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QUESTIONS AND ANSWERS:

The questions below were those posed by the Mail & Guardian and Lonmin's detailed responses to same.

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10 October 2014

Introduction

The Alternative Information & Development Centre (AIDC) recently published data to support its allegation that Lonmin was "systematically" under-pricing the metal it sells (http://www.aidc.org.za/media-room/news-articles/65-press-conference-2-june-2014-why-have-amplats-impala-and-lonmin-been-systematically-selling-their-pgm-metals-below-market-prices.html).

The essence of all these assertions by AIDC is that money was diverted from Western Platinum Limited and Eastern Platinum Limited which should have gone to meet employee salary demands. All companies are alleged to have benefitted are part of the Lonmin group, so the ultimate beneficiaries of such "alleged diversions" were the shareholders of Lonmin Plc. The facts are very different between 2008 and 2012 Lonmin Plc shareholders received dividends amounting to \$247m but paid in \$749m by way of rights issues and private placement of shares. A further \$823m was contributed by shareholders in the 2013 financial year by way of a rights issue. During the same period (2008 to 2012) a further \$673m flowed through to the operations by way of loan advances from Lonmin Plc to WPL.

An assertion was also made that Shanduka received preferential treatment in the form of dividends. We explain in detail in the Q&A's below that the motivation behind loans made to Incwala in the form of advance dividends was to support Lonmin's HDSA structure in compliance with its Mining Charter obligations. Not to have advanced these loans would have jeopardised the sustainability of the company. Incwala used the loans not to enrich shareholders but to make payment of their debt. In fact, Incwala has not declared a dividend since the Shanduka Group became a majority shareholder in 2010 and has lost significant value since purchasing this majority stake.

Each year Lonmin details in its sustainability reports the value created by the group and how it was distributed to all our stakeholders in a value added statement. This illustrate that the biggest share of value is directed towards employees.

See our latest Annual Financial Statements: www.lonmin.com

Questions and Answers:

1. Q: According to Simon Scott's affidavit this week, WPL and EPL continued to pay dividends to Incwala during the "crunch" years of 2009-2012, including two loss-making years and the year of the Marikana massacre. In the "agreed facts" document before the commission, the company admitted that it was not under an obligation to pay Incwala dividends during loss making years, but it chose to (preferring Incwala over other shareholders) so that Incwala could service its loan facilities. This was in spite of considerable strife between the company and workers, who sought better wages and living conditions from the company. This suggests that the instead of enriching the position of its politically powerful BEE partners to such an extent, the company could well have afforded to meet the demands of its work force.

A: The Mining Charter requires that mining companies achieve certain levels of HDSA equity participation by certain dates failing which the licences held by the mining companies could be in jeopardy. HDSA equity participation is a non-negotiable element of the Mining Charter. It is imperative that the HDSA structures put in place by mining companies are sustainable. Lonmin chose to advance loan monies to Incwala to ensure that Incwala was in a position to service its loan obligations. Had Lonmin not done so, Incwala would have breached its loan obligations and the HDSA equity structure could have been compromised. Loans made to Incwala will be deducted from any future dividend payments. Incwala itself has not distributed any dividends to its shareholders with the result that Shanduka has not received dividends from WPL whether directly or indirectly through Incwala.

2. The fact that Incwala Resources was controlled by Cyril Ramaphosa's Shanduka from 2010 underscores that it was a politically powerful entity from then on. Did this influence the company's decision to treat Incwala preferentially – over workers and remaining shareholders – during those years?

A: No, Lonmin did not treat Incwala preferentially. Refer above.

3. In 2011, the company employed about 25 000 workers in SA. In the same year it paid a preferential $10m (about R79m then) dividend to Incwala. As a simple illustration, that is R3160 that might have been distributed to each SA employee. Similarly, in 2012, the year of the massacre and a serious loss-maker for WPL, the company paid $14m (R116m) to Incwala – or more than R4000 per SA employee.

A: The loans made by WPL to Incwala to enable it to service its loan obligations will be repaid from future dividends to be paid by WPL to Incwala. This allows Lonmin's HDSA equity structure to remain intact, and enables it to comply with its Charter obligations. Redirecting these payments to fund additional wage demands would be commercially unwise and might threaten WPLs very existence.

