

PHELPS DODGE CORP
Form PREM14A
July 05, 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: 302,736,109 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): \$76.125 (average of high and low prices of Phelps Dodge Corporation common stock reported on the New York Stock Exchange for such shares on June 27, 2006)
- (4) Proposed maximum aggregate value of transaction: \$30,078,572,055.88
- (5) Total fee paid: \$3,218,407.21 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:
- (2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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 1 , 2006, at 1 a.m. (MST), at The Heard Museum, 2301 North Central Avenue, Phoenix, Arizona. At the special meeting you will be asked to approve two proposals presented for your consideration.

The proposals relate to Phelps Dodge's agreement to combine with both Inco Limited and Falconbridge Limited or with Inco only 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 the agreement, 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.\$80.13 (U.S.\$71.32) per Inco share, based upon the closing price of Phelps Dodge stock and the closing U.S./Canadian dollar exchange rate on Friday, June 23, 2006. Each shareholder of Inco would receive 0.672 shares of Phelps Dodge common stock plus Cdn.\$17.50 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, less the amount of up to \$3.0 billion of convertible subordinated notes of Inco that may be purchased by Phelps Dodge to provide Inco additional liquidity at the time of its purchase of Falconbridge common shares and to satisfy related dissent rights, as needed.

Simultaneous with its entry into the combination agreement with Phelps Dodge, Inco amended its support agreement with Falconbridge and increased its previously recommended offer for Falconbridge. The board of Falconbridge has unanimously agreed to recommend this revised offer.

If Inco successfully acquires all of the outstanding common shares of Falconbridge prior to the consummation of our combination with Inco on the terms set forth in the combination agreement dated June 25, 2006, between Phelps Dodge and Inco, we intend to combine our company with both Inco and Falconbridge. If Inco does not complete its acquisition of Falconbridge and the support agreement, made as of October 10, 2005, between Inco and Falconbridge, as amended, is terminated prior to the consummation of our combination with Inco, we intend to combine our company with Inco only. In either case, 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 newly formed, wholly owned subsidiary, will acquire all of Inco's outstanding common stock and will amalgamate with Inco.

In order to complete the proposed transaction, we are asking you to approve the following two proposals:

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 1.5 billion 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 finance the combination of Phelps Dodge with both Inco and Falconbridge or with Inco only, 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 each potential 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).

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.

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 Wednesday, 1 , 2006, at 1 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 1.5 billion 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 finance the combination of Phelps Dodge with both Inco and Falconbridge or with Inco only; and

3. to conduct any other business as may be properly brought before the special meeting including, 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.

Your board of directors has determined that the charter amendment proposal, the share issuance proposal and each potential 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.

Only holders of record of the common stock of Phelps Dodge at the close of business on 1 , 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 June 20, 2006, we had 203,921,787 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 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 11/14/06, 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
11/14/06, 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 -Canadian investors may contact D.F. King at +44 20 7920 9700.

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REFERENCE TO ADDITIONAL INFORMATION

This proxy statement incorporates by reference important business and financial information about Phelps Dodge Corporation (Phelps Dodge, we or us), Inco Limited (Inco) and Falconbridge Limited (Falconbridge) 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 120 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, Inco and Falconbridge 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 11:59 p.m., April 11, 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 15 to Inco's unaudited consolidated financial statements incorporated by reference into this proxy statement.

The financial information included in this proxy statement regarding Falconbridge, including Falconbridge's audited consolidated financial statements and Falconbridge's unaudited consolidated financial statements, are reported in U.S. dollars, unless otherwise indicated, and have been prepared in accordance with Canadian GAAP, which differs from U.S. GAAP in certain significant respects. The differences, insofar as they affect Falconbridge's consolidated financial statements, relate to derivative instruments, start-up costs and exploration, pension and post-employment benefits, stock options, convertible debt, business combinations, currency translation gains (losses), income and mining taxes, investments, capital stock redeemable at the option of the holder, reporting of comprehensive income, net earnings and shareholders' equity. A discussion of these differences is presented in the notes to Falconbridge's audited financial statements incorporated by reference into this proxy statement, particularly Note 22 to its 2005 audited consolidated financial statements. Falconbridge is not required to file its unaudited interim financial data for each of the three-month periods ended March 31, 2006 and 2005 and as of March 31, 2006 and March 31, 2005 with the SEC. As such, Falconbridge has not made a reconciliation of its Canadian GAAP interim financial data to U.S. GAAP publicly available. In order to facilitate the production of this proxy statement, Falconbridge management provided to Phelps Dodge the non-public information required to produce a reconciliation of Falconbridge's March 31, 2006 and 2005 financial data prepared in accordance with Canadian GAAP to U.S. GAAP for inclusion in 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:

	Three Months Ended March 31, 2006	Year Ended December 31,				
		2005	2004	2003	2002	2001
		(In \$ per Cdn.\$1)				
High	0.8834	0.8690	0.8493	0.7738	0.6619	0.6697
Low	0.8528	0.7872	0.7158	0.6349	0.6200	0.6241
Average	0.8660	0.8254	0.7682	0.7139	0.6368	0.6458
Period End	0.8569	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 July 3, 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 \$0.8999.

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:

	Three Months Ended March 31, 2006	2005	Year Ended December 31,			
		2004	2003	2002	2001	
	(In Cdn.\$ per \$1)					
High	1.1726	1.2703	1.3970	1.5750	1.6128	1.6023
Low	1.1320	1.1507	1.1775	1.2923	1.5108	1.4933
Average	1.1547	1.2115	1.3017	1.4008	1.5704	1.5485
Period End	1.1670	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 July 3, 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 \$1.1112.

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 1 , 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 1 , 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. If Inco successfully acquires all of the outstanding common shares of Falconbridge prior to the consummation of our combination with Inco on the terms set forth in the combination agreement, we intend to combine Phelps Dodge with both Inco and Falconbridge. If Inco does not complete its acquisition of Falconbridge and the support agreement, made as of October 10, 2005, between Inco and Falconbridge, as amended, is terminated prior to the consummation of our combination with Inco, we intend to combine Phelps Dodge with Inco only. In either case, 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 newly formed, wholly owned subsidiary, will acquire all of Inco's outstanding common stock and will amalgamate with Inco.

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 both Inco and Falconbridge or with Inco only, 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 both Inco and Falconbridge or with Inco only, 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 to this proxy statement as Annex A. 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 1 a.m. (MST), at The Heard Museum, 2301 North Central Avenue, Phoenix, Arizona, on 1 , 2006.

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

A3: Phelps Dodge has fixed 1 , 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

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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 1.5 billion 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, which we refer to as the share issuance proposal, to finance the combination of Phelps Dodge with both Inco and Falconbridge or with Inco only; and
3. conduct any other business as may be properly brought before the special meeting including, 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.

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

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

A5: In the case of either a combination of our company with both Inco and Falconbridge, or with Inco only, we have agreed to pay 0.672 shares of Phelps Dodge common stock and Cdn.\$17.50 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 76 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 \$20.6 billion, which, together with available cash, will be available for the following purposes:

to finance up to \$7.2 billion of the cash consideration to be paid by Phelps Dodge in connection with the combination;

to finance the purchase by Phelps Dodge of up to \$3 billion stated principal amount of 8% convertible subordinated notes of Inco due April 1, 2012;

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, less the stated principal amount of up to \$3 billion of

8% convertible subordinated notes of Inco due April 1, 2012, purchased by us, if any, from Inco;

to repurchase or refinance up to \$6.9 billion of Inco's indebtedness (including indebtedness incurred in connection with the Falconbridge acquisition) and, if Inco has completed the Falconbridge acquisition, \$250 million of Falconbridge's existing indebtedness;

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if Inco has completed the Falconbridge acquisition, to purchase or repurchase up to \$600 million in liquidation amount of existing preference shares of Falconbridge;

to refinance liabilities outstanding under our existing revolving credit agreement; and

to finance transaction expenses related to the combination.

Phelps Dodge has received executed commitments from Citigroup Global Markets Inc. and HSBC Securities (USA) Inc. for the entire \$20.6 billion principal amount of the new credit facilities. In addition, Citigroup and HSBC have agreed to increase the capacity of the credit facilities, subject to certain limitations, on the same terms and on a pro rata basis at Phelps Dodge's request. The combination consideration and financing, including the new credit facilities and the Inco convertible subordinated notes, are more fully described in this proxy statement. See "The Combination - Combination Consideration and Financing" beginning on page 36 of this proxy statement.

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

A6: If we combine with both Inco and Falconbridge, we estimate that, upon completion of the combination, former shareholders of Inco and Falconbridge will own approximately 31% and 29%, respectively, of the outstanding common stock of the combined company. If we combine with Inco only, we estimate that, upon completion of the combination, former shareholders of Inco will own approximately 44% of the outstanding common stock of the combined company.

We expect that, upon consummation of the combination of our company with both Inco and Falconbridge, 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; Timothy R. Snider, the president and chief operating officer of Phelps Dodge, will hold the same positions in the combined company; Derek Pannell, the chief executive officer of Falconbridge, will become the president of the combined company's nickel division and will head the combined company's nickel, zinc and aluminum operations; 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 Messrs. Hand and Pannell to be based in Toronto. In the event that Phelps Dodge combines with Inco only, Mr. Pannell will not be employed by the combined company, and Mr. Hand will become the president of the combined company's nickel division.

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 and, assuming the consummation of the Falconbridge acquisition, Falconbridge.

Q7: Will Phelps Dodge consummate a combination with Inco if Inco fails to acquire Falconbridge?

A7: If Inco fails to acquire Falconbridge and the support agreement has been terminated prior to the consummation of our combination with Inco, we will consummate the combination of our company with Inco only, subject to the conditions more fully discussed in this proxy statement. See "The Combination Agreement - Conditions to the Combination" beginning on page 87 of this proxy statement.

Q8: Why does Phelps Dodge want to consummate a combination with both Inco and Falconbridge or with Inco only?

A8: The Phelps Dodge board of directors believes that a combination of Phelps Dodge with both Inco and Falconbridge or with Inco only will create a combined company with the scope, scale and financial strength to more efficiently develop existing opportunities and assets and to capitalize

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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 46 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.

Q9: When do you expect the combination to close?

A9: 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 70 of this proxy statement.

Q10: Are there risks I should consider in deciding whether to vote for the charter amendment proposals and the share issuance proposals?

A10: Yes. The proposed combination of our company with both Inco and Falconbridge or with Inco only 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 8 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 particular, if we combine with

both Inco and Falconbridge, any failure to integrate the operations, systems and personnel of Inco and Falconbridge (particularly those in Sudbury, Canada) could have a material adverse effect on our ability to realize the anticipated benefits of a combination with both Inco and Falconbridge. 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 The Combination Agreement Conditions to the Combination beginning on page 87 of this proxy statement.

Q11: What vote is required to approve each proposal?

A11: *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.

Q12: How do I vote?

A12: 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 73 of this proxy statement.

Q13: I hold my shares in street name. How are my shares voted?

A13: 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 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 or the share issuance 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.**

Q14: How many votes do I have?

A14: 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 June 20, 2006, there were approximately 203,921,787 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.

Q15: What constitutes a quorum?

A15: 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.

Q16: If I participate in the Mellon Investor Services, L.L.C. Investor Services Program, how will my shares be voted?

A16: 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.

Q17: What if I return my proxy card but do not mark it to show how I am voting?

A17: 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.

Q18: Can I change my vote *after* I have submitted a proxy by telephone or Internet or mailed my signed proxy card?

A18: 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.

Q19: What do I need to do now?

A19: 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.

Q20: Who should I call if I have questions about the proxy materials or voting procedures?

A20: 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 -Canadian investors may contact D.F. King at +44 20 7920 9700. You may also contact your banker, broker or financial advisor for assistance.

SUMMARY

*This summary highlights selected information about both potential combinations, the combination agreement 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 120 of this proxy statement. Unless we have stated otherwise, all references in this proxy statement to: (i) the *Falconbridge acquisition* are to the acquisition by Inco of at least two-thirds of the outstanding common shares of Falconbridge on the terms set forth in the support agreement and Inco's take-over bid circular without the waiver or change of any term or condition thereof without our written consent and the subsequent acquisition by Inco of all remaining outstanding Falconbridge common shares, (ii) the *combination* are to (a) the combination of Phelps Dodge with both Inco and Falconbridge if Inco successfully completes the Falconbridge acquisition prior to the consummation of our combination with Inco or (b) the combination of Phelps Dodge with Inco only, if Inco does not successfully complete the Falconbridge acquisition prior to the consummation of our combination with Inco, as the context requires, (iii) 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, (iv) the *support agreement* are to the Support Agreement, dated October 10, 2005, between Inco and Falconbridge, as amended, and (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, Phelps Dodge's newly formed, wholly owned subsidiary, will acquire all of Inco's outstanding common shares and will amalgamate with Inco, including any modification to the Plan of Arrangement to effect the arrangement under the Business Corporations Act (Ontario) and provide that the arrangement include Inco's acquisition of the common shares of Falconbridge held by shareholders of Falconbridge who did not accept Inco's offer to acquire their common shares.*

The Companies (page 36)

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 two segments, the finished products segment and the intermediates segment. The finished products segment includes (i) mining and processing operations in Ontario, Manitoba, Newfoundland and Labrador, (ii) refining operations in the United Kingdom and (iii) interests in refining operations in Japan and several other Asian countries. The intermediates segment includes PT Inco's mining and processing operations in Indonesia where nickel-in-matte, an intermediate product, is produced and sold primarily into the Japanese market.

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.

Falconbridge Limited. Falconbridge is a leading international copper and nickel company with investments in fully integrated zinc and aluminum assets. Falconbridge's primary focus is on the identification and development of world-class copper and nickel mining deposits. Falconbridge is one of the world's largest producers of nickel and zinc and a significant producer of copper, primary and fabricated aluminum, cobalt, lead, molybdenum, silver, gold and sulphuric acid, and also one of the world's largest processors and recyclers of metal-bearing materials. The principal markets for Falconbridge's products include the steel, refinery and foundry, construction, telecommunications, automotive, agricultural and chemical industries. Falconbridge has operations and offices in 18 countries. Falconbridge's executive offices are located at BCE Place, 181 Bay St., Suite 200, Toronto, Ontario M5J 2T3.

The Combination (page 36)

On June 25, 2006, we agreed to combine our company with Inco pursuant to the combination agreement. If Inco successfully completes the Falconbridge acquisition prior to the consummation of our combination with Inco, we intend to combine our company with both Inco and Falconbridge. If Inco does not complete the Falconbridge acquisition and the support agreement is terminated prior to the consummation of our combination with Inco, we intend to combine with Inco only. In either case, the combination will be effected pursuant to the arrangement.

Combination Consideration and Financing (page 36)

In the case of either a combination of our company with both Inco and Falconbridge or with Inco only, we have agreed to pay 0.672 shares of Phelps Dodge common stock and Cdn.\$17.50 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 76 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 \$20.6 billion, which, together with available cash, will be available for the following purposes:

to finance up to \$7.2 billion of the cash consideration to be paid by Phelps Dodge in connection with the combination;

to finance the purchase by Phelps Dodge of up to \$3 billion stated principal amount of 8% convertible subordinated notes of Inco due April 1, 2012;

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, less the stated principal amount of up to \$3 billion of 8% convertible subordinated notes of Inco due April 1, 2012, purchased by us, if any, from Inco;

to repurchase or refinance up to \$6.9 billion of Inco's indebtedness (including indebtedness incurred in connection with the Falconbridge acquisition) and, if Inco has completed the Falconbridge acquisition, \$250 million of Falconbridge's existing indebtedness;

if Inco has completed the Falconbridge acquisition, to purchase or repurchase up to \$600 million in liquidation amount of existing preference shares of Falconbridge;

to refinance liabilities outstanding under our existing revolving credit agreement; and

to finance transaction expenses related to the combination.

