TERRA INDUSTRIES INC
Form 10-Q
November 05, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission file number: 1-8520

TERRA INDUSTRIES INC.
(Exact name of registrant as specified in its charter)

MARYLAND	52-1145429
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Terra Centre P.O. Box 6000 600 Fourth Street Sioux City, Iowa	51102-6000
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (712) 277-1340

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

As of October 31, 2002, the following shares of the registrant's stock were outstanding:

Common Shares, without par value	76,901,669 shares

PART I. FINANCIAL INFORMATION

TERRA INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands)

(unaudited)

	September 30, 2002	December 31, 2001
ASSETS		
Cash and short-term investments	$ 41,879	$ 7,125
Accounts receivable, less allowance for doubtful accounts of $191, $936, $879	97,455	101,363
Inventories	86,838	110,027
Other current assets	30,528	35,142
Total current assets	256,700	253,657
Property, plant and equipment, net	792,182	824,982
Excess of cost over net assets of acquired businesses	--	206,209
Other assets	53,434	51,195
Total assets	$ 1,102,316	$ 1,336,043
LIABILITIES		
Debt due within one year	$ 140	$ 68
Accounts payable	66,883	75,077
Accrued and other liabilities	54,555	42,134
Total current liabilities	121,578	117,279
Long-term debt	400,394	436,534
Deferred income taxes	99,626	112,645
Other liabilities	80,898	69,639
Minority interest	100,021	99,167
Total liabilities and minority interest	802,517	835,264
STOCKHOLDERS' EQUITY		
Capital stock		
Common Shares, authorized 133,500 shares; outstanding 76,902, 76,451 and 76,441 shares	128,654	128,363
Paid-in capital	555,167	554,850
Accumulated other comprehensive loss	(43,572)	(78,470)
Retained deficit	(340,450)	(103,964)
Total stockholders' equity	299,799	500,779
Total liabilities and stockholders' equity	$ 1,102,316	$ 1,336,043

See Accompanying Notes to the Consolidated Financial Statements.

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TERRA INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per-share amounts)

(unaudited)

	Three Months Ended September 30, 2002	2001	20
REVENUES			
Net sales	$ 257,875	$ 237,224	$ 7
Other income, net	799	481	
Total revenues	258,674	237,705	7
COSTS AND EXPENSES			
Cost of sales	238,546	255,519	7
Selling, general and administrative expense	10,328	8,394	
Product claim costs	--	--	
	248,874	263,913	7
Income (loss) from operations	9,800	(26,208)	
Interest income	116	977	
Interest expense	(13,408)	(12,034)	(
Minority interest	(492)	2,785	
Loss from continuing operations before income taxes	(3,984)	(34,480)	(
Income tax benefit	2,048	10,344	
Loss from continuing operations	(1,936)	(24,136)	(
Discontinued operations, net of income taxes of $6.0 million	(11,000)	--	(
Cumulative effect of change in accounting principle	--	--	(2
NET LOSS	$ (12,936)	$ (24,136)	$ (2
Basic and diluted loss per share:			
Loss from continuing operations	$ (0.03)	$ (0.32)	$
Discontinued operations	(0.15)		
Cumulative effect of change in accounting principle	--	--	
Net loss per share	$ (0.18)	$ (0.32)	$
Basic and diluted weighted average shares outstanding	75,468	75,175	

See Accompanying Notes to the Consolidated Financial Statements.

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TERRA INDUSTRIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
OPERATING ACTIVITIES		
Net loss	$ (236,486)	$ (50,961)
Cumulative effect of change in accounting principle	205,968	--
Adjustments to reconcile net loss from operations to net cash flows from operating activities:		
Depreciation and amortization	73,109	84,870
Deferred income taxes	(12,854)	(31,080)
Minority interest in earnings	1,777	(2,470)
Discontinued operations	11,000	--
Changes in current assets and liabilities:		
Accounts receivable	5,931	8,221
Inventories	25,646	(23,652)
Other current assets	12,989	(16,388)
Accounts payable	(9,733)	11,847
Accrued and other liabilities	15,136	(11,550)
Other	(98)	9,022
Net cash flows from operating activities	92,385	(22,141)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(16,589)	(11,136)
Other items	(4,780)	(5,887)
Net cash flows from investing activities	(21,369)	(17,023)
FINANCING ACTIVITIES		
Principal payments on long-term debt	(36,068)	(14,325)
Stock issuance-net	608	180
Repurchases of TNCLP common units	--	(1,671)
Distributions to minority interests	(923)	(2,028)
Net cash flows from financing activities	(36,383)	(17,844)
Effect of exchange rate changes on cash	121	(285)
Increase (decrease) to cash and short-term investments	34,754	(57,293)
Cash and short-term investments at beginning of period	7,125	101,425
Cash and short-term investments at end of period	$ 41,879	$ 44,132

See Accompanying Notes to the Consolidated Financial Statements.

TERRA INDUSTRIES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001
(in thousands)
(unaudited)

	Capital Stock	Paid-In Capital	Accumulated Other Comprehensive Loss	
Balance at January 1, 2002	$ 128,363	$ 554,850	$ (78,470)	$
Comprehensive loss:				
Net loss	--	--	--	
Foreign currency translation adjustment	--	--	--	
Change in fair value of derivatives, net of taxes of $3,503	--	--	9,767	
Comprehensive loss				
Exercise of stock options	291	317	--	
Balance at September 30, 2002	$ 128,654	$ 555,167	$ (43,572)	$

	Capital Stock	Paid-In Capital	Accumulated Other Comprehensive Loss	
Balance at January 1, 2001	$ 128,283	$ 554,750	$ (48,115)	$
Comprehensive loss:				
Net loss	--	--	--	
Foreign currency translation adjustment	--	--	(12,343)	
Cumulative effect of change in accounting for derivatives, net of taxes of $10,990	--	--	20,410	
Change in fair value of derivatives, net of taxes of $15,221	--	--	(26,523)	
Comprehensive loss				
Exercise of stock options	80	100	--	
Balance at September 30, 2001	$ 128,363	$ 554,850	$ (66,571)	$

See Accompanying Notes to the Consolidated Financial Statements.

