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INCO LTD  
Form F-10POS  
June 06, 2003

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 5, 2003  
REGISTRATION NO. 333-104687

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U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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POST-EFFECTIVE AMENDMENT NO. 1

TO  
FORM F-10  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933

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INCO LIMITED  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CANADA	N/A	
(PROVINCE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER (IF APPLICABLE))	(I.R.S. EMPLO (I

145 KING STREET WEST, SUITE 1500, TORONTO, ONTARIO, M5H 4B7 (416) 361-7511  
(ADDRESS AND TELEPHONE NUMBER OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

CT CORPORATION SYSTEM  
111 EIGHTH AVENUE  
NEW YORK, NEW YORK 10011  
(212) 894-8940

(NAME, ADDRESS, (INCLUDING ZIP CODE) AND TELEPHONE NUMBER (INCLUDING AREA  
CODE) OF AGENT FOR SERVICE IN THE UNITED STATES)

-----

COPIES TO:

DONALD R. CRAWSHAW, ESQ.  
SULLIVAN & CROMWELL LLP  
125 BROAD STREET  
NEW YORK, NEW YORK 10004-2498

STUART F. FEINER, ESQ.  
EXECUTIVE VICE-PRESIDENT,  
GENERAL COUNSEL & SECRETARY  
INCO LIMITED  
145 KING STREET WEST, SUITE 1500  
TORONTO, ONTARIO M5H 4B7

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE OF THE SECURITIES TO  
THE PUBLIC:  
FROM TIME TO TIME AFTER EFFECTIVENESS OF THIS REGISTRATION STATEMENT.  
PROVINCE OF ONTARIO  
(PRINCIPAL JURISDICTION REGULATING THIS OFFERING (IF APPLICABLE))

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It is proposed that this filing shall become effective (check appropriate box):  
A.  Upon filing with the Commission, pursuant to Rule 467(a) (if in connection  
with an offering being made contemporaneously in the United States and  
Canada)  
B.  At some future date (check the appropriate box below):  
1.  pursuant to Rule 467(b) on \_\_\_\_\_ at \_\_\_\_\_ (designate a time not  
sooner than 7 calendar days after filing)  
2.  pursuant to Rule 467(b) on \_\_\_\_\_ at \_\_\_\_\_ (designate a time  
7 calendar days or sooner after filing) because the securities  
regulatory authority in the review jurisdiction has issued a receipt  
or notification of clearance on \_\_\_\_\_ .  
3.  pursuant to Rule 467(b) as soon as practicable after notification of

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the Commission by the Registrant or the Canadian securities regulatory authority of the review jurisdiction that a receipt or notification of clearance has been issued with respect hereto.

4. | | After the filing of the next amendment to this form (if preliminary material is being filed).

If any of the securities being registered on this Form are to be offered on a delayed or continuous pursuant to the home jurisdiction's shelf short form prospectus offering procedures, check the following box. |X|

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THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE AS PROVIDED IN RULE 467 UNDER THE SECURITIES ACT OF 1933 OR ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SECTION 8(A) OF THE ACT, MAY DETERMINE.  
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This Post-Effective Amendment No. 1 to Registration Statement on Form F-10 (File No. 333-104687) (the "Registration Statement") is filed by Inco Limited, a corporation duly organized and existing under the laws of Canada. Except as amended hereby, the Registration Statement remains in full force and effect.

PART I

INFORMATION REQUIRED TO BE DELIVERED TO OFFEREES OR PURCHASERS

Part I of the Registration Statement is hereby amended and restated as follows:

\$272,679,000

AMENDED AND RESTATED BASE SHELF PROSPECTUS  
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April 29, 2003, as amended  
and restated June 5, 2003

INCO LIMITED  
CONVERTIBLE DEBENTURES DUE 2023  
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We issued \$272,679,000 amount payable at maturity of convertible debentures due 2023 (the "Debentures") on a private placement basis on March 7, 2003 and March 18, 2003. This prospectus may be used by selling securityholders in connection with resales of the Debentures and the common shares issuable upon the conversion, redemption, purchase or payment of the Debentures. Such common shares are sometimes referred to in this prospectus as the underlying shares.

The Debentures are currently eligible for trading on the PORTAL market of the National Association of Securities Dealers, Inc. Our common shares currently trade under the symbol "N" on the New York Stock Exchange and the Toronto Stock Exchange. The last reported sale price of our common shares on the New York Stock Exchange on June 4, 2003 was \$20.87 per share.  
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INVESTING IN OUR COMMON SHARES OR THE DEBENTURES INVOLVES RISKS. PLEASE CAREFULLY CONSIDER THE "RISK FACTORS" SECTION BEGINNING ON PAGE 4 OF THIS PROSPECTUS.

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The Debentures and the underlying shares may be offered in negotiated transactions or otherwise, at varying prices determined at the time of the sale or at negotiated prices. In addition, the underlying shares may be offered from time to time through ordinary brokerage transactions on the New York Stock Exchange. See "Plan of Distribution". This prospectus has not been filed in respect of, and will not qualify, any distribution of Debentures or underlying shares in Ontario or any other province or territory of Canada. The selling securityholders may be deemed to be "underwriters" as defined in the U.S. Securities Act of 1933, as amended. Any profits realized by the selling securityholders may be deemed to be underwriting commissions. If the selling securityholders use any broker-dealers, any commissions paid to broker-dealers and, if broker-dealers purchase any Debentures or underlying shares as principals, any profits received by such broker-dealers on the resale of the Debentures or underlying shares, may be deemed to be underwriting discounts or commissions under the Securities Act.

We will not receive any of the proceeds from the resale of the Debentures or the underlying shares by any of the selling securityholders.

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UNDER THE MULTIJURISDICTIONAL DISCLOSURE SYSTEM ADOPTED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, WE ARE PERMITTED TO PREPARE THIS PROSPECTUS IN ACCORDANCE WITH CANADIAN DISCLOSURE REQUIREMENTS, WHICH ARE DIFFERENT FROM THOSE OF THE UNITED STATES. WE PREPARE OUR FINANCIAL STATEMENTS IN ACCORDANCE WITH CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, AND ARE SUBJECT TO CANADIAN AUDITING AND AUDITOR INDEPENDENCE STANDARDS. THEY MAY BE NOT BE COMPARABLE TO FINANCIAL STATEMENTS OF UNITED STATES COMPANIES.

OWNING DEBENTURES OR UNDERLYING SHARES MAY SUBJECT YOU TO TAX CONSEQUENCES BOTH IN THE UNITED STATES AND CANADA. THIS PROSPECTUS MAY NOT DESCRIBE THESE TAX CONSEQUENCES FULLY. YOU SHOULD READ THE TAX DISCUSSION UNDER "CERTAIN INCOME TAX CONSIDERATIONS".

YOUR ABILITY TO ENFORCE CIVIL LIABILITIES UNDER THE UNITED STATES FEDERAL SECURITIES LAWS MAY BE AFFECTED ADVERSELY BECAUSE WE ARE INCORPORATED IN CANADA, SOME OF OUR OFFICERS AND DIRECTORS AND SOME OF THE EXPERTS NAMED IN THIS PROSPECTUS ARE CANADIAN RESIDENTS, AND MOST OF OUR ASSETS ARE LOCATED OUTSIDE THE UNITED STATES.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES REGULATOR HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. These securities are not being offered or sold in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

IN THIS PROSPECTUS, UNLESS WE STATE OTHERWISE, "INCO", THE "COMPANY", "WE", "US" AND "OUR" REFER TO INCO LIMITED AND ALL OF ITS CONSOLIDATED SUBSIDIARIES, UNINCORPORATED UNITS AND DIVISIONS.

### CURRENCY REFERENCES

Unless we state otherwise or the context otherwise requires, all references to dollar amounts in this prospectus are references to U.S. dollars. The exchange rate between the Canadian dollar and the U.S. dollar used in this prospectus varies depending on the date and context of the information contained herein.

On June 4, 2003, the noon buying rate for U.S. dollars reported by the Bank of Canada was Cdn.\$1.3574 for each U.S.\$1.00.

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### CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in, or incorporated by reference into, this document are forward-looking statements as defined in the U.S. federal securities laws. Examples of such statements include, but are not limited to, statements concerning: (1) the price volatility for nickel and other primary metals products produced by us; (2) the long-term demand for and supply of nickel, copper and other metals as well as the availability of, and prices for, intermediates containing nickel purchased by us, and nickel-containing stainless steel scrap and other substitutes for primary nickel; (3) our premiums realized

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over London Metal Exchange cash prices and the sensitivity of our financial results to changes in metals prices and interest rates; (4) our strategies and objectives; (5) our interest and other expenses; (6) our energy, pension and other costs; (7) our position as a low-cost producer of nickel; (8) our debt-equity ratio and tangible net worth; (9) the political unrest or instability in countries such as Indonesia and its impact on our Indonesian subsidiary, PT International Nickel Indonesia Tbk, and political developments in other countries in which we operate and elsewhere; (10) the completion and results of a comprehensive review of the capital cost, scope, schedule and other key aspects of our Goro project and the results of the bankable feasibility study for our Voisey's Bay project; (11) the timing of the start of production and the costs of construction with respect to, and the issuance of the necessary permits and other authorizations required for, and engineering and construction timetables for, and the necessary financing plans and arrangements for, our Goro and Voisey's Bay projects and, in the case of our Goro project, joint venture or similar investment and other agreements or arrangements; (12) our estimates of the quantity and quality of ore reserves; (13) planned capital expenditures; (14) our costs of production and production levels, including the costs and potential impact of complying with existing and proposed environmental laws and regulations and net reductions in environmental emissions; (15) the impact of changes in Canadian-U.S. dollar and other foreign exchange rates on our costs and results; (16) sales of speciality nickel products; (17) our cost reduction and other financial and operating objectives; (18) the commercial viability of new production processes; (19) our productivity, exploration and research and development initiatives as well as environmental, health and safety initiatives; (20) the negotiation of collective agreements with unionized employees; (21) our sales organization and personnel requirements; (22) business and economic conditions and (23) the enforceability of certain liabilities. Inherent in forward-looking statements are risks and uncertainties well beyond our ability to predict or control. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in, or incorporated by reference into, this document. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about: (a) business and economic conditions, including exchange rates and energy, pension and other costs and other anticipated and unanticipated costs; (b) the supply and demand for, deliveries of, and the level and volatility of prices of, nickel, copper, cobalt and our other metals products, purchased intermediates and nickel-containing stainless steel scrap and other substitutes and competing products for the primary nickel and other metal products we produce; (c) the timing of the receipt of regulatory and governmental approvals for our Goro and Voisey's Bay projects and other operations; (d) the availability of financing, including partner or other investment arrangements in the case of our Goro project, for our development projects on reasonable terms; (e) our costs of production and our production and productivity levels, as well as those of our competitors; (f) engineering and construction timetables and capital and operating costs for our Goro and Voisey's Bay projects; (g) market competition; (h) mining, processing, exploration and research and development activities; (i) the accuracy of ore reserve estimates; (j) premiums realized over London Metal Exchange cash and other benchmark prices; (k) tax benefits; (l) the resolution of environmental and other proceedings and the impact on us of the Kyoto Protocol and various other environmental regulations and initiatives; (m) political instability in Indonesia and other countries or locations in which we operate or otherwise; and (n) our ongoing relations with our employees at our operations throughout the world. See "Risk Factors" for more information about certain factors that, among others, may cause actual results and developments to differ from those expressed or implied by forward-looking statements contained in, or incorporated by reference into, this document.

