

LKAB Minerals Limited

Annual Report and Financial Statements

**Registered number 03799817
31 December 2021**



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STRATEGIC REPORT

For the year ended 31 December 2021

The directors present the strategic report for the period ended 31 December 2021.

FAIR REVIEW OF THE BUSINESS

The directors are pleased to report a positive financial performance in the year to 31 December 2021. This performance was despite the continued impact of the COVID-19 pandemic on both UK construction and the wider economy, and the impact of the end of the Brexit transition period. Year to date trading for 2022 remains on plan and the outlook for the rest of this year appears positive.

Operating profit increased from £8,009,454 to £11,962,758, with improved customer demand enabling the business to better recover its fixed overheads. Volumes and profitability returned to levels similar to those seen in 2019. Cost inflation in the second half of the year was successfully mitigated through a combination of sales price increases and inflation linked surcharges.

The Company's total comprehensive income for the year, after taxation and defined benefit pension movements was £13,170,512 (2020: £5,712,815).

A dividend of £12.0 million for the year ended 31 December 2020 was paid during February 2021. Subsequent to the year end a dividend of £3.8m was declared for the year ended 31 December 2021.

The net assets at the balance sheet date were £45,091,445 (2020: £22,015,732).

PRINCIPAL RISKS AND UNCERTAINTIES

The key performance indicators for the business are cash flow and profitability and hence the most significant risks to the business are those that directly affect these, which are correlated with general economic activity and commodity pricing.

The Board consider the following risks to be the most material or significant for the management of the business. These issues do not purport to be a complete list or explanation of all the risk factors facing the company.

In particular, the company's performance may be affected by any significant changes in the market and/or economic climate and changes in legal, regulatory or tax requirement legislation.

SECTION 172 STATEMENT

The Board of Directors of LKAB Minerals Limited takes the duties set out in s172 of the Companies Act seriously, and those duties form a key part of the Board's decision-making process. The Board also recognises that stakeholder engagement forms an important part of the success of the business.

Board meetings are undertaken regularly, and are supported by regular reports from management. In addition to taking account of views of our stakeholders, the following key themes underpin the Board's decision making process:

- Ensuring that our employees remain safe at work
- The impact our operations have on the environment

The Board uses various means to engage with stakeholders, depending on the most appropriate method in the circumstances. Engagement includes, but is not limited to, personal engagement with individuals within our business, press releases, newsletters, and emails.

The Directors take decisions that are in the best interests of the long-term success of the Company, considering the views of key stakeholders as follows:

- **Customers:** our customers are fundamental to the success of our business. Understanding our customers' needs is key to our success and we use this knowledge to effectively partner with our customers. Our commercial colleagues help us to ensure that we deliver effective customer service, which is integral to ensuring that we maintain our business. During 2021, despite the ongoing impact of the pandemic, engagement with our customer base continued, albeit in a different way, with a greater emphasis on electronic communication.
- **Suppliers:** we value the relationship we have with our suppliers, which includes entities within the wider LKAB Group. We acknowledge that protecting relationships with suppliers ensures that in turn we can add value to the supply chain. During the year, the relationships we worked closely with included our freight providers and

- hauliers to ensure continuity of supply in an uncertain economic environment.
- Shareholders: We acknowledge the important role we play in the wider LKAB Group, as we provide a supply chain for the use of mining byproducts produced by our parent company LKAB. The decisions taken by the Board have in mind long-term value creation for the LKAB Group, and such decisions are informed by internal KPIs relating to business profitability and cash flow.
- Employees: The Board is committed to developing the expertise and knowledge of our workforce, to ensure that they deliver their potential, and they contribute to the long-term success of the company. We aim to ensure that our workforce is diverse, and we encourage a culture of openness and collaboration. A key priority for the Board is to ensure that our workforce is kept safe, and during the year we continued our journey towards Zero Harm. The Board also acknowledged the exceptional efforts of the workforce during an unpredictable year by continuing to operate the Company's discretionary bonus scheme.
- Community: Our business has a presence in local communities across the country, and more generally we are mindful of the effect that our business has on society in general. In 2021, we asked our employees to vote for a Charity of the Year and we subsequently made charitable donations to that charity.