TERRA INDUSTRIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. The accompanying unaudited consolidated financial statements and notes thereto contain all adjustments necessary, in the opinion of management, to summarize fairly the financial position of Terra Industries Inc. and all majority-owned subsidiaries ("Terra") and the results of Terra's operations for the periods presented. Because of the seasonal nature of Terra's operations and effects of weather-related conditions in several of its marketing areas, results of any interim reporting period should not be considered as indicative of results for a full year. These statements should be read in conjunction with Terra's 2001 Annual Report to Stockholders. Certain reclassifications have been made to prior years' financial statements to conform with current year presentation.

Basic earning (loss) per share data are based on the weighted-average number of Common Shares outstanding during the period. Diluted earnings per share data are based on the weighted-average number of Common Shares outstanding and the effect of all dilutive potential common shares including stock options, restricted shares and contingent shares.

Inventories consisted of the following:

(in thousands)	September 30, 2002	December 31, 2001	September 30, 2001
Raw materials	$ 21,619	$ 27,904	$ 28,696
Supplies	26,590	21,471	21,587
Finished goods	38,629	60,652	73,344
Total	$ 86,838	$ 110,027	$ 123,627

The components of accumulated other comprehensive loss at September 30, 2002 consisted of foreign currency translation adjustment, derivatives (net of taxes) and minimum pension liability (net of taxes) in the amounts of $37.9 million, ($5.2) million and $10.9 million, respectively. At September 30, 2001, accumulated other comprehensive loss consisted of foreign currency translation adjustment and derivatives (net of taxes) in the amounts of $60.5 million and $6.1 million, respectively.

Revenue is recognized when title to finished product passes to the customer. Revenue is recognized as the net amount to be received after deducting estimated amounts for discounts and trade allowances. Revenues include amounts paid by customers for shipping and handling.

Realized gains and losses from hedging activities and premiums paid for option contracts are deferred and recognized in the month in which the hedged transactions closed. Swaps, options and other derivative instruments that do not qualify for hedge accounting treatment are marked to market each accounting period. Costs associated with settlement of natural gas purchase contracts and costs for shipping and handling are included in cost of sales.

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations". This standard requires Terra to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and is effective for Terra's fiscal year 2003. Terra does not expect the impact, if any, arising from the adoption of this standard to be material to our financial position.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". This standard requires Terra to recognize a liability for a cost associated with an exit or disposal activity when the liability is incurred rather than recognition of the liability at the date of a commitment to an exit plan and is effective for exit or disposal activities that are initiated after December 31, 2002.

2. On July 13, 2001, a British court found Terra Nitrogen (U.K.) Ltd. liable for damages associated with May 1998 recalls of carbonated beverages containing carbon dioxide tainted with benzene, plus interest and attorney fees. In addition, there are two similar cases awaiting trial and certain other beverage manufacturers have indicated their intention to file claims for unspecified amounts. Management estimates total claims against Terra from these lawsuits may be (pound)10 million, or $14 million. Terra has established contingency reserves to cover estimated losses.

Terra's management believes it has recourse for these claims against both its insurer and the previous owner of Terra's U.K. operations. Management is pursuing Terra's rights against these parties, but there will be no income recognition for those rights until settlements are finalized.

Terra is involved in various other legal actions and claims, including environmental matters, arising from the normal course of business. While it is not feasible to predict with certainty the final outcome of these proceedings, management does not believe that these matters, or the U.K. benzene claims, will have a material adverse effect on the results of operations, financial position or net cash flows.

3. Natural gas is the principal raw material used in Terra's production of nitrogen products and methanol. Natural gas prices are volatile and we manage this volatility through the use of derivative commodity instruments. Terra's policy is to hedge 20-80% of our natural gas requirements for the upcoming 12 months and up to 50% of the requirements for the following 24-month period, provided that such arrangements would not result in costs greater than expected selling prices for our finished products. The financial derivatives are traded in months forward and settlement dates are scheduled to coincide with gas purchases during those future periods. These contracts reference physical natural gas prices or appropriate NYMEX futures contract prices. Contract prices are frequently based on prices at the most common and financially liquid location of reference for financial derivatives related to natural gas. However, natural gas supplies for Terra's facilities are purchased for each plant at locations other than reference points, which often creates a location basis differential between the contract price and the physical price of natural gas. Accordingly, the use of financial derivatives may not exactly offset the change in the price of physical gas.

Terra has entered into forward pricing positions for a portion of its natural gas requirements for the remainder of 2002 and part of 2003, consistent with its policy. As a result of its policies, Terra has reduced the potential adverse financial impact of natural gas price increases during the forward pricing period, but conversely, if natural gas prices were to fall, Terra will incur higher costs. Contracts were in place at September 30, 2002 to cover 11% of natural gas requirements for the succeeding twelve months. We also use basis swaps to manage some of the basis risk.

Unrealized gains from forward pricing positions in North America totaled

$3.1 million as of September 30, 2002. In addition, Terra had contracts which would reduce, assuming no decrease in forward natural gas prices at September 30, 2002, the purchase price of about 4 percent of its next 12 months' natural gas needs by $1.3 million. The amount ultimately recognized by Terra will be dependent on published prices in effect at the time of settlement. Terra also had $2 million of realized gains on closed North America contracts relating to future periods that have been deferred to the respective period.

