

## MD&A 2008

# Committed citizenship

Yara strengthened its global position and presence, and presented its best results so far in 2008. Yara kept focusing on its four shaping issues, its commitments and contributions to meet major global challenges.

Yara considers corporate citizenship as an integral part of its overall strategic direction. At the core of Yara's strategy lies sustainable business development, at the heart of its citizenship strategy lies support for sustainable agriculture. Building on its industrial platform and global presence, Yara is positioned to contribute to meeting global challenges, combining corporate citizenship with business opportunities.

Externally, Yara has chosen to leverage its core business and global position within specific areas where it can contribute and make a substantial, positive impact, responding to major global challenges. Internally, Yara is committed to adhere to laws and regulations of the countries in which it operates, as well as its own code of conduct and stringent rules, not least regarding safety and product stewardship.

### GLOBAL DEVELOPMENT

---

Yara is affected by global as well as local economic developments, particularly within the markets it operates. Yara contributes greatly to

economic as well as social development: Application of crop nutrients enhances yields and raises the potential income from farming, contributing to sustainable agriculture, rural development and economic growth.

Global megatrends constitute an important part of the global business environment in which Yara operates. *Globalization* has a major impact on a global company such as Yara, which trades extensively across the world, as well as on Yara's customer base the world's farming community. *Growth* is a major driver in two ways; economic growth increases purchasing power, and population growth increases the demand for food – and for mineral fertilizer. Also, *urbanization* affects human settlement and human health, with pollution of air and contamination of water, offering considerable opportunities for environmental products and services.

### ECONOMIC DEVELOPMENT

2008 saw exceptional turmoil in international economy, with a lengthy period of sustained economic growth coming to an end. At the turn of 2008, the World Bank and the International Monetary Fund projected a sharp fall in world economic growth. 2008 started with a global food crisis, and ended with a global financial crisis. Uncertainties in global



commodity markets in 2007/08 contributed to a sharp rise in the price of basic food crops, while turmoil in the financial markets in 2008/09 reduced demand for fertilizers, raising questions of future agricultural productivity.

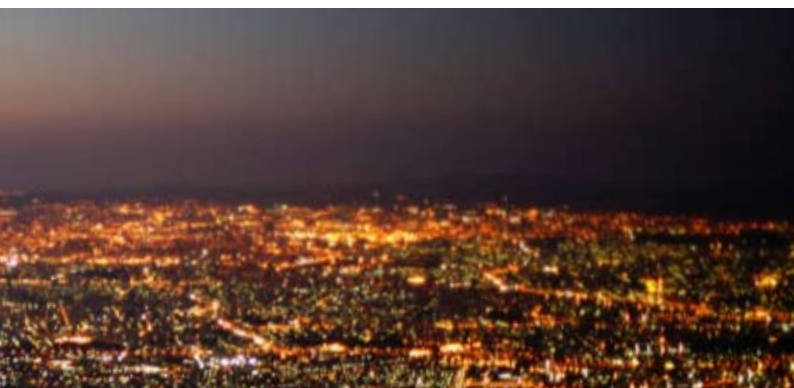
### POLITICAL DEVELOPMENT

2008 saw a considerably stronger political attention to the agricultural sector and food production than in several years, with high-level conferences calling for increased investments in agriculture and agribusiness. The focus on environmental issues, in particular global warming and climate change – partly combined with renewed considerations on bioenergy – remained high on the agenda. 2008 also saw attention raised on emissions, with new measures setting stricter caps on harmful emissions.

## SOCIAL DEVELOPMENT

2008 saw an increase in the number of food insecure and poor people, most likely reaching one billion. Record-high food prices are cited as one major cause, partly reversing some of the recent gains in hunger reduction. The financial crisis aggravated the situation, and in February 2009, the World Bank said that “the financial crisis is fast becoming a human crisis”. The Food and Agriculture Organization of the UN (FAO) noted that high food prices also constitute an opportunity, calling for concerted help for producers to boost food production, “mainly by facilitating access to seeds, fertilizers, animal feed and other inputs”.

Another issue of rising concern in 2008 was the impeding water scarcity. Already, there is critical water scarcity in large areas of the world, including major food producing regions. Agriculture being the main consumer of water, improved water management and farming methods to make use of less water were some key topics on the agenda. Drip irrigation and precision fertilization, including the use of fertigation solutions, can contribute to save precious water; solutions that Yara has pioneered.