ENFORCEABILITY OF CERTAIN CIVIL LIABILITIES

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We are a corporation organized under the laws of Canada and a majority of our assets are located in, and most of our directors and officers are residents of, Canada. As a result, it may be difficult for United States investors to effect service of process within the United States upon those directors or officers who are not residents of the United States, or to realize in the United States upon judgments of courts of the United States predicated upon civil liability of such directors or officers under U.S. federal securities laws. We have been advised by Osler, Hoskin & Harcourt LLP, our Canadian counsel, that a judgment of a U.S. court predicated solely upon civil liability under such laws would probably be enforceable in Canada if the U.S. court in which the judgment was obtained had a basis for jurisdiction in the matter that was recognized by a Canadian court for such purposes. We have also been advised by such counsel, however, that there is substantial doubt whether an action could be brought in Canada in the first instance on the basis of liability predicated solely upon such laws.

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### INCO LIMITED

Inco Limited is one of the world's premier mining and metals companies. We are a leading producer of nickel, a hard, malleable metal which, given its properties and wide range of applications, can be found in thousands of products. We are also an important producer of copper, precious metals and cobalt, and we produce sulphuric acid and liquid sulphur dioxide as by-products of our operations at Sudbury, Ontario. Our principal mines and processing operations are located in the Sudbury area of Ontario, the Thompson area of Manitoba, and, through our 59 per cent-owned subsidiary, PT International Nickel Indonesia Tbk ("PT Inco"), on the island of Sulawesi, Indonesia. We have additional wholly-owned metals refineries at Port Colborne, Ontario and in the United Kingdom at Clydach, Wales and Acton, England. We also have interests in nickel refining capacity and nickel salts production facilities located in Japan, Taiwan, South Korea and the People's Republic of China.

We currently have two major development projects, our Goro and Voisey's Bay projects. We indirectly own an 85 per cent interest in Goro Nickel which holds a number of claims covering nickel-cobalt properties in the French Overseas Territory of New Caledonia, which we refer to as our Goro deposit. Our wholly-owned subsidiary, Voisey's Bay Nickel Company Limited, holds the mineral licenses covering the Voisey's Bay deposit and certain other mineral licenses and claims in the Province of Newfoundland and Labrador. We are currently in the process of undertaking a review of our Goro project. See "Risk Factors--Risks Associated with, and Importance of, Future Low-Cost Nickel Projects--Uncertainty of Production and Capital and Other Cost Estimates".

Our executive offices are located at 145 King Street West, Suite 1500, Toronto, Ontario, Canada M5H 4B7. You should refer to our annual report on Form 10-K for the year ended December 31, 2002 (the "2002 10-K"), for additional information regarding us and our operations throughout the world, including our exploration programs and our ore reserves.

### RISK FACTORS

Investment in the Debentures involves certain risks. Prospective purchasers of the Debentures should consider carefully the risk factors set forth below as well as the other information contained and incorporated by reference in this prospectus before purchasing the Debentures, including the information contained in our 2002 10-K.

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### RISKS RELATING TO OUR BUSINESS

#### VOLATILITY OF PRICE OF NICKEL AND OTHER PRICES AND THEIR EFFECT ON OUR FINANCIAL RESULTS

The price of nickel has represented, and is currently expected to continue to represent, the principal determinant of our profitability. Accordingly, our financial performance has been, and is expected to continue to be, closely linked to the price of nickel and, to a lesser extent, the price of copper and other primary metals produced by us. Since we sell our nickel products in all major geographical markets, the prices for primary nickel and other primary metals products realized by us are influenced by both global and regional supply and demand factors and by the availability and prices of secondary or metal-containing scrap material, including nickel-containing scrap generated by the stainless steel industry, and other substitute or competing commodity products for the primary nickel and other metal products produced by us. In recent times, the world's nickel and copper markets have been adversely affected by excess supply conditions. Based upon available data, we believe that between mid-1999 and the second half of 2000, global nickel demand exceeded supply, but for most, if not all, of 2001, a surplus condition existed in the global nickel market. For 2002, we estimate that, with the improvement in global nickel demand, the global nickel market experienced a modest surplus position. There can be no assurance that the excess supply situations which have existed historically in the nickel markets will not occur in the future. Any such excess supply condition would have an adverse effect on the prices realized by us for our nickel products. Other international economic trends, including an uncertain global economic environment, expectations of inflation and political events in major nickel-producing and consuming countries can also affect nickel prices and the prices of other metals produced by us. These factors are beyond our control and have resulted, and are expected to continue to result, in a high degree of price volatility for nickel and other primary metals produced by us. There can be no assurance that the price for nickel or other metals produced by us will not decline significantly from current levels. A return to the relatively low price of nickel reflected by the London Metal Exchange ("LME") cash nickel price which prevailed through most of 1998 and into the first half of 1999 and during a portion of the second half of 2001 would have a material adverse impact on our business, results of operations, financial condition and liquidity.

The price of nickel, as the principal determinant of our profitability, has fluctuated significantly for many years. Over the past two years, there have been significant fluctuations in the LME cash nickel price. The LME cash nickel price on January 2,

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2001 was \$6,995 per tonne (\$3.17 per pound) and fell during the course of that year through the end of October 2001, reaching a low of \$4,420 per tonne (\$2.00 per pound) on October 31, 2001. The LME cash nickel price improved during the remainder of the fourth quarter of 2001, averaging \$5,039 per tonne (\$2.29 per pound) for that quarter and was \$5,680 per tonne (\$2.58 per pound) on December 31, 2001. The LME cash nickel price opened 2002 at \$5,680 per tonne (\$2.58 per pound) and increased during the first half of 2002 as the economies of certain industrialized countries began to recover from their relatively low fourth quarter 2001 levels, ending the first half of the year at \$7,080 per tonne (\$3.21 per pound). Prices declined through the third quarter, reaching a low of \$6,305 per tonne (\$2.86 per pound) as concern over the pace of economic recovery

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and uncertainty about a potential war with Iraq adversely affected the nickel markets. Prices increased in the fourth quarter of 2002, and the LME cash nickel price ended 2002 at \$7,100 per tonne (\$3.22 per pound). As of June 4, 2003, the LME cash nickel price was \$9,280 per tonne (\$4.21 per pound). We believe that the improvement in the LME cash nickel price in late 2002 and through June 4, 2003 has been due principally to the recovery in stainless steel production levels and demand for certain other end-use applications for nickel in certain geographic regions. More recently, the LME cash nickel price has increased, we believe, as a result of speculation that a strike by our unionized hourly production and maintenance workers at our Ontario operations, which has shut down our Ontario operations, may adversely affect nickel supply. However, we have not seen any recovery in certain other important end-use markets for nickel, in particular the high nickel alloys industry, during 2002 and into 2003. Global nickel demand has historically been closely correlated with global industrial production.

Copper is also an important product for us and, like nickel, copper prices have been volatile for many years. For 2001, while the early part of the year saw some improvement in global copper demand, copper prices declined during the course of the year based upon the overall global economic slowdown and increased copper inventories. The COMEX first position cash copper price, the principal price upon which our copper sales are based, averaged \$1,600 per tonne (\$0.73 per pound) in 2001, down 14 per cent from its average of \$1,851 per tonne (\$0.84 per pound) in 2000. Copper prices for 2002 did not change significantly from the 2001 average, with the average COMEX first position cash copper price at \$1,560 per tonne (\$0.72 per pound) for 2002. On June 4, 2003 the COMEX first position cash copper price was \$1,715 per tonne (\$0.78 per pound).

Our development projects discussed under "Risks Associated with, and Importance of, Future Low-Cost Nickel Projects" below, in addition to the quantities of nickel projected to be produced by them, are expected to produce significant quantities of cobalt given the currently estimated quantities of cobalt in the mineral deposits to be mined as part of these projects. With significant increases in the global supply of cobalt and changes in demand, the price of cobalt has fluctuated significantly over the past several years, reaching a high of \$70.30 per kilogram (\$31.90 per pound) in January 1996 and declining significantly from that peak to an average price, based upon the Metal Bulletin 99.8 per cent average cobalt reference price, of \$15.66 per kilogram (\$7.10 per pound) for 2002 and was \$22.22 per kilogram (\$10.08 per pound) on June 4, 2003. The financial analyses undertaken by us in support of the substantial investment to be made with respect to these projects has been based upon a long-term price of cobalt of \$15.40 per kilogram (\$7.00 per pound). If realized cobalt prices, as well as realized prices for the other metals to be produced by these projects, were to be below the long-term prices assumed by us, the expected financial returns from, and expected cash and other unit costs of production for, these projects would be adversely affected.

For information concerning the sensitivity of our results of operations to certain changes in the price of nickel and other metals refer to "Risks and Uncertainties--Sensitivities" in the Management's Discussion and Analysis included as an exhibit to our 2002 10-K.

### RISKS ASSOCIATED WITH, AND IMPORTANCE OF, FUTURE LOW-COST NICKEL PROJECTS

As part of our strategy to be the world's lowest-cost and most profitable nickel producer, we have continued our efforts to develop new low-cost sources of nickel. Following the completion of the PT Inco expansion project in late 1999, we have focused on potential future projects to commercialize our Goro nickel-cobalt deposit and Voisey's Bay nickel-copper-cobalt deposit. A number of risks and uncertainties are associated with the development of these projected low-cost sources of nickel and other metals, including political, regulatory,



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design, construction, labor, operating, technical and technological risks, uncertainties relating to capital and other costs and financing risks and, in the case of Goro, those risks related to the possible transition to independence in the future of the French overseas territorial community of New Caledonia.

In addition to the risks and uncertainties referred to above, there are certain issues that must be resolved to enable the commercial development of each of these deposits to proceed. For the Goro deposit, we still need to receive the necessary environmental and operating permits, complete our comprehensive review of the schedule, capital costs, scope and other key aspects of this project and develop an acceptable updated capital cost estimate (as discussed under "Uncertainty of Production and Capital and Other Cost Estimates" below) and, as discussed below, complete the required financing, including bringing in a partner for the project, on acceptable terms. In the case of our Voisey's Bay deposit, the principal issues that would have to be resolved before commercial development can begin include issuance of the necessary construction and operating permits, meeting the conditions to be met with respect to the overall effectiveness of the definitive agreements on the development of the Voisey's Bay deposit reached in October 2002 between the Government of Newfoundland and Labrador and us and

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the availability of financing required for development on acceptable terms.

