

Report of the BoD 2008

Consistent strategy yielding results

In 2008, Yara achieved its best results so far. During the market slowdown caused by the global financial crisis at the end of the year, Yara benefited from its unique, flexible business model and is well positioned for both a recovery in demand and pursuit of further growth initiatives.

Yara has delivered strong results since its listing on the Oslo Stock Exchange in 2004, having implemented several projects to boost growth and taken an active role in the restructuring of the fertilizer industry. During 2008, Yara delivered on its industry shaper vision and growth ambitions with several important initiatives, the largest of which was the acquisition of the Canadian-based company Saskferco.

Yara managed to mitigate the effects of the financial crisis towards the end of 2008, benefiting from its flexible business model. Although production was temporarily curtailed, inventories were deliberately increased to prepare for a fertilizer market recovery in 2009. The Board of Directors considers the long-term fundamentals for fertilizer demand to remain strong and that Yara is well positioned to deliver in 2009 and beyond.

STRATEGY AND EXECUTION

Yara is a chemical company that primarily focuses on the production, distribution and sale of nitrogen chemicals. The main application is fertilizers, while industrial uses are also an important segment. Yara uses its scale and flexibility to ensure reliable supplies of mineral fertilizer and related industrial products to customers worldwide.

Yara benefits from scale, as the world's largest producer of ammonia, nitrate and complex fertilizer, with more than one quarter of global ammonia trade. Historically, the backbone of Yara's production system has been located in Europe. However, its new growth is shifting towards regions with more competitive gas resources.

Yara has developed an unrivalled global presence in the fertilizer industry. Its global distribution and marketing network includes chartered shipping capacity and more than 200 terminals, warehouses, blending plants and bagging facilities. Local sales and marketing units provide customer services as well as agronomical support, sharing knowledge and working with farmers worldwide to increase yields and improve crop quality and nutritional value.

Yara's business model has built-in flexibility, to enable quick responses to changing market conditions. The majority of Yara's operational cash cost is variable, driven by raw materials, energy, freight and third-party fertilizer sourcing. Purchases and plants can be halted at short notice in response to delivery slowdowns. Increased energy costs in Europe can be mitigated by lower cost imported ammonia, given that most of Yara's European production facilities have access to deep-sea import/export terminals for ammonia and Yara is the global leader in trade and shipping of ammonia. Yara controls the world's largest storage capacity for fertilizer, giving it the capacity to build up inventory before peak seasons, handle volatility in deliveries and take advantage of geographical arbitrage opportunities.

Yara has set a considerable increase of its global market share as a long-term objective, reflecting an optimal utilization of its marketing and distribution system. To reach this objective will require productivity gains in the existing business, as well as organic growth and further step growth initiatives. Such initiatives will focus on increasing Yara's production in low-cost regions, expanding market presence in high-growth markets and participating in consolidation in mature markets. For all growth categories, scale, synergy and timing will be important factors, along with capital discipline.

Yara continued to deliver on its growth ambition during 2008, through several important initiatives.

On 1 October 2008, Yara acquired Saskferco at an enterprise value of CAD 1.6 billion. The Saskferco plant in Belle Plaine, Canada is one of the world's most efficient at producing nitrogen fertilizer. Upon completion of its capacity expansion project in mid 2009, the plant will have an annual capacity of 725,000 tons ammonia, 1,115,000 tons urea

and 230,000 tons UAN. The plant benefits from the favourable development in North American gas prices and is well located to serve the huge Mid-West nitrogen fertilizer market.

In 2008, Yara decided to improve phosphate rock sourcing for its NPK production by increasing production in Siilinjärvi, Finland; investing EUR 60 million in modifications of rock upgrading equipment.

In 2008, Yara contracted for construction a new world-scale urea plant to replace old assets at its Sluiskil production site in the Netherlands for a total investment cost of EUR 400 million. The plant will produce 1.3 million tons urea from 2011, and takes advantage of urea upgrading margins on excess ammonia capacity in Sluiskil. The new plant will also improve the site's energy efficiency, environmental performance and maintenance costs.