## OPERATIONAL PERFORMANCE

### PRODUCTION DEVELOPMENT

Yara's plants have shown a solid production increase for ammonia and finished fertilizer products over the years, improvements being driven by continuous production enhancements. Recent growth has been driven by the acquisitions of Kemira GrowHow (Finland) in 2007 and Saskferco (Canada) in 2008, and the establishment of the Lifeco joint venture company (Libya), which was completed in 2009.

Yara's operation – like other parts of the industry – was affected by the market turmoil at the end of 2008, experiencing a sharp drop in demand, resulting in major sales reductions in the fourth quarter. Yara manage-

## STRATEGIC GOALS

Yara has adopted ten strategic goals for long-term value creation, of which three are related to citizenship.

(See matrix of all goals on pages 8–9).

### Goal # 7: Corporate citizenship

#### Performance 2008:

Yara developed its citizenship approach, established a governing structure, published its first COP, and intensified its engagement in global food issues and support for the African green revolution.

#### Priorities for 2009:

Yara will finalize a citizenship strategy, adopt a more systematic approach to stakeholder engagement and continue to develop solutions that meet global challenges related to energy, climate, food and health.

### Goal # 8: Environment

#### Performance 2008:

Yara reached its greenhouse gas emissions target, cutting emissions in 2008 by 30 percent compared to 2004, and improving energy efficiency by 13 percent from 2007 to 2008 based on eco-efficiency calculations.

#### Priorities for 2009:

Yara will continue the implementation of its energy management system and evaluate further installation of the nitrous oxide catalyst in nitric acid plants.

### Goal # 9: Safety

#### Performance 2008:

Yara achieved an LTI rate of 1.2 for employees and contractors combined. The average LTI rate for other fertilizer producers in Europe was four times higher.

#### Priorities for 2009:

Yara will continue the implementation of its behavior based safety program in newly acquired plants and launch a company-wide safety campaign.

» For a full presentation of the goals, see:  
[www.yara.com/2008](http://www.yara.com/2008)

ment decided to reduce third-party sourcing and curtail own production, at the same time building stocks, in order to handle the market volatility. Yara is one of the most energy efficient fertilizer producers, and the company has technically upgraded most of its ammonia plants to optimize their energy efficiency. As a result, nine of Yara's 15 ammonia plants perform better than the European average with regard to energy efficiency, according to Plant Surveys International's benchmarking surveys for EFMA and IFA 2006/2007.

In Norway, Yara and the Norwegian public enterprise Enova are investing heavily in efforts to improve energy efficiency at the Yara Glomfjord and Yara Porsgrunn production sites. At Yara Porsgrunn, which is the company's – as well as Europe's – largest NPK plant, the project aims to reduce annual energy consumption at the plant by 300 GWh by 2011. Yara will receive project funding of up to 20 percent from Enova, whose main mission is to encourage energy savings and efficiency in Norwegian industry and households. The agreement with Enova is the largest of its kind to date.

Yara has a so-called Energy Hunters in place at the Porsgrunn plant as well as in other major production plants. The Energy Hunters are local drivers of Yara's "Systematic Energy Management" initiative (see fact box page 15). Yara Sluiskil has piloted the initiative, and installation of a newly developed software tool monitoring and analyzing energy losses has already led to 0.55 percent decrease in energy consumption, equaling annual energy costs of close to EUR 2 million. At Yara Brunsbüttel, systematic root cause analysis using a tailored technique to identify leakages has led to energy savings worth up to EUR 800,000, demonstrating the value of systematic energy management. Under this initiative, Yara also intends to develop a central strategy for making use of waste energy.

**PEOPLE DEVELOPMENT**

In the face of the economic slow-down, with sharply reduced demand for fertilizers in the fourth quarter, Yara followed up on its policy of avoiding unscheduled or temporary layoffs of employees throughout 2008.

Diversity and equal opportunities are fundamental principles in Yara's people development policy, aiming to take the company's global talent pool to its full potential. In 2008, the first class of employees graduated from Yara's Leadership Assessment and Development Program (LEAD), with 20 different nationalities represented, of which 23 percent were women. Since its launch in 2006, LEAD has provided great insight in the company's pool of talented individuals. In 2008, Yara launched a new employee engagement initiative, Yara Essential, aiming to enhance networking and knowledge transfer between leaders and specialists within the global organization. Also, Yara's induction and training program, The Yara World, proved its success and will be further developed.

