values" emphasize the need for cultural change and define how Stillwater Mining Company employees conduct business.

### Employee Incentive Plan

Consistent with the values, a Company-wide Employee Incentive Plan (EIP) was implemented during 2001 to recognize and reward the success of our employees. The quarterly plan is based on key performance measures, including safety, production, cost and quality measures. The EIP is a group incentive plan designed to encourage involvement and teamwork and provide a line of site for employees to link their roles in the organization with the overall success of the Company.



## Safety

Safety excellence is a commitment of all Stillwater employees. The commitment includes senior management participation and visibility, and the establishment of safety loss prevention work practices and systems, performance standards, and accountability measures. Safety awareness is promoted at all levels of the organization by developing circumstances that will assure safety as a fundamental value.

Notable achievements in safety excellence are 90 months at the smelter, 67 months at the refinery and 12 months at the East Boulder Mine without a Stillwater Mining Company employee suffering a lost time injury. Additionally, the reportable injury incidence rate at the Stillwater Mine was reduced 38 percent.

In addition, the smelter and refinery continue to meet the requirements of OSHA's (Occupational Safety and Health Administration) Safety and Health Achievement Recognition Program (SHARP) and both sites have applied for renewal at the end of 2001. This marks the eighth year in a row that the smelter and the fourth year in a row that the refinery have operated under this prestigious award

While the Company's safety system and efforts have improved the reportable injury rate, the Stillwater Mine suffered three fatalities in 2001, two involving Company employees and one involving an independent contractor's employee.

These losses prompted yet additional safety training efforts and the vigorous application of the "Neil George" Five-Point Safety System, which requires daily interaction between employees and supervisors on safety issues. The elimination of fatality potentials is an organizational focus. The recognition and elimination of all potentials for workplace fatalities is the highest priority for the Company.





Stillwater Mining Company is committed to the principals of sound environmental and community stewardship.

During 2000, the Company entered into a "Good Neighbor Agreement" (GNA) with several local community groups. The GNA provides for local participation in the Company's environmental monitoring and planning programs. The year 2001 marked the first anniversary of the GNA culminating a busy period of organization and program implementation.

**ENVIRONMENTAL RESPONSIBILITY**

Within the framework of the GNA, Stillwater Mining Company sponsored two major environmental initiatives within the Boulder River watershed. Trout Unlimited has undertaken a comprehensive multi-year survey of the Boulder River fishery. This effort will help provide a

framework to evaluate changes within the fishery. In addition, the Company has provided funding to launch the Boulder River Watershed Association, a non-profit organization composed of landowners and others with a stake in preserving the river while supporting economic activity within the watershed.

In cooperation with the Montana Department of Environmental Quality and the Custer and Gallatin National Forests, the Company began a comprehensive environmental analysis to evaluate the Boe Ranch Land Application Disposal (LAD) proposal and to establish reclamation costs for the Stillwater and East Boulder Mines.



The reclamation studies will be used to set appropriate bond levels to ensure that all required post closure activities are funded. Because the East Boulder and Stillwater Mines lack the potential to generate Acid Mine Drainage (AMD), and have relatively small surface disturbances, actual reclamation costs will be modest when compared with many surface mines.

#### **COMMUNITY RESPONSIBILITY**

Stillwater Mining Company continued to be a significant contributor to Montana's economy in 2001. Last year the Company paid a total of \$90.7 million in salaries and \$37.1 million of payroll, production and property taxes. Montana State income taxes of \$3.8 million are estimated to have been paid by Company employees and the Company paid directly \$7.9 million in production and property taxes. Impact payments in excess of \$500,000 have been made directly to affected communities in connection with the Company's operations.

Commitment to community continues to be a cornerstone of Stillwater's environmental program. The Company is an active supporter of the American Red Cross and provides financial support to local emergency service organizations for equipment and training. During the year, Stillwater Mining Company provided funding to construct a replica of an underground mine at a local historical society museum. When completed, it will allow visitors to experience the underground environment in an educational setting displaying the rich mining heritage of the Beartooth Mountains.

Stillwater Mining Company again hosted the Governor's Range Days Conference at the Stillwater Mine. The conference provides the agricultural community with an opportunity to exchange information and observe demonstration projects. Range stewardship is an integral part of the Company's mining operations. These lands are managed for

multiple values such as water treatment, open space, and wildlife habitat.

The Company continues its corporate participation in philanthropic and other community activities in 2002 and was one of the major sponsors of the 2002 Olympic Torch Run celebration in Columbus, Montana.

## GLOSSARY

**Adit** — A horizontal tunnel or drive, open to the surface at one end, which is used as an entrance to a mine. At Stillwater, adits measure approximately 14 feet by 12 feet.

**Backfill delivery system** — A system of pumps and piping used to transport the coarse fraction of the concentrator tailings and place these tailings into previously mined excavations.

**Catalyst** — A substance that, when present in small amounts, modifies the rate or efficiency of a chemical reaction of other substances without being consumed in the process.

**Catalytic Converter** — A pollution control device, fitted to the exhaust systems of gasoline-engine-powered vehicles. This device contains palladium, platinum and sometimes rhodium, which assist in the conversion (oxidation) of carbon monoxide and hydrocarbons into carbon dioxide and water.

**Claim** — A portion of mining ground held under the 1872 Mining Law and applicable local laws. The maximum size of a lode claim is 600 feet by 1,500 feet.

**Concentrator** — A plant or facility that processes ore from the mine, removes most of the valuable mineral or metal from the ore, returns most of the barren portion to the mine for use as backfill and discards the remainder as tailings.

**Cut and Fill** — A stoping method in which a succession of horizontal slices is extracted from the ore body. The open space or cavity created by the extraction of each slice is filled with the coarse or sand fraction of the concentrator waste or tailings. Cement may be added to the sand during filling to improve its strength. When the cavity is filled, it becomes the floor of the next level of mining work. This process is repeated upward.

**Cutoff Grade** — Determined by the following formula parameters: estimates over the relevant period of mining costs, ore treatment costs, general and administrative costs, refining costs, royalty expenses, process and refining recovery rates and PGM prices.

**Down Dip Extension** — The downward extension or continuation of the ore zone at depth from the apex. Generally, this extension is controlled by the holder of the claim.

**Drift** — A major horizontal access tunnel used for the transportation of ore or waste.

**Filter Cake** — The PGM-bearing product that is shipped from the Refinery for the next step in the refining process.

**First-Half Final Certificate** — Issuance of a first-half final certificate means that the required proofs, statements and purchase money for a mineral claim have been submitted. This action eliminates the requirement for any further filing of proofs of labor or notices of intention to hold with the county and the Bureau of Land Management (BLM). A further requirement prior to the issuance of a patent is that discovery of a valuable mineral deposit must be demonstrated and verified by a field examiner of the BLM in an on-the-ground examination.

**Footwall Lateral** — A drift or tunnel driven parallel to the strike of the reef and below the reef in the geological succession.

**Head Grade** — The quantity of valuable mineral or metal contained in each ton of ore delivered to the concentrator. At Stillwater, this quantity of metal is expressed in troy ounces of combined palladium and platinum per ton of ore.

**J-M Reef** — The main mineralized PGM zone within the Stillwater Complex. The only other similarly configured PGM reefs that have been identified in the world occur in the Bushveld Complex in the Republic of South Africa and the Great Dyke Complex in Zimbabwe.

**LHD** — Vehicles used to remove ore or waste from stoping and development areas in the mine.

**Lost Time Accident Rate** — The number of accidents that result in an employee missing his or her next regularly scheduled shift per 200,000 hours worked.

**Mineralized Material** — A mineralized body which has been delineated by appropriately spaced drilling and/or underground sampling to support a sufficient tonnage and average grade of metals. Such a deposit does not qualify as a reserve until a comprehensive evaluation based upon unit cost, grade, recoveries, and other material factors conclude legal and economic feasibility.

**Net Smelter Royalty** — A share of revenue paid by the Company to the owner of a royalty interest. At Stillwater, the royalty is calculated as a percentage of the revenue received by the Company after deducting treatment, refining and transportation charges paid to third parties, and certain other costs incurred by Stillwater in connection with processing the concentrate at the Columbus smelter.

**Ore** — That part of a mineral deposit which could be economically and legally extracted or produced at the time of reserve determination.

**PGM** — This term is an acronym for "Platinum Group Metals." Platinum Group Metals include platinum, palladium, rhodium, ruthenium, osmium and iridium. All PGMs have catalytic qualities, resist corrosion and are chemically inert over a wide range of temperatures.

**Probable (indicated) Reserves** — Reserves for which quantity and grade and/or quality are computed from information similar to that used for proven (measured) reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven (measured) reserves, is high enough to assume continuity between points of observation.

**Proven (measured) Reserves** — Reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes, grade and/or quality are computed from the results of detailed sampling and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well established.

**Ramp and Fill** — A stoping method involving a succession of horizontal lifts (slices) extracted from the ore body. Access to the lifts is from ramps driven in the ore body allowing the use of hydraulic drills and LHD equipment.

**Reserves** — That part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination.

**Resources** — A concentration of naturally occurring mineral in a form that could allow economic extraction.

**Smelter Matte** — An intermediate product of smelting consisting of impure metallic sulfides. At Stillwater these sulfides are nickel, copper and iron.

**Stope** — An underground excavation from which ore is extracted.

**Sublevel** — A vertical stoping method in which substantial blocks of reef are extracted from the ore body. When the blocks have been extracted, the cavity created is filled with development waste rock or sand fill. The process is repeated horizontally along strike.

**Tailings** — That portion of the ore that remains after the valuable minerals have been extracted.

**Tailings Impoundment** — A containment area constructed to hold tailings.

**Ton** — A short ton of 2,000 pounds, dry weight basis.

**Troy Ounce** — A unit of measure used in the precious metals industry. A troy ounce is equal to 31.10 grams. The amounts of palladium and platinum produced and/or sold by the Company are reported in troy ounces.

**Vein** — A mineralized zone having regular development in length, width and depth that clearly separates it from neighboring rock.

**Waste** — Barren rock in a mine, or mineralized material that is too low in grade to be extracted at a profit.

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## SELECTED FINANCIAL AND OPERATING DATA

(in thousands, except per share amounts)

	2001	2000	1999	1998	1997
<b>INCOME STATEMENT</b>					
Revenues <sup>(1)</sup>	\$ 277,381	\$ 225,232	\$ 150,691	\$ 106,723	\$ 76,877
Costs and expenses					
Cost of metals sold <sup>(1)</sup>	134,430	103,902	79,395	66,793	67,948
Depreciation and amortization	23,722	17,623	13,557	11,642	11,658
Total cost of sales	158,152	121,525	92,952	78,435	79,606
General and administrative expenses	22,342	9,753	7,305	5,102	3,479
Restructuring costs	10,974	-	-	-	-
Legal settlement	1,684	-	-	-	-
Total costs and expenses	193,152	131,278	100,257	83,537	83,085
Operating income (loss)	84,229	93,954	50,434	23,186	(6,208)
Interest income	1,900	1,095	1,048	1,354	1,073
Interest expense, net of capitalized interest <sup>(2)</sup>	-	-	(137)	(2,774)	(3,608)
Income (loss) before income taxes and Cumulative effect of accounting change	86,129	95,049	51,345	21,766	(8,743)
Income tax (provision) benefit	(20,325)	(27,150)	(14,174)	(8,380)	3,366
Income (loss) before cumulative effect of accounting change	65,804	67,899	37,171	13,386	(5,377)
Cumulative effect of accounting change, net of income taxes <sup>(1)</sup>	-	(6,435)	-	-	-
Net income (loss)	\$ 65,804	\$ 61,464	\$ 37,171	\$ 13,386	\$ (5,377)
Other comprehensive income	12,872	-	-	-	-
Comprehensive income (loss)	\$ 78,676	\$ 61,464	\$ 37,171	\$ 13,386	\$ (5,377)
<b>BASIC EARNINGS PER SHARE</b>					
Income (loss) before cumulative effect of accounting change	\$ 1.70	\$ 1.76	\$ 1.01	\$ 0.43	\$ (0.18)
Cumulative effect of accounting change <sup>(1)</sup>	-	(0.16)	-	-	-
Net income (loss)	\$ 1.70	\$ 1.60	\$ 1.01	\$ 0.43	\$ (0.18)
<b>DILUTED EARNINGS PER SHARE</b>					
Income (loss) before cumulative effect of accounting change	\$ 1.68	\$ 1.73	\$ 0.96	\$ 0.38	\$ (0.18)
Cumulative effect of accounting change <sup>(1)</sup>	-	(0.16)	-	-	-
Net income (loss)	\$ 1.68	\$ 1.57	\$ 0.96	\$ 0.38	\$ (0.18)
Weighted average common shares outstanding					
Basic	38,732	38,507	36,758	31,472	30,435
Diluted	39,214	39,250	38,597	35,019	30,435
<b>CASH FLOW DATA</b>					
Net cash provided by (used in) operating activities	\$ 106,792	\$ 117,674	\$ 67,818	\$ 31,090	\$ (1,889)
Capital expenditures <sup>(3)</sup>	197,155	198,060	194,253	77,963	15,110
<b>BALANCE SHEET DATA</b>					
Current assets	\$ 85,790	\$ 74,155	\$ 45,710	\$ 85,378	\$ 35,303
Total assets	868,221	679,026	478,838	335,937	229,219
Current liabilities	63,507	59,195	36,989	26,617	12,249
Long-term debt and capital lease obligations	246,803	157,256	84,404	58,992	61,513
Shareholders' equity	475,123	400,614	323,104	228,007	141,392
Working capital	22,283	14,960	8,721	58,761	23,054

