

PHELPS DODGE CORP  
Form DEFM14A  
August 25, 2006

**SCHEDULE 14A INFORMATION**  
**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
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**Phelps Dodge Corporation**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- (1) Title of each class of securities to which transaction applies:  
Common Stock, par value \$6.25 per share  
(including associated preferred share purchase rights)
- (2) Aggregate number of securities to which transaction applies: 155,290,625 shares of Phelps Dodge Corporation's common stock
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): \$90.66 (average of high and low prices of Phelps Dodge Corporation common stock reported on the New York Stock Exchange for such shares on August 22, 2006)
- (4) Proposed maximum aggregate value of transaction: \$18,274,395,063.54
- (5) Total fee paid: \$1,955,360.27 computed in accordance with Rule 0-11(c)(i) of the Securities Exchange Act of 1934, as amended, by multiplying the proposed aggregate value of the transaction by 0.0001070

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:  
\$3,218,407.21
- (2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

Phelps Dodge Corporation

(4) Date Filed:

July 5, 2006

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**IMPORTANT SPECIAL MEETING OF PHELPS DODGE SHAREHOLDERS**

**August 25, 2006**

Dear Fellow Shareholder:

You are cordially invited to attend a special meeting of the shareholders of Phelps Dodge Corporation, to be held on September 25, 2006, at 9:00 a.m. (MST), at The Heard Museum, 2301 North Central Avenue, Phoenix, Arizona. At the special meeting you will be asked to approve four proposals presented for your consideration.

The proposals relate to Phelps Dodge's agreement to combine with Inco Limited to create an industry-leading, diversified metals and mining company. The combined company would have one of the industry's most exciting portfolios of development projects and the scale and management expertise to pursue their development successfully. The creation of this new company would give us the size and diversification to better manage cyclicity, stabilize earnings and increase shareholder returns.

Phelps Dodge first announced this transaction on June 26, 2006. Under the terms of a combination agreement between Phelps Dodge and Inco, Phelps Dodge will acquire all of the outstanding common shares of Inco for a combination of cash and common shares of Phelps Dodge having a value of Cdn.\$84.99 (U.S.\$76.50) per Inco share, based upon the closing price of Phelps Dodge stock and the closing U.S./Canadian dollar exchange rate on August 24, 2006. Each shareholder of Inco would receive 0.672 shares of Phelps Dodge common stock plus Cdn.\$20.25 (or, at such holder's option, the U.S. dollar equivalent) per share in cash for each Inco common share. The Phelps Dodge board of directors also announced, as part of the transaction, a share repurchase program, to be commenced after closing, of up to \$5.0 billion.

The combination will be effected pursuant to a plan of arrangement under Section 192 of the Canada Business Corporations Act under which Phelps Dodge Canada Inc., our recently formed, wholly owned subsidiary, will acquire all of Inco's outstanding common shares and Inco will amalgamate with a wholly owned subsidiary of Phelps Dodge Canada Inc.

In order to complete the proposed transaction, we are asking you to approve the following proposals, together with two proposals regarding adjournment of the meeting:

1. a proposal to amend and restate Phelps Dodge's restated certificate of incorporation in the form attached as Annex B to the proxy statement to which this letter is attached, which we refer to as the charter amendment proposal, to (i) change the company's name to Phelps Dodge Inco Corporation from Phelps Dodge Corporation, (ii) increase the number of authorized shares of the common stock of Phelps Dodge from 300 million to 800 million and (iii) increase the maximum number of members of Phelps Dodge's board of directors from 12 to 15; and

2. the proposed issuance of Phelps Dodge common stock to Inco securityholders in connection with the combination of Phelps Dodge with Inco, which we refer to as the share issuance proposal.

Approval of the charter amendment proposal requires the affirmative vote of a majority of all outstanding shares of Phelps Dodge common stock entitled to vote on the matter. Approval of the share issuance proposal requires the affirmative vote of a majority of the votes cast on such matter, provided that the total vote cast on the proposal represents a majority of all outstanding shares of Phelps Dodge common stock entitled to vote on the matter.

**Your board of directors has determined that the charter amendment proposal, the share issuance proposal and the combination is in the best interest of Phelps Dodge and its shareholders, has unanimously approved the charter amendment proposal and the share issuance proposal, and unanimously recommends that you vote FOR approval of the charter amendment proposal and FOR the share issuance proposal.**

Detailed information regarding the two proposals is contained in the accompanying proxy statement. In view of the importance of the actions to be taken at the special meeting, we urge you to read the accompanying proxy statement carefully. Regardless of the number of shares you own, we request that you

complete, sign, date and mail the enclosed proxy card promptly in the accompanying envelope, which requires no postage if mailed in the United States. You may also vote your shares by telephone or through the Internet by following the instructions on the enclosed proxy card or voting instruction form.

You may, of course, attend the special meeting and vote in person, even if you have previously returned your proxy card.

**YOUR VOTE IS IMPORTANT.** Regardless of the number of shares of Phelps Dodge common stock you own, we urge you to vote **FOR** approval of the charter amendment proposal and **FOR** the share issuance proposal. Finally, if you have any questions or need assistance in voting your shares of Phelps Dodge common stock, please call D.F. King & Co., Inc., which is assisting Phelps Dodge, toll-free at 1-800-659-5550 (U.S. and Canada). Non-U.S. or non-Canadian investors may contact D.F. King at +44 20 7920 9700.

On behalf of your board of directors, thank you for your continued support and cooperation.

Sincerely,

J. Steven Whisler  
Chairman and Chief Executive Officer

**This proxy statement is dated August 25, 2006 and is expected to be first mailed to our shareholders on or about August 25, 2006.**

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NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO THE SHAREHOLDERS OF PHELPS DODGE CORPORATION:

A special meeting of shareholders of Phelps Dodge Corporation will be held at The Heard Museum, 2301 North Central Avenue, Phoenix, Arizona, on September 25, 2006, at 9:00 a.m. (MST), for the following purposes:

1. to consider and vote on a proposal to amend and restate Phelps Dodge's restated certificate of incorporation to (i) change the company's name to Phelps Dodge Inco Corporation from Phelps Dodge Corporation, (ii) increase the number of authorized shares of Phelps Dodge common stock from 300 million to 800 million shares and (iii) increase the maximum number of members of Phelps Dodge's board of directors from 12 to 15;

2. to consider and vote on the proposed issuance of Phelps Dodge common stock, par value \$6.25 per share, to Inco securityholders in connection with the combination of Phelps Dodge with Inco;

3. in the event that there are not sufficient votes for approval of the charter amendment proposal at the special meeting, to consider and vote upon any proposal to postpone or adjourn the special meeting to a later date to solicit additional proxies with respect to such proposal, which we refer to as the charter amendment adjournment proposal;

4. in the event that there are not sufficient votes for approval of the share issuance proposal at the special meeting, to consider and vote upon any proposal to postpone or adjourn the special meeting to a later date to solicit additional proxies with respect to such proposal, which we refer to as the share issuance adjournment proposal; and

5. to conduct any other business as may be properly brought before the special meeting.

**Your board of directors has determined that the charter amendment proposal, the share issuance proposal and the combination is in the best interest of Phelps Dodge and its shareholders, has unanimously approved the charter amendment proposal and the share issuance proposal, and unanimously recommends that you vote FOR approval of the charter amendment proposal, FOR the share issuance proposal, FOR the charter amendment adjournment proposal and FOR the share issuance adjournment proposal.**

Only holders of record of the common stock of Phelps Dodge at the close of business on August 24, 2006 will be entitled to notice of and to vote at the special meeting or at any adjournments or postponement of the special meeting. On August 23, 2006, we had 203,973,926 common shares outstanding.

If you participate in the Mellon Investor Services, L.L.C. Investor Services Program for Phelps Dodge shareholders, all common shares held for your account under that service will be voted in accordance with your proxy.

Proxies are solicited by the board of directors. If you are a shareholder of record, you may revoke your proxy before it is voted at the special meeting by delivering a signed revocation letter or new proxy, dated later than your first proxy, to Catherine R. Hardwick, Assistant General Counsel and Secretary. Any shareholder of record may attend the special meeting and vote in person even if he/she previously has returned a proxy. If your shares of Phelps Dodge common stock are held in street name by a broker or bank, you should contact the person responsible for your account to revoke your proxy or to arrange to vote in person at the special meeting.

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Shareholders are asked to access electronic voting via the Internet or telephone voting as described on the enclosed proxy card or voting instruction form, or complete, sign, date and mail the enclosed proxy card or voting instruction form promptly in the enclosed envelope, which requires no postage if mailed in the United States. Your vote is important, and you are requested to act at your first convenience.

This Proxy Statement and accompanying materials are first being sent to shareholders on August 25, 2006. Phelps Dodge's principal executive office is located at One North Central Avenue, Phoenix, Arizona 85004.

By Order of the Board of Directors,

Catherine R. Hardwick  
Assistant General Counsel and Secretary

Phoenix, Arizona  
August 25, 2006

**YOUR VOTE IS IMPORTANT**

**Whether or not you plan to attend the special meeting, please complete, sign, date and mail the enclosed proxy card, or voting instruction form, promptly in the enclosed envelope, which requires no postage if mailed in the United States.** Should you prefer, you may vote by delivering your proxy via telephone or via the Internet by following the instructions on your enclosed proxy card or voting instruction form. Remember, if you do not return your proxy card or vote by telephone or via the Internet, or in person, or if you abstain from voting, it will have the same effect as a vote against adoption of the charter amendment proposal.

**If you have any questions or need assistance in voting your shares of Phelps Dodge common stock, please call D.F. King & Co., Inc., which is assisting your company, toll-free at 1-800-659-5550 (U.S. & Canada). Non-U.S. or non-Canadian investors may contact D.F. King at +44 20 7920 9700.**

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### REFERENCE TO ADDITIONAL INFORMATION

This proxy statement incorporates by reference important business and financial information about Phelps Dodge Corporation ( Phelps Dodge, we or us ) and Inco Limited ( Inco ) from documents that are not included in or delivered with this proxy statement. For a listing of the documents incorporated by reference into this proxy statement, see

Where You Can Find More Information and Incorporation by Reference beginning on page 100 of this proxy statement. This information is available to you without charge upon your written or oral request. You can obtain documents related to Phelps Dodge and Inco that are incorporated by reference into this proxy statement, without charge, from the Securities and Exchange Commission s (the SEC ) Web site (www.sec.gov) or by requesting them in writing or by telephone from Phelps Dodge:

Phelps Dodge Corporation  
One North Central Avenue  
Phoenix, Arizona 85004-4414  
Attention: Assistant General Counsel and Secretary  
(602) 366-8100

(All Web site addresses given in this proxy statement are for information only and are not intended to be an active link or to incorporate any Web site information into this proxy statement.)

Please note that copies of the documents provided to you by Phelps Dodge will not include exhibits, unless the exhibits are specifically incorporated by reference into the documents or this proxy statement.

**In order to receive timely delivery of documents requested from Phelps Dodge in advance of the special meeting, you should make your request no later than September 15, 2006.**

### INDUSTRY DATA

Industry statistics and data included in this proxy statement are based on currently available public information. In addition, statements in this proxy statement about our industry and our position in our industry or any sector of our industry or about our or the combined company s market shares, are statements of our belief. This belief is based on industry statistics and data and on estimates and assumptions that we have made based on our knowledge of the market for our products and our experience in those markets. We have not verified industry statistics or data. Accordingly, we cannot assure you that any of these estimates or assumptions are accurate or that our estimates, assumptions or statements correctly reflect our industry or our or the combined company s position in the industry.

### REPORTING CURRENCIES AND ACCOUNTING PRINCIPLES

The financial information included in this proxy statement regarding Phelps Dodge, including Phelps Dodge s audited consolidated financial statements and Phelps Dodge s unaudited consolidated financial statements, are reported in U.S. dollars (\$), (U.S.\$) or (US\$) and have been prepared in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ).

The financial information included in this proxy statement regarding Inco, including Inco s audited consolidated financial statements and Inco s unaudited consolidated financial statements, are reported in U.S. dollars, unless otherwise indicated, and have been prepared in accordance with Canadian generally accepted accounting principles ( Canadian GAAP ), which differs from U.S. GAAP in certain significant respects. The differences, insofar as they affect Inco s consolidated financial statements, relate to accounting for post-retirement benefits, currency translation gains (losses), intangible assets, research and development, exploration, asset impairment, convertible debt, derivative instruments, investments, income and mining taxes, reporting of comprehensive income, net earnings and shareholders equity. A discussion of these differences is presented in the notes to the financial statements incorporated by reference into this proxy statement and, in particular, Note 24 to Inco s audited consolidated financial statements and Note 17 to Inco s unaudited consolidated financial statements incorporated by reference into this proxy statement.

In this proxy statement, unless otherwise stated, dollar amounts are expressed in U.S. dollars.

#### EXCHANGE RATES

*Exchanging Canadian Dollars.* The following table sets forth, for each period indicated, the high and low exchange rates for one Canadian dollar (Cdn.\$) during that period, the average of the exchange rates during that period, and the exchange rate at the end of that period, in each case expressed in U.S. dollars, based upon the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York:

	<b>Six Months Ended June 30, 2006</b>	<b>2005</b>	<b>Year Ended December 31,</b>			
		<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	
	<b>(In \$ per Cdn.\$1)</b>					
High	0.8528	0.8690	0.8493	0.7738	0.6619	0.6697
Low	0.9100	0.7872	0.7158	0.6349	0.6200	0.6241
Average	0.8852	0.8254	0.7682	0.7139	0.6368	0.6458
Period End	0.8969	0.8579	0.8310	0.7738	0.6329	0.6279

On June 23, 2006, the last trading day prior to the announcement of the combination, the exchange rate for one Canadian dollar expressed in U.S. dollars, based upon the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York, was \$0.8896. On August 24, 2006, the most recent practicable date prior to the filing of this proxy statement, the exchange rate for one Canadian dollar expressed in U.S. dollars, based upon the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York, was \$0.9001.

*Exchanging U.S. Dollars.* The following table sets forth, for each period indicated, the high and low exchange rates for one U.S. dollar during that period, the average of the exchange rates during that period, and the exchange rate at the end of that period, in each case expressed in Canadian dollars, based upon the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York:

	<b>Six Months Ended June 30, 2006</b>	<b>2005</b>	<b>Year Ended December 31,</b>			
		<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	
	<b>(In Cdn.\$ per \$1)</b>					
High	1.1726	1.2703	1.3970	1.5750	1.6128	1.6023
Low	1.0989	1.1507	1.1775	1.2923	1.5108	1.4933
Average	1.1381	1.2115	1.3017	1.4008	1.5704	1.5485
Period End	1.1150	1.1656	1.2034	1.2923	1.5800	1.5925

On June 23, 2006, the last trading day prior to the announcement of the combination, the exchange rate for one U.S. dollar expressed in Canadian dollars, based upon the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York, was Cdn.\$1.1241. On August 24, 2006, the most recent practicable date prior to the filing of this proxy statement, the exchange rate for one U.S. dollar expressed in Canadian dollars, based upon the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York, was \$1.1110.



## QUESTIONS AND ANSWERS

The following are some of the questions that you, as a shareholder of Phelps Dodge, may have and answers to those questions. These questions and answers, as well as the following summary, are not meant to be a substitute for the information contained in the remainder of this proxy statement, and this information is qualified in its entirety by the more detailed descriptions and explanations contained elsewhere in this proxy statement. We urge you to read this proxy statement in its entirety prior to making any decision.

### Q1: Why am I receiving this proxy statement?

A1: You are receiving this proxy statement and enclosed proxy card because, as of August 24, 2006, the record date for the special meeting, you owned shares of Phelps Dodge common stock. Only holders of record of shares of Phelps Dodge common stock as of close of business on August 24, 2006, will be entitled to vote those shares at the special meeting. This proxy statement describes the issues on which we would like you, as a shareholder, to vote. It also provides you with important information about these issues to enable you to make an informed decision as to whether to vote your shares of Phelps Dodge common stock for the matters described herein.

As more fully described herein, we have agreed to combine Phelps Dodge with Inco pursuant to a combination agreement, made and entered into as of June 25, 2006, between Phelps Dodge and Inco, as amended by the waiver and first amendment dated as of July 16, 2006. The combination will be effected pursuant to a plan of arrangement under Section 192 of the Canada Business Corporations Act under which Phelps Dodge Canada Inc., our recently formed, wholly owned subsidiary, will acquire all of Inco's outstanding common stock and Inco will amalgamate with a wholly owned subsidiary of Phelps Dodge Canada Inc.

We are holding a special meeting of shareholders in order to obtain the shareholder approval necessary to authorize and issue shares of our common stock to shareholders of Inco, change our company's name and increase the size of our board of directors in accordance with the combination agreement.

We will be unable to complete our combination with Inco unless you approve the proposals described in this proxy statement at the special meeting.

We have included in this proxy statement important information about a combination of our company with Inco, the combination agreement and the special meeting. You should read this information carefully and in its entirety. We have attached a copy of the combination agreement and the waiver and first amendment to this proxy statement as Annex A and Annex E, respectively. The enclosed voting materials allow you to vote your shares without attending the special meeting. **Your vote is very important and we encourage you to complete, sign, date and mail your proxy card, as soon as possible, whether or not you plan to attend the special meeting. Convenient telephone and Internet voting options also are available.**

### Q2: When and where will the special meeting be held?

A2: The special meeting is scheduled to be held at 9:00 a.m. (MST), at The Heard Museum, 2301 North Central Avenue, Phoenix, Arizona, on September 25, 2006.