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On September 30, 2002, the fair value of derivatives resulted in a $7.9 million increase to current assets, a $2.0 million reduction to current liabilities, a $1.1 million increase in long-term liabilities and a $8.8 million increase, before deferred taxes of $3.5 million to Accumulated Other Comprehensive Loss, which reflected the effective portion of the derivatives designated as cash flow hedges.

The increase to current assets was to recognize the value of open natural gas contracts; the reduction to current liabilities was to reclassify deferred gains on closed contracts relating to future periods and the increase to long-term debt related to interest rate hedges.

4. Terra classifies its continuing operations into two business segments: nitrogen products and methanol. The nitrogen products business produces and distributes ammonia, urea, nitrogen solutions and ammonium nitrate to farm distributors and industrial users. The methanol business manufactures and distributes methanol which is used in the production of a variety of chemical derivatives and in the production of methyl tertiary butyl ether (MTBE), an oxygenate and an octane enhancer for gasoline. Terra does not allocate interest, income taxes or infrequent items to continuing business segments. Included in Other are general corporate activities not attributable to a specific industry segment. The following summarizes operating results by business segment:

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands)	2002	2001	2002	2001
Revenues - Nitrogen Products	$ 211,103	$ 209,224	$ 653,753	$ 661,06
- Methanol	46,772	28,000	116,928	141,01
- Other	799	481	1,051	1,00
Total revenues	$ 258,674	$ 237,705	$ 771,732	$ 803,07
Income (loss) from operations				
- Nitrogen Products	$ 4,241	$ (21,328)	$ 7,111	$ (35,17
- Methanol	6,696	(5,109)	3,782	(6,08
- Other	(1,137)	229	(1,871)	99
Total income (loss) from operations	$ 9,800	$ (26,208)	$ 9,022	$ (40,26

5. Pursuant to Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," Terra determined that $206.0

million of assets classified as "Excess of cost over net assets of acquired businesses" suffered impairment and had no value. Consequently, these assets were written off through a charge that is reported as a change in accounting principle during the 2002 first quarter.

A reconciliation of the historical impact of the change in accounting principle to earnings per share follows:

(in thousands)	Three Months Ended September 30 2002	Three Months Ended September 30 2001	Nine Months Ended September 30 2002	Nine Months Ended September 30 2001
Reported net loss	$ (12,936)	$ (24,136)	$ (236,486)	$ (50,96
Goodwill amortization, net of taxes	--	4,704	--	14,12
Adjusted net loss	$ (12,936)	$ (19,432)	$ (236,486)	$ (36,84
Reported basic and diluted loss per share	$ (0.18)	$ (0.32)	$ (3.14)	$ (0.6
Goodwill amortization, net of taxes	--	.06	--	.1
Adjusted basic and diluted loss per share	$ (0.18)	$ (0.26)	$ (3.14)	$ (0.4

6. The third quarter results include an $11 million charge to increase reserves for expected future cash payments related to retained liabilities of discontinued operations. The charge consists of a $17 million increase to reserve balances less income tax benefits totaling $6 million.

   Approximately $13 million of the increase to reserve balances is related primarily to higher-than-expected future retiree health care costs of the coal operations that Terra sold in 1992. The remaining $4 million represents the estimated costs to settle remaining obligations of the distribution operations that Terra sold in 1999.

   Including the $17 million third quarter charge, Terra's discontinued operations reserves at September 30, 2002 totaled approximately $30 million, of which $26 million is attributable to expected future payments for the coal operation's retirees and other former employees. Payments for retiree health care and other benefits for former coal employees were $2.3 million in 2001 and are expected to total $2.5 million in 2002 and less than $3 million in 2003. Terra may recover a portion of these payments through its rights in bankruptcy against Harman Coal Company (a former coal subsidiary), and subject to damages received by Harman Coal Company through its on-going litigation with Massey Energy Company. No provision for such recoveries has been made in Terra's financial statements.

7. Condensed consolidating financial information regarding the Parent, Terra Capital, Inc. ("TCAPI"), the Guarantor Subsidiaries and subsidiaries of the Parent that are not guarantors of the Senior Secured Notes for September 30, 2002 and 2001 are presented below for purposes of complying with the

reporting requirements of the Guarantor Subsidiaries.

Guarantor subsidiaries include subsidiaries that own the Woodward, Oklahoma, Port Neal, Iowa and Beaumont, Texas plants as well as the corporate headquarters facility in Sioux City, Iowa. All other company facilities are owned by non-guarantor subsidiaries.

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Condensed Consolidating Statement of Financial Position as of September 30, 2002:

(in thousands)	Parent	TCAPI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elim
ASSETS					
Cash	$ --	$ 35,702	$ --	$ 57,889	$
Accounts Receivable	--	1,019	33,544	62,891	
Inventories	--	--	23,159	63,678	
Other current assets	9,427	--	5,509	17,462	
Total current assets	9,427	36,721	62,212	201,920	
Property, plant and equipment, net	--	--	406,228	390,453	
Investments in and advanced to (from) affiliates	656,334	396,235	1,224,495	136,664	(2
Other assets	22	14,558	13,221	25,634	
Total assets	$ 665,783	$ 447,514	$ 1,706,156	$ 754,671	$ (2
LIABILITIES					
Debt due within one year	$ --	$ --	$ 86	$ 54	$
Accounts payable	19	2,372	80,307	37,769	
Accrued and other liabilities	8,442	13,602	19,628	13,036	
Total current liabilities	8,461	15,974	100,021	50,859	
Long-term debt	200,000	200,000	247	147	
Deferred income taxes	102,059	19,802	(7,257)	(15,132)	
Other liabilities	55,464	13,247	2,031	10,153	
Minority interest	--	19,564	80,457	--	
Total liabilities	365,984	268,587	175,499	46,027	
STOCKHOLDERS' EQUITY					
Common stock	128,654	--	73	49,709	
Paid in capital	555,167	150,218	1,656,742	892,448	(2
Accumulated other comprehensive loss	(43,572)	(43,572)	--	(16,335)	
Retained earnings (deficit)	(340,450)	72,281	(126,158)	(217,178)	
Total stockholders' equity	299,799	178,927	1,530,657	708,644	(2
Total liabilities and stockholders equity	$ 665,783	$ 447,514	$ 1,706,156	$ 754,671	$ (2