Energy and Carbon Reporting

The Company monitors the energy usage of its operations, which for the year ended 31 December 2021 were as follows:

	2021	2020
	MwH	MwH
Gas	81,290	66,422
Electricity	53,098	52,550
Total	<u>134,388</u>	<u>118,972</u>

	2021	2020
	tCO ₂ e	tCO ₂ e
Emissions from activities for which the Company is responsible, including combustion of fuel and operating facilities (Scope 1)	16,328	13,302
Emissions from the purchase of electricity (Scope 2)	<u>11,275</u>	<u>12,252</u>
Total	<u>27,603</u>	<u>25,554</u>

	2021	2020
Tonnes of CO ₂ per £1,000 of sales	0.2339	0.256

The business has put in place both short term and long term objectives to reduce its carbon footprint, with the over-arching target of achieving net zero in 2050, in line with the UK Government's Net Zero Strategy.

Price risk

The business may be affected by rising costs of inputs, although purchasing policies and practices seek to mitigate, where applicable, such risks.

Competitive Risk

The business is exposed to competitive activity from around the world. The Board concentrates on areas where there is a realistic hope of maintaining a competitive advantage. Offering an excellent quality service is of paramount importance to the Board.

Credit risk

Credit risk arises on assets such as trade debtors. Policies and procedures exist to ensure that the trade debtors are monitored closely and new accounts are vetted. Larger customers are covered by credit insurance.

Liquidity risk

The company has bank and cash balances of £7,346,769 at the year-end (2020: £7,338,024). The Board is confident that the current funding structure is appropriate to allow the company to trade profitably and achieve its financial targets in the future. The Company cash position is managed centrally through the parent company treasury in Sweden. No external debt is held other than routine trade creditors and the defined benefit pension scheme.

STRATEGIC REPORT (CONTINUED)
For the year ended 31 December 2021

Pandemic risk

The Company has put in place adaptable procedures to accommodate safe working in a pandemic which have changed over time relative to both risk and legal restrictions. The pandemic did not cause significant financial strain on the Company in 2021, but should that change, the Company is capable of seeking financial support from its parent.

Supply risk

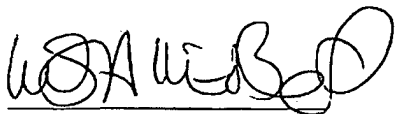
The Company relies on certain key suppliers, which are actively monitored.

FUTURE DEVELOPMENTS

The Company intends to pursue a growth strategy in 2022 and beyond, achievable through a combination of organic growth in existing markets, and potential M&A activity to gain a presence in new markets.

RESEARCH AND DEVELOPMENT

Our research and development activity enables us to achieve product diversification, meeting customers' needs and addressing gaps in the market. All research and development costs incurred in connection with this are written off in the period in which they relate.



Approved by the Board of Directors
And signed on behalf of the Board

L Newbold
Company Secretary

Date: 24 June 2022

DIRECTORS' REPORT

For the year ended 31 December 2021

The directors present their annual report, together with the audited financial statements and auditor's report for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES

The Company's principal activities are the processing of industrial minerals and granulated blast furnace slag. These are mainly for the construction and civil engineering, specialist filler and coating markets, agricultural, refractory and foundry markets.

The principal risk and uncertainties, financial risk management policy and future developments are set out within the strategic report on page 2.

DIVIDENDS

A dividend was paid during the year of £12,000,000 (2020: £10,500,000). Post year end, the Directors proposed a dividend of £3.8 million for the year, which was subsequently paid to LKAB Minerals Holdings (UK) Limited in February 2022.

GOING CONCERN

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons:

Despite the continued societal impact of the COVID-19 pandemic in the year, the key markets in which the Company trades continued to operate strongly, with high demand for construction materials in particular. A combination of the COVID-19 pandemic and Brexit in the year led to rising input costs, with the Company successfully taking steps to mitigate the impact through a combination of absolute sales price increases and surcharges. The company has continued to benefit from strong demand in the period to the date of approval of these financial statements, remaining profitable and cash generative.

The directors have prepared cash flow forecasts for the period to December 2023, including a severe but plausible downside scenario of no growth within the forecast period, which indicates that the Company will have sufficient funds to meet its liabilities as they fall due for that period. Included within the forecasts are dividend payments to be made to the immediate parent Company, LKAB Holdings Limited, in order for LKAB Holdings Limited to repay its' loan (which is payable to other group undertakings).