Phelps Dodge has received executed commitments from Citigroup and HSBC for the entire \$20.6 billion principal amount of the new credit facilities. In addition, Citigroup and HSBC have agreed to increase the capacity of the credit facilities, subject to certain limitations, on the same terms and on a pro rata basis at Phelps Dodge's request. We currently intend to refinance indebtedness incurred under the 12-month term loan facility and, possibly, the three-year term loan facility in amounts then outstanding by accessing the capital markets in one or more public offerings of debt securities of Phelps Dodge Canada or Phelps Dodge Inco at appropriate times following the completion of the combination. The executed commitments provide for a reduction of the size and a change in the structure of the credit facilities if Inco does not complete the Falconbridge acquisition and the support agreement is terminated prior to the completion of the combination of Phelps Dodge with Inco. The combination consideration and financing, including the new credit facilities and the Inco convertible subordinated notes, are more fully described in this proxy statement. See *The Combination – Combination Consideration and Financing* beginning on page 36 of this proxy statement.

Post-Combination Shareholding, Board of Directors and Management (page 40)

Assuming that we combine with both Inco and Falconbridge, we estimate that, upon completion of the combination, former shareholders of Inco and Falconbridge are expected to own approximately 31% and 29%, respectively, of the outstanding common shares of the combined company. Assuming that we combine with Inco only, we estimate that, upon completion of the combination, former shareholders of Inco are expected to own approximately 44% of the outstanding common shares of the combined company.

We expect that, upon consummation of the combination of our company with both Inco and Falconbridge, 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; Timothy R. Snider, the president and chief operating officer of Phelps Dodge, will hold the same positions in the combined company; Derek Pannell, the chief executive officer of Falconbridge, will become the president of the combined company's nickel division and will head the combined company's nickel, zinc and aluminum operations; 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 Messrs. Hand and Pannell to be based in Toronto. In the event that Phelps Dodge combines with Inco only, Mr. Pannell will not be employed by the combined company and Mr. Hand will become the president of the combined company's nickel division.

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 and, assuming the consummation of the Falconbridge acquisition, Falconbridge.

Phelps Dodge's Reasons for the Combination (page 46)

The Phelps Dodge board of directors believes that a combination of Phelps Dodge with both Inco and Falconbridge or with Inco only 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 46 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 51)

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

the share issuance 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 and FOR the share issuance proposal.

In approving the charter amendment proposal, the share issuance proposal and each potential 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 46 of this proxy statement.

Opinions of Phelps Dodge's Financial Advisors (page 52)

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 June 25, 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 June 25, 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 June 25, 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 respective opinion.

Interests of Phelps Dodge Directors and Employees in the Combination (page 67)

You should be aware that Phelps Dodge's directors and certain 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 70)

Upon completion of the combination with Inco and Falconbridge, the pre-combination shareholders of Phelps Dodge will own approximately 40% of the combined company, the pre-combination shareholders of Inco will own approximately 31% of the combined company, and the pre-combination shareholders of Falconbridge will own approximately 29% 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 and Falconbridge, in determining the accounting acquirer.

Based on the weight of these factors, the company concluded that Phelps Dodge was 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 and Falconbridge, if applicable, 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 net fair value of assets acquired, including identifiable intangible assets, and liabilities assumed will be recorded as goodwill. Phelps Dodge will incur 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 incur material charges relating to the impairment of that asset. Any such charges could have a material impact on the value of the combined company's assets and the combined company's results of operations. Long-term assets recorded at fair value during purchase accounting will be evaluated when events or changes in economic circumstances indicate the carrying amount of such assets may not be recoverable. Metal inventories recorded at fair value during purchase accounting will be subject to periodic assessments for lower-of-cost-or-market adjustments. To the extent that market values fall below purchase accounting values in future reporting periods, the combined company may be required to incur material charges relating to such adjustments.

Regulatory Matters Related to the Combination (page 70)

HSR Act. The combination of Phelps Dodge with Inco is subject to the requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, which we refer to as the HSR Act, which prevents us from completing the combination until we furnish required information and materials to the Antitrust Division of the Department of Justice, which we refer to as the DOJ, and the Federal Trade Commission, which we refer to as the FTC, and the applicable waiting period is terminated or expires. We filed the requisite Notification and Report Forms under the HSR Act with the DOJ and the FTC on July 3, 2006.

Competition Act (Canada). The combination is subject to the requirements of the Competition Act (Canada), as amended, which we refer to as the Competition Act, which prevents us from completing the combination until we have provided the required notice under the Competition Act and the waiting period under the Competition Act has expired or been waived by the Commissioner of Competition under the Competition Act, whom we refer to as the Commissioner of Competition. Under the combination agreement, the completion of the combination is conditional upon receipt of an advance ruling certificate under the Competition Act or the expiration of the waiting period and receipt of notification from the Commissioner of Competition that she has determined not to make an application for an order under section 92 of the Competition Act in respect of the combination, which we refer to as the Competition Act Approval. We will file a Short Form Notification with the Commissioner of Competition as soon as reasonably practicable.

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 will file an Application for Review with the Investment Review Division of Industry Canada as soon as reasonably practicable.

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 will file the Form CO Merger Notification pursuant to the Council Regulation with the European Commission as soon as reasonably practicable.

New York Stock Exchange Listing; Delisting and Deregistration of Inco Common Shares (page 71)

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, 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 87)

We expect to complete the combination of our company with both Inco and Falconbridge or with Inco only, as applicable, 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 87 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 70 of this proxy statement.

No Dissenters Rights (page 71)

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 75)

The combination agreement is described beginning on page 75 of this proxy statement. The combination agreement also is attached as Annex A to this proxy statement. We urge you to read the

combination agreement in its entirety because it contains important provisions governing the terms and conditions of the combination.

Court Approval Will be Required to Complete the Combination (page 79)

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 will acquire all of Inco's outstanding common shares and will amalgamate with Inco. 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. In addition, Phelps Dodge and Inco may, if they consider it appropriate under the circumstances, effect the arrangement under the Business Corporations Act (Ontario) and may modify the plan of Arrangement accordingly to provide that the arrangement include Inco's acquisition of the common shares of Falconbridge held by shareholders of Falconbridge who did not accept Inco's offer to acquire their common shares.

Conditions to the Combination (page 87)

Our and Inco's obligations to complete the combination are subject to conditions that must be satisfied or waived, 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;

either (i) Inco has completed the Falconbridge acquisition prior to the consummation of our combination with Inco or (ii) the support agreement has been terminated; and

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

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 holders of more than 10% of all Inco common shares (15% if any person who held, directly or indirectly, on the date of the combination agreement more than 10% of the common shares of Falconbridge exercises dissent rights in respect of the arrangement in respect of more than 5% of Inco common shares) have exercised dissent rights in respect of the arrangement.

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 91 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 88)**

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 82 of this proxy statement), upon satisfaction of various other conditions.

**Effect of Termination; Termination Fees and Expenses
(page 89)**

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 and, from and after the date that Inco has

acquired at least two-thirds of the common shares of Falconbridge, an additional \$450 million (for a total of \$925 million), 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); provided that Inco will owe to Phelps Dodge an additional \$450 million (for a total of \$925 million) from and after the date that Inco acquires at least two-thirds of the outstanding common shares of Falconbridge;

Inco will owe to Phelps Dodge a termination fee of \$475 million if Inco terminates the combination agreement to accept a superior proposal; provided that Inco will owe to Phelps Dodge an additional \$450 million (for a total of \$925 million) from and after the date that Inco acquires at least two-thirds of the outstanding common shares of Falconbridge;

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 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 and, from and after the date that Inco has acquired at least two-thirds of the common shares of Falconbridge, an additional \$450 million (for a total of \$925 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 effect 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 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 three months ended March 31, 2006 and 2005, and the balance sheet data as of March 31, 2006 and 2005, have been derived from Phelps Dodge's unaudited consolidated financial statements, which are incorporated into this document by reference.

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

	At or for the Three Months Ended March 31,*		Year Ended December 31,*				
	2006(a)	2005(b)	2005(c)	2004(d)	2003(e)	2002(f)	2001(g)
(\$ in millions, except per share amounts)							
Statement of Operations Data							
Sales and other operating revenues	\$ 2,224.6	1,886.5	8,287.1	6,415.2	3,498.5	3,173.2	3,420.4
Operating income (loss)	\$ 574.2	535.8	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	\$ 350.7	377.4	1,583.9	1,023.6	(21.1)	(356.5)	(377.7)
Income (loss) from discontinued operations, net of taxes**	\$ (16.9)	9.3	(17.4)	22.7	39.2	41.3	48.2
Income (loss) before extraordinary item and cumulative effect of accounting changes	\$ 333.8	386.7	1,566.5	1,046.3	18.1	(315.2)	(329.5)
Net income (loss)	\$ 333.8	386.7	1,556.4	1,046.3	94.8	(338.1)	(331.5)
Basic earnings (loss) per common share from continuing operations***	\$ 1.73	1.95	8.06	5.41	(0.19)	(2.17)	(2.41)
Diluted earnings (loss) per common share from continuing operations***	\$ 1.72	1.87	7.82	5.18	(0.19)	(2.17)	(2.41)
Basic earnings (loss) per common share from discontinued operations, extraordinary item and cumulative effect of accounting	\$ (0.08)	0.05	(0.14)	0.12	0.65	0.11	0.30

changes***

Diluted earnings (loss) per common share from discontinued operations, extraordinary item and cumulative effect of accounting changes***	\$	(0.08)	0.05	(0.13)	0.11	0.65	0.11	0.30
Basic earnings (loss) per common share***	\$	1.65	2.00	7.92	5.53	0.46	(2.06)	(2.11)
Diluted earnings (loss) per common share***	\$	1.64	1.92	7.69	5.29	0.46	(2.06)	(2.11)

	At or for the Three Months Ended March 31,*			Year Ended December 31,*			
	2006(a)	2005(b)	2005(c)	2004(d)	2003(e)	2002(f)	2001(g)
(\$ in millions, except per share amounts)							
Balance Sheet Data (at period end)							
Cash (including restricted cash)	\$ 2,163.0	1,398.0	1,937.5	1,200.1	683.8	349.8	386.9
Current assets (including cash)	\$ 4,192.7	3,118.9	4,070.7	2,661.7	1,790.0	1,428.2	1,531.2
Total assets	\$ 10,555.3	9,023.2	10,358.0	8,594.1	7,272.9	7,029.0	7,584.3
Total debt	\$ 704.4	1,046.8	694.5	1,096.9	1,959.0	2,110.6	2,871.6
Long-term debt	\$ 674.8	970.7	677.7	972.2	1,703.9	1,948.4	2,538.3
Shareholders equity	\$ 5,584.4	4,752.5	5,601.6	4,343.1	3,063.8	2,813.6	2,730.1
Cash dividends declared per common share****	\$ 2.1875	0.125	3.125	0.25			0.375
Other Data							
Net cash provided by operating activities	\$ 533.3	316.1	1,769.7	1,700.1	461.6	359.1	310.7
Capital expenditures and investments in subsidiaries, net of cash received and acquired	\$ 291.7	68.3	698.2	317.3	102.4	133.2	311.0
Net cash provided by (used in) investing activities	\$ 117.8	(71.1)	(368.0)	(291.0)	(87.7)	(140.3)	(266.8)
Net cash provided by (used in) financing activities	\$ (424.6)	(45.1)	(685.8)	(947.2)	(48.8)	(244.8)	101.0
Division Results							
Phelps Dodge Mining Company operating income (loss)	\$ 606.6	550.4	1,929.9	1,606.7	265.2	(65.0)	(83.6)
Phelps Dodge Industries operating income (loss)	5.3	12.0	14.6	18.8	13.7	(17.5)	12.2
Corporate and other operating loss	(37.7)	(26.6)	(179.6)	(150.6)	(136.1)	(174.9)	(19.2)
	\$ 574.2	535.8	1,764.9	1,474.9	142.8	(257.4)	(90.6)
Copper							
Copper production (consolidated basis thousand tons)	304.2	311.2	1,228.0	1,260.6	1,242.3	1,213.7	1,352.1
Copper production (pro rata basis thousand tons)	251.2	267.7	1,042.3	1,081.7	1,042.5	1,012.1	1,145.2
	304.5	311.2	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)		254.0	267.4	1,051.6	1,089.1	1,052.6	1,034.5	1,156.0
COMEX copper price (per pound)(h)	\$	2.25	1.47	1.68	1.29	0.81	0.72	0.73
LME copper price (per pound)(i)	\$	2.24	1.48	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		1.5	1.6	1.5	1.6	1.6	1.4	0.9
				19.2	24.8	21.1	21.0	23.0

* 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 three 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 the disposal of \$14.1 million, or 7 cents per common share; \$6.7 million, or 3 cents per common share, for environmental provisions; \$4.9 million, or 3 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 2 cents per common share, and a loss on the disposal of \$2.2 million, or 1 cent per common share; \$4.7 million, or 2 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 the disposal of \$1.1 million; 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 three months of 2005 included after-tax, net special gains of \$4.5 million, or 2 cents per common share, for legal matters; and \$0.8 million for Phelps Dodge's magnet wire restructuring activities; partially offset by net special charges of \$3.3 million, or 1 cent per common share, for environmental provisions; and \$1.9 million, or 1 cent per common share, for foreign dividend taxes.
- (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 and 2004, 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, 2003, 2002 and 2001, have been derived from Inco's audited consolidated financial statements for such years, which have not been incorporated into this document by reference.

The statements of operations data for the three months ended March 31, 2006 and 2005, and the balance sheet data as of March 31, 2006 and 2005, have been derived from Inco's unaudited consolidated financial statements, 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 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 15 to the unaudited consolidated financial statements of Inco incorporated by reference into this proxy statement.

