

PHELPS DODGE CORP  
Form PRER14A  
August 23, 2006

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-11(c) or § 240.14a-12

**Phelps Dodge Corporation**

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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

(1) Title of each class of securities to which transaction applies:

Common Stock, par value \$6.25 per share  
(including associated preferred share purchase rights)

(2) Aggregate number of securities to which transaction applies: 155,290,625 shares of Phelps Dodge Corporation's common stock

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): \$90.66 (average of high and low prices of Phelps Dodge Corporation common stock reported on the New York Stock Exchange for such shares on August 22, 2006)

(4) Proposed maximum aggregate value of transaction: \$18,274,395,063.54

(5) Total fee paid: \$1,955,360.27 computed in accordance with Rule 0-11(c)(i) of the Securities Exchange Act of 1934, as amended, by multiplying the proposed aggregate value of the transaction by 0.0001070

Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

\$3,218,407.21

(2) Form, Schedule or Registration Statement No.:

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Schedule 14A, File No. 001-00082

(3) Filing Party:

Phelps Dodge Corporation

(4) Date Filed:

July 5, 2006

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**IMPORTANT SPECIAL MEETING OF PHELPS DODGE SHAREHOLDERS**

**1, 2006**

Dear Fellow Shareholder:

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

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

Phelps Dodge first announced this transaction on June 26, 2006. Under the terms of a combination agreement between Phelps Dodge and Inco, Phelps Dodge will acquire all of the outstanding common shares of Inco for a combination of cash and common shares of Phelps Dodge having a value of Cdn.\$87.73 (U.S.\$78.66) per Inco share, based upon the closing price of Phelps Dodge stock and the closing U.S./Canadian dollar exchange rate on August 22, 2006. Each shareholder of Inco would receive 0.672 shares of Phelps Dodge common stock plus Cdn.\$20.25 (or, at such holder's option, the U.S. dollar equivalent) per share in cash for each Inco common share. The Phelps Dodge board of directors also announced, as part of the transaction, a share repurchase program, to be commenced after closing, of up to \$5.0 billion.

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

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

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

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

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

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

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

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

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

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

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

Sincerely,

J. Steven Whisler  
Chairman and Chief Executive Officer

**This proxy statement is dated 1 , 2006 and is expected to be first mailed to our shareholders on or about 1 , 2006.**

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NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO THE SHAREHOLDERS OF PHELPS DODGE CORPORATION:

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

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

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

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

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

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

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

Only holders of record of the common stock of Phelps Dodge at the close of business on August 24, 2006 will be entitled to notice of and to vote at the special meeting or at any adjournments or postponement of the special meeting. On August 24, 2006, we had 1 common shares outstanding.

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

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

Shareholders are asked to access electronic voting via the Internet or telephone voting as described on the enclosed proxy card or voting instruction form, or complete, sign, date and mail the enclosed proxy

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card or voting instruction form promptly in the enclosed envelope, which requires no postage if mailed in the United States. Your vote is important, and you are requested to act at your first convenience.

This Proxy Statement and accompanying materials are first being sent to shareholders on 11/14/2006. Phelps Dodge's principal executive office is located at One North Central Avenue, Phoenix, Arizona 85004.

By Order of the Board of Directors,

Catherine R. Hardwick  
Assistant General Counsel and Secretary

Phoenix, Arizona  
11/14/2006

**YOUR VOTE IS IMPORTANT**

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

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

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Table of Contents

	<b>Page</b>
<u>REFERENCE TO ADDITIONAL INFORMATION</u>	iv
<u>INDUSTRY DATA</u>	iv
<u>REPORTING CURRENCIES AND ACCOUNTING PRINCIPLES</u>	iv
<u>EXCHANGE RATES</u>	v
<u>QUESTIONS AND ANSWERS</u>	1
<u>SUMMARY</u>	6
<u>The Companies</u>	6
<u>The Combination</u>	7
<u>Combination Consideration and Financing</u>	7
<u>Post-Combination Shareholding, Board of Directors and Management</u>	8
<u>Phelps Dodge's Reasons for the Combination</u>	8
<u>Unanimous Recommendation of the Phelps Dodge Board of Directors</u>	8
<u>Opinions of Phelps Dodge's Financial Advisors</u>	9
<u>Interests of Phelps Dodge Employees in the Combination</u>	9
<u>Accounting Treatment of the Combination</u>	9
<u>Regulatory Matters Related to the Combination</u>	10
<u>New York Stock Exchange Listing; Delisting and Deregistration of Inco</u>	
<u>Common Shares</u>	10
<u>Completion of the Combination</u>	11
<u>No Dissenters Rights</u>	11
<u>The Combination Agreement</u>	11
<u>Court Approval Will be Required to Complete the Combination</u>	11
<u>Conditions to the Combination</u>	11
<u>Termination of the Combination Agreement</u>	12
<u>Effect of Termination; Termination Fees and Expenses</u>	13
<u>SELECTED HISTORICAL FINANCIAL DATA OF PHELPS DODGE</u>	14
<u>SELECTED HISTORICAL FINANCIAL DATA OF INCO</u>	18
<u>SELECTED UNAUDITED PRO FORMA FINANCIAL DATA</u>	21
<u>UNAUDITED COMPARATIVE PER SHARE DATA</u>	22
<u>COMPARATIVE PER SHARE DIVIDEND INFORMATION</u>	23
<u>RISK FACTORS</u>	24
<u>THE COMBINATION</u>	29
<u>The Companies</u>	29
<u>The Combination</u>	29
<u>Combination Consideration and Financing</u>	29
<u>Post-Combination Shareholding, Board of Directors and Management</u>	31
<u>Background of the Combination</u>	31
<u>Phelps Dodge's Reasons for the Combination</u>	39
<u>Unanimous Recommendation of the Phelps Dodge Board of Directors</u>	42
<u>Opinions of Phelps Dodge's Financial Advisors</u>	42
<u>Interests of Phelps Dodge Employees in the Combination</u>	58
<u>Accounting Treatment of the Combination</u>	60



	<b>Page</b>
<u>Regulatory Matters Related to the Combination</u>	60
<u>Fees, Costs and Expenses</u>	61
<u>No Dissenters Rights</u>	61
<u>Repurchase of Phelps Dodge Common Stock</u>	61
<u>New York Stock Exchange Listing; Delisting and Deregistration of Inco Common Shares</u>	61
<b><u>INFORMATION ABOUT THE SPECIAL MEETING</u></b>	<b>63</b>
<u>Time, Date and Place</u>	63
<u>Purpose</u>	63
<u>Record Date and Shares Entitled to Vote</u>	63
<u>Vote Required; Security Ownership of Management</u>	63
<u>Solicitation and Revocation of Proxies</u>	64
<u>Unanimous Recommendation of Phelps Dodge s Board of Directors</u>	64
<u>Quorum</u>	64
<u>How to Vote</u>	64
<u>To Attend the Special Meeting</u>	65
<u>Expenses of Soliciting</u>	65
<u>Questions About Voting Your Shares</u>	65
<b><u>THE COMBINATION AGREEMENT</u></b>	<b>66</b>
<u>Closing and Effective Time</u>	66
<u>Combination Consideration</u>	67
<u>Representations and Warranties</u>	68
<u>Covenants</u>	70
<u>Conditions to the Combination</u>	77
<u>Amendment and Waiver</u>	78
<u>Termination</u>	79
<u>Termination Fees and Expenses</u>	79
<u>Fees and Expenses</u>	81
<b><u>OTHER AGREEMENTS AND DOCUMENTS</u></b>	<b>81</b>
<u>Restated Certificate of Incorporation</u>	81
<u>Phelps Dodge s Post-Closing Board of Directors and Officers</u>	81
<b><u>UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS</u></b>	<b>82</b>
<b><u>DESCRIPTION OF PHELPS DODGE CAPITAL STOCK</u></b>	<b>93</b>
<u>Common Stock</u>	93
<u>Preferred Stock</u>	93
<u>Transfer and Dividend Paying Agent and Registrar</u>	94
<b><u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u></b>	<b>95</b>
<b><u>SHARE OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS</u></b>	<b>96</b>
<b><u>FORWARD-LOOKING INFORMATION</u></b>	<b>97</b>
<b><u>REGISTERED INDEPENDENT PUBLIC ACCOUNTING FIRM</u></b>	<b>98</b>
<b><u>SHAREHOLDER PROPOSALS</u></b>	<b>99</b>
<b><u>WHERE YOU CAN FIND MORE INFORMATION AND INCORPORATION BY REFERENCE</u></b>	<b>100</b>



	<b>Page</b>
<u>COMBINATION AGREEMENT</u>	Annex A
<u>FORM OF RESTATED CERTIFICATE OF INCORPORATION OF PHELPS DODGE CORPORATION</u>	Annex B
<u>FAIRNESS OPINION OF CITIGROUP GLOBAL MARKETS INC.</u>	Annex C
<u>FAIRNESS OPINION OF HSBC SECURITIES (USA) INC.</u>	Annex D
<u>WAIVER AND FIRST AMENDMENT TO COMBINATION AGREEMENT</u>	Annex E

### REFERENCE TO ADDITIONAL INFORMATION

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

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

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

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

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

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

### INDUSTRY DATA

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

### REPORTING CURRENCIES AND ACCOUNTING PRINCIPLES

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

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

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

#### EXCHANGE RATES

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

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

On June 23, 2006, the last trading day prior to the announcement of the combination, the exchange rate for one Canadian dollar expressed in U.S. dollars, based upon the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York, was \$0.8896. On August 22, 2006, the most recent practicable date prior to the filing of this proxy statement, the exchange rate for one Canadian dollar expressed in U.S. dollars, based upon the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York, was \$0.8966.

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

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

On June 23, 2006, the last trading day prior to the announcement of the combination, the exchange rate for one U.S. dollar expressed in Canadian dollars, based upon the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York, was Cdn.\$1.1241. On August 22, 2006, the most recent practicable date prior to the filing of this proxy statement, the exchange rate for one U.S. dollar expressed in Canadian dollars, based upon the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York, was \$1.1153.



## QUESTIONS AND ANSWERS

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

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

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

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

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

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

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

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

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

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

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





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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

significant synergies and cost savings;

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

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

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

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

a highly skilled and experienced management team.

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

3

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

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

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

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

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

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

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

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

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

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

**Q11: How do I vote?**

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

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

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

4

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

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

A13: You are entitled to one vote for each share of Phelps Dodge common stock that you own as of the record date. As of the close of business on August 24, 2006, there were approximately 1 outstanding shares of Phelps Dodge common stock. As of that date, less than 1% of the outstanding shares of Phelps Dodge common stock were held by the directors and executive officers of Phelps Dodge.

**Q14: What constitutes a quorum?**

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

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

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

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

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

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

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

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

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

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

important, so please act today.

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

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

5

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## SUMMARY

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

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

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

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

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

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

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

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

**The Combination (page 29)**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

significant synergies and cost savings;

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

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

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

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

a highly skilled and experienced management team.

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

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

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

the share issuance proposal;

the charter amendment adjournment proposal;

the share issuance adjournment proposal; and

the combination,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **New York Stock Exchange Listing; Delisting and Deregistration of Inco Common Shares (page 61)**

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

and the United States or may request to cease to be a reporting issuer under the securities laws of one or more of such jurisdictions.