Therefore, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of not less than 12 months from the date of this report. For this reason, the Company continues to adopt the going concern basis of accounting in preparing these financial statements.

POLICY ON PAYMENT OF CREDITORS

The company operates a creditors payment policy designed to settle invoices within the standard terms offered by suppliers in line with the suppliers' invoice date. There were 40 day's billings from suppliers outstanding at the end of the financial year (2020: 36 days).

RESEARCH AND DEVELOPMENT

Research and developments are undertaken in order to develop new products and improve existing products.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The company made charitable donations during the year of £1,280 (2020: £2,739)

DIRECTORS

The directors, who held office throughout the year, and to the date of accounts signing, were as follows:

D A Wilson
R Elliott
G R Mansfield (appointed 8th January 2021)
R M Wheatley (resigned 16th August 2021)
L Newbold (appointed 16th August 2021)

DIRECTORS' REPORT (CONTINUED)

For the year ended 31 December 2021

RESULTS

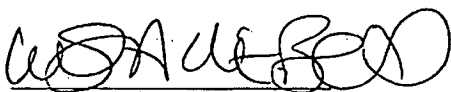
The results for the period are set out on page 11.

STATEMENT OF DISCLOSURE TO AUDITOR

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

INDEPENDENT AUDITOR

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.



Approved by the Board of Directors
And signed on behalf of the Board

L Newbold
Company Secretary

LKAB Minerals Limited
Raynesway
Derby
DE21 7BE

Date: 24 June 2022

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed subject to any material departures Disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to Going concern; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF LKAB MINERALS LIMITED

Opinion

We have audited the financial statements of LKAB Minerals Limited ("the Company") for the year ended 31 December 2021 which comprise the profit and loss account, the statement of other comprehensive income, the balance sheet, the statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors and inspection of policy documentation as to the Company's high-level policies and procedures to prevent and detect fraud, including Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that management may be in a position to make inappropriate accounting entries; and
- the risk that revenue is overstated through recording revenues in the wrong period.

We did not identify any additional fraud risks.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of Company-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, data protection laws, anti-bribery, employment law, regulatory capital and liquidity, and certain aspects of company legislation recognising the nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

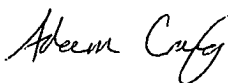
Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Adam Craig (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
St Nicholas House
Park Row
Nottingham
NG1 6FQ

29 June 2022

LKAB MINERALS LIMITED
Annual Report and Financial Statements
31 December 2021

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2021

	Note	2021 £	2020 £
Turnover	3	117,987,539	99,751,672
Cost of sales		<u>(84,187,408)</u>	<u>(72,449,400)</u>
Gross profit		33,800,131	27,302,272
Distribution costs		(12,900,467)	(10,488,301)
Administrative costs		(8,936,906)	(8,804,517)
Operating profit	6	<u>11,962,758</u>	<u>8,009,454</u>
Interest receivable and similar income	8	538,254	796,090
Interest payable and similar income	9	(795,677)	(1,141,510)
Profit before taxation		<u>11,705,335</u>	<u>7,664,034</u>
Tax on profit	10	(2,276,573)	(1,681,492)
Profit for the financial year		<u><u>9,428,762</u></u>	<u><u>5,982,542</u></u>

Notes on the pages 15 to 27 form part of the financial statements

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2021

	Note	2021 £000	2020 £000
Profit for the financial year		9,428,762	5,982,542
Remeasurement of the net defined benefit pension scheme liability	17	4,989,000	(332,996)
Deferred tax on other comprehensive income	16	(1,247,250)	63,269
Other comprehensive income, net of income tax		3,741,750	(269,727)
Total comprehensive income attributable to the shareholders of the Company		<u>13,170,512</u>	<u>5,712,815</u>