### Q3: Who is entitled to vote at the special meeting?

A3: Phelps Dodge has fixed August 24, 2006, as the record date for the special meeting. If you were a Phelps Dodge shareholder at the close of business on the record date, you are entitled to vote on matters that come before the special meeting. However, a Phelps Dodge shareholder may only vote his or her shares if he or she is present in person or is represented by proxy at the special meeting.



**Q4: What will happen at the special meeting?**

A4: At the special meeting, our shareholders will be asked to:

1. consider and vote on a proposal to amend and restate Phelps Dodge's restated certificate of incorporation in the form attached as Annex B to this proxy statement, which we refer to as the charter amendment proposal, to (i) change the company's name to Phelps Dodge Inco Corporation from Phelps Dodge Corporation, (ii) increase the number of authorized shares of the common stock of Phelps Dodge from 300 million shares to 800 million shares and (iii) increase the maximum number of members of Phelps Dodge's board of directors from 12 to 15;
2. consider and vote on the proposed issuance of Phelps Dodge common stock to Inco securityholders in connection with the combination of Phelps Dodge with Inco, which we refer to as the share issuance proposal;
3. in the event that there are not sufficient votes for approval of the charter amendment proposal at the special meeting, to consider and vote upon any proposal to postpone or adjourn the special meeting to a later date to solicit additional proxies with respect to such proposal, which we refer to as the charter amendment adjournment proposal;
4. in the event that there are not sufficient votes for approval of the share issuance proposal at the special meeting, to consider and vote upon any proposal to postpone or adjourn the special meeting to a later date to solicit additional proxies with respect to such proposal, which we refer to as the share issuance adjournment proposal; and
5. to conduct any other business as may be properly brought before the special meeting.

**Your board of directors unanimously recommends that you vote FOR the adoption of the charter amendment proposal, FOR the share issuance proposal, FOR the charter amendment adjournment proposal and FOR the share issuance adjournment proposal.**

**Q5: How does Phelps Dodge intend to finance the combination and related transactions?**

A5: We have agreed to pay 0.672 shares of Phelps Dodge common stock and Cdn.\$20.25 (or, at the Inco holder's option, the U.S. dollar equivalent) in cash for each Inco common share held immediately prior to the consummation of the combination. In addition, holders of Inco restricted common stock and Inco stock options will be entitled to receive shares of Phelps Dodge common stock or options to acquire Phelps Dodge common stock, respectively, in exchange for such securities. See "The Combination Agreement - Combination Consideration" beginning on page 66 of this proxy statement.

The issuance of the requisite shares of the common stock of Phelps Dodge to Inco's shareholders requires the approval of Phelps Dodge's shareholders, which is one of the purposes of the special meeting. Phelps Dodge will finance the cash component of the combination consideration, in part, from its available cash and with borrowings under new credit facilities to be entered into in connection with the combination. The new credit facilities will have aggregate borrowing capacity of \$10.45 billion, which, together with available cash, will be available for the following purposes:

to finance up to \$4.1 billion of the cash consideration to be paid by Phelps Dodge in connection with the combination;

to finance our post-combination share repurchase program, pursuant to which we intend to repurchase up to \$5 billion of the common stock of Phelps Dodge;

to repurchase or refinance up to \$0.4 billion of Inco's indebtedness;

to refinance liabilities outstanding under our and Inco's existing revolving credit agreements; and

to finance transaction expenses related to the combination, which we estimate will be approximately \$100 million.

Phelps Dodge has received executed commitments from Citigroup Global Markets Inc. and HSBC Securities (USA) Inc. for the entire \$10.45 billion principal amount of the new credit facilities. The combination consideration and financing, including the new credit facilities, are more fully described in this proxy statement. See The Combination Combination Consideration and Financing beginning on page 29 of this proxy statement.

**Q6: What will the share ownership, board of directors and management of Phelps Dodge look like after the combination?**

A6: We estimate that, upon completion of the combination, former shareholders of Inco will own approximately 43% of the outstanding common stock of the combined company.

We expect that, upon consummation of the combination of our company with Inco, J. Steven Whisler, the chairman and chief executive officer of Phelps Dodge, will be chairman and chief executive officer of the combined new company; Scott M. Hand, the chairman and chief executive officer of Inco, will become the vice chairman of the combined company and the president of the combined company's nickel division; Timothy R. Snider, the president and chief operating officer of Phelps Dodge, will hold the same positions in the combined company; and Ramiro G. Peru, executive vice president and chief financial officer of Phelps Dodge, will hold the same positions in the combined company. We expect Messrs. Whisler, Snider and Peru to be based in Phoenix and Mr. Hand to be based in Toronto.

We expect the board of directors of the combined company to be composed of 15 members, 11 of which will be members of the current Phelps Dodge board of directors and four of which will be members of the current Inco board.

**Q7: Why does Phelps Dodge want to consummate a combination with Inco?**

A7: The Phelps Dodge board of directors believes that a combination of Phelps Dodge with Inco will create a combined company with the scope, scale and financial strength to more efficiently develop existing opportunities and assets and to capitalize quickly on new growth and other opportunities within the mining industry. The Phelps Dodge board of directors believes that the combined company will be able to benefit from:

its position as an industry-leading, diversified metals and mining company with a portfolio of world-class assets with leading market positions in multiple commodities;

relatively lower cost positions in the combined company's primary commodities, which should allow the combined company to better weather any future downturns in commodity prices;

enhanced growth opportunities from a broad portfolio of brownfield and greenfield growth projects, primarily in nickel, copper, molybdenum and cobalt;

significant synergies and cost savings;

greater financial strength and flexibility as a result of the combined company's increased size, asset diversification and expected synergies and cost savings;

increased market liquidity and the potential for valuation enhancement as a result of the combined company's position as the largest mining company based in North America;

reduced risks associated with (i) price fluctuations for any particular commodity and (ii) production costs associated with any particular mining or production site;

reduced risks associated with political or economic instability or natural disasters in any particular geographical locale; and

a highly skilled and experienced management team.

The Phelps Dodge board of directors reasons for the combination are discussed in more detail beginning on page 39 of this proxy statement under The Combination Phelps Dodge s Reasons

for the Combination. Please review the disclosure under Risk Factors and Forward-Looking Information in this proxy statement for a more complete description of certain other considerations that you should consider in deciding how to vote at the special meeting.

**Q8: When do you expect the combination to close?**

A8: We expect the combination to close in September 2006, subject to the factors and conditions set forth elsewhere in this proxy statement. See The Combination Agreement Conditions to the Combination and The Combination Regulatory Matters Related to the Combination beginning on page 60 of this proxy statement.

**Q9: Are there risks I should consider in deciding whether to vote for the charter amendment proposals and the share issuance proposals?**

A9: Yes. The proposed combination of our company with Inco is subject to a number of risks and uncertainties. We may not realize the benefits we currently anticipate from the combination, including those described in the answer to Question 7 above, due to challenges associated with integrating the companies. We may fail to realize increased earnings and cost savings and enhanced growth opportunities described elsewhere in this proxy statement. Further, we may fail to successfully integrate the companies technologies and personnel in an efficient and effective manner. In addition, the combination is subject to the receipt of consents and approvals from government entities that could delay completion of the combination or impose conditions on the combined company. See Risk Factors and The Combination Agreement Conditions to the Combination beginning on pages 24 and 77 of this proxy statement, respectively.

**Q10: What vote is required to approve each proposal?**

A10: *Approval of the charter amendment proposal requires:* the affirmative vote of the holders of a majority of our outstanding common shares entitled to vote.

*Approval of the share issuance proposal requires:* the affirmative vote of the holders of a majority of our common shares voting on the proposal, so long as the total vote cast on the proposal represents a majority of our common shares outstanding.

*Approval of the charter amendment adjournment proposal requires:* the affirmative vote of the holders of a majority of our common shares voting on the proposal.

*Approval of the share issuance adjournment proposal requires:* the affirmative vote of the holders of a majority of our common shares voting on the proposal.

**Q11: How do I vote?**

A11: If you are entitled to vote at the special meeting, you can vote by proxy before the special meeting or you can vote in person by completing a ballot at the special meeting. Even if you plan to attend the special meeting, we encourage you to vote your shares by proxy as soon as possible. After carefully reading and considering the information contained in this proxy statement, please submit your proxy by telephone or Internet in accordance with the instructions set forth on the enclosed proxy card or voting instruction form, or complete, sign, date and mail the proxy card or voting instruction form, in the enclosed postage-paid envelope as soon as possible so that your shares may be voted at the special meeting. For detailed information, please see Information About the Special Meeting How to Vote beginning on page 64 of this proxy statement.

**Q12: I hold my shares in street name. How are my shares voted?**

A12: If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial holder of the shares held for you in what is known as street name. If this is the case, this proxy statement has been forwarded to you by your brokerage firm, bank or other nominee, or their agent. As the beneficial holder, you have the right to direct your broker, bank or other nominee as to how to vote your shares. **If you hold your shares in street name and**

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**do not provide your broker, bank or other nominee with instructions on how to vote your shares, your broker, bank or other nominee will not be permitted to vote them on the charter amendment proposal, the share issuance proposal, the charter amendment adjournment proposal or the share issuance adjournment proposal. Shares not voted in favor of the charter amendment proposal will have the effect of a vote against that proposal. You should, therefore, be sure to provide your broker, bank or other nominee with instructions on how to vote your shares. Your broker or bank may also provide telephone or Internet voting options, and you should refer to the instructions that accompanied this proxy statement.**

**Q13: How many votes do I have?**

A13: You are entitled to one vote for each share of Phelps Dodge common stock that you own as of the record date. As of the close of business on August 23, 2006, there were approximately 203,973,926 outstanding shares of Phelps Dodge common stock. As of that date, less than 1% of the outstanding shares of Phelps Dodge common stock were held by the directors and executive officers of Phelps Dodge.

**Q14: What constitutes a quorum?**

A14: Holders of at least a majority of our outstanding common stock as of the close of business on the record date who are entitled to vote must be present or represented by proxy in order to constitute a quorum to conduct business at the special meeting under our corporate by-laws.

**Q15: If I participate in the Mellon Investor Services, L.L.C. Investor Services Program, how will my shares be voted?**

A15: If you participate in the Mellon Investor Services, L.L.C. Investor Services Program for Phelps Dodge shareholders, all common shares held for your account under that plan will be voted in accordance with your proxy.

**Q16: What if I return my proxy card but do not mark it to show how I am voting?**

A16: If your proxy card is signed and returned without specifying your choices, your shares will be voted in favor of all proposals in accordance with the unanimous recommendations of the Phelps Dodge board of directors.

**Q17: Can I change my vote *after* I have submitted a proxy by telephone or Internet or mailed my signed proxy card?**

A17: Yes. You can change your vote by revoking your proxy at any time before it is exercised at the special meeting.

You may revoke your proxy before it is voted at the special meeting by delivering a signed revocation letter or a new proxy, dated later than your first proxy, to Catherine R. Hardwick, Assistant General Counsel and Secretary. If your shares are held in street name you must contact your broker or banker for instructions if you wish to revoke your voting instructions.

**Q18: What do I need to do now?**

A18: Read and consider the information contained in this proxy statement carefully, and then please vote your shares as soon as possible so that your shares may be represented at the special meeting. Your vote is

important, so please act today.

**Q19: Who should I call if I have questions about the proxy materials or voting procedures?**

A19: If you have questions or need assistance in voting your shares or you need additional copies of the proxy statement, you should contact D.F. King & Co., Inc., which is assisting us, at 1-800-659-5550 (toll-free in the U.S. and Canada). Non-U.S. or non-Canadian investors may contact D.F. King at +44 20 7920 9700. You may also contact your banker, broker or financial advisor for assistance.

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## SUMMARY

*This summary highlights selected information about the combination, the combination agreement, as amended by the waiver and first amendment, and the special meeting in this proxy statement and does not contain all of the information that may be important to you. You should carefully read this entire proxy statement and the other documents to which this proxy statement refers for a more complete understanding of the matters being considered at the special meeting. See Where You Can Find More Information and Incorporation by Reference beginning on page 100 of this proxy statement. Unless we have stated otherwise, all references in this proxy statement to: (i) the combination are to the combination of Phelps Dodge with Inco, (ii) the combination agreement are to the Combination Agreement, made and entered into as of June 25, 2006, between Phelps Dodge and Inco, a copy of which is attached as Annex A to this proxy statement, as amended by the waiver and first amendment, (iii) the initial combination agreement are to the unamended combination agreement, (iv) the waiver and first amendment are to the Waiver and First Amendment to the Combination Agreement, dated as of July 16, 2006, a copy of which is attached as Annex E to this proxy statement, (v) the arrangement are to the Plan of Arrangement under Section 192 of the Canada Business Corporations Act, which we refer to as the CBCA, pursuant to which Phelps Dodge Canada Inc., Phelps Dodge's recently formed, wholly owned subsidiary, will acquire all of Inco's outstanding common shares and Inco will amalgamate with PD Canada Subco, (vi) PD Canada Subco are to the wholly owned subsidiary of Phelps Dodge Canada Inc. with which Inco will amalgamate in accordance with the arrangement, (vii) Amalco are to PD Canada Subco and Inco after they have amalgamated, and (viii) the U.S. dollar equivalent are to the Cdn.\$20.25 cash component of the per share consideration to be paid by Phelps Dodge pursuant to the combination agreement expressed in U.S. dollars based upon the Bank of Canada noon exchange rate for the Canadian dollar against the U.S. dollar on the last business day immediately preceding the date shown on the certificate of arrangement giving effect to the combination, issued pursuant to subsection 192(7) of the CBCA after the arrangement has been filed.*

### **The Companies (page 29)**

*Phelps Dodge Corporation.* Phelps Dodge is one of the world's leading producers of copper and molybdenum, and is the world's largest producer of molybdenum-based chemicals and continuous-cast copper rod. PDMC, our mining division, includes our worldwide, vertically integrated copper operations from mining through rod production, marketing and sales; molybdenum operations from mining through conversion to chemical and metallurgical products, marketing and sales; other mining operations and investments; and worldwide mineral exploration, technology and project development programs. PDI, our manufacturing division, produces engineered wire and cable products principally for the global energy sector.

Phelps Dodge was incorporated as a business corporation under the laws of the state of New York in 1885. Phelps Dodge's executive offices are located at One North Central Avenue, Phoenix, AZ 85004-4414.

*Inco Limited.* Inco is one of the world's premier mining and metals companies and a leading producer of nickel. Inco is also an important producer of copper, precious metals and cobalt and a major producer of value-added specialty nickel products. Inco also produces sulphuric acid and liquid sulphur dioxide as by-products from its processing operations in Sudbury, Ontario.

Inco's business operations consist of three segments, (i) the finished products segment, which comprises Inco's mining and processing operations in Ontario, Manitoba and Newfoundland and Labrador, Canada, and refining operations in the United Kingdom and interests in refining operations in Japan and other Asian countries, (ii) the intermediates segment, which comprises Inco's mining and processing operations in Indonesia where nickel-in-matte, an intermediate product, is produced and sold primarily into the Japanese market, and (iii) the development projects segment, which comprises Inco's Goro nickel-cobalt project under development in the French overseas territorial community (collectivité territoriale) of New Caledonia, a nickel processing plant being built in Dalian, China, an expansion of Inco's facilities in

Indonesia and the next phase of development at Inco's Voisey's Bay project (consisting of feasibility work for a nickel processing plant and underground mine development).

Inco was incorporated in 1916 under the laws of Canada, succeeding a business established in 1902. In 1979, Inco was continued by articles of continuance under the Canada Business Corporations Act and is governed by that Act. Inco's executive offices are located at 145 King Street West, Suite 1500, Toronto, Ontario, Canada, M5H 4B7.

**The Combination (page 29)**

On June 25, 2006, we agreed to combine our company with Inco pursuant to the combination agreement. The combination agreement also provided that if Inco successfully completed its acquisition of Falconbridge Limited prior to the consummation of our combination with Inco in accordance with the terms of the combination agreement, which we refer to as the Falconbridge acquisition, we would combine our company with both Inco and Falconbridge. However, on July 28, 2006, Inco announced that it elected not to extend its bid for Falconbridge and the support agreement between Inco and Falconbridge, which we refer to as the support agreement, was terminated. Therefore, we will combine our company with Inco only. The combination will be effected pursuant to the arrangement.

**Combination Consideration and Financing (page 29)**

We have agreed to pay 0.672 shares of Phelps Dodge common stock and Cdn.\$20.25 (or, at the Inco holder's option, the U.S. dollar equivalent) in cash for each Inco common share held immediately prior to the consummation of the combination. Holders of Inco common shares may elect to receive the cash payment in either Canadian dollars or U.S. dollars. In addition, holders of Inco restricted common stock and Inco stock options will be entitled to receive shares of Phelps Dodge common stock or options to acquire Phelps Dodge common stock, respectively, in exchange for such securities. See "The Combination Agreement - Combination Consideration" beginning on page 67 of this proxy statement.

The issuance of the requisite shares of the common stock of Phelps Dodge to Inco's shareholders requires the approval of Phelps Dodge's shareholders, which is one of the purposes of the special meeting. Phelps Dodge will finance the cash component of the combination consideration, in part, from its available cash and with borrowings under new credit facilities to be entered into in connection with the combination. The new credit facilities will have aggregate borrowing capacity of \$10.45 billion, which, together with available cash, will be available for the following purposes:

- to finance up to \$4.1 billion of the cash consideration to be paid by Phelps Dodge in connection with the combination;
- to finance our post-combination share repurchase program, pursuant to which we intend to repurchase up to \$5 billion of the common stock of Phelps Dodge;
- to repurchase or refinance up to \$0.4 billion of Inco's indebtedness;
- to refinance liabilities outstanding under our and Inco's existing revolving credit agreements; and
- to finance transaction expenses related to the combination, which we estimate will be approximately \$100 million.