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

	At or for the Three Months Ended March 31,		Year Ended December 31,				
	2006	2005(a)	2005	2004(a)	2003(a)	2002(a)	2001(a)
		(Restated)		(Restated)	(Restated)	(Restated)	(Restated)
	(\$ in millions, except per share amounts)						
Statement of Operations Data(b)							
Net sales	\$ 1,211	1,121	4,518	4,278	2,474	2,161	2,066
Cost of sales and operating expenses, excluding depreciation and depletion	\$ 733	603	2,633	2,348	1,735	1,378	1,416
Depreciation and depletion	\$ 68	61	256	248	227	242	263
Selling, general and administrative	\$ 47	43	207	192	169	136	111
Asset impairment charges	\$		25	201		2,415	
Interest expense	\$ 18	7	26	36	56	58	62
Income and mining taxes	\$ 113	83	408	432	(27)	(641)	(88)
Net earnings (loss)	\$ 202	317	836	619	146	(1,475)	302
Dividends per common share	\$ 0.125		0.30				
Preferred dividends	\$				(6)	(26)	(26)
Premium on redemption of preferred shares	\$				(15)		
Net earnings (loss) applicable to common shares	\$ 202	317	836	619	125	(1,501)	276

Net earnings (loss) per common share basic	\$ 1.05	1.68	4.41	3.30	0.68	(8.21)	1.52
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	At or for the Three Months Ended March 31,			Year Ended December 31,			
	2006	2005(a)	2005	2004(a)	2003(a)	2002(a)	2001(a)
		(Restated)		(Restated)	(Restated)	(Restated)	(Restated)
	(\$ in millions, except per share amounts)						
Balance Sheet Data (at period end)(b)							
Common shares outstanding (weighted average, in millions)	193	188	189	188	185	183	182
Total assets	\$ 12,251	11,014	12,010	10,716	9,058	8,596	9,630
Long-term debt	\$ 1,840	1,721	1,852	1,761	1,603	1,636	842
Convertible debt	\$ 351	418	362	418	418	148	148
Preferred shares	\$					472	472

(a) Financial information for the 2005 first quarter and years ended December 31, 2001 through 2004, reflect restatements that are discussed in Note 2 to the consolidated financial statements in Inco's 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:

	Three Months Ended March 31,			Year Ended December 31,			
	2006	2005(a)	2005	2004(a)	2003(a)	2002(a)	2001(a)
		(Restated)		(Restated)	(Restated)	(Restated)	(Restated)
	(\$ in millions, except per share amounts)						
Net earnings (loss) Canadian GAAP	\$ 202	317	836	619	146	(1,475)	302
Increased post-retirement benefits expense	(19)	(16)	(64)	(53)	(45)	(24)	(24)
Currency translation gains (losses)		6	(62)	(89)	(219)	(49)	123
Increased intangible assets amortization expense					(2)	(2)	
Increased research and development expense	(7)	(6)	(47)	(17)	(5)	(6)	(8)
Decreased (increased) exploration expense	(1)		(8)	1	(4)	(3)	(7)
Decreased (increased) asset impairment charges				11		(961)	

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Increased interest expense	(3)	(5)	(23)	(14)	(13)	(1)	(5)
Cash settlement of LYON Notes tendered for conversion			(26)				
Unrealized net gain (loss) on derivative instruments	16	(9)	(17)	5	(1)	5	(4)
Increased depreciation and depletion expense	(3)						
Increased income and mining tax expense					(15)		
Decreased (increased) minority interest		7	9	(8)	1	2	2

	Three Months Ended March 31,		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)						
Change in accounting policy						1	1
Taxes on U.S. GAAP differences	5	2	30	22	28	139	15
Net earnings (loss) before cumulative effect of a change in accounting principle							
U.S. GAAP	190	296	628	477	(129)	(2,374)	395
Cumulative effect of a change in accounting principle					(17)	(2)	
Net earnings (loss) U.S. GAAP	\$ 190	296	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	\$ 0.99	1.57	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	\$ 0.99	1.57	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	\$ 0.86	1.34	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	\$ 0.86	1.34	2.87	2.30	(0.91)	(13.14)	1.99

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

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 HISTORICAL FINANCIAL DATA OF FALCONBRIDGE

The following statements of operations data for the years ended December 31, 2005 and 2004, and the balance sheet data as of December 31, 2005 and 2004, have been derived from Falconbridge's audited consolidated financial statements contained in its Annual Report on Form 40-F 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, 2003, 2002 and 2001, and the balance sheet data as of December 31, 2003, 2002 and 2001, have been derived from Falconbridge's unaudited Five-Year Financial Review contained in its 2005 Annual Report, which has not been incorporated into this document by reference.

The statements of operations data for the three months ended March 31, 2006 and 2005, and the balance sheet data as of March 31, 2006, have been derived from Falconbridge's unaudited consolidated financial statements, which are incorporated into this document by reference.

Falconbridge 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 Falconbridge's consolidated financial statements, relate to derivative instruments, capital stock redeemable at the option of the holder, start-up costs and exploration, pensions and post-employment benefits, stock options, convertible debt, business combinations, currency translation gain (losses), income and mining taxes, investments, reporting of comprehensive income, net earnings and shareholders' equity. A full discussion of these differences is presented in the notes to Falconbridge's audited consolidated financial statements incorporated by reference into this proxy statement and, in particular, Note 22 to the audited consolidated financial statements included in Falconbridge's Form 40-F for the fiscal year ended December 31, 2005.

Falconbridge is not required to file its unaudited interim financial data for each of the three-month periods ended March 31, 2006 and 2005 and as of March 31, 2005 with the SEC. As such, Falconbridge has not made a reconciliation of its Canadian GAAP interim financial data to U.S. GAAP publicly available. Falconbridge management provided to Phelps Dodge the non-public information required to produce a U.S. GAAP reconciliation of Falconbridge's March 31, 2006 and 2005 financial data for inclusion in the selected financial data table below.

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

	At or for the Three Months Ended March 31,		Year Ended December 31,				
	2006	2005(a)	2005	2004(a)	2003(a)	2002(a)	2001(a)
				(Restated)	(Restated)	(Restated)	(Restated)
	(\$ in millions, except per share amounts)						
Statement of Operations							
Data(b)							
Revenues	\$ 2,858	1,894	8,148	6,764	4,456	3,618	3,697
Operating expenses	\$ 2,119	1,435	6,328	5,373	4,047	3,448	3,592
Corporate and general administration	\$ 24	17	80	66	58	58	56
Interest expense	\$ 32	28	152	120	129	91	77
Income and production tax expense (recovery)	\$ 222	124	511	351	36	(141)	(99)
Income (loss) from continuing operations	\$ 462	184	880	594	33	(394)	(24)
	\$	(8)	(8)	(73)	(31)	(25)	(49)

Income (loss) from discontinued operations

Net income (loss)	\$ 462	176	872	521	2	(419)	(73)
Dividends per common share	\$ 0.10	0.10	0.40	0.37	0.46	0.51	0.52

	At or for the Three Months Ended March 31,			Year Ended December 31,			
	2006	2005(a)	2005	2004(a)	2003(a)	2002(a)	2001(a)
				(Restated)	(Restated)	(Restated)	(Restated)
	(\$ in millions, except per share amounts)						
Basic earnings (loss) per common share	\$ 1.23	0.58	2.52	1.71	(0.05)	(1.80)	(0.36)
Diluted earnings (loss) per common share	\$ 1.21	0.57	2.50	1.70	(0.05)	(1.80)	(0.36)

	At or for the Three Months Ended March 31,			Year Ended December 31,			
	2006	2005(a)	2005	2004(a)	2003(a)	2002(a)	2001(a)
	(\$ in millions, except per share amounts)						
Balance Sheet Data (at period end)(b)							
Working capital	\$ 1,536	1,595	1,557	1,433	1,051	610	552
Capital and other assets	\$ 8,819	6,354	8,817	6,360	5,943	5,507	6,070
Long-term debt	\$ 2,910	2,695	3,474	2,858	3,089	3,075	2,818
Common shares outstanding(c)	372	297	371	297	295	241	239

- (a) Effective January 1, 2005, Falconbridge retroactively adopted the amended standard CICA 3860 Financial Instruments Presentation and Disclosure. Comparative figures for the statement of operations data and the balance sheet data at and for the years ended December 31 for all periods presented have been adjusted to reflect this change in accounting policy under Canadian GAAP.
- (b) Falconbridge financial data is prepared in accordance with Canadian GAAP and presented in U.S. dollars.
- (c) The March 31, 2005, and December 31, 2004, through December 31, 2001, common shares outstanding have not been adjusted to reflect additional common shares issued in connection with the Noranda, Inc. merger.

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

	Canadian GAAP	Three Months Ended March 31,		Year Ended December 31,				
		2006(b)	2005(b)	2005	2004(a)	2003(b)	2002(b)	2001(b)
(\$ in millions, except per share amounts)								
Net earnings (loss)	\$ 462	176	872	521	2	(419)	(73)	
Adjustment of certain financial instruments to market	(4)	1	6	(11)	(14)	12	36	
Start-up costs and exploration	(29)	(14)	(91)	(94)	(40)	(81)	(123)	
Amortization of start-up costs and exploration	2	1	6	7	14	(5)	1	
Recognition of asset impairment						232		
Pensions and post-employment benefits	1		2	(2)		(64)	(45)	
Stock options			(2)	(1)	(1)	(18)		
Asset retirement obligation						(48)	11	
Interest expense	3	3	13	11	9	2	2	
Purchase accounting	1		9					
Foreign exchange difference		(1)	(10)	11	2			
Tax effecting of adjustments	8	5	28	26	18	4	29	
Net earnings U.S. GAAP before cumulative effect of accounting change	\$ 444	171	833	468	(10)	(385)	(162)	
Net earnings U.S. GAAP	\$ 444	171	833	468	(37)	(385)	(162)	
Basic earnings per common share	\$ 1.18	0.57	2.34	1.50	(0.23)	(1.67)	(0.73)	
Diluted earnings per common share	\$ 1.17	0.56	2.32	1.48	(0.23)	(1.67)	(0.73)	

- (a) Effective January 1, 2005, Falconbridge retroactively adopted the amended standard CICA 3860 Financial Instruments Presentation and Disclosure. The reconciliation of net earnings from Canadian GAAP to U.S. GAAP for the year ended December 31, 2004, has been adjusted to reflect this change.
- (b) This information is not publicly available. Falconbridge management provided to Phelps Dodge the non-public information required to produce the data presented in the table for such periods.

SELECTED UNAUDITED PRO FORMA FINANCIAL DATA

The selected pro forma financial information presented below combines the historical balance sheets of Phelps Dodge with both Inco and Falconbridge and with Inco only for the periods presented, as if the combination had been consummated March 31, 2006, and combines the statements of income of Phelps Dodge with both Inco and Falconbridge and with Inco only for the year ended December 31, 2005, and the three months ended March 31, 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 98 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 92 of this proxy statement.

Phelps Dodge Combines with Both Inco and Falconbridge

	Three Months Ended March 31, 2006	Year Ended December 31, 2005
(\$ in millions, except per share data)		
Income Statement Information:		
Revenue	\$5,964	19,796
Earnings before extraordinary item and cumulative effect of accounting changes	\$ 770	2,367
Earnings per common share before extraordinary item and cumulative effect of accounting changes basic	\$ 1.53	4.75
Dividends declared per common share	\$ 2.19	3.13

March 31, 2006

	(\$ in millions, except per share data)
Balance Sheet Information:	
Total assets	\$64,151
Long-term obligations	\$28,384
Shareholders' equity	\$28,905
Book value (per share)	\$ 59.63

Phelps Dodge Combines with Inco Only

	Three Months Ended March 31, 2006	Year Ended December 31, 2005
(\$ in millions, except per share data)		

Income Statement Information:

Revenue	\$3,436	12,750
Earnings before extraordinary item and cumulative effect of accounting changes	\$ 501	2,035
Earnings per common share before extraordinary item and cumulative effect of accounting changes basic	\$ 1.39	5.74
Dividends declared per common share	\$ 2.19	3.13

March 31, 2006

**(\$ in millions,
except
per share data)**

Balance Sheet Information:

Total assets	\$34,384
Long-term obligations	\$11,791
Shareholders equity	\$17,810
Book value (per share)	\$ 51.92

UNAUDITED COMPARATIVE PER SHARE DATA

The following table presents historical per common share information for Phelps Dodge, Inco and Falconbridge, and the pro forma per common share data giving effect to the combination of Phelps Dodge, Inco and Falconbridge and of Phelps Dodge and Inco, for the three months ended March 31, 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 should be read in conjunction with the historical financial statements of the combining corporations and the Selected Historical Financial Data of Phelps Dodge, Inco and Falconbridge beginning on page 16 of this proxy statement, and the Unaudited Pro Forma Combined Financial Statements beginning on page 92 of this proxy statement.

	At or for the Three Months Ended March 31, 2006	Year Ended December 31, 2005
Per common share:		
Historical:		
Phelps Dodge(1)		
Book value(2)	\$27.42	27.57
Income from continuing operations		
Basic	\$ 1.73	8.06
Diluted	\$ 1.72	7.82
Cash dividends(3)	\$ 2.19	3.13
Inco		
Book value(2)	\$15.60	15.08
Income from continuing operations		
Basic	\$ 0.99	3.32
Diluted	\$ 0.86	2.87
Cash dividends	\$0.125	0.30
Falconbridge		
Book value(4)		13.19
Income from continuing operations		
Basic(4)	\$ 1.18	2.34
Diluted(4)	\$ 1.17	2.32
Cash dividends(5)	\$ 0.10	0.40
Pro forma:		
Combined Phelps Dodge, Inco and Falconbridge		
Book value(2),(6)	\$59.63	N/A
Income from continuing operations		
Basic	\$ 1.53	4.75
Diluted	\$ 1.52	4.68
Cash dividends(7)	\$ 2.19	3.13
Combined Phelps Dodge and Inco		
Book value(2),(6)	\$51.92	N/A
Income from continuing operations		
Basic	\$ 1.39	5.74
Diluted	\$ 1.38	5.63

Cash dividends(7)	\$ 2.19	3.13
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	At or for the Three Months Ended March 31, 2006	Year Ended December 31, 2005
Equivalent Inco and Falconbridge(8)		
Book value	\$40.07	N/A
Income (loss) from continuing operations		
Basic	\$ 1.03	3.19
Diluted	\$ 1.02	3.14
Cash dividends	\$ 1.47	2.10
Equivalent Inco(9)		
Book value	\$34.89	N/A
Income (loss) from continuing operations		
Basic	\$ 0.93	3.86
Diluted	\$ 0.93	3.78
Cash dividends	\$ 1.47	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 March 31, 2006, and December 31, 2005, under U.S. GAAP.
- (3) All periods presented reflect post-split cash dividends per common share.
- (4) This information is not publicly available after the merger of Falconbridge and Noranda Inc. Falconbridge management provided to Phelps Dodge the non-public information required to produce a U.S. GAAP reconciliation of Falconbridge's March 31, 2006 and 2005, net earnings and earnings per share data for inclusion in the comparative per share data above.
- (5) Cash dividends were declared in Canadian dollars and have been adjusted to U.S. dollars, rounded to the nearest whole cent, based on the Federal Reserve Bank of New York noon buying rate on the payable date or, if data was not available for that particular day, the last day for which data was available prior to the payable date.
- (6) Pro forma equity is not publicly available as of December 31, 2005.
- (7) Pro forma cash dividends are based solely on historical post-split dividends per share for Phelps Dodge.
- (8) The equivalent Inco and Falconbridge amounts are calculated by multiplying the combined Phelps Dodge, Inco and Falconbridge by an assumed exchange ratio of 0.672 which represents the exchange ratio that would have applied if the proposed transaction had been consummated June 23, 2006.
- (9) The equivalent Inco amounts are calculated by multiplying the combined 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 June 23, 2006.

COMPARATIVE PER SHARE DIVIDEND INFORMATION

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

	Phelps Dodge Common Shares Dividends(a)	Inco Common Shares Dividends	Falconbridge Common Shares Dividends(b)
2001			
First Quarter	\$0.2500	\$	\$0.128
Second Quarter	0.0625		0.131
Third Quarter	0.0625		0.128
Fourth Quarter			0.128
2002			
First Quarter	\$	\$	\$0.255
Second Quarter			
Third Quarter			0.126
Fourth Quarter			0.128
2003			
First Quarter	\$	\$	\$0.285
Second Quarter			
Third Quarter			0.088
Fourth Quarter			0.091
2004			
First Quarter	\$	\$	\$0.090
Second Quarter	0.1250		0.088
Third Quarter			0.092
Fourth Quarter	0.1250		0.098
2005			
First Quarter	\$0.1250	\$	\$0.100
Second Quarter	0.3125	0.100	0.094
Third Quarter		0.100	0.101
Fourth Quarter	2.6875	0.100	0.104
2006 (through July 4, 2006)			
First Quarter	\$2.1875	\$0.125	\$0.104
Second Quarter	2.2000		0.107

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

(b) Falconbridge dividends per quarter were based on record date and converted to U.S. dollars at payable date.