LKAB MINERALS LIMITED
Annual Report and Financial Statements
31 December 2021

BALANCE SHEET

As at 31 December 2021

	Note	2021 £	£	2020 £	£
FIXED ASSETS	12				
Tangible assets			28,823,901		25,828,814
CURRENT ASSETS					
Stocks	13	18,826,704		18,772,819	
Debtors	14	28,495,835		24,468,455	
Cash at bank and in hand		<u>7,346,769</u>		<u>7,338,024</u>	
		54,669,308		50,579,298	
CREDITORS: amounts falling due within one year	15	<u>(28,438,078)</u>		<u>(39,170,614)</u>	
NET CURRENT ASSETS			<u>26,231,230</u>		<u>11,408,684</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			55,055,131		37,237,498
PROVISIONS FOR LIABILITIES					
Deferred tax liability	16		(3,305,686)		(2,200,766)
Pension scheme deficit	17		(6,658,000)		(13,021,000)
NET ASSETS			<u>45,091,445</u>		<u>22,015,732</u>
CAPITAL AND RESERVES					
Called up share capital	18		100		100
Profit and loss account			<u>45,091,345</u>		<u>22,015,632</u>
TOTAL SHAREHOLDERS FUNDS			<u>45,091,445</u>		<u>22,015,732</u>

Notes on the pages 15 to 27 form part of the financial statements

These financial statements were approved by the Board of Directors and authorised for issue on 24 June 2022.

Signed on behalf of the Board of Directors



D A Wilson
Managing Director

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2021

	Called up share capital £	Profit and loss account £	Total £
At 1 January 2021	100	22,015,632	22,015,732
Profit for the financial year	-	9,428,762	9,428,762
Other comprehensive income	-	3,741,750	3,741,750
Capital contribution	-	21,905,201	21,905,201
Total comprehensive income	-	57,091,345	57,091,445
Dividends	-	(12,000,000)	(12,000,000)
At 31 December 2021	100	45,091,345	45,091,445

Comparative for the year ended 31 December 2020	Called up share capital £	Profit and loss account £	Total £
At 1 January 2020	100	17,560,828	17,560,928
Profit for the financial year	-	5,982,542	5,982,542
Other comprehensive income	-	(269,727)	(269,727)
Capital contribution	-	9,241,989	9,241,989
Total comprehensive income	-	32,515,632	32,515,732
Dividends	-	(10,500,000)	(10,500,000)
At 31 December 2020	100	22,015,632	22,015,732

During the year ended 31 December 2021 and 31 December 2020, the Company received waivers for amounts owing to other entities within the LKAB Group. The waivers were undertaken as part of a corporate simplification exercise following the acquisition of the Francis Flower entities in 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below and have been applied consistently throughout the current and preceding year.

a. General information and basis of accounting

LKAB Minerals Limited is a private company limited by shares, incorporated in the United Kingdom under the Companies Act and registered in England and Wales. The nature of the company's operations and its principal activities are set out in the Strategic Report on page 2.

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of LKAB Minerals Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

The company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group.

LKAB Minerals Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements. LKAB Minerals Limited is consolidated in the financial statements of its parent, LKAB, which may be obtained at LKAB, box 952, SE-97128, Lulea, Sweden. Exemptions have been taken in these separate Company financial statements in relation to financial instruments and presentation of a cash flow statement.

b. Going concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for the period to December 2023, including a severe but plausible downside scenario of no growth within the forecast period, which indicates that the Company will have sufficient funds to meet its liabilities as they fall due for that period. Included within the forecasts are dividend payments to be made to the immediate parent Company, LKAB Holdings Limited, in order for LKAB Holdings Limited to repay its' loan (which is payable to other group undertakings).

Therefore, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of not less than 12 months from the date of this report. For this reason, the Company continues to adopt the going concern basis of accounting in preparing these financial statements.

c. Intangible assets – goodwill

Goodwill arising on business combinations is capitalised and is amortised to nil by equal annual instalments over its estimated useful economic life of 5 years. Intangible assets are stated at cost or valuation, net of amortisation and any provision for impairment.

d. Research and development

Expenditure on research and development is charged to the Profit and Loss Account in the year in which it is incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2021

1. ACCOUNTING POLICIES (CONTINUED)

e. Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	50 years
Improvements to freehold property	10 years
Plant and equipment	4 to 10 years
Motor vehicles	3 to 7 years

f. Financial instruments

Financial assets and financial liabilities are recognized when the company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Financial instruments issued by the company are treated as equity (i.e. forming part of the shareholder's funds) only to the extent that they meet the following two conditions.