4. Irrespective of Lonmin's 2012 decision to "retroactively" restructure the sales commissions so that they were paid to LMS instead of WMS, up until that point (June and July 2012) the fees were paid to LMS, as reflected in all of WPL's audited financial statements that were signed off before the date of the agency agreement (leaving aside the 2012 AFS, which the company says contained an error). Please comment and explain.

A: From the end of FY 2008, all sales commissions were paid to LMS. No sales commissions were paid to WMS. There was no "retrospective" restructuring of the sales commissions. The WPL financial statements contained a clear error in that they erroneously indicated payments to WMS instead of payments made to LMS.

5. In spite of this, the company said in its M&G letter: “No payments have been made by a Lonmin Group company to Western Metal Sales since the end of the 2008 Financial Year” (and similar wording in the “agreed facts” document and in your original statements to me in August)

A: Yes, this is the correct and was agreed to by the evidence leaders who had sight of the LMS and WMS financial statements.

6. Please explain the evident contradiction (again, accepting for now Lonmin’s explanation that the 2012 AFS contained an error).

A: Explained above

7. These statements (WMS is “long dormant” and “no further payments after 2008”) are further contradicted by the fact that WPL made loan repayments to WMS of R9.9m and R621 000 in 2009 and 2010, and WMS loaned R1.2m to WPL in 2011.

A: The differences noted above are not loan repayments.
The loan movement comprises the receipt of the R7.2 million payment for FY2008 commissions which were paid in the following year, FY2009, and a movement arising from the translation of the US dollar denominated loan in the Company accounts of R2.7 million. In FY 2010 and 2011 the movements arise from US dollar:Rand translation differences between closing exchange rates at the different balance sheet dates of R621 000 and R1,2m respectively.

8. In its Mail & Guardian Letter to the Editor, Lonmin said: “The new agreement with LMS, based in South Africa, and Western Platinum Limited, which superseded the previous agreement with Western Metal Sales, was given effect to in 2008, but only ratified by Incwala in 2012.”

A: This is correct. The agreements referred to were internally agreed to and implemented effective 2008

Please explain in practical terms how this “retroactive” change was achieved?

A: There was no retroactive change. WPL paid LMS the full commission from the end of FY2008.

9. Such a “retroactive” change would have required a redirection of funds from WMS to LMS and an explanation in the accounts signed off after the 2012 agency agreement. There is no explanation in WPL’s later audited statements. Why not?

A: There was no retroactive change. WPL paid LMS the full commission from the end of FY2008.

10. The change – with the payments being “retroactively” redirected from WMS to LMS – would also have required a different tax treatment, with LMS’s profits on the fees being taxed in SA.
- Was the change declared to SARS?

A: Yes.

11. Was a new tax liability recorded by LMS? At what rate?

A: The tax liability was recorded from the beginning at 33%. The replacement of the contract had nothing to do with tax - it was simply to move the business to South Africa on a bona fide basis. The tax payment at 33% follows the business rationale.

12. According to the AIDC's Dick Forslund, this new tax liability is not reflected in Lonmin Plc's accounts as it should be, suggesting the new tax liability has not been recorded. According to him, taxation fell from 2006 to 2008, "the platinum boom years" from more than $200m per year to an average of just $8m from 2009-2013 (in fact a tax credit in the recent years). Please comment.

A: The global recession had a major impact on platinum producers and likewise on Lonmin. Consequently the Lonmin's financial position, since October 2008, has been disappointing evidenced by the lower tax liability of the Company in the period 2009 to 2013. In addition, the Company continued to incur capital expenditure in its mining operations to maintain production capacity leading to unclaimed capital balances during periods of low profitability - therefor low overall tax liability in the period under discussion.

13. The fact that Lonmin was able to unwind six years of commercial history "retroactively" raises the question of whether or not there was a commercial basis for the Bermuda fees. If from 2007 to 2012 (the date of the agency agreement) a function was performed by a Bermuda-based company, using WMS's assets there, it is difficult to understand how this commercial reality could be "retroactively" undone.

A: No, Lonmin did not unwind six years of commercial history retroactively. No activity was carried out by WMS from the end of FY2008 and WMS received no commissions from the end of FY2008.

