

# 2016 IN BRIEF

ANNUAL AND SUSTAINABILITY REPORT



# THE YEAR IN NUMBERS



“LKAB's competitiveness is based on our capacity to deliver high-quality iron ore products to customers with high product requirements.”

## PRODUCED

**26.9Mt**

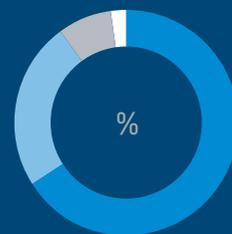
Iron ore products produced by LKAB in 2016, compared with 24.5 million tonnes in 2015.

## DELIVERED

**27.0Mt**

Iron ore products delivered by LKAB in 2016, compared with 24.2 million tonnes in 2015.

## SALES BY PRODUCT AREA



PERCENTAGE OF SALES, MSEK

Product Area	Percentage (%)
Blast furnace pellets	66
Direct reduction pellets	24
Fines	8
Special products	2

## PROPORTION OF PELLETS DELIVERIES

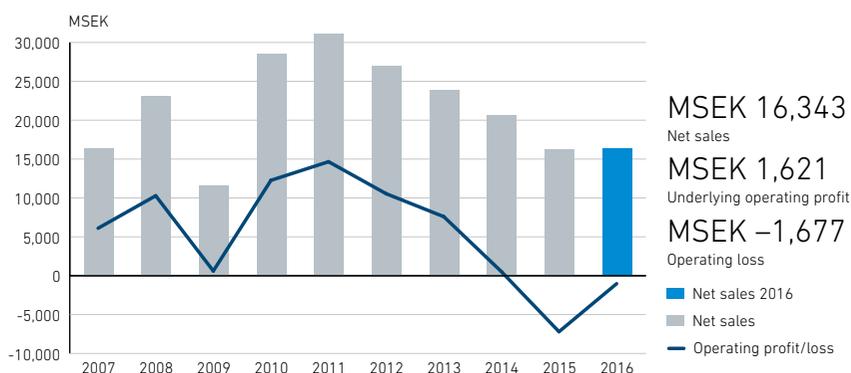
Pellet deliveries in tonnes reached their highest level ever.

**84%**

## PROFIT/LOSS FOR THE YEAR

Increased delivery volumes, improved prices and the effects of the cost-cutting programme made a positive contribution to the improved result. Cost efficiency measures cut costs by around MSEK 700. However, impairment of property, plant and equipment and increased provisions for the urban transformation had a negative impact on operating profit of MSEK 1,192 and MSEK 2,106, respectively. In addition, hedging transacted at the lower price levels that prevailed during the fourth quarter of 2015 and the first quarter of 2016 meant that LKAB was not able to take full advantage of the price increase in 2016. Underlying operating profit increased to MSEK 1,621 (1,548).

### NET SALES AND OPERATING PROFIT/LOSS



## KEY RATIOS

As of the fourth quarter 2016, LKAB is managed and controlled according to a new Group structure with three operating divisions; Division North, Division South and Special Products Division. Figures for full year 2016 and 2015 have been restated according to the new structure.

### PRODUCTION OF IRON ORE PRODUCTS, Mt

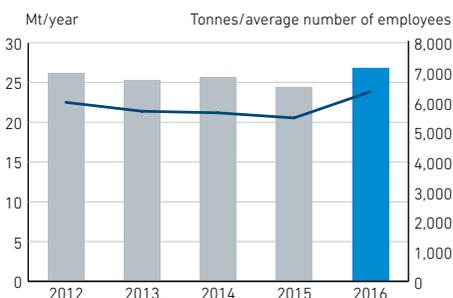
	2016	2015	2014	2013	2012
Division North <sup>1</sup>	14.4	13.8	1	1	1
Division South <sup>1</sup>	12.5	10.7	1	1	1
Total	26.9	24.5	25.7	25.3	26.2
Of which pellets	24.0	22.2	23.2	23.1	23.8
Of which fines	2.9	2.3	2.5	2.2	2.4

### DELIVERIES OF IRON ORE PRODUCTS, Mt

	2016	2015	2014	2013	2012
Division North <sup>1</sup>	15.5	14.2	1	1	1
Division South <sup>1</sup>	11.5	10.1	1	1	1
Total	27.0	24.2	26.0	25.5	26.3
Of which pellets	22.7	20.3	21.7	21.1	22.0
Of which fines	4.3	3.9	4.3	4.4	4.3

