

Contact person: Niklas Johansson, Senior Vice President Communication and Climate
Telephone: +46 10 144 52 19
E-mail: Niklas1.johansson@lkab.com

Interim Report July–September 2020: Record deliveries offset by a weaker market

LKAB has delivered a strong quarter with deliveries at a record high of 7.6 Mt. However, the effect on operating profit is offset by a lower dollar exchange rate, lower prices for highly upgraded iron ore products and increased costs.

Net sales for the third quarter amounted to MSEK 9,333 (7,751), an increase of 20 percent compared with the same period last year. Operating profit decreased to MSEK 2,955 (3,128). The effect of high delivery volumes is offset by a lower dollar exchange rate, as well as lower prices for highly upgraded iron ore products and increased costs. The increased costs are mainly related to the extensive seismic event that occurred in the Kiruna mine in May this year, and to higher costs for urban transformation provisions. An increase in the amount of exploration work as well as costs resulting from extended maintenance shutdowns also impacted earnings. Operating cash flow amounted to MSEK 1,651 (2,480) and was affected by higher urban transformation expenditure compared with the same period last year.

Deliveries for the third quarter reached a record high of 7.6 (5.5) Mt. Production for the quarter was 6.8 (7.3) Mt. The decrease compared with the same period last year is mainly a result of measures linked to Covid-19 as well as the impact of the seismic event that occurred in the Kiruna mine. Taking the first three quarters of the year as a whole, both production and deliveries increased year on year.

To date, the direct impact of Covid-19 has mainly been associated with production as maintenance shutdowns were extended to reduce contact

surfaces and minimise the risk of spreading infection. The situation calls for continued flexibility and measures in the operations.

Developments – seismic event in the Kiruna mine

The seismic event that occurred in the Kiruna mine in May has impacted the production of crushed ore. The mine is now producing at 70–80 percent capacity. It remains difficult to assess when production may be back at the full rate, since some inspection work and repair work has yet to be carried out. LKAB has redirected crushed ore from other mines to compensate for the loss of volume, thereby minimising the impact on delivery volumes so far. However, these measures have given rise to increased costs.

Market situation

The average spot price for iron ore for the quarter was USD 118 (102)/tonne, which together with significantly lower premiums for highly upgraded products had a negative price effect when compared year-on-year. During the quarter, pellets accounted for 82 (79) percent of LKAB's deliveries of highly upgraded iron ore products.

“The premium for the spot price has been subject to downward pressure because of the current global uncertainty; at the same time, industries of the future are unquestionably driving towards more sustainable processes. LKAB continues to focus on developing and delivering highly upgraded iron ore products with clear added value and climate benefits in steelmaking processes,” says Jan Moström, President and CEO of LKAB.

Investing for the future in the next generation of mining

Issues relating to the future that will secure operations in the long term remain a priority. The exploration work is in an intensive phase, with an expansion of drilling work in existing mines. The SUM development initiative for sustainable mining at great depths is making progress and during the quarter, Sandvik joined the project as a new partner. Within the HYBRIT initiative, the pilot facility for fossil-free sponge iron (DRI/HBI) was commissioned, marking a crucial step towards fossil-free steelmaking.

In the ReeMAP project, which is developing technology for recycling mining waste to product phosphorous and rare earth elements, LKAB has raised its ambitions. Planning is now under way for an industrial park that will also produce inputs, including hydrogen. All the production processes are being electrified, making the process almost entirely free of carbon dioxide emissions.