Phelps Dodge has received executed commitments from Citigroup and HSBC for the entire \$10.45 billion principal amount of the new credit facilities. We currently intend to refinance indebtedness incurred under the 12-month term loan facility in amounts then outstanding by accessing the capital markets in one or more public or private offerings of debt securities of Phelps Dodge Canada Inc., Amalco or Phelps Dodge Inco at appropriate times following the completion of the combination. The combination consideration and financing, including the new credit facilities, are more fully described in this proxy statement. See "The Combination - Combination Consideration and Financing" beginning on page 29 of this proxy statement.

**Post-Combination Shareholding, Board of Directors and Management (page 31)**

We estimate that, upon completion of the combination, former shareholders of Inco are expected to own approximately 43% of the outstanding common shares of the combined company.

We expect that, upon consummation of the combination of our company with Inco, J. Steven Whisler, the chairman and chief executive officer of Phelps Dodge, will be chairman and chief executive officer of the combined new company; Scott M. Hand, the chairman and chief executive officer of Inco, will become the vice chairman of the combined company and the president of the combined company's nickel division; Timothy R. Snider, the president and chief operating officer of Phelps Dodge, will hold the same positions in the combined company; and Ramiro G. Peru, executive vice president and chief financial officer of Phelps Dodge, will hold the same positions in the combined company. We expect Messrs. Whisler, Snider and Peru to be based in Phoenix and Mr. Hand to be based in Toronto.

We expect the board of directors of the combined company to be composed of 15 members, 11 of which will be members of the current Phelps Dodge board of directors and four of which will be members of the current Inco board.

**Phelps Dodge's Reasons for the Combination (page 39)**

The Phelps Dodge board of directors believes that a combination of Phelps Dodge with Inco will create a combined company with the scope, scale and financial strength to more efficiently develop existing opportunities and assets and to capitalize quickly on new growth and other opportunities within the mining industry. The Phelps Dodge board of directors believes that the combined company will be able to benefit from:

its position as an industry-leading, diversified metals and mining company with a portfolio of world-class assets with leading market positions in multiple commodities;

relatively lower cost positions in the combined company's primary commodities, which should allow the combined company to better weather any future downturns in commodity prices;

enhanced growth opportunities from a broad portfolio of brownfield and greenfield growth projects, primarily in nickel, copper, molybdenum and cobalt;

significant synergies and cost savings;

greater financial strength and flexibility as a result of the combined company's increased size, asset diversification and expected synergies and cost savings;

increased market liquidity and the potential for valuation enhancement as a result of the combined company's position as the largest mining company based in North America;

reduced risks associated with (i) price fluctuations for any particular commodity and (ii) production costs associated with any particular mining or production site;

reduced risks associated with political or economic instability or natural disasters in any particular geographical locale; and

a highly skilled and experienced management team.

The Phelps Dodge board of directors' reasons for the combination are discussed in more detail beginning on page 39 of this proxy statement under "The Combination - Phelps Dodge's Reasons for the Combination." Please review the disclosure under "Risk Factors" and "Forward-Looking Information" in this proxy statement for a more complete description of certain other considerations that you should consider in deciding how to vote at the special meeting.

**Unanimous Recommendation of the Phelps Dodge Board of Directors (page 42)**

After careful consideration, the Phelps Dodge board of directors determined that each of:  
the charter amendment proposal;

the share issuance proposal;

the charter amendment adjournment proposal;

the share issuance adjournment proposal; and

the combination,

is in the best interests of Phelps Dodge's shareholders and unanimously approved each such action.

**The Phelps Dodge board of directors unanimously recommends that holders of Phelps Dodge common stock vote FOR the charter amendment proposal, FOR the share issuance proposal, FOR the charter amendment adjournment proposal and FOR the share issuance adjournment proposal.**

In approving the charter amendment proposal, the share issuance proposal, the charter amendment adjournment proposal, the share issuance adjournment proposal and the combination and making its unanimous recommendation, the Phelps Dodge board of directors consulted with Phelps Dodge's senior management and Phelps Dodge's financial and legal advisors and considered a number of strategic, financial and other considerations referred to under "The Combination - Phelps Dodge's Reasons for the Combination" beginning on page 39 of this proxy statement.

**Opinions of Phelps Dodge's Financial Advisors (page 42)**

Citigroup Global Markets Inc., which, along with its affiliates, is referred to as Citigroup, has rendered its opinion to the Phelps Dodge board of directors that, as of July 16, 2006, and based upon and subject to the factors, assumptions, procedures, limitations and qualifications set forth therein and other factors Citigroup deemed relevant, the per share consideration to be paid by Phelps Dodge pursuant to the combination agreement (the "Combination Consideration") was fair, from a financial point of view to Phelps Dodge. HSBC Securities (USA) Inc., which, along with its affiliates, is referred to as HSBC, has rendered its opinion to the Phelps Dodge board of directors that, as of July 16, 2006, and based upon and subject to the factors, assumptions, procedures, limitations and qualifications set forth therein and other factors HSBC deemed relevant, the Combination Consideration was fair, from a financial point of view, to Phelps Dodge.

The full text of the written opinions of Citigroup and HSBC, each dated July 16, 2006, are attached as Annexes C and D to this document and set forth assumptions made, general procedures followed, factors considered and limitations and qualifications on the review undertaken by each of Citigroup and HSBC in connection with their respective opinions. Citigroup and HSBC provided their respective opinions for the information and assistance of the Phelps Dodge board of directors in connection with its consideration of the arrangement. The Citigroup and HSBC opinions are not recommendations to any shareholder as to how such shareholder should vote or act on any matters relating to the proposed Arrangement. Pursuant to separate engagement letters between Phelps Dodge and each of Citigroup and HSBC, Phelps Dodge has agreed to pay each of Citigroup and HSBC a customary transaction fee, payable upon the completion of the arrangement, as well as a more limited fee payable in connection with the delivery of its initial respective opinion.

**Interests of Phelps Dodge Employees in the Combination (page 58)**

You should be aware that certain Phelps Dodge employees, including senior management, have interests in the combination that are different from, or are in addition to, the interests of Phelps Dodge shareholders generally. These interests relate to the vesting of certain benefits under various compensation plans and programs resulting from the combination.

**Accounting Treatment of the Combination (page 60)**

Upon completion of the combination with Inco, the pre-combination shareholders of Phelps Dodge will own approximately 57% of the combined company and the pre-combination shareholders of Inco will own approximately 43% of the combined company. In addition to considering these relative shareholdings, the company also considered the proposed composition and terms of the board of directors, the proposed structure and members of the executive management team of Phelps Dodge Inco, and the premium paid by Phelps Dodge to acquire Inco, in determining the accounting acquirer.

Based on the weight of these factors, the company concluded that Phelps Dodge will be the accounting acquirer. In accordance with U.S. GAAP, Phelps Dodge will account for the combination using the purchase method of accounting. Accordingly, the assets and liabilities of Inco will be recorded by Phelps Dodge at their respective fair values at the time of the combination. The excess of Phelps Dodge's purchase price over the fair value of assets acquired, including identifiable intangible assets, and liabilities assumed will be recorded as goodwill. Phelps Dodge will record amortization expense over the useful lives of amortizable intangible assets acquired in connection with the combination.

Goodwill will be periodically assessed for impairment but not less frequently than on an annual basis. To the extent that goodwill becomes impaired, Phelps Dodge may be required to record material charges relating to the impairment of that asset. Any such charges could have a material impact on the carrying value of the combined company's assets and the combined company's results of operations. Long-lived depreciable assets recorded at fair value pursuant to purchase accounting will be depreciated, depleted or amortized over their respective useful lives and will be evaluated for impairment when events or changes in economic circumstances indicate the carrying amount of such assets may not be recoverable. Metal inventories recorded at fair value pursuant to purchase accounting will be subject to periodic assessments for lower-of-cost-or-market adjustments. To the extent that market values fall below carrying values in future reporting periods, the combined company may be required to record material charges relating to such adjustments.

#### **Regulatory Matters Related to the Combination (page 60)**

*HSR Act.* On July 12, 2006, we received from the U.S. Department of Justice notification of early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which we refer to as the HSR Act.

*Competition Act (Canada).* On July 25, 2006, we received an advance ruling certificate under the Competition Act (Canada), which we refer to as the Competition Act Approval.

*Investment Canada Act (Canada).* The combination is subject to the requirements of the Investment Canada Act (Canada), as amended, which we refer to as the Investment Canada Act, which prevents us from completing the combination until we receive the requisite approval, actual or deemed, from the Minister of Industry, which we refer to as the Investment Canada Act Approval. We filed an Application for Review with the Investment Review Division of Industry Canada on July 6, 2006. On August 21, 2006, the Minister of Industry extended the review of our application for an additional 30-day period as permitted under the Investment Canada Act.

*EC Merger Regulation Filing.* The combination is subject to the requirements of Council Regulation (EC) 139/2004 of 20 January 2004, which we refer to as the Council Regulation, which prevents us from completing the combination until we furnish required information and materials to the European Commission, and the European Commission issues a clearance decision or the applicable waiting period expires. We filed the Form CO Merger Notification pursuant to the Council Regulation with the European Commission on August 1, 2006.

#### **New York Stock Exchange Listing; Delisting and Deregistration of Inco Common Shares (page 62)**

It is a condition to the combination that the shares of our common stock issuable in the combination be approved for listing on the New York Stock Exchange and the Toronto Stock Exchange, subject to official notice of issuance and the satisfaction of certain other customary conditions. We received conditional approval for the listing of our shares of common stock issuable in the combination from the Toronto Stock Exchange on July 31, 2006. If the combination is completed, Inco common shares will cease to be listed on the New York Stock Exchange and the Toronto Stock Exchange. In addition, after the completion of the combination, (i) Phelps Dodge will become a reporting issuer in certain provinces of Canada and will be subject to ongoing statutory financial and other reporting requirements of applicable Canadian securities laws, and (ii) Inco may cease to be subject to the public reporting and proxy solicitation requirements of the CBCA and the securities laws and various securities regulations of Canada and the United States or may request to cease to be a reporting issuer under the securities laws of one or more of such jurisdictions.

**Completion of the Combination (page 77)**

We expect to complete the combination of our company with Inco upon satisfaction and/or waiver of all conditions precedent set forth in the combination agreement. See The Combination Agreement Conditions to the Combination beginning on page 77 of this proxy statement. We currently expect to complete the combination in September 2006. However, it is possible that factors outside our control could require us to complete the combination at a later time or not to complete it at all. See The Combination Regulatory Matters Related to the Combination beginning on page 60 of this proxy statement.

**No Dissenters Rights (page 61)**

Under the New York Business Corporation Law, shareholders who dissent with respect to any matters to be acted upon pursuant to this proxy statement will not have any rights of appraisal or similar rights.

**The Combination Agreement (page 66)**

The combination agreement, including the waiver and first amendment, is described beginning on page 66 of this proxy statement. The combination agreement is attached as Annex A to this proxy statement and the waiver and first amendment is attached as Annex E to this proxy statement. We urge you to read the combination agreement and the waiver and first amendment in their entirety because they contain important provisions governing the terms and conditions of the combination.

**Court Approval Will be Required to Complete the Combination (page 77)**

Under the Canada Business Corporations Act, a Canadian court must approve the arrangement set forth in the Plan of Arrangement pursuant to which the combination will be effected. Under the arrangement, Phelps Dodge Canada Inc. will acquire all of Inco's outstanding common shares and Inco will amalgamate with PD Canada Subco. As long as the arrangement has received the approval required by Inco's shareholders, Inco will submit the proposed arrangement for review before the Superior Court of Justice (Ontario). The court will consider, among other things, the fairness and reasonableness of the arrangement. The court may approve the arrangement in any manner the court may direct, subject to compliance with such terms and conditions, if any, as the court deems fit.

**Conditions to the Combination (page 77)**

Our and Inco's obligations to complete the combination are subject to conditions that must be satisfied, including:

approval of the charter amendment proposal and the share issuance proposal by Phelps Dodge's shareholders;

approval of the Plan of Arrangement by Inco's shareholders;

receipt of an interim order and a final order approving the Plan of Arrangement from the Superior Court of Justice (Ontario) in form and terms reasonably satisfactory to Phelps Dodge and Inco, and those orders having not been set aside or modified in a manner unacceptable to Phelps Dodge and Inco;

receipt of the Competition Act Approval and the Investment Canada Act Approval;

expiration or termination of the waiting period under the HSR Act;

expiration or termination of the waiting period under the Council Regulation;

receipt of approval from the New York Stock Exchange and the Toronto Stock Exchange for the listing, subject to notice of issuance, of the shares of Phelps Dodge common stock to be issued to Inco shareholders;

amendment and restatement of Phelps Dodge's restated certificate of incorporation and by-laws in accordance with the applicable charter amendment proposal; and

absence of any injunction, orders or laws restraining or enjoining or making illegal the combination.



On July 12, 2006, the waiting period under the HSR Act was terminated and on July 25, 2006, we received the Competition Act Approval and, therefore, the conditions relating thereto under the combination agreement have been satisfied.

Neither party is required to complete the acquisition unless a number of other conditions are satisfied or waived. These conditions, any or all of which can be waived, include:

accuracy of the representations and warranties of the other party, except as would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on such party;

performance in all material respects by the other party of its pre-closing obligations under the combination agreement; and

absence of any events or changes which, individually or in the aggregate, has had or would reasonably be expected to have a material adverse effect on the other party.

In addition, we will not be obligated to complete the combination if either (i) Inco has not completed the acquisition of at least 50.01% of Falconbridge's outstanding common shares on the terms set forth in the combination agreement or (ii) the support agreement has not been terminated in accordance with its terms. On July 28, 2006, the support agreement was terminated in accordance with its terms and, therefore, this condition has been satisfied.

Further, Inco will not be obligated to complete the combination unless Phelps Dodge has taken all actions necessary to cause the board of directors of Phelps Dodge to be constituted as described in this proxy statement under Other Agreements and Documents Phelps Dodge's Post-Closing Board of Directors and Officers beginning on page 81 of this proxy statement.

Phelps Dodge will need the consent of its lenders to waive any of its closing conditions under the combination agreement.

**Termination of the Combination Agreement**  
**(page 79)**

The combination agreement may be terminated at any time prior to the combination:

by mutual written consent duly authorized by the boards of directors of Phelps Dodge and Inco; or

by either Inco or Phelps Dodge, if:

the arrangement shall not have been consummated by March 31, 2007, subject to specified exceptions;

any law is passed that makes the combination illegal or otherwise prohibited or a governmental authority in the United States or Canada issues a final, non-appealable order restraining, enjoining or otherwise prohibiting consummation of the combination;

Inco shareholders fail to approve the arrangement or the Phelps Dodge shareholders fail to approve the charter amendment proposal and the share issuance proposal;

the other party cannot satisfy the conditions related to its representations, warranties, covenants and agreements in the combination agreement on or before March 31, 2007; or

the board of directors of the other party withdraws, modifies or qualifies its recommendation in favor of the transactions contemplated by the combination agreement.

In addition, Inco may terminate the combination agreement under specified circumstances to accept a superior proposal (as defined on page 73 of this proxy statement), upon satisfaction of various other conditions.

**Effect of Termination; Termination Fees and Expenses**  
**(page 79)**

Termination of the combination agreement under certain circumstances gives rise to an obligation to pay certain fees or expenses of the other party.

If the combination agreement is terminated by either party in specified circumstances, either Phelps Dodge or Inco may be required to pay to the other party expenses incurred by the other party in connection with the combination transaction up to \$40 million provided that, if a third-party acquisition proposal had been made in relation to the party obligated to pay expenses prior to termination and, within 12 months after termination, that party consummates any merger, combination or similar transaction pursuant to which a person or group acting in concert acquires a majority of such party's shares (aggregated with such person's or group's other holdings), such party, if Phelps Dodge, will owe a termination fee of \$500 million to Inco or, if Inco, will owe a termination fee of \$475 million to Phelps Dodge, in all cases less any amounts previously paid.

Inco will owe to Phelps Dodge a termination fee of \$475 million if Inco or Phelps Dodge terminates the agreement due to a withdrawal, modification or qualification by Inco's board of directors of its recommendation in favor of the transactions contemplated by the combination agreement (other than as a result of the occurrence of a material adverse effect with respect to Phelps Dodge);

Inco will owe to Phelps Dodge a termination fee of \$475 million if Inco terminates the combination agreement to accept a superior proposal;

Inco will owe to Phelps Dodge a termination fee of \$125 million if the combination agreement is terminated by either Phelps Dodge or Inco if (i) the arrangement has not been consummated by March 31, 2007, and between the date of the initial combination agreement and the termination of the combination agreement, an alternate business combination involving Inco and not involving Phelps Dodge has been publicly announced or otherwise communicated to the shareholders of Inco or (ii) Inco's shareholders fail to approve the arrangement upon a vote taken thereon at the duly convened meeting of Inco shareholders or at any adjournment or postponement thereof; provided that, in each case, if within 12 months after termination, Inco consummates any merger, combination or similar transaction pursuant to which a person or group acting in concert acquires a majority of Inco shares (aggregated with such person's or group's other holdings), Inco will owe to Phelps Dodge \$475 million, less any amounts previously paid;

Phelps Dodge will owe to Inco a termination fee of \$500 million if Inco terminates the combination agreement due to a withdrawal, modification or qualification by Phelps Dodge's board of directors of its recommendation in favor of the transactions contemplated by the combination agreement (other than as a result of the occurrence of a material adverse affect with respect to Inco);

Phelps Dodge will owe to Inco a termination fee of \$125 million if the combination agreement is terminated by either Phelps Dodge or Inco if (i) the arrangement has not been consummated by March 31, 2007, and between the date of the initial combination agreement and the termination of the combination agreement, an alternate business combination involving Phelps Dodge and not involving Inco has been publicly announced or otherwise communicated to the shareholders of Phelps Dodge or (ii) Phelps Dodge's shareholders fail to approve the charter amendment proposal and share issuance proposal upon a vote taken thereon at the duly convened meeting of Phelps Dodge's shareholders or at any adjournment or postponement thereof; provided that, in each case, if within 12 months after termination, Phelps Dodge consummates any merger, combination or similar transaction pursuant to which a person or group acting in concert acquires a majority of Phelps Dodge common stock (aggregated with such person's or group's other holdings), Phelps Dodge will owe to Inco \$500 million, less any amounts previously paid.