14. Lonmin itself said that WMS was "registered in Bermuda and operating out of London". This further supports the argument that little to no commercial function was performed in Bermuda using assets there. Rather this suggests the function was performed from Lonmin's London office, which is why it was possible to "retroactively" pay the fees to LMS (which is "legally indivisible" from the London parent company)."

A: WMS is taxed in the UK in terms of the UK CFC rules. The move of the services was following the business rationale of moving the service to South Africa and that was followed by a tax liability in South Africa. This was followed by a tax liability in South Africa calculated at a rate of 33%.

15. WMS has been registered at Appleby's offices – not an own commercial residence – since 2003. Appleby confirmed to me that there are no Lonmin or WMS staff employed there – Appleby is clearly only nominally in charge of WMS in Bermuda. Again this raises a red flag that there may be little to no substance to the marketing fees.

A: Lonmin provided a schedule of management and marketing costs to the Farlam Commission. The accounts of all of the companies within the Lonmin Group are fully audited.

16. To raise further questions over the substance of the fees, Lonmin has provided contradictory explanations regarding the entity responsible for marketing its PGMs. In August, the company told me: "All metal is sold direct by WPL to customers"; "WPL negotiates prices with customers as all commercial entities do – both parties negotiate as hard as possible to obtain the best possible price" and "The fact is that all of Lonmin's metal is sold directly by Lonmin's operating subsidiary (WPL) direct to third parties." The implication therefore is that no outside marketing agency is required. But Lonmin contradicted this, telling the commission and M&G readers that previously WMS and

now LMS does/did the marketing – and indeed it transferred fees for this purported service (even if these were "retroactively" restructured).

A: WMS and subsequently LMS carry out the marketing function on behalf of WPL. WPL and LMS are Lonmin subsidiaries and part of the Lonmin Group. No marketing agency external to Lonmin is required.

17. In light of the above, please explain why we should not conclude that there was little or no commercial substance to the transactions between WMS and WPL.

A: Refer above.

18. Under oath, Mr Seedat testified that WMS assumed risk, however he later conceded that WMS did not take ownership of the PGMs at any point. Lonmin's financial reporting and public statements are clear that the PGMs are sold direct to customer (not WMS), and it is at that point that risk is transferred (to customer, not WMS). - Please explain the evident contradiction.

A: Mr Seedat prefaced his statement by stating that he was not entirely clear as regards the position at Lonmin. BHP Billiton, where he had previously been employed, was the marketing agent that assumed risk.

19. Lonmin's 2013 annual report, p180, records marketing and management fees. That they are disclosed at group level and not in the related parties note implies that these fees went to external service providers. When I asked Lonmin in August if and how much of any of these fees were paid to LMS and WMS, its answer was: "n/a". Why is Lonmin paying such huge marketing and management fees to both internal (WMS and LMS) and external service providers (as per p180)? Or, if this is not the case, please explain.

A: Lonmin pays management and marketing fees to LMS only. This is not an external services provider.

20. Once again, the fact of external marketing fees seems to undermine the basis for the marketing fees paid to WMS and LMS. Please comment and explain.

A: Lonmin does not pay external marketing fees.

21. Forslund has said that Impala Platinum employs four or five people to sell its PGMs from its SA offices. In contrast, WPL has paid marketing fees of R200m to R300m fees a year to WMS/LMS. This seems to be an extremely expensive fee by comparison. Indeed, according to data provided by Mr Scott, LMS's (or WMS before the 2012 "retroactive" decision) profit margins were as high as 94% on the marketing expense. It is difficult to believe that this is a market-related rate. Please comment and explain.

A: Refer to annexure B below

ANNEXURE B

Management and Marketing costs incurred by Lonmin Management Services

Financial Year	Total Operating expenses (including Marketing costs) (R)	Marketing costs (R)
FY2007	114 388 211	3 000 000
FY2008	241 393 009	26 000 000
FY2009	264 744 688	154 000 000
FY2010	124 562 714	20 000 000
FY2011	226 164 485	17 000 000
FY2012	222 581 956	19 000 000
	1 193 835 063	**239 000 000**

22. What expenses were incurred for marketing?

A: As above.