(footnotes on following page)

## SELECTED FINANCIAL AND OPERATING DATA

(in thousands, except per share amounts)

	2001	2000	1999	1998	1997
<b>OPERATING DATA</b>					
<b>Stillwater Mine</b>					
Tons milled <sup>(4)</sup>	912	756	689	719	577
Mill head grade <sup>(5)</sup>	0.62	0.64	0.66	0.69	0.70
Ounces of palladium produced	388	330	315	340	271
Ounces of platinum produced	116	100	94	104	84
Total ounces produced <sup>(6)</sup>	504	430	409	444	355
<b>East Boulder Mine</b>					
Tons milled <sup>(8)</sup>	85	—	—	—	—
Development mill head grade <sup>(9)</sup>	0.31	—	—	—	—
Ounces of palladium produced	17	—	—	—	—
Ounces of platinum produced	5	—	—	—	—
Total ounces produced <sup>(10)</sup>	22	—	—	—	—
<b>SALES DATA</b>					
Ounces of palladium sold	391	324	314	337	288
Ounces of platinum sold	114	100	94	103	91
Total ounces sold <sup>(6)</sup>	505	424	408	440	379
<b>PRICE AND COST DATA<sup>(7)</sup></b>					
Average realized price per palladium ounce	\$570	\$560	\$372	\$202	\$144
Average realized price per platinum ounce	498	481	383	377	388
Combined average realized price per ounce	554	541	375	243	203
Average market price per palladium ounce	\$604	\$680	\$358	\$286	\$178
Average market price per platinum ounce	529	544	377	372	395
Combined average market price per ounce	586	649	362	304	230
Total cash costs per ton milled	\$146	\$150	\$117	\$93	\$107
Total cash costs per ounce produced	264	264	198	151	174
Total production costs per ounce produced	311	305	231	178	207

(1) Revenues consist of the sales revenue for palladium and platinum, including any hedging gain or loss, and are reduced by sales discounts associated with long-term sales contracts. Byproduct metals revenue and secondary materials processing revenue are included as a reduction of cost of metals sold rather than an increase in revenue. The company has credited byproduct revenues against operating costs of \$8.2 million, \$8.6 million, \$7.0 million, \$6.5 million and \$2.7 million in years 2001, 2000, 1999, 1998 and 1997, respectively. The company has credited secondary materials processing revenue against operating costs of \$2.0 million, \$1.2 million, \$0.4 million, \$0.1 million and \$0 in years 2001, 2000, 1999, 1998 and 1997, respectively. Additionally, effective January 1, 2000, the company changed its method of accounting for revenue recognition. Pursuant to the implementation of Staff Accounting Bulletin (SAB) 101, *Revenue Recognition in Financial Statements*, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, no obligations remain and collectibility is probable. Under the terms of sales contracts and purchase orders received from customers, the company recognizes revenue when the product is in a refined and saleable form and title passes, which is typically when the product is transferred from the account of the company to the account of the customer. Sales discounts are recognized when the related revenue is recorded. The company previously recognized revenue when product was shipped from the company's refinery to an external refiner. The implementation of SAB No. 101 was treated as a change in accounting principle with the cumulative effect of the change on retained earnings at the beginning of 2000 included in restated net income of the first interim period of 2000. The effect of the accounting change on 2000 was to decrease net income by approximately \$10.3 million (\$0.26 per basic and diluted share), which includes the cumulative effect of \$6.4 million (\$0.16 per basic and diluted share). The \$6.4 million cumulative effect adjustment included \$26 million of revenue previously recognized in 1999. Assuming the accounting change had been applied retroactively, the unaudited pro forma effect would have been a decrease in net income of \$2.2 million (\$0.06 per basic and \$0.05 per diluted share) in 1999; a decrease in net income of \$4.0 million (\$0.13 per basic and \$0.11 per diluted share) in 1998 and the effect would not be material in 1997.

(2) Capitalized interest for the years ended December 31, 2001, 2000, 1999, 1998 and 1997 totaled \$17.8 million, \$15.7 million, \$4.6 million, \$2.1 million and \$1.5 million, respectively.

(3) Aggregate capital expenditures related to expansion plans were \$104.1 million, \$108.8 million, \$145.9 million, \$49.9 million and \$2.9 million in 2001, 2000, 1999, 1998 and 1997.

(4) Tons milled represent the number of grade-bearing tons of ore and sub-grade material fed to the concentrator.

(5) Mill head grade is presented as ounces of palladium and platinum combined per ton.

(6) Ounces produced is defined as the number of ounces shipped from the concentrator during the period reduced by losses expected to be incurred in subsequent smelting and refining processes. Differences in ounces produced and ounces sold are caused by the length of time required by the smelting and refining processes.

(7) Combined average realized price and market prices of palladium and platinum are reported at the same ratio as ounces are produced from the refinery. Total cash costs include costs of mining, processing and administrative expenses at the mine site (including overhead, taxes other than income taxes, royalties and credits for metals produced other than palladium and platinum). Total production costs include total cash costs plus depreciation and amortization, income taxes, corporate general and administrative expenses and interest income and expense are not included in either total cash costs or total production costs.

(8) Tons milled represent the number of grade-bearing tons of development material fed to the concentrator.

(9) Mill head grade is presented as ounces of palladium and platinum combined per ton. Test batches of development material containing low-grade PGMs were processed through the concentrator.

(10) The ounces recovered from the East Boulder Mine were generated from construction and development activities. Proceeds generated from the ounces were credited against capitalized mine development.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with the company's Consolidated Financial Statements and Notes, included elsewhere in this report, and the information contained in "Selected Financial and Operating Data."

### PRODUCTION

The company's production of palladium and platinum is a result of the tons of ore mined, the mill head grade and metallurgical recovery. The company measures its mine production by ounces contained in concentrate when shipped to the company's smelter, which generally occurs within four days of the ore being mined. Shipment from the metal refinery to a third-party refiner generally occurs within 15 to 18 days of mining. Approximately 30 days elapse between the time ore is extracted from the Stillwater Mine and the time ounces of precious metal contained in that ore are made available to the company for sale by a third-party refiner. Because of the length of the processing cycle and the different cutoff points for identifying production and sales, production may not always correspond to sales in a particular accounting period. However, any production not shipped from the metal refinery at the end of an accounting period is generally shipped during the first two weeks of the subsequent period. The company records revenue when title passes to its customers.

The ore grade of the company's reserves is an average of the composite of all samples, as is common in an underground mine, the grade mined and the recovery rate achieved will vary from period to period. In particular, mill head grade can be expected to vary by up to 10% from quarter to quarter. During 2001, 2000 and 1999, the average mill head grade of total tons processed from the Stillwater Mine was 0.62, 0.64 and 0.66 ounce of PGMs per ton of ore, respectively.

### REVENUE

The company's revenue and earnings are significantly influenced by worldwide prices of palladium and platinum, which can be volatile and over which the company has no control. Sales to significant customers represented approximately 96%, 91% and 80% of total revenues for the years ended December 31, 2001, 2000 and 1999, respectively. The company sells its metals to a small number of customers and brokers; however, the company could, if the need were to arise, readily sell its metal in markets throughout the world.

From time to time, the company uses basic hedging techniques involving fixed forwards, cashless put and call option collars and financially settled forwards attempt to lock

in prices for its production, benefit from price increases and protect against price decreases for a portion of its production. Terminal markets exist for both metals and prices are established as metal is traded each day. Such hedging contracts will also preclude the company from obtaining the benefit of increased market prices for its metals. As a result, the company's revenues were unfavorably impacted in 2001, 2000 and 1999.

### SALES AND HEDGING ACTIVITIES

The company may continue to use forward contract and put and call option strategies to reduce the effect of metal price volatility on its financial results. As of December 31, 2001, the company had no metal committed under either forward delivery contracts or put and call option strategies for delivery in future years. The company's put and call options are financially settled at maturity. The company has credit agreements with its major trading partners that provide for margin deposits in the event that forward prices for metals exceed the company's hedge contract prices by a predetermined margin limit.

### RESULTS OF OPERATIONS

*Year Ended December 31, 2001  
Compared to Year Ended December 31, 2000*

**PGM Production.** During 2001, the Stillwater Mine produced approximately 388,000 ounces of palladium and approximately 116,000 ounces of platinum, respectively, compared with approximately 330,000 ounces of palladium and approximately 100,000 ounces of platinum during 2000. The increase was due to a 21% increase in tons milled at the Stillwater Mine in 2001 compared to 2000, offset by a 3% decrease in the average grade of material milled.

**Revenues.** Revenues were \$277.4 million for the year ended December 31, 2001 compared with \$225.2 million in 2000, an increase of 23% and were the result of an increase in higher realized PGM prices of 2% and a 17% higher production level.

Palladium sales increased to approximately 391,000 ounces in 2001 from approximately 324,000 ounces in 2000. Platinum sales increased to approximately 114,000 ounces in 2001 from approximately 100,000 ounces in 2000. As a result, the total quantity of metal sold increased 19% to approximately 505,000 ounces in 2001 from approximately 424,000 ounces in 2000.

The combined average realized price per ounce of palladium and platinum sold in 2001 increased 2% to \$554 per ounce, compared to \$541 per ounce in 2000. The combined average market price decreased 10% to \$586 per ounce in

## MANAGEMENT'S DISCUSSION AND ANALYSIS

2001, compared with \$649 per ounce in 2000. The average realized price per ounce of palladium was \$570 per ounce in 2001 compared to \$560 per ounce for 2000, while the average market price decreased 11% to \$604 per ounce in 2001 from \$680 per ounce in 2000. The average realized price per ounce of platinum sold was \$498 per ounce in 2001, compared with \$481 per ounce in 2000. The platinum average market price was \$529 per ounce in 2001 compared to \$544 per ounce in 2000.

**Costs and Expenses.** Total cash costs per ounce in the year ended December 31, 2001 were \$264 per ounce and were comparable to the cash costs per ounce in the year ended December 31, 2000. The cash costs per ounce are comparable as a result of increased production and lower royalties and taxes associated with lower average market prices, offset by increased mine overhead costs and decreased byproduct credits. Total production costs per ounce increased \$6, or 2% to \$311 per ounce from \$305 per ounce due to an increase in non-cash costs of \$6 per ounce related to increased production and a higher depreciable capital base. General and administrative expenses increased \$12.6 million primarily as a result of \$7.5 million of increased administrative support required to transition the company from a single site producer to a multi-location producer; \$3.3 million related to consulting services and \$1.7 million associated with management realignment. The company incurred a \$1.7 million expense related to a settlement of a legal dispute with a terminated refining contract. The company also accrued \$11 million in restructuring costs associated with the revised plan implemented during the year.

**Income Taxes.** The company has provided for income taxes of \$20.3 million, or 23.6% of pretax income, for the year ended December 31, 2001 compared to \$27.2 million, or 28.5% of pretax income, for the year ended December 31, 2000. The reduction in the effective tax rate is the result of a change in the treatment of mine development costs that will allow the company to increase depletion expense for tax purposes.

**Net Income.** The company's net income for 2001 was \$65.8 million, or \$1.68 per diluted share compared with net income of \$61.5 million, or \$1.57 per diluted share in 2000.

*Year Ended December 31, 2000*

*Compared to Year Ended December 31, 1999*

**PGM Production.** During 2000, the company produced approximately 330,000 ounces of palladium and approximately 100,000 ounces of platinum, respectively, compared with approximately 315,000 ounces of palladium

and approximately 94,000 ounces of platinum during 1999. The increase was due to a 10% increase in tons milled in 2000 compared to 1999, offset by a 3% decrease in the average grade of material milled. The increase in tons milled is the result of the processing of additional lower grade material which has become economic as a result of higher metal prices.