In connection with raising the significant financing which we currently believe will be required for the commercial development of the Goro and Voisey's Bay deposits, we currently expect that, in order to meet such financing needs, we will be required to borrow additional funds and/or issue additional debt and/or equity or arrange other forms of financing and/or enter into strategic or other arrangements. Our current plans for development of Goro contemplate finalization of at least approximately \$350 million in tax-advantaged financing under an existing French legislative program. Our plans also contemplate finalization of the terms and conditions under which a Japanese consortium to be led by Sumitomo Metal Mining Co., Ltd. would acquire a 25 per cent interest in Goro and assume, subject to certain limitations, the obligation to fund 25 per cent of the capital costs of the Goro project. There can be no assurance that these arrangements will be finalized or that we will be able to raise additional required funds on acceptable terms when financing is needed for either project. As discussed under "Uncertainty of Production and Capital and Other Cost Estimates" below, while we have certain potential new mine development projects at existing operations in Canada, as well as additional resources that could be developed in Indonesia, in addition to the Voisey's Bay and Goro projects, if sufficient new low-cost sources of nickel are not developed by us on a timely basis, our overall nickel production, particularly at our Manitoba operations, could decline by 2004, and our unit cost of production could increase significantly with any material decline in mine production from the Canadian operations if such operations were not significantly restructured. These developments could materially adversely affect our business, results of operations, financial condition and liquidity.

### CONSTRUCTION RISKS AND TECHNOLOGICAL RISKS

The mine, processing plant and related infrastructure required for development of the Goro and Voisey's Bay deposits have not yet been constructed and no commercial mining has commenced. While certain necessary construction permits have been obtained in respect of the Goro deposit and detailed exploration and related studies with respect to the Goro deposit and a portion of the Voisey's Bay deposit have been completed based on (1) significant surface exploratory drilling, (2) extensive investigations of certain of the

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mineralization delineated to date, (3) construction and mine plans, and (4) production and cost estimates, we are not currently in a position to predict when all of the required approvals would be in place for us to develop either project and, in the case of the Goro project, when construction would be restarted given the status of the comprehensive review, as discussed under "Uncertainty of Production and Capital and Other Cost Estimates", currently being undertaken, and, in the case of the Voisey's Bay deposit, when construction will be able to commence. Depending on the severity of winter conditions and other factors applicable to the Voisey's Bay deposit, a period of approximately 36 months from site mobilization will be required to complete construction of the initial phase, the mine, mill and related facilities necessary for the commercial development of such deposit after all necessary approvals and permits have been secured.

Unforeseen conditions or developments could arise during the construction period for either project which could delay or prevent completion, and/or substantially increase the cost of construction of the necessary facilities and infrastructure to develop the Goro and the Voisey's Bay deposits. Such events may include, without limitation, shortages of equipment, materials or labor, delays in delivery of equipment or materials, labor disruptions, political events, local or political opposition, civil disturbances, litigation, adverse weather conditions, unanticipated increases in costs, natural or man-made disasters, accidents and unforeseen engineering, technical and technological, design, environmental, geological or geotechnical problems. Any delay in construction would delay the production of nickel and other products from the Goro and/or the Voisey's Bay deposits, and the expected significant source of revenue for us that production from these deposits would represent. Any such delay could also materially adversely impact our business, results of operations, financial condition and liquidity.

Our Goro project will involve the application of new processing and other technologies and, depending upon the results of the hydrometallurgical process research and development program we plan to conduct for our Voisey's Bay project, that project could also utilize new processing and other technologies to produce one or more refined or finished nickel products. There can be no assurance that these technologies will be successfully developed and applied on a commercial basis or that the costs associated with and/or the timing of their implementation will not have a material adverse effect on the timing of the start-up of commercial production, the capital and/or operating costs for either or both projects and on other factors impacting the profitability of these projects. These developments could materially adversely impact our business, results of operations, financial condition and liquidity.

### UNCERTAINTY OF PRODUCTION AND CAPITAL AND OTHER COST ESTIMATES

In the case of our Goro project, in September 2002, at the time the project was experiencing certain labor disruptions, we initiated a review of the status of certain key aspects of the project, including the necessary permitting, capital cost estimate, schedule and organization. Work over the September--November 2002 period on certain critical parts of the project, including engineering, continued during this initial review. On December 5, 2002, we announced that we would be undertaking a comprehensive review of the Goro project. The objective of the comprehensive review is to assess all information on our Goro

project, including the various cost estimates and trends, and determine what changes in the capital cost estimate and the project can be made to maintain the project's economic feasibility. The review of the capital cost estimate will

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cover what downward adjustments can be made in such estimate through scope or design changes, modifications to construction and related plans and civil and other contractual arrangements, and alternative project execution strategies. Since that announcement, we have been evaluating what onsite and offsite work should be curtailed or stopped and what work should be continued while this review is ongoing. The comprehensive review was commenced in response to information we received from the principal firms providing project engineering, procurement and construction management services that, if confirmed, would indicate an increase in the capital cost for the project in the range of 30 to 45 per cent above the then current capital cost estimate of \$1,450 million. As a result of the temporary suspension of certain development activities and other actions which had been taken by year-end 2002 during this review process, we recorded a pre-tax charge of \$25 million in the fourth quarter of 2002. This charge was comprised of pre-tax expenses of \$62 million relating to the cancellation or termination of certain outstanding contractual obligations, to accrue for demobilization costs and to reduce the carrying value of certain assets relating to the project, partially offset by currency gains of \$37 million from the early settlement of certain forward currency contracts that had been entered into for hedging purposes. Based upon this ongoing evaluation, we have also been reviewing various contractual and other arrangements covering construction and other work relating to the Goro project and implementing certain actions to suspend or terminate certain of those contractual arrangements.

As of March 31, 2003, we had spent approximately \$475 million on the Goro project since July 1, 2001 when this project was formally launched. This amount excludes a current estimate of approximately \$87 million that would still have to be spent for equipment, services and other requirements under existing contracts and commitments, and accruals as of March 31, 2003 of approximately \$70 million relating to such requirements, most of which is expected to have value for the project.

Since the Goro project review process is still in its preliminary stages given its planned scope, we do not currently expect to be in a position to report on the results of this review, including an updated capital cost estimate for the project and the additional effect, if any, that this review could have on our financial results, until at least early in the third quarter of 2003. We have been working with various parties to assist us in the review process. While the key objective of this comprehensive review is to implement such actions and steps, if required, to have a project that will meet an acceptable rate of return on the investment to be made in this project, if, upon completion of the review, we were to conclude that the Goro project could not be restructured to meet our rate of return on investment requirements, we would likely write off all or a substantial portion of the carrying value of the Goro project and we would also lose the expected future production from Goro. Such a result would have a material adverse effect on our business, results of operations, financial condition and liquidity.

During 2002, as mine production at our Manitoba operations transitioned from the Thompson mine to the lower grade Birchtree mine, we experienced lower mine production. As this transition moves forward, we expect to see declining mine production in Manitoba in 2003 and in future years. We have recently been relying upon, and will continue to rely upon, on an increasing basis, the availability of purchased intermediates to maintain Manitoba's nickel production at around the 45,000 tonne annual level. While we anticipate that we will continue to be able to purchase intermediates to maintain Manitoba's production levels at such levels for the next few years, until the Voisey's Bay project produces intermediates in the form of concentrates for further processing at the Manitoba and Ontario operations, if suppliers of the purchased intermediates were to experience production problems or other disruptions, this could have a material adverse effect on our nickel production, business, results of

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operations, financial condition and liquidity. While we have certain potential new mine development projects at our existing operations in Canada, if sufficient new low-cost sources of nickel such as our Voisey's Bay and Goro projects are not developed on a timely basis, our overall nickel production, particularly at our Manitoba operations, could decline by 2004, and our unit cost of production could increase significantly with any material decline in mine production from our Canadian operations if such operations were not significantly restructured. These developments could materially adversely impact our business, results of operations, financial condition and liquidity.

The level of production and capital and operating cost estimates relating to the Goro project, the Voisey's Bay project and other projects of ours, which are used in establishing ore reserve estimates and for determining and obtaining financing and other purposes, are based on certain assumptions and are inherently subject to significant uncertainties. In the case of our Goro project, as discussed above, the review by us could result in a capital cost estimate substantially higher than the 15 per cent increase in the estimate that we had indicated in the third quarter of 2002 could occur given the then current state of project procurement and engineering.

We announced on March 20, 2003 (i) the results of our bankable feasibility study for the mine for the Ovoid and adjacent surface deposits, concentrator and related facilities representing part of the initial phase of the Voisey's Bay project and (ii) that we plan to proceed with this initial phase. Based upon the results of the study, the estimated total capital cost for the mine and 6,000-tonne per-day concentrator and related facilities representing the mine, concentrator and related facilities and infrastructure in the Voisey's Bay area (the "Mine/Concentrator Project") will be \$582 million, including \$35 million spent since July 2002 on infrastructure and related work. The \$582 million amount represents an increase of \$77 million or about 15

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per cent over the prefeasibility study estimates for the Mine/Concentrator Project. This estimate includes a \$54 million contingency. The initial phase of the Voisey's Bay project will also involve a research and development program covering hydrometallurgical processing technologies (the "Hydromet R&D Program") for the treatment of the Voisey's Bay nickel and cobalt-containing concentrates to be produced into finished nickel and cobalt product, including the demonstration plant to be constructed in Argentia, Newfoundland. The Hydromet R&D Program is expected to cost approximately \$134 million or about 14 per cent above the initial estimate for this program. In addition to the Mine/Concentrator Project and the Hydromet R&D Program, the initial phase will include handling facilities to be constructed at our Canadian operations for the nickel and cobalt-containing concentrates to be processed over the 2006 - 2011 period once the Mine/Concentrator Project and the demonstration plant are in operation, at an estimated cost of \$47 million, and an exploration program at an estimated cost of \$13 million. The total capital cost estimate for all four parts of the initial phase of the Voisey's Bay project is \$776 million, or about 14 per cent above the prefeasibility study estimates of \$680 million. The engineering firm retained to complete the study has indicated that it believes that the capital cost estimate is within a range of plus 15% and minus 5% of the \$547 million figure still to be spent for the Mine/Concentrator Project.

It is very likely that actual results for these projects will differ from our 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 which could reduce production below, and/or increase capital and/or operating costs above, our current estimates. If actual

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results are less favorable than we currently estimate, our business, results of operations, financial condition and liquidity could be materially adversely impacted.

### RISKS ASSOCIATED WITH PT INCO

Our investment in PT Inco at book value as of December 31, 2002 totalled \$364 million. Approximately 30 per cent of our 2003 planned total production of primary nickel, including intermediate product, is currently expected to come from PT Inco. In 1999, to meet PT Inco's cash shortfalls attributable principally to the increase in the capital cost of the new hydroelectric facilities which were part of PT Inco's expansion project, the relatively low nickel prices, and constraints on PT Inco's production attributable to then reduced hydroelectric power generation caused by below average rainfall, we advanced \$88 million in total to PT Inco. These advances have since been repaid. PT Inco may experience cash shortfalls in the future, particularly if there were to be a significant decline in primary nickel demand and nickel prices. In the event of such a cash shortfall, we may again conclude that it would be necessary to advance cash to PT Inco in order to meet PT Inco's cash needs.

