

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

## Interim Report April – June 2018: Stable LKAB equips for the future

**Summing up the first half of the year, LKAB reports increased sales and higher profits in a market that continues to favour high-grade iron ore products. Underlying operating profit increased by 15 percent in a year-on-year comparison.**

Production in the second quarter amounted to 6.1 (6.3) Mt and deliveries to 6.4 (6.6) Mt in a market that remains relatively favourable. Net sales totalled MSEK 6,160 (5,689) and underlying profit amounted to MSEK 1,666 (1,453). The cost of provisions for the urban transformations increased, mainly as a result of the reassessment of earlier provisions, and amounted to MSEK 735 (300). Operating profit thus amounted to MSEK 931 (1,153), a decrease compared with the same period last year. Operating cash flow was MSEK 1,333 (3,063).

### Competitiveness in a global market

The average price level of the global spot price for iron ore during the quarter was USD 65 (63)/tonne, which was USD 9/tonne lower than in the previous quarter.

The market continues to favour high-grade iron ore products and the premium for pellet sales remained at a high level. LKAB's strategy to maximize pellet production remains in place, and 84 (84) percent of the quarter's total deliveries consisted of pellets.

The quarter's production was impacted by disruptions to production, mainly in the Northern Division. During the quarter extensive maintenance work was carried out, including in processing plant KK4 in the Northern Division, which will improve both environmental performance and production stability going forward.

The imposition of import duties on steel by the USA has made the market somewhat apprehensive and it is difficult to predict how things will develop and what the consequences will be.

*"We can't do anything about global market prices. What we can do is equip ourselves to secure our competitiveness. It's about sustainability, quality and cost control, and it's about maximizing volumes in our existing production structure while at the same time planning for next generation LKAB," says Jan Moström, President and CEO of LKAB.*

### Agreements with the Municipality of Kiruna

In June LKAB and the Municipality of Kiruna signed a third Mine City Park agreement, which secures access to land for continued mining. Stable conditions are essential for a business

such as LKAB's, where the planning and investment horizon extends over a number of years or even decades. The agreement involves around SEK 2 billion in direct compensation. In addition, there are the costs of the properties that LKAB will replace with new buildings with equivalent functions. The final total will depend, among other things, on how construction costs develop.

During the quarter LKAB also signed an agreement with the municipal company Tekniska Verken, which means that waste heat from LKAB's mining industry will be utilized to produce environmentally friendly, value-for-money district heating for the residents of Kiruna.

#### **Testbed for sustainable mining and start of construction for HYBRIT**

The mine of the future is carbon-free, digitalized and autonomous, and in June LKAB announced a collaboration with ABB, Epiroc, Combitech and AB Volvo which involves establishing a testbed in the Swedish orefields for sustainable mining at great depths.

After 2030, when the current main haulage levels are expected to be mined out, LKAB needs to be ready to mine iron ore deeper in the mines. This will require decisions to be made in the mid-2020s on one of Sweden's substantial industrial investments. The Sustainable Underground Mining (SUM) testbed is to be constructed in LKAB's underground mines in Kiruna and Malmberget as well as in a virtual mine. The test facilities will be used to develop and test new technology in a real mining environment to ensure the future competitiveness of Swedish mining industry.

During the quarter construction also began on HYBRIT's pilot facility for the production of fossil-free steel in Luleå. In partnership with the Swedish Energy Agency, the companies LKAB, SSAB and Vattenfall are investing SEK 1.4 billion in the pilot facility, which is expected to be completed in 2020.

*"Looking at impact and opportunities throughout the value chain is an important part of LKAB's sustainability work. Collaboration with customers, suppliers and other stakeholders is key for the development of the next generation of mining, upgrading and logistics – one which is capable of delivering higher volumes of quality products to the steel industry while using fewer resources and having less environmental impact," concludes Jan Moström, President and CEO of LKAB.*

#### **Fatal accident in Svappavaara**

An employee of a contractor has died after falling from a great height in the processing plant in Svappavaara on 27 July.

*"A person dying as a result of an accident at work is the very worst thing that can happen. Our Safety First work is based on ensuring that everyone returns home healthy and safe at the end of the working day. A fatal accident is therefore a major failure for us and LKAB will fully cooperate with the investigation into the incident, in parallel with our own work to ensure that something similar can never happen again. Our thoughts go out to the family, friends and colleagues of the person who died," says Jan Moström, President and CEO of LKAB.*