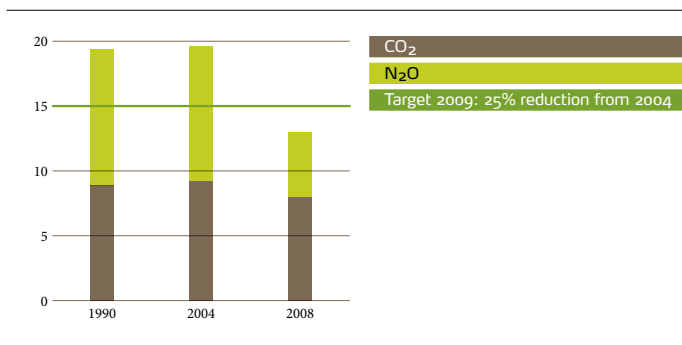
**PRODUCT STEWARDSHIP**

The principles of Product Stewardship, as set out by the European Fertilizer Manufacturers Association (EFMA), guide all of Yara's activities. In 2008, Yara scored well above acceptance levels and was recertified to EFMA's Product Stewardship Program by independent auditors as part of the triennial certification process required by EFMA.

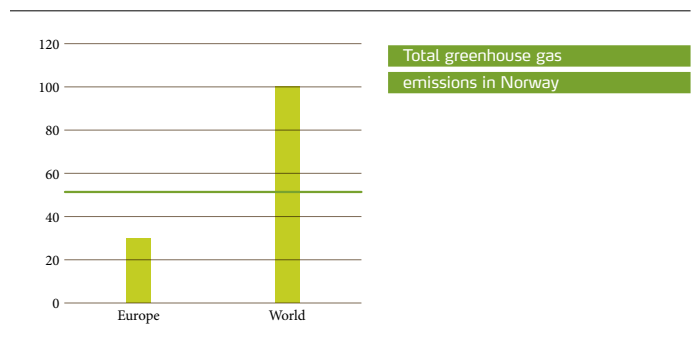
The European Union regulation on Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) came into force in 2007 and requires extensive testing, evaluation and registration of chemi-



**[1] GREENHOUSE GAS EMISSIONS VS TARGET**  
Million ton CO<sub>2</sub> equivalents, 2004–2008



**[2] REDUCTION POTENTIAL WITH N<sub>2</sub>O CATALYST**  
Million ton CO<sub>2</sub> equivalents



cals to safeguard human health and the environment. In 2008, Yara completed the pre-registration of all relevant manufactured and imported critical substances in accordance with REACH. Yara is cooperating closely with suppliers, customers and the industry to carry out the extensive testing and documentation needed to ensure compliance with the requirements by 2010.

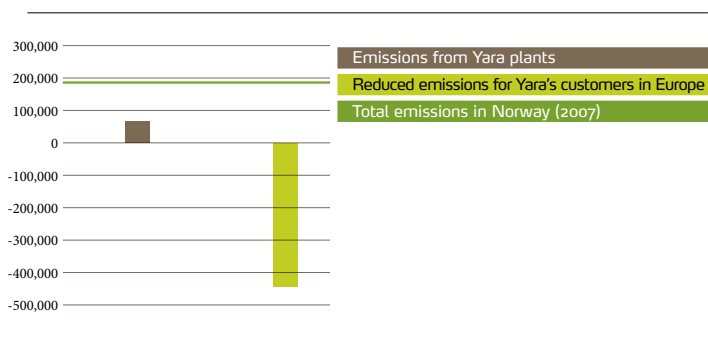
As the world’s leading supplier of fertilizer, Yara is strongly committed to improved management practices: optimizing yield while minimizing application of mineral fertilizers. The production of fertilizer is energy-consuming – causing emission of greenhouse gases to air, and the application can have detrimental effects on the environment – causing leakage to water. Yara constantly works to develop improved ways to apply fertilizers, reducing the amounts of nutrients as well as the water needed. Through developing new fertilizer products and sharing its application knowledge, Yara promotes balanced fertilization and supports the development of sustainable agriculture.

## STAKEHOLDER ENGAGEMENT

Yara is in continuous dialogue with key stakeholders, particularly its



[3] CONTRIBUTIONS TO REDUCE NO<sub>x</sub> EMISSIONS  
Ton NO<sub>x</sub>



## CHALLENGES AND ISSUES

**Yara applies its core business and key knowledge to make positive impacts within four prioritized areas – four shaping issues. At the same time, these issues are essential in Yara’s own business development.**

### Energy supply

**In 2008**, Yara strengthened its efforts to improve energy efficiency in its global production base. Through a new energy savings initiative, Energy Hunters were introduced at all production plants to drive energy improvements by supporting and pushing the production organization and establishing energy saving projects at each plant.

**In 2008**, the “Systematic Energy Management” initiative was anchored as one of four global top priorities in Yara’s Upstream segment. Facilitated by a newly developed software tool, the energy management system will be implemented and mandatory for all sites in 2009, aiming to improve reporting of energy consumption and support daily energy efficiency follow-up and analysis of savings potentials.