23. What led to the apparent surge in marketing expense (R154m) in 2011 (the margin of 15% is still high)?

A: Marketing expenses vary from year to year dependant on the costs that are incurred driven by different initiatives that are undertaken to benefit the Revenue generated by the Group. Margin's across the Group are regularly reviewed, and are reasonable. Our accounts are subject to external audit, and our affairs subject to scrutiny by the South African and United Kingdom tax authorities.

24. While LMS is taxed in South Africa, it paid large management fees to Lonmin PLC in 2007-2010 (According to Scott). Lonmin PLC has paid no UK taxes since 2000. How was this expense (fees paid by LMS to PLC) justified?

A: This fee is payable to Lonmin Plc in exchange for services rendered by Plc executives and senior management on behalf of LMS. The tax payable in the United Kingdom is calculated in terms of UK tax law, and subject to the review of the UK tax authorities.

25. Were profits on this Lonmin PLC revenue taxed? Where? At what rate?

A: Lonmin Plc is taxable in the UK in terms of the UK corporate tax rate prevailing in the applicable year of assessment.

26. Lonmin said in the M&G letter that the WMS fee structure provided no tax benefit. This was directly contradicted by Mr Seedat's under-oath testimony. Please explain.

A: The WMS structure and fee did not provide a tax benefit as there was a CFC relationship between Bermuda and the UK in terms of which Lonmin Plc was required to pay taxes in the UK on the dividends declared by WMS. In terms of the agreement WMS has to declare dividends in terms of a dividend distribution policy acceptable to the UK revenue authorities. Mr Seedat, whilst continuing with his evidence on 29 September, corrected this position and confirmed that the WMS structure and fee did not provide a tax benefit.

27. In explaining why WMS purportedly did not create a tax benefit, Lonmin told M&G readers that WMS is taxed in the UK – but Lonmin's own audited accounts reveal that it has paid zero UK tax since 2000. Please explain this contradiction.

A: Lonmin PLC had accumulated losses brought forward from previous years.

28. Lonmin's UK tax bill is cancelled out by a DTA, the reports state. There is no DTA between Bermuda and Lonmin, therefore any dividends paid by WMS to Lonmin PLC would be indicated by a UK tax liability. That there is no such liability suggests that WMS's profits might have accumulated in Bermuda. Please respond.

A: Already covered.

29. Does/Did WMS pay any fees to any related parties?

A: Prior to 2007 WMS paid fees to Lonmin Plc and during the transitional period of transferring the marketing contract to Lonmin Management Services "LMS' in South Africa, in 2007 and 2008, WMS paid fees to LMS in South Africa.

30. What profits has WMS record in years that it received fees from related parties?

A: WMS did not record any fees after 2008. See question 26

31. Why did Incwala block the unwinding of the Bermuda fee structure, as was put on the record by Schalk Burger at the Farlam Commission?

A: Between late 2008 and 2010, the relationship between Lonmin and certain Incwala shareholders became strained as the global economic downturn took effect. This led to a position where certain Incwala shareholders refused to sign any Lonmin internal agreements that required their consent. Once these shareholders exited the Incwala structure in the latter part of 2010, there was no resistance to the granting of consent by the new and remaining Incwala shareholders and the consent was duly granted.

32. As an illustrative analysis Forslund added a 25% "management premium" to Lonmin's disclosed staff numbers and staff costs in its SA branch (ie. LMS) for 2010-2012 to calculate what he believes is a reasonable management cost: R27.9m, R86.9m, and R90.5m for the respective years. The costs claimed by Mr Scott are enormous by comparison: R192m, R178m and R103m. Forslund therefore argues that Mr Scott's claimed figures are unlikely to be market related. He argues that the difference represents funds that should not have been shifted from WPL to LMS. Please comment.

A: Lonmin has done transfer pricing studies that confirm that our fee margin is at the bottom range of the margin interval. Furthermore, WPL and LMS are both part of the Lonmin Group, and both are taxed in South Africa, and their results form part of the consolidated Group results.

33. Forslund calculates that had Lonmin not paid R1.2b to Bermuda from 2008 to 2012 (a structure he says should have been collapsed as it did not appear to be a substantial commercial transaction), R3500-R4000 could have been added to the RDO wage.

A: No such payments were made to Bermuda during this period.

34. He argues further that, also cutting down the management cost, as described above, would have freed up enough money that the RDO wage demand of R12500 net in hand could have been met. Please comment.