**Revenues.** Revenues were \$225.2 million for the year ended December 31, 2000 compared with \$150.7 million in 1999, an increase of 49% and were the result of an increase in higher realized PGM prices of 44% and a 5% higher production level. Palladium sales increased to approximately 324,000 ounces in 2000 from approximately 314,000 ounces in 1999. Platinum sales increased to approximately 100,000 ounces in 2000 from approximately 94,000 ounces in 1999. As a result, the total quantity of metal sold increased 4% to approximately 424,000 ounces in 2000 from approximately 408,000 ounces in 1999.

The combined average realized price per ounce of palladium and platinum sold in 2000 increased 44% to \$541 per ounce, compared to \$375 per ounce in 1999. The combined average market price rose 79% to \$649 per ounce in 2000, compared with \$362 per ounce in 1999. The average realized price per ounce of palladium was \$560 per ounce in 2000 compared to \$372 per ounce for 1999, while the average market price increased 90% to \$680 per ounce in 2000 from \$358 per ounce in 1999. The average realized price per ounce of platinum sold was \$481 per ounce in 2000, compared with \$383 per ounce in 1999. The platinum average market price was \$544 per ounce in 2000 compared to \$377 per ounce in 1999.

**Costs and Expenses.** Total cash costs per ounce in the year ended December 31, 2000 increased \$66, or 33%, to \$264 per ounce from \$198 per ounce in the year ended December 31, 1999. The increase in per ounce operating costs is the result of higher royalties and taxes associated with higher metals prices of \$18 per ounce, higher mining costs resulting from the use of outside contractors of \$18 per ounce, increased mine tonnage of \$18 per ounce and higher support services associated with the company's expansion efforts of \$12 per ounce. Total production costs per ounce in the year ended December 31, 2000 increased \$74, or 32% to \$305 per ounce from \$231 per ounce in the year ended December 31, 1999. This increase is also primarily due to the increase in royalties and taxes and costs associated with the program designed to expand operations at the Stillwater Mine. In addition, general and administrative costs increased \$2.4 million, or 34%, primarily as a result of increased administrative support required to transition the company from a single site producer to a multi-location producer.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Income Taxes.** As a result of increased operating income, the company has provided for income taxes of \$27.2 million, or 28.5% of pretax income, for the year ended December 31, 2000 compared to \$14.2 million, or 28% of pretax income, for the year ended December 31, 1999.

**Cumulative Effect of Accounting Change.** Effective January 1, 2000, the company changed its method of accounting for revenue recognition. Pursuant to the requirements in Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition for Financial Statements*, the company now recognizes revenue as title passes to the customer. In accordance with accepted industry practice, the company previously recognized revenue when product was shipped from the company's refinery to an external refiner. The implementation of SAB No. 101 was treated as a change in accounting principle with the cumulative effect of the change on retained earnings at the beginning of 2000 included in restated net income of the first interim period of 2000. The effect of the accounting change on 2000 was to decrease net income by approximately \$10.3 million (\$0.26 per basic and diluted share), which includes the cumulative effect adjustment of \$6.4 million (\$0.16 per basic and diluted share). The \$6.4 million cumulative effect adjustment included revenue of \$26 million in revenue. Assuming the accounting change had been applied retroactively, the unaudited pro forma effect would have been a decrease in net income of \$2.2 million (\$0.06 per basic and \$0.05 per diluted share) in 1999 and a decrease in net income of \$4.0 million (\$0.13 per basic and \$0.11 per diluted share) in 1998.

**Net Income.** The company's net income for 2000 was \$61.5 million, or \$1.57 per diluted share compared with net income of \$37.2 million, or \$0.96 per diluted share in 1999.

### LIQUIDITY AND CAPITAL RESOURCES

The company's working capital at December 31, 2001 was \$22.3 million compared to \$15.0 million at December 31, 2000. The ratio of current assets to current liabilities was 1.4 at December 31, 2001, compared to 1.3 at December 31, 2000.

Net cash provided by operations for the year ended December 31, 2001 was \$106.8 million compared with \$117.7 million in 2000, a decrease of \$10.9 million. The decrease was primarily a result of increased net income of \$4.3 million, an increase in non-cash expenses of \$4.0 million and an increase in net operating assets and liabilities of \$19.2 million in 2001 compared to 2000.

A total of \$195.6 million of cash was used in investing activities in 2001 compared to \$191.5 million in 2000 and is due to the capital expenditures incurred in the

development of the East Boulder Mine, the Stillwater Mine expansion and the expansion of the Columbus smelter and refinery and ancillary facilities.

For the year ended December 31, 2001, cash flow from financing activities was \$85.6 million compared to \$89.2 million for the year ended December 31, 2000. The financing activities in 2001 were primarily attributed to net borrowings of \$225.0 million under the company's \$250 million credit facility, offset by a repayment of \$125.0 million on the company's prior credit facility and a net reduction in metals repurchase agreements of \$9.4 million.

As a result of the above, cash and cash equivalents decreased by \$3.3 million for the year ended December 31, 2001, compared with an increase of \$15.4 million in the comparable period of 2000.

In connection with the expansion of the Stillwater Mine and development of the East Boulder Mine, the company invested approximately \$104.1 million in capital items, including capitalized interest of \$17.8 million during 2001. During 2002, the company expects to invest approximately \$77 million in capital items, including capitalized interest.

With the decline in the price of metals throughout 2001 and the announcement of the optimization plan in the fourth quarter of 2001, the company recognized that its cash on hand, cash flow from operating activities and remaining available borrowings would not cover planned capital expenditures. Through the optimization plan, the company sought to substantially reduce its capital expenditures while maintaining an acceptable level of production, thereby placing itself in a position of flexibility for the future if and as circumstances warrant. In view of the uncertainties concerning the market prices for metals and the need for greater access to cash to cover unanticipated problems, the company determined that it was appropriate to consider available alternatives for the raising of capital.

In February 2001, the company entered into a \$250 million credit facility with a syndicate of financial institutions which repaid and replaced a previous \$175 million bank facility. The facility was amended in June 2001 and again as of November 2001. The facility provides for a \$65 million five-year term loan facility, a \$135 million seven-year term loan facility and a \$50 million revolving credit facility. Amortization of the term loan facilities commenced on March 31, 2002. The final maturity of the five-year term loan facility and revolving credit facility is December 30, 2005. The seven-year term loan facility final maturity date is December 31, 2007.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The loans are required to be prepaid from excess cash flow, proceeds from asset sales and the issuance of debt or equity securities, subject to specified exceptions. Proceeds of the term loan facility are being used to finance a portion of the expansion plan. Proceeds of the revolving credit facility are being used for general corporate and working capital needs. At the company's option, the credit facility bears interest at the London Interbank Offered Rate (LIBOR) or an alternate base rate, in each case plus a margin of 2.5% to 3.75% which is adjusted depending upon the company's ratio of debt to operating cash flow. Substantially all the property and assets of the company and the stock of the company are pledged as security for the credit facility.

Covenants in the credit facility restrict: (1) additional indebtedness; (2) payment of dividends or redemption of capital stock; (3) liens; (4) investment, acquisitions, dispositions or mergers; (5) transactions with affiliates; (6) capital expenditures (other than those associated with the revised plan); (7) refinancing or prepayment of subordinated debt; (8) changes in the nature of business conducted or ceasing operations at the principal operating properties; and (9) commodities hedging to no more than 90% of annual palladium production and 75% of annual platinum production (excluding the sales covered by the company's marketing contracts and similar agreements). The company is also subject to financial covenants including a debt to operating cash flow ratio, a debt service coverage ratio and a debt to equity ratio. In November 2001, certain of the covenants were amended to align the credit agreement with the company's revised business plan.

Events of default include: (1) a cross-default to other indebtedness of the company; (2) any material modification to the life-of-mine plans; (3) a change of control of the company; (4) the failure to maintain agreed-upon annual PGM production levels or (5) any breach or modification of any of the sales contracts.

On January 31, 2002, the company completed a \$60 million private placement of its common stock involving approximately 4.3 million shares or approximately 10% of the outstanding shares after such issuance. The price per share represents an approximate 10% discount from the closing price of \$15.61 on January 29, 2002. Proceeds from the offering were approximately \$54.4 million, net of offering costs of \$5.6 million. The company intends to use the proceeds for general corporate purposes.

The company's program in recent years to expand the Stillwater Mine and develop the East Boulder Mine has been curtailed under the optimization plan due to

substantially reduced cash flow as a result of lower metal prices. The company is focused on reducing its operating costs and attempting to achieve the production goals under its optimization plan, as to which there can be no assurance. The company's cash flow from operating activities will depend on its success in these areas. \$25 million of the proceeds from the private placement was used to reduce the bank revolving credit facility, which amount remains available to the company for future borrowings. An additional \$25 million may also be borrowed under the revolving credit facility, subject to compliance with various covenants. The company anticipates that a substantial rise in the cost of posting surety bonds or collateral due to changing surety bond markets may also adversely affect its liquidity in the future. In view of these needs and uncertainties, the company expects that it will continually monitor its liquidity position and seek appropriate financial or strategic alternatives if required or as are available at the time. In addition, the company may, from time to time, also seek to raise additional capital from the public or private securities markets or from other sources for general corporate purposes and for investments beyond the scope of the current phase of its current operating plans. The company expects to use nearly all of its available credit facilities to meet its capital needs.

### Market Risk

The company may from time to time utilize derivative instruments to manage financial risk. The company has entered into long-term sales contracts with General Motors Corporation, Ford Motor Company, and Mitsubishi Corporation. The contracts apply to a portion of the company's production over the nine-year period through December 2010 and to provide floor and ceiling price structure.

### ENVIRONMENTAL OBLIGATIONS

The company's environmental expenses were \$1.1 million, \$0.8 million and \$0.7 million for 2001, 2000 and 1999, respectively. The company had capital expenditures for environmental facilities during 2001, 2000 and 1999 of \$3.7 million, \$22.0 million and \$13.9 million, respectively. The company's ongoing operating expenditures for environmental compliance are expected to be approximately \$1.1 million per year.

At December 31, 2001, the company was required to post surety bonds with the State of Montana in the amount of \$13.2 million, which also represents the company's current estimate of mine closure and reclamation costs for current operations. The company does not believe that costs will materially exceed this estimate. The company is accruing

## MANAGEMENT'S DISCUSSION AND ANALYSIS

for reclamation costs over the life of the Stillwater Mine based on current production levels and estimated proven and probable reserves. As of December 31, 2001, the accrued liability was \$1.4 million compared to \$1.1 million at December 31, 2000. The company periodically reviews the adequacy of its reclamation and mine closure obligations in light of current laws and regulations and will adjust its estimate as necessary.

### FACTORS THAT MAY AFFECT FUTURE RESULTS AND FINANCIAL CONDITION

Some statements contained in this report are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and, therefore, involve uncertainties or risks that could cause actual results to differ materially. Such statements include comments regarding expansion plans, costs, grade, production and recovery rates, permitting, financing needs, the terms of future credit facilities and capital expenditures, increases in processing capacity, cost reduction measures, safety, timing for engineering studies, and environmental permitting and compliance, litigation and the palladium and platinum market. Investors are cautioned not to put undue reliance on forward-looking statements. The company disclaims any obligation to update forward-looking statements.

### Method of Calculating Probable Reserves

On December 18, 2001, we filed a "shelf" registration statement with the Securities and Exchange Commission, which was subsequently amended on February 7, 2002 and February 28, 2002. In connection with the SEC's review of the registration statement, the SEC has taken the position that our method of calculating probable reserves of palladium and platinum does not conform with their interpretation of industry standards and has insisted that we re-designate our probable reserves as mineralized material. We believe our methodology is in conformity with SEC reporting guidelines and are currently engaged in a discussion with the SEC regarding our methodology.

Since going public in 1994, we have continuously used the same methodology for calculating probable reserves. Since 1994, our methodology for determining probable reserves has been reviewed, and agreed to, by Behre Dolbear & Company, Inc., independent consultants, who have been experts in mining, geology and ore reserves determination for more than 90 years. In addition, Behre Dolbear & Company has retained an additional independent consultant who has confirmed its opinion

and ore reserve estimation methodology. Over the approximately 16 years of actual mining experience, the probable reserves have consistently been converted into proven reserves.

Re-designating all or a portion of our probable reserves as mineralized materials as the SEC has requested could have a material effect on us. It would result in a reduction to net income and property, plant and equipment in the year 2001 and could require us to restate our financial statements for prior years. The re-designation of our probable reserves could also result in a violation of, or a default under, our credit facility. See "Business and Properties - Risk Factors - Method of Calculating Probable Reserves in the company's Form 10-K. We are engaged in discussions with the SEC concerning our method for calculating probable reserves."