The uncertain political situation in Indonesia, primarily as a result of the ongoing economic and political problems facing that country, could adversely affect PT Inco's ability to operate. While there has been no indication that the Government of the Republic of Indonesia is considering currency controls, nationalization of certain properties or facilities or other similar actions, regional and local governmental authorities have sought to take greater control of the development of their resources and these or other political developments, including, but not limited to, the possibility of disruptions in PT Inco's operations arising out of the actions of non-governmental organizations or community activist groups, could have a material adverse effect on PT Inco's, and therefore our, nickel production, business, results of operations, financial condition and liquidity.

### ENVIRONMENTAL RISKS

Environmental legislation affects nearly all aspects of our operations worldwide. These laws apply to us along with other companies in the mining and metals industry. This type of legislation requires us to obtain operating licenses, permits and other approvals and imposes standards and controls on activities relating to mining, exploration, development, production, closure and the refining, distribution and marketing of nickel and other metals products. Environmental assessments are required before initiating most new projects or undertaking significant changes to existing operations. In addition to current requirements, we expect that additional environmental regulations will likely be implemented to protect the environment and quality of life, given issues of sustainable development and other similar requirements which governmental and supragovernmental organizations and other bodies have been pursuing. Some of the issues currently under review by environmental regulatory agencies include (1) further reducing or stabilizing various emissions, including sulphur dioxide, metal and greenhouse gas emissions, (2) mine reclamation and restoration, and (3) water, air and soil quality and waste treatment and disposal.

Although the ultimate amount to be incurred is uncertain, the total liability for future removal and site restoration costs in respect of our worldwide operations, to be incurred primarily after cessation of operations, is estimated to be approximately \$415 million at December 31, 2002, up from \$315 million at December 31, 2001. The increase was primarily due to the inclusion of new estimates for certain sites. In recognition of this future liability, we have recorded annually commencing in 1995 an accounting provision of \$10 million for future removal and site

restoration costs, which is included in cost of sales and operating expenses. This amount is based upon the estimated remaining lives of our applicable ore reserves and facilities and is in addition to ongoing operating and capital expenditures. The estimate of the total liability for future removal and site restoration costs has been developed from independent environmental studies, which include an evaluation of, among other factors, currently available information with respect to closure plans and closure alternatives, the anticipated method and extent of site restoration using current costs and existing technology, and compliance required by presently enacted laws, regulations and existing industry standards. The total liability for future removal and site restoration costs represents estimated expenditures associated with closure, progressive rehabilitation and post-closure care and maintenance. Potential recoveries of funds from the future sale of assets upon the ultimate closure of operations have not been reflected in the estimate of the total liability or related annual provision. Future changes, if any, to the estimated total liability, as a result of amended requirements, laws, regulations and operating assumptions may be significant and would be recognized prospectively as a change in accounting estimate, when applicable. Environmental laws and regulations are continually evolving in all areas in which we operate.

Changes made in 2000 to mining regulations in the Province of Ontario will require us to provide letters of credit or other forms of financial security to fund our future reclamation and restoration costs, which are not expected to be incurred for many years, if we were to no longer meet certain minimum investment grade credit ratings for our outstanding publicly traded debt securities. Although our debt securities are currently rated investment grade, they were rated below investment grade in recent times and there can be no assurance that this situation will not reoccur. If we are not able to maintain the minimum investment grade credit ratings, it is currently estimated that letters of credit or other forms of financial security associated with the currently estimated costs of the eventual future closure of our mines and other facilities in Ontario would have to cover approximately \$310 million in such closure costs. Due to the recent closure of three mines in Ontario in 2002, we were required under such mining regulations to provide surety bonds in the amount of \$17 million as of December 31, 2002 to secure closure costs. In addition, we are subject to certain Indonesian regulations which require us to provide security for the reclamation of land areas that have been mined. In the case of our Manitoba operations we expect that, based upon recently enacted regulations in the Province of Manitoba, we will be required to provide some form of financial security for our future reclamation and restoration costs in that Province. However, it is not currently expected that these costs and related security with respect to our Manitoba operations (beyond what has been included in the \$415 million estimate referred to above) and for our Indonesian operations will be of a material amount. These potential costs might not be incurred until many years in the future. If these requirements for letters of credit or other forms of financial security had to be satisfied, they could have an adverse effect on the amounts available for borrowing under our bank credit facilities.

In February 2002, the Ontario government issued a control order that requires us to reduce sulphur dioxide emissions by 34 per cent at our Ontario smelting operations by the end of 2006. We are implementing a \$76 million investment in fluid bed roaster off-gas scrubbing technology intended to reduce sulfur dioxide emissions to the new levels mandated by this new control order by the end of 2006. As part of the control order, we will also be required to (1) reduce ground level concentrations of sulfur dioxide, (2) continue research into the technology and economics of further reductions in sulphur dioxide emissions and (3) report annually to the Ontario Ministry of the Environment and the public on the progress of this research program. The control order calls for a final report on achieving the additional reductions to be submitted by December

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31, 2010. We do not currently expect that compliance with the annual sulphur dioxide emission levels from our smelter operations or ground level concentrations levels as set forth in the control order will have any significant effect on our costs, operating procedures or annual production of nickel and other primary metals from our Ontario operations. The Province of Ontario recently issued a discussion paper covering proposals for further reductions in sulfur dioxide emissions by non-ferrous smelting operations, including our operations, and the federal government of Canada has recently designated for further regulation certain sulfur dioxide and particulate emissions from copper-smelting operations such as those we have in Ontario. While we are not able to determine the effect, if any, of these recent developments and significant future changes in regulatory emission limits and other environmental laws and regulations that may be enacted in the future due to the uncertainty surrounding the timing and ultimate form that such changes may take, any such changes could have a material adverse effect on our business, results of operations, financial condition and liquidity.

Canada signed and ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change ("Kyoto Protocol") in December 2002. The Kyoto Protocol calls for significant reductions in the emissions of greenhouse gases, such as carbon dioxide, and nationwide ceilings on such emissions. In November 2002, the federal government of Canada released an initiative to address certain causes of climate changes. The specific requirement of this initiative is also to limit the discharge of carbon dioxide and other greenhouse gases. Neither of these initiatives has as yet established what the allocation of restrictions among various sources of greenhouse gases would be. While the precise impact on our Canadian operations and the operations of others who provide energy or other products or services to us is uncertain at this time, we anticipate that compliance with these initiatives could have a significant adverse effect on our results of operations and costs.

In 2002, the Danish Environmental Protection Agency, as part of the authority granted to it under certain environmental regulations of the European Union Commission, published draft risk assessment reports, including certain conclusions concerning potential human health hazards associated with nickel metal and certain soluble nickel compounds, including nickel sulphate, nickel chloride and nickel nitrate. This Agency determined, based on certain animal studies, that soluble nickel is a

reproductive toxin and has proposed certain product labelling requirements as a result of this determination. It has also assessed certain other environmental issues. In addition, based upon these draft reports and taking into consideration certain studies, this Agency has proposed that soluble nickel be classified under its hazard classification system as a known human carcinogen. Before any such proposed classification could come into effect, a number of regulatory and administrative steps would have to be completed. If this proposed classification were to come into effect as currently proposed, it could result in use restrictions and other requirements which could have a material adverse impact on certain producers and end users of the forms of nickel covered by such classification and on our business, results of operations, financial condition and liquidity. The European Union Commission also in 2002 proposed a directive on air pollution which includes target limit values for nickel since nickel is considered by this Commission to be a possible carcinogenic pollutant. Member states of the European Union will have until 2010 to achieve the target limit values, after which more stringent binding limit values may be considered. The technical and socio-economic feasibility of meeting such limits are currently being considered by the European Union Commission and those industries that

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would be affected, including nickel producers.

Further changes in environmental laws, the restrictions on our discharge of greenhouse gases as a result of Canada's program to comply with the Kyoto Protocol and similar developments that may be imposed, new information on existing environmental conditions and other events, including legal proceedings brought based upon such conditions or an inability to obtain necessary permits, could require increased financial reserves or compliance or other expenditures or otherwise have a material adverse effect on our business, results of operation, financial condition and liquidity.

Other changes in environmental legislation could have a material adverse effect on product demand, product quality and methods of production and distribution. The complexity and breadth of these issues make it extremely difficult to predict their future impact on us. We anticipate capital expenditures and operating expenses will increase in the future as a result of the implementation of new and increasingly stringent environmental regulations. Compliance with environmental legislation can require significant expenditures and failure to comply with environmental legislation may result in the imposition of fines and penalties, liability for clean up costs, damages and the loss of important permits.

There can be no assurance that we will at all times be in compliance with all environmental regulations or that steps to bring us into compliance would not materially adversely affect our business, results of operation, financial condition or liquidity. We may also be subject to claims from persons alleging that they have suffered significant damages as a result of the environmental impact of our operations, including operations that have ceased to exist for many years.

### COMPETITION

The nickel industry is highly competitive in all aspects of operations, including the exploration for, and the development of, new sources of supply, the acquisition of deposits, and the processing, distribution and marketing of nickel products. The level of production and export of primary nickel and secondary or nickel-containing scrap material from the Russian Federation as well as other sources of such scrap, together with the continuing relatively limited level of domestic consumption of nickel in the Russian Federation since the break-up of the former Soviet Union, has had, and is expected to continue to have, a significant impact on the nickel industry's supply-demand balance.

During 1999, three new nickel projects in Australia began commercial production at costs of production which the sponsors of such projects had estimated to be very favorable relative to other industry participants, including us. While these projects still have not operated at close to their aggregate indicated production capacity, which had been estimated by their sponsors to be approximately 65,000 tonnes annually in total, increases in the supply of nickel resulting from those projects, and from other new sources of nickel, if developed, could create downward pressure on prices realized by us for our primary nickel products.

While we expect that the demand for nickel will continue to grow over the longer term, increases in supply in excess of increases in demand could cause nickel prices to remain at current levels or to decrease further. Any such situation could materially adversely affect our business, results of operations, financial condition and liquidity. See "--Volatility of Price of Nickel and Other Prices and their Effect on Our Financial Results" above. As we expect to become a significant producer of cobalt once our development projects begin commercial production, our results will also be affected by the currently projected highly competitive market for cobalt.