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

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

**No Dissenters Rights (page 61)**

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

**The Combination Agreement (page 66)**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

by either Inco or Phelps Dodge, if:

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

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

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

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

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

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





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

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

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

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

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

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

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

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



**SELECTED HISTORICAL FINANCIAL DATA OF PHELPS DODGE**

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

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

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

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

cumulative effect of accounting  
changes\*\*\*

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

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

Copper sales from own  
mines (consolidated basis  
thousand tons)

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

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

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

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

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

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

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



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

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



**SELECTED HISTORICAL FINANCIAL DATA OF INCO**

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

**SELECTED UNAUDITED PRO FORMA FINANCIAL DATA**

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

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

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

**UNAUDITED COMPARATIVE PER SHARE DATA**

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

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

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

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

**COMPARATIVE PER SHARE DIVIDEND INFORMATION**

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

	<b>Phelps Dodge Common Shares Dividends(a)(b)</b>	<b>Inco Common Shares Dividends(c)</b>
<b>2001</b>		
First Quarter	\$0.2500	\$
Second Quarter	0.0625	
Third Quarter	0.0625	
Fourth Quarter		
<b>2002</b>		
First Quarter	\$	\$
Second Quarter		
Third Quarter		
Fourth Quarter		
<b>2003</b>		
First Quarter	\$	\$
Second Quarter		
Third Quarter		
Fourth Quarter		
<b>2004</b>		
First Quarter	\$	\$
Second Quarter	0.1250	
Third Quarter		
Fourth Quarter	0.1250	
<b>2005</b>		
First Quarter	\$0.1250	\$
Second Quarter	0.3125	0.100
Third Quarter		0.100
Fourth Quarter	2.6875	0.100
<b>2006 (through August 1, 2006)</b>		
First Quarter	\$2.1875	\$0.125
Second Quarter	2.4000	0.125
Third Quarter	0.2000	0.125

- (a) All periods presented reflect post-split dividends per common share.
- (b) On June 6, 2006, the Phelps Dodge board declared a dividend on the Phelps Dodge common shares of \$0.20 per share, payable on September 1, 2006, to Phelps Dodge shareholders of record as of August 14, 2006.
- (c) On July 18, 2006, the Inco board declared a quarterly dividend on the Inco common shares of \$0.125 per share, payable on September 1, 2006, to Inco shareholders of record as of August 16, 2006.

## RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

As of August 24, 2006, Phelps Dodge had approximately 1 shares of common stock outstanding and approximately 1 shares of common stock subject to outstanding options and other rights to purchase or acquire its shares. Phelps Dodge currently expects that it will issue approximately 155,290,625 shares of its common stock in connection with a combination with Inco. The issuance of these new shares of Phelps Dodge common stock and the sale of additional shares of common stock that may become eligible for sale in the public market from time to time could have the effect of depressing the market price for Phelps Dodge common stock.

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

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

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

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

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

## THE COMBINATION

### The Companies

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

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

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

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

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

### The Combination

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

### Combination Consideration and Financing

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Background of the Combination**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

a major cobalt producer at 4 million pounds.

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

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

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

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

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

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

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

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

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

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

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

Greater Opportunities for Growth

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

Synergies and Cost Savings

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

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

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

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

Greater Financial Strength

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

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

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

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

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

Increased Market Liquidity

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

Experienced Management

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



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

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

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

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

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

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

*Potential Risks Considered by the Phelps Dodge Board of Directors*

The risks of integrating the operations of businesses the size of Phelps Dodge and Inco, including that integration costs may be greater, and that cost savings, growth prospects and other synergies may be lower, than anticipated by Phelps Dodge's board of directors.

The risk that regulatory agencies may not approve the combination or may impose terms and conditions on their approvals that adversely affect the projected financial results of the combined company.

Risks, associated with the combined company's greater indebtedness when compared to Phelps Dodge's and Inco's outstanding pre-combination total indebtedness.

Other risks discussed more fully under Risk Factors beginning on page 24 of this proxy statement.

The board recognized that there can be no assurance about future results, including results expected or considered in the factors listed above in respect of either potential combination. The board of directors unanimously concluded, however, that the potential advantages of both potential combinations outweighed their potential risks.

The foregoing discussion of the information and factors considered by the board is not exhaustive, but includes the material factors considered by it. The board did not quantify or assign relative weights to the specific factors considered in reaching the determination to unanimously recommend that Phelps Dodge shareholders vote FOR approval of the charter amendment proposal and FOR the share issuance proposal. In addition, individual directors may have given different weights to different factors.

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

### **Unanimous Recommendation of the Phelps Dodge Board of Directors**

After careful consideration, the Phelps Dodge board of directors determined that each proposal set forth below is in the best interests of Phelps Dodge's shareholders and unanimously approved each such proposal and the combination.

1. the proposed amendment to and restatement of our restated certificate of incorporation, which we refer to as the charter amendment proposal, to (i) change the company's name to Phelps Dodge Inco Corporation from Phelps Dodge Corporation, (ii) increase the number of authorized shares of Phelps Dodge common stock from 300 million shares to 800 million shares and (iii) increase the maximum number of members of Phelps Dodge's board of directors from 12 to 15;
2. the proposed issuance of Phelps Dodge common stock, which we refer to as the share issuance proposal, to finance the combination of Phelps Dodge with Inco;
3. the charter amendment adjournment proposal; and
4. the share issuance adjournment proposal.

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

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

### **Opinions of Phelps Dodge's Financial Advisors**

We retained Citigroup and HSBC as our financial advisors in connection with the transaction. In connection with their engagement, we requested that Citigroup and HSBC evaluate the fairness, from a financial point of view, to Phelps Dodge of the Combination Consideration. On July 15 and 16, 2006, our board of directors met to review the proposed waiver and the terms of the amended combination agreement. At our board meeting on July 15, 2006, Citigroup and HSBC made a joint presentation in which they reviewed with our board of directors certain financial analyses as described below and at our board meeting on July 16, 2006 each rendered to our board an oral opinion, subsequently confirmed in writing, that as of July 16, 2006, and subject to the factors, assumptions, procedures, limitations and qualifications set forth therein, the Combination Consideration was fair, from a financial point of view, to Phelps Dodge.

**Citigroup's and HSBC's written opinions, each dated July 16, 2006, to our board of directors, the full text of which sets forth, among other things, the general procedures followed, factors considered, assumptions made, and limitations and qualifications on the review undertaken by each of Citigroup and HSBC in rendering their opinions, are attached as Annex C and Annex D, respectively, and are incorporated into this proxy statement by reference in their entirety. You are encouraged to read these opinions carefully in their entirety. Citigroup's and HSBC's opinions speak only as of the date of such opinions. Citigroup's and HSBC's opinions were provided to our board of directors for its information in connection with its evaluation of the Combination Consideration and relate only to the fairness, from a financial point of view, of the Combination Consideration to Phelps Dodge. Their respective opinions were not intended to be and do not constitute any opinion or recommendation to any shareholder as to how such shareholder should vote or act on any matters relating to the proposed arrangement. The summaries of Citigroup's and HSBC's opinions in this proxy statement are qualified in their entirety by reference to the full text of the opinions.**

*Opinion of Citigroup Global Markets Inc.* In arriving at its opinion, Citigroup considered that Inco has a pending business combination with Falconbridge pursuant to the support agreement, and it reviewed the combination agreement and the support agreement. It understood that Phelps Dodge's obligations under the combination agreement are subject to a condition (which, subsequent to the delivery of its opinion, was satisfied) that either (x)(i) Inco shall have acquired at least 50.01% of the outstanding common shares of Falconbridge calculated on a fully diluted basis, or (ii) the support agreement shall have been terminated in accordance with its terms without Inco having acquired any shares of Falconbridge pursuant to its offer to Falconbridge shareholders and (y) in the event that Inco shall have acquired at least two-thirds of the outstanding common shares of Falconbridge, Inco shall have completed a subsequent acquisition transaction with Falconbridge contemplated by the combination agreement. In arriving at its opinion, Citigroup also held discussions with certain senior officers, directors and other representatives and advisors of Phelps Dodge, certain senior officers and other representatives and advisors of Inco and certain representatives and advisors of Falconbridge concerning, as may be applicable, the businesses, operations and prospects of Phelps Dodge, Inco and Falconbridge. It examined certain publicly available business and financial information relating to Phelps Dodge, Inco and Falconbridge as well as certain financial forecasts and other information and data relating to Phelps Dodge, Inco and Falconbridge which were provided to or discussed with it by the respective managements of Phelps Dodge and Inco, including information relating to the potential strategic implications and operational benefits (including the amount, timing and achievability thereof) anticipated by the managements of Phelps Dodge, Inco and Falconbridge to result from the arrangement without the combination of Inco and Falconbridge being completed (the Two-Way Business Combination) and the arrangement being consummated in conjunction with the business combination between Inco and Falconbridge being completed (the Three-Way Business Combination). These financial projections included financial projections prepared by the management of Phelps Dodge assuming that the Three-Way Business Combination were consummated or, in the alternative, the Two-Way Business Combination were consummated. Citigroup reviewed the financial terms of the arrangement as set forth in the combination agreement in relation to, among other things: current and historical market prices and trading volumes of Phelps Dodge common stock and Inco common shares; the historical and projected earnings and other operating data of Phelps Dodge and Inco; and the capitalization and financial condition of Phelps Dodge and Inco. In its review of the financial terms of the Arrangement as set forth in the combination agreement, Citigroup gave effect to the Three-Way Business Combination being consummated or, in the alternative, the Two-Way Business Combination being consummated. In that connection, Citigroup reviewed the consummation of the Three-Way Business Combination in relation to, among other things, the historical and projected earnings and other operating data of Falconbridge and the capitalization and financial condition of Falconbridge. Citigroup considered, to the extent publicly available, the financial terms of certain other transactions that it considered relevant in evaluating the arrangement and analyzed certain financial, stock market and other publicly available information relating to the businesses of other companies whose operations it considered relevant in evaluating those of Phelps Dodge, Inco and Falconbridge. Citigroup also evaluated certain potential pro forma financial effects of the arrangement on Phelps Dodge. In addition to the foregoing, Citigroup conducted such other analyses and examinations and considered such other information and financial, economic and market criteria as it deemed appropriate in arriving at its opinion.