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 and the share issuance 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, Inco and Falconbridge. See Where You Can Find More Information and Incorporation By Reference beginning on page 120 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 and, if applicable, Falconbridge.

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 and, if we combine with both Inco and Falconbridge, those of Inco with Falconbridge, 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, Inco's and, if applicable, Falconbridge's operations, systems and personnel can be integrated in an efficient and effective manner. In particular, if we combine with both Inco and Falconbridge, any failure to integrate the operations, systems and personnel of Inco and Falconbridge, particularly those in Sudbury, Canada, could have a material adverse effect on our ability to realize the anticipated benefits of a combination with both Inco and Falconbridge. 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 Falconbridge, if applicable, 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. A substantial delay in obtaining satisfactory approvals or the imposition of unfavorable

terms or conditions in the approvals 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 affect 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 historic trends in Phelps Dodge's and Inco's and, if applicable, Falconbridge'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 affected.

The pro forma combined company's indebtedness following the completion of the combination will be higher than Phelps Dodge's and Inco's and, if applicable, Falconbridge'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 March 31, 2006, was \$3.0 billion, and the total combined indebtedness of Phelps Dodge, Inco and Falconbridge as of March 31, 2006 was \$6.6 billion. The combined company's approximate pro forma indebtedness as of March 31, 2006, after

giving effect to a combination of Phelps Dodge with Inco would have been approximately \$4.3 billion. The combined company's pro forma indebtedness as of March 31, 2006, after giving effect to a combination of Phelps Dodge with both Inco and Falconbridge, would have been approximately \$22 billion assuming, among other things, that Phelps Dodge draws down the entire \$5.0 billion under its three-year multiple draw facility in connection with its share repurchase program and/or the purchase of 8% convertible subordinated notes of Inco due April 1, 2012. Should any existing or future third-party bidder offer to purchase either or both of Inco and/or Falconbridge, 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 \$8.5 billion 12-month credit facility and the \$5.0 billion three-year credit facility in amounts then outstanding by accessing the capital markets in one or more public 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 \$17.5 billion of the new debt expected to be incurred under Phelps Dodge's new \$20.6 billion credit facilities will be incurred by Phelps Dodge Canada as primary obligor. Debt issued by Phelps Dodge may be structurally subordinated to creditors of Phelps Dodge Canada with respect to the assets of Phelps Dodge Canada. 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 or Falconbridge shareholders in respect of their shares could exceed the amount of consideration otherwise due to them under the terms of the combination agreement or the consideration to be paid to them by Inco.

Inco is a corporation governed by the Canada Business Corporations Act, which we refer to as the CBCA, and Falconbridge is a corporation governed by the Business Corporations Act (Ontario), which we refer to as the OBCA. In the event that Inco acquires at least 66²/₃ % of the outstanding Falconbridge common shares pursuant to its offer for all of the outstanding Falconbridge common shares, Inco has agreed to use its reasonable best efforts to acquire the remaining Falconbridge common shares pursuant to a subsequent acquisition transaction. Depending on the structure of such a transaction, the holders of Falconbridge common shares that did not tender into Inco's offer may be entitled to exercise dissent rights pursuant to the OBCA. In particular, Xstrata plc, which currently owns approximately 19.8% of Falconbridge's outstanding common shares, has stated that it currently intends to exercise any available right of dissent in respect of the Falconbridge acquisition under the OBCA. In addition, 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 or Falconbridge exercise their right to dissent in compliance with the CBCA or the OBCA, as applicable, 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 and/or Inco may be required to spend more to acquire Inco or Falconbridge, 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 support agreement or combination agreement, as applicable. 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 historic representation of employees of Phelps Dodge and Inco and Falconbridge, if applicable, by different labor unions in the same country or locale, as is the current situation in Canada, 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 June 20, 2006, Phelps Dodge had approximately 203,921,787 shares of common stock outstanding and approximately 2,356,000 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 302,736,000 shares of its common stock in connection with a combination with both Inco and Falconbridge and 158,702,000 shares of its common stock in connection with a combination with Inco only. 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 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, Inco and Falconbridge 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 contamination. 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, Inco and Falconbridge is involved in a number of compliance efforts and legal proceedings concerning environmental matters. Each of Phelps Dodge, Inco and Falconbridge 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, Inco and Falconbridge to remediate sites for which provisions have not been previously established. Such future developments with respect to Phelps Dodge, Inco and Falconbridge, in the case of a combination of our company with both Inco and Falconbridge, and with respect to Phelps Dodge and Inco, in the case of a combination of our company with Inco only, 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 two segments, the finished products segment and the intermediates segment. The finished products segment includes (i) mining and processing operations in Ontario, Manitoba, Newfoundland and Labrador, (ii) refining operations in the United Kingdom and (iii) interests in refining operations in Japan and several other Asian countries. The intermediates segment includes PT Inco's mining and processing operations in Indonesia where nickel-in-matte, an intermediate product, is produced and sold primarily into the Japanese market.

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.

Falconbridge. Falconbridge is a leading international copper and nickel company with investments in fully integrated zinc and aluminum assets. Falconbridge's primary focus is on the identification and development of world-class copper and nickel mining deposits. Falconbridge is one of the world's largest producers of nickel and zinc and a significant producer of copper, primary and fabricated aluminum, cobalt, lead, molybdenum, silver, gold and sulphuric acid, and also one of the world's largest processors and recyclers of metal-bearing materials. The principal markets for Falconbridge's products include the steel, refinery and foundry, construction, telecommunications, automotive, agricultural and chemical industries. Falconbridge has operations and offices in 18 countries. Falconbridge's executive offices are located at BCE Place, 181 Bay St., Suite 200, Toronto, Ontario M5J 2T3.

The Combination

On June 25, 2006, we agreed to combine our company with Inco pursuant to the combination agreement. If Inco successfully completes the Falconbridge acquisition prior to the consummation of our combination with Inco, we intend to combine our company with both Inco and Falconbridge. If Inco does not complete the Falconbridge acquisition and the support agreement is terminated prior to the consummation of our combination with Inco, we intend to combine with Inco only. In either case, the combination will be effected pursuant to the plan of arrangement.

Combination Consideration and Financing

In the case of either a combination of our company with both Inco and Falconbridge or with Inco only, we have agreed to pay 0.672 shares of the common stock of Phelps Dodge and Cdn.\$17.50 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 \$20.6 billion which, together with available cash from other sources, will be available for the following purposes:

to finance up to \$7.2 billion of the cash consideration to be paid by us in connection with the combination;

to finance the purchase by Phelps Dodge of up to \$3 billion stated principal amount of 8% convertible subordinated notes of Inco due April 1, 2012;

to finance our post-combination share repurchase program, pursuant to which we intend to repurchase up to \$5 billion of our common stock, less the stated principal amount of up to \$3 billion of 8% convertible subordinated notes of Inco due April 1, 2012, purchased by us, if any, from Inco;

to repurchase or refinance up to \$6.9 billion of Inco's indebtedness (including indebtedness incurred in connection with the Falconbridge acquisition) and, if Inco has completed the Falconbridge acquisition, \$250 million of Falconbridge's existing indebtedness;

if Inco has completed the Falconbridge acquisition, to purchase or repurchase up to \$600 million in liquidation amount of Falconbridge's existing preference shares;

to refinance liabilities outstanding under our existing revolving credit agreement; and

to fund transaction expenses related to the combination which we estimate will be approximately \$400 million. *Credit Facilities.* Phelps Dodge has received executed commitments from Citigroup and HSBC for the entire \$20.6 billion principal amount of the new credit facilities. The new credit facilities will consist of:

an \$8.5 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. However, if Inco has not completed the Falconbridge acquisition prior to the combination of Phelps Dodge with Inco, then the amount of the facility will become \$3 billion;

a \$5.0 billion unsecured three-year multiple draw term loan facility. The facility will include a \$2 billion tranche that can be drawn by Phelps Dodge prior to the closing of our combination with Inco. It will mature on the date that is three years after the date on or prior to September 30, 2006, on which the facility becomes effective 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. However, if Inco has not completed the Falconbridge acquisition prior to the combination of Phelps Dodge with Inco, then the facility will not be available for further drawings;

a \$5.0 billion unsecured five-year term loan facility. The facility will mature on the date which is five years and one day after the date of funding under the facility and will be payable in quarterly installments on an amortizing basis requiring 0%, 5%, 5% and 15% of the indebtedness under the facility to be repaid in the first, second, third and fourth year, respectively, following the funding date with the balance payable on the maturity date. However, if Inco has not acquired Falconbridge prior to the combination of Phelps Dodge with Inco, then the facility will become 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

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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 \$1.0 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, (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. However, if Inco has not completed the Falconbridge acquisition prior to the combination of Phelps Dodge with Inco, then the amount of the facility will be reduced to \$750 million; 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.

In addition, Citigroup and HSBC have agreed to increase the capacity of the credit facilities, subject to certain limitations, on the same terms and on a pro rata basis at Phelps Dodge's request. The primary obligor under each term loan facility (except with respect to the \$2 billion principal amount of the three-year term facility) and the \$1.0 billion revolving credit facility will be Phelps Dodge Canada and Phelps Dodge and, if Falconbridge is a subsidiary of Phelps Dodge Canada, Falconbridge will guarantee Phelps Dodge Canada's obligations under such facilities. Phelps Dodge will be the primary obligor under the \$1.1 billion revolving credit facility and \$2 billion of the \$5 billion unsecured three-year term loan facility. If Inco does not complete the Falconbridge acquisition prior to the combination of Phelps Dodge with Inco, Phelps Dodge will be the primary obligor for \$3 billion of the \$5 billion unsecured five-year term loan facility and the three-year term loan facility will not be available for further drawings.

We currently intend to refinance indebtedness incurred under the 12-month term loan facility and, possibly, the three-year term loan facility in amounts then outstanding by accessing the capital markets in one or more public offerings of debt securities of Phelps Dodge Canada or Phelps Dodge Inco at appropriate times following completion of the combination. The executed commitments provide for the reduction of the size and a change in the structure of the credit facilities if Inco does not complete the Falconbridge acquisition and the support agreement is terminated prior to the completion of our combination with Inco.

Inco convertible subordinated notes. In order to facilitate Inco's acquisition of Falconbridge, Phelps Dodge has also entered into a note purchase agreement, dated as of June 25, 2006, with Inco pursuant to which Phelps Dodge has agreed, subject to certain conditions, to purchase up to \$3 billion aggregate principal amount of 8.0% convertible subordinated notes of Inco due April 1, 2012. Inco may use the proceeds from the sale of the notes only to purchase Falconbridge common shares as contemplated by the Support Agreement and satisfy payments in respect of dissent rights in connection with the Falconbridge acquisition; provided, that Inco may not require Phelps Dodge to purchase notes to fund (i) the purchase of Falconbridge common shares unless Inco has fully drawn on its financing facilities in place on June 25, 2006, or that are contemplated by financing commitments in place on such date to fund its acquisition of Falconbridge, and such funds, together with Inco's reasonably available cash resources, are not sufficient to pay the cash portion of the purchase price of the Falconbridge common shares and/or (ii) the satisfaction of Inco's obligations to any Falconbridge shareholders exercising dissent rights in respect of the Falconbridge acquisition to the extent that (a) an amount equal to the number of dissenting shares multiplied by Cdn.\$80.13 exceeds (b) the sum of Inco's reasonably available cash resources and any undrawn amounts under the financing facilities referred to in clause (i) above.

Phelps Dodge's obligation to purchase notes is subject to the satisfaction (or waiver with the written consent of Phelps Dodge) of the conditions to Inco's obligations to offer to purchase Falconbridge as set forth in the support agreement, receipt of

customary certificates and opinions from Inco and to (i) approval by the Toronto Stock Exchange of the issuance and sale of the notes, the issuance of the Inco common shares issuable upon conversion of the notes and the listing of such common shares on the Toronto Stock Exchange and (ii) application being made for the listing of such common shares on the New York Stock Exchange. Phelps Dodge's commitment to purchase notes may be terminated: (i) at any time by the mutual written consent of Phelps Dodge and Inco, (ii) if there has been a material breach of (a) any representation or warranty of Inco contained in the note purchase agreement or (b) any of the covenants or agreements contained in the note purchase agreement on the part of Inco, which breach is not curable or, if curable, is not cured within 10 business days after written notice of such breach is given by Phelps Dodge to Inco, (iii) in the case of a change of control of Inco, (iv) if the combination agreement is terminated for certain reasons or (v) at any time after March 31, 2007. The note purchase agreement can also be terminated prior to the initial issuance of notes if any law is passed that makes the consummation of the transactions contemplated by the note purchase agreement or the support agreement illegal or otherwise prohibited, or if a governmental entity in the United States or Canada shall have issued an order or taken any other action, in any case having the effect of permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by the note purchase agreement or the support agreement, which order or other action is final and non-appealable.

The notes are convertible, in whole or in part and from time to time, into Inco common shares at a conversion rate equal to 95% of the average closing price of Inco's common shares on the New York Stock Exchange over the five trading days preceding the date of conversion, but the notes may not be converted (i) prior to the six-month anniversary of the date of issuance of the notes or (ii) if the holder of the notes and its affiliates would own or have the power to exercise control over, together with any persons acting jointly or in concert with the holder and its affiliates, after such conversion, an aggregate of more than 20% of Inco's then outstanding common shares. Inco may deliver cash in lieu of part or all of the shares issuable upon conversion of the notes in an amount equal to the principal amount intended by the holder to be converted plus accrued interest. Phelps Dodge is entitled to customary U.S. registration rights in respect of the Inco common shares issuable upon conversion of the notes. Upon conversion of any note, Phelps Dodge may either hold the resulting Inco common shares and exercise its rights as a common shareholder, provided that Phelps Dodge will use its reasonable best efforts to cause such shares to be voted in proportion with the votes cast by other holders of outstanding common shares, or it may sell the common shares. Such sales may be in (i) broad, underwritten distributions, or (ii) block sales each representing 5% or less of Inco's outstanding common stock, provided that Phelps Dodge will use commercially reasonable efforts in the context of the block trade market to avoid such trade being made to any mining industry participant having an equity market capitalization of \$10 billion or more. The notes are redeemable by Inco at its option for cash, in whole or in part at any time (including following notice by the noteholder of its intent to convert) at their stated principal amount plus accrued interest, and are mandatorily redeemable by Inco for cash in whole (or at the discretion of Phelps Dodge, in part) at their stated principal amount plus accrued interest upon a change of control of Inco (other than a change of control resulting in Phelps Dodge controlling Inco). At stated maturity, the notes will be payable, at the option of Inco, in cash, common shares of Inco or a combination thereof. In the absence of any default or event of default under the notes, Inco may defer the payment of interest on the notes until stated maturity. Phelps Dodge's ability to transfer the notes is subject to certain restrictions, including, without limitation, that it will not transfer any notes to any person in the mining business having an equity market capitalization of \$10 billion or more, or to any person known by Phelps Dodge to be an affiliate of such person or person acting jointly or in concert with any such person, and that any transferee of the notes must agree to the same restriction.