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Condensed Consolidating Statement of Operations for the nine months ended September 30, 2002:

(in thousands)	Parent	TCAPI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elim
REVENUES					
Net sales	$ --	$ --	$ 287,417	$ 477,365	$
Other income, net	--	--	2,969	3,980	
	--	--	290,386	481,345	
COST AND EXPENSES					
Cost of sales	--	--	285,198	450,643	
Selling, general and administrative expenses	2,219	(464)	18,942	7,650	
Equity in the (earnings) loss of subsidiaries	222,575	202,382	(4,450)	(7,996)	
	224,794	201,918	299,690	450,297	
Income (loss) from operations	(224,794)	(201,918)	(9,304)	31,048	
Interest income	36	191	--	50	
Interest expense	(16,393)	(20,500)	4,070	(7,205)	
Minority interest	--	(348)	(1,429)	--	
Income (loss) from continuing operations	(241,151)	(222,575)	(6,663)	23,893	
Income tax benefit (provision)	15,665	--	--	(2,653)	
Income (loss) from continuing operations	(225,486)	(222,575)	(6,663)	21,240	
Discontinued operations, net of income taxes	(11,000)	--	--	--	
Cumulative effect of change in accounting principle	--	--	(189,971)	(15,997)	
Net income (loss)	$ (236,486)	$ (222,575)	$ (196,634)	$ 5,243	$

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Condensed Consolidating Statement of Cash Flows for the nine months ended September 30, 2002:

(in thousands)	Parent	TCAPI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elim

OPERATING ACTIVITIES					
Net income (loss)	$ (236,486)	$ (222,575)	$ (196,634)	$ 5,243	$
Cumulative effect of change in accounting principle	--	--	189,971	15,997	
Adjustments to reconcile net loss to net cash flows from operating activities:					
Depreciation and amortization	--	2,085	38,224	32,800	
Deferred income taxes	(8,859)	--	(3,887)	(6,860)	
Minority interest in earnings	--	348	1,429	--	
Discontinued operations	11,000	--	--	--	
Equity in earnings (loss) of subsidiaries	222,575	202,382	(4,450)	(7,996)	
Change in operating assets and liabilities	3,804	(27,778)	59,194	27,087	
Other	--	--	--	--	
Net cash flows from operating activities	(7,966)	(45,538)	83,847	66,271	
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	--	--	(2,239)	(14,350)	
Other	--	--	--	--	
Net cash flows from investing activities	--	--	(2,239)	(14,350)	
FINANCING ACTIVITIES					
Principal payments on long-term debt	--	(36,277)	9	201	
Change in investments and advances from (to) affiliates	7,961	125,051	(90,049)	2,530	
Stock (repurchase) issuance - net	608	--	--	--	
Distributions to minority interests	--	(220)	(703)	--	
Other	(603)	(7,314)	(7,798)	(21,508)	
Net cash flows from financing activities	7,966	81,240	(98,541)	(18,777)	
Effect of foreign exchange rate on cash	--	--	--	--	
Increase (decrease) in cash and short-term investments	--	35,702	(16,933)	33,144	
Cash and short-term investments at beginning of period	--	--	16,933	24,745	
Cash and short-term investments at end of period	$ --	$ 35,702	$ --	$ 57,889	$

Condensed Consolidating Statement of Financial Position as of September 30, 2001:

(in thousands)	Parent	TCAPI	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elim
ASSETS					
Cash	$ --	$ 29,590	$ 16,017	$ 1,916	$
Accounts Receivable	--	--	34,939	63,008	
Inventories	--	--	35,417	88,210	
Other current assets	5,568	4,215	6,871	25,777	
Total current assets	5,568	33,805	93,244	178,911	
Property, plant and equipment, net	--	--	448,789	403,138	
Excess of cost over net assets of acquired businesses	--	--	194,391	16,707	
Investments in and advanced to (from) affiliates	1,064,912	414,516	1,315,157	240,188	(3
Other assets	775	7,005	7,233	24,592	
Total assets	$ 1,071,255	$ 455,326	$ 2,058,814	$ 863,536	$ (3
LIABILITIES					
Debt due within one year	$ --	$ --	$ 47	$ 5,061	$
Accounts payable	--	7,164	17,227	56,540	
Accrued and other liabilities	14,675	629	19,271	7,873	
Total current liabilities	14,675	7,793	36,546	69,474	
Long-term debt	358,755	--	947	94,219	
Deferred income taxes	134,882	9,682	(4,232)	(121)	
Other liabilities	21,383	13,841	510	13,454	
Minority interest	--	19,394	79,553	--	
Total liabilities	529,695	50,710	113,323	177,026	
STOCKHOLDERS' EQUITY					
Common stock	128,363	--	73	49,709	
Paid in capital	554,850	150,218	1,856,742	918,886	(2
Accumulated other comprehensive loss	(66,571)	(66,571)	2,204	(69,543)	
Retained earnings (deficit)	(75,082)	320,969	86,472	(212,542)	
Total stockholders' equity	541,560	404,616	1,945,491	686,510	(3
Total liabilities and stockholders equity	$ 1,071,255	$ 455,326	$ 2,058,814	$ 863,536	$ (3