In rendering its opinion, Citigroup assumed and relied, without assuming any responsibility for independent verification, upon the accuracy and completeness of all financial and other information and data publicly available or provided to or otherwise reviewed by or discussed with it and upon the assurances of the managements of Phelps Dodge and Inco that they were not aware of any relevant information that had been omitted or that remained undisclosed to it. With respect to financial forecasts and other information and data relating to Phelps Dodge, Inco and Falconbridge provided to or otherwise reviewed by or discussed with Citigroup, Citigroup was advised by the respective managements of Phelps Dodge and Inco that, as may be applicable, such forecasts and other information and data were reasonably prepared on bases reflecting the best currently available estimates and judgments of the managements of Phelps Dodge, Inco and Falconbridge as to the future financial performance of Phelps Dodge, Inco and Falconbridge, the potential strategic implications and operational benefits anticipated to result from the



Three-Way Business Combination and the Two-Way Business Combination and the other matters covered thereby, and Citigroup assumed, with the consent of Phelps Dodge, that the financial results (including the potential strategic implications and operational benefits anticipated to result from the Three-Way Business Combination and Two-Way Business Combination) reflected in the projections prepared by the management of Phelps Dodge (assuming the consummation of the Three-Way Business Combination or, in the alternative, the consummation of the Two-Way Business Combination) and related information and data will be realized in the amounts and at the times projected. Citigroup had limited access to senior officers and representatives and advisors of Falconbridge, and, accordingly, with the consent of Phelps Dodge, Citigroup assumed and relied, without assuming any responsibility for obtaining information directly from senior officers and representatives and advisors of Falconbridge, upon the accuracy and completeness of information provided by senior officers and other representatives and advisors of Phelps Dodge and Inco with respect to the business, operations and prospects of Falconbridge, as well as certain financial forecasts and other information and data relating to Falconbridge, including information relating to the potential strategic implications and operational benefits (including the amount, timing and achievability thereof) anticipated by the management of Falconbridge to result from the Three-Way Business Combination or the Two-Way Business Combination. Citigroup assumed, with the consent of Phelps Dodge, that the combination agreement and support agreement (unless the support agreement were terminated) will each be consummated in accordance with its terms, without waiver, modification or amendment of any material term, condition or agreement. Citigroup also assumed that, in the course of obtaining the necessary regulatory or third-party approvals, consents and releases for the Three-Way Business Combination and the Two-Way Business Combination, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on Phelps Dodge, Inco, Falconbridge or the contemplated benefits of the Three-Way Business Combination and the Two-Way Business Combination. Citigroup did not express any opinion as to what the value of the stock consideration actually will be when issued pursuant to the arrangement or the price at which the Phelps Dodge common stock will trade at any time. It did not make and was not provided with an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of Phelps Dodge, Inco or Falconbridge nor did it make any physical inspection of the properties or assets of Phelps Dodge, Inco or Falconbridge. Its opinion was limited to the fairness, from a financial point of view, of the Combination Consideration to Phelps Dodge. In that connection, Citigroup expressed no opinion with respect to the purchase of the 8% convertible subordinated notes of Inco due April 1, 2012, pursuant to the convertible note purchase agreement dated as of June 25, 2006 (the Convertible Note Purchase Agreement ) between Phelps Dodge and Inco. Citigroup expressed no opinion as to the underlying decision by Phelps Dodge to engage in the arrangement, and Citigroup expressed no view as to, and its opinion did not address, the relative merits of the arrangement as compared to any alternative business strategies that might exist for Phelps Dodge or the effect of any other transaction in which Phelps Dodge might engage. In connection with the consummation of the arrangement, Citigroup also expressed no opinion with respect to the consideration to be paid by Inco pursuant to the support agreement, and it also expressed no view on the relative valuation or merits of the consummation of the Three-Way Business Combination when compared with the Two-Way Business Combination. Citigroup's opinion was necessarily based upon information available to it, and financial, stock market and other conditions and circumstances existing, as of the date delivered.

An affiliate of Citigroup engaged in the commercial lending business is acting as lender and agent for credit facilities to be used by Phelps Dodge in connection with the arrangement. See The Combination Combination Consideration and Financing beginning on page 29 of this proxy statement. Citigroup and its affiliates in the past have provided, and currently provide, services to Phelps Dodge, Inco and Falconbridge unrelated to the proposed arrangement, for which services Citigroup and such affiliates have received and expect to receive compensation, including without limitation, acting as underwriter for Phelps Dodge in its Peruvian bond offering for Cerro Verde in April 2006, acting as advisor to Phelps Dodge in its sale of Columbian Chemicals Company in March 2006, acting as underwriter in Phelps Dodge's sale of its investment in Southern Copper Corporation in June 2005, acting as lead arranger in Phelps Dodge's \$1.1 billion revolving credit facility in May 2005, acting as underwriter in Inco's \$45 million trade receivables securitization in October 2005 and acting as lead arranger in Inco's \$750 million revolving



credit facility in May 2005. In the ordinary course of its business, Citigroup and its affiliates may actively trade or hold the securities of Phelps Dodge, Inco and Falconbridge for its own account or for the account of its customers and, accordingly, may at any time hold a long or short position in such securities. In addition, Citigroup and its affiliates (including Citigroup Inc. and its affiliates) may maintain relationships with Phelps Dodge, Inco, Falconbridge and their respective affiliates.

*Opinion of HSBC Securities (USA) Inc.* In arriving at its opinion, HSBC considered that Inco has a pending business combination with Falconbridge pursuant to the support agreement. HSBC understood that Phelps Dodge's obligations under the combination agreement are subject to a condition (which, subsequent to the delivery of its opinion, was satisfied) that either (x)(i) Inco shall have acquired at least 50.01% of the outstanding common shares of Falconbridge calculated on a fully diluted basis, or (ii) the support agreement shall have been terminated in accordance with its terms without Inco having acquired any shares of Falconbridge pursuant to its offer to Falconbridge shareholders and (y) in the event that Inco shall have acquired at least two-thirds of the outstanding common shares of Falconbridge, Inco shall have completed a subsequent acquisition transaction with Falconbridge contemplated by the combination agreement.

In connection with its opinion, HSBC:

(i) reviewed certain publicly available financial statements and other business and financial information relating to Phelps Dodge, Inco and Falconbridge;

(ii) reviewed certain internal financial forecasts and other information and data relating to Phelps Dodge, Inco and Falconbridge which were provided to or discussed with it by the respective managements of Phelps Dodge and Inco, including information relating to the potential strategic implications and operational benefits (including the amount, timing and achievability thereof) anticipated by the managements of Phelps Dodge, Inco and Falconbridge to result from the Three-Way Business Combination and Two-Way Business Combination, which financial projections included financial projections prepared by the management of Phelps Dodge assuming the Three-Way Business Combination or, in the alternative, the Two-Way Business Combination;

(iii) discussed with certain senior officers, directors and other representatives and advisors of Phelps Dodge, certain senior officers and other representatives and advisors of Inco and certain representatives and advisors of Falconbridge concerning, as may be applicable, the businesses, financial condition, operations and prospects of Phelps Dodge, Inco and Falconbridge;

(iv) discussed the strategic rationale for, and potential benefits of, the Three-Way Business Combination and the Two-Way Business Combination with certain senior officers, directors and other representatives and advisors of Phelps Dodge and certain senior officers and other representatives and advisors of Inco;

(v) reviewed the financial terms of the arrangement as set forth in the combination agreement in relation to, among other things: current and historical market prices and trading volumes of Phelps Dodge common stock and Inco common shares; the historical and projected earnings and other operating data of Phelps Dodge and Inco; and the capitalization and financial condition of Phelps Dodge and Inco;

(vi) evaluated certain potential pro forma financial effects of the arrangement on Phelps Dodge;

(vii) considered, to the extent publicly available, the financial terms of certain other transactions which it considered relevant in evaluating the arrangement and analyzed certain financial, stock market and other publicly available information relating to the businesses of other companies whose operations it considered relevant in evaluating those of Phelps Dodge, Inco and Falconbridge;

(viii) participated in discussions and negotiations among representatives of Phelps Dodge, Inco and their respective financial and legal advisors; and

(ix) reviewed the combination agreement, the support agreement and certain related documents.



In addition to the foregoing, HSBC conducted such other analyses and examinations and considered such other information and financial, economic and market criteria as it deemed appropriate in arriving at its opinion.

In its review of the financial terms of the arrangement as set forth in the combination agreement, HSBC gave effect to the Three-Way Business Combination being consummated or, in the alternative, the Two-Way Business Combination. In that connection, HSBC reviewed the Three-Way Business Combination in relation to, among other things, the historical and projected earnings and other operating data of Falconbridge and the capitalization and financial condition of Falconbridge.

In rendering its opinion, HSBC assumed and relied, without assuming any responsibility for independent verification, upon the accuracy and completeness of all financial and other information and data publicly available or provided to or otherwise reviewed by or discussed with its and upon the assurances of the managements of Phelps Dodge and Inco that they were not aware of any relevant information that had been omitted or that remained undisclosed to it. With respect to financial forecasts and other information and data relating to Phelps Dodge, Inco and Falconbridge provided to or otherwise reviewed by or discussed with HSBC, HSBC was advised by the respective managements of Phelps Dodge and Inco that, as may be applicable, such forecasts and other information and data were reasonably prepared on bases reflecting the best currently available estimates and judgments of the managements of Phelps Dodge, Inco and Falconbridge as to the future financial performance of Phelps Dodge, Inco and Falconbridge, the potential strategic implications and operational benefits anticipated to result from the Three-Way Business Combination and the Two-Way Business Combination and the other matters covered thereby, and HSBC assumed, with the consent of Phelps Dodge, that the financial results (including the potential strategic implications and operational benefits anticipated to result from the Three-Way Business Combination and the Two-Way Business Combination) reflected in the projections prepared by the management of Phelps Dodge (assuming the consummation of the Three-Way Business Combination or, in the alternative, the consummation of the Two-Way Business Combination) and related information and data will be realized in the amounts and at the times projected. HSBC had limited access to senior officers and other representatives and advisors of Falconbridge, and, accordingly, with the consent of Phelps Dodge, HSBC assumed and relied, without assuming any responsibility for obtaining information directly from senior officers and other representatives and advisors of Falconbridge, upon the accuracy and completeness of information provided by senior officers and other representatives and advisors of Phelps Dodge and Inco with respect to the business, operations and prospects of Falconbridge, as well as certain financial forecasts and other information and data relating to Falconbridge, including information relating to the potential strategic implications and operational benefits (including the amount, timing and achievability thereof) anticipated by the management of Falconbridge to result from the Three-Way Business Combination or the Two-Way Business Combination. HSBC assumed, with the consent of Phelps Dodge, that the combination agreement and support agreement (unless the support agreement were terminated) will each be consummated in accordance with its terms, without waiver, modification or amendment of any material term, condition or agreement. HSBC also assumed that, in the course of obtaining the necessary regulatory or third-party approvals, consents and releases for the Three-Way Business Combination and the Two-Way Business Combination, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on Phelps Dodge, Inco, Falconbridge or the contemplated benefits of the Three-Way Business Combination or the Two-Way Business Combination.

HSBC did not express any opinion as to what the value of the stock consideration actually will be when issued pursuant to the arrangement or the price at which the Phelps Dodge common stock will trade at any time. It did not make and was not provided with an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of Phelps Dodge, Inco or Falconbridge nor did it make any physical inspection of the properties or assets of Phelps Dodge, Inco or Falconbridge. HSBC is not a legal, regulatory, accounting or tax expert and it assumed the accuracy and veracity of all assessments made by such advisors. HSBC's opinion is limited to the fairness, from a financial point of view, of the Combination Consideration to Phelps Dodge. In that connection, it expressed no opinion with respect to the purchase of 8% convertible subordinated notes of Inco due April 1, 2012, pursuant to the Convertible



Note Purchase Agreement. HSBC expressed no opinion as to the underlying decision by Phelps Dodge to engage in the arrangement, and it expressed no view as to, and its opinion did not address, the relative merits of the arrangement as compared to any alternative business strategies that might exist for Phelps Dodge or the effect of any other transaction in which Phelps Dodge might engage. In connection with the consummation of the arrangement, HSBC expressed no opinion with respect to the consideration to be paid by Inco pursuant to the support agreement, and it also expressed no view on the relative valuation or merits of the consummation of the Three-Way Business Combination when compared with the Two-Way Business Combination. HSBC's opinion is necessarily based upon information available to it, and financial, stock market and other conditions and circumstances existing, as of the date delivered.