In 2009, Yara's production in competitive gas areas is increased with Lifeco, a 50/50 joint venture in Libya established 9 February 2009. Yara contributed USD 225 million in cash to match the Libyan contribution of existing plant assets totalling an annual capacity of 900,000 tons urea and 700,000 tons ammonia. The attractive valuation reflects the premium that our Libyan partners placed on access to Yara's marketing network through a long-term marketing agreement and Yara's operational and project management expertise.

MARKET CONDITIONS

Yara's long-term market prospects are attractive. Increased agricultural productivity and new environmental solutions are demanded in a world with population growth, changing dietary patterns and ecological pressure, including water scarcity and land shortage.

2008 was a year of contrast in the fertilizer industry. Global fertilizer markets continued to be strongly demand-driven until August, as the supply-demand balance for grains appeared stretched, fuelling fertilizer import demand particularly in Asia. Concerns about grain

supply due to adverse weather resulted in further crop price increases to record levels in June 2008. Fertilizer markets tightened further during July and August, as increased export taxes on Chinese production after 1 May restricted global export supply.

Market sentiment turned sharply in September, as the financial crisis reached the wider economy. Globally, fertilizer demand was slow during fourth quarter. Grain prices and other agricultural commodity prices declined from August, driven by the financial crisis and the strong 2008 global grain crop.

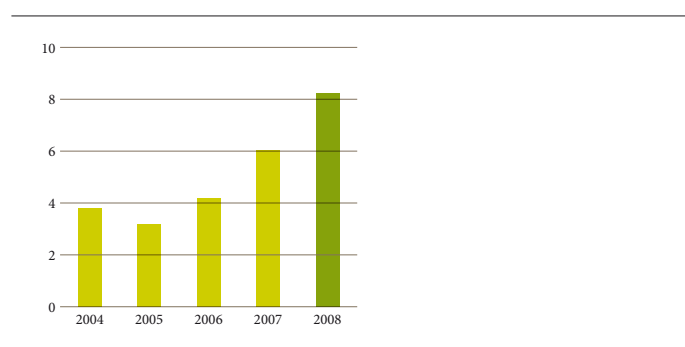
Deliveries were sharply reduced in regions where the main fertilizer application occurs during the latter part of the year. Brazilian fertilizer deliveries were down 41 percent during the quarter, and total Brazilian deliveries down nine percent compared with 2007. Amid declining fertilizer prices, a difficult financing environment and general uncertainty, buyers in the northern hemisphere chose to postpone purchases. European and US nitrogen deliveries were down 15 percent in the second half of 2008, compared to the previous year. Slow demand led to significant capacity curtailments towards the end of 2008.

Nitrogen chemicals sales to the process industry declined due to the economic slow-down. However, deliveries for environmental applications continued to grow.

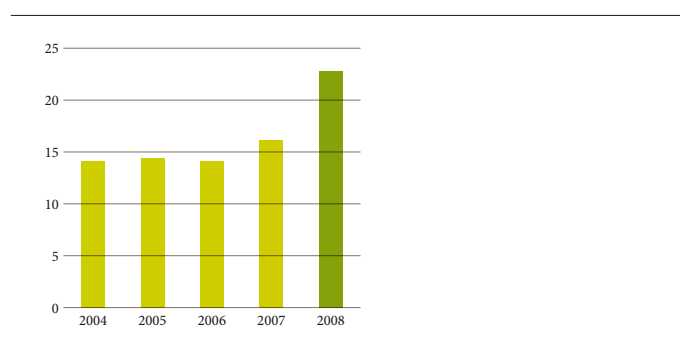
FINANCIAL PERFORMANCE AND OPERATIONS

Net income after minority interest was NOK 8,228 million (NOK 28.27 per share) in 2008 [1], up from NOK 6,037 million (NOK 20.60 per share) in 2007. Yara's after-tax measure for return on capital, CROGI (Cash Return On Gross Investment), was at 22.8 percent [2] compared to a target of minimum ten percent average over the business cycle. Operating income was NOK 12,281 million, up from NOK 4,987 million in 2007. EBITDA increased to NOK 17,917 million [3], from NOK 8,441 million in 2007. Yara's revenue and other income was NOK 88.8 billion in 2008, up from 57.5 billion in 2007.