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### GOVERNMENTAL REGULATIONS

In addition to environmental regulations referred to above, the mining and metals industry in Canada operates under federal, provincial and municipal legislation, regulation and intervention by governments in such matters as land tenure, limitations on areas in which mining can be conducted, production rates, income and other taxes and the export of ore and other products, as well as other matters. Our operations in Indonesia, the United Kingdom, New Caledonia and other countries outside Canada are also subject to various environmental and other applicable laws and regulations and governmental

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interventions, some of which are similar to those in Canada and all of which are subject to change. The mining and metals industry is also subject to regulation and intervention by governments in such matters as control over the development and abandonment of mine sites (including restrictions on production) and possible expropriation or cancellation of contract and mineral rights. Before proceeding with major projects, including significant changes to existing operations, we must obtain regulatory approvals. The regulatory approval process can involve stakeholder consultation, environmental impact assessments and public hearings, among other things. In addition, regulatory approvals may be subject to conditions, including the obligation to post security deposits and other financial commitments. Failure to obtain regulatory approvals, or failure to obtain them on a timely basis, could result in delays and abandonment or restructuring of projects and increased costs, all of which could negatively affect our future earnings and cash flow. In addition, such regulations may be changed from time to time in response to economic or political conditions, and the implementation of new regulations or the modification of existing regulations affecting the mining and metals industry could increase our costs and have a material adverse impact on business, results of operations, financial condition and liquidity.

There can be no assurance that we will be in compliance with all applicable statutes or regulations at all times or that steps to bring us into compliance would not materially adversely impact our business, results of operations, liquidity or financial condition. See "--Environmental Risks" above.

### CAPITAL REQUIREMENTS AND OPERATING RISKS

Each of our two current principal primary metals business units, the Canadian and U.K. operations and our 59 per cent owned Indonesian subsidiary, PT Inco, has required, and is expected to continue to require, certain levels of investment to sustain its current levels of production. For 2003, we currently forecast capital expenditures totalling approximately \$680 million, covering sustaining capital projects for these units as well as planned expenditures for our Goro and Voisey's Bay projects and other development projects. This total amount assumes a level of capital expenditures for our Goro project of \$260 million, which may be higher or lower depending upon the results of the review referred to under "--Uncertainty of Production and Capital and Other Cost Estimates" above and other developments, and \$185 million for our Voisey's Bay project, which is based upon upon the results of the bankable feasibility study referred to above and other developments. We anticipate very substantial continuing capital expenditures in 2004 and subsequent years for sustaining capital projects and for our development projects. The expected capital costs of each of our two major development projects are under review and may ultimately be much higher than what we currently anticipate. To meet such capital expenditure requirements, we must generate sufficient positive internal cash

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flow and/or utilize available financing sources.

In addition, our mining operations and processing and related infrastructure facilities are subject to risks normally encountered in the mining and metals industry. Such risks include, without limitation, environmental hazards, industrial accidents, labor disputes, changes in laws, technical difficulties or failures, late delivery of supplies or equipment, unusual or unexpected geological formations or pressures, cave-ins, pit-wall failures, rock falls, unanticipated ground, grade or water conditions, flooding, periodic or extended interruptions due to the unavailability of materials and force majeure events. Such risks could result in damage to, or destruction of, mineral properties or producing facilities, personal injury, environmental damage, delays in mining or processing, losses and possible legal liability. Any prolonged downtime or shutdowns at our mining or processing operations could materially adversely affect our business, results of operations, financial condition and liquidity.

For example, we recently experienced certain seismic conditions at two of our mines at our Ontario operations which required us to curtail mining activities while these conditions were evaluated. These conditions did not result in any significant production disruptions but could reoccur in the future and could adversely affect our production. In addition, our Indonesian subsidiary recently experienced an unexpected maintenance requirement covering one of its two hydroelectric generating facilities which will require a limited shutdown of the facility to repair the facility's two turbines. We do not currently expect that this shutdown will affect PT Inco's 2003 planned production, although there can be no assurances in this regard.

The wholesale electricity markets in Ontario were deregulated for a portion of 2002 and as a result we experienced fluctuations in some of our electricity costs at our Ontario operations. Depending upon future changes in the regulatory environment for these markets, we could experience future fluctuations in such costs. We have from time to time experienced adverse production and production cost trends at our operations in Canada and elsewhere and could experience similar adverse trends in the future.

### LABOR RELATIONS

Our collective agreement with unionized hourly production and maintenance workers at our Ontario operations expired on May 31, 2003. On June 1, 2003, these workers went on strike, effectively shutting down our Ontario operations. The Company at this time can not predict when its Ontario operations will be back in production. Such a disruption will adversely affect our

operations and could materially adversely impact our business, results of operations, financial condition and liquidity.

A three-year collective agreement with our unionized office, clerical and technical employees at our Ontario operations remains in effect until March 31, 2004. On September 15, 2002, a new three-year collective agreement with our unionized workers at our Manitoba operations was successfully negotiated. Our PT Inco subsidiary entered into a new two-year collective labor agreement with its union in January 2003. While there were no significant problems in reaching agreement on this new agreement with PT Inco's labor force, with the increased potential for actions of non-government organizations and other activist groups, as part of the current uncertain economic and political situation in Indonesia,

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and the general increase in labor activism in that country, there can be no assurance that such activism will not adversely affect PT Inco's ability to successfully operate. Any disruption in PT Inco's operations as a result of labor issues or other issues may adversely affect its operations and could materially adversely impact our business, results of operations, financial condition and liquidity. At Goro, we currently have two unions representing some of our employees. In early September 2002, Goro experienced labor disruptions by personnel associated with certain project construction subcontractors which resulted in the curtailment of certain activities at the project's site. Through an employers' association, of which we are the controlling member, we negotiated a collective agreement effective September 2002 covering the construction phase of the Voisey's Bay project.

There can be no assurance that new collective agreements will be successfully negotiated when current collective agreements expire and without work interruptions. We could also be adversely affected by labor disruptions involving third parties who may provide us with goods or services at our operations in Canada and elsewhere. For example, as discussed above, our Goro project has experienced labor disruptions by employees of our construction contractors. Any lengthy work interruptions at our Goro or Voisey's Bay projects could materially adversely affect the timing of completion and the cost of either project, as well as our business, results of operations, financial condition and liquidity.

### UNCERTAINTY OF RESERVE ESTIMATES

Our reported ore reserves are estimated quantities of proven and probable ore that under present and anticipated conditions can be legally and economically mined and processed by the extraction of their mineral content. We determine the amount of our ore reserves in accordance with the requirements of the applicable securities regulatory authorities and established industry practices, based upon a number of assumptions, including long-term prices for nickel, copper and cobalt. In some cases, we assume long-term prices that are above current and recent prices. Changes in these assumptions, including any reduction in the assumed metals prices, could materially adversely affect the calculation of the quantities of proven and probable ore reserves and any significant reduction in such reserves could adversely affect our production levels and, accordingly, our financial results. The volume and grade of reserves actually recovered and rates of production from our present ore reserves may be less than what is indicated by geological measurements of the reserves. Further, market price fluctuations in nickel, other metals and exchange rates, and changes in operating and capital costs may in the future render certain ore reserves uneconomic to mine. See also "--Volatility of Price of Nickel and Other Prices and their Effect on Our Financial Results" and "--Uncertainty of Production and Capital and Other Cost Estimates".

No assurance can be given that the indicated amount of ore will be recovered or that it will be recovered at the rates anticipated by us. Our reserve estimates are based on limited sampling and, consequently, are uncertain because the samples may not be representative of the entire orebody. As more knowledge and understanding of the ore body is obtained, the reserve estimates may change significantly, either positively or negatively.

### RISKS RELATING TO BANK FACILITIES

To provide liquidity for our operations, we maintain committed bank credit facilities currently aggregating \$630 million, none of which was drawn as of the date hereof. Covenants contained in these bank credit facilities require us to maintain a consolidated indebtedness to tangible net worth ratio, as defined in such credit facilities ("debt:equity ratio"), of not more than 50:50 and a

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minimum tangible net worth (as defined in such credit facilities) of at least \$1.5 billion. At December 31, 2002, pursuant to these covenants and taking into account the non-cash impairment charge taken by us in the second quarter of 2002 relating to the reduction in the net carrying value of our Voisey's Bay project and certain other assets and the charge referred to above taken in the fourth quarter of 2002 relating to our Goro project, the debt:equity ratio was approximately 31:69 and our tangible net worth was \$3.3 billion. There can be no assurance that future material adverse developments would not result in a breach of these covenants. If we are unable to maintain a debt:equity ratio of not more than 50:50 and tangible net worth of at least \$1.5 billion, our bank lenders generally would have the right to declare a default and require all then outstanding loans to be repaid and pursue the various remedies available to them under the bank credit facilities, including declining to make any new loans under such facilities. Any such action by the lenders could materially adversely affect our ability to finance our operating and development projects, and our results of operations, financial condition and liquidity.

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### EXCHANGE RATE FLUCTUATIONS

Our results of operations are affected by various exchange rates, in particular between the Canadian dollar and the U.S. dollar and, to a lesser extent, other exchange rates. These exchange rates have varied substantially over time, including over the last five years. For example, the Canadian dollar has strengthened significantly compared to the U.S. dollar to date in 2003, rising from \$0.6350 per Cdn.\$1.00 on January 2, 2003 to \$0.7367 per Cdn.\$1.00 on June 4, 2003. A substantial portion of our revenue is received in U.S. dollars since the price of nickel and other metals produced by us are generally referenced in U.S. dollars, while a significant portion of our costs and expenses are incurred in Canadian dollars. Our consolidated financial statements are expressed in U.S. dollars. Fluctuations in exchange rates between the U.S. dollar and the Canadian dollar and between the U.S. dollar and other currencies may give rise to foreign currency exposure, either favorable or unfavorable, which have materially impacted and may in the future materially impact our financial results. We from time to time hedge a portion of our Canadian dollar and other currency requirements to limit any adverse effect of exchange rate fluctuations with respect to our Canadian dollar and other costs, but such hedges have not eliminated the potential material adverse effect that such fluctuations could have on our results of operations or financial condition.

Our results of operations for the first quarter of 2003 were significantly adversely affected by the strengthening of the Canadian dollar compared to the U.S. dollar during that period. The Canadian dollar's continued strengthening compared to the U.S. dollar since that time is expected to adversely affect our results of operations in the second quarter of 2003. We estimate that the current approximate full year impact of changes in the Canadian dollar - U.S. dollar exchange rate is that, for every one cent change in such exchange rate, our basic earnings per share would be impacted by approximately \$0.12.