A: It is generally accepted by all legitimate informed commentators and analysts that the 2012 RDO wage demand of R12 500 was unaffordable, and would have led to the decimation of the South African Platinum mining industry.

35. Explain why there is a disparity between Lonmin's metal sales trading prices and what AIDC claims are market prices?

A: AIDC's analysis is overly simplistic – their calculations were based on arithmetic means rather than weighted means, in terms of when Lonmin's sales occurred.

There is seasonality in Lonmin's production and metal prices are very volatile. All of this needs to be taken into account when performing an analysis of this nature. Comparing straight line average prices (which is what AIDC appears to have done) to fluctuating prices where volumes also fluctuating significantly from month to month will yield a wrong answer. In reality our discounts have reduced over the past 5 years and are now well below 1% of market prices and never exceeded more than 2%. Discounts, where given, are driven by free market forces, and are negotiated between all suppliers at arm's length with a few major customers.

Lonmin's metal is sold directly by Lonmin's operating subsidiary (WPL) direct to third parties at prices which are market prices. As such there is no transfer pricing or "value shifting" as none of these sales are taking place through 'tax haven' subsidiaries. There is also no logic to Lonmin selling metals to third parties with whom it is not related through shareholdings or otherwise at anything less than the best possible price it can achieve. Our strategy has largely been to keep our marketing structure small and incentivise customers to develop the market rather than direct involvement.

The industry traditionally offers relationship customers a discount in return for their long term business. Value does extend to the customer (who is an unrelated party), but in return we get market intelligence, access to their R&D activities and also a guaranteed buyer for some of the OPMs.

36: In its reporting, Lonmin refers to its "two principal customers for PGMs, both global corporations (BASF and Mitsubishi). Six customers for base metals". Are any of these customers' related parties, and can you please identify them?

A: None of these customers are related parties to Lonmin.

37: In respect of the alleged "systematic under-pricing" by Lonmin and two other companies, the AIDC stated: "We suspect, but still have to investigate further, that we are dealing with mis-invoicing and transfer pricing where surpluses are transferred to tax havens by these multinational companies." (http://www.aidc.org.za/programmes/political-economy/wage-and-profits/58-aidc-back-to-the-negotiating-table-now-stop-wage-evasion.html) i.) Please comment on this allegation.

A: There is no logic in, or benefit to be gained for anyone from, mis-invoicing or under-invoicing. None of our customers are related parties. No loss in profit that we make in Lonmin as a result of under invoicing would be gained somewhere else. Our sales are direct from WPL to our customers. None of our sales are routed through off-shore companies. There is no opportunity for transfer pricing.

ii.) Is Lonmin mis-invoicing and/or using transfer pricing to transfer pre-tax profits offshore?

A: No. See above.

38. Lonmin has reported that over the past five years, it paid US$90m in tax. Over the same period, the company reported a total underlying pre-tax profit of US$656m. That amounts to tax of only 13.7% of profits, less than half of South Africa's 28% corporate tax. How has Lonmin achieved such a low tax bill?

A: We assume that the five year period applied commences from 2009 financial year and ended during the 2013 financial year. This five year period commenced with the world economic recession and various other factors which influenced commodity prices, our profitability and taxable income. Whilst capital expenditure is depreciated over certain periods for accounting purposes, in terms of the South African tax law mining capital expenditure is fully deductible against mining income limited to taxable income. The Income Tax Act further provides for unused capital expenditure to be carried forward against future taxable profits. The foregoing has the effect of reducing effective tax rate during the years of intensive capital investment despite the low margin environment. It should be borne in mind that mining is a self-destructive industry wherein capital investment applied gets depleted immediately upon shafts being mined out, further mining capital development would continuously be required to retain production levels. Lonmin is no different and since it wished to retain or even improve our production capacity during the period under review, Lonmin continues to invest in capital expenditure despite the low margin environment. This had the effect that as a result of deductible capital expenditure in terms mining tax law, taxable income simply proved to be lower than accounting income.

Under IFRS we can treat costs arising in certain one-off scenarios as "special items". The headline accounts less those special items, are the underlying numbers – we use these to help investors see a transparent picture of our trading.

One cannot compare headline tax payments to underlying profits. Under normal tax accounting, we include the special costs in our tax computations as they reduce our taxable (headline) profits.