- a) They include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavorable to the company, and
- b) Where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of the shareholder's funds are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

g. Investments

Investments in subsidiary undertakings are stated at cost less any provision for impairment. Investments are reviewed annually for indication of impairment. Where investments recoverability is assessed using a 'Value in Use' calculation there remains estimation uncertainty over the future cash flows and actual results may differ.

h. Stocks

Stocks are stated at the lower of cost and net realizable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

i. Turnover

Turnover represents the amounts (excluding value added tax including transportation costs) from the provision of goods to customers during the year. Turnover is recognized when the risks and rewards of ownership have transferred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 31 December 2021

1. ACCOUNTING POLICIES (CONTINUED)

j. Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognized in the financial statements.

k. Employee benefits

The company operates a defined benefit pension scheme which is closed to new members and future accrual. The pension scheme assets are measured using market values. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. The expected return of the schemes' assets and the increase during the period in the present value of the schemes' liabilities arising from the passage of time are included in other finance income/cost. Actuarial gains and losses are recognised in the statement of comprehensive income. Pension schemes surpluses, to the extent that they are recoverable, or deficits are recognised in full and presented on the face of the balance sheet.

The company operates a defined contribution pension scheme open to all directors and employees. The assets of the scheme are held separately from those of the company. The company's contributions are charged to the profit and loss account as they are incurred.

l. Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

l. Leases

Operating lease rentals are charged to the Profit and Loss Account on a straight-line basis over the period of the lease.

m. Dividends on shares presented within shareholder's funds

Dividends unpaid at the balance sheet date are only recognized as a liability at that date to the extent that they are appropriately authorized at the balance sheet date and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the Notes to the financial statements.

n. Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognized in profit or loss as described below.

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

The recoverable amount of goodwill is derived from measurement of the present value of the future cash flows of the cash-generating units of which the goodwill is a part. Any impairment loss in respect of a CGU is allocated first to the goodwill attached to that CGU, and then to the other assets within that CGU on a pro-rata basis.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors consider the following to be critical estimates and judgements applicable to the financial statements:

- Recoverability of trade debtors – Trade debtors are assessed for impairment and are impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. The directors use historic experience and assessment of future recoverability to assess whether an impairment is required.
- Recoverability of stock – The value of stocks is assessed for impairment and, where required, a provision is made to reduce the cost to no more than net realisable value. This requires judgement and assumptions are made on anticipated utilisation and saleability, taking into account the nature and condition of stocks as well as historic experience and assessment of future profitability.
- Employee retirement benefits – the company operates an approved defined benefit pension scheme. The pension costs relating to the retirement plans are accounted for under FRS 102 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland' with the cost of providing retirement benefits determined using the Projected Unit Credit method, and actuarial valuations being carried out at each balance sheet date. Inherent in these valuations are key assumptions, including discount rates, expected returns on plan assets, compensation increases and mortality rates. These actuarial assumptions are reviewed annually and modified as appropriate in accordance with the advice of independent qualified actuaries.

3. TURNOVER AND OTHER REVENUE

An analysis of the company's turnover is as follows:

	2021 £	2020 £
United Kingdom	101,702,964	84,344,224
Rest of Europe	9,366,888	8,970,165
Other	<u>6,917,687</u>	<u>6,437,283</u>
	117,987,539	99,751,672

4. AUDITORS' REMUNERATION

	2021 £	2020 £
<i>Fees payable to the Company's auditor and associates</i>		
Audit of the financial statements	<u>83,200</u>	<u>80,000</u>

5. EMPLOYEES

The average monthly number of persons (including directors) employed by the company during the period was:

	2021 £	2020 £
Production	140	161
Administration and support	<u>94</u>	<u>101</u>
	234	262

Their aggregate remuneration comprised:

	2021 £	2020 £
Wages and salaries	11,198,706	10,425,273
Social security costs	1,207,427	1,146,504
Pension costs	<u>624,752</u>	<u>650,106</u>
	13,030,885	12,221,883