**SELECTED HISTORICAL FINANCIAL DATA OF PHELPS DODGE**

The following statement of operations data for each of the three years in the period ended December 31, 2005, and the balance sheet data as of December 31, 2005 and 2004, have been derived from Phelps Dodge's audited consolidated financial statements contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2005, which are incorporated into this document by reference. The statements of operations data for the years ended December 31, 2002 and 2001, and the balance sheet data as of December 31, 2003, 2002 and 2001, have been derived from Phelps Dodge's audited consolidated financial statements for such years, which have not been incorporated into this document by reference.

The statement of operations data for the six months ended June 30, 2006 and 2005, and the balance sheet data as of June 30, 2006 and 2005, have been derived from Phelps Dodge's unaudited consolidated financial statements contained in our Quarterly Report on Form 10-Q for the period ended June 30, 2006, which are incorporated into this document by reference.

You should read this selected historical financial data together with the financial statements that are incorporated by reference into this document and their accompanying notes.

	At or for the Six Months Ended June 30,*		Year Ended December 31,*				
	2006(a)	2005(b)	2005(c)	2004(d)	2003(e)	2002(f)	2001(g)
(\$ in millions, except per share amounts)							
<b>Statement of Operations Data</b>							
Sales and other operating revenues	\$ 5,216.8	3,852.5	8,287.1	6,415.2	3,498.5	3,173.2	3,420.4
Operating income (loss)	\$ 1,537.5	700.6	1,764.9	1,474.9	142.8	(257.4)	(90.6)
Income (loss) from continuing operations before extraordinary item and cumulative effect of accounting changes	\$ 822.1	1,052.5	1,583.9	1,023.6	(21.1)	(356.5)	(377.7)
Income (loss) from discontinued operations, net of taxes**	\$ (16.6)	16.5	(17.4)	22.7	39.2	41.3	48.2
Income (loss) before extraordinary item and cumulative effect of accounting changes	\$ 805.5	1,069.0	1,566.5	1,046.3	18.1	(315.2)	(329.5)
Net income (loss)	\$ 805.5	1,069.0	1,556.4	1,046.3	94.8	(338.1)	(331.5)
Basic earnings (loss) per common share from continuing operations***	\$ 4.06	5.45	8.06	5.41	(0.19)	(2.17)	(2.41)
Diluted earnings (loss) per common share from continuing operations***	\$ 4.04	5.21	7.82	5.18	(0.19)	(2.17)	(2.41)
Basic earnings (loss) per common share from discontinued operations, extraordinary item and	\$ (0.08)	0.08	(0.14)	0.12	0.65	0.11	0.30

cumulative effect of accounting  
changes\*\*\*

Diluted earnings (loss) per common share from discontinued operations, extraordinary item and cumulative effect of accounting changes***	\$ (0.08)	0.08	(0.13)	0.11	0.65	0.11	0.30
Basic earnings (loss) per common share***	\$ 3.98	5.53	7.92	5.53	0.46	(2.06)	(2.11)
Diluted earnings (loss) per common share***	\$ 3.96	5.29	7.69	5.29	0.46	(2.06)	(2.11)

	At or for the Six Months Ended June 30,*		Year Ended December 31,*				
	2006(a)	2005(b)	2005(c)	2004(d)	2003(e)	2002(f)	2001(g)
(\$ in millions, except per share amounts)							
<b>Balance Sheet Data (at period end)</b>							
Cash (including restricted cash)	\$ 2,656.1	2,763.9	1,937.5	1,200.1	683.8	349.8	386.9
Current assets (including cash)	\$ 5,231.5	4,539.8	4,070.7	2,661.7	1,790.0	1,428.2	1,531.2
Total assets	\$ 11,805.6	10,058.9	10,358.0	8,594.1	7,272.9	7,029.0	7,584.3
Total debt	\$ 828.2	1,044.2	694.5	1,096.9	1,959.0	2,110.6	2,871.6
Long-term debt	\$ 704.4	970.3	677.7	972.2	1,703.9	1,948.4	2,538.3
Shareholders equity	\$ 5,586.1	5,399.9	5,601.6	4,343.1	3,063.8	2,813.6	2,730.1
<b>Other Data</b>							
Cash dividends declared per common share****	\$ 4.5875	0.4375	3.125	0.25			0.375
Net cash provided by operating activities	\$ 1,645.1	944.7	1,769.7	1,700.1	461.6	359.1	310.7
Capital expenditures and investments in subsidiaries, net of cash received and acquired	\$ 606.7	182.5	698.2	317.3	102.4	133.2	311.0
Net cash provided by (used in) investing activities	\$ (200.3)	103.8	(368.0)	(291.0)	(87.7)	(140.3)	(266.8)
Net cash provided by (used in) financing activities	\$ (739.2)	339.7	(685.8)	(947.2)	(48.8)	(244.8)	101.0
<b>Division Results</b>							
Phelps Dodge Mining Company operating income (loss)	\$ 1,592.6	755.1	1,929.9	1,606.7	265.2	(65.0)	(83.6)
Phelps Dodge Industries operating income (loss)	22.1	17.3	14.6	18.8	13.7	(17.5)	12.2
Corporate and other operating loss	(77.2)	(71.8)	(179.6)	(150.6)	(136.1)	(174.9)	(19.2)
	\$ 1,537.5	700.6	1,764.9	1,474.9	142.8	(257.4)	(90.6)
<b>Copper</b>							
Copper production (consolidated basis thousand tons)	612.6	617.4	1,228.0	1,260.6	1,242.3	1,213.7	1,352.1
Copper production (pro rata basis thousand tons)	506.5	531.4	1,042.3	1,081.7	1,042.5	1,012.1	1,145.2
	616.0	623.7	1,238.4	1,268.9	1,254.1	1,239.0	1,367.4

Copper sales from own  
mines (consolidated basis  
thousand tons)

Copper sales from own mines (pro rata basis thousand tons)		510.8	535.9	1,051.6	1,089.1	1,052.6	1,034.5	1,156.0
COMEX copper price (per pound)(h)	\$	2.814	1.50	1.68	1.29	0.81	0.72	0.73
LME copper price (per pound)(i)	\$	2.756	1.51	1.67	1.30	0.81	0.71	0.72
Commercially recoverable copper (pro rata basis million tons):								
Ore reserves(j)		N/A	N/A	17.7	23.2	19.5	19.6	22.1
Stockpiles and in-process inventories		1.8	1.8	1.5	1.6	1.6	1.4	0.9
				19.2	24.8	21.1	21.0	23.0

\* 2006, 2005 and 2004 reflected full consolidation of El Abra and Candelaria; prior to 2004, El Abra and Candelaria are reflected on a pro rata basis (51 percent and 80 percent, respectively).

\*\* As a result of the Company's agreement to sell Columbian Chemicals Company (Columbian), previously disclosed as our Specialty Chemicals segment, the operating results for Columbian have been reported separately from continuing operations and shown as discontinued operations for all periods presented in the statement of operations data.

\*\*\* Basic and diluted earnings per common share have been adjusted to reflect the March 10, 2006, two-for-one stock split for all periods presented.

\*\*\*\* All periods presented reflect post-split cash dividends per common share.

All references to per share earnings or loss are based on diluted earnings (loss) per share.

- (a) Reported amounts for the first six months of 2006 included after-tax, net special charges of \$28.8 million, or 14 cents per common share, for additional charges associated with discontinued operations in connection with the sale of Columbian Chemicals Company, which included transaction and employee-related costs of \$14.7 million, or 7 cents per common share, and a loss on disposal of \$14.1 million, or 7 cents per common share; \$16.5 million, or 8 cents per common share, for environmental provisions; \$4.9 million, or 2 cents per common share, from the sale of Phelps Dodge's High Performance Conductors of SC & GA, Inc., which included transaction and employee-related costs of \$2.7 million, or 1 cent per common share, and a loss on disposal of \$2.2 million, or 1 cent per common share; \$4.7 million, or 3 cents per common share, for additional charges associated with the completion of the sale of substantially all of Phelps Dodge's North American magnet wire assets, which included transaction and employee-related costs of \$3.6 million, or 2 cents per common share, and a loss on disposal of \$1.1 million, or 1 cent per common share; and \$0.2 million for historical legal matters; partially offset by \$0.4 million for the sale of non-core real estate.
- (b) Reported amounts for the first six months of 2005 included after-tax, net special gains of \$388.0 million, or \$1.92 per common share, for sale of a cost-basis investment; \$172.9 million, or 86 cents per common share, for change of interest gain at Cerro Verde; \$15.8 million, or 7 cents per common share, for the settlement of historical legal matters; partially offset by special charges of \$321.2 million, or \$1.59 per common share, for asset impairment charges; \$26.9 million, or 13 cents per common share, for environmental provisions; \$2.4 million, or 1 cent per common share, for foreign dividend taxes; and \$0.3 million for magnet wire restructuring activities.
- (c) Reported amounts for 2005 included after-tax, net special charges of \$331.8 million, or \$3.28 per common share, for asset impairment charges; tax expense of \$88.1 million, or 87 cents per common share, for foreign dividend taxes; \$86.4 million, or 85 cents per common share, for environmental provisions; \$42.6 million, or 42 cents per common share, for charges associated with discontinued operations in connection with the pending sale of Columbian; \$41.3 million, or 41 cents per common share, for early debt extinguishment costs; \$34.5 million (net of minority interest), or 35 cents per common share, for tax on unremitted foreign earnings; \$23.6 million, or 23 cents per common share, for a tax charge associated with minimum pension liability reversal; \$10.1 million, or 10 cents per common share, for cumulative effect of accounting change; \$5.9 million, or 6 cents per common share, for transaction and employee-related costs associated with the sale of North American magnet wire assets; partially offset by special gains of \$388.0 million, or \$3.83 per common share, for sale of a cost-basis investment; \$181.7 million, or \$1.80 per common share, for change-of-interest gains at Cerro Verde and Ojos del Salado; \$15.6 million, or 16 cents per common share, for legal matters; \$11.9 million, or 12 cents per common share, for the reversal of PD Brazil deferred tax asset valuation allowance; \$8.5 million, or 8 cents per common share, for the sale of non-core real estate; \$4.0 million, or 4 cents per common share, for the reversal of U.S. deferred tax asset valuation allowance; \$0.4 million, or 1 cent per common share, for environmental insurance recoveries; and \$0.1 million for Magnet Wire restructuring activities. The after-tax, net special charges of \$42.6 million associated with discontinued operations consisted of \$67.0 million (net of minority interests), or 66 cents per common share, for a goodwill impairment charge; taxes of \$7.6 million, or 8 cents per common share, associated with the sale and dividends paid in 2005; and \$5.0 million, or 5 cents per common share, for a loss on disposal of Columbian associated with transaction and employee-related costs; partially offset by a deferred income tax benefit of \$37.0 million, or 37 cents per common share.
- (d) Reported amounts for 2004 included after-tax, net special charges of \$44.7 million, or 45 cents per common share, for environmental provisions; \$30.9 million (net of minority interests), or 31 cents per common share, for early debt extinguishment costs; \$9.9 million, or 10 cents per common share, for the write-down of two cost-basis investments; \$9.6 million, or 10 cents per common share, for taxes on anticipated foreign dividends; \$9.0 million, or 9 cents per common share, for a deferred tax asset valuation allowance at our Brazilian wire and

cable operation; \$7.6 million, or 8 cents per

- common share, for Magnet Wire restructuring activities; \$5.9 million, or 6 cents per common share, for asset impairments (included \$4.5 million, or 4 cents per common share, for discontinued operations); and \$0.7 million, or 1 cent per common share, for interest on a Texas franchise tax matter; partially offset by special gains of \$30.0 million, or 31 cents per common share, for the reversal of a U.S. deferred tax asset valuation allowance; \$15.7 million (net of minority interest), or 16 cents per common share, for the reversal of an El Abra deferred tax asset valuation allowance; \$10.1 million, or 10 cents per common share, for the gain on the sale of uranium royalty rights; \$7.4 million, or 7 cents per common share, for environmental insurance recoveries; and \$4.7 million, or 5 cents per common share, for the settlement of historical legal matters.
- (e) Reported amounts for 2003 included after-tax, net special gains of \$2.4 million, or 3 cents per common share, for the termination of a foreign postretirement benefit plan associated with discontinued operations; \$0.5 million, or 1 cent per common share, for environmental insurance recoveries; \$0.2 million for the reassessment of prior restructuring programs; \$6.4 million, or 7 cents per common share, on the sale of a cost-basis investment; \$8.4 million, or 9 cents per common share, for cumulative effect of an accounting change; \$1.0 million, or 1 cent per common share, for the tax benefit relating to additional 2001 net operating loss carryback; and an extraordinary gain of \$68.3 million, or 76 cents per common share, on the acquisition of our partner's one-third interest in Chino Mines Company; partially offset by charges of \$27.0 million, or 30 cents per common share, for environmental provisions (included a gain of \$0.5 million, or 1 cent per common share, for discontinued operations); \$8.0 million, or 9 cents per common share, for a probable Texas franchise tax matter; \$2.9 million, or 3 cents per common share, for the settlement of historical legal matters; and \$2.6 million, or 3 cents per common share, for asset and goodwill impairments.
- (f) Reported amounts for 2002 included after-tax, net special charges of \$153.5 million, or \$1.82 per common share, for Phelps Dodge Mining Company asset impairment charges and closure provisions; \$53.0 million, or 63 cents per common share, for historical lawsuit settlements; \$45.0 million, or 54 cents per common share, for a historical arbitration award; \$26.6 million, or 32 cents per common share, for early debt extinguishment costs; \$23.0 million, or 27 cents per common share, for Phelps Dodge Industries restructuring activities; \$22.9 million, or 27 cents per common share, for cumulative effect of an accounting change; \$14.0 million, or 17 cents per common share, for environmental provisions (included a gain of \$0.6 million, or 1 cent per common share, for discontinued operations); \$1.2 million, or 1 cent per common share, for the write-off of two cost-basis investments; \$1.0 million, or 1 cent per common share, for the settlement of legal matters; and \$0.5 million, or 1 cent per common share, for the reassessment and additional retirement benefits in connection with prior restructuring programs; partially offset by special gains of \$29.1 million, or 35 cents per common share, for environmental insurance recoveries; \$22.6 million, or 27 cents per common share, for the gain on the sale of a non-core parcel of real estate; \$13.0 million, or 15 cents per common share, for the release of deferred taxes previously provided with regard to Plateau Mining Corporation; and \$66.6 million, or 79 cents per common share, for the tax benefit relating to the net operating loss carryback prior to 2002 resulting from a change in U.S. tax legislation; and \$0.5 million, or 1 cent per common share, associated with discontinued operations for the reassessment of a prior restructuring program.
- (g) Reported amounts for 2001 included after-tax, net special gains of \$61.8 million, or 79 cents per common share, for environmental insurance recoveries; \$39.9 million, or 51 cents per common share, for the gain on the sale of Sossego; \$9.0 million, or 11 cents per common share, for an insurance settlement for potential future legal matters; offset by special charges of \$57.9 million, or 74 cents per common share, to provide a deferred tax valuation allowance; \$31.1 million, or 40 cents per common share, for environmental provisions (included \$1.4 million, or 2 cents per common share, for discontinued operations); \$29.8 million, or 38 cents per common share, for restructuring activities; \$12.9 million, or 16 cents per common share, for investment impairments; \$2.0 million, or 3 cents per common share, for cumulative effect of an accounting change; and \$3.4 million, or 4 cents per common share, for other items, net.
- (h) New York Commodity Exchange annual average spot price per pound cathodes.
- (i) London Metal Exchange annual average spot price per pound cathodes.
- (j) Ore reserves are calculated on an annual basis.



**SELECTED HISTORICAL FINANCIAL DATA OF INCO**

The following statements of operations data for each of the three years in the period ended December 31, 2005, and the balance sheet data as of December 31, 2005, 2004 and 2003 have been derived from Inco's audited consolidated financial statements contained in its Annual Report on Form 10-K for the fiscal year ended December 31, 2005, which are incorporated into this proxy statement by reference. The statements of operations data for the years ended December 31, 2002 and 2001, and the balance sheet data as of December 31, 2002 and 2001, have been derived from Inco's consolidated financial statements for such years, which have not been incorporated into this document by reference.

The statements of operations data for the six months ended June 30, 2006 and 2005, and the balance sheet data as of June 30, 2006 and 2005, have been derived from Inco's unaudited consolidated financial statements contained in Inco's Quarterly Report on Form 10-Q for the period ended June 30, 2006, which are incorporated into this proxy statement by reference.