[1] NET INCOME AFTER MINORITY SHARE
NOK billion, 2004–2008



[2] CROGI
Percent, 2004–2008



Yara's 2008 results were improved considerably from last year, due to higher fertilizer prices. As fertilizer prices decreased from September third-party sourced inventory positions were written down by NOK 2.1 billion to reflect market prices. Fertilizer volumes decreased by four percent compared to 2007, due to the slow-down in the fourth quarter. Oil and gas costs in Europe increased significantly due to an increase in oil-linked and hub gas prices.

Despite major production curtailments in November and December, ammonia production increased 11 percent and finished fertilizer production increased 26 percent from 2007, primarily reflecting the Kemira GrowHow acquisition.

Yara is well on track to reach targeted synergies from the Kemira GrowHow acquisition, and cash flow from the acquired activities increased substantially due to improved margins on phosphates, NPK and nitrates.

Net cash from operating activities in 2008 was NOK 3,986 million, reflecting strong earnings and dividends of NOK 1,223 million from non-consolidated investees, partly offset by increased net operating capital due to higher prices and deliberately increased inventories. Net cash from operating activities in 2007 was NOK 4,305 million. Net cash used in investing activities for 2008 was NOK 12,786 million, including the Saskferco acquisition.

Yara maintained its strong financial position during 2008. The debt/equity ratio increased from 0.42 to 0.82 [4] due to significant investments, the major being the Saskferco acquisition, higher net operating capital and an increased NOK/USD exchange rate, as a large part of Yara's loans are USD denominated. Yara's net interest-bearing debt at the end of the year was NOK 24,794 million while total assets equaled NOK 80,887 million. Total majority shareholders' equity as of 31 December 2008 amounted to NOK 30,103 million. At the end of the year, Yara had NOK 3,195 million in cash and cash equivalents and NOK 10,659 million in un-drawn committed bank facilities. We consider the company's cash position and financial strength to be satisfactory.

Yara achieves a knowledge margin in the market based on its insight in local markets, close customer relations, agronomic competence and ability to develop new product offerings from its existing production base. To support this knowledge margin and to seize opportunities from some of today's pressing global challenges, Yara's research and development targets both agronomical activities and product and process improvements. Several of the latter have led to commercialization of environmental solutions, such as an N₂O catalyst and NO_x abatement technologies. In 2008, Yara's research and development costs were NOK 126 million, compared with NOK 94 million in 2007.

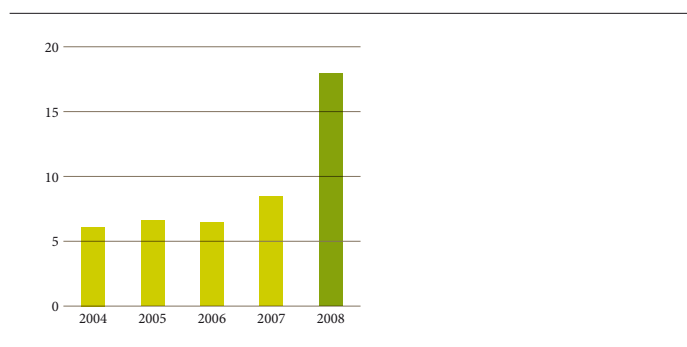
In the opinion of the Board of Directors, the consolidated financial statements provide a true and fair view of the group's financial performance during 2008 and financial position at 31 December 2008. According to section 3-3 of the Norwegian Accounting Act, we confirm that the consolidated financial statements and the financial statements of the parent company have been prepared based on the going concern assumption and that it is appropriate to use this assumption.