6. OPERATING PROFIT

	2021	2020
	£	£
Operating profit is stated after charging / (crediting):		
Foreign Exchange losses/(gains)	8,871	(40,668)
Research and development costs	56,393	57,057
Depreciation of tangible fixed assets	3,036,512	2,772,674
Gain/(loss) on disposal of fixed assets	(27,077)	(3,800)
Amortisation of intangible assets	-	1,905,609
Cost of stocks recognised as an expense	78,590,277	67,427,863
Operating lease charges	<u>917,783</u>	<u>987,250</u>

7. DIRECTORS REMUNERATION

	2021	2020
	£	£
Remuneration for qualifying services	782,111	607,197
Contributions in to defined contribution schemes	<u>46,457</u>	<u>42,773</u>
	<u>828,658</u>	<u>649,970</u>

Remuneration of the highest paid director:

	2021	2020
	£	£
Remuneration for qualifying services	278,036	245,967
Contributions in to defined contribution schemes	<u>-</u>	<u>15,092</u>
	<u>278,036</u>	<u>261,059</u>

8. INTEREST RECEIVABLE AND SIMILAR INCOME

	2021	2020
	£	£
Interest on bank deposits	1,041	5,285
Interest on pension scheme assets (note 17)	537,000	790,000
Other interest costs	<u>213</u>	<u>805</u>
	<u>538,254</u>	<u>796,090</u>

9. INTEREST PAYABLE AND SIMILAR CHARGES

	2021	2020
	£	£
Interest costs on pension scheme liabilities (note 17)	697,000	1,066,000
Interest on amounts owed by group undertakings	98,578	74,049
Other interest costs	<u>99</u>	<u>1,461</u>
	<u>795,677</u>	<u>1,141,510</u>

10. TAX ON PROFIT

	2021 £	2020 £
Current tax		
UK corporation tax at 19% (2020: 19%)	1,717,921	1,376,390
Adjustments in respect of prior years	<u>(99,788)</u>	<u>204,000</u>
Total current tax	1,618,133	1,580,390
Deferred tax		
Origination and reversal of timing differences	678,051	101,102
Adjustments in respect of prior years	50,669	-
Effect of tax rate change on opening balance	<u>(70,280)</u>	<u>-</u>
Total deferred tax	658,440	101,102
Total tax on profit	<u>2,276,573</u>	<u>1,681,492</u>

Factors affecting current corporation tax charge in the year:

The current tax charge for the year differs from the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below

	2021 £	2020 £
Profit before taxation	<u>11,705,335</u>	<u>7,664,034</u>
Expected tax charge based on the standard rate of corporation tax in the UK of 19% (2020: 19%)	2,224,014	1,456,166
Effects of:		
Expenses not deductible for tax purposes	172,353	98,708
Ineligible depreciation	-	(19,887)
Research and development tax credit	(395)	(20,700)
Remeasurement of deferred tax rates	(70,280)	(36,610)
Adjustments to tax charges in respect of previous years	(49,119)	203,815
Total tax charge for the year (note 8a)	<u>2,276,573</u>	<u>1,681,492</u>

In the 3 March 2021 Budget, it was announced that the UK tax rate will increase to 25% from 1 April 2023 and this was substantially enacted on 24 May 2021. This will have a consequential effect on the Company's future tax charge.

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11. DIVIDENDS

	2021 £	2020 £
Interim dividends	12,000,000	10,500,000

On 14 February 2022 a dividend of £3.8 million was declared and paid to LKAB Holdings (UK) Limited.

12. TANGIBLE FIXED ASSETS

	Mine / remediation costs	Land and buildings	Plant and machinery	Motor vehicles	Total
Cost					
At 1 January 2021	922,389	10,753,653	48,600,316	158,169	60,434,527
Additions	765,608	2,587,359	2,847,718	-	6,200,685
Reclassifications	-	25,316	(25,316)	-	-
Disposals	-	(157,552)	(818,257)	(106,925)	(1,082,734)
At 31 December 2021	1,687,997	13,208,776	50,604,461	51,244	65,552,478
Depreciation					
At 1 January 2021	208,574	5,114,094	29,164,700	118,345	34,605,713
Charge for the period	44,535	249,803	2,730,095	12,079	3,036,512
Disposals	-	(86,832)	(747,636)	(79,180)	(913,648)
At 31 December 2021	253,109	5,277,065	31,147,159	51,244	36,728,577
Net book value					
At 1 January 2021	713,815	5,639,559	19,435,616	39,824	25,828,814
At 31 December 2021	1,434,888	7,931,711	19,457,302	-	28,823,901