An affiliate of HSBC engaged in the commercial lending business is acting as lender and agent for credit facilities to be used by Phelps Dodge in connection with the arrangement. See *The Combination Consideration and Financing* beginning on page 29 of this proxy statement. HSBC and its affiliates in the past have provided, and currently provide, services to Phelps Dodge, Inco and Falconbridge unrelated to the proposed arrangement, for which services HSBC and such affiliates have received and expect to receive compensation, including without limitation, acting as a participant in the \$2,900 million term loan portion of the \$5,500 million revolving credit facility to Inco to fund the acquisition of Falconbridge pursuant to the support agreement, acting as a lender to Inco in a \$750 million revolving credit facility and a \$400 million term loan, each established in 2004, acting as a member of the Girardin structured tax syndicate facility for Inco's Goro Project in New Caledonia in 2005 and acting as a lender to Falconbridge under a \$60 million bilateral revolving credit facility in 2005. HSBC also maintains other trading, overdraft and interest rate swap facilities for each of Inco, Falconbridge and their respective affiliates. In connection with the above-described services, HSBC has received, and may receive, compensation. HSBC is a part of the global HSBC Holdings plc group, a full-service banking and securities firm engaged in securities trading, investment management and brokerage activities, as well as providing investment banking, financing and financial advisory services. In the ordinary course of its business, HSBC and its affiliates may actively trade or hold the debt and equity securities (or related derivative securities) of Phelps Dodge, Inco and Falconbridge for its own account or for the account of its customers and, accordingly, may at any time hold a long or short position in such securities. In addition, HSBC and its affiliates may maintain relationships with Phelps Dodge, Inco, Falconbridge and their respective affiliates.

***Joint Financial Analyses of Citigroup and HSBC***

The following is a summary of the material financial analyses performed by Citigroup and HSBC in evaluating the fairness of the Combination Consideration to Phelps Dodge. Citigroup and HSBC collaborated in performing each of the financial analyses summarized below. The following summary, however, does not purport to be a complete description of the financial analyses performed by Citigroup or HSBC, nor does the order of analyses described represent relative importance or weight given to those analyses by Citigroup or HSBC. Some of the summaries of financial analyses include information presented in tabular format. The tables must be read together with the full text of each summary and are alone not a complete description of the financial analyses performed by Citigroup and HSBC. Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before July 16, 2006, and is not necessarily indicative of current or future market conditions.

***Transaction Overview and Valuation Statistics***

Citigroup and HSBC provided a situation update to the Phelps Dodge board of directors reflecting the increase in the Combination Consideration as described to Citigroup and HSBC by Phelps Dodge management, including the following:

an increase of the cash consideration to be paid to Inco shareholders of Cdn.\$2.75 per share to Cdn.\$20.25;

the fixed exchange ratio of 0.672x (Phelps Dodge share per Inco share);

the implied offer value of Cdn.\$80.70 (US\$71.58) per share (based on the closing price of the common stock of Phelps Dodge of \$79.79 and an US\$/Cdn.\$ exchange rate of 0.8870, each on July 14, 2006);

Inco increases the cash consideration of its bid for Falconbridge by Cdn.\$1.00 to Cdn.\$18.50;

Falconbridge issues a special dividend to existing shareholders of Cdn.\$0.75 per share (which is reflected as additional debt assumed by Phelps Dodge in the Three-Way Business Combination); and

an increase in total debt from \$21.965 billion to \$23.634 billion and an increase in total debt to capitalization from 44.0% to 45.8% (assuming the Three-Way Business Combination is consummated).

Citigroup and HSBC calculated for the Phelps Dodge board of directors various multiples resulting from the arrangement. The following table presents the results of Citigroup's and HSBC's calculations:

<b>July 14, 2006</b>	<b>Inco at Market Price:</b>	<b>Inco at Offer Price:</b>	<b>Phelps Dodge/Inco Post-Falconbridge at Offer Price:</b>
<b>Price/2007E EPS</b>			
First Call Consensus Estimates	13.4x	14.5x	N/A
Management Base Case(1)	9.8x	10.5x	9.2x
<b>EV/2007E EBITDA</b>			
First Call Consensus Estimates	6.4x	6.7x	N/A
Management Base Case(2)	5.1x	5.4x	5.3x

(1) Earnings Per Share (EPS) for Inco and Falconbridge based on Phelps Dodge management base case estimates, including synergies.

(2) Earnings before interest, taxes, depreciation and amortization (EBITDA) for Inco and Falconbridge based on Phelps Dodge management base case estimates, including synergies.

Citigroup and HSBC also calculated for the Phelps Dodge board of directors various premiums resulting from the arrangement. The following table presents the results of Citigroup's and HSBC's calculations:

<b>July 14, 2006</b>	<b>Inco at Offer Price</b>	<b>Falconbridge at Offer Price</b>
<b>Premium to(1):</b>		
1 day (based on Inco's common shares of Cdn.\$74.89 and Falconbridge's common shares of Cdn.\$61.00 on July 14, 2006)	7.8%	4.0%
Inco and Falconbridge common share price as of June 23, 2006	23.7%	14.3%
10 day average	23.3%	15.8%
30 day average	17.9%	15.4%
60 day average	14.2%	19.1%
90 day average	17.7%	23.2%
180 day average	27.6%	37.6%
52 week high	2.8%	11.8%

52 week low

77.2%

205.4%

(1) Average prices weighted by volumes.

48

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**Pro Forma Merger Analysis.**

Citigroup and HSBC analyzed the pro forma financial impact of the arrangement on projected earnings per share (EPS) and cash flow per share, defined as earnings per share plus depreciation, depletion and amortization (CFPS). This analysis was based on the Three-Way Business Combination and, in the alternative, the Two-Way Business Combination. The earnings estimates were prepared by Phelps Dodge for each of the Three-Way Business Combination and Two-Way Business Combination. Phelps Dodge, in preparing the earnings estimates, prepared different cases on different price assumptions for various commodities, including copper and nickel. While each of Phelps Dodge, Inco and Falconbridge produces commodities other than nickel and copper, the pro forma combination analysis for the Three-Way Business Combination and Two-Way Business Combination is most sensitive to nickel and copper prices. These assumptions and the corresponding cases were as follows:

**Copper Price Deck Assumptions (\$ per lb)**

	2006E	2007E	2008E
Management Base Case	\$ 2.85	\$ 2.25	\$ 1.75
Management Upside Case	\$ 3.50	\$ 3.00	\$ 2.50
Management Downside Case	\$ 2.25	\$ 1.25	\$ 0.75
Street Case(1)	\$ 2.80	\$ 2.49	\$ 2.12

- (1) Street Case was based on the average of publicly available equity research estimates published from April 11, 2006, through June 19, 2006, for 10 commodities, including copper, nickel, molybdenum, zinc, aluminum, cobalt, silver, gold, platinum and palladium. The price estimates for copper were based on the average of up to 24 equity research estimates.

**Nickel Price Deck Assumptions (\$ per lb)**

	2006E	2007E	2008E
Management Base Case	\$ 8.25	\$ 7.60	\$ 6.20
Management Upside Case	\$ 9.30	\$ 10.00	\$ 8.20
Management Downside Case	\$ 7.00	\$ 5.85	\$ 3.50
Street Case(1)	\$ 7.81	\$ 7.16	\$ 6.10

- (1) Street Case was based on the average of publicly available equity research estimates published from April 11, 2006, through June 19, 2006, for 10 commodities, including copper, nickel, molybdenum, zinc, aluminum, cobalt, silver, gold, platinum and palladium. The price estimates for nickel were based on the average of up to 20 equity research estimates.

Each case was based on the following transaction assumptions, per Phelps Dodge's management:  
September 30, 2006, closing;

pre-tax synergies (i) for the Three-Way Business Combination of \$484 million for 2007 and \$923 million in 2008 and (ii) for the Two-Way Business Combination of \$143 million in 2007 and \$272 million in 2008;

asset write-up based on Phelps Dodge management estimate of net asset value amortized over a weighted average life of approximately 20 years;

Falconbridge special dividend of Cdn.\$0.75 per share issued to existing Falconbridge shareholders (included as additional debt assumed by Phelps Dodge in the Three-Way Business Combination);

repurchase of \$5.0 billion of Phelps Dodge common stock (assumed to be effected at market price on closing of the combination);

Phelps Dodge dividend policy of \$0.80 per common share maintained; and

stock prices and a US\$/Cdn.\$ exchange rate of 0.8870, each as of July 14, 2006.

The estimated financial impact of the Three-Way Business Combination and the Two-Way Business Combination on selected financial statistics of Phelps Dodge is as follows:

### Three-Way Business Combination

#### EPS Accretion/(Dilution) %

	Base	Upside	Downside	Street
2007E	(2.4%)	5.6%	(19.7%)	(10.8%)
2008E	5.3%	4.5%	Not Meaningful	(9.2%)
Break-Even Synergies (cushion)			\$0.4/Not	
2007/2008 (in billions)(1)	\$0.2/(\$0.3)	(\$0.8)/(\$0.5)	Meaningful	\$1.1/\$0.7

(1) Break-even synergies/(cushion) equals incremental pre-tax synergies required, or cushion available, to result in no dilution.

#### CFPS Accretion/ Dilution %

	Base	Upside	Downside	Street
2007E	17.4%	17.2%	49.2%	8.1%
2008E	34.5%	20.2%	Not Meaningful	15.6%
Break-Even Synergies (cushion)			(\$1.7)/Not	
2007/2008 (in billions)(1)	(\$1.8)/(\$2.5)	(\$2.7)/(\$2.7)	Meaningful	(\$0.9)/(\$1.5)

(1) Break-even synergies/(cushion) equals incremental pre-tax synergies required, or cushion available, to result in no dilution.

### Two-Way Business Combination

#### EPS Accretion/(Dilution) %

	Base	Upside	Downside	Street
2007E	(5.7%)	0.7%	(18.4%)	(11.5%)
2008E	0.4%	2.7%	Not Meaningful	(8.4%)
Break-Even Synergies (cushion)			\$0.2/Not	
2007/2008 (in billions)(1)	\$0.3/(\$0.0)	(\$0.1)/(\$0.2)	Meaningful	\$0.8/\$0.5

(1) Break-even synergies/(cushion) equals incremental pre-tax synergies required, or cushion available, to result in no dilution.



**CFPS Accretion/ Dilution %**

	<b>Base</b>	<b>Upside</b>	<b>Downside</b>	<b>Street</b>
2007E	11.8%	11.0%	40.9%	5.0%
2008E			Not	
	28.0%	17.2%	Meaningful	14.2%
Break-Even Synergies (cushion) 2007/2008 (in billions)(1)	(\$0.8)/(\$1.4)	(\$1.2)/(\$1.5)	(\$1.0)/Not Meaningful	(\$0.4)/(\$0.9)

(1) Break-even synergies/(cushion) equals incremental pre-tax synergies required, or cushion available, to result in no dilution.

***Selected Companies Analysis.***

Citigroup and HSBC reviewed certain financial information for Phelps Dodge on a stand-alone basis, as well as assuming a Three-Way Business Combination and Two-Way Business Combination, and compared it to corresponding financial information, ratios and public market multiples for the following selected publicly traded companies in the metals and mining industry:

*Large Cap Base Metals/ Diversified*

Teck Cominco Limited

Antofagasta plc

Freeport McMoRan Copper &amp; Gold, Inc.

Southern Copper Corporation

Vedanta Resources plc

*Super Major Diversified*

Rio Tinto plc

BHP Billiton Limited

Anglo American plc

Xstrata plc

Companhia Vale do Rio Doce

*Nickel*

Jubilee Platinum plc

Minara Resources Limited

FNX Mining Company Inc.

MMC Norilsk Nickel Group

The Eramet Group

*Copper*

Kazakhmys plc

KGHM Polska Miedz S.A.

Aur Resources Inc.

Inmet Mining Corporation

Southern Copper Corporation

Although none of the selected companies was directly comparable to Phelps Dodge, Inco and Falconbridge, the companies included were chosen because they are publicly traded companies with businesses and operations that, for purposes of analysis, may be considered similar to certain businesses and operations of, Phelps Dodge, Inco and Falconbridge (or a combination thereof).

