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Yara to Pay \$4.1 Billion for Terra to Cut Fuel Costs (Update3)  
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(Adds CEO comment in seventh paragraph.)

By Vibeke Laroi and Marianne Stigset

Feb. 15 (Bloomberg) -- Yara International ASA, the largest fertilizer maker, agreed to buy Terra Industries Inc. for \$4.1 billion to benefit from lower U.S. fuel costs.

The company will pay \$41.10 for each Terra share, raising the cash with a \$2.5 billion rights offer, Oslo-based Yara said in a statement today. The price is 24 percent more than Terra's Feb. 12 close of \$33.25 in New York. Yara fell as much as 7.1 percent today in Oslo, the most in almost eight months.

Buying Sioux City, Iowa-based Terra will give Yara six North American plants making nitrogen-based fertilizer. The price of natural-gas, used to produce the crop nutrient, has declined 64 percent in the past two years.

"It makes sense for them to secure more U.S. gas which may be structurally cheaper than European gas," said Samir Bendriss, a research chief at Pareto Securities ASA in Oslo who has a "hold" recommendation on Yara shares. "It makes sense strategically, but the price is too high."

Yara is paying 12.8 times Terra's net income, according to data Bloomberg compiled. Acquisitions in the agricultural chemicals industry were done at 10 times net income, according to the median multiple of 37 deals in the past 12 months.

"Yara is committed to the U.S. market, and this transaction presents an attractive opportunity for both companies to strengthen their positions in the U.S.," Yara's Chief Executive Officer Joergen Ole Haslestad said in the statement. "Both companies are strong in ammonia and nitrates, and have complementary geographical footprints."

#### Ammonia, Nitrates

The combination will have an 8 percent share of the world ammonia market, Haslestad said in Oslo. The deal will "almost immediately" add to Yara's earnings, he said in an interview.

Yara fell as much as 17.1 kroner to 225.4 kroner in Oslo, the steepest drop since June 22. It traded at 229.3 kroner by 12:38 p.m. in Oslo, extending this year's slide to 13 percent and valuing the company at 66.9 billion kroner (\$11 billion).

"It will require a relatively big rights issue, so it's fair that the shares should fall," Henrik Sinding, an analyst at Carnegie ASA in Oslo who has an "outperform" rating on the stock, said by phone. "Given that the price is OK and the rationale behind it makes sense, we don't expect to make any changes to our recommendation on the back of this."

Yara's bid comes a month after Deerfield, Illinois-based CF Industries Holdings Inc. dropped an offer for Terra. CF had sought to buy Terra since January 2009, while fending off a hostile offer from Agrium Inc. At stake was whether Agrium or CF would be the world's

second-largest publicly traded maker of nitrogen-based fertilizers after Yara.

#### Cost Savings

Yara expects pretax cost savings of \$60 million within a year of closing the deal, expected in about June. Merger costs won't be significant as Terra's plants are in a good condition and need only maintenance spending, Chief Financial Officer Hallgeir Storvik said in Oslo. The companies haven't decided on how many employees will be laid off, he said.

"Terra assets are located in close proximity to the U.S. corn belt and key ammonia transit pipelines," Joe Dewhurst, an analyst at UBS Warburg Ltd. with a "neutral" rating, wrote in a note. "This should provide Yara with logistics synergies and a low cost platform for further North American operations expansion. Terra gas feedstock costs are likely to remain competitive versus liquid natural gas."

Terra, which had 2008 sales of \$2.9 billion and already runs a 50-50 joint venture in the U.K. with Yara, will be renamed Yara North America. CEO Michael Bennett will become president. The deal has a \$123 million break fee for both companies should the deal fail to go through, Yara said.

#### Rights Offer Timing

The rights offer may happen in May. Norway's government, Yara's largest shareholder with 36 percent, and the National Insurance Fund with 6.6 percent will subscribe, Yara said.

The rest of the offer will be underwritten by Citigroup Inc., Deutsche Bank AG and Nordea Bank AB. While the company hasn't immediate plans to sell debt, "down the road we are assuming we'll go to the bond market," Storvik said.

Yara reported fourth-quarter net income of 1.42 billion kroner, after a 2.11 billion kroner loss a year earlier.

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