### CRITICAL ACCOUNTING POLICIES

#### Asset Impairment

The company follows Statement of Financial Accounting Standard (SFAS) No. 121, *Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of*. The company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment is considered to exist if total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset. An impairment loss is measured as the amount by which the asset-carrying value exceeds fair value. Fair value is determined using estimated discounted future cash flow analysis. Future cash flows include estimates of recoverable ounces, platinum and palladium prices (considering current and historical prices, price trends and related factors), production levels, capital and reclamation expenditures, all based on detailed life-of-mine plans derived from engineering reports. In estimating future cash flows, assets are grouped together at each individual mine property which is the lowest level for which there are identifiable cash flows that are largely independent of cash flows from other asset groups. Assumptions underlying future cash flows are subject to risks and uncertainties. Any differences between significant assumptions and market conditions such as declining PGM prices, lower than expected recoverable ounces, and/or the company's performance could have a material effect on the company's ability to recover the carrying amounts of its long lived assets resulting in potential impairment charges. As of December 31, 2001, the company does not believe that any impairments of its long-lived assets have occurred.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Income Taxes

Income taxes are determined using the asset and liability approach in accordance with the provisions of SFAS No. 109, *Accounting for Income Taxes*. This method gives consideration to the future tax consequences of temporary differences between the financial reporting basis and the tax basis of assets and liabilities based on currently enacted tax rates. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The company expects the deferred tax assets at December 31, 2001 to be realized as a result of projected income from future operations and reversal of existing taxable temporary differences. Any differences between the assumptions used in management's analysis and market conditions, such as declining PGM prices and lower recoverable ounces, that would effect the company's future taxable income could have a material effect on the ability of the company to fully realize the benefit of its deferred tax assets. There was no valuation allowance recorded at December 31, 2001 because it is more likely than not that all deferred tax assets will be realized.

### Reclamation Liabilities

Post-closure reclamation and site restoration costs are estimated based on environmental regulatory requirements and are accrued ratably over the life of the mine using a units-of-production method. At December 31, 2001, the company was required to post surety bonds with the State of Montana in the amount of \$13.2 million, which also represents the company's current estimate of mine closure and reclamation costs for current operations. Any differences between the required bonded amounts and actual post-closure reclamation and site restoration costs could have a material effect on the company's estimated liability resulting in an increase in the recorded amount. The accrued reclamation liability was approximately \$1.4 million at December 31, 2001.

### Hedging Program

Effective January 1, 2001, the company adopted the FASB SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and SFAS No. 138, *Accounting for Derivative Instruments and Certain Hedging Activities*, an amendment to SFAS No. 133. SFAS Nos. 133 and 138 require that derivatives be reported on the balance sheet at fair value and, if the derivative is not designated as a hedging instrument, changes in fair value must be recognized in earnings in the period of change. If the derivative is designated as a hedge and to the extent such hedge is determined to be effective, changes in fair value are either (a) offset by the change in fair value of the hedged asset or liability (if applicable) or (b) reported as a component of other comprehensive income in the period of change, and subsequently recognized in earnings when the offsetting hedged transaction occurs. The company primarily uses derivatives to hedge metal prices. As of December 31, 2001 substantially all outstanding derivative instruments have been closed and cash has been received. The associated gains will be deferred until the original settlement dates.

### QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The company is exposed to market risk, including the effects of adverse changes in metal prices and interest rates as discussed below.

### Commodity Price Risk

The company produces and sells palladium, platinum and associated byproduct metals directly to its customers and also through third parties. As a result, financial risks are materially affected when prices for these commodities fluctuate. In order to manage commodity price risk and to reduce the impact of fluctuation in prices, the company enters into long-term contracts and uses various derivative financial instruments. Because the company hedges only with instruments that have a high correlation with the value of the hedged transactions, changes in derivatives' fair value are expected to be offset by changes in the value of the hedged transaction.

The company has entered into long-term sales contracts with General Motors Corporation, Ford Motor Company and Mitsubishi Corporation. The contracts apply to the portions of the company's production over the period through December 2010 and provide for a floor and ceiling price structure.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As of December 31, 2001, the company had no metal committed for future delivery under either forward delivery contracts or under put and call option strategies. The company utilizes financially settled forwards and cashless put and call option collars. Under financially settled forwards, at each settlement date, the company receives the difference between the forward price and the market price if the market price is below the forward price and the company pays the difference between the forward price and the market price if the market price is above the forward price. The company's financially settled forwards are settled at maturity. Under cashless put and call option collars, at each settlement, the company receives the difference between the put price and the market price if the market price is below the put price and the company pays the difference between the call price and the market price if the market price is above the call price. Substantially all financially settled forwards outstanding at December 31, 2001 have been closed and cash has been received. The associated gains will be deferred until the original settlement dates on the contracts.

### **Interest Rate Risk**

At the present time, the company has no financial instruments in place to manage the impact of changes in interest rates. Therefore, the company is exposed to changes in interest rates on the portion of its credit facility which carries a variable interest rate based upon LIBOR. At the company's option, the credit facility bears interest at LIBOR, or an alternate base rate, in each case plus a margin of 2.5% to 3.75% which is adjusted depending upon the company's ratio of debt to operating cash flow. The company's credit facility provides for a \$65 million five-year term loan facility (Term A), a \$135 million seven-year term loan facility (Term B) and a \$50 million revolving credit facility. The final maturity of the Term A and revolving credit facility is December 30, 2005, while the Term B facility final maturity date is December 31, 2007. As of December 31, 2001, the company had \$65.0 million, \$134.7 million and \$25.0 million outstanding under the Term A, Term B and revolving loan facilities, respectively, bearing interest at 6.125%, 7.25% and 4.69% for the Term A, Term B and revolving loan facilities, respectively.

## REPORT OF *MANAGEMENT*

Management is responsible for the preparation of the accompanying financial statements and for other financial and operating information in this report. Management believes that its accounting systems and internal accounting controls, together with other controls, provide assurance that all accounts and records are maintained by qualified personnel in requisite detail, and accurately and fairly reflect transactions of Stillwater Mining Company in accordance with established policies and procedures.

The Board of Directors has an Audit Committee, none of whose members are officers or employees of the company or its affiliates. The Audit Committee recommends independent accountants to act as auditors for the company; reviews the company's financial statements; confers with the independent accountants with respect to the scope and results of their audit of the company's financial statements and their reports thereon; reviews the company's accounting policies, tax matters and internal controls; and oversees compliance by the company with the requirements of federal regulatory agencies. Access to the Audit Committee is given to the company's financial and accounting officers and independent accountants.



**Francis R. McAllister**

Chairman of the Board and Chief Executive Officer



**James A. Sabala**

Vice President and Chief Financial Officer

## REPORT OF THE AUDIT COMMITTEE OF THE *BOARD OF DIRECTORS*

The Company's Audit Committee is comprised of three independent members. Each member is able to read and understand fundamental financial statements and at least one of whom has past employment experience in finance or accounting or other comparable experience. The Audit Committee reviews the accounting principles and procedures of the Company and its annual financial reports and statements, recommends to the Board of Directors the engagement of the Company's independent accountants, reviews with the independent accountants the plans and results of the auditing engagement and considers the independence of the Company's auditors.

The main function of the Audit Committee is to ensure that effective accounting policies are implemented and that internal controls are put in place in order to deter fraud, anticipate financial risks and promote accurate, high quality and timely disclosure of financial and other material information to the public markets, the Board and the stockholders. The Audit Committee also reviews and recommends to the Board the approval of the annual financial statements and provides a forum, independent of management, where the Company's auditors can communicate any issues of concern.


The independent members of the Audit Committee believe that the present composition of the Committee accomplishes all of the necessary goals and functions of an audit committee as recommended by the Blue Ribbon

Committee on Improving the Effectiveness of Corporate Audit Committees and adopted by the U.S. stock exchanges and the Securities & Exchange Commission. In accordance with the promulgated new rules regarding audit committees, the Audit Committee has adopted a formal, written charter approved by the full Board of Directors of the Company. The charter specifies the scope of the Audit Committee's responsibilities and how it should carry out those responsibilities. The Audit Committee has reviewed and discussed the audited financial statements of the Company for the fiscal year ended December 31, 2001, with the Company's management. The Audit Committee has discussed with KPMG LLP, the Company's independent public accountants, the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees). The Audit Committee has also received the written disclosures and the letter from KPMG LLP required by Independence Standards Board Standard No. 1 (Independence Discussion with Audit Committees), has considered whether the provision of non-audit services provided by KPMG LLP to the Company is compatible with maintaining KPMG LLP's independence and has discussed the independence of KPMG LLP with that firm.

Based on the review and discussions with the Company's auditors for the fiscal year ended December 31, 2001, the Audit Committee recommended to the Board of Directors that the financial statements be included in the Company's Annual Report on Form 10-K.

  
Malcolm W. MacNaught

  
Joseph P. Mazurek

  
Peter Steen

## REPORT OF INDEPENDENT ACCOUNTANTS

*To the Board of Directors and Shareholders  
Stillwater Mining Company:*

We have audited the accompanying consolidated balance sheets of Stillwater Mining Company and subsidiary as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2001. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and

perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Stillwater Mining Company and subsidiary as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

**KPMG LLP**

Billings, Montana

January 11, 2002, except for note 14 for which the date is  
January 31, 2002

## CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts) Year ended December 31,

2001

2000

### ASSETS

#### Current assets

Cash and cash equivalents	\$ 14,911	\$ 18,219
Funds held in escrow	–	2,636
Inventories	42,944	42,625
Accounts receivable	21,773	–
Deferred income taxes	1,417	7,732
Other current assets	4,745	2,943
Total current assets	<u>85,790</u>	74,155

Property, plant and equipment, net	774,036	602,110
Other noncurrent assets	8,395	2,761
Total assets	<u>\$868,221</u>	<u>\$679,026</u>

### LIABILITIES AND SHAREHOLDERS' EQUITY

#### Current liabilities

Accounts payable	\$ 21,539	\$ 21,710
Accrued payroll and benefits	10,630	6,431
Property, production and franchise taxes payable	7,768	8,068
Current portion of long-term debt and capital lease obligations	9,008	1,970
Metals repurchase agreements payable	–	9,386
Accrued restructuring costs	10,974	–
Other current liabilities	3,588	11,630
Total current liabilities	<u>63,507</u>	59,195

Long-term debt and capital lease obligations	246,803	157,256
Deferred income taxes	71,887	55,457
Other noncurrent liabilities	10,901	6,504
Total liabilities	<u>393,098</u>	278,412

Commitments and Contingencies (Note 13)

#### Shareholders' equity

Preferred stock, \$0.01 par value, 1,000,000 shares authorized, none issued	–	–
Common stock, \$0.01 par value, 100,000,000 shares authorized, 38,771,377 and 38,645,886 shares issued and outstanding	388	386
Paid-in capital	291,182	288,212
Retained earnings	177,820	112,016
Accumulated other comprehensive income	5,733	–
Total shareholders' equity	<u>475,123</u>	400,614
Total liabilities and shareholders' equity	<u>\$868,221</u>	<u>\$679,026</u>

The accompanying notes are an integral part of these financial statements.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data) Year ended December 31,

	2001	2000	1999
<b>Revenues</b>	<b>\$277,381</b>	\$ 225,232	\$ 150,691
<b>Costs and expenses</b>			
Cost of metals sold	134,430	103,902	79,395
Depreciation and amortization	23,722	17,623	13,557
Total cost of revenues	158,152	121,525	92,952
General and administrative expenses	22,342	9,753	7,305
Restructuring costs	10,974	—	—
Legal settlement	1,684	—	—
Total costs and expenses	193,152	131,278	100,257
<b>Operating income</b>	<b>84,229</b>	93,954	50,434
<b>Other Income (Expense)</b>			
Interest income	1,900	1,095	1,048
Interest expense, net of capitalized interest of \$17,806, \$15,669, and \$4,620	—	—	(137)
Income before income taxes and cumulative effect of accounting change	86,129	95,049	51,345
<b>Income Tax Provision</b>	<b>(20,325)</b>	(27,150)	(14,174)
<b>Income Before Cumulative Effect of Accounting Change</b>	<b>65,804</b>	67,899	37,171
<b>Cumulative Effect of Accounting Change, Net of Income Tax Benefit of \$2,503</b>	<b>—</b>	(6,435)	—
<b>Net income</b>	<b>\$ 65,804</b>	\$ 61,464	\$ 37,171
Other comprehensive income	12,872	—	—
<b>Comprehensive income</b>	<b>\$ 78,676</b>	\$ 61,464	\$ 37,171
<b>Basic earnings per share</b>			
Income before cumulative effect of accounting change	\$ 1.70	\$ 1.76	\$ 1.01
Cumulative effect of accounting change	—	(0.16)	—
Net income	\$ 1.70	\$ 1.60	\$ 1.01
<b>Diluted earnings per share</b>			
Income before cumulative effect of accounting change	\$ 1.68	\$ 1.73	\$ 0.96
Cumulative effect of accounting change	—	(0.16)	—
Net income	\$ 1.68	\$ 1.57	\$ 0.96
<b>Weighted average common shares outstanding</b>			
Basic	38,732	38,507	36,758
Diluted	39,214	39,250	38,597
<b>Pro forma amounts assuming the new revenue recognition method is applied retroactively:</b>			
Pro forma net income	—	\$ 67,899	\$ 35,013
Pro forma earnings per share:			
Basic	—	\$ 1.76	\$ 0.95
Diluted	—	\$ 1.73	\$ 0.91