The financial information used by Citigroup and HSBC for all selected comparable company analysis in the case of this analysis was based on First Call consensus estimates and Street research. The financial information used for Phelps Dodge on a stand-alone basis was based on both management estimates and First Call consensus estimates. The financial information used for the Three-Way Business Combination and Two-Way Business Combination was based on Phelps Dodge management estimates and reflected each of the different cases that was prepared. All of the multiples and ratios were calculated using public trading market closing prices on July 14, 2006 and using the implied offer value of Cdn. \$80.70 (US\$71.58) per share (based on the closing price of the common stock of Phelps Dodge of \$79.79). For Phelps Dodge, on a stand-alone basis, and the selected comparable companies, Citigroup and HSBC calculated:

the enterprise value, which is the market value of common equity plus the book value of net debt (total debt minus cash), preferred stock and minority interest, less investments in unconsolidated affiliates, as a multiple of estimated 2007 EBITDA;

the ratio of the price per share to the estimated 2007 EPS, or Price/ Earnings (P/E) multiple; and

the ratio of the price per share to the estimated 2007 CFPS, or Price/ Cash Flow Per Share multiple.

The multiples for the comparable companies did not include a control premium.

The results of these analyses are summarized as follows:

	<b>Enterprise Value/ EBITDA 2007E</b>	<b>P/E 2007E</b>	<b>P/CFPS 2007E</b>
<b>Selected Companies in the Metals and Mining Industry</b>			
Large Cap Base Metals/ Diversified(1)	3.3x-5.2x	6.7x-10.6x	5.8x-9.0x
Super Major Diversified	5.9x-6.8x	7.3x-10.5x	7.3x-9.0x
Nickel(2)	4.6x-8.3x	7.4x-17.2x	5.9x-10.9x
Copper	3.2x-5.1x	6.1x-7.7x	5.0x-6.7x
<b>Phelps Dodge Stand-alone</b>			
Management estimate	3.2x	6.2x	5.2x
First Call Consensus estimate	3.0x	6.2x	5.2x
<b>Three-Way Business Combination</b>			
Upside Case	3.4x	5.3x	4.1x
Base Case	5.3x	9.2x	6.2x
Street Case	5.4x	9.5x	6.3x
Downside Case	10.4x	31.7x	11.9x
<b>Two-Way Business Combination</b>			
Upside Case	3.5x	6.3x	5.0x
Base Case	5.4x	10.5x	7.4x
Street Case	5.7x	11.4x	7.7x
Downside Case	9.5x	23.9x	12.1x

(1) Excludes Falconbridge and Inco.

(2) Excludes Inco.

Citigroup and HSBC selected the comparable companies used in the comparable company analysis because their businesses and operating profiles are reasonably similar to that of Phelps Dodge, Inco and Falconbridge. However, because of the inherent differences among the businesses, operations and prospects of Phelps Dodge, Inco and Falconbridge and the businesses, operations and prospects of the selected comparable companies, no comparable company is exactly the same as Phelps Dodge, Inco and Falconbridge. Therefore, Citigroup and HSBC believed that it was inappropriate to, and therefore did not, rely solely on the quantitative results of the comparable analysis. Accordingly, Citigroup and HSBC made qualitative judgments concerning differences between the financial and operating characteristics and prospects of Phelps Dodge, Inco and Falconbridge and the companies included in the comparable company analysis that would affect the public trading values of each in order to provide a context in which to consider the results of the quantitative analysis. These qualitative judgments related primarily to the differing sizes, growth prospects, profitability levels and business segments between Phelps Dodge, Inco and Falconbridge and the companies included in the comparable company analysis.

***Precedent Transactions Analysis.***

Citigroup and HSBC reviewed implied purchase price multiples and premiums paid in the following six precedent transactions in the mineral and mining industry:

<b>Acquiror</b>	<b>Target</b>
*Teck	Inco
*Xstrata	Falconbridge
*Inco	Falconbridge
BHP Billiton	WMC Resources
BHP Company Limited	Magma Copper Company
Noranda	Falconbridge

(\*) Pending acquisition as of July 16, 2006.

In light of the strength of the commodity prices today, Citigroup and HSBC only chose precedent transactions that were announced during a relatively strong commodity price environment in order to enhance comparability.

For each of the selected transactions and for each of the Three-Way Business Combination and Two-Way Business Combination, Citigroup and HSBC calculated and compared the resulting:

enterprise value as multiple of EBITDA for the last 12 months (LTM EBITDA); and

enterprise value as multiple of estimated forward fiscal year EBITDA (Forward EBITDA).

For purposes of this analysis, enterprise value was calculated by determining each target company's implied equity value and then adding the book value of each target company's net debt, preferred stock and minority interest, less investments in unconsolidated affiliates. LTM EBITDA, net debt and minority interest were calculated using each target company's most recent quarterly filing with the SEC or other publicly disclosed information as of the respective announcement dates. Forward EBITDA was based on First Call consensus estimates of forward fiscal year at time of announcement.

The following table presents the results of this analysis for the precedent transactions and each of the Three-Way Business Combination and Two-Way Business Combination:

	<b>Multiple of LTM EBITDA:</b>	<b>Multiple of Forward EBITDA:</b>
Teck/Inco(1)	11.2x	8.5x
Xstrata/ Falconbridge(1)	9.5x	6.4x
Inco/ Falconbridge(1)	8.4x	6.9x
BHP Billiton/ WMC Resources	6.9x	7.6x
BHP Company Limited/ Magma Copper Company	6.1x	5.0x
Noranda/ Falconbridge	5.3x	5.1x
Two-Way Business Combination(2)	9.4x	7.0x
Three-Way Business Combination(2)	8.4x	6.4x

- (1) Pending as of July 16, 2006. Implied LTM transaction multiples for pending transactions based on LTM 3/31/06, which is assumed to be the latest publicly available 12-month period to be disclosed prior to the expected closing date of the transaction.
- (2) Implied LTM transaction multiples for Two-Way Business Combination and Three-Way Business Combination based on LTM 6/30/06 EBITDA, which is assumed to be the latest publicly available 12-month period to be disclosed prior to the expected closing date of the transaction.

Citigroup and HSBC sought precedent transactions that were most comparable to the Three-Way Business Combination and the Two-Way Business Combination. Nevertheless, because the reasons for and the circumstances surrounding each of the transactions analyzed were so diverse and because of the inherent differences in the businesses, operations, financial conditions and prospects of Inco and Falconbridge, and the businesses, operations and financial conditions of the companies included in the precedent transaction analysis, Citigroup and HSBC believed that a purely quantitative comparable transaction analysis would not be particularly meaningful in the context of the Three-Way Business Combination or the Two-Way Business Combination. Citigroup and HSBC believed that the appropriate use of the precedent transaction analysis in this instance involves qualitative judgments concerning the differences between the characteristics of these transactions and the Three-Way Business Combination and the Two-Way Business Combination. Citigroup and HSBC, in their discussions with the Phelps Dodge board of directors, placed the most emphasis on the BHP Billiton acquisition of WMC Resources transaction given that it was consummated and because Citigroup and HSBC believe WMC Resources has the most similarity to Inco and Falconbridge, in terms of size and quality of assets.

#### ***Net Asset Value Analysis***

Citigroup and HSBC considered a net asset value ( NAV ) approach to Inco on a stand-alone basis and Inco on a combined basis with Falconbridge. The NAV approach builds up a value by separately considering each operating, development, exploration and financial asset, the individual values of which are estimated through the application of that methodology viewed as most appropriate in the circumstances, net of obligations and liabilities, including reclamation and closure costs, and the present value of corporate expenses not directly attributable to operating and development assets. The NAV approach adopts a prospective view in regard to commodity prices and explicitly addresses the unique characteristics of each major asset.

To value the operating mines and other developmental exploration of final assets of Inco and Falconbridge, Citigroup and HSBC relied primarily on a discounted cash flow ( DCF ) analysis whereby it discounted the present value of the unleveraged after-tax cash flows of each asset over a horizon equal to the remaining life of the asset and at a prescribed discount rate to generate present values. Citigroup and HSBC used cash flow estimates provided by Phelps Dodge for the relevant periods. These cash flows were prepared based on different price assumptions for

various commodities, including copper and nickel,

as reflected in the Upside Case, Downside Case, Base Case and Street Case. The prescribed real discount rate was 7% and 8%. Citigroup and HSBC chose the discount rates utilized in this analysis based upon an analysis of the weighted average cost of capital of Phelps Dodge, Inco and Falconbridge, adjusted downward for long-term inflation. With respect to Inco on a stand-alone basis, the unleveraged after-tax cash flows were also adjusted to reflect Phelps Dodge management estimates of synergies associated with combining the businesses and operations of Inco and Phelps Dodge. In the event that Inco combines with Falconbridge, the unleveraged after-tax cash flows were also adjusted to reflect Phelps Dodge management estimates of synergies associated with combining the businesses and operations of Inco and Falconbridge; Phelps Dodge and Inco; and Phelps Dodge and Falconbridge. Citigroup and HSBC calculated per share equity values based on adding the present values of the after-tax unleveraged free cash flows of the assets of Inco and Falconbridge for each scenario, and then subtracting from this value the net debt, and dividing those amounts by the number of fully diluted shares of the applicable entity.

The results of these analyses are summarized as follows:

### **Inco Combined with Falconbridge**

<b>Case</b>	<b>NAV/ share</b>	<b>Implied Multiple @ Cdn.\$80.70</b>
<b><i>Base Case (7% discount)</i></b>		
Inco/ Falconbridge	Cdn.\$39.93	2.0x
plus Inco/ Falconbridge Synergies	50.01	1.6
plus PD/ Falconbridge Synergies	52.28	1.5
plus PD/ Inco Synergies	55.98	1.4
<b><i>Upside Case (7% discount)</i></b>		
Inco/ Falconbridge	Cdn.\$79.69	1.0x
plus Inco/ Falconbridge Synergies	89.77	0.9
plus PD/ Falconbridge Synergies	92.04	0.9
plus PD/ Inco Synergies	95.74	0.8
<b><i>Downside Case (7% discount)</i></b>		
Inco/ Falconbridge	Cdn.\$ (2.82)	Not Meaningful
plus Inco/ Falconbridge Synergies	7.26	Not Meaningful
plus PD/ Falconbridge Synergies	9.52	8.5x
plus PD/ Inco Synergies	13.22	6.1
<b><i>Street Case (7% discount)</i></b>		
Inco/ Falconbridge	Cdn.\$40.91	2.0x
plus Inco/ Falconbridge Synergies	51.00	1.6
plus PD/ Falconbridge Synergies	53.26	1.5
plus PD/ Inco Synergies	56.96	1.4
<b><i>Base Case (8% discount)</i></b>		
Inco/ Falconbridge	Cdn.\$31.85	2.5x
plus Inco/ Falconbridge Synergies	41.08	2.0
plus PD/ Falconbridge Synergies	43.09	1.9
plus PD/ Inco Synergies	46.53	1.7



**Inco on a Stand-alone Basis**

Case	NAV/share	Implied Multiple @ Cdn.\$80.70
<b>Base Case (7% discount)</b>		
Inco Stand-alone	Cdn.\$43.34	1.9x
plus PD Synergies	50.54	1.6
<b>Upside Case (7% discount)</b>		
Inco Stand-alone	Cdn.\$84.00	1.0x
plus PD Synergies	91.20	0.9
<b>Downside Case (7% discount)</b>		
Inco Stand-alone	Cdn.\$ 9.23	8.7x
plus PD Synergies	16.43	4.9
<b>Street Case (7% discount)</b>		
Inco Stand-alone	Cdn.\$45.09	1.8x
plus PD Synergies	52.29	1.5
<b>Base Case (8% discount)</b>		
Inco Stand-alone	Cdn.\$34.20	2.4x
plus PD Synergies	40.91	2.0