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Condensed Consolidating Statement of Operations for the nine months ended

September 30, 2001:

(in thousands)		Parent		TCAPI		Guarantor Subsidiaries		Non-Guarantor Subsidiaries	Elim
REVENUES									
Net sales	$	--	$	--	$	328,408	$	473,592	$
Other income, net		(2)		--		1,369		(291)	
		(2)		--		329,777		473,301	
Cost and Expenses									
Cost of sales		--		--		343,802		445,225	
Selling, general and administrative expenses		1,827		2,804		19,087		16,666	
Product claim costs		--		--		--		14,023	
Equity in the (earnings) loss of subsidiaries		39,757		36,736		(3,436)		10,000	
		41,584		39,540		359,453		485,914	
Loss from operations		(41,586)		(39,540)		(29,676)		(12,613)	
Interest income		69		2,085		5,861		511	
Interest expense		(29,326)		(2,786)		(147)		(11,268)	
Minority interest		--		484		1,984		--	
Income (loss) before income taxes		(70,843)		(39,757)		(21,978)		(23,370)	
Income tax benefit		19,882		--		--		1,958	
Net income (loss)	$	(50,961)	$	(39,757)	$	(21,978)	$	(21,412)	$

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Condensed Consolidating Statement of Cash Flows for the nine months ended September 30, 2001:

(in thousands)		Parent		TCAPI		Guarantor Subsidiaries		Non-Guarantor Subsidiaries	Elim
OPERATING ACTIVITIES									
Net income (loss)	$	(50,961)	$	(39,757)	$	(21,978)	$	(21,412)	$
Adjustments to reconcile net loss to net cash flows from operating activities:									
Depreciation and amortization		--		2,779		50,911		31,180	
Deferred income taxes		(15,839)		(7,500)		(4,232)		(4,076)	
Minority interest in earnings		--		(484)		(1,984)		--	
Equity in earnings (loss) of subsidiaries		39,758		36,736		(3,436)		9,453	
Change in operating assets									

and liabilities	7,776	(2,002)	(16,404)	(5,466)	
Other	--	--	--	--	
Net Cash Flows from Operating Activities	(19,266)	(10,228)	2,877	9,679	
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	--	--	(2,272)	(8,864)	
Other	--	--	--	--	
Net Cash Flows from Investing Activities	--	--	(2,272)	(8,864)	
FINANCING ACTIVITIES					
Principal payments on long-term debt	--	--	(7,980)	(6,345)	
Change in investments and advances from (to) affiliates	19,013	(30,669)	16,693	(14,424)	
Stock issuance - net	180	--	--	--	
Distributions to minority interests	--	(337)	(1,691)	--	
Repurchase of TNLP common Units	--	(1,671)	--	--	
Other	73	(4,464)	(3,454)	9,249	
Net Cash Flows from Financing Activities	19,266	(37,141)	3,568	(11,520)	
Effect of exchange rates on cash	--	--	--	--	
Increase (decrease) in Cash and Short-term Investments	--	(47,369)	4,173	(10,705)	
Cash and Short-term Investments at Beginning of Period	--	76,959	11,844	12,622	
Cash and Short-term Investments At End of Period	$ --	$ 29,590	$ 16,017	$ 1,917	$

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America for interim reporting purposes. The preparation of these financial statements requires us to make estimates and judgments that affect the amount of assets, liabilities, revenues and expenses at the date of our financial statements. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. Our critical accounting policies are described below.

Impairments of long-lived assets - We record impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of these items. Our cash flow estimates are based on historical results adjusted to reflect our best estimate of future market and operating conditions. The net carrying value of assets not recoverable is reduced to fair value. Our estimates of fair value represent our best estimate based on industry trends and reference to market rates and transactions.

Pension assets and liabilities - Pension assets and liabilities are affected by the estimated market value of plan assets, estimates of the expected return on plan assets and discount rates. Actual changes in the fair market value of plan assets and differences between the actual return on plan assets and the expected return on plan assets will affect the amount of pension expense ultimately recognized.

Post-retirement benefits - Post-retirement benefits are determined on an actuarial basis and are affected by assumptions including the discount rate and expected trends in health care costs. Changes in the discount rate and differences between actual and expected health care costs will affect the recorded amount of post-retirement benefits expense ultimately recognized.

Revenue recognition - Revenue is recognized when title to finished product passes to the customer. Revenue is recognized as the net amount to be received after deducting estimated amounts for discounts and trade allowances. Revenue includes amounts paid by customers for shipping and handling.

Deferred income taxes - Deferred income tax assets and liabilities are based on the differences between the financial statement carrying amounts and the tax bases as well as temporary differences resulting from differing treatment of items for tax and accounting purposes. Deferred tax assets are regularly reviewed for recoverability and a valuation allowance is established based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. If we continue to operate at a loss or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, a valuation allowance against all or a significant portion of our deferred tax assets may be required.

Inventory valuation - Inventories are stated at the lower of cost or estimated net realizable value. The average cost of inventories is determined using the first-in, first-out method. The nitrogen and methanol

industries are characterized by rapid change in both demand and pricing. Rapid declines in demand could result in temporary or permanent curtailment of production, while rapid declines in price could result in a lower of cost or market adjustment.