RISK MANAGEMENT

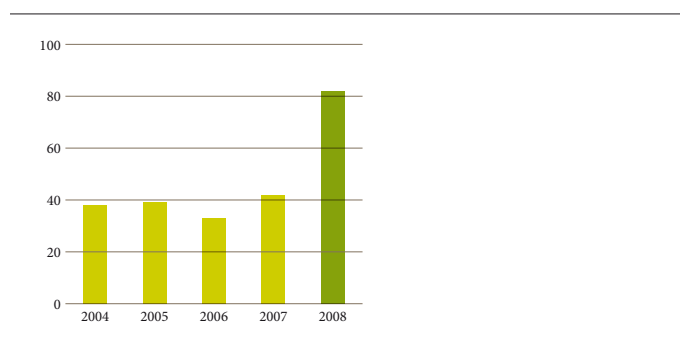
Yara's total risk exposure is analyzed and evaluated at corporate level. Risk evaluations are integrated in all business activities both at corporate and business unit level, increasing Yara's ability to take advantage of business opportunities. Yara's most significant market risk is related to the margin between nitrogen fertilizer prices and natural gas prices. Although there is a positive long-term correlation between these prices, margins are influenced by the supply/demand balance for food relative to energy.

Yara has a well-established system for credit and currency risk management with defined limits for exposure, both at customer and at country level. Yara's geographically diversified portfolio reduces the company's overall credit and currency risk. As the fertilizer business is essentially a US dollar business, with both revenues and raw material costs priced in USD, Yara seeks to maintain its debt primarily in USD, thereby reducing its overall USD currency exposure. Yara has a con-

[3] EBITDA
NOK billion, 2004–2008



[4] DEBT/EQUITY RATIO
Percent, 2004–2008



servative financing strategy and aims to hold the majority of its net interest-bearing debt in long-term bonds with fixed interest rates.

CORPORATE CITIZENSHIP

With its unique global presence, Yara is well positioned to influence key global issues. The company has adopted a corporate citizenship approach based on the role it plays – and can play – in society, contributing to solving major global challenges such as climate change, food security, and health concerns through its core business and corporate competence. For Yara, corporate citizenship is an integral part of its overall strategic direction and a driver for pursuing business opportunities.

The Board of Directors emphasizes Yara's significant contributions towards an African Green Revolution and the business initiatives launched to promote improved productivity in African agriculture in 2008. Yara has gained an international position in global food supply issues, participating in several major high-level events connected to the food crisis in 2008, including at the United Nations. It is also noteworthy, that Yara – through its unique catalyst technology and industrial solutions – contributes to reduced emissions of greenhouse gases and other harmful gases. This area offers considerable business opportunities, as the market for environmental solutions grew in 2008 and is expected to continue doing so in the future, driven by more stringent political measures to curb global warming.

Yara participates in the UN Global Compact initiative and the implementation of its ten principles throughout the organization.

For further details on Corporate Citizenship, the Board refers to the separate Citizenship Review for 2008, which is guided by the Global Reporting Initiative G3 guidelines.

HEALTH, ENVIRONMENT AND SAFETY

A strong track record places Yara among the industry leaders with respect to health, environmental and safety performance. Yara believes every accident is preventable. This is the basis for a focused safety pro-

gram within the company. Similarly, environmental challenges, particularly those relating to climate gas emissions, are a key element of Yara's activities in the field of health, environment and safety.

In 2008, Yara achieved an LTI rate (lost-time injuries per million hours worked) of 1.2 for employees and contractors combined [5], down from 1.4 in 2007. In comparison, the average LTI rate for other fertilizer producers in Europe was four times higher. The TRI rate (total recordable injuries per million hours worked) for Yara was at 3.5, up from 2.9 in 2007. The TRI rate includes lost-time injuries, restricted work cases where the person was allowed to carry out other task than the normal duties, and medical treatment cases. Absence due to sickness at Yara's production plants was 3.8 percent in 2008, up from 3.7 percent in 2007. The 2008 results include for the first time the performance of former Kemira GrowHow.