Inco prepares its financial statements in accordance with Canadian GAAP. There are a number of differences between Canadian and U.S. GAAP. The differences, insofar as they affect Inco's consolidated financial statements, relate to accounting for post-retirement benefits, currency translation gains (losses), intangible assets, research and development, exploration, asset impairment, convertible debt, derivative instruments, investments, income and mining taxes, reporting of comprehensive income, net earnings and shareholders' equity. A discussion of these differences for the years ended December 31, 2003, 2004 and 2005 and the six months ended June 30, 2006 and 2005 is presented in the notes to the financial statements of Inco incorporated by reference into this proxy statement and, in particular, Note 24 to the audited consolidated financial statements and Note 17 to the unaudited consolidated financial statements of Inco.

You should read this selected historical financial data together with the financial statements that are incorporated by reference into this document and their accompanying notes.

	At or for the Six Months Ended June 30,		Year Ended December 31,				
	2006	2005(a)	2005	2004(a)	2003(a)	2002(a)	2001(a)
		(Restated)		(Restated)	(Restated)	(Restated)	(Restated)
	(\$ in millions, except per share amounts)						
<b>Statement of Operations Data(b)</b>							
Net sales	\$ 3,025	2,315	4,518	4,278	2,474	2,161	2,066
Cost of sales and operating expenses, excluding depreciation and depletion	\$ 1,754	1,219	2,633	2,348	1,735	1,378	1,416
Depreciation and depletion	\$ 151	125	256	248	227	242	263
Selling, general and administrative	\$ 131	92	207	192	169	136	111
Asset impairment charges	\$	25	25	201		2,415	
Interest expense	\$ 33	12	26	36	56	58	62
Income and mining taxes	\$ 239	251	408	432	(27)	(641)	(88)
Net earnings (loss)	\$ 674	537	836	619	146	(1,475)	302
Dividends per common share	\$ 0.25	0.10	0.30				
Preferred dividends	\$				(6)	(26)	(26)
Premium on redemption of preferred shares	\$				(15)		

Net earnings (loss) applicable to common shares	\$ 674	537	836	619	125	(1,501)	276
Net earnings (loss) per common share basic	\$ 3.46	2.85	4.41	3.30	0.68	(8.21)	1.52

	<b>At or for the Six Months Ended June 30,</b>		<b>Year Ended December 31,</b>				
	<b>2006</b>	<b>2005(a)</b>	<b>2005</b>	<b>2004(a)</b>	<b>2003(a)</b>	<b>2002(a)</b>	<b>2001(a)</b>
		<b>(Restated)</b>		<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
	<b>(\$ in millions, except per share amounts)</b>						
Net earnings (loss) per common share diluted	\$ 3.03	2.41	3.75	2.95	0.64	(8.21)	1.49
Common shares outstanding (weighted average, in millions)	195	189	189	188	185	183	182
<b>Balance Sheet Data (at period end)(b)</b>							
Total assets	\$ 13,209	11,291	12,010	10,716	9,058	8,596	9,630
Long-term debt	\$ 1,844	1,727	1,852	1,761	1,603	1,636	842
Convertible debt	\$ 262	418	362	418	418	148	148
Preferred shares	\$					472	472

(a) Financial information for the six months ended June 30, 2005 and years ended December 31, 2001 through 2004, reflect restatements that are discussed in Note 2 to the consolidated financial statements in Inco's Quarterly Report on Form 10-Q for the period ended June 30, 2006, and Annual Report on Form 10-K for the year ended December 31, 2005, that are incorporated into this proxy statement by reference.

(b) Inco financial data is prepared in accordance with Canadian GAAP and presented in U.S. dollars.

The following table reconciles results as reported under Canadian GAAP with those that would have been reported under U.S. GAAP:

	<b>Six Months Ended June 30,</b>		<b>Year Ended December 31,</b>				
	<b>2006</b>	<b>2005(a)</b>	<b>2005</b>	<b>2004(a)</b>	<b>2003(a)</b>	<b>2002(a)</b>	<b>2001(a)</b>
		<b>(Restated)</b>		<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>	<b>(Restated)</b>
	<b>(\$ in millions, except per share amounts)</b>						
Net earnings (loss) Canadian GAAP	\$ 674	537	836	619	146	(1,475)	302
Increased post-retirement benefits expense	(40)	(31)	(64)	(53)	(45)	(24)	(24)
Currency translation gains (losses)	(26)	24	(62)	(89)	(219)	(49)	123
Increased intangible assets amortization expense					(2)	(2)	
Increased research and development expense	(15)	(13)	(47)	(17)	(5)	(6)	(8)
	(3)	(1)	(8)	1	(4)	(3)	(7)

Decreased (increased) exploration expense							
Decreased (increased) asset impairment charges				11		(961)	
Increased interest expense	(6)	(11)	(23)	(14)	(13)	(1)	(5)
Cash settlement of LYONs Notes tendered for conversion			(26)				
Unrealized net gain (loss) on derivative instruments	26	(13)	(17)	5	(1)	5	(4)
Increased depreciation and depletion expense	(8)						

	Six Months Ended June 30,		Year Ended December 31,				
	2006	2005(a) (Restated)	2005	2004(a) (Restated)	2003(a) (Restated)	2002(a) (Restated)	2001(a) (Restated)
(\$ in millions, except per share amounts)							
Increased income and mining tax expense					(15)		
Decreased (increased) minority interest	1	8	9	(8)	1	2	2
Change in accounting policy						1	1
Taxes on U.S. GAAP differences	(60)	2	30	22	28	139	15
Net earnings (loss) before cumulative effect of a change in accounting principle U.S. GAAP	543	502	628	477	(129)	(2,374)	395
Cumulative effect of a change in accounting principle					(17)	(2)	
Net earnings (loss) U.S. GAAP	\$ 543	502	628	477	(146)	(2,376)	395
Net earnings (loss) per share basic							
Net earnings (loss) per share before cumulative effect of a change in accounting principle	\$ 2.79	2.66	3.32	2.54	(0.82)	(13.13)	2.03
Cumulative effect of a change in accounting principle					(0.09)	(0.01)	
Net earnings (loss) per share basic	\$ 2.79	2.66	3.32	2.54	(0.91)	(13.14)	2.03
Net earnings (loss) per share diluted							
Net earnings (loss) per share before cumulative effect of a change in accounting principle	\$ 2.47	2.29	2.87	2.30	(0.82)	(13.13)	1.99
Cumulative effect of a change in accounting principle					(0.09)	(0.01)	

Net earnings (loss) per share diluted	\$ 2.47	2.29	2.87	2.30	(0.91)	(13.14)	1.99
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- (a) Financial information for the six months ended June 30, 2005 and years ended December 31, 2001 through 2004, reflect restatements that are discussed in Note 17 to the consolidated financial statements in Inco's Quarterly Report on Form 10-Q for the three- and six-month periods ended June 30, 2006, and Note 24 to the consolidated financial statements in Inco's Annual Report on Form 10-K for the year ended December 31, 2005, each incorporated into this proxy statement by reference.

The selected financial data item Preferred shares in the table above would be reported in the same amounts under Canadian and U.S. GAAP. Under U.S. GAAP, Total assets would be reported as \$10,249 million at December 31, 2005 (2004 \$9,352 million; 2003 \$7,959 million; 2002 \$7,727 million; 2001 \$9,755 million).

**SELECTED UNAUDITED PRO FORMA FINANCIAL DATA**

The selected pro forma financial information presented below combines the historical balance sheets of Phelps Dodge with Inco for the periods presented, as if the combination had been consummated June 30, 2006, and combines the statement of income of Phelps Dodge with Inco for the year ended December 31, 2005, and the six months ended June 30, 2006, as if the combination had been consummated on January 1, 2005, in each case after giving effect to the combination and related transactions under the purchase method of accounting in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The pro forma adjustments are described in the Notes to Unaudited Pro Forma Combined Financial Statements beginning on page 88 of this proxy statement. Shareholders are urged to read such Notes carefully. The selected pro forma combined financial information is not necessarily indicative of the operating results or financial position that would have occurred had the combination been consummated on the dates for which the consummation of the combination are being given effect, nor is it necessarily indicative of future operating results or financial position. See Unaudited Pro Forma Combined Financial Statements beginning on page 82 of this proxy statement.

	<b>Six Months Ended June 30, 2006</b>	<b>Year Ended December 31, 2005</b>
(\$ in millions, except per share data)		
<b>Income Statement Information:</b>		
Revenue	\$8,242	12,750
Income from continuing operations before cumulative effect of accounting changes	\$1,272	2,012
Income from continuing operations per common share before cumulative effect of accounting changes - basic	\$ 3.56	5.73
Dividends declared per common share	\$ 4.59	3.13

	<b>June 30, 2006</b>
(\$ in millions, except per share data)	
<b>Balance Sheet Information:</b>	
Total assets	\$37,273
Long-term obligations	\$13,285
Shareholders' equity	\$17,872
Book value (per share)	\$ 49.74

**UNAUDITED COMPARATIVE PER SHARE DATA**

The following table presents historical per common share information for Phelps Dodge and Inco, and the pro forma per common share data giving effect to the combination of Phelps Dodge and Inco, for the six months ended June 30, 2006, and the year ended December 31, 2005. The pro forma combined per share information does not purport to represent what the combined financial position or results of operations would actually have been if the combinations had occurred at January 1, 2005, nor are they necessarily indicative of Phelps Dodge's future consolidated results of operations or financial position. The information tabled below is prepared in accordance with U.S. GAAP and should be read in conjunction with the historical financial statements of the combining corporations and the Selected Historical Financial Data of Phelps Dodge and Inco beginning on page 14 of this proxy statement, and the Unaudited Pro Forma Combined Financial Statements beginning on page 82 of this proxy statement.

	<b>At or for the Six Months Ended June 30, 2006</b>	<b>Year Ended December 31, 2005</b>
<b>Per common share:</b>		
Historical:		
Phelps Dodge(1)		
Book value(2)	\$27.38	27.57
Income from continuing operations		
Basic	\$ 4.06	8.06
Diluted	\$ 4.04	7.82
Cash dividends(3)	\$ 4.59	3.13
Inco		
Book value(2)	\$17.31	15.08
Income from continuing operations		
Basic	\$ 2.79	3.32
Diluted	\$ 2.47	2.87
Cash dividends	\$ 0.25	0.30
Pro forma:		
Combined Phelps Dodge and Inco		
Book value(2),(4)	\$49.74	N/A
Income from continuing operations		
Basic	\$ 3.56	5.73
Diluted	\$ 3.55	5.62
Cash dividends(5)	\$ 4.59	3.13
Equivalent Inco(6)		
Book value	\$33.43	N/A
Income from continuing operations		
Basic	\$ 2.39	3.85
Diluted	\$ 2.39	3.78
Cash dividends	\$ 3.08	2.10

- (1) Phelps Dodge per share information based on post-split number of shares. See Phelps Dodge's audited consolidated financial statements for year ended December 31, 2005, in particular, Note 24, incorporated by reference into this proxy statement.

- (2) Book value per share is determined at June 30, 2006, and December 31, 2005, under U.S. GAAP.
- (3) All periods presented reflect post-split cash dividends per common share.
- (4) In accordance with applicable requirements, we have included in this proxy statement a pro forma balance sheet for the six months ended June 30, 2006 only, and a calculation of combined book value for December 31, 2005 is not available.
- (5) Pro forma cash dividends are based solely on historical post-split dividends per share for Phelps Dodge.
- (6) The equivalent Inco amounts are calculated by multiplying the combined pro forma Phelps Dodge and Inco by an assumed exchange ratio of 0.672, which represents the exchange ratio that would have applied if the proposed transaction had been consummated on July 14, 2006.

**COMPARATIVE PER SHARE DIVIDEND INFORMATION**

The table below sets forth, for the calendar quarters indicated, the dividends declared on Phelps Dodge and Inco common shares.

	<b>Phelps Dodge Common Shares Dividends(a)</b>	<b>Inco Common Shares Dividends(b)</b>
<b>2001</b>		
First Quarter	\$0.2500	\$
Second Quarter	0.0625	
Third Quarter	0.0625	
Fourth Quarter		
<b>2002</b>		
First Quarter	\$	\$
Second Quarter		
Third Quarter		
Fourth Quarter		
<b>2003</b>		
First Quarter	\$	\$
Second Quarter		
Third Quarter		
Fourth Quarter		
<b>2004</b>		
First Quarter	\$	\$
Second Quarter	0.1250	
Third Quarter		
Fourth Quarter	0.1250	
<b>2005</b>		
First Quarter	\$0.1250	\$
Second Quarter	0.3125	0.100
Third Quarter		0.100
Fourth Quarter	2.6875	0.100
<b>2006 (through August 1, 2006)</b>		
First Quarter	\$2.1875	\$0.125
Second Quarter	2.4000	0.125
Third Quarter		0.125

(a) All periods presented reflect post-split dividends per common share.

(b) On July 18, 2006, the Inco board declared a quarterly dividend on the Inco common shares of \$0.125 per share, payable on September 1, 2006, to Inco shareholders of record as of August 16, 2006.

## RISK FACTORS

*You should carefully consider the following risk factors, as well as the other information contained in this proxy statement, in evaluating whether to approve the charter amendment proposal, the share issuance proposal, the charter amendment adjournment proposal and the share issuance adjournment proposal. In particular, we direct your attention to the risk factors and cautionary statements incorporated by reference into this proxy statement from public filings made by Phelps Dodge and Inco. See *Where You Can Find More Information and Incorporation By Reference* beginning on page 100 of this proxy statement.*

**We may not realize the operating and other synergies, cost savings and other benefits currently anticipated due to challenges associated with integrating the operations, technologies and personnel of Phelps Dodge and Inco.**

The success of the combination transaction will be dependent in large part on the success of the management of the combined company in integrating the operations, technologies and personnel of the combined company following the combination transaction. The failure of the combined company to successfully integrate the operations of Phelps Dodge with Inco, or otherwise to realize any of the anticipated benefits of the combination transaction, could impair the results of operations, profitability and financial results of the combined company. In particular, a failure to realize increased earnings, cost savings and enhanced growth opportunities described elsewhere in this proxy statement could have a material adverse effect on the combined company's results of operations.

Realization of the anticipated benefits of the combination will depend in part on whether our and Inco's operations, systems and personnel can be integrated in an efficient and effective manner. In addition, realization of these anticipated benefits may depend, in part, on the timing and manner of completion of a subsequent acquisition transaction between Phelps Dodge and Inco's shareholders. Moreover, the overall integration of the companies may result in unanticipated operations problems, expenses and liabilities and diversion of management's attention.

As a result of these and other factors, it is possible that the synergies and cost reductions expected from the combination transaction will not be realized. In addition, such synergies assume certain realized long-term metals prices. If actual prices are below such assumed prices, that could adversely affect the synergies to be realized.

**The value of your shares of Phelps Dodge common stock may be adversely affected by any inability of the combined company to achieve the benefits expected to result from the completion of the combination.**

Achieving the benefits of the combination will depend in part upon meeting the challenges inherent in the successful combination of business enterprises of the size and scope of Phelps Dodge and Inco and the possible resulting diversion of management attention for an extended period of time. There can be no assurance that we will meet these challenges and that such diversion will not negatively impact the operations of the combined company following the combination.

**The closing of the combination is conditioned upon, among other things, the receipt of consents and approvals from governments that could delay completion of the combination or impose conditions on the companies that could result in an adverse effect on the business or financial condition of the combined company.**

Completion of the combination is conditioned upon the expiration or termination of the applicable waiting period under the HSR Act, the expiration or termination of the applicable waiting period under the Council Regulation, receipt of the Competition Act Approval and receipt of the Investment Canada Act Approval. The conditions relating to the HSR Act and the Competition Act Approval have been satisfied. A substantial delay in obtaining satisfactory approvals or the imposition of unfavorable terms or conditions in the approvals to be obtained could have an adverse effect on the business, financial condition or results of operations of the combined company.

Certain jurisdictions throughout the world could claim jurisdiction under their competition or antitrust laws in respect of acquisitions or mergers that have the potential to affect their domestic marketplace. Although we do not currently anticipate that there will be any investigations or proceedings in any jurisdiction that would have a material impact on the completion of the combination or the operations of the combined company, there can be no assurance that such investigations or proceedings, whether by governmental authorities or private parties, will not be initiated and, if initiated, will not have a material adverse impact on the completion of the combination or the operations of the combined company.

**We may not realize the benefits of the combined company's growth projects.**

As part of its strategy, the combined company will continue existing efforts and initiate new efforts to develop new copper, nickel and other projects and will have a larger number of such projects as a result of the combination. A number of risks and uncertainties are associated with the development of these types of projects, including political, regulatory, design, construction, labor, operating, technical and technological risks, uncertainties relating to capital and other costs and financing risks. The failure to successfully develop any of these initiatives could have a material adverse effect on the combined company's financial position and results of operations.

**The combined company may not meet key production and other cost estimates.**

A decrease in the amount of, and a change in the timing of the production outlook for, the metals the combined company will be producing, in particular copper and nickel, will directly impact the amount and timing of the combined company's cash flow from operations. The actual impact of such a decrease on the combined company's cash flow from operations would depend on the timing of any changes in production and on actual prices and costs. Any change in the timing of these projected cash flows that would occur due to production shortfalls or labor disruptions would, in turn, result in delays in receipt of such cash flows and in using such cash to reduce debt levels and may require additional borrowings to fund capital expenditures, including capital for the combined company's development projects, in the future. Any such financing requirements could adversely effect the combined company's credit ratings and its ability to access the capital markets in the future to meet any external financing requirements or increase its debt financing costs. In addition, a number of these and other developments or events, including changes in credit terms, product mix, demand for the combined company's products and production disruptions, could make historical trends in Phelps Dodge's and Inco's cash flows lose their predictive value.