RESULTS OF OPERATIONS

QUARTER ENDED SEPTEMBER 30, 2002 COMPARED WITH

QUARTER ENDED SEPTEMBER 30, 2001

CONSOLIDATED RESULTS

The loss for the three months ending September 30, 2002 was $12.9 million and included an $11 million loss on discontinued operations. The loss from discontinued operations is due to a $17 million increase to our reserves for contingent liabilities related to discontinued operations. Approximately $13 million of the charge is attributable to discontinued coal operations in response to higher-than-expected retiree health care costs and increased payments to UMWA funds for which the company is contingently liable under the Coal Industry Retiree Health Benefit Act of 1992. In response to recent benefit cost increases, we revised our future cost projections. The remaining $4 million was provided to cover estimated litigation damages and to provide reserves against notes receivable and other assets associated with previously discontinued operations. The $11 million charge represents the $17 million increase to reserve balances net of $6 million income tax benefit.

Terra reported a net loss from continuing operations of $1.9 million for the 2002 third quarter compared with a 2001 net loss of $24.1 million. The reduced 2002 loss was primarily related to increased operating income as the result of lower natural gas costs. Goodwill amortization was $4.7 million during the 2001 third quarter and zero in 2002 due to the January 1, 2002 goodwill accounting change.

Terra classifies its operations into two business segments: nitrogen products and methanol. The nitrogen products segment represents operations directly related to the wholesale sales of nitrogen products from Terra's ammonia production and upgrading facilities. The methanol segment represents wholesale sales of methanol produced by Terra's two methanol manufacturing plants.

Total revenues and operating income (loss) by segment for the three-month period ended September 30, 2002 and 2001 follow:

(in thousands)	2002	2001
REVENUES:		
Nitrogen Products	$ 211,103	$ 209,224
Methanol	46,772	28,000
Other	799	481
	$ 258,674	$ 237,705
OPERATING INCOME (LOSS):		
Nitrogen Products, before product claim costs	$ 4,241	$ (21,328)
Methanol	6,696	(5,109)
Other income - net	(1,137)	229
	$ 9,800	$ (26,208)

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NITROGEN PRODUCTS

Volumes and prices for the three-month periods ended September 30, 2002 and 2001 follow:

VOLUMES AND PRICES

	2002		2001	
(quantities in thousands of tons)	Sales Volumes	Average Unit Price	Sales Volumes	A Uni
Ammonia	354	$ 140	315	$
Nitrogen solutions	967	73	989	
Urea	138	126	65	
Ammonium nitrate	239	118	257	

Nitrogen products segment revenues increased $1.9 million to $211.1 million in the 2002 third quarter compared with $209.2 million in the 2001 third quarter. The effects of higher 2002 sales volumes were mostly offset by lower selling prices. Sales volumes in 2002 were affected by the availability of product due to the plant turnarounds. Selling prices in the third quarter approximated the second quarter of 2002, but declined from last year as the result of increased global nitrogen supplies.

The nitrogen products segment had operating income of $4.2 million for the third quarter of 2002 compared with an operating loss of $21.3 million for the 2002 third quarter. The effect of lower selling prices on 2002 operating income was more than offset by higher sales volumes and lower product costs. Third quarter 2002 product costs were lower due to lower natural gas costs during the 2002 second and third quarters. Third quarter natural gas costs declined $10.6 million from the 2001 third quarter as unit costs, net of forward pricing gains and losses, were $2.81/MMBtu during the 2002 third quarter compared to $3.11/MMBtu during the same 2001 period. In addition, a considerable amount of 2001 third quarter product costs represented products manufactured during the 2001 second quarter when gas costs averaged $4.45/MMBtu; in contrast, during 2002 there was substantially less second quarter carryover inventory and most sales were sourced from current production. As a result of forward price contracts, third quarter 2002 natural gas costs for the nitrogen products segment were $2.5 million lower than spot prices. During the 2001 third quarter, $4.2 million of goodwill amortization was charged to the nitrogen products segment.

METHANOL

For the three months ended September 30, 2002 and 2001 the Methanol segment had revenues of $46.8 million and $28.0 million, respectively. Sales volumes increased 29% from prior year levels and selling prices increased from $.43/gallon in 2001 to $.56/gallon in 2002.

The methanol segment had operating income of $6.7 million for the 2002 third quarter compared to an operating loss of $5.1 million for the 2001 third quarter. The increase to operating income was due to higher prices and volumes and lower natural gas costs, which net of forward pricing gains and losses, were $3.06/MMBtu during the 2002 third quarter compared to $3.31/MMBtu during the 2001 period. As a result of forward pricing contracts, third quarter 2002 natural gas costs for the methanol were $1.1 million lower than spot prices. During the 2001 third quarter, $544,000 of goodwill amortization was charged to the methanol segment.

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OTHER INCOME - NET

Terra had other operating losses of $1.1 million in the 2002 third quarter compared to $0.2 million operating income in the 2001 third quarter. The increase to expenses relate primarily to legal expenses related to discontinued operations.

PRODUCT CLAIM COSTS

During the 2001 second quarter, and based on the finding of a British court, Terra recorded a $14 million charge to reflect the estimated value of claims (plus interest and attorney fees) associated with recalls of carbonated beverages containing carbon dioxide tainted with benzene. Terra's management believes it has recourse for these claims against its insurer and the previous owner of Terra's U.K. operations. Management is pursuing Terra's rights against these parties, but there will be no income recognition for those rights until settlements are finalized.

INTEREST EXPENSE - NET

Interest expense, net of interest income, totaled $13.3 million during the 2002 third quarter compared with $11.1 million for the prior year period. The increase is attributable to the higher cost of borrowing related to the October 2001 issuance of Senior Secured Notes.