The accompanying notes are an integral part of these financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands, except per share data) Year ended December 31,

	2001	2000	1999
<b>Cash flows from operating activities</b>			
Net income	<b>\$ 65,804</b>	\$ 61,464	\$ 37,171
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	<b>23,722</b>	17,623	13,557
Deferred income taxes	<b>23,844</b>	27,485	13,601
Cumulative effect of accounting change	<b>–</b>	6,435	–
Restructuring costs	<b>10,974</b>	–	–
Amortization of debt issue costs	<b>422</b>	3,467	678
Changes in operating assets and liabilities:			
Inventories	<b>(319)</b>	(13,921)	(2,325)
Accounts receivable	<b>(21,773)</b>	–	(4,486)
Accounts payable	<b>(171)</b>	1,553	8,177
Other	<b>4,289</b>	13,568	1,445
<b>Net cash provided by operating activities</b>	<b>106,792</b>	117,674	67,818
<b>Cash flows from investing activities</b>			
Capital expenditures	<b>(197,155)</b>	(198,060)	(194,253)
Proceeds from sale/leaseback transactions	<b>1,507</b>	6,579	–
<b>Net cash used in investing activities</b>	<b>(195,648)</b>	(191,481)	(194,253)
<b>Cash flows from financing activities</b>			
Issuance of long-term debt	<b>252,652</b>	72,139	79,500
Payments on long-term debt and capital lease obligations	<b>(153,431)</b>	(2,581)	(2,484)
Issuance of common stock, net of stock issue costs	<b>2,059</b>	11,978	5,685
Net metals repurchase agreement transactions	<b>(9,386)</b>	9,386	–
Payments for debt issuance costs	<b>(5,111)</b>	(1,456)	(2,657)
Other	<b>(1,235)</b>	(286)	(574)
<b>Net cash provided by financing activities</b>	<b>85,548</b>	89,180	79,470
<b>Cash and cash equivalents</b>			
Net increase (decrease)	<b>(3,308)</b>	15,373	(46,965)
Balance at beginning of year	<b>18,219</b>	2,846	49,811
<b>Balance at end of year</b>	<b>\$ 14,911</b>	\$ 18,219	\$ 2,846

The accompanying notes are an integral part of these financial statements.

## CONSOLIDATED STATEMENTS OF *CHANGES IN SHAREHOLDERS' EQUITY*

<i>(in thousands)</i>	Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
<b>Balance at December 31, 1998</b>	<b>34,549</b>	<b>\$345</b>	<b>\$214,281</b>	<b>\$ 13,381</b>	<b>—</b>	<b>\$228,007</b>
Net income	—	—	—	37,171	—	37,171
Common stock issued under stock plans	503	5	5,773	—	—	5,778
Tax benefit from stock options exercised	—	—	2,533	—	—	2,533
Conversion of 7% convertible notes	2,876	29	50,253	—	—	50,282
Repurchase and retirement of common stock	(10)	—	(265)	—	—	(265)
Costs related to public stock offering and conversion of 7% convertible notes	—	—	(402)	—	—	(402)
<b>Balance at December 31, 1999</b>	<b>37,918</b>	<b>\$379</b>	<b>\$272,173</b>	<b>\$ 50,552</b>	<b>—</b>	<b>\$323,104</b>
Net income	—	—	—	61,464	—	61,464
Common stock issued under stock plans	739	7	11,971	—	—	11,978
Tax benefit from stock options exercised	—	—	4,354	—	—	4,354
Repurchase and retirement of common stock	(11)	—	(286)	—	—	(286)
<b>Balance at December 31, 2000</b>	<b>38,646</b>	<b>\$386</b>	<b>\$288,212</b>	<b>\$112,016</b>	<b>—</b>	<b>\$400,614</b>
Net income	—	—	—	65,804	—	65,804
Change in net unrealized gains on derivative financial instruments, net of tax	—	—	—	—	\$12,872	12,872
Cumulative effect of change in accounting method for derivative financial instruments, net of tax (See Note 2)	—	—	—	—	(7,139)	(7,139)
Common stock issued under stock plans	131	2	2,057	—	—	2,059
Tax benefit from stock options exercised	—	—	1,099	—	—	1,099
Repurchase and retirement of common stock	(6)	—	(186)	—	—	(186)
<b>Balance at December 31, 2001</b>	<b>38,771</b>	<b>\$388</b>	<b>\$291,182</b>	<b>\$177,820</b>	<b>\$ 5,733</b>	<b>\$475,123</b>

The accompanying notes are an integral part of these financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 NATURE OF OPERATIONS

Stillwater Mining Company, a Delaware corporation, is engaged in the exploration, development, extraction, processing and refining of palladium, platinum and associated minerals from the J-M Reef located in Stillwater and Sweet Grass Counties, Montana. The J-M Reef is a twenty-eight (28) mile long geologic formation containing one of the largest deposits of platinum group metals (PGMs) in the world.

The company's operations consist of the Stillwater Mine located on the J-M Reef in Nye, Montana, the East Boulder Mine located at the western end of the J-M Reef in Sweet Grass County, Montana and a smelter and refinery located in Columbus, Montana.

During 1998, the company announced plans for the expansion of the Stillwater Mine, development of the East Boulder Mine and expansion of the smelter and refining facilities. During 2001, the company announced plans to revise its expansion plan at the Stillwater Mine to a 2,500 tons of ore per day level.

The company's operations can be significantly impacted by risks and uncertainties associated with the mining industry as well as those specifically related to its operations. The risks and uncertainties that can impact the company include but are not limited to the following: price volatility of palladium and platinum, economic and political events affecting supply and demand for these metals, reserve estimation, environmental obligations, government regulations and ownership of and access to mineral reserves.

### NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Stillwater Mining Company and its wholly owned subsidiary (collectively referred to as the "company"). All intercompany transactions and balances have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform with the current year presentation.

#### Cash and Cash Equivalents

Cash and cash equivalents consist of all cash balances and all highly liquid investments purchased with a maturity of three months or less. As of December 31, 2001 and 2000, there were no cash equivalents.

#### Inventories

Metals inventories are carried at the lower of current market value or average unit cost. Production costs include the cost of direct labor and materials, depreciation and amortization, as well as overhead costs relating to mining and processing activities. Materials and supplies inventories are valued at the lower of average cost or fair market value.

#### Property, Plant and Equipment

Plant and equipment are recorded at cost and depreciated using the straight-line method over estimated useful lives ranging from five to twenty years or, for capital leases, the term of the related leases if shorter. Maintenance and repairs are charged to operations as incurred. Mine development expenditures incurred to increase existing production, develop new ore bodies or develop mineral property substantially in advance of production are capitalized and amortized using a units-of-production method over the proven and probable reserves. Interest is capitalized on expenditures related to construction or development projects and amortized using the same method as the related asset. Interest capitalization is discontinued when the asset is placed into operation or development ceases. Exploration costs are expensed as incurred.

#### Asset Impairment

The company follows Statement of Financial Accounting Standard (SFAS) No. 121, *Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of*. The company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment is considered to exist if total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset. An impairment loss is measured as the amount by which the asset-carrying value exceeds fair value. Fair value is determined using an estimated discounted future cash flow analysis. Future cash flows include estimates of recoverable ounces, platinum and palladium prices (considering current and historical prices, price trends and related factors), production levels, capital and reclamation expenditures, all based on detailed life-of-mine plans derived from engineering reports. In estimating future cash flows, assets are grouped together at each individual mine property which is the lowest level for which there are identifiable cash flows that are largely independent of cash flows from other asset groups. Assumptions underlying future cash flows are subject to risks and

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

uncertainties. Any differences between significant assumptions and market conditions and/or the company's performance could have a material effect on the company's financial position and results of operations. As of December 31, 2001, the company does not believe that any impairments of its long-lived assets have occurred.

### Fair Value of Financial Instruments

The company's non-derivative financial instruments consist primarily of cash, accounts receivable, metals repurchase agreements payable, debt and capital lease obligations. The carrying amounts of cash, accounts receivable and metals repurchase agreements payable approximate fair value due to their short maturities. The carrying amounts of long-term debt approximate fair values as interest rates on the majority of such debt are variable. At December 31, 2001 and 2000, based on rates available for similar types of obligations, the fair values of capital lease obligations were not materially different from their carrying amounts.

### Revenue Recognition

Revenues consist of the sales of palladium and platinum, including any realized hedging gains or losses, and are reduced by sales discounts associated with long-term sales contracts. Byproduct metals revenue and secondary materials processing revenue are included as a reduction to the cost of metals sold rather than an increase in revenue.

Effective January 1, 2000, the company changed its method of accounting for revenue recognition. Pursuant to the guidance in Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition for Financial Statements*, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, no obligations remain and collectibility is probable. Under the terms of sales contracts and purchase orders received from customers, the company recognizes revenue when the product is in a refined and saleable form and title passes, which is typically when the product is transferred from the account of the company to the account of the customer. Sales discounts are recognized when the related revenue is recorded.

The company previously recognized revenue when product was shipped from the company's refinery to an external refiner. The implementation of SAB No. 101 was treated as a change in accounting principle with the cumulative effect of the change on retained earnings at the beginning of 2000 included in restated net income of

the first interim period of 2000. The effect of the accounting change on 2000 was to decrease net income by approximately \$10.3 million (\$0.26 per basic and diluted share), which includes the cumulative effect of \$6.4 million (\$0.16 per basic and diluted share). The \$6.4 million cumulative effect adjustment includes \$26 million of revenue previously recognized in 1999, which is reflected as revenue in 2000 under the company's new method of accounting. Assuming the accounting change had been applied retroactively, the unaudited pro forma effect would have been a decrease in net income of \$2.2 million (\$0.06 per basic and \$0.05 per diluted share) in 1999.

Effective January 1, 2000, the company also implemented Issue No. 00-14 of the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF), *Accounting for Certain Sales Incentives*. The consensus reached by the FASB EITF requires a company to classify any cash sales discounts as a reduction in revenue. Prior to the implementation of EITF 00-14, the company classified sales discounts associated with long-term sales contracts as a component of cost of metals sold. Pursuant to the consensus, financial statements for all prior periods presented have been reclassified.

### Hedging Program

From time to time, the company enters into derivative financial instruments, including fixed forwards, cashless put and call option collars and financially settled forwards to manage the effect of price changes in palladium and platinum on the company's revenue. These instruments are accounted for as hedges when the instrument is designated as a hedge of the related production and there exists a high degree of correlation between the fair value of the instrument and the fair value of the hedged production. The degree of correlation is assessed periodically. In the event that an instrument does not meet the designation, effectiveness or ineffectiveness criteria, any subsequent gain or loss on the instrument is recognized immediately in earnings. Otherwise, gains or losses related to hedging transactions are recognized as adjustments to the revenue recorded for the related production. If an instrument is settled early, any gains or losses are deferred and recognized as adjustments to the revenue recorded for the related production. Costs associated with the purchase of certain hedging instruments are deferred and amortized against revenue related to the hedged production.

Effective January 1, 2001, the company adopted the FASB SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and SFAS No. 138, *Accounting for*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*Derivative Instruments and Certain Hedging Activities*, an amendment to SFAS No. 133. SFAS Nos. 133 and 138 require that derivatives be reported on the balance sheet at fair value and, if the derivative is not designated as a hedging instrument, changes in fair value must be recognized in earnings in the period of change. If the derivative is designated as a hedge and to the extent such hedge is determined to be effective, changes in fair value are either (a) offset by the change in fair value of the hedged asset or liability (if applicable) or (b) reported as a component of other comprehensive income in the period of change, and subsequently recognized in earnings when the offsetting hedged transaction occurs. The company primarily uses derivatives to hedge metal prices. In accordance with the transition provisions of SFAS No. 133, the company recorded a net-of-tax cumulative-effect-type loss adjustment of \$7.1 million in accumulated other comprehensive loss to recognize at fair value all derivatives that are designated as cash-flow hedging instruments at January 1, 2001.