The level of production and capital and operating cost estimates relating to growth projects, which are used in establishing ore/mineral reserve estimates for determining and obtaining financing and other purposes, are based on certain assumptions and are inherently subject to significant uncertainties. It is very likely that actual results for the combined company's projects will differ from current estimates and assumptions, and these differences may be material. In addition, experience from actual mining or processing operations may identify new or unexpected conditions that could reduce production below, and/or increase capital and/or operating costs above, current estimates. If actual results are less favorable than currently estimated, the combined company's business, results of operations, financial condition and liquidity could be materially adversely effected.

**The pro forma combined company's indebtedness following the completion of the combination will be higher than Phelps Dodge's and Inco's existing combined indebtedness. This increased level of indebtedness could adversely affect the combined company in many ways, including reducing funds available for other business purposes.**

The total combined indebtedness of Phelps Dodge and Inco as of June 30, 2006, was approximately \$3.0 billion. The combined company's approximate pro forma indebtedness as of June 30, 2006, after giving effect to a combination of Phelps Dodge with Inco would have been approximately \$5.1 billion (which would be increased up to approximately \$10.1 billion assuming that Phelps Dodge draws down amounts under its \$5.0 billion unsecured, five-year loan facility in connection with its share repurchase program). Should any existing or future third-party bidder offer to purchase Inco, we may incur additional

indebtedness in order to increase the consideration we offer and pay to Inco shareholders. In addition, the cash consideration Phelps Dodge has offered to pay to Inco shareholders under the combination agreement is denominated in Canadian dollars while Phelps Dodge's financing for the combination under its new credit facilities will be denominated in U.S. dollars. To the extent that the Canadian dollar appreciates in value against the U.S. dollar prior to the close of the combination, Phelps Dodge may need to secure additional debt financing to cover the increased value of the cash consideration resulting from any such exchange rate movement if it is unable to implement effective exchange rate protection measures or cash-on-hand or other financing sources are insufficient. As a result of the increase in debt resulting from either combination transaction, demands on the combined company's resources would increase after such transaction. The increased levels of indebtedness could reduce funds available to the combined company for growth projects and maintenance of current production and mining operations or create competitive disadvantages for the combined company compared with other companies with lower debt levels. In addition, although we intend to refinance any debt incurred under the \$3.6 billion 12-month credit facility in amounts then outstanding by accessing the capital markets in one or more public or private offerings of debt securities at appropriate times following completion of the combination, there can be no assurance that we will be able to refinance the debt on favorable terms or at all. Any such failure to refinance the debt could have a material adverse impact on the combined company's results of operations and liquidity.

Up to \$6.35 billion of the new debt expected to be incurred under Phelps Dodge's new \$10.45 billion credit facilities will be incurred by Phelps Dodge Canada Inc., or an affiliated entity, as primary obligor. Debt issued by Phelps Dodge may be structurally subordinated to creditors of Phelps Dodge Canada Inc., or any such affiliated entity, with respect to the assets of Phelps Dodge Canada Inc., or any such affiliated entity. The resulting structural subordination could negatively affect Phelps Dodge's credit rating, which could have a material adverse impact on the combined company's results of operations and liquidity.

**Commodity price volatility may reduce the combined company's cash flow and negatively affect its liquidity.**

The combined company's financial performance will be heavily dependent on commodities prices, in particular copper, nickel, molybdenum and cobalt, which are affected by many factors beyond the company's control. The prices of these commodities, as reported on the exchanges on which they trade, are influenced significantly by numerous factors, including (i) the worldwide balance of demand and supply relating to such commodities, (ii) rates of global economic growth, trends in industrial production and other economic conditions that correlate with demand for such commodities, (iii) economic growth and political conditions in China, which has become the largest consumer of various commodities in the world, and other major developing economies, (iv) speculative investment positions in such commodities and commodities futures, (v) the availability and cost of substitute materials, (vi) currency exchange fluctuations, including the relative strength of the U.S. dollar and (vii) relative production costs. A sustained period of low prices for any of these commodities would adversely affect the combined company's profits and cash flow and could (i) reduce revenues as a result of production cutbacks due to curtailment of operations or temporary or permanent closure of mines or portions of deposits that have become uneconomical at the then-prevailing prices, (ii) delay or halt exploration or the development of new process technology or projects, (iii) reduce funds available for exploration and the building of ore reserves and (iv) reduce cash available to service the combined company's indebtedness.

**Potential payments made to dissenting Inco shareholders in respect of their shares could exceed the amount of consideration otherwise due to them under the terms of the combination agreement.**

Inco is a corporation governed by the Canada Business Corporations Act, which we refer to as the CBCA. Inco's shareholders will have the right to dissent from the approval of the arrangement pursuant to which the combination will be effected. If the shareholders of Inco exercise their right to dissent in compliance with the CBCA, such dissenting shareholders will be entitled to be paid the judicially determined fair value of their shares, which could be higher than the consideration to which such shareholders would have been entitled under the combination agreement. As a result, Phelps Dodge may

be required to spend more to acquire Inco, or to pay a greater proportion of the purchase price in cash, than would have been the case if all shares were purchased under the combination agreement. Although we believe that our new credit facilities will be adequate to fund any such required cash, any such payments to dissenting shareholders could have a material adverse effect on the combined company's financial position and its liquidity.

**The combined company may face increased risk associated with labor relations.**

The combined company may have difficulty maintaining positive relationships with its combined global workforce, and the historical representation of employees of Phelps Dodge and Inco by different labor unions in the same country or locale may increase the possibility of work interruptions or impede its ability to enter into new collective bargaining agreements on terms favorable to the combined company. Strikes and other labor disruptions at any of the combined company's operations or lengthy work interruptions at the combined company's existing and future development projects could materially adversely affect the timing and completion and the cost of any such project, as well as the combined company's business, results of operations, financial condition and liquidity.

**The issuance of new shares of Phelps Dodge common stock and the resale of Phelps Dodge stock received in connection with the combination may cause the market price of Phelps Dodge common stock to fall.**

As of August 23, 2006, Phelps Dodge had approximately 203,973,926 shares of common stock outstanding and, as of August 24, 2006, approximately 712,935 shares of common stock subject to outstanding options and other rights to purchase or acquire its shares. Phelps Dodge currently expects that it will issue approximately 155,290,625 shares of its common stock in connection with a combination with Inco. The issuance of these new shares of Phelps Dodge common stock and the sale of additional shares of common stock that may become eligible for sale in the public market from time to time could have the effect of depressing the market price for Phelps Dodge common stock.

**The shareholders of PT Inco could take legal action seeking to compel the combined company to make a tender offer for the minority shares of PT Inco for cash, which may increase the debt of the combined company.**

PT Inco, a 60.8% majority owned subsidiary of Inco, is a public Indonesian company with its shares listed on the Jakarta Stock Exchange. An Indonesian capital markets regulation targeting indirect acquisitions requires that, in certain circumstances, a new controlling party of a public Indonesian company must make a tender offer to the other shareholders of the company. One of PT Inco's shareholders has publicly claimed that the combination will result in the creation of a new controlling party in respect of PT Inco, therefore requiring Phelps Dodge to make a tender offer for the shares of PT Inco not owned by Inco. While Inco and Phelps Dodge believe that Phelps Dodge would not be required to undertake a tender offer under the terms of the relevant Indonesian capital markets regulation, shareholders of PT Inco could take legal action to compel such a tender offer and it is possible that an order to this effect might be granted. As a result, the combined company could be required to purchase a portion of the outstanding shares of PT Inco for cash, which may increase the debt of the combined company. See "Regulatory Matters Related to the Combination" beginning on page 60 of this proxy statement.

**The combined company will be subject to a broad range of environmental laws and regulations in the jurisdictions in which it operates and will be exposed to potentially significant environmental costs and liabilities.**

Each of Phelps Dodge and Inco is subject to a broad range of environmental laws and regulations in each of the jurisdictions in which it operates. These laws and regulations, as interpreted by relevant agencies and the courts, impose increasingly stringent environmental protection standards regarding, among other things, air emissions, wastewater storage, treatment and discharges, the use and handling of hazardous or toxic materials, waste disposal practices, and the remediation of environmental contamina-

tion. The costs of complying with these laws and regulations, including participation in assessments and remediation of sites, could be significant. In addition, these standards can create the risk of substantial environmental liabilities, including liabilities associated with divested assets and past activities. Currently, each of Phelps Dodge and Inco is involved in a number of compliance efforts and legal proceedings concerning environmental matters. Each of Phelps Dodge and Inco has established reserves for environmental remediation activities and liabilities. However, environmental matters cannot be predicted with certainty, and these amounts may not be adequate, especially in light of potential changes in environmental conditions or the discovery of previously unknown environmental conditions, the risk of governmental orders to carry out additional compliance on certain sites not initially included in remediation in progress, and the potential liability of each of Phelps Dodge and Inco to remediate sites for which provisions have not been previously established. Such future developments with respect to Phelps Dodge and Inco could result in increased environmental costs and liabilities that could have a material adverse effect on the combined company's financial position and results of operations.

## THE COMBINATION

### The Companies

*Phelps Dodge.* Phelps Dodge is one of the world's leading producers of copper and molybdenum, and is the world's largest producer of molybdenum-based chemicals and continuous-cast copper rod. PDMC, our mining division, includes our worldwide, vertically integrated copper operations from mining through rod production, marketing and sales; molybdenum operations from mining through conversion to chemical and metallurgical products, marketing and sales; other mining operations and investments; and worldwide mineral exploration, technology and project development programs. PDI, our manufacturing division, produces engineered wire and cable products principally for the global energy sector.

Phelps Dodge was incorporated as a business corporation under the laws of the state of New York in 1885. Phelps Dodge's executive offices are located at One North Central Avenue, Phoenix, AZ 85004-4414.

*Inco.* Inco is one of the world's premier mining and metals companies and a leading producer of nickel. Inco is also an important producer of copper, precious metals and cobalt and a major producer of value-added specialty nickel products. Inco also produces sulphuric acid and liquid sulphur dioxide as by-products from its processing operations in Sudbury, Ontario.

Inco's business operations consist of three segments, (i) the finished products segment, which comprises Inco's mining and processing operations in Ontario, Manitoba and Newfoundland and Labrador, Canada, and refining operations in the United Kingdom and interests in refining operations in Japan and other Asian countries, (ii) the intermediates segment, which comprises Inco's mining and processing operations in Indonesia where nickel-in-matte, an intermediate product, is produced and sold primarily into the Japanese market, and (iii) the development projects segment, which comprises Inco's Goro nickel-cobalt project under development in the French overseas territorial community (collectivité territoriale) of New Caledonia, a nickel processing plant being built in Dalian, China, an expansion of Inco's facilities in Indonesia and the next phase of development at Inco's Voisey's Bay project (consisting of feasibility work for a nickel processing plant and underground mine development).

Inco was incorporated in 1916 under the laws of Canada, succeeding a business established in 1902. In 1979, Inco was continued by articles of continuance under the Canada Business Corporations Act and is governed by that Act. Inco's executive offices are located at 145 King Street West, Suite 1500, Toronto, Ontario, Canada, M5H 4B7.

### The Combination

On June 25, 2006, we agreed to combine our company with Inco pursuant to the combination agreement. The combination agreement also provided that if Inco successfully completed the Falconbridge acquisition prior to the consummation of our combination with Inco, we would combine our company with both Inco and Falconbridge. However, on July 28, 2006, Inco announced that it elected to not extend its bid for Falconbridge and the support agreement between Inco and Falconbridge was terminated in accordance with its terms. Therefore, we will combine our company with Inco only. The combination will be effected pursuant to the plan of arrangement.

### Combination Consideration and Financing

We have agreed to pay 0.672 shares of the common stock of Phelps Dodge and Cdn.\$20.25 (or, at the Inco holder's option, the U.S. dollar equivalent) in cash for each Inco common share held immediately prior to the consummation of the combination.

The issuance of the requisite shares of Phelps Dodge common stock to Inco's shareholders requires the approval of Phelps Dodge's shareholders, which is one of the purposes of the special meeting. Phelps Dodge will finance the cash component of the Combination Consideration, in part, from its available cash and with borrowings under the new credit facilities to be entered into in connection with the combination.

The new credit facilities will have aggregate borrowing capacity of up to \$10.45 billion which, together with available cash from other sources, will be available for the following purposes:

to finance up to \$4.1 billion of the cash consideration to be paid by us in connection with the combination;

to finance our post-combination share repurchase program, pursuant to which we intend to repurchase up to \$5 billion of our common stock;

to repurchase or refinance up to \$0.4 billion of Inco's indebtedness;

to refinance liabilities outstanding under our and Inco's existing revolving credit agreements; and

to fund transaction expenses related to the combination, which we estimate will be approximately \$100 million.

*Credit Facilities.* Phelps Dodge has received executed commitments from Citigroup and HSBC for the entire \$10.45 billion principal amount of the new credit facilities. The new credit facilities will consist of:

a \$3.6 billion unsecured 12-month multiple draw term loan facility. The facility will mature at the earlier of (i) the first anniversary of the closing date under the facility and (ii) March 31, 2008, and have an interest rate of, at the borrower's option, a base rate established by Citibank or LIBOR plus a margin, subject to the combined company's long-term senior unsecured debt rating.

a \$5.0 billion unsecured five-year term loan facility. The facility will be a multi-draw facility with \$3 billion available for drawings by Phelps Dodge and \$2 billion available for drawings by Phelps Dodge Canada, and the facility will be payable in quarterly installments on an amortizing basis requiring 0%, 0%, 10%, 15% and 75% of the indebtedness under the facility to be repaid in the first, second, third, fourth and fifth year, respectively, following the funding date with the balance payable on the maturity date. The facility will have an interest rate of, at the borrower's option, a base rate established by Citibank or LIBOR plus a margin, subject to the combined company's long-term senior unsecured debt rating;

a \$750 million five-year unsecured revolving credit facility. The facility will terminate on the fifth anniversary after the closing date and have an interest rate of, at the borrower's option, (i) for U.S.\$ loans, a base rate established by Citibank or LIBOR plus a margin and (ii) for Cdn.\$ loans, a bankers acceptance discount rate plus a margin, in each case, subject to the combined company's long-term senior unsecured debt rating; and

a \$1.1 billion five-year unsecured revolving credit facility. The facility will terminate on the fifth anniversary after the closing date and have an interest rate of, at the borrower's option, a base rate established by Citibank or LIBOR plus a margin, subject, in each case, to the combined company's long-term senior unsecured debt rating.

The primary obligor under each term loan facility (except with respect to the \$3 billion principal amount of the five-year term facility) and the \$750 million revolving credit facility will be Phelps Dodge Canada Inc. Phelps Dodge and PD Canada Subco will guarantee Phelps Dodge Canada Inc.'s obligations under such facilities. Phelps Dodge will be the primary obligor under the \$1.1 billion revolving credit facility and \$3 billion of the \$5 billion unsecured five-year term loan facility.

We currently intend to refinance indebtedness incurred under the 12-month term loan facility in amounts then outstanding by accessing the capital markets in one or more public or private offerings of debt securities of Phelps Dodge Canada Inc., Amalco or Phelps Dodge Inco at appropriate times following completion of the combination.

### **Post-Combination Shareholding, Board of Directors and Management**

We estimate that, upon completion of the combination, former shareholders of Inco will own approximately 43% of the combined company's outstanding common shares.

We expect that, upon consummation of the combination of our company with Inco, J. Steven Whisler, the chairman and chief executive officer of Phelps Dodge, will be chairman and chief executive officer of the combined new company; Scott M. Hand, the chairman and chief executive officer of Inco, will become the vice chairman of the combined company and the president of the combined company's nickel division; Timothy R. Snider, the president and chief operating officer of Phelps Dodge, will hold the same positions in the combined company; and Ramiro G. Peru, executive vice president and chief financial officer of Phelps Dodge, will hold the same positions in the combined company. We expect Messrs. Whisler, Snider and Peru to be based in Phoenix and Mr. Hand to be based in Toronto.

We expect the board of directors of the combined company to be composed of 15 members, 11 of which will be members of the current Phelps Dodge board of directors and four of which will be members of the current boards of Inco.

### **Background of the Combination**

Phelps Dodge regularly reviews, as part of its strategic planning process, the possibility of selected strategic acquisitions, divestitures and business combinations with others in order to enhance shareholder value and its competitive and financial position. In late 2004 and early 2005, management of Phelps Dodge and Inco jointly considered a number of options concerning the possible acquisition of the assets or common stock of a third company. Among the acquisition structures considered was a combination of Phelps Dodge and Inco. However, the parties were unable to agree on a transaction or a basis on which to proceed with further discussions.

Inco has historically supplied certain products to Phelps Dodge, and Phelps Dodge and Falconbridge have supplied certain products to each other in the ordinary course of each company's respective business. As of the date of this proxy statement, Phelps Dodge and Falconbridge are parties to an agreement, dated December 28, 2005, pursuant to which Falconbridge supplies copper cathodes to Phelps Dodge, and to an agreement, dated December 13, 2005, pursuant to which Phelps Dodge supplies smelter reverts to Falconbridge. Phelps Dodge and Inco were parties to a letter agreement, dated November 29, 2004, pursuant to which Inco supplied copper cathodes to Phelps Dodge. The letter agreement expired by its terms on December 31, 2005.

