

Contact person: Bo Krogvig, Senior Vice President Communications and Public Affairs
Phone: +46 (0)8 429 34 45
E-Mail: bo.krogvig@lkab.com

Interim Report January–March 2019: Market conditions remain favourable for LKAB

LKAB begins 2019 with increased sales and improved earnings, mainly as a result of continued high iron ore prices and a strong dollar. Optimising production, increasing volumes and enhancing our competitiveness continue to have priority. Work on making LKAB sustainable in the long term continues through the expansion of exploration, progress on the development programmes and the initiatives to broaden our business.

Net sales increased by just over a billion kronor to MSEK 7,329 (6,227) compared with the same quarter the previous year and underlying operating profit increased by 23 percent to MSEK 2,899 (2,357). The improvement in profit is mainly driven by high iron ore prices and a strong dollar, while lower deliveries, mainly as a result of poor weather conditions at the Port of Narvik, had a negative effect. Operating cash flow was strengthened to MSEK 2,500 (1,770), as were net financial items which amounted to MSEK 547 (201). The cost level for the quarter was higher than in the same period last year, mainly as a result of increased maintenance work, a larger number of employees, higher energy prices and increased exploration.

Strong demand for high-quality iron ore

The average global spot price for iron ore was USD 83 (74)/tonne for the quarter. Prices for iron ore with a high iron content and for highly upgraded iron ore, such as LKAB's iron ore pellets, are at the same time continuing to increase relative to iron ore with a lower iron content. A decrease in the global supply of iron ore pellets is to be expected following the dam failure in Brazil in January. However, it is uncertain how great the shortfall will be and what effect it will have in the longer term.

LKAB is continuing to maximise production of highly upgraded products and of the quarter's total deliveries, 86 (84) percent consisted of pellets.

Lower deliveries and production

Production in the first quarter amounted to 6.5 (7.3) Mt and deliveries to 6.1 (6.8) Mt. Production was affected by minor operational disruption at the pelletising plant in Kiruna and by maintenance work at the pelletising plant in Svappavaara. At the beginning of

February, however, the plant was able to be started up again after the four-month stoppage for maintenance. Deliveries were affected by lower production and difficult weather conditions in Narvik, as a result of which shipping had to be suspended at times during the quarter.

"We have had a number of quarters with really good market conditions and there is a strong long-term trend for steel companies to demand input materials that result in higher productivity and lower carbon dioxide emissions. Succeeding in maximising volumes in our existing production system is key to enabling our continued investments in the next generation of LKAB," says Jan Moström, President and CEO of LKAB.

Next generation LKAB – progress according to plan

Since the second half of 2018 LKAB has increased its exploration efforts in order to secure a basis for decisions on the future investments required to secure production after 2030.

During the quarter the exploration work continued according to plan, with the focus on drifting in Kiruna in order to investigate the extent of the mineralisation northwards and downwards below the current main haulage level of 1365 m. The aim is to secure a billion tons of mineral resources within five years.

In parallel with the expansion of exploration efforts LKAB is conducting extensive development programmes aimed at more sustainable future mining and steelmaking processes. The collaborative initiatives Sustainable Underground Mining (SUM) and Hydrogen Ironmaking Breakthrough Technology (HYBRIT) continued according to plan during the quarter.

The steel structures for the HYBRIT pilot facility have begun to be erected within SSAB's industrial area at Svartön in Luleå, and the plan is that the facility will be able to start up by next summer. Four different sub-projects are being conducted under the SUM umbrella, including a project to develop autonomous, smart, carbon-free vehicles for within the mine.

During the quarter LKAB also announced the decision to invest MSEK 45 in pilot facilities in Malmfälten and Uppsala with the aim of industrialising new technology to recycle phosphorus and rare earth elements from residual products from the iron ore production.

"LKAB will be one of the most innovative, resource-efficient and responsible companies in the industry. With our expertise and experience in mining and processing, we are working to create a broader LKAB that will be less sensitive to fluctuations in the iron ore market," says Jan Moström.