### Metals Repurchase Transactions

The company may enter into transactions for the sale and repurchase of excess metals held in the company's account at third party refineries. Under these transactions, the company will enter into an agreement to sell a certain number of ounces to counter parties at the then current market price. The company will simultaneously enter into a separate agreement with the same counter party, to repurchase the same number of ounces at the same price at the repurchase date. The company records a liability for the amount to be paid to repurchase the metals upon entering into the agreement.

### Reclamation and Environmental Costs

Post-closure reclamation and site restoration costs are estimated based on environmental regulatory requirements and are accrued ratably over the life of the mine using a units-of-production method. Current expenditures related to ongoing environmental and reclamation programs are expensed as incurred. At December 31, 2001, the company was required to post surety bonds with the State of Montana in the amount of \$13.2 million, which also represents the company's current estimate of mine closure and reclamation costs for current operations. The accrued reclamation liability, included in other noncurrent liabilities, was approximately \$1.4 million and \$1.1 million, respectively at December 31, 2001 and 2000.

### Income Taxes

Income taxes are determined using the asset and liability approach in accordance with the provisions of SFAS No.

109, *Accounting for Income Taxes*. This method gives consideration to the future tax consequences of temporary differences between the financial reporting basis and the tax basis of assets and liabilities based on currently enacted tax rates. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

### Stock-Based Compensation

The company has elected to account for stock options in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. Accordingly, because options are granted at fair market value, no compensation expense has been recognized for options issued under the company's stock option plans. The company has adopted the disclosure only provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*. Accordingly, the company has made pro forma disclosures of net income and earnings per share as if the fair value based method of accounting, as set forth in SFAS No. 123, had been applied.

### Earnings Per Share

The company follows SFAS No. 128, *Earnings per Share*, which requires the presentation of basic and diluted earnings per share.

Basic earnings per share is computed by dividing net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. No adjustments were made to reported net income in the computation of earnings per share.

### Comprehensive Income

Comprehensive income includes net income, as well as other changes in shareholders' equity that result from transactions and events other than those with shareholders. The company's only significant element of other comprehensive income is unrealized gains and losses on derivative financial instruments.

### Start-Up Costs

The costs of start-up activities, including organization costs, are expensed as incurred.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Debt Issuance Costs

Costs associated with the issuance of debt are capitalized and amortized over the term of the related debt using the effective interest method and included in other noncurrent assets.

### Use of Estimates

The preparation of the company's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. The more significant areas requiring the use of management's estimates relate to mineral reserves, reclamation and environmental obligations, valuation allowance for deferred tax assets, useful lives for depreciation and amortization, future cash flows from long-lived assets and accruals for restructuring costs. Actual results could differ from these estimates.

### NOTE 3 NEW ACCOUNTING STANDARDS

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and normal use of the asset.

SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. The liability is accreted at the end of each period through charges to operating expense. If the obligation is settled for other than the carrying amount of the liability, the company will recognize a gain or loss on settlement.

The company is required to adopt the provisions of SFAS No. 143 for the quarter ending March 31, 2003. To accomplish this, the company must quantify all legal obligations for asset retirement obligations and determine the fair value of these obligations on the date of adoption. Additionally, the company will be required to develop processes to track and monitor these obligations. Because of the effort necessary to comply with the adoption of SFAS No. 143, the company has not yet completed its evaluation of the impact of adoption.

On October 3, 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, it retains many of the fundamental provisions of that Statement. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The company has not yet completed its evaluation of the impact of adoption.

### NOTE 4 INVENTORIES

<i>(in thousands)</i>	2001	2000
Metals inventory		
Raw ore	\$ 1,571	\$ 1,086
Concentrate and in-process	14,944	13,971
Finished goods	17,171	21,864
	<u>33,686</u>	<u>36,921</u>
Materials and supplies	9,258	5,704
	<u>\$42,944</u>	<u>\$42,625</u>

### NOTE 5 PROPERTY, PLANT AND EQUIPMENT

<i>(in thousands)</i>	2001	2000
Machinery and equipment	\$ 58,135	\$ 46,652
Leased equipment	10,092	9,783
Buildings and structural components	159,366	138,550
Mine development	318,043	227,389
Land	3,276	3,276
Construction-in-progress:		
East Boulder Mine	314,611	209,387
Stillwater Mine	12,220	42,500
Other construction-in-progress	11,867	15,675
	<u>887,610</u>	<u>693,212</u>
Less accumulated depreciation and amortization	<u>(113,574)</u>	<u>(91,102)</u>
	<u>\$ 774,036</u>	<u>\$602,110</u>

The company's total capital expenditures were as follows:

<i>(in thousands)</i>	2001	2000	1999
East Boulder Mine	\$105,224	\$ 98,212	\$ 87,593
Stillwater Mine	72,563	88,321	68,419
Other construction-in-progress	18,970	11,339	37,420
Other	398	188	821
Total capital expenditures	<u>\$197,155</u>	<u>\$ 198,060</u>	<u>\$194,253</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All capital expenditures related to East Boulder are included in construction-in-progress. East Boulder capital expenditures are net of proceeds of \$7.1 million generated from construction and development activities.

### NOTE 6 LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

#### Credit Facility

In February 2001, the company obtained a \$250 million credit facility from a syndicate of financial institutions. The facility provides for a \$65 million five-year term loan facility (Term A), a \$135 million seven-year term loan facility (Term B) and a \$50 million revolving credit facility. Amortization of the term loan facilities will commence on March 31, 2002. The final maturity of the Term A facility and the revolving credit facility is December 30, 2005 while the Term B facility final maturity date is December 31, 2007. Of the term loan facility proceeds, \$125 million was used to repay borrowings under the prior credit facility with the remaining proceeds used to fund the company's expansion plans as required. Proceeds of the revolving credit facility are used for general corporate and working capital needs. As of December 31, 2001, the company has \$65.0 million, \$134.0 million and \$25.0 million outstanding under the Term A, Term B and revolving credit facilities, respectively, bearing interest at 6.125%, 7.25% and 4.69%, respectively. The revolving credit facility requires a commitment fee of 0.05% on the unadvanced amount. Prior to taking advances on the remaining \$25.0 million of the credit facility, the company is required to meet certain production criteria.

The loans are required to be prepaid from excess cash flow, proceeds from asset sales and the issuance of debt or equity securities, subject to specified exceptions. At the company's option, the credit facility bears interest at the London Interbank Offered Rate (LIBOR) or an alternate base rate, in each case plus a margin of 2.5% to 3.75% which is adjusted depending upon the company's ratio of debt to operating cash flow. Substantially all the property and assets of the company and its subsidiaries and the stock of the company's subsidiaries are pledged as security for the facility.

The covenants to the credit agreement were amended in November 2001. Covenants in the facility restrict: (1) additional indebtedness; (2) payment of dividends or redemption of capital stock; (3) liens; (4) investment, acquisitions, dispositions or mergers; (5) transactions with affiliates; (6) capital expenditures (other than those associated with the revised plan); (7) refinancing or prepayment of subordinated debentures; (8) changes in the nature of business conducted or ceasing operations

at the principal operating properties; and (9) commodities hedging to no more than 90% of annual palladium production and 75% of annual platinum production (excluding the sales covered by the company's marketing contracts and similar agreements). The company is also subject to financial covenants including a debt to operating cash flow ratio, a debt service coverage ratio and a debt to equity ratio.

Events of default include: (1) a cross-default to other indebtedness of the company; (2) any material modification to the life-of-mine plans; (3) a change of control of the company; (4) the failure to maintain agreed-upon annual PGM production levels or (5) any breach or modification of any of the sales contracts.

#### Convertible Subordinated Notes

In April 1996, the company issued \$51.5 million of 7% Convertible Subordinated Notes (the "Convertible Notes") with a stated maturity date of May 1, 2003. The Convertible Notes were unsecured, subordinated obligations. On May 1, 1999, the company completed the underwritten call for redemption of its \$51.4 million outstanding principal amount of 7% Convertible Subordinated Notes. Substantially all of the notes were converted into common stock. The notes were redeemed at a conversion price of \$17.87 per share with cash paid in lieu of fractional shares. The company issued approximately 2.9 million shares of common stock in connection with the conversion of the notes. Underwriters' fees and other costs associated with the call for redemption were approximately \$0.3 million.

#### Equipment Lease Agreements

The company leases certain underground mining equipment under five-year leasing agreements containing two-year renewal options that can be exercised at the end of the original lease terms. In December 2001 and September 2000, the company amended two of the capital lease agreements by exercising the two-year renewal option. The following is a schedule by year of future minimum lease payments under capital leases together with the present value of the net minimum lease payments:

##### Year ended December 31, (in thousands)

2002	\$1,109
2003	324
2004	57
Total minimum lease payments	1,490
Less amount representing interest	81
Present value of net minimum lease payments	1,409
Less current portion	1,048
Total long-term capital lease obligation	<u>\$ 361</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Exempt Facility Revenue Bonds

On July 6, 2000, the company completed a \$30 million offering of Exempt Facility Revenue Bonds, Series 2000, through the State of Montana Board of Investments. The bonds were issued by the State of Montana Board of Investments to finance a portion of the costs of constructing and equipping certain sewage and solid waste disposal facilities at both the Stillwater Mine and the East Boulder Mine. The bonds mature on July 1, 2020 and have a stated interest rate of 8.00% with interest paid semi-annually. The bonds have an effective interest rate of 8.57%. Net proceeds from the offering were \$28.7 million. As of December 31, 2000, \$2.6 million of the funds were held in escrow, pending expenditure for allowable costs. Expenditures for allowable costs were completed during 2001. The balance outstanding at December 31, 2001 and 2000 was \$29.3 million which is net of the unamortized discount of \$0.7 million.

### Special Industrial Education Impact Revenue Bonds

These bonds were issued by the company in 1989 in three series to finance impact payments to local school districts. The bonds bear interest at varying rates between 6.5% and 7.8% and mature in increasing annual principal amounts through 2009. The balance outstanding at December 31, 2001 and 2000 was \$1.1 million and \$1.3 million, respectively, of which approximately \$0.1 million was classified as current in each year. The bonds, which are collateralized by the company's real estate, are secured by guarantees from Chevron Corporation and Manville Corporation. Scheduled principal repayments during the years 2002 through 2006 are approximately \$0.1 million in each year. Scheduled principal repayments subsequent to 2006 total \$0.6 million.

### Cash Paid for Interest

The company made cash payments for interest of \$17.0 million, \$11.9 million and \$3.8 million for the years ended December 31, 2001, 2000 and 1999, respectively.

### NOTE 7 RESTRUCTURING COSTS

In the fourth quarter of 2001 the company began implementing a revised operating plan which includes a reduction of the company's previously planned capital expenditures and production levels. In accordance with this plan, the company terminated certain contracts related to ongoing mine development property and accrued a pre-tax charge of approximately \$11 million for early contract termination costs. The accrual was based on the termination provisions of the related contracts and is expected to be paid during 2002. The actual liability may be more or less than this estimate based on final settlements of contract termination provisions.

### NOTE 8 EMPLOYEE BENEFIT PLANS

The company has adopted two savings plans which qualify under section 401(k) of the U.S. Internal Revenue Code covering all non-bargaining and bargaining employees. Under the plans, employees may elect to contribute up to 10% of their cash compensation, subject to the Employee Retirement Income Security Act of 1974 (ERISA) limitations. The company is required to make matching cash contributions equal to 200% of the employee's contribution up to 3% of the employee's compensation. Contributions to the plans were \$3.8 million, \$2.4 million and \$1.5 million in 2001, 2000 and 1999, respectively.

After December 31, 2001, the company amended the provisions of these plans so that the company will be required to make matching contributions equal to 100% of the employee's contribution up to 6% of the employee's compensation, effective the fiscal year beginning January 1, 2002. Pursuant to the amended provisions, the company will pay matching contributions with common stock of the company for 2002.

### NOTE 9 COMMON STOCK PLANS AND AGREEMENTS

#### Stock Plan

The company sponsors stock option plans that enable the company to grant stock options or restricted stock to employees and non-employee directors. As of December 31, 2001, there were 5,550,000 shares of common stock authorized for issuance under the plans.

Awards granted under the plans may consist of incentive stock options (ISOs) or non-qualified stock options (NQSOs), stock appreciation rights (SARs), restricted stock or other stock-based awards, with the exception that non-employee directors may not be granted SARs and only employees of the company may be granted ISOs.