The transaction described in this proxy statement, including the acquisition by Phelps Dodge of all of the outstanding equity of Inco (whether following Inco's acquisition of Falconbridge or on a stand-alone basis), was negotiated in the context of several other proposed transactions involving Inco and Falconbridge (but not Phelps Dodge). On October 11, 2005, Inco and Falconbridge jointly announced that Inco had agreed to make an offer to purchase all of the outstanding common shares of Falconbridge, for a price of Cdn.\$7.50 in cash and 0.524 Inco common shares for each Falconbridge share, and that Inco and Falconbridge had entered into a support agreement with respect to that offer. Inco's offer for Falconbridge formally commenced on October 24, 2005, and had a value of approximately Cdn.\$13.1 billion based on the closing price of Inco's common shares on October 10, 2005. The support agreement was amended on January 12, 2006 and February 20, 2006 to extend the date that Inco's offer would remain open, and on March 21, 2006 to reflect Falconbridge's implementation of a new shareholder rights plan and to amend Inco's right to modify its offer.

On May 8, 2006, Teck Cominco Limited announced an unsolicited offer to purchase all of the outstanding common stock of Inco, conditional upon Inco not completing its announced transaction with Falconbridge.

On May 13, 2006, Inco and Falconbridge announced that they had amended their support agreement to, among other things, increase the consideration offered by Inco for each common share of Falconbridge, which now constituted Cdn.\$51.17 in cash or a combination of 0.6927 shares of Inco and \$0.05 in cash for each share

of Falconbridge (which had a value of approximately Cdn.\$19.7 billion on the date of announcement) and to increase the break-up fee payable by Falconbridge to Inco in certain circumstances.

On May 17, 2006, Xstrata plc announced an unsolicited offer to acquire all of the outstanding common shares of Falconbridge that Xstrata did not already own, at a price of Cdn.\$52.50 in cash for each Falconbridge common share (which had a value of approximately Cdn.\$20.2 billion on the date of announcement), and specified that its offer would remain open until July 7, 2006.

Within a few days thereafter, Mr. Ramiro G. Peru, executive vice president and chief financial officer of Phelps Dodge, called a representative of Morgan Stanley, who was acting as one of Inco's financial advisors, and indicated that Phelps Dodge would be open to discussing how it might assist Inco to respond to the hostile bid for Inco made by Teck Cominco and the competing bid for Falconbridge made by Xstrata.

On May 26, 2006, a representative of Morgan Stanley called Mr. Peru and told him that Inco was interested in talking to Phelps Dodge concerning the possibility that Phelps Dodge could assist Inco in enhancing the financial terms of Inco's offer for Falconbridge or make a more attractive bid for Inco than Teck Cominco, and more generally regarding the possibility of a three-way combination of Phelps Dodge, Inco and Falconbridge.

On May 27, 2006, Mr. J. Steven Whisler, chairman and chief executive officer of Phelps Dodge, telephoned Mr. Scott M. Hand, chairman and chief executive officer of Inco. Mr. Hand invited Mr. Whisler and representatives of Phelps Dodge to meet with Inco in Toronto, Canada on June 2, 2006. At the same time, Phelps Dodge began to review publicly-available information regarding Inco and Falconbridge, assemble due diligence teams and plan its due diligence strategy.

On May 31, 2006, Inco filed a Directors Circular and a Schedule 14D-9 recommending that the Inco shareholders reject the unsolicited Teck Cominco bid on the grounds that, among other things, the consideration being offered by Teck Cominco was inadequate.

On June 2, 2006, representatives of Inco and Phelps Dodge, and their respective financial and legal advisors, met in Toronto to discuss the parties' respective businesses and the possibility of a transaction. At this meeting, representatives of Inco emphasized that they believed that, in light of the July 7, 2006, expiration date of the Xstrata bid for Falconbridge and the hearing on the Falconbridge shareholder rights plan scheduled for June 27, 2006, before the Ontario Securities Commission, to be competitive Phelps Dodge would need to complete its due diligence and be in a position to enter into definitive agreements with respect to a transaction by no later than Monday, June 26, 2006.

On June 4, 2006, the financial and legal advisors of each of Phelps Dodge and Inco spoke by telephone regarding the various ways in which a transaction between Phelps Dodge and Inco might be structured, including in particular the possibility that Phelps Dodge would acquire all of the outstanding common equity of Inco. On this call, the financial advisors for Inco also requested that Phelps Dodge consider how it could provide support to Inco to allow it to increase the cash component of its bid for Falconbridge.

Also on June 4, 2006, Inco executed a confidentiality agreement in favor of Phelps Dodge, and on June 5, Phelps Dodge executed a similar agreement in favor of Inco. Also on June 5, 2006, Inco filed an amendment to its Schedule 14D-9 stating that it had commenced negotiations in response to the Teck Cominco offer concerning a potential merger, amalgamation or other form of strategic transaction on a basis consistent with its obligations under its support agreement with Falconbridge, and had entered into customary arrangements relating to confidentiality and standstill obligations in exchange for being provided with confidential information.

On June 6, 2006, Phelps Dodge formally engaged Citigroup and HSBC as its financial advisors in connection with the transaction. Phelps Dodge selected Citigroup and HSBC as financial advisors based on their qualifications, experience and reputation, their familiarity with Phelps Dodge and its business and the significance of the proposed transaction for Phelps Dodge.

On June 7, 2006, in connection with a regularly scheduled board meeting, the Phelps Dodge board of directors discussed the possibility of a transaction involving Inco and Falconbridge. Representatives of Citigroup and HSBC attended this meeting as did representatives of Debevoise & Plimpton LLP, the company's regular outside legal counsel. Citigroup and HSBC provided their preliminary perspectives with respect to a possible combination of Phelps Dodge with Inco and Falconbridge or with Inco only. Citigroup and HSBC also discussed alternate forms of consideration that could be offered to Inco's shareholders in such a combination with Phelps Dodge as well as certain implications of these alternatives. At this June 7, 2006 meeting, the board of directors authorized senior management of Phelps Dodge to pursue discussions with Inco and Falconbridge regarding a possible combination.

On June 8, 2006, Phelps Dodge began a customary due diligence review of Inco, including of certain non-public information provided in an electronic data room. From June 8 through June 25, 2006, being the date that definitive transaction documents were signed, Phelps Dodge and its advisors continued to conduct due diligence regarding Inco and its business, including reviewing public and non-public documents, meeting with various members of Inco management, and visiting Inco facilities in Canada, Indonesia, New Caledonia and elsewhere. At the same time, Phelps Dodge made available to Inco an electronic data room and held various meetings with representatives of Inco in connection with Inco's due diligence review of Phelps Dodge.

On June 9, 2006, Mr. Whisler telephoned Mr. Hand to advise him that the Phelps Dodge board of directors had authorized Phelps Dodge to continue discussions with respect to a possible transaction among Phelps Dodge, Inco and Falconbridge. Messrs. Whisler and Hand discussed various timing issues with respect to the possible transaction and agreed to meet in New York on June 14, 2006.

On June 12, 2006, Phelps Dodge and Falconbridge each executed confidentiality agreements in favor of the other and Phelps Dodge received access to Falconbridge's electronic data room for the purposes of conducting due diligence. From June 12 to and including the date that definitive transaction documents were signed, Phelps Dodge conducted a due diligence review of public and non-public materials provided by Falconbridge, met with certain members of Falconbridge management and visited various Falconbridge facilities located in Canada, South America and elsewhere.

Also on June 12, 2006, Weil, Gotshal & Manges LLP, counsel to affiliates of Citigroup and HSBC as potential lenders to Phelps Dodge, circulated the first draft of the commitment papers pursuant to which Citigroup and HSBC would commit to provide financing for the transaction. Various drafts of the commitment papers were subsequently exchanged until the date that definitive transaction documents were signed on June 25, 2006.

On June 14, 2006, Phelps Dodge management met in New York with the company's legal and financial advisors to discuss the structure and terms of a possible offer by Phelps Dodge to acquire Inco and the terms on which Inco's offer to acquire Falconbridge might be increased. Also on June 14, 2006, the financial advisors of Phelps Dodge spoke by telephone with the financial advisors of Inco regarding the structure and terms of any financing that Phelps Dodge might be willing to provide to Inco to assist it in increasing its offer for Falconbridge, following which Phelps Dodge's legal and financial advisors sent a term sheet for a proposed issuance of new convertible preferred stock of Inco.

On the evening of June 14, 2006, Messrs. Whisler and Hand met in New York to discuss the status of the proposed transaction and certain non-economic issues, including the proposed name of the combined company, management composition, board size and related matters.

On June 15, the Phelps Dodge board of directors met telephonically to discuss the status of the proposed transaction. At this meeting, management provided the board with an update of its due diligence investigation of Inco and Falconbridge, and Mr. Whisler reported on his meeting with Mr. Hand. The company's financial advisors updated the board on their prior presentations with respect to a potential business combination involving Inco and Falconbridge and the company's legal advisors discussed with the board the terms of a draft combination agreement for the proposed transaction.

Following the Phelps Dodge board meeting, the company's legal advisors sent to Inco's legal advisors, Sullivan & Cromwell LLP and Osler, Hoskin & Harcourt LLP, a draft of a combination agreement for the proposed transaction. The draft agreement did not include pricing terms but focused on the structure of the transaction, providing for the acquisition by Phelps Dodge of all of the outstanding common equity of Inco by means of a Canadian plan of arrangement, and set forth customary representations, warranties, covenants (including non-solicitation and fiduciary out provisions), closing conditions and termination rights and remedies.

On the evening of June 15, Mr. Whisler met with Mr. Derek G. Pannell, the chief executive officer of Falconbridge, to discuss in general terms the proposed combination of Phelps Dodge with both Inco and Falconbridge.

On June 17, 2006, the Phelps Dodge board of directors met by teleconference with its legal and financial advisors to discuss the status of the proposed transaction. On this call, representatives of Phelps Dodge updated the board as to the company's due diligence investigation of Inco and Falconbridge and the anticipated synergies that could be realized in such a transaction. Phelps Dodge's financial advisors, Citigroup and HSBC, reviewed the bids of Inco for Falconbridge, Xstrata for Falconbridge and Teck Cominco for Inco, and discussed with the board and Phelps Dodge's other advisors alternative bidding approaches for a combination with both Inco and Falconbridge, and with Inco on a stand-alone basis. Citigroup and HSBC also updated their prior presentation of June 7 and addressed various matters relating to a potential business combination of Phelps Dodge with both Inco and Falconbridge or with Inco only. At the meeting, the board authorized Phelps Dodge senior management to continue discussions with Inco and Falconbridge, and authorized Mr. Whisler to submit a formal proposal to Inco.

Also on June 17, 2006, Mr. Whisler submitted electronically to Mr. Hand a letter setting forth the terms on which Phelps Dodge would be willing to acquire Inco. The letter proposed that Phelps Dodge acquire all the outstanding common equity of Inco in exchange for Cdn.\$11.50 in cash and 0.695 shares of Phelps Dodge common stock for each outstanding common share of Inco. Based on the closing price of Phelps Dodge's common stock on Friday, June 16, 2006, this implied a price of Cdn.\$74.00 for each common share of Inco, representing a premium of approximately 11 percent to Inco's closing stock price on June 16, 2006 and 8 percent to the value of the Teck Cominco offer to acquire Inco. The proposal letter observed that the stock portion of the offer would allow Inco shareholders to participate in the value of the synergies, cost savings, increased scale and financial and market potential of the combined company going forward, including that the increased capitalization of the combined company could make the stock of the combined company increasingly attractive to index funds. The letter also stated that the transaction between Inco and Phelps Dodge would not be conditioned on the completion of Inco's acquisition of Falconbridge.

Phelps Dodge's letter to Inco also suggested that Inco should increase the implied value of its offer for Falconbridge to between Cdn.\$58.00 to Cdn.\$60.00. In this connection, Phelps Dodge indicated that it would be willing to purchase between \$3.0 billion and \$3.5 billion of a new class of Inco convertible preferred stock to assist Inco, if necessary, in raising its bid for Falconbridge. The letter further stated that Phelps Dodge was analyzing a \$5.0 billion stock repurchase program, a portion of which could be reserved to fund any cash payment required to be made to Inco or Falconbridge shareholders who exercised dissenters rights in connection with the proposed transaction. The repurchase program, the letter stated, could also be used to return capital to Phelps Dodge shareholders. The Phelps Dodge letter also proposed that the combined company would be named Phelps Dodge Inco Corporation, its board would include prominent Canadian directors, the company would maintain the headquarters of the nickel division in Toronto and that its securities would be listed on both the New York Stock Exchange and the Toronto Stock Exchange.

After sending this letter to Mr. Hand, Mr. Whisler called Mr. Pannell and advised him that Phelps Dodge had made a proposal to Inco that was designed, among other things, to enable Inco to enhance the financial terms of its proposed acquisition of Falconbridge, although he did not discuss with Mr. Pannell the economic terms of the transaction proposed by Phelps Dodge to Inco.

On June 18, 2006, Mr. Hand and Mr. Whisler spoke by telephone regarding the Phelps Dodge proposal letter and the draft combination agreement. Mr. Hand noted that the Inco board of directors planned to meet that evening and would consider in more detail the Phelps Dodge proposal and Inco's other options at that time.

On June 19, Mr. Hand spoke by telephone with Mr. Whisler and indicated that Inco's principal concern with respect to the Phelps Dodge offer was valuation. The parties discussed in general terms the possibility of adjusting the cash-to-stock ratio and agreed that their counsel could begin to negotiate definitive documents, which negotiations commenced the following day and continued until definitive transaction documents were executed on June 25, 2006. Mr. Hand indicated that the Inco board would meet on Wednesday, June 21, to further consider the Phelps Dodge offer.

Following the June 21, 2006, meeting of the Inco board of directors, Mr. Hand called Mr. Whisler and informed him that the Inco board had requested that Phelps Dodge improve its per share offer to a level of Cdn.\$17.50 in cash and 0.750 shares of Phelps Dodge common stock. Mr. Hand indicated that Inco would be willing to increase its per share offer for Falconbridge by Cdn.\$5.00 in cash (keeping the exchange ratio for the stock component unchanged). Mr. Whisler told Mr. Hand that the Phelps Dodge board would meet on June 22 and would consider Inco's proposal at that time.

On June 22, 2006, the Phelps Dodge board and its legal and financial advisors met telephonically. The company's financial advisors summarized the current proposals for the Phelps Dodge purchase of Inco and Falconbridge and updated their prior presentations to the board with respect to the proposed transaction. This update included a discussion of the current bid and ask prices for the proposed Phelps Dodge purchase of Inco and Falconbridge and a review of the implications of the proposed stock repurchase program and various financing alternatives. After discussion, the board authorized Mr. Whisler to make a revised proposal to Mr. Hand at a price per Inco share of Cdn.\$17.50 in cash and 0.672 shares of Phelps Dodge common stock (which corresponded to a total value of Cdn.\$78.00 based on that day's closing prices).

Following the Phelps Dodge board meeting, Mr. Whisler called Mr. Hand to communicate the revised Phelps Dodge offer. In addition to indicating the proposed exchange ratio and cash payment for Inco common shares, Mr. Whisler emphasized that the parties' commitment should be firm and proposed termination fees for each company equal to 4 percent of their respective equity market capitalizations. Mr. Whisler did not include any Phelps Dodge financing commitment as part of this revised proposal.

The Inco board of directors met on June 23, 2006, following which Mr. Hand called Mr. Whisler to discuss the Phelps Dodge proposal. Mr. Hand made a counterproposal of 0.6817 Phelps Dodge shares and Cdn.\$17.50 in cash for each Inco share. In addition, Mr. Hand stated that the Inco board thought the termination fees should be approximately 2.5 percent of the parties' respective market capitalizations. Mr. Hand also said that the Inco board wanted Phelps Dodge to commit to provide financing to Inco through Phelps Dodge's purchase of a convertible subordinated note in an aggregate principal amount in the range of \$3 billion to \$3.5 billion, which could be drawn on in connection with Inco's bid for Falconbridge.

Later on June 23, after discussing the matter with Phelps Dodge's financial and legal advisors, Mr. Whisler called Mr. Hand and informed him that Phelps Dodge continued to believe that an exchange ratio of 0.672 shares of Phelps Dodge common stock for each non-dissenting Inco common share was appropriate. Mr. Whisler said that he would be willing to consider termination fees in the range of 3 percent of each company's respective market capitalization, and that he would discuss with the Phelps Dodge board of directors the possibility of providing convertible subordinated debt financing to Inco in an aggregate principal amount of up to \$1 billion. Mr. Hand indicated that he believed that the Inco board would require a stronger financing commitment from Phelps Dodge and both Mr. Hand and Mr. Whisler said that they would discuss these matters further with their respective boards of directors.

On June 24, 2006, Messrs. Whisler and Peru held a telephone conference with Mr. Hand and a representative of Morgan Stanley. After discussion of the possible terms of a transaction, including Mr. Hand's indicating again that Inco wanted Phelps Dodge to commit to purchase up to an aggregate of

\$3.5 billion of Inco's convertible subordinated notes, Mr. Whisler said that he was prepared to present to the Phelps Dodge board of directors a combination including the following terms: a price per Inco share of Cdn.\$17.50 in cash plus 0.672 shares of Phelps Dodge common stock, which corresponded to Cdn.\$80.13 per Inco share based on the closing price of the Phelps Dodge stock on June 23, 2006; a commitment of Phelps Dodge to purchase convertible subordinated notes of Inco in an aggregate amount of up to \$3 billion; and termination fees payable by Inco and Phelps Dodge under certain circumstances of approximately 3 percent of each company's respective equity market capitalization. Mr. Whisler also noted that this offer, together with the Cdn.\$5.00 per share increase in the cash portion of Inco's bid for Falconbridge that the parties had previously discussed, together with an increase in the share exchange ratio in such bid from 0.524 to 0.55676, would result in an implied value per Falconbridge share of Cdn.\$62.11. Mr. Hand indicated that, subject to the approval of these terms by the Phelps Dodge board of directors, and the negotiation and execution of definitive transaction documents, he would recommend these terms to the Inco board of directors.