### PRODUCTION AND PRODUCTIVITY

■ Production ■ Production in 2016  
— Productivity, tonnes/average number of employees



### FINANCIAL REVIEW GROUP

	2016	2015
Net sales, MSEK	16,343	16,200
Underlying operating profit <sup>3</sup> , MSEK	1,621	1,548
Operating loss, MSEK	-1,677	-7,156
Operating margin, %	neg	neg
<b>Profit/loss for the year</b>	<b>-978</b>	<b>-5,686</b>
Operating cash flow, MSEK	-2,762	-2,370
Return on equity, %	neg	neg
Net debt/equity ratio, %	20.7	10
Capital expenditure on property plant and equipment, MSEK	3,341	6,354
Provisions for urban transformation at end of reporting period, MSEK	13,062	12,234

### FINANCIAL REVIEW BY DIVISION

	DIVISION NORTH <sup>2</sup>		DIVISION SOUTH <sup>2</sup>		SPECIAL PRODUCTS DIVISION <sup>2</sup>	
	2016	2015	2016	2015	2016	2015
Net sales, MSEK	10,376	8,606	7,162	5,998	1,598	1,619
Underlying operating profit <sup>3</sup> , MSEK	2,891	1,002	1,293	479	n/a	n/a
Operating loss, MSEK	1,164	-3,947	-278	-3,276	95	137

### SUSTAINABILITY REVIEW

	2016	2015
Average number of employees	4,224	4,463
Of whom women, %	20.6	20
Of whom female managers, %	19.5	17.7
Accidents with absence per million hours worked (accident rate)	6.9	6.9

<sup>1</sup>Figures for full year 2016 and 2015 have been restated according to the new divisions.

<sup>2</sup>The Group's earnings, the composition of the Group and the breakdown of earnings between operating segments are shown in Note 3 on page 93.

<sup>3</sup>Underlying operating profit is defined as operating profit excluding costs for urban transformation provisions and impairment of property, plant and equipment.

# PRESIDENT AND CEO JAN MOSTRÖM ON 2016



**“In 2016 we’ve taken measures to increase the focus on our core business.”**

## EVENTS DURING THE YEAR

### Q1

- The spot price of iron ore is recorded as USD 39.25/tonne in January, close to the lowest price level since spot market trading of the commodity began in 2009.
- Agreement on outsourcing of tugboat operations in Narvik brings major savings while also improving safety and readiness.
- Presentation of new compensation principles for property owners, residents and businesses affected by the mining.



### Q2

- LKAB, SSAB and Vattenfall present a joint project for carbon dioxide-free steelmaking using hydrogen as a reducing agent.
- Negotiations with the Municipality of Gällivare on levels of compensation take longer than expected. The agreement reached in October means that mining in MalMBERGET can continue.
- At the end of April the first delivery of 40,000 tonnes of pellets is made from the new ore quay in Narvik, Quay 7.



During the year LKAB has streamlined operations, introduced a new organization and formulated new Group targets. These measures have contributed to increased volumes and record levels of pellet production; however, non-recurring items and unfavourable price hedging impacted the result negatively. President and CEO Jan Moström comments on the year gone by.

**How would you sum up 2016?**

Our goal is sustainable, profitable and cost-effective growth. During the year we brought down our costs and increased volumes. We have also taken major steps to create a more flexible and effective organization that is better able to fend off fluctuations in the market. At the same time, the market developed better than expected during the year. Various challenges remain in order for us to strengthen our competitiveness, but overall we have moved a good way in the right direction.

**What has been done to make LKAB more competitive?**

We've increased the focus on our core business and on operational matters. In January 2016 we introduced a new Group structure with three operating divisions – Division North, Division South and the Special Products Division. This means that the producing divisions have clearer responsibility and a clearer mandate, from management level right out to individual employees.

To become more flexible we have also changed our investment strategy. In future, our investments must track the general economy more closely – so that we invest during good times and have the capacity to

slow things down and safeguard our cash flow and earnings when there is a downturn.