Lonmin's largest operations are in South Africa, and the major taxation costs would be paid over to the revenue authorities based on the rand tax profits. As a result we report for income tax purposes on income converted at spot rate for SARS purposes. For purposes of reporting to other stakeholders other than SARS, listed companies are required by the International Financial Reporting Standard (IFRS) report in US dollars. The translation from Rands to US dollars has the effect of providing variances between net profit in Rands and USD annual financial statements respectively. The variance is created mainly by the exchange differences emanating from dollar denominated monetary assets and liabilities converted at year-end using spot rates. Major movements in the exchange rates therefore also impacted the income statement profits as the dollar values of Rand transactions varied as exchange rates changed.

39. In 2011, ActionAid, an NGO, accessed a list of Lonmin subsidiaries, which it published online (http://www.actionaid.org.uk/tax-justice/ftse-100-tax-haven-tracker).
a.) Please can you provide a full, updated list of Lonmin's subsidiaries and, if possible, an explanation of the corporate structure?

A: Many of the companies in the Lonmin structure though are a historical legacy either from the Lonhro days when Lonhro operated in multiple jurisdictions in multiple industries or are as a result of acquisitions made at various points in time. Many of these subsidiaries are dormant.

b.) Lonmin reports that it employs about 28 000 people in South Africa and eight in the UK. This seems to suggest that Lonmin does not employ staff at its subsidiaries in other countries. Please can you confirm and explain?

A: This is correct.

40. The subsidiary list published by ActionAid includes the following companies registered in tax haven jurisdictions (for example see http://www.financialsecrecyindex.com): AfriOre International (Barbados) Ltd; Kwagga Gold (Barbados) Ltd; TWF Holdings (Barbados) Ltd; AfriOre Ltd (British Virgin Islands); AfriOre Precious Metals Holdings Inc (BVI); Metals Technology Inc (BVI). These companies appear to be linked to Lonmin's 2007 acquisition of AfriOre Ltd. Please can you explain this "AfriOre" structure, including:
a.) What assets do these companies hold?

A: AfriOre was acquired when Lonmin acquired the Akanani exploration project. This project is not currently generating any revenue.

b.) What revenues, if any, do they generate for Lonmin?

A: Nil.

c.) How and where are they taxed?

A: In their own relevant tax jurisdiction. Currently, only the Akanani exploration project is of any significance and as this is still in an exploration stage and is not generating revenue. Should it at some point in time in the future generate revenue it will be taxed in South Africa in accordance with South Africa mining tax legislation, as is the case for all other mining companies operating in South Africa. The location of the holding company won't make any difference to this. This is the Akanani structure and UK CFC rules have no bearing.

d.) Do they employ staff in their relevant locations? How many employees? What services do they perform for the company?

A: No.

e.) What is the commercial rationale for this seemingly complicated offshore structure, and why are these companies not located in the countries where they own assets and operate?

A: It was inherited when Lonmin purchased the Akanani exploration asset as explained above.

41. With respect to Southern Platinum (Cayman Islands) Corp:
a.) What assets does it hold?

A: We acquired this company, along with numerous others, when we acquired the Limpopo asset as part of the Southern Platinum acquisition in July 2005. SPCI does not produce annual accounts as there is no statutory requirement for it to do so; nor is there any internal governance reasons to produce accounts as SPCI is essentially a non-trading company.

b.) What revenues, if any, does it generate for Lonmin?

A: Nil.

c.) How and where is it taxed?

A: Although this is a dormant company with no income, the company is taxable in its own relevant tax jurisdiction.

d.) Does it employ staff in Cayman Islands? How many employees? What services do they perform for the company?

A: Nil

e.) What is the commercial rationale for this company's offshore registration?

A: Inherited when we acquire the Limpopo asset.

42. With respect to Western Platinum (Pty) Ltd and Eastern Platinum (Pty) Ltd: Lonmin reports that it holds these companies through LSA (UK) Ltd. Are there any further subsidiaries in this corporate structure, and can you please explain?

A: Yes.

43. With respect to Lonmin Insurance Ltd:
a.) What service does this company provide for Lonmin, or what role does it play in Lonmin's corporate structure?