*Assessment of the NAV Approach*

Citigroup and HSBC, in presenting their NAV analysis to the Phelps Dodge board of directors, noted that forecast commodity prices and exchange rate assumptions are a critical determinant of the NAV analysis. Because the NAV approach requires the valuator to make a number of assumptions, valuers could derive different NAVs for the same assets. Future commodity prices and exchange rates are very difficult to predict and different views can have a very significant impact on resulting values as reflected by the differences between the upside case and downside case. Citigroup and HSBC also expressly noted to the board of directors the limitations to NAV analysis, particularly in a strong commodity environment. As the NAV methodology adopts a prospective, long-term view with respect to commodity prices, it is not as sensitive to the current levels of commodity prices as are the precedent transactions analysis and comparable trading analysis, that are based on metrics which reflect the current strength of commodity prices. At this stage of the commodity price cycle, a significant number of publicly traded mining companies are trading at premiums to their NAV. Citigroup and HSBC noted that the values of the common stock of Inco and Falconbridge also currently trade at a premium to their NAV. In addition, the NAV approach values the development and exploration of a mine at the time of the analysis and does not ascribe value to the replacement of reserves through additional exploration over time. This is another reason that may factor into a company trading at a premium to NAV. Therefore it is difficult to observe premiums to NAV in the market and it is difficult to otherwise determine a reliable basis for selecting the appropriate premiums to NAV at which the common stock of Inco and Falconbridge should be valued. Thus Citigroup and HSBC did not rely, in any material respect, on this method in rendering their respective fairness opinions.

**General.**

The preparation of a fairness opinion is a complex process involving subjective judgments as to the most appropriate methods of financial analysis and the application of those methods to the particular facts and circumstances, and therefore is not necessarily susceptible to partial analysis or summary description.

Citigroup and HSBC made no attempt to assign specific weights to particular analyses or factors considered, but rather each made its own qualitative judgments as to the significance and relevance of all the analyses and factors considered and determined to give its fairness opinion as described above. Selecting



portions of the analyses or of the summary set forth herein, without considering the analyses as a whole, could create a misleading or incomplete view of the processes underlying the opinions of Citigroup and HSBC.

In arriving at their respective fairness determinations, Citigroup and HSBC each separately considered the results of all of their analyses and did not form any conclusion as to whether any individual analysis, considered in isolation, supported or failed to support an opinion as to fairness from a financial point of view. Rather, Citigroup and HSBC each made its respective determination as to fairness on the basis of its experience and professional judgment after considering the results of all of their analyses assessed as a whole. No company or transaction referenced in the above analyses is directly comparable to Phelps Dodge, Inco, Falconbridge or the arrangement. Such comparative analyses necessarily involve complex considerations and judgments concerning financial and operating characteristics, market conditions and other factors that could affect the public trading of the selected companies or terms of the selected transactions.

Citigroup and HSBC prepared the analyses described herein for purposes of providing their respective opinions to the Phelps Dodge board of directors as to the fairness, from a financial point of view, of the combination agreement to Phelps Dodge, and their opinions are not intended to be and do not constitute recommendations. These analyses do not purport to be appraisals nor do they necessarily reflect the prices at which businesses or securities actually may be sold. Analyses based upon forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by these analyses. Because these analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors, none of Phelps Dodge, Citigroup, HSBC or any other person assumes responsibility if future results are materially different from those forecast.

As described above, each of the respective opinions of Citigroup and HSBC to the Phelps Dodge board of directors was one of a number of factors taken into consideration by Phelps Dodge's board of directors in making its determination to unanimously approve the transactions contemplated by the combination agreement. For a further discussion of the factors the Phelps Dodge board of directors considered, see *The Combination Phelps Dodge's Reasons for the Combination* and *The Combination Unanimous Recommendation of the Phelps Dodge Board of Directors* beginning on page 39 and 42, respectively, of this proxy statement. Citigroup and HSBC were not asked to, and did not, recommend the specific consideration payable in the arrangement, which consideration was determined through negotiations between Phelps Dodge and Inco. The summary contained herein does not purport to be a complete description of the analyses performed by Citigroup and HSBC in connection with their respective fairness opinions and is qualified in its entirety by reference to the written opinion of Citigroup and the written opinion of HSBC attached as Annexes C and D, respectively.

We selected Citigroup and HSBC as our financial advisors in connection with the combination based on their qualifications, experience and reputation, their familiarity with Phelps Dodge and the significance of the proposed matter for Phelps Dodge. Citigroup and HSBC are internationally recognized investment banking firms and are regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes.

Pursuant to the terms of the engagement letter between Phelps Dodge and Citigroup, Phelps Dodge has agreed to pay to Citigroup a fee equal to \$1 million in connection with the delivery of its fairness opinion dated June 25, 2006, and Citigroup will receive an additional fee (inclusive of the amount paid in connection with such opinion) of (i) \$18 million in the event of a business combination of Phelps Dodge with Inco only or (ii) \$30 million in the event of a business combination of Phelps Dodge with Inco and Falconbridge. Pursuant to the terms of the engagement letter between Phelps Dodge and HSBC, Phelps Dodge has agreed to pay to HSBC a fee equal to \$1 million in connection with the delivery of its fairness opinion dated June 25, 2006, and HSBC will receive an additional fee (inclusive of the amount paid in connection with such opinion) of (i) \$12 million in the event of a business combination of Phelps Dodge with Inco only or (ii) \$20 million in the event of a business combination of Phelps Dodge with Inco and Falconbridge. In addition, Phelps Dodge has agreed to reimburse each of Citigroup and HSBC,



respectively, for its reasonable expenses incurred in connection with its engagement, including reasonable attorneys fees and disbursements, and to indemnify each of Citigroup and HSBC against specific liabilities and expenses relating to or arising out of its engagement, including liabilities under the federal securities laws.

### **Interests of Phelps Dodge Employees in the Combination**

Under the terms of our various compensation plans and programs, the combination of Phelps Dodge with Inco would constitute a change of control that provides certain additional benefits to our employees. As is more fully described below, we have sought and received from each of our named executive officers amendments to these arrangements that limit the circumstances under which such benefits would be provided such that the change of control protection is limited to circumstances where the employee has suffered a significant and adverse change in the particular terms of the employee's employment. In addition, Phelps Dodge is seeking to put in place similar amendments with respect to other employees subject to the agreements described below. Such benefits, and the amendments to the scope of such benefits, referenced above are described in more detail below.

*Change of Control Agreements.* Phelps Dodge has Change of Control Agreements with its named executive officers and other members of its senior management team (the Senior Change of Control Agreements), pursuant to which each executive, in the event the executive is terminated by Phelps Dodge without Cause or voluntarily terminates employment for Good Reason (as each term is defined in the Senior Change of Control Agreements), will receive a lump sum equal to three times the executive's highest base salary during that year and the prior two years, plus three times the executive's target bonus calculated using the highest base salary and target bonus percentage for the immediately preceding 12 months, less any severance pay otherwise payable under our otherwise applicable plans and programs. The Senior Change of Control Agreements also provide these executives with a 30-day window period beginning on the first anniversary date of the change of control in which they may voluntarily terminate their employment and still receive their change of control benefits (a Window Period Termination). As is described below, our named executive officers have agreed with us that the Window Period Termination would not be applicable in the context of the acquisition of Inco. Those with Senior Change of Control Agreements also receive a tax gross-up payment in respect of any excise taxes triggered by the change of control benefits; the cost of three years of insured group medical, dental, vision, life insurance and long-term disability plans; the cost of continuing executive physicals and financial counseling services for a similarly limited period; and outplacement services at a cost up to a maximum amount of 15% of their base salary.

A second group of key management personnel receive similar Change of Control Agreements that provide a lump sum benefit equal to two times the executive's highest base salary during that year and the prior two years, plus two times the executive's target bonus calculated using the highest base salary and target bonus percentage for the immediately preceding 12 months less any severance pay otherwise payable under our otherwise applicable plans and programs. Phelps Dodge will also pay the cost of the group benefits outlined above for a period of two years. However, these agreements do not include a 30-day termination window, nor are the executives eligible for a tax gross-up payment unless the benefits payable due to a change of control are at least 120% of the allowable cap. All of the other material terms and conditions are substantially the same as those included in the Senior Change of Control Agreements.

*Stock Option and Restricted Stock Award Agreements.* Stock options granted by Phelps Dodge under its Stock Option Agreements become exercisable (but not earlier than six months from the date of grant) for a period of 30 days following a change of control and, in the case of the five named executive officers and certain other key employees, the date of a termination of employment for a reason other than death, disability, for cause or, under certain circumstances, a voluntary termination of employment by the executive if such termination occurs within two years following a change of control. In addition, restricted shares awarded by Phelps Dodge pursuant to Award of Restricted Stock Agreements and held for at least six months vest in connection with a change of control. As is described below, our named executive officers have agreed with us that their options and restricted stock will not become vested solely on

account of the acquisition of Inco. However, in the event that any such officer's employment is terminated within two years of the closing of such transaction by us without Cause or by the officer for Good Reason, such options and restricted shares will become vested in connection with the executive's termination of employment.

*Other Executive Change of Control Provisions.* The Phelps Dodge Corporation Supplemental Retirement Plan provides for an additional 36 months of service credit, as well as the payment of unreduced benefits under liberalized age and length of service requirements, as well as, to certain executives, if such an executive is terminated from employment within two years following a change of control. In addition, the Phelps Dodge Corporation Supplemental Savings Plan obligates Phelps Dodge to transfer an amount equal to the deficiency in the assets of the Plan's trust fund, if any, prior to the day on which a change of control occurs. While the Inco transaction is a change of control for purposes of triggering this funding requirement, the trust is currently fully funded and no additional contribution to the trust is expected to be required because of the anticipated change of control.

*Amendments.* As referenced above, on June 24, 2006 Phelps Dodge and each of its named executive officers entered into certain amendments to the respective Senior Change of Control Agreements, Stock Option Agreements and Award of Restricted Stock Agreements applicable to each such named executive officer. The purpose of these amendments was to reduce the circumstances under which an affected executive would be entitled to additional benefits as a result of the transaction with Inco. Our objective was to limit the special change of control protection available to any such executive to those circumstances in which such executive suffers a substantial and adverse change in the particular terms and conditions of the executive's employment within a two-year period following the Inco transaction. Accordingly, in certain circumstances, our executives can receive enhanced benefits following the Inco transaction. Given the scope of this transaction, we believe that, if an executive's particular terms and conditions of employment are adversely affected by the synergies that are expected to be derived from the business combination, such additional rights are appropriate. As a result of the amendments, the potential cost associated with the applicable change of control provisions will be reduced substantially from that which would have applied under the amended plans, programs and agreements prior to such amendments. We currently expect that the number of our officers and other executives who will actually receive additional benefits in connection with the Inco transaction by reason of the modified change of control provisions will be limited to a modest percentage of the total number of officers and executives to whom such protection applies.