### Climate change

**In 2008**, Yara reached its ambitious goal of reducing the company’s carbon footprint by 25 percent from 2004 to 2009 [1], a year ahead of schedule. This was made possible by Yara’s technology innovation, specifically the N<sub>2</sub>O catalyst technology that reduces N<sub>2</sub>O emissions from nitric acid production by 70–90 percent.

**In 2008**, Yara installed this technology in several of the company’s nitric acid plants. Furthermore, the technology is used in nearly half of all projects for nitric acid plants covered by the Clean Development Mechanism under the Kyoto Protocol worldwide. Globally, it has a potential to reduce GHG emissions from such plants by close to 100 million tons of CO<sub>2</sub> equivalents per year [2].

### Food security

**In 2008**, Yara reiterated its commitment to the African green revolution, including the novel private-public partnership ‘Agricultural Growth Corridor Initiative’, aiming at upgrading port facilities at Beira, Mozambique and Dar es Salaam, Tanzania. This is part of a regional strategy for harmonizing transport hubs in the fertilizer delivery chain, linked to partnerships to improve input efficiency.

**In 2008**, Yara contributed to global food production and food security through its global reach, with sales of 20.5 million tons of crop nutrients, and sharing its extensive agronomic knowledge on how to improve agricultural productivity. All in all, about one third of the protein consumed by mankind is estimated to be the direct result of the application of mineral fertilizers.

### Health concern

**In 2008**, Yara’s NO<sub>x</sub> abatement technologies contributed to a reduction of approximately 440 000 tons of NO<sub>x</sub> emissions from customers’ applications in Europe, including reductions from vehicles as well as stationary and maritime applications. Yara’s sales of NO<sub>x</sub> solutions grew throughout 2008, with significant increases in the sales of Air1®, which is available across Europe [3].

» More on the shaping issues: [www.yara.com/sustainability](http://www.yara.com/sustainability)

owners, partners and customers, as well as with national and regional authorities, and international organizations. Yara is, on both a regular and irregular basis, in active contact with various parts of society as well as governmental and institutional bodies, on a global, regional and local level.

#### PUBLIC AFFAIRS

Yara engages in public dialogue on affairs relevant to its business, responding to initiatives and invitations as well as initiating exchange of ideas. During 2008, Yara was involved in international dialogue related to all of its shaping issues, as well as other policy-related matters.

#### SHAPING ISSUES

**ENERGY:** Yara engaged in dialogue with the European Union (EU) to promote increased transparency in the European energy market, aimed at stimulating competition. Yara continued its engagement to make the global fertilizer industry become more energy efficient, through dialogue with the EU on reaching European targets, aimed at reducing emission of greenhouse gases (GHG). Yara also monitored the efforts made by the EU to bring down GHG emissions from the European transport sector by introducing more renewable fuels (bio-fuels) on the market.

**CLIMATE:** Yara engaged in the ongoing dialogue on the EU's "Climate action and renewable energy package" which was agreed upon by the European Parliament and Council in December 2008 and which includes changes in the EU Emissions Trading System (ETS). While supporting the ambitious targets of the EU, as well as the inclusion of N<sub>2</sub>O emissions from nitric acid production, Yara advocates global measures to reduce emissions from the fertilizer industry to ensure that the relatively cleaner production in the EU is not disfavored in the global fertilizer market.

**FOOD:** Yara continued its commitment to the global efforts to achieve food security, participating in a number of high-level international meetings debating agricultural development in general and the global food crisis in particular. This included the opening of the UN General Assembly in September, launching its private-public partnership initiative of agricultural growth corridors in Africa. Yara co-hosted the third African Green Revolution Conference, and awarded the fourth Yara Prize in Oslo. Yara also represented the global fertilizer industry at the 16th session of the UN Commission on Sustainable Development (CSD).

**HEALTH:** Yara engaged in policy debates within the EU on achieving cleaner air, proving expert advice in several processes, including the policy debate leading up to the adoption of the Euro VI regulation. This refers to the Best Available Techniques for cutting NO<sub>x</sub> emissions, in the process of achieving stricter NO<sub>x</sub> emission limit values in the revision of the Integrated Pollution Prevention Control Directive. Yara also monitored the review of the international

regulations establishing new NO<sub>x</sub> emission limits for pollution from ships. In September 2008, Yara co-hosted a key DeNO<sub>x</sub> event in Brussels.