Striving to reach its zero accident target, Yara continued the implementation of its BBS (behavior-based safety) program in 2008. This will be further rolled out in 2009/10 in the recently acquired Kemira GrowHow and Saskferco plants. Also, a new safety campaign called Think Ahead was developed and prepared for launch in 2009.

Yara did not experience any fatal accidents in 2008. However, several accidents did occur, emphasizing the need for strong management commitment and employee involvement in preventive actions. The most serious accident in 2008 occurred in Yara Porsgrunn in December, when a buffer tank with fertilizer solution exploded. Four people were treated for minor injuries from glass splinters. The plant was out of operation for over a month and the repairs cost approximately NOK 60 million.

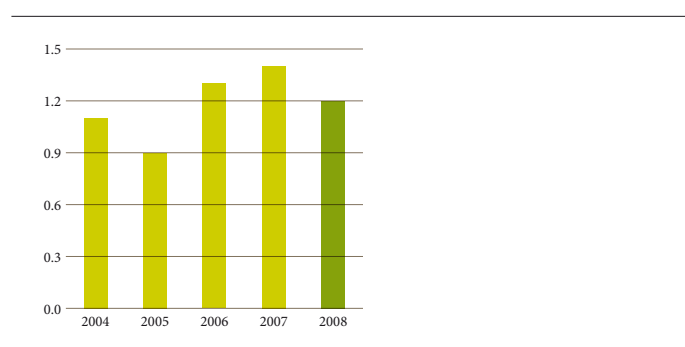
On climate change, Yara's goal is to reduce its carbon footprint by 25 percent from 2004 to 2009, in terms of total greenhouse gas emissions from the production sites that belonged to Yara in 2004. This target was already achieved in 2008: the emissions in 2008 were 30 percent below 2004 levels. This has been achieved with the installation of Yara's technology for reducing nitrous oxide (N₂O) from nitric acid plants. At year-end, the technology was installed in 12 of Yara's nitric acid plants. In 2008, Yara had direct emissions of 13 million tons of CO₂ equivalents, down from 16.4 in 2007, excluding the Kemira GrowHow and Saskferco plants. With all plants included, emissions in 2008 were approximately 17 million tons CO₂ equivalents. Yara's total energy consumption increased by 4.9 percent from 2007 to 2008; energy efficiency was improved by 13 percent.

While Yara's production emits greenhouse gases, the overall impact of the production and use of mineral fertilizer on the environment is a positive contribution by the fixing of CO₂ in biomass and land preservation.

Yara's operations are subject to many environmental requirements under the laws and regulations of the various jurisdictions in which Yara conducts its business. Such laws and regulations govern, among other matters, air emissions, wastewater discharges, solid and hazard

[5] LTI RATE

Number of lost-time injuries per million hours worked, 2004–2008



ous waste management, transportation of hazardous materials and remediation of past activities. In 2008, no material legal claim was made against Yara in respect of health, environmental or safety matters or in relation to operational permits.

Yara has a number of facilities that have been operated for a period of years. Subsurface impact to soil and groundwater and other conditions are common to such sites and may require remediation or give rise to liabilities under the laws of the various jurisdictions in which the facilities are located. Yara has attempted to identify such impacts where they are apparent and has initiated remediation or containment procedures in coordination with the appropriate authorities.

PEOPLE DEVELOPMENT

At the end of 2008, Yara had 7,971 employees, a net reduction of 202 employees from 2007, despite the company's continued global growth. The reduction mainly reflects synergies realized through the acquisition of Kemira GrowHow. The main addition to Yara's global workforce came in Canada, through the acquisition of Saskferco, with 160 new employees.