Cooperation Agreement

Phelps Dodge has also entered into an agreement, dated June 25, 2006, with Falconbridge pursuant to which Falconbridge has agreed to take certain actions and refrain from taking certain actions in order to facilitate the combination. Among other things, each of Falconbridge and Phelps Dodge has agreed to afford each other with reasonable access to company specific information, subject to the terms and conditions of the confidentiality agreement, previously entered into by Falconbridge and Phelps Dodge. In

addition, Falconbridge has agreed to furnish Phelps Dodge with information concerning it and its shareholders (in the case of its shareholders, available to it) for use in connection with the preparation, filing and mailing of this proxy statement and the regulatory filings required to consummate the transactions contemplated by the combination agreement. Phelps Dodge and Falconbridge have made customary representations, warranties and covenants in the agreement, and the agreement shall terminate upon any termination of the combination agreement by Phelps Dodge or Inco or termination of the support agreement by either Inco or Falconbridge.

Post-Combination Shareholding, Board of Directors and Management

Assuming that we combine with both Inco and Falconbridge, we estimate that, upon completion of the combination, former shareholders of Inco and Falconbridge will own approximately 31% and 29%, respectively, of the combined company's outstanding common shares. Assuming that we combine with Inco only, we estimate that, upon completion of the combination, former shareholders of Inco will own approximately 44% of the combined company's outstanding common shares.

We expect that, upon consummation of the combination of our company with both Inco and Falconbridge, 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; Timothy R. Snider, the president and chief operating officer of Phelps Dodge, will hold the same positions in the combined company; Derek Pannell, the chief executive officer of Falconbridge, will become the president of the combined company's nickel division and will head the combined company's nickel, zinc and aluminum operations; 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 Messrs. Hand and Pannell to be based in Toronto. In the event that Phelps Dodge combines with Inco only, Mr. Pannell will not be employed by the combined company, and Mr. Hand will become the president of the combined company's nickel division.

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 and, assuming the consummation of the Falconbridge acquisition, Falconbridge.

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% to Inco's closing stock price on June 16, 2006 and 8% 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 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% 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% 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% 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% 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, 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 of directors 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 52 of this proxy statement. The full text of the written opinions of Citigroup and HSBC, each dated June 25, 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 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.

Phelps Dodge s Reasons for the Combination

In reaching its conclusion to unanimously approve a combination of Phelps Dodge with both Inco and Falconbridge or with Inco only, 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 Both Inco and Falconbridge:

The Phelps Dodge board of directors, which we refer to in the following discussion as the board, believes that a combination of Phelps Dodge with both Inco and Falconbridge would 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.

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 a portfolio of world-class assets with leading market positions in multiple commodities. Based on 2005 production for Phelps Dodge, Inco and Falconbridge, the combined company would be:

the world s largest nickel producer at 738 million pounds;

the world s largest publicly traded copper corporation at 3.4 billion pounds;

the world s second-largest producer of molybdenum at 68 million pounds; and

the world s third-largest cobalt producer at 14 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.

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 and Falconbridge have relatively low cost positions in their respective 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%, 28% and 9% 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 62% of the combined company's revenue would derive from operations in North America and Europe.

An additional 21% 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 \$900 million in estimated annual synergies within two years following the closing of the combination. The synergies the board believes the combined company will realize include:

synergies in connection with the integration of Inco's and Falconbridge's operations, including their nickel operations in the Sudbury Basin, Canada;

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

Of the world's five largest mining companies, the combined company would be the only one based in North America, and 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 and experience necessary to manage the combined company through the most significant challenges that our industry may face and continue to 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 both Inco and Falconbridge and unanimously recommend that Phelps Dodge shareholders vote FOR approval of the charter amendment proposal and the share issuance proposal, include:

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

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

the opinions of Phelps Dodge's financial advisors, Citigroup and HSBC, that, as of June 25, 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 June 25, 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, Inco and Falconbridge, 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 with Phelps Dodge's, Inco's and Falconbridge's outstanding pre-combination total indebtedness.

Other risks discussed more fully in Risk Factors beginning on page 31 of this proxy statement.

Combination of Phelps Dodge with Inco Only:

The Phelps Dodge board of directors believes that a combination of Phelps Dodge with Inco only 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 second-largest publicly traded copper corporation 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.

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

Of the world's five largest mining companies, the combined company would be the only one based in North America, and 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 only and unanimously recommend that Phelps Dodge shareholders vote FOR approval of the charter amendment proposal and 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 June 25, 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 June 25, 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 31 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 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 1.5 billion shares 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, which we refer to as the share issuance proposal, to finance the combination of Phelps Dodge with Inco and Falconbridge or with Inco only.

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

In approving the charter amendment proposal, the share issuance 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 46 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 June 25, 2006, our board of directors met to review the proposed Arrangement and the terms of the combination agreement. During this meeting, Citigroup and HSBC made a joint presentation in which they reviewed with our board of directors certain financial analyses as described below and each rendered to our board an oral opinion, subsequently confirmed in writing, that as of June 25, 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 June 25, 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 the combination agreement is subject to a condition that either (i) Inco shall have acquired at least two-thirds of the outstanding common shares of Falconbridge, and shall have completed a subsequent acquisition transaction with Falconbridge contemplated by the combination agreement, or (ii) the support agreement shall have been terminated in accordance with its terms. 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 Consideration and Financing beginning on page 36 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 the combination agreement is subject to a condition that either (i) Inco shall have acquired at least two-thirds of the outstanding common shares of Falconbridge and shall have completed a subsequent acquisition transaction with Falconbridge contemplated by the combination agreement, or (ii) the support agreement has been terminated in accordance with its terms.

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

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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 Combination Consideration and Financing beginning on page 36 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 member of the bank syndicate providing a revolving credit facility to Inco in the aggregate principal amount of \$2,150 million 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 June 25, 2006, and is not necessarily indicative of current or future market conditions.

Transaction Overview and Valuation Statistics

Citigroup and HSBC reviewed with the Phelps Dodge board of directors the basic structure of the transaction as described to Citigroup and HSBC by Phelps Dodge management, including the following:

consideration in the form of approximately 22% cash and 78% Phelps Dodge common stock (as of June 23, 2006);

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

the implied offer value of Cdn.\$80.13 (US\$71.32) per share (based on the closing price of the common stock of Phelps Dodge of \$82.95 and an US\$/Cdn.\$ exchange rate of 0.89, each on June 23, 2006);

a premium of 22.8% (based on the closing price of Inco's common shares of Cdn.\$65.25 on June 23, 2006); and

Phelps Dodge announcement of a share repurchase plan of up to \$5 billion post-closing, less the stated principal amount of up to \$3.0 billion of 8% convertible subordinated notes of Inco due April 1, 2012 purchased by us, if any, from Inco.

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

June 23, 2006	Inco at Offer Price:	Falconbridge at Offer Price:	Phelps Dodge/ Inco Post-Falconbridge at Offer Price:
EV/2006E EBITDA(1)	5.1x	4.7x	4.9x
EV/2007E EBITDA(1)	5.5x	5.6x	5.5x
Premium to(2):			
1 day (based on Inco's common shares of Cdn.\$65.25 and Falconbridge's common shares of Cdn.\$55.50 on June 23, 2006)			
	22.8%	11.9%	N/A
10 day average	22.4%	13.4%	N/A
30 day average	17.0%	13.0%	N/A
60 day average	13.4%	16.6%	N/A
90 day average	16.9%	20.7%	N/A
180 day average	26.7%	34.7%	N/A
52 week high	2.1%	9.5%	N/A
52 week low	76.0%	199.1%	N/A

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

(2) Average prices weighted by volumes.

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;

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 0.890, each as of June 23, 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

	<u>EPS Accretion/(Dilution) %</u>			
	Base	Upside	Downside	Street
2007E	(3.5%)	3.4%	(11.1%)	(12.0%)
2008E	6.2%	3.7%	Not Meaningful	(9.2%)
Break-Even Synergies (cushion)			\$0.2/Not	
2007/2008 (in billions)(1)	\$0.3/(\$0.4)	(\$0.5)/(\$0.4)	Meaningful	\$1.2/\$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	14.6%	14.0%	47.9%	5.3%
2008E	32.3%	17.9%	Not Meaningful	13.5%
Break-Even Synergies (cushion) 2007/2008 (in billions)(1)	(\$1.5)/(\$2.4)	(\$2.3)/(\$2.4)	(\$1.7)/Not Meaningful	(\$0.6)/(\$1.3)

(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	(6.7%)	(0.8%)	(15.7%)	(12.5%)
2008E	(0.2%)	1.3%	Not Meaningful	(9.3%)
Break-Even Synergies (cushion) 2007/2008 (in billions)(1)	\$0.4/\$0.0	\$0.1/(\$0.1)	\$0.2/Not Meaningful	\$0.9/\$0.5

(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	9.7%	8.9%	38.6%	3.0%
2008E	25.7%	15.0%	Not Meaningful	12.1%
Break-Even Synergies (cushion) 2007/2008 (in billions)(1)	(\$0.7)/(\$1.3)	(\$1.0)/(\$1.4)	(\$0.9)/Not Meaningful	(\$0.2)/(\$0.8)

(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

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 June 23, 2006 and using the implied offer value of Cdn. \$80.13 (US\$71.32) per share (based on the closing price of the common stock of Phelps Dodge of \$82.95). 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:

	Enterprise Value/ EBITDA 2007E	P/E 2007E	P/CFPS 2007E
Selected Companies in the Metals and Mining Industry			
Large Cap Base	3.4x-4.5x	5.8x-10.1x	5.0x-8.1x
Metals/ Diversified(1)			
Super Major Diversified	6.0x-6.9x	8.6x-10.3x	7.2x-8.8x
Nickel(2)	4.1x-7.8x	7.1x-16.6x	6.2x-12.1x
Copper	3.0x-4.6x	5.6x-7.1x	4.0x-6.1x
Phelps Dodge Stand-alone			
Management estimate	3.3x	6.4x	5.4x
First Call Consensus estimate	3.2x	6.4x	5.4x
Three-Way Business Combination			
Upside Case	3.4x	5.4x	4.3x
Base Case	5.3x	9.4x	6.4x
Street Case	5.4x	9.7x	6.6x
Downside Case	10.2x	29.7x	12.0x
Two-Way Business Combination			
Upside Case	3.5x	6.5x	5.1x
Base Case	5.4x	10.7x	7.5x
Street Case	5.8x	11.6x	7.9x
Downside Case	9.7x	24.3x	12.3x

(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:

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

(*) Pending acquisition as of June 25, 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:

	Multiple of LTM EBITDA:	Multiple of Forward EBITDA:
Teck/Inco(1)	11.2x	8.5x
Xstrata/ Falconbridge(1)	8.6x	7.1x
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)	9.5x	7.3x
Three-Way Business Combination(2)	8.3x	6.7x

- (1) Pending as of June 25, 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

Case	NAV/ share	Implied Multiple @ Cdn.\$80.13
Base Case (7% discount)		
Inco/ Falconbridge	Cdn.\$41.11	1.9x
plus Inco/ Falconbridge Synergies	49.11	1.6
plus PD/ Falconbridge Synergies	51.59	1.6
plus PD/ Inco Synergies	54.91	1.5
Upside Case (7% discount)		
Inco/ Falconbridge	Cdn.\$80.88	1.0x
plus Inco/ Falconbridge Synergies	88.88	0.9
plus PD/ Falconbridge Synergies	91.36	0.9
plus PD/ Inco Synergies	94.68	0.8
Downside Case (7% discount)		
Inco/ Falconbridge	Cdn.\$ 1.15	Not Meaningful
plus Inco/ Falconbridge Synergies	9.16	8.8x
plus PD/ Falconbridge Synergies	11.63	6.9
plus PD/ Inco Synergies	14.95	5.4
Street Case (7% discount)		
Inco/ Falconbridge	Cdn.\$42.49	1.9x
plus Inco/ Falconbridge Synergies	50.49	1.6
plus PD/ Falconbridge Synergies	52.97	1.5
plus PD/ Inco Synergies	56.29	1.4
Base Case (8% discount)		
Inco/ Falconbridge	Cdn.\$36.21	2.2x
plus Inco/ Falconbridge Synergies	43.81	1.8
plus PD/ Falconbridge Synergies	46.16	1.7
plus PD/ Inco Synergies	49.29	1.6

Inco on a Stand-alone Basis

Case	NAV/share	Implied Multiple @ Cdn.\$80.13
Base Case (7% discount)		
Inco Stand-alone	Cdn.\$41.69	1.9x
plus PD Synergies	48.09	1.7
Upside Case (7% discount)		
Inco Stand-alone	Cdn.\$79.70	1.0x
plus PD Synergies	86.10	0.9
Downside Case (7% discount)		
Inco Stand-alone	Cdn.\$ 9.77	8.2x
plus PD Synergies	16.17	5.0

Case	NAV/share	Implied Multiple @ Cdn.\$80.13
Street Case (7% discount)		
Inco Stand-alone	Cdn.\$43.24	1.9x
plus PD Synergies	49.64	1.6
Base Case (8% discount)		
Inco Stand-alone	Cdn.\$36.35	2.2x
plus PD Synergies	42.38	1.9

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 46 and 51, 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, 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, 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 Directors and Employees in the Combination

Under the terms of our various compensation plans and programs, the combination of Phelps Dodge with both Inco and Falconbridge or with Inco only would constitute a change of control that provides certain additional benefits to our directors and 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, whether or not Falconbridge is also included. 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, whether or not Falconbridge is also included. 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.

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.

Director Stock Unit Plan. Consummation of the Inco transaction will generally require that Phelps Dodge make a distribution, in cash, with respect to all or substantially all of the earned and vested stock units standing to the credit of participating non-employee directors under the 1997 Directors Stock Unit Plan. Because of changes in Federal income tax law that required certain changes in the timing of distributions under the 1997 Directors Stock Unit Plan (including the manner in which we define a change of control for this purpose), stock units credited to directors in respect of their services after 2004 will not be cashed out, if the transaction is with Inco only, and not both Inco and Falconbridge. Under the terms of the 1997 Directors Stock Unit Plan, such cash amounts are to be paid within 30 days of the closing.

Consideration was given to seeking the consent of the affected directors to modify the distribution provisions of the 1997 Directors Stock Unit Plan to waive the right to receive such cash payments in connection with the Inco transaction. However, counsel advised us that, under the recent changes in Federal income tax law pertaining to deferred compensation, such a waiver would subject the directors to significant additional income taxes. We determined that it would not be appropriate to impose such a tax penalty on our directors, or to shift to Phelps Dodge the cost of such additional tax burden. Therefore, in

accordance with the existing terms of the 1997 Director Stock Unit Plan, shortly following consummation of the Inco transaction, Phelps Dodge will make the required cash payments to our participating non-employee directors. The aggregate amount of such cash payments will vary with the value of Phelps Dodge common stock until the date of the closing of the Inco transaction. Based on the closing price of the Phelps Dodge common stock on June 23, 2006, the amount of such cash payments was estimated to be approximately \$9.41 million, based on 113,061 outstanding units subject to the cash out and a per share price of \$82.95.

Following the Inco transaction, non-employee directors will continue to receive annual awards of stock units pursuant to the 2007 Directors Stock Unit Plan and the stock units that are not distributed under the 1997 Directors Stock Unit Plan will continue to be held under such Plan in accordance with its terms.