The amendments, which apply only in respect of the Inco transaction, (i) eliminate the right of an executive who is a party to a Senior Change of Control Agreement to receive severance and other termination benefits upon a Window Period Termination, (ii) provide that unvested options and unvested restricted shares will not become vested solely upon the consummation of the Inco transaction, (iii) provide, as a substitute for full acceleration, a conditional vesting provision under the Award of Restricted Stock Agreements, which is generally consistent with the double-trigger vesting currently applicable under the Option Agreements (as modified by the amendments), under which such shares would become fully-vested upon an executive's termination of employment without Cause or for Good Reason within two years following a change of control, and (iv) limit the definition of Good Reason included in the Senior Change of Control Agreements, Stock Option Agreements and Award of Restricted Stock Agreements principally to those events previously included within the definition of Good Reason that related to the executive's particular terms and conditions of employment (for example, a change in our benefits plans generally applicable to all similarly situated employees would not constitute Good Reason following the Inco transaction). In consideration of these modifications, the requirement that options or restricted shares be granted at least six months prior to a change of control to be eligible for the benefit of the special change of control protection has been eliminated for purposes of this transaction.

One of our key executives, Arthur R. Miele, is retiring at the end of the year, and had already announced his intention to retire prior to the execution of the combination agreement with Inco. Mr. Miele has agreed with us that, because of this announced intention, it would not be appropriate to provide him with any additional rights under his Senior Change of Control Agreement due to this transaction. Accordingly, he has agreed that consummation of the transaction will not be deemed a

Change of Control for purposes of his Senior Change of Control Agreement. With regard to his equity awards, Mr. Miele has entered into the amendments described above with respect to our other executive officers.

#### **Accounting Treatment of the Combination**

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

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

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

#### **Regulatory Matters Related to the Combination**

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

*Competition Act (Canada).* On July 25, 2006, we received, under the combination agreement, the completion of the combination is conditional upon receipt of an advance ruling certificate under the Competition Act (Canada).

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

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

The U.S. Department of Justice, the Federal Trade Commission or the European Commission may challenge the combination on antitrust grounds either before or after expiration or termination of the waiting period. Accordingly, at any time before or after the completion of the combination, any of the U.S. Department of Justice, the Federal Trade Commission or the European Commission could take action under the antitrust laws as it deems necessary or desirable in the public interest, including without limitation seeking to enjoin the completion of the combination or permitting completion subject to regulatory concessions or conditions. We cannot assure you that a challenge to the combination will not be made or that, if a challenge is made, it will not succeed.

*Indonesian Capital Markets Regulation.* PT Inco, a 60.8% majority owned subsidiary of Inco, is a public Indonesian company with its shares listed on the Jakarta Stock Exchange. An Indonesian capital markets regulation targeting indirect acquisitions requires that, in certain circumstances, a new controlling party of a public Indonesian company must make a tender offer to the other shareholders of the company. One of PT Inco's shareholders has publicly claimed that the combination will result in the creation of a new controlling party in respect of PT Inco, therefore requiring Phelps Dodge to make a tender offer for the shares of PT Inco not owned by Inco. While Inco and Phelps Dodge believe that Phelps Dodge would not be required to undertake a tender offer under the terms of the relevant Indonesian capital markets regulation, shareholders of PT Inco could take legal action to compel such a tender offer and it is possible that an order to this effect might be granted. Of the shares of PT Inco not held by Inco, approximately 18% are held by the public, 20.1% are held by Sumitomo Metal Mining Co. Ltd, and the remainder are held by a number of other small shareholders.

#### **Fees, Costs and Expenses**

All expenses incurred in connection with the combination agreement and the transactions contemplated by the combination agreement will be paid by the party incurring those expenses, except in specified circumstances in which reimbursement or sharing of expenses may be required by the combination agreement. The circumstances in which reimbursement of expenses may be required are described under *The Combination Agreement Fees and Expenses* and *The Combination Agreement Termination Fees and Expenses* beginning on page 81 and 79, respectively, of this proxy statement.

#### **No Dissenters Rights**

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

#### **Repurchase of Phelps Dodge Common Stock**

Subject to applicable law, we may, at various times as price and market conditions warrant, repurchase our common shares. At the time the proposed combination was announced, we announced that our board of directors had approved a share repurchase authorization of up to \$5 billion of shares (inclusive of the remaining amounts available under Phelps Dodge's existing capital return program). Regulation M under the federal securities laws prohibits Phelps Dodge from bidding for or repurchasing its common shares during certain restricted periods. As such, we will not repurchase any of our common shares under this share repurchase program or Phelps Dodge's existing capital return program until the combination is completed.

#### **New York Stock Exchange Listing; Delisting and Deregistration of Inco Common Shares**

It is a condition to the combination that the shares of our common stock issuable in the combination be approved for listing on the New York Stock Exchange and the Toronto Stock Exchange, subject to official notice of issuance and the satisfaction of certain other customary conditions. If the combination is completed, Inco common shares will cease to be listed on the New York Stock Exchange and the Toronto



Stock Exchange. In addition, after the completion of the combination, (i) Phelps Dodge will become a reporting issuer in certain provinces of Canada and will be subject to ongoing Statutory Financial and other reporting requirements of applicable Canadian Securities laws, and (ii) Inco may cease to be subject to the public reporting and proxy solicitation requirements of the CBCA and the securities laws and various securities regulations of Canada and the United States or may request to cease to be a reporting issuer under the securities laws of one or more of such jurisdictions.

## INFORMATION ABOUT THE SPECIAL MEETING

### Time, Date and Place

This proxy statement is furnished in connection with the solicitation of proxies by Phelps Dodge's board of directors for use at the special meeting. The special meeting will be held on September 25, 2006, at 9:00 a.m. (MST), at The Heard Museum, 2301 North Central Avenue, Phoenix, Arizona.

### Purpose

The purpose of the meeting is to:

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

### Record Date and Shares Entitled to Vote

Only holders of record of Phelps Dodge common stock at the close of business on August 24, 2006, which we refer to as the record date, are entitled to notice of and to vote at the special meeting. As of that date, there were

1 shares of Phelps Dodge common stock issued and outstanding. Holders of record of Phelps Dodge common stock on the record date are entitled to one vote per share on any matter that may properly come before the special meeting.

Your shares may be voted at the meeting only if you are present or represented by a valid proxy.

### Vote Required; Security Ownership of Management

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

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

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

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

**If you hold your shares of Phelps Dodge common stock in street name and do not provide your broker, bank or other nominee with instructions on how to vote your shares, your broker, bank or other nominee will not be permitted to vote your shares on the charter amendment proposal, the share issuance proposal, the charter amendment adjournment proposal or the share issuance adjournment proposal. Shares not voted in favor of the charter amendment proposal will have the effect of a vote against that**



**proposal. Since your vote is important, you should therefore be sure to provide your broker, bank or other nominee with instructions on how to vote your shares.**

As of the record date, the executive officers and directors of Phelps Dodge and their affiliates beneficially owned in the aggregate approximately 707,201 shares of common stock, or less than 1% of the Phelps Dodge common stock then outstanding.

All of the executive officers and directors of Phelps Dodge have advised us that they intend to vote their shares of Phelps Dodge common stock to approve the charter amendment proposal and the share issuance proposal.

**Solicitation and Revocation of Proxies**

A form of proxy for the special meeting is enclosed with this proxy statement. All shares of common stock held of record as of the record date represented by properly executed proxies will, unless such proxies have been previously revoked, be voted in accordance with the instructions indicated on such proxies.

The board of directors is not aware of any other matters that may be presented for action at the special meeting, but if other matters do come properly before the special meeting it is intended that shares of Phelps Dodge common stock represented by proxies in the accompanying form will be voted by the persons named in the proxy in accordance with their best judgment.

A shareholder of record may revoke a proxy by: (a) delivering to Phelps Dodge written notice of revocation, (b) delivering to Phelps Dodge a proxy signed on a later date or (c) appearing at the special meeting and voting in person. If your shares of Phelps Dodge common stock are held in street name by a broker or bank, you should contact your broker or bank if you wish to revoke your proxy. The cost of soliciting proxies from shareholders will be borne by Phelps Dodge. Proxies may be solicited by personal interview, mail and telephone by certain of our executive officers, directors and regular employees, without additional compensation. In addition, we may reimburse brokerage firms and other persons representing beneficial owners of Phelps Dodge stock for their expenses in forwarding solicitation material to beneficial owners.

**Unanimous Recommendation of Phelps Dodge's Board of Directors**

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

**Quorum**

Holders of at least a majority of our outstanding common stock as of the close of business on the record date who are entitled to vote must be present or represented by proxy in order to constitute a quorum to conduct business at the special meeting under our corporate by-laws. **However, regardless of corporate quorum requirements, under New York Stock Exchange rules for purposes of the vote on the share issuance proposal, at least 50% of our outstanding shares must have been voted.** A list of eligible shareholders of record will be available at the special meeting. Presence at the special meeting may be in person or by proxy. You will be considered part of the quorum if you return a signed and dated proxy card, if you vote by telephone or the Internet, or if you vote in person at the special meeting.

**How to Vote**

All shares represented by proxies will be voted by one or more of the persons designated on the enclosed proxy card in accordance with the instructions indicated on the proxy card. If the proxy card is signed and returned without specific directions with respect to the matters to be acted upon, the shares will be voted in accordance with the recommendation of the board of directors. A shareholder of record giving a proxy may revoke it at any time before such proxy is voted at the meeting by giving written notice

of revocation to the Assistant General Counsel and Secretary of Phelps Dodge, by submitting a later-dated proxy, or by attending the meeting and voting in person. Shareholders holding shares of Phelps Dodge common stock in street name through a broker or bank, should contact their broker or bank for instructions on how to revoke their proxies.

Instead of submitting a signed proxy card, shareholders may submit their proxies by telephone or through the Internet using the instructions accompanying the proxy card. Telephone and Internet proxies must be used in conjunction with, and will be subject to, the information and terms contained on the proxy card. Similar procedures may also be available to shareholders who hold their shares through a broker, nominee, fiduciary or other custodian.

Where the shareholder is not the record holder, such as where the shares are held through a broker, nominee, fiduciary or other custodian, the shareholder must provide voting instructions to the record holder of the shares in accordance with the record holder's requirements in order to ensure the shares are properly voted.

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

#### **To Attend the Special Meeting**

Each shareholder will be asked to present valid picture identification. Shareholders holding stock in brokerage accounts will need to bring evidence of their stock ownership as of the August 24, 2006 record date (for example, a copy of a brokerage statement).

#### **Expenses of Soliciting**

The cost of soliciting proxies will be borne by Phelps Dodge. Directors, officers, agents and employees of Phelps Dodge and its subsidiaries and other solicitors retained by Phelps Dodge may, by letter, by telephone or in person, make additional requests for the return of proxies and may receive proxies on our behalf. Brokers, nominees, fiduciaries and other custodians will be requested to forward soliciting material to the beneficial owners of shares and will be reimbursed for their expenses.

Phelps Dodge has retained D.F. King & Co., Inc. to assist and to provide advisory services in connection with this proxy statement for which it will receive a fee estimated not to exceed \$300,000 and will be reimbursed for reasonable out-of-pocket expenses. Phelps Dodge will indemnify D.F. King & Co., Inc. against certain liabilities and expenses in connection with the proxy solicitation, including liabilities under the federal securities laws.

#### **Questions About Voting Your Shares**

If you have questions or need assistance voting your shares, or need additional copies of the proxy materials, you should contact D.F. King & Co., Inc., by mail at 48 Wall Street, New York, NY 10005, or by (toll-free) telephone at 1-800-659-5550 (U.S. and Canada). Non-US or non-Canadian investors may call D.F. King at +44 20 7920 9700.