### INTEREST RATE AND COUNTERPARTY RISK

Our exposure to changes in interest rates results from investing and borrowing activities undertaken to manage our liquidity and capital requirements. We generally have used fixed-rate debt to finance long-term investments, while variable-rate debt has been used to meet working capital requirements and related requirements on a more near-term basis. At the end of

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2002, we entered into an interest rate swap agreement to manage the interest rate risk associated with a portion of our fixed-rate debt. The interest rate swap changes our exposure to interest risk by effectively converting a portion of our fixed-rate debt to a floating rate. We may elect in the future to enter into interest rate swaps to effectively convert floating-rate debt to fixed-rate debt and enter into additional fixed-rate to floating-rate swaps. At December 31, 2002, approximately \$448 million, or 27 per cent, of our total debt of \$1,643 million was effectively subject to variable interest rates. Based upon our level of debt that is effectively floating rate, as of December 31, 2002 the impact of a 10 per cent change in interest rates, or 14 basis points (based on certain benchmark interest rates as at December 31, 2002), over the course of a full year would change our interest expense by less than \$1 million over a full year. As noted above, we may be required to raise additional debt in the future and, accordingly, we could be materially adversely affected by changes in interest rates in the future despite any interest rate swaps we then might have in effect. Since year-end 2002, we have entered into an interest rate swap covering 100 per cent of our \$400 million aggregate principal amount of 7 3/4% Notes due 2012 that effectively converts all of those securities to floating rate debt and increases the sensitivity of our interest expense to changes in interest rates proportionately. There can be no assurance that we will not be materially adversely affected by interest rate changes in the future, notwithstanding our use of interest rate swaps.

In addition, our interest rate swaps, metals hedging and foreign currency risk management activities expose us to the risk of default by the counterparties to such arrangements. Any such default could have a material adverse effect on our business and financial condition.

### RISKS RELATING TO THE DEBENTURES

#### POSSIBLE VOLATILITY OF OUR COMMON SHARES

The Debentures are convertible into common shares; accordingly, fluctuations in the market price of our common shares may affect the market price of the Debentures. We cannot predict whether the market price of our common shares will rise or fall. Factors that will affect the trading price of our common shares include the following: our operating results and future prospects; nickel prices and expectations concerning future nickel prices; material public announcements by us or our competitors; the extent to which we pay dividends or make other distributions to holders of our common shares; whether we or another person issues securities like the Debentures or issues or sells a large number of our common shares; trading on the New York Stock Exchange and the Toronto Stock Exchange where our common shares are traded; conditions in the capital markets generally; and political, financial and economic conditions. In addition, the common shares have from time to time in recent years experienced significant price and volume fluctuations that often have been unrelated and disproportionate to our operating performance. See "Price Range of Common Shares" and "Dividend Policy".

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### TERMS OF THE DEBENTURES

No adjustment to conversion rate for accrued interest. The rate at which the Debentures are convertible into our common shares is not adjusted for accrued interest. Such accrued interest will be fully satisfied by the delivery of the common shares (or cash in lieu of common shares or a combination thereof) received upon conversion, so a converting holder will not necessarily receive any cash payment representing accrued interest. Because the number of common

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shares issuable upon conversion of each Debenture is not increased even though the accreted value of the Debentures (i.e., the issue price plus accrued interest) increases over time, the implied effective conversion price will increase over time.

Your conversion right is conditional. The Debentures have several features, including conditions to conversion, which, if not satisfied, could prevent you from converting your Debentures and result in you receiving less than the value of our common shares into which the Debentures are otherwise convertible. These features could adversely affect the value and the trading prices of the Debentures. See "Description of Debentures--Conversion Rights".

Adverse consequence of original issue discount. The Debentures were issued at a substantial discount from their amount payable at maturity, which, for United States federal income tax purposes, is referred to as original issue discount. As a result, if you purchased the Debentures, you generally will be required to include amounts in gross income for United States federal income tax purposes prior to the conversion, redemption, purchase or maturity of the Debentures to which such income is attributable. See "Certain Income Tax Considerations--Certain United States Federal Income Tax Considerations--Original Issue Discount".

The Debentures are subject to early redemption. The Debentures may be redeemed at our option at any time on or after March 19, 2010, in cash or common shares, or a combination of cash and common shares, at the redemption prices set forth in this prospectus, together with any accrued and unpaid cash interest to the redemption date. You should assume that this redemption option will be exercised if we are able to refinance at a lower interest rate or it is otherwise in our interest to redeem the Debentures.

A change in control may not result upon the occurrence of certain important corporate events. Certain important corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a "change in control" under the indenture and therefore not require us to purchase the Debentures. See "Description of Debentures--Change in Control Requires Offer to Purchase Debentures".

### TRADING MARKET FOR THE DEBENTURES

The Debentures comprise a new issue of securities for which there may be no trading market. The Debentures are not listed on any securities exchange or included in any automated quotation system. The Debentures may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, the price of our common shares, our performance and other factors. We do not know whether an active trading market will develop for the Debentures. To the extent that an active trading market does not develop, the price at which you may be able to sell the Debentures, if at all, may be less than the price you pay for them in this offering.

### INABILITY TO FUND PURCHASE OF DEBENTURES

Upon the occurrence of specified change in control events occurring on or prior to March 14, 2010, we will be required to offer to purchase all outstanding Debentures for cash, common shares, or a combination of cash and common shares. However, it is possible that if we elect to pay all or a portion of the purchase price in cash upon such a change in control, we may not have sufficient funds at that time to make the required purchase of Debentures or that restrictions in our credit facilities or other indebtedness may not allow those purchases of Debentures for cash.

### USE OF PROCEEDS

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Neither the sale of any Debentures by any holders thereof nor the issue of any underlying shares will result in any proceeds to Inco.

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### PRICE RANGE OF COMMON SHARES

Our common shares are listed on the New York Stock Exchange ("NYSE") and the Toronto Stock Exchange ("TSX"). The high and low closing sale prices of our common shares on the NYSE and the TSX for the periods indicated are set forth in the following table:

	NYSE		TSX	
	HIGH	LOW	HIGH	LOW
YEAR ENDED DECEMBER 31, 2001				
First quarter.....	\$ 18.83	\$ 14.60	Cdn.\$29.09	Cdn.\$22.10
Second quarter.....	20.51	14.25	30.70	22.54
Third quarter.....	17.70	11.35	27.10	17.90
Fourth quarter.....	16.94	12.20	27.05	19.50
YEAR ENDING DECEMBER 31, 2002				
First quarter.....	\$ 19.82	\$ 16.52	Cdn.\$31.40	Cdn.\$26.35
Second quarter.....	23.66	18.98	36.25	30.16
Third quarter.....	22.45	15.30	33.91	24.30
Fourth quarter.....	21.99	15.51	34.25	24.80
YEAR ENDING DECEMBER 31, 2003				
First quarter .....	\$ 23.12	\$ 18.00	Cdn.\$35.40	Cdn.\$26.35
Second quarter (through June 4, 2003)....	20.95	18.30	28.67	25.15

On June 4, 2003, the last reported sale price of our common shares on the NYSE was \$20.87 and on the TSX was Cdn.\$28.24.

### DIVIDEND POLICY

Our dividend policy, under normal circumstances and after taking into account our short-term and long-term needs and objectives, is to declare and pay dividends on the common shares averaging approximately one-third of reported net earnings over a period of years. A sustainable level of regular quarterly dividends would be paid, adjusted, when appropriate, by extra dividends. The quarter-to-quarter decision as to the amount of the quarterly dividend per common share is determined with reference to current business results and cash needs. In February 1999, our board of directors eliminated the payment of quarterly dividends on our common shares. This action was taken as part of our other actions to maintain our financial flexibility in the commodity price environment prevailing at that time. Our board of directors has reviewed, and will continue to review, on a periodic basis, a possible decision to restore and, accordingly, declare and pay dividends on our common shares in the future.

### EARNINGS COVERAGE

For 2002, we recorded total non-cash charges of \$1,626 million, net of

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deferred income and mining taxes of \$789 million, under Canadian GAAP. As a result of these non-cash charges, we had a net loss, before deduction of interest and income and mining taxes, of \$2,070 million for the twelve months ended December 31, 2002 and, after giving effect to our initial offering of Debentures and our concurrent offering of 3 1/2% subordinated debentures due 2052 (the "Subordinated Debentures"), as if made as of January 1, 2002, we would have had a deficiency of \$2,181 million in the amount required to cover our interest requirement of \$111 million. Excluding these non-cash charges, after giving effect to our initial offering of Debentures and our concurrent offering of Subordinated Debentures, as if made as of January 1, 2002, consolidated net earnings, before deduction of interest and income and mining taxes of \$345 million for the twelve months ended December 31, 2002, would have been 3.1 times our interest requirement for 2002 of \$111 million. If our initial offering of Debentures and our concurrent offering of Subordinated Debentures had been made as of April 1, 2002, excluding non-cash charges of \$1,613 million, net of deferred income and mining taxes of \$785 million, consolidated net earnings, before deduction of interest and income and mining taxes of \$302 million for the twelve months ended March 31, 2003 would have been 2.7 times our interest requirement of \$112 million. As our zero coupon convertible notes ("LYON Notes"), the Debentures and the Subordinated Debentures are treated as equity for Canadian GAAP purposes, our interest requirement does not include the carrying charges associated with these securities. Had we accounted for the LYON Notes, the Debentures and the Subordinated Debentures as debt, as is required by U.S. GAAP, the carrying charges of the LYON Notes, the Debentures and the Subordinated Debentures would have been reflected in interest expense and we would have had a deficiency of \$2,193 million and \$2,220 million in the amount required to cover our interest requirement for the twelve months ended December 31, 2002 and March 31, 2003, respectively.

The information included in this section is based upon our audited financial statements prepared in accordance with

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Canadian GAAP, which differ in certain material respects from U.S. GAAP. As a result of the above-referenced non-cash charges, which totaled \$2,247 million, net of deferred income and mining taxes of \$947 million, for U.S. GAAP purposes, we had a net loss, before deduction of the cumulative effect of a change in accounting principles of \$18 million, interest and income and mining tax expenses, of \$2,867 million for the twelve months ended December 31, 2002 and, after giving effect to our initial offering of Debentures and our concurrent offering of Subordinated Debentures, as if made as of January 1, 2002, we would have had a deficiency of \$2,990 million in the amount required to cover our interest requirement of \$123 million for the twelve months ended December 31, 2002. Excluding these non-cash charges, after giving effect to our initial offering of Debentures and our concurrent offering of Subordinated Debentures as if made as of January 1, 2002, consolidated net earnings, before deduction of interest and income and mining taxes of \$327 million for the twelve months ended December 31, 2002, would have been 2.7 times our interest requirement of \$123 million. If our offering of Debentures and our concurrent offering of Subordinated Debentures had been made as of April 1, 2002, excluding the cumulative effect of a change in accounting principles of \$18 million, non-cash charges of \$2,234 million, net of deferred income and mining taxes of \$943 million, consolidated net earnings, before deduction of interest and income and mining taxes of \$287 million for the twelve months ended March 31, 2003, would have been 2.3 times our interest requirement of \$124 million. For further information regarding the differences between Canadian GAAP and U.S. GAAP, see Note 22 to our consolidated financial statements included as an Exhibit to our 2002 10-K .



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### RATINGS

On March 6, 2003, Standard & Poor's Corporation ("S&P") assigned a "BBB-" rating to the Debentures and Moody's Investors Service, Inc. ("Moody's") assigned a "Baa3" rating to the Debentures.