The increased diversity of Yara's workforce, with no dominant company location and the Norwegian contingent only accounting for approximately ten percent, puts equal opportunities high on the agenda throughout the company. To create career opportunities for many talents within the organization, the company offers international assignments to a number of specialists and leaders. At the end of 2008, 113 of Yara's employees, drawn from 20 countries, were stationed on international assignment contracts at 31 different host locations around the world.

2008 also saw the first class of graduates from Yara's Leadership Assessment and Development Program (LEAD), which was first launched in 2006 and has provided great insight in Yara's global talent pool. Of the first 40 graduates, 23 percent were women, 20 different nationalities were represented, and two thirds were working outside their home country. Another initiative, Yara Essentials, was launched in 2008 as a tool to support networking and knowledge transfer between leaders and specialist within the global organization. Yara's induction and training program, The Yara World, also proved its success in 2008. Development will continue in 2009, along with the strengthening of the company's e-learning services for employees.

Yara's industry has traditionally been male-dominated. At the end of 2008, 81 percent of the global workforce were men and 19 percent women, with a similar distribution at the managerial grade level, 80 percent being men; 20 percent women. Among senior leaders, the percentage of women is lower, constituting eight percent of the company's top 138 global positions. Yara's ambition is to increase the proportion of women in management positions and focus on gender diversity in key human resource processes like recruitment, talent management, employee development and succession planning. In addition, the company supports and develops female leaders through internal and external networking, coaching and mentoring.

BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

Yara's five shareholder-elected members of the Board of Directors were re-elected for two years in 2008. Upon his appointment as President and CEO, Jørgen Ole Haslestad resigned from the Board on 1 October 2008. The Board decided that Haslestad's replacement should be elected at the next ordinary Annual General Meeting, in 2009. The four shareholder-elected members all have extensive line management experience from international industrial companies. The three employee-elected Board members were elected in January 2008 and have been Yara employees for between twenty-eight and thirty-five years. Two of the seven Board members are women, both elected by the shareholders. The Board held twelve meetings in 2008.

Yara has decided not to constitute a corporate assembly. Consequently, the Board of Directors is responsible directly to the General Meeting and the shareholders. A Compensation Committee was established in April 2004 and an Audit Committee was established in December 2006.

The Board of Directors wishes to express its gratitude to Thorleif Enger who retired from his position as President and CEO in September 2008, upon reaching his desired retirement age after 35 years with Yara and Hydro. Mr. Enger played a crucial role in the development of Yara, contributing strongly to the turnaround process leading up to the company's success since the listing on Oslo Stock Exchange in 2004. To succeed him, the Board welcomes Jørgen Ole Haslestad as the new President and CEO. With extensive experience from international industry, his prior background on the Yara Board – and being a farmer himself – we rest confident that Mr. Haslestad will contribute to the continued growth and success of Yara.

CORPORATE GOVERNANCE

Yara believes good corporate governance drives sustainable business conduct and long-term value creation. Yara aims to exercise corporate governance in a manner representative of an ambitious and responsible multinational company, and has established practices adapted to the specific challenges facing it as the world's largest global fertilizer company. The Board of Directors will comply with the Norwegian Code of Practice for corporate governance. This Code has stricter requirements than what is mandated by law.

YARA INTERNATIONAL ASA

The parent company, Yara International ASA, is primarily a holding company, with financial activities and only non-material operations. Yara International ASA had net income of NOK 206 million in 2008 after a currency loss of approximately NOK 3.2 billion related to USD denominated loans.