**Your vote is important, regardless of the number of shares of Phelps Dodge common stock you own. Remember, failure to vote on the charter amendment proposal will have the same effect as a vote against such proposal. Please complete, sign, date and mail your proxy card or submit your proxy and/or voting instructions by telephone or through the Internet promptly.**

### THE COMBINATION AGREEMENT

The following is a summary of selected terms of the combination agreement, as amended by the waiver and first amendment, and the exhibits thereto, which constitute an integral part of the combination agreement. Although Phelps Dodge believes that this description includes the material terms of the combination agreement, as amended, it may not contain all of the information that is important to you and is qualified in its entirety by reference to the combination agreement and the waiver and first amendment, each of which is incorporated by reference in its entirety into, and is attached as Annex A and Annex E, respectively, to this proxy statement. We urge you to read the full text of the combination agreements, as amended, because the rights and obligations of the parties are governed by the terms of the combination agreements, as amended, and not by this summary or other information contained in this proxy statement.

Unless otherwise indicated, references to combination agreement are to the combination agreement, as amended by the waiver and first amendment. For purposes of the following discussion, provisions of the combination agreement that relate solely to the now terminated Falconbridge acquisition have been omitted and the discussion focuses on the terms of the combination agreement relevant to the combination of Phelps Dodge with Inco only.

*Except for the combination agreement's status as a contractual document that establishes and governs the legal relations among the parties thereto with respect to the combination, its text is not intended to be, and should not be interpreted as, a source of factual, business or operational information about Phelps Dodge or Inco, or any of their respective affiliates. The combination agreement contains representations, warranties and covenants that are qualified and limited, including by information in the schedules referenced in the combination agreement that the parties delivered in connection with the execution of the combination agreement, certain other information provided by Inco or Phelps Dodge to the other party, or disclosed on or after January 1, 2004, in public filings with, in the case of Phelps Dodge, the Securities and Exchange Commission and, in the case of Inco, the Ontario Securities Commission. Representations and warranties may be used as a tool to allocate risks between the respective parties to the combination agreement, including where the parties do not have complete knowledge of all facts, instead of establishing such matters as facts. Furthermore, the representations and warranties may be subject to different standards of materiality applicable to the contracting parties, which may differ from what may be viewed as material to shareholders. These representations may or may not have been accurate as of any specific date and do not purport to be accurate as of the date of this proxy statement. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the combination agreement and subsequent developments or new information qualifying a representation or warranty may have been included in this proxy statement. Except for the parties themselves, under the terms of the combination agreement only certain other specifically identified persons are third-party beneficiaries of the combination agreement who may enforce it and rely on its terms. As shareholders, you are not third-party beneficiaries of the combination agreement and therefore may not directly enforce or rely upon its terms and conditions and you should not rely on its representations, warranties or covenants as characterizations of the actual state of facts or condition of Phelps Dodge or Inco, or any of their respective affiliates.*

#### **Closing and Effective Time**

The closing of the combination will take place on the second business day after the date on which all closing conditions have been satisfied or waived (subject to applicable laws and other than any conditions which by their terms cannot be satisfied until the closing date, but subject to the satisfaction or, where permitted, waiver of those conditions as of the closing date) or another time as agreed to in writing by Phelps Dodge and Inco. We currently expect to complete the combination in September 2006. The combination transaction will be effective at 12:01 a.m. (Toronto time) on the date shown on the certificate of arrangement issued under the Canada Business Corporation Act, or the CBCA, which will give effect to the combination. We refer to this time as the effective time.

### **Combination Consideration**

*Treatment of Inco Common Shares.* At the effective time, each Inco common share issued and outstanding immediately prior to the effective time (other than Inco restricted common shares, shares held by a holder who has validly exercised such holder's dissent rights under the Plan of Arrangement or shares held by Phelps Dodge or any of its subsidiaries) will be transferred to Phelps Dodge Canada Inc. in exchange for the right to receive 0.672 shares of Phelps Dodge common stock and Cdn.\$20.25 cash (or, at the Inco holder's option, the U.S. dollar equivalent). At the effective time, each Inco common share held by Phelps Dodge or a Phelps Dodge subsidiary will be canceled, without any consideration being paid for it.

*Inco Restricted Shares and Stock Options.* Each restricted Inco common share granted under Inco's 2001 Key Executive Incentive Plan and its 2005 Key Executive Incentive Plan outstanding immediately prior to the effective time, will be exchanged for a number of shares of Phelps Dodge common stock (on the same terms and conditions as were applicable prior to the effective time to such Inco restricted share pursuant to the relevant incentive plan under which it was issued and the agreement evidencing the grant thereof) equal to:  
As of June 16, 2006, there were approximately 155,931 restricted Inco common shares awarded and outstanding pursuant to the incentive plans.

Each outstanding option to acquire Inco common shares issued under Inco's incentive plans, whether or not vested, will be exchanged for a fully vested option granted by Phelps Dodge to acquire (on the same terms and conditions, other than vesting, as were applicable to such option under the relevant Inco incentive plan under which such option was issued) a specified number of shares of Phelps Dodge common stock (rounded down to the nearest whole number), as follows:

at an exercise price (rounded up to the nearest Cdn.\$0.0001), expressed in U.S. dollars, equal to:

The exercise price set forth above may be increased to ensure that, immediately after the exchange, the amount by which the fair market value of a share of Phelps Dodge common stock exceeds the exercise price of the newly-issued Phelps Dodge option is equal to the amount by which, immediately before the exchange, the fair market value of an Inco common share exceeded the exercise price of the Inco option subject to the exchange.

If an Inco option includes an Inco stock appreciation right ( SAR ), the Phelps Dodge option for which such Inco option is exchanged will include a SAR subject to the same terms and conditions, other than vesting, as were applicable to the Inco SAR except that the Phelps Dodge SAR, which may be exercised in lieu of but not in addition to such Phelps Dodge option, will represent the right to receive, upon exercise, the number of shares of Phelps Dodge common stock (rounded down to the nearest whole share), or an equivalent amount of cash or a combination of Phelps Dodge common stock and cash, at Phelps Dodge s option, with an aggregate fair market value on the date of exercise equal to the positive difference between (a) the aggregate fair market value of the shares of Phelps Dodge common stock subject to the corresponding Phelps Dodge option and (b) the aggregate Phelps Dodge option exercise price.

The conversion mechanisms relating to the Inco options and SARs are also subject to adjustments required to comply with Section 409A of the Internal Revenue Code of 1986, as amended, and the rules, regulations and guidance promulgated thereunder.

As of June 16, 2006, there were outstanding options to acquire approximately 1,780,539 Inco common shares and 715,300 Inco SARs outstanding.

Current shareholders of Inco are expected to own approximately 43% of Phelps Dodge s outstanding common shares after the combination.

#### **Representations and Warranties**

The combination agreement contains a number of customary representations and warranties of Phelps Dodge and Inco, in some cases subject to certain exceptions or qualifications contained in the combination agreement, the disclosure schedules delivered in connection therewith, certain other information provided by Inco or Phelps Dodge to the other party, or disclosed on or after January 1, 2004, in public filings with, in the case of Phelps Dodge, the Securities and Exchange Commission and, in the case of Inco, the Ontario Securities Commission, and relating to, among other things:

due organization, valid existence, good standing, qualification and power and authority to operate its respective business;

ownership of subsidiaries;



no violations of organizational documents;

capitalization and capital structure;

the corporate authorization and enforceability of, and board approval of, the combination agreement and the combination;

the absence of conflicts with or breaches or violations of, organizational documents, applicable law, material contracts or licenses in connection with performance under the combination agreement as a result of entering into the combination agreement or consummating the combination;

compliance with laws, permits, contracts and stock exchange requirements;

the material accuracy of (i) reports required to be filed with Canadian securities regulatory authorities and the Toronto Stock Exchange, in the case of Inco, and with the Securities and Exchange Commission and the New York Stock Exchange, in the case of Phelps Dodge, since January 1, 2004, and (ii) the financial statements included in those reports;

the design and maintenance of disclosure controls and procedures;

absence of undisclosed liabilities;

absence of any litigation, claims, complaints or other similar actions which, if determined adversely, have had or would reasonably be expected to have a material adverse effect;

employee plans;

labor matters;

rights with respect to real and operating property;

mining and other operations;

mineral reserves and resources;

insurance;

taxes;

environmental matters;

intellectual property;

material contracts;

brokers and finders fees;

the securityholder votes required to approve, in the case of Inco, the Plan of Arrangement and, in the case of Phelps Dodge, the restated certificate of incorporation and the authorization and issuance of its shares of common

stock to be issued in connection with the combination; and

the absence of any material adverse effect and certain other material changes or events since December 31, 2005.

In addition to the representations and warranties described above, Inco makes representations and warranties relating to:

the opinion of each of its financial advisors; and

the support agreement contracts in connection with the Falconbridge acquisition.

Phelps Dodge makes representations and warranties relating to the due and valid issuance of the Phelps Dodge common stock issued in connection with the combination.

The representations and warranties of each of Inco and Phelps Dodge in the combination agreement will terminate at the effective time.

*Material Adverse Effect.* Numerous representations and covenants contained in the combination agreement are qualified by the absence of a material adverse effect. Under the combination agreement, material adverse effect means, with respect to each party, any fact, change, event, occurrence or effect that is or would reasonably be expected to be materially adverse to:

the condition (financial or otherwise) of properties, assets, liabilities, obligations, businesses, operations or results of operations of that party and its subsidiaries and material joint ventures, taken as a whole, or

the ability of that party to consummate the combination.

However, a material adverse effect will not have occurred in the case of any fact, change, event, occurrence or effect relating to:

the announcement of the execution of the combination agreement or the combination;

changes, circumstances or conditions generally affecting the mining industry that do not have a materially disproportionate effect on the applicable party;

changes in general economic conditions in the United States or Canada;

changes in any of the principal markets served by the applicable party's business generally;

shortages or price changes with respect to raw materials, metals or other products (including, but not limited to, copper, nickel, cobalt, molybdenum, any platinum-group metals, sulfur, sulphuric acid, electricity, zinc or aluminum) used or sold by that party;

changes in generally applicable laws or regulations (other than orders, judgments or decrees against the applicable party or any of its subsidiaries or material joint ventures);

changes in United States or Canadian generally accepted accounting principles; or

a change in the trading prices of the applicable party's equity securities or a failure by any party to reach any internal or published projections, forecasts or revenue, synergy or earnings predictions, although the events underlying such a change may constitute a material adverse effect.

#### **Covenants**

*Conduct of Business.* Each of Inco and Phelps Dodge has agreed that, pending the consummation of the combination, except as expressly contemplated by the combination agreement or with the other party's prior written consent, which is not to be unreasonably withheld or denied, it and each of its respective subsidiaries will conduct its business in the ordinary course and consistent with past practice and in compliance with all applicable laws and use its commercially reasonable efforts to preserve its business structure and relationships, and will not do any of the following:

amend its governing documents;

split, combine, subdivide or reclassify its capital stock, pay any dividend or make any distribution or redeem, repurchase or otherwise acquire any of its securities, subject to certain exceptions such as dividends in the ordinary course of business or, in the case of Inco, paid by wholly owned subsidiaries to Inco or another subsidiary or paid by non-wholly owned subsidiaries in the ordinary course, or, in the case of Phelps Dodge, paid by a subsidiary to Phelps Dodge or another subsidiary;

adopt any complete or partial plan of liquidation, dissolution, winding up, merger, consolidation, amalgamation, restructuring, recapitalization or other material reorganization (other than a merger or consolidation between

wholly owned subsidiaries);

issue, deliver or sell equity securities, or securities convertible into or exchangeable for equity securities, subject to specified exceptions such as the exercise or granting of stock options in the ordinary course or conversion of convertible securities outstanding on the date of the initial combination agreement or as permitted by the combination agreement;