A: Lonmin as a mining company faces significant risks. Where appropriate, we insure against these risks. For this purpose we have an insurance captive called Lonmin Insurance Limited, which then allows us to access the international re-insurance markets. Otherwise we would be forced to deal through third parties and our cost of insurance would be higher.

b.) We understand that it was registered in Bermuda until recently being continued in Guernsey. Is this correct?

A: Yes. It was re-domiciled in Guernsey in 2013.

c.) When and why was it transferred to Guernsey? And what is the commercial rationale for using this jurisdiction?

A: Guernsey is in the same time zone as Lonmin's other operating businesses and is closer to London. Since for governance purposes it is important to have regular Board meetings, it is more practical to have LIL located in Guernsey so that these Board meetings can be held at the same time as the relevant Lonmin executives responsible for LIL are travelling to London on other Lonmin business.

d.) Does it employ staff in Guernsey? If so, how many, and what work do they do?

A: No. LIL does not have any staff in Guernsey. It has however, appointed Willis as its captive manager and Willis manages the day to day affairs of LIL. The Board of LIL consists of 2 Lonmin employees and 2 independent directors, and the Chairman of the Board is one of the independents.

e.) How and where are related party transactions between Lonmin and this subsidiary taxed?

A: Yes. WPL, EPL and Lonmin buy most of their insurance through LIL. As explained above this allows the group to access a bigger market of reinsurance companies and as such results in the group obtaining more competitive insurance premiums.

44. With respect to Western Metal Sales Ltd:
a.) I understand that the company was formerly registered in Brussels, but was later moved to Bermuda. Is this correct? When was it moved?

A: This company has long been dormant and is no longer in use.

b.) Please explain the commercial rationale for the choice of jurisdiction?

A: The commercial rationale for this move, which took place many years ago, is unknown, and no longer relevant to present day Lonmin.

c.) Descriptions by Lonmin and various authorities regarding Western Metal Sales state that the subsidiary markets and sells the metals that Lonmin produces. But to the best of my knowledge, Lonmin's marketing function is run from its South African office, overseen by the relevant executives here. What, then, is the commercial purpose of the Bermuda-registered subsidiary?

A: Dormant. A historical legacy.
c.) Does Western Metal Sales employ staff? How many and what do they do?

A: Nil. Dormant.

d.) Does this subsidiary buy the metals from the company and on-sell to end clients, or is it paid a service commission? Otherwise please explain the nature of the service it provides and how it transacts with Lonmin?

A: Dormant. All metal is sold direct by WPL to customers.

e.) How are these rates negotiated, and where are they taxed?

A: WPL negotiates prices with customers as all commercial entities do – both parties negotiate as hard as possible to obtain the best possible price. All our pricing is market related.

45. Previously, Lonrho Management Services provided management services to Lonrho. More recently, Lonmin reported that "A branch of Lonmin Plc operates in South Africa, trading as Lonmin Management Services or 'LMS'."
a.) Does this latter LMS charge Lonmin for management services?

A: Yes. Certain employees of the Group are employed by LMS and in turn LMS charges group companies for the services that these employees perform.

b.) If so, how are the rates calculated, and on the basis of what service, exactly?

A: The rates charged are market-related and commensurate with the services that are performed. In a large organisation it is commercially sensible that certain services are centralised rather than duplicated across the group structure. This is why these services sit in LMS and LMS then on charges the relevant group companies such as WPL and EPL for these services.

c.) How and where are these management fees taxed?

A: LMS, although it is a branch of Lonmin Plc, is registered for tax in South Africa and therefore pays tax in South Africa, and in fact is one of the reasons why Lonmin's group tax bill is actually higher than it could be, since even if WPL and EPL do not generate any taxable income (due to the capital expenditure deductions explained above) it is still possible that LMS might generate some margin on its services, which would then still be taxable (as South Africa does not have a system of group taxation).

46. Lonmin has reported that since 2009 it paid US$158m in "management and marketing services".
a.) Do fees paid to Western Metal Sales and Lonmin Management Services account for this cost?

A: As Western Metal Sales is dormant nothing would have gone through this entity.

b.) If so, how much was paid to the two subsidiaries respectively?

A: Refer to above

c.) Otherwise, please explain this "management and marketing services" cost, to who is it paid, on what basis, and where and how are the fees taxed?

A: As above, LMS is taxed in South Africa.

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