MINORITY INTEREST

Minority interest represents third-party interests in the earnings of the publicly held common units of Terra Nitrogen Company, L.P. (TNCLP). Minority interest charges of $.5 million were recorded for the 2002 third quarter as the result of TNCLP income, which were included in their entirety in consolidated operating results. The increased charge as compared to the 2001 third quarter reflected higher nitrogen earnings for TNCLP.

INCOME TAXES

Income taxes for the third quarter 2002 were recorded at an effective tax rate of 40%, Terra's estimated annual effective tax rate.

NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED WITH
NINE MONTHS ENDED SEPTEMBER 30, 2001

CONSOLIDATED RESULTS

The loss for the nine months ending September 30, 2002 was $236.5 million, which included a $206 million charge for the cumulative effect of a change in accounting for goodwill and an $11 million loss on discontinued operations. In accordance with our implementation of Statement of Financial Accounting Standards (SFAS") No. 142, "Goodwill and Other Intangible Assets," we determined that $206 million of assets classified as "Excess of cost over net assets of acquired businesses" suffered impairment and had no value. These assets were written off during the 2002 first quarter. The loss from discontinued operations is due to a $17 million increase to our reserves for contingent liabilities related to discontinued operations taken during the third quarter. This $11 million charge represents the $17 million increase to reserve balances net of $6 million income tax benefit.

Terra reported a net loss from continuing operations of $19.5 million for the nine months ended September 30, 2002 compared with a net loss of $51.0 million in 2001. The reduction in the 2002 loss was primarily related to higher operating income as the result of lower natural gas costs, higher sales volumes, and 2001 product claim costs, partially offset by lower product prices. Goodwill amortization was $14.1 million during the first nine months of 2001 and zero in 2002 due to the January 1, 2002 goodwill accounting change.

Terra classifies its operations into two business segments: nitrogen products and methanol. The nitrogen products segment represents operations directly related to the wholesale sales of nitrogen products from Terra's ammonia production and upgrading facilities. The methanol segment represents wholesale sales of methanol produced by Terra's two methanol manufacturing plants.

Total revenues and operating income (loss) by segment for the nine-month periods ended September 30, 2002 and 2001 follows:

(in thousands)	2002	2001
REVENUES:		
Nitrogen Products	$ 653,753	$ 661,065
Methanol	116,928	141,011
Other	1,051	1,001
	$ 771,732	$ 803,077
OPERATING INCOME (LOSS):		
Nitrogen Products, before product claim costs	$ 7,111	$ (21,153)
Less product claim costs	--	(14,023)
Net nitrogen products	7,111	(35,176)
Methanol	3,782	(6,082)
Other income - net	(1,871)	994
	$ 9,022	$ (40,264)

NITROGEN PRODUCTS

Volumes and prices for the nine-month periods ended September 30, 2002 and 2001 follow:

VOLUMES AND PRICES

	2002		2001	
(quantities in thousands of tons)	Sales Volumes	Average Unit Price	Sales Volumes	A Un
Ammonia	1,147	$ 141	854	$
Nitrogen solutions	2,904	72	2,324	
Urea	482	117	294	
Ammonium nitrate	690	119	490	

Nitrogen products segment revenues declined $7.3 million to $653.8 million in the 2002 first nine months compared with $661.1 million in the 2001 first nine months. Selling prices declined $154 million as the result of increased nitrogen fertilizer supplies in contrast to the previous year when high natural gas costs resulted in industry-wide production curtailments leading up to the 2001 planting season. Most of the revenue shortfall from lower sales prices was offset by higher 2002 volumes as compared to last year's first nine months. Sales volumes in 2001 were depressed due to lower production rates, reduced demand in response to high prices and increased competition from imports.

The nitrogen products segment had operating income of $7.1 million for the first nine months of 2002 compared with an operating loss of $21.2 million before product claim costs for the 2001 first nine months, before product claim costs (discussed below). The increase in operating income was primarily related to lower natural gas costs and higher selling volumes, offset in part by lower sales prices. Natural gas costs declined almost $167 million over the 2001 first nine months as unit costs, net of forward pricing gains and losses, decreased to $2.80/MMBtu during the 2002 first nine months compared to $4.40/MMBtu during the 2001 period. Lower natural gas costs also reduced the need to curtail production rates, as was the case in 2001 until nitrogen prices rose to levels covering the higher gas costs. As a result of forward price contracts, the first nine months 2002 natural gas costs for the nitrogen products segment were $6.8 million lower than spot prices. Goodwill amortization during the first nine months of 2001 was $12.5 million.

METHANOL

For the nine months ended September 30, 2002 and 2001 the methanol segment had revenues of $116.9 million and $141 million, respectively. Sales volumes increased 16% from prior year levels, but selling prices declined from $.63/gallon in 2001 to $.46/gallon in 2002.

The methanol segment generated $3.8 million operating income in the 2002 first nine months compared to a $6.1 million operating loss in the 2001 first nine months. The higher operating income reflects lower selling prices that were more than offset by lower costs and increased volumes. The major cost decrease was to natural gas costs which, net of forward pricing gains and losses, decreased to $2.89/MMBtu, during the 2002 first nine months compared to $4.41/MMBtu during the 2001 period. Lower natural gas costs also reduced the need to curtail production rates, as was the cases in 2001 until methanol prices were below cash production costs. The first nine months 2002 natural gas costs were $1.8 million lower than spot prices as a result of forward pricing contracts. Goodwill amortization during the first nine months of 2001 was $1.6 million.