Credit ratings are intended to provide investors with an independent measure of credit quality of any issue of securities. The credit ratings accorded to the Debentures by the rating agencies are not recommendations to purchase, hold or sell the Debentures. Each rating should be evaluated independently of any other rating. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if in its judgment circumstances so warrant.

S&P's credit ratings are on a long-term debt rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities rated. According to the S&P rating system, debt securities rated BBB exhibit adequate protection parameters. However, insofar as a BBB rating is concerned, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments on the securities. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major categories.

Moody's credit ratings are on a long-term debt rating scale that ranges from Aaa to C, which represents the range from highest to lowest quality for such securities rated. According to the Moody's rating system, debt securities rated Baa are considered as medium grade obligations, that is, they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such securities lack outstanding investment characteristics and in fact have speculative investment characteristics as well. Moody's applies numerical modifiers 1, 2 and 3 in each generic rating classification from Aa through Caa in its corporate bond rating system. The modifier 1 indicates that the issue ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

### DESCRIPTION OF DEBENTURES

The Debentures were issued under an indenture dated as of March 7, 2003, as supplemented by a first supplemental indenture dated as of March 7, 2003, between us and The Bank of New York, as trustee. References in this description to the indenture are to the indenture as so supplemented. The following description summarizes the material provisions of the Debentures and the indenture. The following summary does not purport to be complete and is subject to, and qualified by reference to, the definitions and other provisions of the indenture. As used in this description, the words "we", "us", "our" and "Inco" do not include any of our current or future subsidiaries.

### GENERAL

The Debentures are limited to \$272,679,000 aggregate amount payable at maturity. The Debentures mature on March 14, 2023. The amount payable at

maturity of each Debenture is \$1,000. We may, at our option, elect to pay the amount payable at maturity in cash or our common shares or any combination of cash and common shares. If we elect to pay all or any part of this amount in common shares, the number of common shares we will deliver will be equal to the portion of the amount to be paid in common shares divided by the average market price of one common share, which we define under "--Delivery of Shares; Fractional Shares". The Debentures are payable at the office of the paying agent (currently, the trustee), or an office or agency we maintain for this purpose, in the Borough of Manhattan, The City of New York. We discuss the tax treatment of payments to holders in respect of the Debentures under "Certain Income Tax Considerations".

The Debentures were offered at a substantial discount from their amount payable at maturity. See "Certain Income Tax Considerations--Certain United States Federal Income Tax Considerations--Original Issue Discount". Each Debenture was issued at an issue price of \$913.81 per Debenture. Interest accrues on the issue price of a Debenture in the period during which a Debenture remains outstanding at a rate of 1.5% per year compounded semi-annually. However, prior to stated maturity, we will only pay interest in cash at a rate of 1.0943% per year on the issue price of the Debentures. The rate of cash interest and the amount payable at maturity over the issue price represent a yield to maturity of 1.5% computed on a semi-annual bond equivalent basis using a 360-day year composed of twelve 30-day months. Such accrual will commence on the issue date for the Debentures of March 7, 2003. The amount payable at maturity of a Debenture represents the issue price plus accrued interest to the stated maturity date of March 14, 2023.

Only cash interest at a rate of 1.0943% per year on the issue price from the issue date of the Debentures, or from the most recent date to which cash interest has been paid or duly provided, will be paid on the Debentures until the Debentures are converted in accordance with the indenture or paid in full, or until funds or common shares, or any combination of funds and common shares, are made available for their payment in full in accordance with the indenture. Cash interest is payable at the stated maturity (or earlier date of redemption, purchase or, in certain circumstances, conversion) and semi-annually in arrears on March 14 and September 14 of each year, beginning on September 14, 2003 to holders of record at the close of business on the March 1 or September 1 (whether or not a business day) immediately preceding such interest payment date. Each payment of cash interest on the Debentures includes cash interest accrued through the day before the applicable interest payment date or the stated maturity (or earlier purchase, redemption or, in certain circumstances, conversion), as the case may be. Any payment required to be made on any date that is not a business day will be made on the next succeeding business day as if made on the date that payment was due and no cash interest will accrue on that payment for the period from and after the date that payment was due to the date of payment on the next succeeding business day. In the event of the maturity, conversion, purchase or redemption of a Debenture as described below, all interest will cease to accrue on such Debenture under the terms of and subject to the conditions in the indenture. We may not reissue a Debenture that has matured or been converted, purchased, redeemed or otherwise cancelled, except for registration of transfer, exchange or replacement of such Debenture.

Debentures may be presented for conversion at the office of the conversion agent, and for exchange or registration of transfer at the office of the registrar. The trustee is currently the conversion agent and registrar.

The indenture limits our right to pledge our and certain of our subsidiaries' assets and to engage in some sale and leaseback transactions, as

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described below under "--Certain Covenants", but it does not limit our right to incur additional indebtedness or pay dividends or contain any other financial covenants. These provisions of the indenture would not necessarily afford holders of the Debentures protection from a decline in the value of their investment in the event of a highly leveraged or other transaction involving us that may adversely affect such holders.

### BOOK-ENTRY SYSTEM

The Debentures were issued in the form of two global securities held in book-entry form. The Depository Trust Company ("DTC") or its nominee is the sole registered holder of the Debentures for all purposes under the indenture. Owners of beneficial interests in the Debentures represented by the global securities hold such interests pursuant to DTC's procedures and practices. As a result, beneficial interests in any such securities are shown on, and transfers thereof are only effected through, records maintained by DTC and its direct and indirect participants and any such interests may not be exchanged for certificated securities, except in limited circumstances. Owners of beneficial interests must exercise any rights in respect of their interests in accordance with DTC's procedures and practices. Beneficial owners are not holders and are not entitled to any rights under the global securities or the indenture provided to the holders of the Debentures. Inco and the trustee, and any of their respective agents, may treat DTC as the sole holder and registered owner of the global securities. See "Legal Ownership" below.

DTC has advised us that it is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). DTC holds securities that its participants deposit with it and facilitates the settlement among participants of securities transactions in

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deposited securities through electronic computerized book-entry changes in participants' accounts, thereby eliminating the need for physical movement of securities certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its participants and by the New York Stock Exchange, Inc., The American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to DTC's book-entry system is also available to securities brokers and dealers, banks and trust companies, and others that clear through or maintain a custodial relationship with a participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the Securities and Exchange Commission (the "SEC").

### RANKING OF DEBENTURES

The Debentures are unsecured and unsubordinated obligations. The Debentures rank on parity in right of payment with all of our existing and future unsecured and unsubordinated indebtedness.

### CONVERSION RIGHTS

A holder may convert its outstanding Debentures, in multiples of \$1,000

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amount payable at maturity, into our common shares prior to 5:00 p.m. New York City time at stated maturity only under the circumstances described below. If a holder has submitted a holder redemption notice or a change in control purchase notice requiring us to redeem or purchase any Debentures, the holder may convert these Debentures as described in this section only if the holder has withdrawn its holder redemption notice or change in control purchase notice in accordance with the requirements of the indenture.

A holder may convert a Debenture into common shares only under the following circumstances:

- o in a calendar quarter (and only during such calendar quarter) beginning with the quarter ending September 30, 2003 if, as of the last day of the immediately preceding calendar quarter, the closing sale price of our common shares for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of such preceding quarter is more than 120% of the accreted conversion price (as defined below) per common share on the last trading day of such preceding quarter; or
- o during the five business-day period following any ten consecutive trading-day period in which the trading price of the Debentures for each day of such period was less than 95% of the product of the closing sale price of our common shares multiplied by the conversion rate in effect for that period; or
- o if the Debentures have been called for redemption; or
- o upon the occurrence of the corporate events described below under "--Conversion upon Specified Corporate Events".

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### CONVERSION UPON SATISFACTION OF MARKET PRICE CONDITION

A holder may surrender any of its Debentures for conversion into our common shares in a calendar quarter (and only during such quarter) beginning with the quarter ending September 30, 2003, if, as of the last day of the immediately preceding calendar quarter, the closing sale price of our common shares for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of such preceding quarter is more than 120% of the accreted conversion price per common share on the last trading day of such preceding quarter. The "accreted conversion price" per share as of any day will equal the sum of the issue price of the Debenture plus accrued interest divided by the number of shares issuable upon conversion of a Debenture, subject to any adjustments to the conversion rate through that date.

The "closing sale price" of the common shares on any date means the closing sale price per common share (or if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case, the average of the average bid and the average ask prices) on such date as reported in composite transactions for the principal U.S. securities exchange on which the common shares are traded (currently being the New York Stock Exchange) or, if the common shares are not listed on a U.S. national or regional securities exchange, as reported by the Nasdaq System or, if no such price is reported, as reported by the principal non-United States market on which the common shares are traded (currently being the Toronto Stock Exchange), such price to be converted into U.S. dollars based on the Bank of Canada noon exchange rate as reported for conversion into U.S. dollars on such date. In the absence of such quotation, we will determine the closing sale price on the basis of such

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quotations as we consider appropriate.

### CONVERSION UPON SATISFACTION OF TRADING PRICE CONDITION

A holder may surrender any of its Debentures for conversion into our common shares prior to stated maturity during the five-business day period following any ten consecutive trading-day period in which the trading price of the Debentures for each day of that period was less or was deemed to be less than 95% of the product of the closing sale price of our common shares multiplied by the applicable conversion rate.

The "trading price" of the Debentures on any date of determination means the average of the secondary market bid quotations per Debenture obtained by the conversion agent for \$5,000,000 amount payable at maturity of the Debentures at approximately 3:30 p.m., New York City time, on such determination date from two independent nationally recognized securities dealers we select; provided that if the conversion agent cannot reasonably obtain at least two such bids, but can reasonably obtain one such bid, this one bid shall be used. If for any date the conversion agent cannot reasonably obtain at least one bid for \$5,000,000 amount payable at maturity of the Debentures from a nationally recognized securities dealer or in our reasonable judgment, the bid quotations are not indicative of the secondary market value of the Debentures, then the trading price of the Debentures for that date will be deemed to be less than 95% of the product of the closing sale price of our common shares multiplied by the applicable conversion rate.

The conversion agent shall be obligated to determine the trading price of the Debentures only upon our request. We must make such a request only if a holder provides us with reasonable evidence that the trading price of the Debentures would be less than 95% of the product of the closing sale price of our common shares and the applicable conversion rate for the applicable period. If a holder provides such evidence, we will instruct the conversion agent to determine the trading price of the Debentures for the applicable period.

### CONVERSION UPON NOTICE OF REDEMPTION

If we call the Debentures for redemption, a holder may convert the Debentures from the date of the notice of redemption until the close of business on the business day immediately preceding the redemption date, after which time the right to convert will expire unless we fail to pay the redemption price.