13. STOCKS

	2021 £	2020 £
Raw materials and consumables	11,153,451	11,914,284
Finished goods	7,673,253	6,858,535
	<u>18,826,704</u>	<u>18,772,819</u>

14. DEBTORS

	2021 £	2020 £
Trade debtors	23,386,915	18,655,593
Other debtors	68,580	39,397
Amounts owed by Group undertakings	302,940	1,438,684
Prepayments and accrued income with group undertakings	2,729,577	1,758,925
Corporation tax	334,603	101,866
Deferred tax asset (note 16)	1,673,220	2,473,990
	<u>28,495,835</u>	<u>24,468,455</u>

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2021 £	2020 £
Trade creditors	9,213,780	6,582,930
Corporation tax	-	-
Amounts owed to group undertakings	5,982,522	23,332,470
Other taxation and social security	320,389	311,673
Other creditors	1,983,278	2,887,449
Accruals and deferred income	<u>10,938,111</u>	<u>6,056,092</u>
	<u>28,438,080</u>	<u>39,170,614</u>

During the year, £21.9m of the amounts previously owed to group undertakings was waived by the related party.

16. DEFERRED TAX

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Assets 2021 £	Assets 2020 £	Liabilities 2021 £	Liabilities 2020 £
Accelerated capital allowances	-	-	(3,305,686)	(2,230,428)
Other timing differences	8,726	29,660	-	-
Defined benefit pension scheme	1,664,494	2,473,990	-	-
	<u>1,673,220</u>	<u>2,503,650</u>	<u>(3,305,686)</u>	<u>(2,230,428)</u>
	Accelerated capital allowances £	Other timing differences £	Defined benefit pension scheme £	Total £
At 1 January 2021	(2,230,428)	29,662	2,473,990	273,224
Recognised in profit and loss account	(1,075,258)	(20,936)	437,754	(658,440)
Recognised in other comprehensive income	-	-	(1,249,250)	(1,249,250)
At 31 December 2021	<u>(3,305,686)</u>	<u>8,726</u>	<u>1,664,494</u>	<u>(1,632,466)</u>

17. PENSIONS

Defined contribution scheme

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund:

	2021 £	2020 £
Charge to profit or loss in respect of defined contribution scheme	<u>624,752</u>	<u>650,106</u>

Since September 2019 the company operates a defined benefit pension scheme. The scheme was transferred from LKAB Holdings (UK) Limited. Certain of the company's employees are members of the Fergusson Wild Group Pension & Life Assurance Scheme which provides benefits based on final pensionable pay. The scheme was closed to new entrants in April 2004 and closed to future accrual in April 2016.

The most recent comprehensive actuarial valuation was as at 5 April 2020. The results of that valuation were updated to 31 December 2021 allowing for cash flows in and out of the scheme and changes to assumptions over the period.

	2021 £	2020 £
Present value of funded defined benefit obligations	(50,669,000)	(54,699,000)
Fair value of pension plan assets	<u>44,011,000</u>	<u>41,678,000</u>
Deficit	<u>(6,658,000)</u>	<u>(13,021,000)</u>

Movements in present value of defined benefit obligations	2021 £	2020 £
At 1 January	54,699,000	51,596,000
Past service costs (GMP equalisation)	-	60,000
Interest cost	697,000	1,066,000
Benefits paid	(2,241,000)	(1,699,000)
Experience gain on liabilities	-	(511,000)
Actuarial (gain)/loss due to changes in assumptions	(2,848,000)	7,053,000
Changes to demographic assumptions	362,000	(2,866,000)
At 31 December	<u>50,669,000</u>	<u>54,699,000</u>

Movements in fair value of plan assets	2021 £	2020 £
At 1 January	41,678,000	37,710,000
Interest on assets	537,000	790,000
Sponsor contributions	1,534,000	1,534,000
Benefits paid	(2,241,000)	(1,699,000)
Return on plan assets less interest	2,503,000	3,343,000
At 31 December	<u>44,011,000</u>	<u>41,678,000</u>