PRODUCT CLAIM COSTS

Based on the finding of British court, during the 2001 first half Terra recorded a $14 million charge to reflect the estimated value of claims (plus interest and attorney fees) associated with recalls of carbonated beverages containing carbon dioxide tainted with benzene. Terra's management believes it has recourse for these claims against its insurer and the previous owner of Terra's U.K. operations. Management is pursuing Terra's rights against these parties, but there will be no income recognition for those rights until settlements are finalized.

OTHER INCOME - NET

Terra had other operating losses of $1.9 million in the 2002 first nine months compared to $1.0 million operating income in the 2001 first nine months. The increase in expenses primarily related to fees associated with credit agreement amendments and legal expenses related to discontinued operations.

INTEREST EXPENSE - NET

Interest expense, net of interest income, totaled $39.8 million during the 2002 first nine months compared with $35 million for the prior year period. The increase is attributable to the higher cost of borrowing related to the October 2001 issuance of Senior Secured Notes.

MINORITY INTEREST

Minority interest represents third-party interests in the earnings of the publicly held common units of Terra Nitrogen Company, L.P. (TNCLP). Minority interest charges of $1.8 million were recorded for the 2002 first nine months as the result of TNCLP earnings, which were included in their entirety in consolidated operating results. The increased charge as compared to the 2001 first half reflected higher nitrogen earnings for TNCLP.

INCOME TAXES

Income taxes for the first nine months of 2002 were recorded at an effective tax rate of 40%, Terra's estimated annual effective tax rate.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of funds will be to fund our working capital requirements, make payments on our debt and other obligations and make capital expenditures. The principal sources of funds will be cash flow from operations and borrowings under available bank facilities.

Net cash generated from operations in the first nine months of 2002 was $92.4 million, composed of $42.5 million of cash provided from operating activities and $49.9 million of decreases to working capital balances. The decrease in working capital primarily consisted of lower accounts receivable, inventories and other current assets.

We have a $175 million revolving credit facility that expires in June 2005. Borrowing availability under the credit facility is generally based on 85% of eligible accounts receivable and 65% of eligible inventory, less outstanding letters of credit. At September 30, 2002, we had no outstanding revolving credit borrowings and $18.8 million in outstanding letters of credit, resulting in remaining borrowing availability of approximately $117.4 million under the facility. We expect the facility to be adequate to meet our operating cash needs. The credit facility also requires that we adhere to certain limitations on additional debt, capital expenditures, acquisitions, liens, asset sales, investments, prepayments of subordinated indebtedness, changes in lines of business and transactions with affiliates. In June, 2002 our credit facility was amended to remove the required minimum level of earnings before interest, income taxes, depreciation, amortization and other non-cash items ("EBITDA") as long as our borrowing availability is $60 million or more. If our borrowing availability falls below $60 million after December 31, 2002, we are required to have achieved minimum EBITDA of $60 million during the most recent four quarters. Prior to December 31, 2002, a reduced EBITDA requirement is in effect, which is $50 million for the four quarters ending September 30, 2002.

During the first nine months of 2002 and 2001, we funded plant and equipment purchases of $16.6 million and $11.1 million, respectively, primarily for replacement or stay-in-business capital needs. We expect 2002 plant and equipment purchases to approximate $25 million consisting primarily of the expenditures for routine replacement of equipment at manufacturing facilities. In addition, a turnaround is scheduled for our Billingham facility with estimated cash expenditures of $5 million.

On December 17, 1997, we announced that we were resuming purchases of common units of TNCLP on the open market and through privately negotiated transactions. We acquired 183,500 common units during the first quarter of 2001 at a cost of $1.7 million. Additional purchases of TNCLP common units are restricted under the terms of our revolving credit agreement as described therein. Additional

purchases of common units by the General Partner are restricted under the terms of Terra's bank credit agreement as described therein.

During the first nine months of 2002 and 2001 we distributed $0.9 million and $2 million, respectively, to the minority TNCLP common unitholders. TNCLP distributions are based on "Available Cash" (as defined in the Partnership Agreement). On October 24, 2002, the Partnership declared a $3.8 million distribution ($0.20 per common unit) payable November 22 to record holders as of November 1, 2002.

Cash balances at September 30, 2002 were $41.9 million, all of which is unrestricted.

POTENTIAL CHANGE OF CONTROL

Anglo American plc, through its wholly-owned subsidiaries, owns 48.8% of Terra Industries' outstanding shares. Anglo American has made public its intention to dispose of its interest in Terra Industries with the timing based on market and other conditions.

FORWARD-LOOKING PRECAUTIONS

Information contained in this report, other than historical information, may be considered forward looking. Forward-looking information reflects management's current views of future events and financial performance that involve a number of risks and uncertainties. The factors that could cause actual results to differ materially include, but are not limited to, the following: changes in financial markets, general economic conditions within the agricultural industry, competitive factors and price changes (principally, sales prices of nitrogen and methanol products and natural gas costs), changes in product mix, changes in the seasonality of demand patterns, changes in weather conditions, changes in agricultural regulations, and other risks detailed in the "Factors that Affect Operating Results" section of Terra's most recent Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation within 90 days of the filing date of this report, that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the previously mentioned evaluation.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) EXHIBITS

Exhibit 99.1 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) REPORTS ON FORM 8-K

None

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TERRA INDUSTRIES INC.

Date: November 1, 2002

/s/ Francis G. Meyer

Francis G. Meyer
Senior Vice President and Chief Financial Officer and a duly authorized signatory

CERTIFICATIONS

I, Michael L. Bennett, President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Terra Industries Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 1, 2002

/s/ Michael L. Bennett

Michael L. Bennett
President and Chief Executive Officer

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I, Francis G. Meyer, Senior Vice President and Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Terra Industries Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for

establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 1, 2002

/s/ Francis G. Meyer

Francis G. Meyer
Senior Vice President and
Chief Financial Officer