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Interim Report April–June 2020: Weaker market for highly upgraded iron ore

During the second quarter LKAB’s production and delivery volumes were stable. Operating profit was negatively impacted, however, mainly as a result of a substantially lower price for highly upgraded iron ore products.

Net sales for the second quarter amounted to MSEK 7,456 (9,233) and operating profit decreased to MSEK 1,883 (4,109), which is primarily a result of a market in which both the global spot price for iron ore and the price premium for highly upgraded iron ore products was lower than in the same period the previous year. Slightly lower delivery volumes as well as increased costs for urban transformation provisions also had a negative effect. Operating cash flow was MSEK 972 (1,216).

The production in the second quarter was slightly lower when compared year on year at 6.0 (6.2) Mt, being impacted by measures and new procedures associated with Covid-19. Deliveries of 6.6 (6.7) Mt were affected by the five-day long stoppage on the Ore Railway at the end of the quarter, among other things. For the first half of the year, both production of 13.5 (12.8) Mt and deliveries of 13.9 (12.8) Mt were higher than in the same period last year.

The average spot price for iron ore was USD 93 (100)/tonne. Quoted pellet premiums remained at a substantially lower level when compared year on year. During the quarter pellets accounted for 83 (84) percent of LKAB’s deliveries of highly upgraded iron ore products.

“Despite a quarter that included the most extensive seismic event measured in the Kiruna mine, a stoppage on the Ore Railway and the

consequences of the coronavirus, we succeeded well in keeping up both production and deliveries. Our focus is on ensuring stable and safe production during these times of uncertainty, while at the same time continuing to equip LKAB to be better at fending off market fluctuations,” says Jan Moström, President and CEO of LKAB.

Covid-19

For LKAB the direct impact of Covid-19 has been mainly associated with maintenance shutdowns, which were extended to reduce contact surfaces and minimise the risk of spreading infection. Production was also impacted somewhat by a brief shutdown in one of the plants due to around 30 employees being placed in quarantine during an outbreak at the beginning of June. The situation still calls for flexibility and measures in the operations. LKAB has not needed to lay off staff, but instead has continued with new appointments. Some deliveries were redirected to new customers and markets, however, since demand from the steel industry in Europe decreased.

Given the global extent of the pandemic and its impact on communities and economies, LKAB will continue to be affected – but to what extent is difficult to predict.

Developments – seismic event

The seismic event that occurred in the Kiruna mine in May had a negative impact on production of crushed ore. Most of the mine has been surveyed for damage using drone technology, with extensive damage being identified in numerous mining blocks.

Around 70 percent of production has resumed in the Kiruna mine, but disruption to production is expected to continue during the autumn. At present it is difficult to say when production may be back at the normal rate since some inspection work remains to be carried out. To minimise the impact on delivery volumes LKAB has taken actions involving the use of other mines to compensate for the loss of volume.

Investment for the future continues to have a high priority

During the quarter Kiruna Municipality approved the zoning plan amendment required to convert area 2:4 in Mine City Park 2 into an industrial area. The decision, which is crucial for continuing operations, means that mining can continue according to plan in those parts of the mine that affect the area.

Issues concerning the future to secure operations in the long term continue to be a priority, particularly the exploration work. Work to develop the next generation of LKAB is continuing, with a focus on processes and technology for fossil-free steelmaking and on automated and sustainable mining.

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