The plans are administered by the Compensation Committee of the company's Board of Directors, which determines the exercise price, exercise period, vesting period and all other terms. Officers' and directors' options expire ten years after the date of grant. All other options expire five to ten years after the date of grant, depending upon the original grant date.

There were approximately 1,200,000 shares available for grant as of December 31, 2001. Stock option activity for the years ended December 31, 2001, 2000 and 1999 is summarized as follows:

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Shares	Weighted Average Exercise Price	Weighted Average Fair Value of Options Granted
Options outstanding at December 31, 1998	2,202,718	\$ 13.74	—
<b>1999 Activity:</b>			
Options granted	634,150	26.68	\$ 9.56
Options exercised	(499,047)	11.56	—
Options canceled	(84,622)	22.36	—
Options outstanding at December 31, 1999 (1,524,185 exercisable)	2,253,199	17.52	—
<b>2000 Activity:</b>			
Options granted	419,550	30.56	\$14.00
Options exercised	(750,680)	16.40	—
Options canceled	(37,100)	30.77	—
Options outstanding at December 31, 2000 (1,191,443 exercisable)	1,884,969	20.61	—
<b>2001 Activity:</b>			
Options granted	518,988	32.98	\$13.56
Options exercised	(120,980)	15.87	—
Options canceled	(37,947)	30.99	—
Options outstanding at December 31, 2001 (1,664,652 exercisable)	2,245,030	\$ 23.55	—

The following table summarizes information for outstanding and exercisable options as of December 31, 2001:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Average Remaining Contract Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 3.91	97,062	2.7	\$ 3.91	97,062	\$ 3.91
\$ 4.66 - \$ 9.33	1,463	3.0	\$ 9.00	1,463	\$ 9.00
\$ 9.33 - \$ 13.99	221,471	3.9	\$12.61	221,471	\$12.61
\$13.99 - \$18.65	520,025	5.4	\$15.59	510,275	\$15.58
\$18.65 - \$23.31	179,249	5.2	\$21.28	126,290	\$21.13
\$23.31 - \$27.98	465,769	6.2	\$26.62	346,185	\$26.64
\$27.98 - \$32.64	373,666	5.8	\$30.05	271,523	\$30.08
\$32.64 - \$37.30	160,125	8.3	\$34.28	52,633	\$33.31
\$37.30 - \$41.97	222,900	7.5	\$38.12	34,450	\$38.75
\$41.97 - \$46.63	3,300	3.0	\$43.83	3,300	\$43.83
	<u>2,245,030</u>			<u>1,664,652</u>	

The company has elected to follow APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its stock options. Under APB Opinion No. 25, because the exercise price of the company's stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required by SFAS No. 123 and has been determined as if the company had accounted for its stock options under the fair value method of SFAS No. 123. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

<i>Year ended December 31,</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>
Weighted average expected lives (years)	<b>3.7</b>	3.2	3.8
Interest rate	<b>4.5%</b>	6.2%	5.5%
Volatility	<b>56%</b>	58%	47%
Dividend yield	<b>—</b>	—	—

Option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not neces-

sarily provide a reliable single measure of the fair value of its stock options.

The estimated fair value of the options is amortized to expense over the vesting period of the options for purposes of the following pro forma disclosures:

<i>(in thousands except per share amounts) Year ended December 31,</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>
Pro forma net income	<b>\$60,688</b>	\$57,344	\$32,064
Pro forma earnings per share:			
Basic	<b>\$ 1.57</b>	\$ 1.49	\$ 0.87
Diluted	<b>\$ 1.55</b>	\$ 1.46	\$ 0.83

The effect of outstanding stock options on diluted weighted average shares outstanding was 481,442, 743,060 and 898,023 shares for 2001, 2000 and 1999, respectively. Outstanding options to purchase 820,616, 65,575 and 519,875 shares of common stock were excluded from the computation of diluted earnings per share for the years ended December 31, 2001, 2000 and 1999, respectively, because the effect of inclusion would have been antidilutive using the treasury stock method.

The effect of the company's Convertible Notes on diluted weighted average shares outstanding was 940,594 shares for 1999.

### **Rights Agreement**

In October 1995, the Board of Directors of the company adopted a Rights Agreement under which Stillwater shareholders of record as of November 15, 1995

received a dividend in the form of Preferred Stock Purchase Rights (the "Rights"). The Rights permit the holder to purchase one one-thousandth of a share (a unit) of Series A Preferred Stock, par value \$0.01 per share (the "Preferred Stock"), at a purchase price of \$53 per unit, subject to adjustment. All outstanding Rights may be redeemed by the company at any time until such time the Rights become exercisable. Until a Right is exercised, the holder thereof has no rights as a shareholder of the company, including the right to vote or receive dividends. Subject to certain conditions, the Rights become exercisable ten business days after a person or group acquires or commences a tender or exchange offer to acquire a beneficial ownership of 15% or more of the company's outstanding common stock. The Rights expire on October 26, 2005 unless earlier redeemed or exercised.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 10 INCOME TAXES

The components of the provision (benefit) for income taxes are as follows:

<i>(in thousands)</i> Year ended December 31,	2001	2000	1999
Current federal	\$ 202	\$ (335)	\$ 573
Current state	—	—	—
Total current	<u>202</u>	<u>(335)</u>	<u>573</u>
Deferred federal	16,632	22,600	10,132
Deferred state	3,491	4,885	3,469
Total deferred	<u>20,123</u>	<u>27,485</u>	<u>13,601</u>
Total income tax provision	<u>20,325</u>	<u>27,150</u>	<u>14,174</u>
Less: Income tax allocated to cumulative effect of accounting change	—	(2,503)	—
Net income tax provision	<u>\$20,325</u>	<u>\$ 24,647</u>	<u>\$14,174</u>

The components of the company's deferred tax liabilities (assets) are comprised of the following temporary differences and carryforwards:

<i>(in thousands)</i> December 31,	2001	2000
Property and equipment	\$ 19,699	\$ 15,043
Mine development costs	118,201	93,658
Capital lease obligations	654	—
Derivative financial instruments	3,726	—
Other	295	—
Total deferred tax liabilities	<u>142,575</u>	<u>108,701</u>
Capital lease obligations	—	(237)
Noncurrent liabilities	(4,294)	(2,562)
Current liabilities	(1,723)	(1,160)
Inventory	(3,419)	(5,839)
Net operating loss and other carryforwards	<u>(62,669)</u>	<u>(51,178)</u>
Total deferred tax assets	<u>(72,105)</u>	<u>(60,976)</u>
Net deferred tax liabilities	<u>\$ 70,470</u>	<u>\$ 47,725</u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The company expects the deferred tax assets

at December 31, 2001 to be realized as a result of projected income from future operations and reversal of existing taxable temporary differences. There was no valuation allowance recorded in 2001 or 2000 because it is more likely than not that all deferred tax assets will be realized. A reconciliation from the federal income tax provision at the applicable statutory income tax rate to the effective rate is as follows:

<i>(in thousands)</i> Year ended December 31,	2001	2000	1999
Income before income taxes and cumulative effect of accounting change	\$ 86,129	\$95,049	\$51,345
Income taxes at statutory rate	\$ 30,145	\$33,267	\$17,971
State income taxes, net of federal benefit	2,304	3,622	2,272
Percentage depletion	(15,483)	(9,254)	—
Adjustments to prior years' tax provisions	3,224	(921)	(6,069)
Other	135	436	—
Total income tax provision	<u>20,325</u>	<u>27,150</u>	<u>14,174</u>
Less: Income tax allocated to cumulative effect	—	(2,503)	—
Net income tax provision	<u>\$ 20,325</u>	<u>\$24,647</u>	<u>\$14,174</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2001, the company had approximately \$159 million of regular tax net operating loss carryforwards expiring during 2011 through 2021. The company believes that it is more likely than not that these carryforwards will be utilized to reduce future federal income tax liabilities. Management can and would implement tax planning strategies to prevent these carryforwards from expiring.

The company made cash payments for income taxes of \$0.4 million, \$0.7 million and \$0.2 million for the years ended December 31, 2001, 2000 and 1999, respectively.

### NOTE 11 LONG-TERM SALES CONTRACTS

In September 1998, the company entered into long-term sales contracts with General Motors Corporation, Ford Motor Company and Mitsubishi Corporation. In late 2000 and in 2001, the company amended these contracts to extend the terms and to modify the pricing mechanisms. The new arrangements establish higher prices on a portion of the current contracts, extend the term of the contracts through 2010 with new floors and ceilings and increase the amount of platinum committed. Under the revised terms, the company committed between 80% to 100% of its annual palladium production. Palladium sales are priced at a discount to market, with various floor prices averaging approximately \$339 to \$385 per ounce

on 80% to 100% of its production from 2002 to 2010. The company agreed to various maximum palladium prices averaging approximately \$400 to \$975 per ounce on 20% to 39% of its production from 2002 to 2010. In addition, the company committed between 70% to 98% of its annual platinum production. Platinum sales are priced at a discount to market, subject to minimum prices averaging approximately \$404 to \$425 per ounce on 70% to 98% of its production from 2002 to 2010. The company agreed to various maximum prices averaging approximately \$569 to \$856 per ounce on 14% to 42% of its production from 2002 to 2010. The sales contracts provide for adjustments to ounces committed based on actual production. The sales contracts contain termination provisions that allow the purchasers to terminate in the event the company breaches certain provisions of the contracts and the breach is not cured within periods ranging from ten to thirty days after notice by the purchaser. The long-term sales contracts are not subject to the requirements of SFAS No. 133 as the contracts qualify for the normal sales exception provided in SFAS No. 138 since they will not settle net and will result in physical delivery. The floors and ceilings embedded within the long-term sales contracts are treated as part of the host contract, not a separate derivative instrument and are therefore also not subject to the requirements of SFAS No. 133. The floor and ceiling price structures are summarized below:

Year	PALLADIUM				PLATINUM			
	% of Production	Average Floor Price	% of Production	Average Ceiling Price	% of Production	Average Floor Price	% of Production	Average Ceiling Price
2002	95%	\$370	28%	\$400	98%	\$404	42%	\$569
2003	95%	\$357	28%	\$400	98%	\$404	28%	\$569
2004	100%	\$371	39%	\$644	80%	\$425	16%	\$856
2005	100%	\$355	39%	\$644	80%	\$425	16%	\$856
2006	100%	\$339	19%	\$892	80%	\$425	16%	\$856
2007	100%	\$363	20%	\$975	70%	\$425	14%	\$850
2008	80%	\$385	20%	\$975	70%	\$425	14%	\$850
2009	80%	\$380	20%	\$975	70%	\$425	14%	\$850
2010	80%	\$375	20%	\$975	70%	\$425	14%	\$850

### NOTE 12 COMMODITY INSTRUMENTS

The company uses various derivative financial instruments to manage the company's exposure to market prices associated with changes in palladium and platinum commodity prices. Because the company hedges only with instruments that have a high correlation with the value of the hedged transactions, changes in derivatives' fair value

are expected to be offset by changes in the value of the hedged transaction.

The company utilizes the following types of derivative financial instruments: fixed forwards, cashless put and call option collars and financially settled forwards. For derivative instruments, the company designates derivatives as a hedge of a forecasted transaction ("cash flow")

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

hedge). Currently, all derivatives have been assessed as highly effective cash-flow hedges that link to a specific firm commitment or forecasted transaction. Changes in fair value of derivatives that are highly effective as hedges and that are designated and qualified as a cash-flow hedge are reported in other comprehensive income until the related specific firm commitments or forecasted transactions occur. Hedging gains or (losses) of \$5.5 million, (\$15.8) million and (\$0.3) million were recognized as an adjustment to revenue in 2001, 2000 and 1999, respectively.

The company enters into cashless put and call option collars under which the company receives the difference between the put price and the market price only if the market price is below the put price and the company pays the difference between the call price and the market price only if the market price is above the call price. The company's put and call options are financially settled at maturity. Since the put/call instruments hedge forecasted transactions, they qualify for cash flow hedge accounting. They are considered to be highly effective since the intrinsic value of the put/call will offset the change in value associated with future production not subject to the long-term sales contract. The company recorded \$2.4 million, \$13.3 million and \$0.2 million in losses for the settlement of cashless put and call option collars in 2001, 2000 and 1999, respectively.

The company may enter into fixed forward contracts to sell metals at a future date and at a fixed price in order to reduce the risk associated with future metals prices for ounces produced in excess of the company's long-term sales contracts. These instruments are considered to be highly effective derivatives that will qualify for cash flow hedge accounting since they are an "all-in-one-hedge" instrument, meaning that all of the components (ounces, delivery date, and price) are fixed as part of the original commitment. The company recorded \$0, \$2.5 million and \$0.1 million in losses for the settlement of fixed forward contracts in 2001, 2000 and 1999, respectively.