DIVIDEND AND BUY-BACKS

Yara expects to return 40–45 percent of net income to its shareholders, measured as the sum of dividends and share buy-backs, averaged over the business cycle. As long as Yara can maintain profitability at the attractive level it achieved over the past five years, a dividend level that restricts

Yara's growth will not be desirable. Yara's dividend policy is to pay out minimum 30 percent of net income as an average over the business cycle. Yara believes it will be beneficial for shareholders for the Company to strive for a gradual increase and predictability in the absolute dividend level over time, independent of the business cycle. Consequently, Yara expects to pay out somewhat more than 30 percent of net income in years with weaker-than-average cash flow from operations – and less than 30 percent in years with stronger-than-average cash flow from operations.

Current equity and credit markets, with more restricted access to long-term financing, may limit Yara's growth opportunities in the short term. This supports a more conservative short-term dividend policy.

The Board proposes a dividend of NOK 4.50 per share, totaling a payment of NOK 1,304 million. Combined with the positive result in Yara International ASA, this results in an decrease of equity of NOK 1,099 million. Distributable equity in the parent company as of 31 December 2008 was NOK 282 million after proposed dividend.

Yara will use share buy-back programs when certain conditions are met. Share buy-backs are more flexible than dividends. For most shareholders, buy-backs also provide tax advantages compared to dividends. In 2008, Yara bought back 1,750,000 shares for a total of NOK 422 million.

In total Yara paid out NOK 1,588 millions in 2008 in dividends and share buy-backs, representing 26 percent of consolidated net income in 2007. The proposed 2008 dividend represents 16 percent of consolidated net income.

OUTLOOK

The global financial turmoil is impacting economic growth. No industry can expect to be unaffected by the sharp economic slow-down, but food demand is less income-elastic than most consumer and investment goods, and world population growth is continuing.

However, the fertilizer industry has since September 2008 experienced an unprecedented slow-down in deliveries and decline in international ferti-

lizer prices. Global fertilizer deliveries are lagging significantly behind last season, and the lower deliveries have triggered substantial production curtailments. A large drop in Chinese fertilizer exports, which are constrained by high export taxes, has further reduced supplies.

Current grain, fertilizer and fuel prices promise historically high farmer margins for major crops and regions, supporting strong nitrogen fertilizer demand for the current season. The supply curtailments will result in a tight market in the spring, if farmers choose optimal application rates based on strong farm economics. If they do not, food production will be negatively affected, tightening grain markets and requiring a recovery in fertilizer demand next season.

Yara is prepared, possessing the operational and financial flexibility to meet a potential scenario where farmers, due to uncertainty, risk aversion or lack of financing, reduce fertilizer application this season. Applying its flexible business model, Yara is minimizing third party sourcing and is able to cut production whenever necessary. The majority of Yara's operational costs are variable, reducing the financial consequences of such curtailments. Yara's position is also improved by a substantial reduction in its expected European energy costs compared to last year based on forward energy prices. During 2008, Yara increased the proportion of its European energy costs linked to spot pricing, to approximately 75 percent, which resulted in significant savings as energy prices declined.

The necessary level of investments to maintain current capacity and implement basic productivity investments is estimated to be NOK 1,500–1,700 million per year. Yara's total investments in 2009 will be significantly higher due to the establishment of the Lifeco joint venture in Libya, the on-going expansion of urea production in the Netherlands, upgrading of phosphate mining capacity in Finland and the expansion in the plant in Canada. Yara's financial solidity is expected to remain strong.

Going forward, Yara will benefit from the Saskferco acquisition, effective 1 October 2008, and the Lifeco 50/50 joint venture established 9 February 2009. These initiatives increase the share of Yara's energy consumption outside Europe from 30 to 38 percent.

The Board of Directors of Yara International ASA
Oslo, 31 March 2009


Oivind Lund
Chairperson


Elisabeth Harstad
Board member

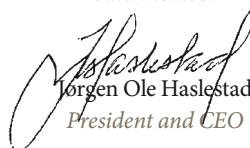

Leiv L. Nergaard
Board member


Lone Fønss Schröder
Board member


Arthur Frank Bakke
Board member


Frank Andersen
Board member


Svein Flatebø
Board member


Jørgen Ole Haslestad
President and CEO