Accounting Treatment of the Combination

Upon completion of the combination with Inco and Falconbridge, the pre-combination shareholders of Phelps Dodge will own approximately 40% of the combined company, the pre-combination shareholders of Inco will own approximately 31% of the combined company, and the pre-combination shareholders of Falconbridge will own approximately 29% 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 and Falconbridge, in determining the accounting acquirer. Based on the weight of these factors, the company concluded that Phelps Dodge was 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 and Falconbridge, if applicable, 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 net fair value of assets acquired, including identifiable intangible assets, and liabilities assumed will be recorded as goodwill. Phelps Dodge will incur 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 incur material charges relating to the impairment of that asset. Any such charges could have a material impact on the value of the combined company's assets and the combined company's results of operations. Long-term assets recorded at fair value during purchase accounting will be evaluated when events or changes in economic circumstances indicate the carrying amount of such assets may not be recoverable. Metal inventories recorded at fair value during purchase accounting will be subject to periodic assessments for lower-of-cost-or-market adjustments. To the extent that market values fall below purchase accounting values in future reporting periods, the combined company may be required to incur material charges relating to such adjustments.

Regulatory Matters Related to the Combination

HSR Act. The combination of Phelps Dodge with Inco is subject to the requirements of the HSR Act, which prevents us from completing the combination until we furnish required information and materials to the DOJ and the FTC and the applicable waiting period is terminated or expires. We filed the requisite Notification and Report Forms under the HSR Act with the DOJ and the FTC on July 3, 2006.

Competition Act (Canada). The combination is subject to the requirements of the Competition Act, which prevents us from completing the combination until we have provided required notice under the Competition Act and the waiting period under the Competition Act has expired or been waived by the Commissioner of Competition. Under the combination agreement, the completion of the combination is conditional upon receipt of an advance ruling certificate under the Competition Act or the expiration of the waiting period and receipt of notification from the Commissioner of Competition that she has determined not to make an application for an order under section 92 of the Competition Act in respect of the combination, which we refer to as the Competition Act Approval. We will file a Short Form Notification with the Commissioner of Competition as soon as reasonably practicable.

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 will file an Application for Review with the Investment Review Division of Industry Canada as soon as reasonably practicable.

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 will file the Form CO Merger Notification pursuant to the Council Regulation with the European Commission as soon as reasonably practicable.

The DOJ, the FTC and 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 DOJ, the FTC or 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.

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 91 and 89, 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), less the stated principal amount of up to \$3 billion of 8% convertible subordinated notes of Inco due April 1, 2012 purchased by Phelps Dodge, if any, from Inco. 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, 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 _____, 2006, at _____ 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 1.5 billion 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 in connection with the combination of Phelps Dodge with both Inco and Falconbridge or with Inco only; and
3. conduct any other business as may be properly brought before the special meeting including, 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.

Record Date and Shares Entitled to Vote

Only holders of record of Phelps Dodge common stock at the close of business on _____, 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 _____ 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.

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 or the share issuance 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 and FOR the share issuance 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 sign an admittance card and may 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 11/15/06 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 of \$ 100,000 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 -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 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, 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, which is incorporated by reference in its entirety into, and is attached as Annex A to, this proxy statement. We urge you to read the full text of the combination agreement because the rights and obligations of the parties are governed by the terms of the combination agreement and not by this summary or other information contained in this proxy statement.

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, Inco or Falconbridge, 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, Inco or Falconbridge, or any of their respective affiliates.

The combination agreement provides that, upon its terms and subject to its conditions, Phelps Dodge Canada and Inco will amalgamate and will be an indirect, wholly owned subsidiary of Phelps Dodge. In the event that Inco has completed the Falconbridge acquisition by the closing date, Inco will include Falconbridge. We call this transaction the Inco-Falconbridge combination. In the event that Inco has not completed the Falconbridge acquisition by the closing date and the support agreement between Inco and Falconbridge has been terminated, Inco will not include Falconbridge. We call this transaction the Inco-only combination. When we refer to the combination or the combination transaction, we mean either of the Inco-Falconbridge combination or the Inco-only combination, as applicable. The Plan of Arrangement, which is to be submitted for approval to the Inco shareholders and the Superior Court of Justice (Ontario), includes both the Inco-Falconbridge combination and the Inco-only combination.

Closing and Effective Time

The closing of the applicable 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 held by Phelps Dodge or any of its subsidiaries) will be converted into the right to receive 0.672 shares of Phelps Dodge common stock and Cdn.\$17.50 cash.

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) 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) 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.

Assuming that we combine with both Inco and Falconbridge and that Inco acquired 100% of the outstanding Falconbridge common shares, former shareholders of Inco and Falconbridge are expected to own approximately 31% and 29%, respectively, of Phelps Dodge s outstanding common stock after the combination. Assuming that we combine with Inco only, current shareholders of Inco are expected to own approximately 44% 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, including the consummation of the acquisition of Falconbridge pursuant to the support agreement and any exercise of dissenter's rights or divestitures or other actions required for regulatory approval of the Falconbridge acquisition;

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.

After the consummation of the Falconbridge acquisition, the determination as to whether a material adverse effect has occurred with respect to the financial condition, business and results of operations of Inco will include the financial condition, business and results of operations of Inco, Falconbridge and their subsidiaries and material joint ventures, taken as a whole.

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 or, in the case of Inco, in connection with the transactions contemplated by the support agreement);

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 combination agreement or as permitted by the support agreement or combination agreement;

except as required to ensure that any employee plans comply with applicable law or as specifically required or permitted by the combination agreement or, in the case of Inco, required in connection with the termination of its Non-Employee Director Share Ownership Plan or the payment of any amount to the holders of deferred share units issued under such plan in consideration for the cancellation of such deferred share units:

adopt, enter into, terminate or amend any employee plan, other than in the ordinary course of business consistent with past practice;

increase the compensation or benefits of, or pay any bonus to, any employee (including employees of subsidiaries), except for increases in base salary or payments of bonuses in the ordinary course of business consistent with past practice, as required to comply with any employee plan in effect on the date of the combination agreement, or in 2007 in connection with annual performance assessments consistent with past practice;

pay or provide to any employee (including employees of subsidiaries) any benefit not provided for under an employee plan already in effect on the date of the combination agreement, other than the payment of base compensation in the ordinary course of business consistent with prior practice or as otherwise provided in the combination agreement;

except to the extent expressly permitted under the combination agreement, grant any awards under any employee plan (including the grant of rights and awards in connection with stock or equity) or remove existing restrictions in any employee plan or awards;

take any action to fund or in any other way secure the payment of compensation or benefits under any employee plan, except as required to comply with any employee plan as in effect on the date of the combination agreement; or

take any action to accelerate the vesting or payment of any compensation or benefits under any employee plan; acquire any material business other than, in the case of Inco, Falconbridge in accordance with the terms of the support agreement;

sell or otherwise transfer or encumber any material assets or material rights, other than under current contracts or ordinary course sales of inventory;

incur, assume or guarantee any indebtedness for borrowed money or issue or sell any debt securities or enter into any keep-well or other arrangements to maintain the financial condition of another person, other than short-term borrowings in the ordinary course consistent with past practices and, in the case of Inco, debt incurred in

connection with payment to Falconbridge's shareholders (including dissenting shareholders) in accordance with the support agreement;

make any loan, advance or capital contribution, subject to specified exceptions such as loans to subsidiaries, under contracts currently in effect or otherwise in the ordinary course of business to the extent not material individually or in the aggregate;

change its methods of accounting or accounting practices in any material respect, or its fiscal year, except as required by law or applicable generally accepted accounting principles;

take any action that would or reasonably would be expected to prevent or materially impair or delay the ability to consummate the combination transaction; or

agree or commit to do any of the foregoing.

Inco has also agreed that it will not:

enter into, cancel, terminate or grant any waiver in respect of any contract relating to the Falconbridge acquisition without Phelps Dodge's prior written consent, except that Inco may terminate any such contract in accordance with its terms after consultation with Phelps Dodge, or

file any registration statement or amendment to a registration statement under the Securities Act of 1933, as amended, except for amendments to its registration statement on Form F-8 in connection with the Falconbridge acquisition.

Special Meetings of the Shareholders. Subject to the terms and conditions of the combination agreement, each of Phelps Dodge and Inco will use its reasonable best efforts to cause a special meeting of its shareholders to be held as soon as reasonably practicable. The Inco special meeting is to be called and held in accordance with the Interim Order and the CBCA for the purpose of considering the arrangement and other matters relating to the arrangement and the combination agreement. The Phelps Dodge special meeting is to be called and held for the purpose of considering the proposed amendment and restatement of Phelps Dodge's certificate of incorporation and the proposed issuance of Phelps Dodge common stock to be issued in connection with the combination. Each of Phelps Dodge and Inco have agreed to finalize all notices, filings, solicitations and informational statements to be provided to its shareholders, secure necessary governmental approvals for such solicitations and informational statements, and mail such solicitations and informational statements to its shareholders. Inco may, however, postpone its shareholders' meeting to the extent that its outside legal advisor advises Inco that it would be appropriate to do so for the purpose of allowing the Inco shareholders to review any additional disclosure that Inco, with the advice of its outside counsel, determines in good faith is advisable and should be made available to Inco shareholders in a supplemental management information circular or otherwise. Inco is not required to hold its shareholder meeting until Inco counsel has had reasonable opportunity to review comments of the Securities and Exchange Commission relating to this proxy statement or has been advised in writing that there are no such comments.

Inco has agreed, subject to the terms and conditions of the combination agreement, to take all lawful actions to solicit the approval of the Plan of Arrangement from its shareholders and to recommend such approval to its shareholders.

Phelps Dodge has agreed, subject to the terms and conditions of the combination agreement, to take all lawful actions to solicit the approval of (a) the authorization and issuance of the Phelps Dodge common stock to be issued in connection with the combination and (b) the restated certificate of incorporation of Phelps Dodge required under the combination agreement, and to recommend such approvals to its shareholders.

In the case of each such approval, each of Inco and Phelps Dodge have agreed not to withdraw, modify or qualify (or publicly propose to or publicly state that it intends to withdraw, modify or qualify) in any manner adverse to the other party such recommendation, except as provided in the combination agreement and as summarized in the following paragraph and, in the case of Inco, under Acquisition Proposals beginning on page 82 of this proxy statement.

Notwithstanding the foregoing, each of the Phelps Dodge and Inco board of directors may withdraw, modify or qualify its respective recommendation to its shareholders if, after consultation with outside legal counsel, it determines that failure to do so would be inconsistent with its fiduciary duties under applicable law. Upon such a withdrawal, modification or qualification, Inco or Phelps Dodge, as applicable, may solicit votes of its shareholders consistent with the withdrawn, modified or qualified recommendation. The

Inco board of directors may also withdraw, modify or qualify its recommendation to its shareholders as set forth below under *Acquisition Proposals* .

Acquisition Proposals. The combination agreement restricts Inco's ability to solicit, provide information related to or enter into any agreement related to an acquisition proposal other than the combination, as summarized below. For the purposes of the combination agreement, *acquisition proposal* means any of the following (other than the combination):

any merger, take-over bid, amalgamation, plan of arrangement, business combination, consolidation, recapitalization, liquidation or winding-up in respect of Inco;

any sale or acquisition of 20% or more of the fair market value of the assets of Inco on a consolidated basis;

any sale or acquisition of 20% or more of Inco's shares of any class or rights or interests in or to such shares;

any sale of any material interest in any material joint ventures or material mineral properties;

any similar business combination or transaction, of or involving Inco, any of its subsidiaries or material joint venture of Inco, other than with Phelps Dodge; and

any proposal or offer to, or public announcement of an intention to do, any of the foregoing from any person, entity or organization other than Phelps Dodge;

provided that the term *acquisition proposal* does not include the transactions contemplated by the support agreement.

Certain restrictions on Inco's ability to solicit, provide information related to or enter into an agreement with respect to an acquisition proposal are qualified, as set forth in the combination agreement and summarized below, in the event that Inco receives a superior proposal. For the purposes of the combination agreement, *superior proposal* means an unsolicited bona fide acquisition proposal made by a third party to Inco in writing after the date of the combination agreement to purchase or otherwise acquire, directly or indirectly, by means of merger, take-over bid, amalgamation, plan of arrangement, business combination, consolidation, recapitalization, liquidation or winding-up or similar transaction, all of the capital stock of Inco, and

that is reasonably capable of being completed, taking into account all legal, financial, regulatory (including applicable regulatory approvals) and other aspects of such proposal and the party making such proposal;

in respect of which any required financing to complete such acquisition proposal has been demonstrated, to the satisfaction of the Inco board of directors, acting in good faith (after receipt of advice from its financial advisors and outside legal counsel), is reasonably likely to be obtained;

that is not subject to any due diligence condition;

that is offered or made available to all shareholders of Inco in Canada and the United States on the same terms; and

in respect of which the Inco board of directors determines in good faith:

after receipt of advice from outside legal counsel, that failure to recommend the acquisition proposal to Inco shareholders would be inconsistent with its fiduciary duties; and

after receipt of advice from its financial advisors, that taking into account all of the terms and conditions of the acquisition proposal, if consummated in accordance with its terms (but not assuming away any risk of non-completion), the acquisition proposal would result in a transaction more favorable to shareholders from a financial point of view than the combination transaction (including any adjustment to the terms and conditions

of the arrangement set out in the Plan of Arrangement and the combination agreement proposed by Phelps Dodge, as summarized below),

and taking into account the long-term value and anticipated synergies anticipated to be realized as a result of the combination of Phelps Dodge and Inco.

The combination agreement provides that Inco may not, directly or indirectly, through any officer, director, employee, financial or other advisor or representative, or agent of Inco or any of its subsidiaries:

solicit, assist, initiate, encourage or otherwise facilitate any inquiries, proposals or offers regarding any acquisition proposal, including by furnishing non-public information or permitting any visit to any facilities or properties of Inco or any of its subsidiaries (including any material joint ventures or material mineral properties);

engage in any discussions or negotiations regarding, or provide any confidential information with respect to, any acquisition proposal, except that Inco may advise any person making an unsolicited acquisition proposal that such acquisition proposal does not constitute a superior proposal when the Inco board of directors has so determined;

withdraw, modify or qualify, or propose publicly to withdraw, modify or qualify, in any manner adverse to Phelps Dodge, the approval or recommendation of the Inco board of directors or any committee of the board of directors;

approve or recommend, or, for longer than 15 calendar days following its formal commencement, remain neutral with respect to, or propose publicly to approve or recommend, or remain neutral with respect to, any acquisition proposal; or

accept or enter into, or publicly propose to accept or enter into, any letter of intent, agreement in principle, agreement, arrangement or undertaking related to any acquisition proposal.

However, the Inco board of directors may withdraw, modify or qualify its recommendation in favor of the Plan of Arrangement and/or engage in discussions or negotiations with, or provide certain non-public information with respect to it, its subsidiaries, material joint ventures and material mineral properties to any person making an acquisition proposal, if:

the Inco board of directors has received an unsolicited bona fide written acquisition proposal from such person and the Inco board of directors has determined in good faith based on information then available and after consultation with its financial advisors that the proposal constitutes or could reasonably be expected to result in a superior proposal;

prior to providing any confidential information or data to any person making an acquisition proposal that is or could reasonably be expected to result in a superior proposal, the Inco board of directors receives from such person an executed confidentiality agreement which includes a standstill provision that restricts such person from acquiring, or publicly announcing an intention to acquire, or acquiring, any securities or assets of Inco other than pursuant to a superior proposal for a period of not less than one year from the date of such confidentiality agreement, and the Inco board of directors (a) provides a copy of any such confidentiality agreement to Phelps Dodge promptly upon its execution and (b) promptly provides Phelps Dodge a list of, or in the case of information that was not previously made available to Phelps Dodge, copies of, any information provided to such person; and

Inco promptly (and in any event within 24 hours) notifies Phelps Dodge, at first orally and then in writing, of any: proposal, inquiry, offer (including any amendment) or request relating to or constituting an acquisition proposal;

request for discussions, negotiations or representation on the Inco board of directors; or

request for non-public information relating to Inco, any subsidiary, material joint venture or material mining property relating to or constituting an acquisition proposal of which Inco's directors, officers, representatives or

agents are or become aware.