In the past two years we have also implemented two cost efficiency programmes, which together will have reduced our cost base by MSEK 1,600 by the end of the first quarter 2017.

**What results has the work achieved this year?**

We have taken many steps in the right direction. Thanks to stable production with few stoppages, we increased volumes by 7 percent during the year and, with a clear focus on highly processed products, we set a new record for pellet production. And at the same time we have succeeded in lowering our costs.

Despite these improvements, LKAB is reporting a loss in 2016. Profits were mainly brought down by non-recurring items in the form of impairment losses for the Mertainen open-pit mine and increased costs for the urban transformation.

Profit was also negatively affected by price hedging entered into at the lower price levels that prevailed during the fourth quarter 2015 and first quarter 2016, which meant that LKAB was not able to take full advantage of the price increase during the year. In February 2017 a revised finance

policy was adopted, in which the main principles for hedging activities mean that LKAB will not normally hedge price risk in the Group's forecast iron ore sales.

**Can you describe LKAB's strategy and what you have worked on during the year?**

LKAB aims to be one of the most sustainable mining companies in the world. To maintain that position we need to have highly productive mining operations, highly processed products and climate- and energy-efficient processes.

During the year we developed and began implementing a new strategy with three focus areas – operational excellence, growth, and employeeship and leadership. It is about streamlining and optimizing our processes and being at the forefront of technological and product development.

**What is the outlook for 2017 – how do you see things developing?**

I am cautiously optimistic. In 2016 we laid the foundations for a stronger LKAB; now it is a matter of continuing along this path, to achieve cost-effective growth that is sustainable in the long term. That is how we will create lasting value for our customers, our communities, our employees and our owner.



- Uncertainty concerning the financing of the new section of road E10 in Kiruna risks delaying the necessary zoning plans for continued mining. In November, however, an agreement is reached on financing.
- 300,000 tonnes of new pellet products for the European market are produced in Malmberget. Tests were conducted in LKAB's experimental blast furnace in October.
- Following extensive renovation, the mine hoist wrecked in the Kiruna mine in 2015 is taken back into operation in July 2016.



- For the fifth successive year "Sveriges Karriärföretag" recognizes LKAB as one of the best places to work.
- The structural review and staffing reductions announced by LKAB have been achieved without layoffs in the parent company.
- Iron ore deliveries increase by 11.5 percent in total over the year compared with 2015 – LKAB's best deliveries result since the 1970s.
- LKAB announces that the open-pit mine in Mertainen will not be taken into operation as planned, due to the prevailing market situation.

# MINERAL RESERVES AND MINERAL RESOURCES

Mineral reserves and mineral resources are the basis of a mining company's operations and their determination requires successful exploration. In addition to exploration, mining costs and ore prices are important factors which influence the size of mineral reserves and mineral resources. Exploration takes place in areas adjacent to existing mines and in new areas.

## MINERAL RESERVES AND MINERAL RESOURCES 2016

LKAB's mineral reserves, which amount to more than one billion tonnes, have increased by a quantity corresponding to just over one year's production volume. Mineral resources have increased by about the same amount. Estimates and summaries are made in accordance with recommendations from the Swedish minerals and metals trade association SveMin.

### Kiruna

The exploitation concession Kiirunavaara K No. 5 has been granted and 70 Mt of previously measured or indicated mineral resources have therefore been upgraded to proven mineral reserves. The mineral resource has been reduced following a critical review of previous estimates.

### Malmberget

There have been minor changes in mineral reserves and mineral resources. The first ore estimates after test drilling at greater depth have been made and the drill-hole spacing analysis shows only inferred mineral resources.

### Gruvberget magnetite

The mineral reserve is decreasing as mining progresses and the open pit will be mined out during 2017. The mineral resource consists partly of a mineralization accessible via a southerly extension of the existing open pit and partly of a mineralization under the open pit. In estimating the mineral resource, underground sublevel caving has been assumed.

### Leveäniemi

The geological model, block model and production block model have been revised during the year. This has resulted in marginal changes in both mineral reserves and mineral resources, and in grades that correspond better with yields.

### Mertainen

The decision has been taken to mothball Mertainen and therefore no mineral reserve is reported. Further supplementary core drilling and subsequent modelling indicate an increase in the mineral resource.