### CONVERSION UPON SPECIFIED CORPORATE EVENTS

If we elect to:

- o distribute to all holders of our common shares certain rights entitling them to purchase, for a period expiring within 45 days, our common shares at less than the then current market price (measured by averaging the closing sale prices of our common shares for the 10 trading days preceding the date of the first public announcement of such distribution); or
- o distribute to all holders of our common shares, assets, debt securities or certain rights to purchase our securities, which distribution has a per share value exceeding 15% of the closing sale price of our common shares on the day preceding the date of the first public announcement of such distribution;

we must notify the holders at least 10 days prior to the ex-dividend date for the distribution. Once we have given this notice, the holders may surrender Debentures for conversion at any time until the earlier of the close of business

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on the business day prior to the ex-dividend date or any announcement by us that the distribution will not take place. No distribution will entitle the holder of a Debenture to convert if the holder would otherwise participate in the distribution without conversion.

In addition, if

- o we are a party to a consolidation, amalgamation, merger, statutory arrangement (involving a business combination) or sale of all or substantially all of our consolidated assets;
- o we are not the resulting or surviving entity;
- o the transaction is not with one of our affiliates; and
- o after the transaction, either
  - o more than 50% of the surviving or resulting entity's total voting power is not held by our pre-transaction shareholders, or

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- o more than 50% of the surviving or resulting entity's directors were not directors of ours or approved by our pre-transaction board of directors,

then holders may surrender Debentures for conversion at any time from and after the date that is 15 days prior to the anticipated effective date of the transaction until and including the date that is 15 days after the actual date of such transaction. If the transaction also constitutes a "change in control," as defined below, the holder instead can require us to purchase all or a portion of its Debentures as described under "--Change in Control Requires Offer to Purchase Debentures".

### CONVERSION RATE AND CONVERSION PROCEDURES

The initial conversion rate is 31.9354 common shares per \$1,000 amount payable at maturity of the Debentures, subject to adjustment upon the occurrence of the events described below. This is equivalent to an initial conversion price of approximately \$28.61 per common share. On conversion, we will pay cash for any fractional shares in an amount equal to their average market price, determined as described under "--Delivery of Shares; Fractional Shares". We will have the option to deliver cash in lieu of some or all of the common shares to be delivered upon conversion of the Debentures. We will give notice of our election to deliver part or all of the conversion consideration in cash to the holder converting the Debentures within two business days of our receipt of the holder's notice of conversion unless we have already informed holders of our election in connection with our optional redemption of the Debentures as described under "--Redemption of Debentures at the Option of Inco". The amount of cash to be delivered per Debenture will be equal to the number of common shares in respect of which the cash payment is being made multiplied by the average of the closing sale prices of our common shares on the five consecutive trading days commencing one day after (a) the date of our notice of election to deliver part or all of the conversion consideration in cash if we have not given notice of redemption, or (b) the conversion date, in the case of a conversion following our notice of redemption specifying our intention to deliver cash upon conversion.

If we elect to deliver cash in lieu of some or all of the common shares issuable upon conversion, we will make the payment, including the delivery of

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any common shares, through the conversion agent, to holders surrendering Debentures no later than the tenth business day following the conversion date. Otherwise, we will deliver the shares, together with any cash payment for fractional shares, through the conversion agent no later than the fifth business day following the conversion date. We may not deliver cash in lieu of any common shares issuable upon a conversion (other than cash in lieu of fractional shares) if an Event of Default with respect to the Debentures has occurred and is continuing, other than a default in payment of the conversion consideration. We discuss the tax treatment upon conversion under "Certain Income Tax Considerations-- Certain United States Federal Income Tax Considerations--Disposition or Conversion of the Debentures" and "Certain Income Tax Considerations--Certain Canadian Federal Income Tax Considerations--Ownership of Debentures".

Except as noted below, on conversion of a Debenture the holder will not receive any cash payment representing accrued interest. Accordingly, Debentures surrendered for conversion by a holder during the period from the close of business on any regular record date to the opening of business of the next interest payment date, except for Debentures to be redeemed on a date within this period or on the next interest payment date, must be accompanied by payment of an amount equal to the cash interest that the registered holder is to receive on the Debenture. Our delivery to the holder of the fixed number of common shares into which the Debenture is convertible together with any cash payment for fractional shares, or cash in lieu of such common shares, will fully satisfy our obligation to pay the issue price of the Debenture plus accrued interest attributable to the period from the issue date through the conversion date. As a result, accrued interest is deemed paid in full rather than cancelled, extinguished or forfeited.

To exercise its conversion right, a holder must:

- o complete and manually sign an original or facsimile copy of a conversion notice and deliver such conversion notice to the conversion agent;
- o surrender the Debenture to the conversion agent;
- o if required by the conversion agent, furnish appropriate endorsements and transfer documents; and
- o if required, pay all transfer or similar taxes.

Pursuant to the indenture, the date on which all of the foregoing requirements have been satisfied is the conversion date.

Beneficial holders of Debentures who wish to convert a Debenture into common shares must do so in accordance with the procedures established by DTC.

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The conversion rate will be adjusted for:

- o dividends or distributions on common shares payable in common shares or other shares;
- o subdivisions or combinations of common shares;
- o distributions to all holders of common shares of certain rights to purchase common shares for a period expiring within 45 days at less than the current market price per common share, as defined below, subject to certain conditions;

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- o distributions to all holders of common shares of evidences of indebtedness, equity securities (other than common shares) or other assets (other than cash dividends or cash distributions described below);
- o distributions consisting of cash to all holders of our common shares in an aggregate amount that, when combined with (a) other all cash distributions made within the preceding 12 months and (b) the cash and the fair market value, as of the date of expiration of the tender or exchange offer referred to below, of the consideration paid in respect of any tender or exchange offer by us or a subsidiary of ours for our common shares concluded within the preceding 12 months, exceeds 5% of the product of the current market price of our common shares multiplied by the number of common shares then outstanding on the date fixed for the determination of shareholders entitled to receive the distribution;
- o the successful completion of a tender or exchange offer made by us or any subsidiary of ours for our common shares that involves an aggregate consideration that, when combined with any cash and the fair market value of other consideration payable in respect of any other tender or exchange offer by us or a subsidiary of ours for our common shares concluded within the preceding 12 months, exceeds 5% of the product of the current market price of our common shares multiplied by the number of common shares then outstanding on the date of expiration of the tender or exchange offer; and
- o any reclassification of our common shares or any reorganization or sale of Inco in which holders of our common shares are entitled to receive common equity, other securities or other property or assets in exchange for such common shares.

For the purpose of (1) cash distributions and (2) distributions in connection with a tender or exchange offer as described above, any adjustment required for a cash distribution or distribution in connection with a tender or exchange offer would be based upon the amount by which such distribution exceeds the amount permitted to be excluded. Any adjustment based on any other distribution would be based upon the full amount of the distribution.

The "current market price" per common share on any date shall be deemed to be the average of the daily closing sale price for the five consecutive trading days ending on the earlier of the day in question and the day before the related ex-date with respect to any distribution, issuance or other event requiring such computation.

The conversion rate will not be adjusted for accrued interest. Furthermore, no adjustment need be made unless such adjustment would require an increase or decrease of at least 1%. The indenture permits us to increase the conversion rate from time to time.

Our Shareholder Rights Plan Agreement provides that each common share of Inco, including any we issue at the stated maturity or upon conversion, redemption or purchase of the Debentures, issued at any time prior to the distribution of separate certificates representing our rights, will be entitled to receive such rights. However, there shall not be any adjustment to the conversion privilege or conversion rate as a result of:

- o the issuance of the rights to purchase common shares pursuant to our Shareholder Rights Plan Agreement or any successor agreement;
- o the distribution of any entitlement to receive the common share purchase rights;



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- o the exercise or redemption of such rights in accordance with our Shareholder Rights Plan Agreement; or
- o the termination or invalidation of the common share purchase rights or similar rights.

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We describe the Shareholder Rights Plan Agreement in more detail under "Description of Share Capital-- Shareholder Rights Plan".

If we are party to a consolidation, amalgamation, merger or binding share exchange or a transfer of all or substantially all of our assets, the right to convert a Debenture into our common shares may be changed into a right to convert it into the kind and amount of securities, cash or other assets of Inco or another person which the holder would have received if the holder had converted its Debentures immediately prior to such event or transaction. However, if such event or transaction occurs before March 7, 2008 the consideration into which the Debentures will be convertible will be limited to Inco common shares or other prescribed securities (within the meaning of the Income Tax Act (Canada) (the "Canadian Tax Act")), which includes shares not redeemable by the holder within five years after their issue. As a result, in these circumstances, the consideration issuable on exercise of the conversion right could differ from the consideration received by the holders of common shares pursuant to the event or transaction, but the conversion rate would be adjusted so that the consideration into which the Debentures are convertible is equivalent in value at the date of the event or transaction to the value of the consideration received by the holders of common shares pursuant to the event or transaction.

Holders of the Debentures may, in certain circumstances, be deemed to have received a distribution subject to U.S. federal income tax as a dividend in the amount of:

- o a taxable distribution to holders of common shares which results in an adjustment of the conversion rate; or
- o an increase in the conversion rate at our discretion.

See "Certain Income Tax Considerations--Certain United States Federal Income Tax Considerations--Constructive Dividend".

The exercise of our option to restate the amount payable at maturity of the Debentures to include all accrued interest to date following a Tax Event will not affect the number of our common shares the holder is entitled to receive upon conversion of a Debenture. See "--Optional Conversion to Full Cash Pay Debentures upon a Tax Event".

### REDEMPTION OF DEBENTURES AT THE OPTION OF THE HOLDERS

On March 14 in each of 2010, 2014 and 2018, we will, at the option of the holder, be required to redeem, at the redemption prices set forth below, any outstanding Debenture for which a written holder redemption notice has been properly delivered by the holder to the trustee and not withdrawn, subject to certain additional conditions. We may also add one or more holder redemption dates on which holders may require us to redeem outstanding Debentures at a special redemption rate. Prior to or on any scheduled or additional holder redemption date, we may also offer additional consideration to be received to

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induce holders not to exercise a holder redemption right. We are under no obligation, however, to add any holder redemption dates or to offer any additional consideration. Holders may submit their Debentures for redemption to the paying agent at any time from the opening of business on the date that is 29 business days prior to the holder redemption date until the close of business on the date that is nine business days prior to the holder redemption date.

The redemption price, which consists of the issue price plus accrued interest, excluding cash interest, at each holder redemption date, will be:

- o \$941.15 per Debenture on March 14, 2010;
- o \$958.05 per Debenture on March 14, 2014; and
- o \$976.00 per Debenture on March 14, 2018.

If prior to a holder redemption date we have elected to restate the amount payable at maturity of the Debentures following the occurrence of a Tax Event, the redemption price will be equal to the restated principal amount. See "--Optional Conversion to Full Cash Pay Debentures Upon a Tax Event".

We may, at our option, elect to satisfy our obligation to pay the redemption price by delivering common shares in lieu of some or all of the cash payment based on the average market price of one common share. See "--Delivery of Shares; Fractional Shares".

In each case, in addition to the redemption price we will also pay accrued and unpaid cash interest to the date of

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redemption.

We will be required to give notice on a date not less