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Interim Report July–September 2019: LKAB remains stable in a volatile market

In the third quarter net sales increased to MSEK 7,751 (6,594) compared with the same period last year and operating profit strengthened to MSEK 3,135 (2,477). The quarter was characterised by high and stable production, while a slowdown in the market led to lower delivery volumes and volatile iron ore prices.

Sales for the first nine months increased by 28 percent compared with the previous year and operating profit was boosted to MSEK 9,764 (4,969), representing an increase of 96 percent. The improved earnings are mainly a result of higher iron ore prices and a stronger dollar exchange rate. Lower sales had an adverse effect, however, and during the quarter earnings were also negatively affected by increased costs for urban transformation provisions. Operating cash flow for the first nine months increased to MSEK 6,759 (4,655). The improvement is primarily a result of the increase in earnings and to lower capital expenditure.

Global market remains volatile

At the beginning of the quarter, the spot price for iron ore reached levels of around USD 125/tonne. However, the price level fell substantially during August and after recovering somewhat, the quarter ended at USD 93/tonne. The average spot price for iron ore was USD 102/tonne during the quarter, compared with USD 67/tonne in the third quarter of 2018. At the same time, quoted pellet premiums fell significantly during the quarter.

“Steelmakers’ margins are being squeezed, and in combination with high iron ore prices this is contributing to a market climate of reduced demand – particularly for highly upgraded iron ore products,” says Jan Moström, President and CEO of LKAB.

Production at record levels

The production during the third quarter amounted to 7.3 (6.8) Mt and deliveries to 5.5 (6.9) Mt, of which 79 percent consisted of highly upgraded pellets. Production stability remains as one of LKAB's focus areas. Maximising volumes in the current production system is essential for future investments for growth. Lower deliveries in the quarter are a result of lower demand for highly upgraded iron ore as a result of squeezed margins at steelmakers in combination with high iron ore prices.

"It is pleasing to see that our work to achieve more stable production is paying off. We are reaching record levels for a single quarter and we will continue to focus on consistent production in order to avoid even small disruptions and to achieve steadier levels over the quarter," says Jan Moström.

Next generation LKAB

LKAB is conducting extensive development work for future sustainable mining and steelmaking processes. This work includes increased investment in exploration alongside with initiatives such as SUM, which aims to set a new global standard for sustainable mining at great depths, and HYBRIT, an initiative for fossil-free steel production that LKAB is running together with SSAB and Vattenfall. At the UN Climate Summit held in New York during the quarter, HYBRIT was noted as one of the most ambitious and most transformative initiatives for dealing with climate change.