Inco has agreed that the above notice will include a description of the terms and conditions of, and the identity of the person making, the proposal, inquiry, offer (including any amendment) or request, and will include copies thereof, as well as such other details as Phelps Dodge may reasonably request. Inco has agreed to keep Phelps Dodge promptly and fully informed of the status, including any change to the material terms, of any such proposal, inquiry, offer or any amendment, and to respond promptly to all inquiries by Phelps Dodge.

In addition, the Inco board of directors may not withdraw, modify or qualify its recommendation, in favor of the combination or publicly propose or state its intention to do so or enter into any agreement (other than a confidentiality agreement, subject to the terms and conditions of the combination agreement) relating to any acquisition proposal unless:

the acquisition proposal constitutes a superior proposal;

Inco has provided Phelps Dodge with notice in writing that there is a superior proposal and all documentation (including any confidentiality agreements) detailing that proposal and at least 10 business days have elapsed from the date that Phelps Dodge received a copy of the written proposal (or any amendment or revision thereof);

if Phelps Dodge proposes to amend the terms of the arrangement and the combination agreement in accordance with the procedures set forth in the combination agreement, the Inco board of directors (after receiving advice from its financial advisors and outside legal counsel) determines in good faith (after taking into account such amendments) that the alternative acquisition proposal continues to be a superior proposal;

Inco's board of directors, after consultation with outside legal counsel, determines in good faith that the failure to take such action would be inconsistent with its fiduciary duties under all applicable laws; and

Inco, prior to entering into an agreement relating to a superior proposal (other than a confidentiality agreement), has terminated the combination agreement in accordance with its terms and paid to Phelps Dodge the applicable termination fee set forth in the combination agreement and summarized under "Termination Fees and Expenses" beginning on page 89 of this proxy statement.

In the combination agreement, Inco agrees that it will:

cease and cause to be terminated any existing solicitation, encouragement, activity, discussion or negotiation with any person by Inco or any of its subsidiaries or any of their representatives or agents in respect of any acquisition proposal, whether or not initiated by Inco;

discontinue access to any virtual or other data rooms;

request (and reasonably exercise all rights it has to require) the return or destruction of all information regarding Inco and its subsidiaries previously provided to any person in connection with an acquisition proposal;

request (and reasonably exercise all rights it has to require) the destruction of all material including or incorporating or otherwise reflecting any information regarding Inco and its subsidiaries in connection with an acquisition proposal; and

not terminate, amend, modify or waive any provision of any confidentiality or standstill or similar agreement to which Inco or any of its subsidiaries is a party with any other person, other than to allow such person to make and consummate a superior proposal.

Other Covenants. Each of Inco and Phelps Dodge has also agreed to a number of other mutual covenants, including to:

comply with the confidentiality agreement previously executed by each them in favor of each other;

provide, and use its reasonable best efforts to cause its subsidiaries to provide, the other party and its representatives with reasonable access to its advisors, books, records, contracts and properties as may be reasonably requested by the other party during the period prior to the effective time, subject to the confidentiality agreements or as restricted by applicable law;

cooperate in the preparation, filing and mailing of each party's shareholder solicitations, provide reasonable opportunities to review and comment on such statements (and any amendments or supplements), to review any comments received from any governmental entity, furnish each other with information required by the parties in connection with such filings and solicitations, and to advise the other party when such solicitations have been referred by the applicable governmental entity or of any request for amendment by such entity;

furnish to the other party all information concerning it and its shareholders required and available for the preparation of information statements and solicitations;

use reasonable best efforts to develop a joint communications plan, ensure that any public announcements in respect of the combination are consistent with such plan and, except in connection with any announcement required by applicable law or by any listing agreement or rules of any securities exchange, to consult with each other before making public statements regarding the combination;

not make, unless required by law, any public statement or disclosure concerning the other party's business, financial condition or results of operations without such other party's consent, which will not be unreasonably withheld or delayed;

use reasonable best efforts to do all things, take all actions necessary or advisable to consummate the combination as soon as reasonably practicable, including to (i) obtain approval of its respective securityholders (unless the party's board of directors has changed its recommendation in respect of the combination in compliance with the terms of the combination agreement), (ii) obtain all requisite governmental approvals required to be obtained by the applicable party, including any merger notification forms and other information required by United States, Canadian, European Union and other governmental authorities and, in so doing, to consult with and keep the other party informed to the extent legally permitted and to obtain the other party's prior written consent before agreeing with governmental authorities to take certain actions under antitrust or competition laws, (iii) obtain any required non-governmental third-party approvals and consents and (iv) comply with all legal requirements, including those of the Superior Court of Justice (Ontario);

cooperate in all reasonable respects and use commercially reasonable efforts to contest any action or proceeding and to have vacated, lifted, reversed or overturned any decree, judgment, injunction or other order that prohibits, prevents or restricts the combination;

take all actions necessary to eliminate or minimize the effects of any fair price, moratorium, control share acquisition or other anti-takeover statute or regulation that is or may become applicable to the combination agreement and the combination;

take all actions necessary or appropriate to exempt the exchange of Inco common shares for Phelps Dodge common stock from the reporting requirements of Section 16(b) of the Securities Exchange Act of 1934, as

amended, and the rules and regulations promulgated thereunder; and

take all reasonable steps to ensure that the acquisition of Inco common shares by Phelps Dodge Canada is treated as a qualified stock purchase for U.S. federal income tax purposes.

Inco has made a number of additional covenants in connection with the combination (in each case subject to the limits and qualifications set forth in the combination agreement), including to:

as soon as reasonably practicable, apply for an order approving the combination and to seek the applicable interim and final orders of the Superior Court of Justice (Ontario) under the CBCA or, if the parties so determine, the Business Corporations Act (Ontario);

in accordance with such interim order, as soon as reasonably practicable, convene and hold a special meeting of the Inco shareholders for the purpose of approving the Plan of Arrangement;

at least 10 days prior to the special meeting, provide to Phelps Dodge a list of those persons who may be deemed to be, in Inco's reasonable judgment, affiliates of Inco within the meaning of Rule 145 promulgated under the Securities Act of 1933, as amended;

provide Phelps Dodge with a copy of any purported exercise of any dissenters' rights and written communications relating to such exercise;

not settle or compromise any claim, litigation, complaint or other similar action brought by any present, former or purported holder of any of Inco securities in connection with the combination without the prior written consent of Phelps Dodge, not to be unreasonably withheld or delayed;

in the event that the Falconbridge acquisition is consummated and at the request of Phelps Dodge, cause Falconbridge to use its reasonable best efforts to redeem or repurchase all of Falconbridge's outstanding preference shares and convertible debentures and to not, without Phelps Dodge's prior written consent, amalgamate with Falconbridge prior to the time that all such convertible debentures and preference shares have been redeemed or repurchased in full; and

subject to obtaining the final order of the Superior Court of Justice (Ontario) and the satisfaction or waiver of the closing conditions described below in *Conditions to the Combination*, send to the Director (as defined in the CBCA) all documents required in order to give effect to the arrangement.

Phelps Dodge has made a number of additional covenants in connection with the combination (in each case subject to the limits and qualifications set forth in the combination agreement), including to:

in the event that the exemption from registration under the Securities Act of 1933, as amended, is not available for the issuance of the Phelps Dodge common stock to be issued in connection with the combination, take all necessary action to file a registration statement in order to register such Phelps Dodge common stock, and use its reasonable best efforts to cause the registration statement to become effective by the effective time;

use its reasonable best efforts to obtain the approval of the New York Stock Exchange and the Toronto Stock Exchange for the listing of the Phelps Dodge common stock to be issued in connection with the combination on each such exchange;

take all actions necessary to restate its certificate of incorporation in accordance with the terms and conditions set forth in Exhibit C to the combination agreement and summarized in *Other Agreements and Documents - Restated Certificate of Incorporation*, subject to the approval of (i) the shareholders of Phelps Dodge and (ii) the satisfaction or waiver of the closing conditions described below in *Conditions to the Combination*;

use its reasonable best efforts to cause the full board of directors of the combined company, at the effective time, to consist of 11 individuals who are currently members of the Phelps Dodge board of directors and four individuals who are currently members of the board of directors of Inco or, if the Falconbridge acquisition has

been completed, of the board of directors of Inco and Falconbridge;

take all actions necessary to cause, at the effective time: J. Steven Whisler, the current chairman and chief executive officer of Phelps Dodge to serve as chairman and chief executive officer of the combined company; Scott M. Hand, the current chairman and chief executive officer of Inco

to become the vice chairman of the combined company and, if the Falconbridge acquisition does not occur, the president of the combined company's nickel division; and Derek G. Pannell, the current chief executive officer of Falconbridge to become the president of the combined company's nickel division and head of the combined company's nickel, zinc and aluminum operations only if the Falconbridge acquisition has occurred; and

from and after the effective time, (i) fulfill and cause Inco's successors to fulfill indemnification obligations to the present and former directors and officers of Inco as in effect immediately prior to the effective time, (ii) not modify in a way adverse to directors and officers of Inco any charter provisions related to indemnification and exculpation and (iii) provide directors' and officers' liability insurance policies with a claims period of six years with coverage and benefits comparable to those currently provided by Inco.

Conditions to the Combination

Phelps Dodge's and Inco's obligations to effect the combination are subject to conditions that must be satisfied or waived prior to the effective time, including:

the approval of the Plan of Arrangement by the Inco shareholders, in accordance with any conditions imposed by the interim order;

the approval by the Phelps Dodge shareholders of the restated certificate of incorporation and the authorization and issuance of the Phelps Dodge common stock to be issued in connection with the combination;

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

the absence of injunctions, orders or laws restraining, enjoining or making illegal the consummation of the combination;

receipt of approvals required under the Competition Act and the Investment Canada Act, and the expiration or termination of applicable waiting periods under the HSR Act and the Council Regulation;

receipt of New York Stock Exchange and Toronto Stock Exchange approval for listing of the Phelps Dodge common stock to be issued in connection with the combination;

Inco having completed the Falconbridge acquisition or the support agreement having been terminated; and

the amendment and restatement of the Phelps Dodge's certificate of incorporation in accordance with the combination agreement.

Each party's obligation to effect the arrangement is subject to the satisfaction of the following additional conditions by the other party, or the waiver of such conditions by the party entitled to the benefit of such condition:

the representations and warranties of the other party in the combination agreement (without giving effect to any materiality or material adverse effect qualification and, in the case of Inco, not including Falconbridge as a subsidiary or material joint venture of Inco) being true and correct as of the closing date of the combination (or other date specified in the applicable representation and warranty), except as would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the other party, and the delivery of an officer's certificate with respect thereto;

performance and compliance in all material respects with all agreements and covenants required by the combination agreement to have been complied with, on, or by the closing date and the delivery of an officer's certificate with respect thereto; and

the absence of any fact, event, change, development, circumstance or effect since the date of the combination agreement which, individually or in the aggregate, has had or would reasonably be expected to have a material adverse effect on the other party.

Phelps Dodge's obligation to effect the combination is also subject to the satisfaction by Inco or waiver by Phelps Dodge of the condition that holders of no more than 10% of Inco's common shares have exercised dissent rights in respect of the combination, except that if any person holding, on the date of the combination agreement, more than 10% of Falconbridge's common shares exercises dissent rights in respect of more than 5% of the Inco common shares, the applicable percentage to trigger Phelps Dodge's right not to complete the combination will be 15%.

Inco's obligation to effect the combination is also subject to the satisfaction by Phelps Dodge or waiver by Inco of the condition that Phelps Dodge has caused the combined company board of directors to consist of 11 individuals who are currently members of the Phelps Dodge board of directors and four individuals who are currently members of the board of directors of Inco or, if the Falconbridge acquisition has been completed, of the board of directors of Inco and Falconbridge.

Amendment and Waiver

Subject to applicable law and the interim order of the Superior Court of Justice (Ontario), at any time prior to the effective time, Phelps Dodge and Inco may amend the combination agreement by written agreement. However, after the Inco shareholders have approved the Plan of Arrangement or the Phelps Dodge shareholders have approved the restated certificate of incorporation and the authorization and issuance of the Phelps Dodge common stock to be issued in connection with the combination, no amendment requiring further approval by the Phelps Dodge or Inco shareholders, as applicable, may be effected without first obtaining that further approval.

Termination

Phelps Dodge and Inco may terminate the combination agreement by mutual written consent of each of their board of directors. In addition, either Phelps Dodge or Inco may terminate the combination agreement prior to the effective time if:

the combination is not consummated on or before March 31, 2007, except that a party whose action in breach of the agreement has been a principal cause of or resulted in such failure does not have the right to terminate for the failure of the combination to occur;

any law is passed that makes the arrangement illegal or otherwise prohibited or a governmental entity in the United States or Canada issues a final, non-appealable order or takes another final, non-appealable action with the effect of permanently restraining, enjoining or otherwise prohibiting consummation of the combination;

the shareholders of Inco fail to approve the Plan of Arrangement, or the shareholders of Phelps Dodge fail to approve the restated certificate of incorporation or the authorization and issuance of the Phelps Dodge common stock to be issued in connection with the combination, in each case, upon a vote taken at the applicable shareholder meeting or any adjournment or postponement thereof;

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

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

In addition, Inco may terminate the combination agreement if it proposes to enter into a definitive agreement with respect to a superior proposal in compliance with the terms and conditions of the combination agreement summarized under Acquisition Proposals, above, provided that Inco has paid the termination fee discussed below.

In the event of the termination of the combination agreement, the obligations of Phelps Dodge and Inco in respect of the combination agreement will terminate, except for certain general provisions, provisions related to fees and expenses and termination of the combination agreement and the confidentiality agreements. Except for the foregoing, there will be no liability on the part of either Phelps Dodge or Inco upon termination of the combination agreement except for liabilities or damages arising from a willful or intentional breach of the combination agreement.

Termination Fees and Expenses

Termination Fees and Expenses Payable by Inco. Inco will pay to Phelps Dodge a termination fee in an aggregate amount equal to \$475 million or, from and after the date that Inco has acquired at least two-thirds of the common shares of Falconbridge, an aggregate amount equal to \$925 million in the event that the combination agreement is terminated:

by Phelps Dodge or Inco if Inco's board of directors withdraws, modifies or qualifies its recommendation that the Inco shareholders approve the plan of arrangement, unless the withdrawal, modification or qualification is due to a material adverse effect in respect of Phelps Dodge having occurred since the date of the combination agreement, and the Inco board has determined in good faith (after receipt of advice from its legal and financial advisors) that failure to so withdraw, modify or change its recommendation, or refusal to reaffirm its recommendation, would be inconsistent with its fiduciary duties, which fee shall be payable by Inco within one business day of demand by Phelps Dodge; or

by Inco if Inco proposes to enter into a definitive agreement in respect of a superior proposal in compliance with the provisions of the combination agreement, which fee shall be payable by Inco immediately prior to the termination.

Inco will pay to Phelps Dodge, within one business day of demand by Phelps Dodge, an aggregate amount equal to \$125 million, in the event that the combination agreement is terminated:

by Phelps Dodge or Inco, if such party terminates the combination agreement after March 31, 2007, in accordance with the terms of the combination agreement and, between the date of the combination agreement and the date of termination, an acquisition proposal (or an intention to make a proposal) for Inco has been publicly announced or otherwise made known to Inco shareholders, which proposal, if consummated, would result in the person making the proposal holding, directly or indirectly or acting jointly or in concert with others, a majority of the outstanding shares of Inco; or

by Inco or Phelps Dodge if the Inco shareholder vote was taken at Inco's duly convened shareholder meeting or an adjournment or postponement thereof and Inco's shareholder approval was not obtained.