#### PARTNERSHIPS

Yara enforced its engagement in fostering private-public partnerships in support of the African green revolution, following up on initiatives taken since launching its Africa program in 2005, aligned with African policies and priorities. In 2008, Yara was involved in four such partnerships; one for each of Ghana, Malawi, and Tanzania, plus the regional Agricultural Growth Corridor Initiative with projects in Mozambique and Tanzania. In connection with the corridor initiative, Yara entered a strategic cooperation agreement with the Norwegian government in 2008, signed in January 2009.

Yara has partnered with the Norwegian environmental organization *Bellona* as well as with *WWF Norway* to address key environmental challenges, extending both agreements into 2009. In 2008, Yara partnered with 14 international companies in Norway in the *KlimaGevinst* ('Climate Benefits') project, aiming to contribute towards combating climate change.



#### MEMBERSHIPS

Yara is a member of the *International Fertilizer Industry Association* (IFA), with Thorleif Enger, the CEO of Yara until October 2008, holding the position as President (2007–09). Yara is also a Corporate Member of the *European Fertilizer Manufacturers Association* (EFMA), holds key positions in the *European Industrial Gases Association* (EIGA), and is a signatory to *Business Action Against Corruption* (BAAC). In 2008, Yara joined the *Development Policy Forum* (DPF), a partnership among central players defining and implementing European development policies, and the *World Economic Forum* (WEF). As such, Yara participated at the 2008 Africa meeting in Cape Town, and in preparatory discussions for the 2009 meeting in Davos, where Yara hosted a roundtable on agricultural growth corridors in Africa.

## CORPORATE COMPLIANCE

In 2008, the Yara management decided to establish a central corporate compliance unit to coordinate and support its global compliance work, with special attention to measures to forestall corruption and bribery. A new Global Head of Compliance took office early 2009. Yara has been a signatory to the United Nations Global Compact (UNGC) since 2006, and launched its first Communication on Progress in 2008, continuing efforts to strengthen and enforce its ten principles throughout the organization. Although the major part of Yara's operations and employees are based in countries where the prevalence of human rights abuses is very low, Yara's Code of Conduct was amended in 2008 to accentuate the company's stance against child labor and all forms of forced or compulsory labor.

No material legal claim was made against Yara in respect to health, environmental or safety matters or in relation to operational permits in 2008. Neither was non-compliance with national laws or regulations registered, regarding human rights, anti-competitive behavior, marketing, customer privacy or the provision and use of products, including their health and safety impacts. However, a legal claim was made against Yara in Norway, regarding the importation of a trial



shipment of phosphate from Western Sahara, a disputed territory, for technical testing of quality and properties at the Porsgrunn and Glomfjord plants. Yara carefully considered all legal aspects before purchasing the consignment, and holds the legal claim unfounded. Yara has previously stated that it will comply with recommendations from the Norwegian government, and reiterated that it has no intention of importing phosphates from Western Sahara.

» The complete Citizenship MD&A is found on: [www.yara.com/2008](http://www.yara.com/2008)

## AGRICULTURAL GROWTH CORRIDORS

**In 2008, Yara** announced its engagement in two infrastructure projects in Eastern and Southeastern Africa: The Agricultural Growth Corridor Initiative, aiming to de-bottleneck agricultural commodity streams and catalyze new agricultural growth in the respective regions.

**Yara aims** to contribute to upgrade port facilities at two major ports: in Beira, Mozambique and Dar es Salaam, Tanzania. These private-public partnerships projects are both part of a regional strategy for harmonizing transport hubs in the fertilizer delivery chain, linked to initiatives for improving inputs efficiencies and infrastructure management. The initiatives, supported by the governments of the respective countries, involve several partners, including the government of Norway.

**Yara presented** the two innovative partnerships at the first-ever UN Private Sector Forum, part of the UN General Assembly, in New York in September 2008, with the company CEO meeting with UN Secretary-General Ban Ki-Moon to discuss a broader plan to create regional Agriculture Growth Corridors in Africa. At the World Economic Forum meeting in Davos in January 2009, Yara hosted a roundtable on the corridors project.

**Yara has** committed to investing USD 60 million in the partnership; building fertilizer terminals as part of the development of the port facilities in Beira and Dar. The current ports system is highly ineffective, with fertilizer shipments being delayed by customs clearance before delivery to the farmers. The port projects aim to speed up this process and make fertilizer available all-year-round by establishing a holding warehouse that can streamline effective distribution. Without improved port facilities, Mozambique, Tanzania and their surrounding regions will be unable to meet their agricultural growth targets.

» More on the shaping issues: [www.yara.com/sustainability](http://www.yara.com/sustainability)