The company also enters into financially settled forwards. They differ from fixed forwards in that they are settled net in cash. The company uses the financially settled forwards as a mechanism to hedge the fluctuations in metal prices associated with future production not subject to the long-term sales contracts. The financially settled forwards qualify as a cash flow hedge and are considered to be highly effective, since the change in the value of the financially settled forward will offset changes in the expected future cash flows related to future production

not subject to the long-term sales contracts. The company recorded \$7.9 million in gains for the settlement of financially settled forwards in 2001. No financially settled forwards were settled in 2000 or 1999.

In accordance with the transition provisions of SFAS No. 133, the company recorded a cumulative-effect-type loss adjustment of \$10.0 million (\$7.1 million net of tax) in accumulated other comprehensive loss to recognize at fair value all derivatives that are designated as cash-flow hedging instruments at January 1, 2001. During 2001, the fair value of the derivatives increased \$24.9 million, of which \$5.5 million was realized as earnings and \$19.4 million (\$12.9 million net of tax) is unrealized and recorded in accumulated other comprehensive income. Substantially all financially settled forwards outstanding at December 31, 2001, have been closed and cash has been received. The gains will be deferred until the original settlement dates on the contract. The company expects to realize and reclassify to earnings the entire \$9.5 million (\$5.7 million net of tax) of unrealized gains existing at December 31, 2001, that are recorded in accumulated other comprehensive income, during the next twelve months.

### NOTE 13 COMMITMENTS AND CONTINGENCIES

#### Refining Agreements

The company has contracted with two entities to refine its filter cake production. Even though there are limited number of PGM refiners, the company believes that it is not economically dependent upon any one refiner.

#### Operating Leases

In September 1998, the company completed the sale and leaseback of a tunnel boring machine and miscellaneous other mining equipment. The leases are non-cancelable with terms of seven years and are classified as operating leases for financial reporting purposes. In September 2000, the company entered into an additional operating lease through the sale and leaseback of mining equipment. The lease is non-cancelable with a term of five years and is classified as an operating lease for financial reporting purposes. In December 2001, the company entered into an additional operating lease through the sale and leaseback of mining equipment. The lease is cancelable after one year with a term of seven years and is classified as an operating lease for financial reporting purposes. Rental expense amounted to approximately \$2.1 million, \$1.6 million and \$0.8 million in 2001, 2000 and 1999, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Future minimum lease payments for non-cancelable leases with terms in excess of one year are \$3.3 million, \$3.1 million, \$3.0 million and \$2.3 million in 2002, 2003, 2004 and 2005, respectively.

### Significant Customers

Sales to significant customers represented approximately 96%, 91% and 80% of total revenues for the years ended December 31, 2001, 2000 and 1999, respectively.

### Labor Union Contract

As of December 31, 2001, the company had approximately 62% of its labor forces, or 998 employees, covered by a collective bargaining agreement expiring June 30, 2004.

In January 2002, the company recognized the Paper, Allied Industrial, Chemical and Energy Workers International Union (PACE) as the exclusive bargaining representative

for the hourly employees at the East Boulder Mine. The company anticipates that labor contract negotiations will occur in 2002.

### Legal Proceedings

The company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the company's consolidated financial position, results of operations or liquidity.

### NOTE 14 SUBSEQUENT EVENT

On January 31, 2002, the company completed a \$60 million private placement of its common stock involving approximately 4.3 million shares or approximately 10% of the outstanding shares after such issuance. The price per share represents an approximate 10% discount from the closing price of \$15.61 on January 29, 2002. Proceeds from the offering were approximately \$54.4 million, net of offering costs of \$5.6 million.

### NOTE 15 QUARTERLY DATA (UNAUDITED)

Quarterly earnings data for the years ended December 31, 2001 and 2000 were as follows:

<i>(in thousands, except per share data)</i>	<b>2001 Quarter Ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
Revenue	\$89,864	\$75,304	\$52,893	\$59,320
Operating income	\$40,554	\$29,100	\$12,831	\$ 1,744
Net income	\$29,402	\$21,292	\$10,260	\$ 4,850
Comprehensive income	\$35,916	\$26,552	\$14,291	\$ 1,917
Basic earnings per share	\$ 0.76	\$ 0.55	\$ 0.26	\$ 0.13
Diluted earnings per share	\$ 0.75	\$ 0.54	\$ 0.26	\$ 0.12
	<b>2000 Quarter Ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
Revenue	\$42,135	\$55,390	\$49,056	\$78,651
Operating income	\$18,282	\$23,598	\$18,946	\$33,128
Net income <sup>(1)</sup>	\$ 6,930	\$17,121	\$13,949	\$23,464
Basic earnings per share	\$ 0.18	\$ 0.45	\$ 0.36	\$ 0.61
Diluted earnings per share	\$ 0.18	\$ 0.44	\$ 0.35	\$ 0.60

(1) There were no items in comprehensive income other than net income for each of the quarters ended in 2000.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 16 MINERAL RESERVES AND PRODUCTION DATA (UNAUDITED)

Proven and probable palladium and platinum reserves<sup>(1)</sup> consisted of the following:

December 31,	2001	2000	1999	1998	1997
<b>Stillwater Mine</b>					
Ore reserves (thousands of tons)	<b>23,765</b>	22,246	22,980	23,745	17,999
Grade <sup>(2)</sup>	<b>0.68</b>	0.71	0.71	0.71	0.79
Contained metal (thousands of ounces)					
Palladium <sup>(3)</sup>	<b>12,385</b>	12,137	12,444	12,910	10,940
Platinum <sup>(3)</sup>	<b>3,753</b>	3,678	3,771	3,912	3,315
Total contained metal	<b>16,138</b>	15,815	16,215	16,822	14,255
<b>East Boulder Mine</b>					
Ore reserves (thousands of tons)	<b>21,710</b>	13,313	13,313	13,313	11,510
Grade <sup>(2)</sup>	<b>0.53</b>	0.71	0.71	0.71	0.79
Contained metal (thousands of ounces)					
Palladium <sup>(4)</sup>	<b>9,095</b>	7,251	7,251	7,251	6,992
Platinum <sup>(4)</sup>	<b>2,458</b>	2,197	2,197	2,197	2,120
Total contained metal	<b>11,553</b>	9,448	9,448	9,448	9,112

### Summary operating information was as follows:

Year ended December 31,	2001	2000	1999	1998	1997
Ounces produced (in thousands)					
Palladium	<b>388</b>	330	315	340	271
Platinum	<b>116</b>	100	94	104	84
Average realized price per ounce					
Palladium	<b>\$570</b>	\$560	\$372	\$202	\$144
Platinum	<b>\$498</b>	\$481	\$383	\$377	\$388
Average market price per ounce					
Palladium	<b>\$604</b>	\$680	\$358	\$286	\$178
Platinum	<b>\$529</b>	\$544	\$377	\$372	\$395

(1) Derived from mineral reserve estimates reviewed by independent consultants as of December 31, 2001, 2000, 1999, 1998 and 1997.

(2) Expressed in contained ounces of palladium and platinum per ton.

(3) Based on the ratio of 1.0 part of platinum to 3.3 parts of palladium, before processing losses of approximately 10%.

(4) Based on the ratio of 1.0 part of platinum to 3.7 parts of palladium, before processing losses of approximately 10%, except that the ratio of 1.0 part platinum to 3.3 parts of palladium was used as of December 31, 2000, 1999, 1998 and 1997.

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

**Francis R. McAllister**, 59  
Chairman of the Board & Chief Executive Officer

**Richard E. Gilbert**, 61<sup>2,3,4</sup>  
Former Vice President, Robert Fleming, Inc.

**Apolinar Guzman**, 68<sup>2,3,4</sup>  
Project Director Compania Minera Antamina and Managing Director; Guzman Project Management and Technical Services

**Patrick M. James**, 57<sup>2,5,6</sup>  
Former Chairman and Chief Executive Officer; Rio Algom, Inc.

**Stephen V. Kearney**, 43  
Former Chief Executive Officer; Impala Platinum Holdings Limited

**Malcolm W. MacNaught**, 64<sup>1,4,6</sup>  
Former Portfolio Manager, Fidelity Investments

**Joseph P. Mazurek**, 53<sup>1,3,5</sup>  
Partner; Crowley, Hauhey, Hanson, Toole & Dietrich, and  
Former Attorney General, State of Montana

**Peter Steen**, 71<sup>1,3,5</sup>  
Former Chairman of Executive and Policy Committee, Santa Fe Pacific Gold Corporation

- 1 Audit Committee
- 2 Compensation Committee
- 3 Corporate Governance Committee
- 4 Finance Committee
- 5 Health, Safety and Environment Committee
- 6 Nominating Committee

### OFFICERS

**Francis R. McAllister**, 59  
Chairman of the Board and Chief Executive Officer

**James A. Sabala**, 47  
Vice President and Chief Financial Officer

**Ronald W. Clayton**, 43  
Vice President, Stillwater Mine Operations

**Robert M. Taylor**, 50  
Vice President, East Boulder Mine Operations

**John R. Stark**, 49  
Vice President, Human Resources, Secretary and Corporate Council

**Christopher H. Allen**, 52  
Vice President, Environmental and Government Affairs

**Robert C. Lapple**, 43  
Vice President, Metals Marketing

### ANNUAL MEETING

Thursday, May 9, 2002  
10:00 a.m. MDT

East Boulder Mine  
12 miles FS 205,  
McCleod, Montana 59052

Since the East Boulder Mine is not accessible to passenger cars, all people interested in attending must meet at:  
Palladium Lodge  
517 W. 1st Avenue  
Big Timber, Montana 59011

Bus transportation to the East Boulder Mine will be provided by the Company; buses will depart at 9:00 a.m. MDT.

### INVESTOR RELATIONS CONTACT AND SHAREHOLDER INQUIRIES

James Sabala  
Vice President and Chief Financial Officer  
investor-relations@stillwatermining.com  
Phone: (406) 322-8700

### TRANSFER AGENT AND REGISTRAR

Computershare Trust Company, Inc.  
P.O. Box 1596  
Denver, CO 80201  
Phone: (303) 262-0600  
Fax: (303) 262-0700  
www.computershare.com

### FORM 10-K

The Company will provide the Stillwater Mining Company Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, upon request. Requests should be sent to the corporate headquarters.

### CORPORATE SECURITIES

Shares of Stillwater Mining Company common stock are traded on the New York Stock Exchange under the symbol SWC.

### SHARE PRICE STATISTICS

<b>2001</b>	<b>High</b>	<b>Low</b>
First Quarter	<b>40.30</b>	<b>25.25</b>
Second Quarter	<b>37.10</b>	<b>23.77</b>
Third Quarter	<b>29.40</b>	<b>19.75</b>
Fourth Quarter	<b>22.50</b>	<b>14.20</b>

<b>2000</b>	<b>High</b>	<b>Low</b>
First Quarter	50.81	28.13
Second Quarter	42.44	24.25
Third Quarter	34.56	24.56
Fourth Quarter	40.28	24.50

### DIVIDEND POLICY

Stillwater Mining Company does not pay a dividend as it chooses to retain all earnings from operations for use in expanding and developing its business. Payment of dividends in the future will be at the discretion of the Company's Board of Directors.

### EMPLOYEES

The total number of employees as of December 31, 2001, was 1,617.

### SHAREHOLDERS

As of March 1, 2002, shareholders of record were 525.

### NEWS RELEASES

The Company's new releases, including earnings announcements, are available by fax by calling 800-758-5804. The Company's code is 119504. This electronic system allows callers to receive specific Stillwater Mining Company releases via fax within minutes of request.

### WEB SITE

For more information about the Company, please visit our Web site at [www.stillwatermining.com](http://www.stillwatermining.com). Management's conference calls reviewing quarterly results are carried on the web site under the Investor Relations section, Management Presentations heading. Please refer to the Web site for the schedule of quarterly results announcements.

### CORPORATE ADDRESSES

*Corporate Headquarters*  
536 East Pike Avenue, P.O. Box 1330  
Columbus, MT 59019  
Phone: (406) 322-8700  
Fax: (406) 322-9985

*Eastern Commercial Office*  
Corporate Center  
39 Old Ridgebury Road, Suite D230  
Danbury, CT 06810  
Phone: (203) 744-7873  
Fax: (203) 743-3336

*Stillwater Mine*  
2562 Nye Road  
Nye, MT 59061  
Phone: (406) 328-8400  
Fax: (406) 328-8506

*East Boulder Mine*  
P.O. Box 1227  
Big Timber, MT 59011  
Phone: (406) 932-8200  
Fax: (406) 932-8214



STILLWATER  
MINING COMPANY