### Gruvberget hematite

No investigative work with respect to mineral reserves or mineral resources has been conducted during the year. An acceptable process concept is lacking.

## MINERAL RESERVES<sup>1</sup>

AS OF 31 DECEMBER 2016 (TO SORTING PLANT)

	Quantity, Mt		Percent, Fe	
	2016	2015	2016	2015
<b>Kiruna</b>				
Proven	620	491	46.2	47.1
Probable	94	153	42.6	44.5
<b>Malmberget</b>				
Proven	335	346	42.6	42.5
Probable	34	32	42.2	41.4
<b>Gruvberget</b>				
Proven	1	3	55.2	50.3
Probable	0	–	53.9	–
<b>Leveäniemi</b>				
Proven	93	89	47.0	48.5
Probable	21	24	36.0	43.0

## MINERAL RESOURCES BESIDES MINERAL RESERVES<sup>1</sup>

AS OF 31 DECEMBER 2016 (TO SORTING PLANT)

	Quantity, Mt		Percent, Fe	
	2016	2015	2016	2015
<b>Kiruna</b>				
Measured	2	12	4.4	48.3
Indicated	159	217	45.4	45.8
Inferred	37	83	40.3	44.2
<b>Malmberget</b>				
Measured	6	–	42.8	–
Indicated	112	109	42.6	43.2
Inferred	180	149	43.1	42.7
<b>Gruvberget magnetite</b>				
Measured	25	12	44.2	55.0
Indicated	27	10	43.3	53.3
Inferred	29	12	41.5	50.9
<b>Leveäniemi</b>				
Measured	114	91	45.4	46.3
Indicated	75	87	41.8	40.8
Inferred	51	34	37.1	38.7
<b>Mertainen</b>				
Measured	66	38	35.1	36.8
Indicated	111	101	37.5	37.4
Inferred	103	75	33.2	32.0
<b>Gruvberget hematite</b>				
Measured	9	9	55.0	55.0
Indicated	5	5	52.6	52.6
Inferred	28	28	53.9	53.9

<sup>1</sup> Mineral resources comprise all the ore that could be mined commercially. A mineral reserve is that part of the resource that can be extracted profitably.

# EUROPE'S LEADING IRON ORE PRODUCER

## VISION

Be perceived by customers as the supplier that adds the most value, thus leading the way in our chosen segments.

## BUSINESS CONCEPT

Manufacture and deliver upgraded iron ore products and services for ironmaking that create added value for customers on the world market from our base in the Swedish orefields. Other closely-related products and services that are based on LKAB's know-how and that support our main business activities may be included in operations.



**“ LKAB's ambition is to create prosperity by being one of the most innovative, resource-efficient and responsible mining companies in the world.**

## SUSTAINABILITY

### Attractive communities

Make a positive contribution to the development of our locations, in close partnership with residents, authorities and other enterprises.

### Attractive LKAB

Work to increase diversity and equality, offer a safe work environment and provide career opportunities that develop people.

### Resource-efficient production

Make efforts to reduce our energy consumption, minimize emissions and help improve resource efficiency in customers' processes.

### Responsible operations

Work actively to minimize our impact on the environment.

# 3

As of 2016 LKAB has a new Group structure with three divisions

## STRATEGIC FOCUS 2017–2021

In the coming years competitiveness will be enhanced by utilizing existing production capacity and investments made, and by identifying and acting on our growth opportunities.

OPERATIONAL EXCELLENCE

GROWTH

LEADERSHIP AND EMPLOYEESHIP

### DIVISION NORTH

Comprises production of crude ore and processing in Kiruna, including the world's largest underground iron ore mine as well as three pelletizing plants.

### DIVISION SOUTH

Comprises production of crude ore and processing in Malmberget and Svappavaara, including an underground mine and two pelletizing plants in Malmberget as well as open-pit mines and a pelletizing plant in Svappavaara.

### SPECIAL PRODUCTS DIVISION

Alongside its iron ore business, LKAB is active in the industrial minerals market and sells drilling technology that it has developed for the mining and construction industries.



LKAB, BOX 952, SE-971 28 LULEÅ, SWEDEN | +46 771 760 000 | [WWW.LKAB.COM](http://WWW.LKAB.COM)