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Year-end report 2020: high deliveries and prices result in strong earnings

With high delivery volumes and rising global iron ore prices, LKAB is reporting strong earnings both for the full year and the fourth quarter 2020.

LKAB increased net sales for full-year 2020 by MSEK 2,654 to MSEK 33,914 (31,260), with higher delivery volumes offset by a lower dollar exchange rate. Operating profit amounted to MSEK 11,654 (11,788) and was also impacted by a higher cost level compared with the previous year, mainly due to the seismic event in the Kiruna mine in May and extended maintenance shutdowns because of measures associated with Covid-19. Increased investments for the future in the form of exploration and development programmes also contributed to the increased costs.

Operating cash flow was affected by higher urban transformation expenditure and higher capital expenditure during the year but remains strong, amounting to MSEK 6,038 (6,981). LKAB is delivering profit for the year of MSEK 9,757 (10,173) and the Board of Directors is proposing to the Annual General Meeting an ordinary dividend amounting to MSEK 5,850 (6,104), which represents 60 percent of profit for the year.

“The situation during the year demanded flexibility in the operations, but with continued high delivery volumes we are reporting strong results for 2020. An LKAB well equipped for the future,” says Jan Moström, President and CEO of LKAB.

In the fourth quarter LKAB increased both net sales and operating profit when compared year on year. Sales amounted to MSEK 9,082 (6,947) and operating profit totalled MSEK 3,625 (2,047).

Higher prices for highly upgraded iron ore products were offset by a lower dollar exchange rate, and higher costs also had an effect in the quarter.

Market conditions and impact of the pandemic

The average spot price for iron ore during the year was USD 109 (93)/tonne. At the end of the year, however, the price was USD 159 (92)/tonne. Quoted pellet premiums were on average USD 26 lower in 2020, which overall had a negative effect on prices compared with the previous year.

In the fourth quarter the average spot price for iron ore was USD 134 (89)/tonne, which was USD 16 higher than in the third quarter 2020. Quoted pellet premiums were on average USD 9 lower than in the same period the previous year. During the quarter pellets accounted for 83 (81) percent of LKAB's deliveries of highly upgraded iron ore products.

The direct impact of Covid-19 during the year was mainly connected with production, as maintenance shutdowns were extended to reduce contact surfaces and minimise the risk of spreading infection. During the year, some delivery volumes were redirected to new customers and markets when customers in Europe scaled back their operations. The situation demands continued flexibility and measures in the business.

Production and deliveries

LKAB reports continued high deliveries, which increased both for the full year and for the quarter – amounting to 28.5 (24.9) Mt for the full year and 7.0 (6.5) Mt for the quarter.

Measures associated with Covid-19 and the effects of the seismic event in the Kiruna mine impacted production for a large part of the year. Production for the full year amounted to 27.1 (27.2) Mt and for the quarter to 6.8 (7.2) Mt.

“We are reaching good levels despite the impact of the pandemic and loss of capacity in the Kiruna mine. Our profitability is based on high volumes and efficient production and is essential for LKAB's investments in carbon-free competitive operations beyond 2060,” says Jan Moström.