The board of directors of Phelps Dodge met on the morning of June 25, 2006. At this meeting, Phelps Dodge's senior management briefed the board on the results of the company's due diligence investigation of Inco and Falconbridge, Debevoise & Plimpton LLP, the company's regular outside legal counsel, discussed with the board their fiduciary duties, Debevoise & Plimpton LLP and Heenan Blaikie LLP, the company's Canadian legal counsel, briefed the board on the terms of the transaction documents, and Citigroup and HSBC discussed with the board the financial implications of the proposed transaction. In that connection, Citigroup and HSBC each delivered to the board of directors an oral opinion, subsequently confirmed in writing, that as of June 25, 2006, and based upon and subject to the factors, assumptions, procedures, limitations and qualifications set forth therein, combination consideration of Cdn.\$17.50 in cash plus 0.672 shares of Phelps Dodge common stock per Inco share was fair, from a financial point of view, to Phelps Dodge. During the course of Citigroup's and HSBC's presentation and rendering of their respective opinions, representatives of Citigroup and HSBC responded to questions from members of the board of directors confirming or clarifying their understanding of the analyses performed by Citigroup and HSBC and the respective opinions rendered by Citigroup and HSBC.

Later on June 25, each of Inco and Falconbridge informed Phelps Dodge that their respective boards of directors had met and had approved the terms of the transaction. During the afternoon and evening of June 25, the parties and their legal advisors finalized the combination agreement between Phelps Dodge and Inco, an amendment to the support agreement between Inco and Falconbridge, and the other definitive transaction documents, including commitments from Citigroup and HSBC to provide financing for the transaction. The definitive agreements were executed by the parties that evening and the transaction was announced on the morning of June 26, 2006.

On July 7, 2006, Xstrata announced that it had extended the expiration of its offer to acquire all of the outstanding shares of Falconbridge that it did not already own from July 7, 2006 to July 21, 2006, although it did not change the economic terms of that offer.

On July 11, 2006, Xstrata announced that it had increased the amount of its offer for Falconbridge from Cdn.\$52.50 in cash to Cdn.\$59.00 in cash per share, and that it had reduced the minimum condition that its offer be accepted by at least  $66\frac{2}{3}$  percent of the outstanding Falconbridge shares to a condition that the offer be accepted by a majority of the approximately 80.2 percent of the outstanding Falconbridge shares that Xstrata did not already own. Xstrata specified that its revised offer would remain open until July 21, 2006.

During the period from July 12 through July 15, senior management of Phelps Dodge, Inco and Falconbridge discussed potential changes to the terms of the combination agreement and of Inco's offer for Falconbridge in response to the increase in the consideration being offered in the Xstrata bid for Falconbridge. In particular, on July 14, Phelps Dodge and Inco discussed increasing the consideration payable by Phelps Dodge to the Inco shareholders from Cdn.\$17.50 in cash and 0.672 of a Phelps Dodge Share to Cdn.\$20.25 in cash and 0.672 of a Phelps Dodge Share. The parties also discussed, among other things, increasing the cash consideration payable under Inco's offer for Falconbridge from Cdn.\$17.50 and 0.55676 of an Inco Share to Cdn.\$18.50 and 0.55676 of an Inco Share, and replacing the condition that



the Inco offer be accepted by at least 66<sup>2</sup>/<sub>3</sub> percent of the outstanding Falconbridge shares with a condition that the offer shall have received acceptances from the holders of at least 50.01 percent of the Falconbridge shares (in each case calculated on a fully diluted basis). Contemporaneously, Inco and Falconbridge discussed the possibility of amending their support agreement to permit Falconbridge to declare a special dividend of Cdn.\$0.75 per Falconbridge share payable to holders of Falconbridge shares of record on July 26, 2006, and to permit Inco to acquire up to 5 percent of the Falconbridge shares through open market purchases.

The Phelps Dodge board of directors met on July 15, 2006. At this meeting, Phelps Dodge's senior management briefed the Board on the results of the negotiations with Inco and Falconbridge. Debevoise & Plimpton LLP discussed with the board their fiduciary duties and briefed the board on the proposed revisions to the transaction documents, and Citigroup and HSBC discussed with the board the financial implications of the proposed revisions to the terms of the transaction.

The Phelps Dodge board of directors met on July 16, 2006. At this meeting, Citigroup and HSBC each delivered to the board an oral opinion, subsequently confirmed in writing, that as of July 16, 2006, and based upon and subject to the factors, assumptions, procedures, limitations and qualifications set forth therein, the Combination Consideration was fair, from a financial point of view, to Phelps Dodge. During the course of Citigroup's and HSBC's presentation and rendering of their respective opinions, representatives of Citigroup and HSBC responded to questions from members of the board confirming or clarifying their understanding of the analyses performed by Citigroup and HSBC and the respective opinions rendered by Citigroup and HSBC, as described in more detail under "The Combination Opinions of Phelps Dodge's Financial Advisors" beginning on page 42 of this proxy statement. The full text of the written opinions of Citigroup and HSBC, each dated July 16, 2006, are attached as Annexes C and D to this proxy statement and set forth assumptions made, general procedures followed, factors considered and limitation and qualifications on the review undertaken by each of Citigroup and HSBC in connection with their respective opinions.

Later on July 16, 2006, management of Phelps Dodge and management of Inco informed each other that their respective boards of directors had met and had approved the revised terms of the transaction and management of Phelps Dodge and management of Inco informed Falconbridge management of such approvals. During the afternoon and evening of July 16, the parties and their legal advisors finalized a waiver and amendment to the combination agreement between Phelps Dodge and Inco and an amendment to the support agreement between Inco and Falconbridge.

Also, on July 16, 2006, the Falconbridge board of directors met and unanimously determined to support Inco's revised offer and declared a special dividend in the amount of Cdn.\$0.75 payable to Falconbridge shareholders of record as at the close of business on July 26, 2006, with a payment date of August 10, 2006.

The definitive agreements were executed by the parties later that day and the revised transaction terms were announced on July 16, 2006.

On July 19, 2006, Xstrata announced that it had increased its offer to acquire all of the outstanding Falconbridge shares not already owned by Xstrata from Cdn.\$59.00 in cash to Cdn.\$62.50 in cash per Falconbridge share. Xstrata also announced that it had varied its offer to remove the condition that the Xstrata offer shall have received acceptances from the holders of at least a majority of the Falconbridge shares. The revised Xstrata offer was set to expire on August 14, 2006.

On July 20, 2006, Inco announced that its shareholder rights plan will cease to apply after 4:30 p.m. (Toronto time) on August 16, 2006. On July 21, 2006, Teck Cominco announced that it had extended the expiry date of its offer to acquire all of the outstanding shares of Inco until 8:00 p.m. (Toronto time) on August 16, 2006.

On July 28, 2006, Inco announced that its tender offer to acquire all of the outstanding common shares of Falconbridge had expired at midnight (Vancouver time) on July 27, 2006, and that the minimum tender condition of 50.01 per cent of the outstanding Falconbridge common shares had not been satisfied, and that as a result Inco had elected to terminate its offer. On the same day, Inco and

Falconbridge announced that their support agreement had been terminated. As a result of such termination, Falconbridge became obligated to pay \$150 million to Inco, with a further \$300 million being payable in the event that Xstrata's offer for Falconbridge is consummated.

Also on July 28, 2006, Phelps Dodge and Inco announced that they would now focus on the completion of the two-way combination of Phelps Dodge and Inco.

On July 31, 2006, Teck Cominco announced that it intended to increase the consideration payable to Inco shareholders under its original offer announced on May 8, 2006, from Cdn.\$78.50 in cash, or 0.9776 of a Teck Cominco Class B subordinate voting share plus Cdn.\$0.05 in cash, for each Inco share to Cdn.\$82.50 in cash, or 1.1293 Teck Cominco Class B subordinate voting shares plus Cdn.\$0.05 in cash, for each Inco share. Teck Cominco also increased the maximum amount of cash consideration available under such offer from approximately Cdn.\$6.37 billion to Cdn.\$9.1 billion, while reducing the maximum amount of share consideration to 132.3 million Class B subordinate voting shares. Teck Cominco specified that its offer would remain open until August 16, 2006.

On August 6, 2006, Inco filed a Directors Circular and a Schedule 14D-9 indicating that its board of directors had determined that the revised Teck Cominco offer was not a superior proposal for purposes of the combination agreement, and unanimously recommended that the Inco shareholders reject the revised Teck Cominco offer. However, the Inco board also determined that the revised Teck Cominco offer could reasonably be expected to result in a superior proposal for purposes of the combination agreement, and accordingly authorized senior management of Inco and its advisors to engage in discussions and negotiations with Teck Cominco. On August 8, 2006, Teck Cominco announced that it would not enter into discussions or negotiations with Inco regarding Teck Cominco's revised offer.

On August 11, 2006, Companhia Vale do Rio Doce, or CVRD, announced an unsolicited offer to acquire all of the outstanding common shares of Inco at a price of Cdn.\$86.00 in cash for each Inco common share (which had a value of approximately Cdn.\$17 billion on the date of announcement), and specified that its offer would remain open until September 28, 2006. CVRD stated that completion of its offer was subject to a sufficient number of shares being tendered to the offer such that CVRD would own at least 66<sup>2</sup>/<sub>3</sub>% of Inco's common shares, on a fully diluted basis, following completion of the offer, the receipt of all necessary regulatory approvals, the absence of litigation, no material adverse change at Inco and other customary conditions. On August 14, 2006, CVRD formally launched its offer by publishing an advertisement containing a brief summary of the offer and by filing offer documents in the United States and Canada.

On August 15, 2006, Inco filed a Directors Circular and a Schedule 14D-9 stating that Inco's board of directors had reviewed the CVRD offer and had not concluded that it was a superior proposal for purposes of the combination agreement. Accordingly, the Inco board of directors continued to recommend that the Inco shareholders vote in favor of the proposed combination between Inco and Phelps Dodge. However, Inco's board of directors did determine that the CVRD offer could reasonably be expected to result in a superior proposal for purposes of the combination agreement, and authorized senior management of Inco and its advisors to engage in discussions and negotiations with CVRD. Inco further stated that since the CVRD offer remains open for acceptance until September 28, 2006, and is subject to a number of conditions, there was no necessity for Inco shareholders to take any action with respect to the CVRD offer at that time and the Inco board of directors determined for the time being to remain neutral and to make no recommendation to Inco shareholders in respect of the CVRD offer. Also on August 15, 2006, Teck Cominco announced its intention to amend its cash and share offer to acquire all of the outstanding shares of Inco to provide for consideration with an aggregate value of C\$89.00 per Inco share, subject to its having completed an offering of its Class B subordinate voting shares in an amount not less than Cdn.\$5.725 billion. However, on August 16, 2006, Teck Cominco announced that its proposed equity offering would not proceed and accordingly, that it would not be amending its outstanding offer to acquire all of the outstanding common shares of Inco as announced on August 15, 2006.

On August 17, 2006, Teck Cominco announced that its offer to acquire all of the outstanding common shares of Inco expired at midnight on August 16, 2006 and, at the time of expiry, the offer's



minimum tender condition of 66<sup>2</sup>/<sub>3</sub>% of Inco common shares had not been satisfied. Accordingly, the Teck Cominco offer was terminated.

### **Phelps Dodge s Reasons for the Combination**

In reaching its conclusion to unanimously approve a combination of Phelps Dodge with Inco, and unanimously recommend that Phelps Dodge shareholders vote FOR approval of the charter amendment proposal and FOR the share issuance proposal, the Phelps Dodge board of directors considered a number of factors.

#### ***Combination of Phelps Dodge with Inco:***

The Phelps Dodge board of directors believes that a combination of Phelps Dodge with Inco would create a combined company with a portfolio of world-class assets with the scope, scale and financial strength to more efficiently develop existing opportunities and assets and to capitalize quickly on new growth and other opportunities within the mining industry.

#### ***Global Industry Leader With High-Quality, Long-Lived Assets***

The board believes that the combination would result in the creation of an industry-leading, diversified metals and mining company with leading market positions in multiple commodities. Based on 2005 production for Phelps Dodge and Inco, the combined company would be:

the world s second-largest nickel producer at 487 million pounds;

the world s third-largest copper producer at 2.4 billion pounds;

the world s second-largest producer of molybdenum at 62 million pounds; and

a major cobalt producer at 4 million pounds.

The combined company s nickel and copper portfolio would consist primarily of high-quality, low-cost operations with significant estimated long-lived mineral/ore reserves and resources. Based on 2005 sales, the combined company will have among the highest percentage of its sales derived from base metals of any of the global metals and mining companies.

#### ***Commodity and Asset Diversification***

The board expects the size and diversity of the combined company s commodity portfolio and mining and production sites to reduce risks associated with price fluctuations for any particular commodity and with variations in production costs associated with any particular mining or production site.

With its leading positions in nickel, copper, molybdenum and cobalt, the combined company should benefit from significantly enhanced commodity diversification.

The board believes that Inco has relatively low cost positions in its commodities, which the board believes will allow the combined company to better weather any future downturns in commodity prices.

Based on 2005 revenue figures, approximately 53%, 29% and 15% of the combined company s revenue would be derived from copper, nickel and molybdenum, respectively. Phelps Dodge currently derives approximately 77% of its revenues from copper production.

The board believes that the combined company s numerous mines will reduce production disruption risks.

#### ***Low Political Risk***

The board expects the size and scale of the combined company s financial resources to reduce risks associated with political or economic instability or natural disasters, in any particular geographical locale.

Based on 2005 revenue, approximately 64% of the combined company's revenue would derive from operations in North America and Europe.

An additional 17% would be derived from operations in Latin America (primarily Chile).

Greater Opportunities for Growth

The combined company will have a broad portfolio of brownfield and greenfield growth projects, primarily in nickel, copper, molybdenum and cobalt available for development. The board believes that the combined company will have greater flexibility and financial resources to pursue organic and acquisition growth opportunities than would Phelps Dodge alone.

Synergies and Cost Savings

Phelps Dodge has a strong track record of delivering on synergy expectations based on previous acquisition experience. The board believes that the combined company will realize from the combination approximately \$215 million in estimated annual synergies within two years following the closing of the combination. The board believes there is additional potential for increased synergies in the mid to long term. The synergies the board believes the combined company will realize include:

benefits from exploration synergies resulting from prioritizing exploration efforts, including prioritizing and reducing overall exploration spending;

general and administrative savings resulting from consolidating various functions and eliminating duplicative activities and costs, including establishing one corporate headquarters in Phoenix, Arizona and the head of the combined company's nickel operations in Toronto, Canada; and

benefits from general operating improvements and from economies of scale in purchasing, operating supplies and capital equipment and technology management.

Greater Financial Strength

Phelps Dodge believes that the increased size, asset diversification and expected synergies and cost savings of the combined company will lead to significantly enhanced financial strength and flexibility, including as a result of:

the company's expectation that the transaction will be immediately accretive to cash flow;

the company's expectation that the transaction will be accretive to earnings per share beginning in 2008;

greater ability to fund future acquisitions and capital return programs; and

the company's expectation that the diversification in its asset base and lower relative cost position, together with its greater size, will result in improvements in its overall cost of capital.

Increased Market Liquidity

The combined company would have a meaningfully enhanced position in the S&P 500 Index. As a result, the board believes that Phelps Dodge investors will benefit from enhanced trading volume of the combined company's stock and a broader shareholder base, including greater appeal to institutional investors and indexed funds. In addition, the board believes that the projected position of the combined company as a North America-based global industry leader with diverse, high-quality, long-lived assets and broad growth potential could positively affect the combined company's valuation multiple as compared with Phelps Dodge's current valuation multiple.

Experienced Management

The combined company will have what the board believes is an outstanding management team. The potential members of the new management team have proven themselves to be highly skilled in operations,

technology and financial management, and most of new management will have spent their entire careers working in the mining industry. The board believes that the members of the new management team have the skills necessary to manage the combined company through the most significant challenges that our industry may face and create value for Phelps Dodge shareholders.

*Other Factors Considered by the Phelps Dodge Board of Directors*

Other factors the board considered in reaching its conclusion to unanimously approve a combination of our company with Inco and unanimously recommend that Phelps Dodge shareholders vote FOR approval of the charter amendment proposal and FOR the share issuance proposal, include:

the information concerning Phelps Dodge's and Inco's respective historical businesses and financial results and prospects, including the results of Phelps Dodge's due diligence investigation of Inco;

Phelps Dodge's management's assessment that it can, working with Inco's managers and employees, effectively and efficiently integrate the two companies; and

the opinions of Phelps Dodge's financial advisors, Citigroup and HSBC, that, as of July 16, 2006, and based on and subject to the factors, assumptions, procedures, limitations and considerations in their respective opinions, the Combination Consideration was fair, from a financial point of view, to Phelps Dodge. The full text of the written opinions of Citigroup and HSBC, each dated July 16, 2006, are attached as Annexes C and D to this proxy statement and set forth assumptions made, general procedures f