17. PENSIONS (CONTINUED)

Expenses recognised in the profit and loss accounts	2021 £	2020 £
Interest on defined benefit pension plan obligations	697,000	1,066,000
Expected return on defined benefit pension plan assets	(537,000)	(790,000)
Past service costs - GMP equalisation transfer values	-	60,000
Total	160,000	336,000

The expense is recognised as follows:

	2021 £	2020 £
Administrative expenses	-	60,000
Other interest receivable and similar income	(537,000)	(790,000)
Interest payable and similar charges	697,000	1,066,000
Total	160,000	336,000

Principal actuarial assumptions (expressed as a weighted average)	2021 %	2020 %
Discount rate	1.85	1.30
Future salary increases periods before 1 January 2030)	2.35	2.35
Future salary increases periods after 1 January 2030)	3.50	2.35
Inflation assumption	3.50	3.15
Pension increase assumptions	3.35	3.05
Mortality assumptions - post retirement		

S3PA mortality tables with a
long term rate of improvement
of 1.25%

The fair value of the plan assets and the return on those assets were as follows:

	2021 £	2020 £
Fair value of plan assets	44,011,000	41,678,000
Actual return on plan assets	3,040,000	4,133,000

17. PENSIONS (CONTINUED)

Major categories of plan assets:	2021 %	2020 %
Equities	6	1
Government debt	13	8
Corporate bonds	30	22
Cash	1	6
Other assets	2	27
Multi assets	48	36
	<u>100</u>	<u>100</u>

18. CALLED UP SHARE CAPITAL

	2021 £	2020 £
<i>Ordinary share capital issued and fully paid</i>		
7,510 Ordinary A shares of 1p each	75	75
1,989 Ordinary B shares of 1p each	20	20
501 Ordinary C shares of 1p each	5	5
10 Ordinary D shares of 0.01p each	-	-
	<u>100</u>	<u>100</u>

The company has four classes of ordinary shares which carry equal voting rights and no right to fixed income.

19. CAPITAL COMMITMENTS

Amounts contracted for but not provided in the financial statements:

	2021 £	2020 £
Purchase of tangible assets	<u>683,309</u>	<u>610,717</u>

20. OPERATING LEASE COMMITMENTS

At the reporting end date the company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	£	£
Within one year	804,917	860,645
Between two and five years	2,144,058	2,126,429
In over five years	2,655,099	3,193,948
Total	<u>5,604,074</u>	<u>6,181,022</u>

21. RELATED PARTY TRANSACTIONS

Remuneration of key personnel

The key management personnel of the business are the directors of the Company. Details of their remuneration can be found in note 8 to the financial statements.

Transactions with related parties

The Company has taken the exemption available in section 33 of FRS 102 to not disclose transactions between entities, where 100% of voting rights are controlled within the Group.

During the period the company entered into the following transactions with related parties:

	Sales 2021	Sales 2020	Purchases 2021	Purchases 2020
Other related parties	<u>1,950</u>	<u>5,478</u>	<u>742,594</u>	<u>706,496</u>

Other related parties represent LKAB other group companies which are not 100% owned within the LKAB group.

The following amounts were outstanding with the other related parties at the period end which are not 100% owned within the LKAB group

	2021	2020
	£	£
Amounts due from other related parties	875	650
Amounts due to other related parties	-	-

Transactions with directors

There were no transactions with Directors.

22. ULTIMATE CONTROLLING COMPANY

The company's immediate parent undertaking is LKAB Holdings (UK) Limited, a company registered in the United Kingdom.

The ultimate parent undertaking and controlling party is LKAB, a company incorporated in Sweden.

The smallest and largest group in which the results of the company are consolidated, is that headed by LKAB whose consolidated financial statements can be obtained from LKAB, box 952, SE-97128, Lulea, Sweden which is the registered address. For the avoidance of doubt this is also the registered address for LKAB Minerals AB.

23. POST BALANCE SHEET EVENTS

On 14 February 2022, the Company declared and paid a dividend of £3.8m to LKAB Holdings (UK) Limited.

On 31 March 2022, the Company acquired the trade and assets of a magnesia processing business formerly owned by Omya UK Limited.