In the event of termination under the two bullet points above, if within 12 months after termination, Inco consummates any transaction pursuant to which a person acquires, together with such person's other holdings of Inco common shares, directly or indirectly or acting jointly or in concert with others, a majority of the outstanding shares of Inco, then Inco will pay to Phelps Dodge, within one business day of demand by Phelps Dodge, \$475 million and, from and after the date that Inco has acquired at least two-thirds of the common shares of Falconbridge, an additional \$450 million (for a total of \$925 million), less any amounts previously paid to Phelps Dodge pursuant to the applicable provision discussed in the previous two bullet points.

Inco will pay to Phelps Dodge, within one business day of demand by Phelps Dodge, Phelps Dodge's out-of-pocket fees and expenses (up to a maximum of \$40 million) relating to the combination (including fees and expenses of its advisors and affiliates) if Phelps Dodge terminates the combination agreement because Inco cannot satisfy the conditions related to its representations, warranties and covenants on or before March 31, 2007. In the event that Inco pays or is obligated to pay such expense to Phelps Dodge and an acquisition proposal (or an intention to make a proposal) for Inco had been publicly announced or otherwise made known to Inco shareholders prior to termination, which proposal, if consummated, would result in the person making the proposal holding, directly or indirectly or acting jointly or in concert with others, a majority of the outstanding shares of Inco and, within 12 months after termination, Inco consummates any transaction pursuant to which a person acquires, together with such person's other holdings of Inco common shares, directly or indirectly or acting jointly or in concert with others, a majority of the outstanding shares of Inco, then Inco will pay to Phelps Dodge, within one business day of demand by Phelps Dodge, \$475 million and, from and after the date that Inco has acquired at least two-thirds of the common shares of Falconbridge, an additional \$450 million (for a total of \$925 million), less any expenses previously paid to Phelps Dodge.

Termination Fees and Expenses Payable by Phelps Dodge. Phelps Dodge will pay to Inco, within one business day of demand by Inco, a termination fee in an aggregate amount equal to \$500 million in the event that the combination agreement is terminated by Inco or Phelps Dodge, if Phelps Dodge's board of directors withdraws, modifies or qualifies its recommendation that the Phelps Dodge shareholders approve the restated certificate of incorporation and the authorization and issuance of the shares of Phelps Dodge common stock to be issued in connection with the combination, unless the withdrawal, modification or qualification is due to a material adverse effect in respect of Inco having occurred since the date of the combination agreement and if the Phelps Dodge board has determined in good faith (after receipt of advice from its legal and financial advisors) that failure to so withdraw, modify or change its recommendation, or refusal to reaffirm its recommendation, would be inconsistent with its fiduciary duties.

Phelps Dodge will pay to Inco, within one business day of demand by Inco, an aggregate amount of \$125 million, in the event that the combination agreement is terminated:

by Phelps Dodge or Inco, if such party terminates the combination agreement after March 31, 2007 in accordance with the terms of the combination agreement and, between the date of the combination agreement and the date of termination, an acquisition proposal (or an intention to make a proposal) for Phelps Dodge has been publicly announced or otherwise made known to Phelps Dodge shareholders, which proposal, if consummated, would result in the person making the proposal holding, directly or indirectly or acting jointly or in concert with others, a majority of the outstanding capital stock of Phelps Dodge; or

by Phelps Dodge or Inco, if the Phelps Dodge shareholder vote was taken at Phelps Dodge's duly convened shareholder meeting or an adjournment or postponement thereof and of Phelps Dodge's shareholder approval was not obtained.

In the event of termination under the two bullet points above, if within 12 months after termination, Phelps Dodge consummates any transaction pursuant to which a person acquires, together with such person's other holdings of Phelps Dodge common stock, directly or indirectly or acting jointly or in concert with others, a majority of the outstanding shares of Phelps Dodge, then Phelps Dodge will pay to Inco, within one business day of demand by Inco, \$500 million, less any amounts previously paid to Inco pursuant to the applicable provision discussed in the previous two bullet points.

Phelps Dodge will pay to Inco, within one business day of demand by Inco, Inco's out-of-pocket fees and expenses (up to a maximum of \$40 million) relating to the combination (including fees and expenses of its advisors and affiliates) if Inco terminates the combination agreement because Phelps Dodge cannot satisfy the conditions related to its representations, warranties and covenants on or before March 31, 2007. In the event that Phelps Dodge pays or is obligated to pay such expenses to Inco and an acquisition proposal (or an intention to make a proposal) for Phelps Dodge had been publicly announced or otherwise made known to Phelps Dodge shareholders prior to termination,

which proposal, if consummated, would

result in the person making the proposal holding, directly or indirectly or acting jointly or in concert with others, a majority of the outstanding shares of Phelps Dodge and, within twelve months after termination, Phelps Dodge consummates any transaction pursuant to which a person acquires, together with such person's other holdings of Inco common shares, directly or indirectly or acting jointly or in concert with others, a majority of the outstanding shares of Phelps Dodge, then Phelps Dodge will pay to Inco, within one business day of demand by Inco, \$500 million, less any expenses previously paid to Inco.

Fees and Expenses

Whether or not the combination is completed, all costs and expenses incurred in connection with the combination will be paid by the party incurring the expense, except as otherwise provided in the combination agreement and summarized under "Termination Fees and Expenses" above.

OTHER AGREEMENTS AND DOCUMENTS

Restated Certificate of Incorporation

In connection with the closing of the combination, the restated certificate of incorporation of Phelps Dodge will become effective, and Phelps Dodge's name will be changed to Phelps Dodge Inco Corporation, the number of authorized shares of the common stock of Phelps Dodge will be increased from the 300 million shares currently authorized by Phelps Dodge's restated certificate of incorporation to 1.5 billion shares and the maximum number of members of Phelps Dodge's board of directors will be increased from 12 to 15.

Phelps Dodge's Post-Closing Board of Directors and Officers

We expect that, upon consummation of the combination of our company with both Inco and Falconbridge, J. Steven Whisler, the chairman and chief executive officer of Phelps Dodge, will be chairman and chief executive officer of the combined company; Scott M. Hand, the chairman and chief executive officer of Inco, will become the vice chairman of the combined company; Timothy R. Snider, the president and chief operating officer of Phelps Dodge, will hold the same positions in the combined company; Derek Pannell, the chief executive officer of Falconbridge, will become the president of the combined company's nickel division and will head the combined company's nickel, zinc and aluminum operations; 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 Messrs. Hand and Pannell to be based in Toronto. In the event that Phelps Dodge combines with Inco only, Mr. Pannell will not be employed by the combined company, and Mr. Hand will become the president of the combined company's nickel division.

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 board of Inco and, assuming consummation of the Falconbridge acquisition, of Inco and Falconbridge.

UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

The Unaudited Pro Forma Combined Financial Statements presented herein are derived from the historical consolidated financial statements of Phelps Dodge, Inco and Falconbridge. The Unaudited Pro Forma Combined Financial Statements are prepared using the purchase method of accounting, with the acquisition of Inco and Falconbridge, as applicable, by Phelps Dodge assumed to have occurred on January 1, 2005, for statement of income purposes and on March 31, 2006, for balance sheet purposes using accounting principles generally accepted in the United States (U.S. GAAP). Upon completion of the combination with Inco and Falconbridge, the pre-combination shareholders of Phelps Dodge will own approximately 40% of the combined company, the pre-combination shareholders of Inco, approximately 31%, and the pre-combination shareholders of Falconbridge, approximately 29%. Upon completion of the combination with Inco only, the pre-combination shareholders of Phelps Dodge will own approximately 56% of the combined company and the pre-combination shareholders of Inco, approximately 44%. 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 and Falconbridge, in determining the accounting acquirer. Based on the weight of these factors, the company concluded that Phelps Dodge was the accounting acquirer.

Two different sets of Unaudited Pro Forma Combined Financial Statements have been prepared. One set reflecting the combination of Phelps Dodge, Inco and Falconbridge beginning on page 94 of this proxy statement; one set reflecting the combination of Phelps Dodge and Inco only beginning on page 104 of this proxy statement.

The pro forma amounts have been developed from (a) the audited consolidated financial statements of Phelps Dodge contained in its Annual Report on Form 10-K for the year ended December 31, 2005, which were prepared in accordance with U.S. GAAP, (b) the audited consolidated financial statements of Inco contained in its Annual Report on Form 10-K for the year ended December 31, 2005, which were prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP) and adjusted to U.S. GAAP based on a reconciliation presented in the footnotes to such statements, (c) the audited consolidated financial statements of Falconbridge contained in its Annual Report on Form 40-F for the year ended December 31, 2005, which were prepared in accordance with Canadian GAAP and adjusted to U.S. GAAP based on a reconciliation presented in the footnotes to such statements, (d) the unaudited consolidated financial statements of Phelps Dodge contained in its Quarterly Report on Form 10-Q for the period ended March 31, 2006, which were prepared in accordance with U.S. GAAP, (e) the unaudited consolidated financial statements of Inco contained in its Quarterly Report on Form 10-Q for the period ended March 31, 2006, which were prepared in accordance with Canadian GAAP and adjusted to U.S. GAAP based on a reconciliation presented in the footnotes to such statements and (f) the unaudited consolidated financial statements of Falconbridge contained in a Current Report on Form 6-K for the period ended March 31, 2006, which were prepared in accordance with Canadian GAAP and adjusted to U.S. GAAP based on non-public information provided by Falconbridge management. Falconbridge is not required to file its unaudited interim financial data with the SEC. As such, Falconbridge has not made a reconciliation of its Canadian GAAP interim financial data to U.S. GAAP publicly available. Falconbridge management provided to Phelps Dodge the non-public information required to produce the interim Unaudited Pro Forma Combined Financial Statements and the footnotes thereto presented below.

Phelps Dodge intends to complete its share repurchase program within the 12 months after closing of the Inco transaction in an amount up to \$5 billion, less the stated principal amount of up to \$3 billion of 8% convertible subordinated notes of Inco due April 1, 2012, purchased by Phelps Dodge, if any, from Inco. The share repurchase program has not been included in the Unaudited Pro Forma Combined Financial Statements and is not a condition of the proposed business combination.

The Unaudited Pro Forma Combined Financial Statements are provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of Phelps Dodge would have been had the combination occurred on the dates assumed,

nor are they necessarily indicative of future consolidated results of operations or consolidated financial position. In this regard, we note that the Unaudited Pro Forma Combined Financial Statements do not give effect to (i) any integration costs that may be incurred as a result of the acquisition, (ii) synergies, operating efficiencies and cost savings that are expected to result from the acquisition, (iii) benefits expected to be derived from the combined company's growth projects or brownfield expansions, (iv) changes in commodities prices subsequent to the dates of such Unaudited Pro Forma Combined Financial Statements, (v) Phelps Dodge's share repurchase program or (vi) the impact of undertakings that Phelps Dodge is prepared to make in order to address regulatory clearance requirements.

Phelps Dodge has not developed formal plans for combining the operations. Accordingly, additional liabilities may be incurred in connection with the business combination(s) and any ultimate restructuring. These additional liabilities and costs have not been contemplated in the Unaudited Pro Forma Combined Financial Statements because information necessary to reasonably estimate such costs and to formulate detailed restructuring plans is not available to Phelps Dodge. The allocation of the purchase price to acquired assets and liabilities in the Unaudited Pro Forma Combined Financial Statements are based on management's preliminary internal valuation estimates. Such allocations will be finalized based on valuation and other studies to be performed by management with the services of outside valuation specialists after the closing of the business combination(s). Accordingly, the purchase price allocation adjustments and related impacts on the Unaudited Pro Forma Combined Financial Statements are preliminary and are subject to revision, which may be material, after the closing of the business combination(s).

The Unaudited Pro Forma Combined Financial Statements should be read in conjunction with the separate historical consolidated financial statements and accompanying notes of Phelps Dodge, Inco and Falconbridge incorporated by reference into this proxy statement.

PHELPS DODGE CORPORATION
PRO FORMA COMBINED STATEMENT OF INCOME
PHELPS DODGE, INCO AND FALCONBRIDGE COMBINED
FOR THE THREE MONTHS ENDED MARCH 31, 2006
(UNAUDITED)

(AMOUNTS IN MILLIONS, EXCEPT PER SHARE INFORMATION)

	Historical			Pro Forma Adjustments (Note 3)	Pro Forma Combined
	Phelps Dodge	Inco	Falconbridge		
Sales and other operating revenues	\$2,225	1,211	2,858	(162)(I) (168)(Q)	5,964
Operating costs and expenses:					
Cost of products sold	1,448	752	1,949	(162)(I) (36)(N) 1 (P) (117)(Q)	3,835
Depreciation, depletion and amortization	107	71	167	127 (J) (1)(P) (4)(Q)	467
Selling and general administrative expense	49	47	23		119
Exploration and research expense	30	31	40		101
Special items and provisions, net	17				17
	1,651	901	2,179	(192)	4,539
Operating income (loss)	574	310	679	(138)	1,425
Interest expense	(16)	(17)	(29)	(49)(A) (187)(O) (1)(Q)	(299)
Capitalized interest	11	(4)		34 (A)	41
Miscellaneous income and expense, net	34	27	10	15 (A)	86
Income (loss) from continuing operations before taxes, minority interests in consolidated subsidiaries and equity in net earnings (losses) of affiliated companies	603	316	660	(326)	1,253
Provision for taxes on income	(136)	(108)	(214)	107 (F) 4 (Q)	(347)
Minority interests in consolidated subsidiaries	(117)	(18)	(2)		(137)

Equity in net earnings (losses) of affiliated companies	1				1
Income (loss) from continuing operations	\$ 351	190	444	(215)	770
Earnings per share from continuing operations:					
Basic	\$ 1.73				1.53
Diluted	\$ 1.72				1.52
Weighted average shares outstanding:					
Basic	202.0				504.7 (M)
Diluted	203.4				506.1 (M)

See accompanying notes to pro forma combined financial statements.

PHELPS DODGE CORPORATION
PRO FORMA COMBINED STATEMENT OF INCOME
PHELPS DODGE, INCO AND FALCONBRIDGE COMBINED
FOR THE YEAR ENDED DECEMBER 31, 2005
(UNAUDITED)

(AMOUNTS IN MILLIONS, EXCEPT PER SHARE INFORMATION)

	Phelps Dodge	Historical Inco	Falconbridge	Pro Forma Adjustments (Note 3)	Pro Forma Combined
Sales and other operating revenues	\$8,287	4,518	8,148	(384)(I) (773)(Q)	19,796
Operating costs and expenses:					
Cost of products sold	5,282	2,697	5,779	(384)(I) (123)(N) 2 (P) (595)(Q)	12,658
Depreciation, depletion and amortization	442	256	548	508 (J) (1)(P) (15)(Q)	1,738
Selling and general administrative expense	158	207	79		444
Exploration and research expense	117	133	162		412
Special items and provisions, net	523	25		2 (A)	550
	6,522	3,318	6,568	(606)	15,802
Operating income (loss)	1,765	1,200	1,580	(551)	3,994
Interest expense	(79)	(22)	(134)	(197)(A) (749)(O) (2)(Q)	(1,183)
Capitalized interest	16	(27)		156 (A)	145
Early debt extinguishment costs	(54)	(26)		(14)(A)	