

MMC Norilsk Nickel, a Russian mining company, is majority owner of the Company, with about a 53% shareholding interest. Norilsk Nickel acquired this interest in June 2003, purchasing a 51% interest with \$100 million in cash and 867,169 ounces of palladium metal, and then tendered in the market for additional shares. The Company subsequently sold off the Norilsk Nickel palladium ratably over a 24-month period that concluded in the first quarter of 2006. Norilsk Nickel purchased debentures from the Company as part of the offering in order to maintain its proportionate equity ownership. Under a Shareholders' Agreement entered into at the time of the acquisition, Norilsk Nickel is currently entitled to nominate five of the Company's nine directors.

## **2008 RESULTS AND COMMENTARY**

In total, the Company reported a net loss of \$112.7 million for the full year 2008, compared to a loss of \$15.5 million in 2007. The 2008 results included a loss of \$131.9 million in the fourth quarter, compared to net income of \$0.1 million in the fourth quarter of 2007. The 2008 results include charges of \$122.1 million including a \$67.3 million impairment adjustment at the East Boulder Mine, \$16.6 million lower-of-cost-or-market inventory adjustment, a \$26.0 million write-down on advances on inventory purchases, a \$3.4 million write-down of trade receivables, a \$3.4 million charge to mark long-term investments to current market, and a \$5.4 million provision for corporate restructuring. The results and charges reflect the steep deterioration in prices during the final quarter of 2008, for platinum-group metals (PGMs), the Company's principal products and the steep downturn of the economy. At the same time during the fourth quarter the Company's available cash, cash equivalents and short-term investments (excluding restricted cash) increased by \$51.8 million, driven mostly by reductions in working capital required for the recycling segment. A detailed comparison of these outcomes is presented below in "*Results of Operations – Year Ended December 31, 2008, Compared to Year Ended December 31, 2007.*"

During 2008, the Company's mining operations produced a total of 498,900 ounces of palladium and platinum, including 384,100 ounces of palladium and 114,800 ounces of platinum, falling short of its updated mine production guidance for 2008 of between 515,000 and 525,000 ounces. The restructuring at the East Boulder Mine during the fourth quarter, and lower realized grades than planned at the Stillwater Mine late in the year contributed to this production shortfall.

In 2008, the Company processed 398,100 ounces of recycled PGMs in its smelting and refining facilities, a 6.7% increase over the 373,000 total ounces processed in 2007. The processing of recycled materials benefits from the nickel and copper sulfides in mine concentrates, which act as collecting agents. In 2003 the Company entered into an agreement with a major U.S. collector of catalytic converters to purchase substantial volumes for processing. This agreement has since been modified and extended to facilitate expansion of these activities. In 2007, the Company entered into a second supply agreement with another supplier, although the volumes committed under the second agreement are significantly less than the first. The specific commercial terms of these agreements are confidential.

Capital spending declined somewhat in 2008, although the Company continued its program to extend the developed state of both mines. This effort includes increasing proven ore reserves and expanding infrastructure to facilitate a move toward more efficient production. Actual 2008 capital expenditures of \$82.3 million were about \$17.7 million below the Company's updated guidance for the year of \$100 million. The 2008 expenditures include about \$12.9 million for a second electric furnace at the smelter in Columbus. The furnace is expected to begin commissioning during the first quarter of 2009. The shortfall in actual expenditures compared to guidance primarily reflected significant cuts in spending mandated during the fourth quarter in order to conserve cash.

Results from the fourth quarter of 2008 stand out in stark contrast to the first three quarters of the year. Early in 2008, shortages of electrical power and other operational problems curtailed mine production of PGMs in South Africa, driving the market price for platinum to record levels – it peaked in March on the LME at \$2,273 per ounce – with palladium following directionally and peaking at \$582 per ounce. The shortage of physical metal was compounded by very strong investor interest, as commodity returns suddenly looked very attractive in an otherwise lackluster market. Stillwater's average realized PGM prices on mine output for the first nine months of 2008, which include the effect of floor and ceiling prices in the auto contracts and some hedging losses on platinum in the first half, were \$1,553 per ounce for platinum and \$424 per ounce for palladium. At these strong price levels, the Company reported net earnings for the first nine months of 2008 of \$19.2 million and EBITDA of almost \$82 million.

This bullish market environment ended abruptly in the fourth quarter of 2008. As credit markets imploded, automotive sales withered and large investors cycled out of their commodity investments into cash, the market price of platinum and palladium tumbled to levels not seen since 2003. Platinum bottomed on the LME at \$756 per ounce and