

INCO LTD  
Form 10-K  
March 16, 2006

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2005

Commission File Number 1-1143

Inco Limited

(Name of registrant as specified in its charter)

Canada

(Jurisdiction of incorporation)

98-0000676

(I.R.S. Employer Identification No.)

145 King Street West, Suite 1500  
Toronto, Ontario, Canada

(Address of principal executive offices)

M5H 4B7

(Postal code)

(416) 361-7511

(Telephone number)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares	New York Stock Exchange <sup>(1)</sup>
Stock Purchase Rights	New York Stock Exchange <sup>(2)</sup>
Common Share Purchase Warrants	New York Stock Exchange <sup>(2)</sup>

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act).

Yes       No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934.

Yes       No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes       No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes       No

As of June 30, 2005, the approximate aggregate market value, based upon the closing sale price of the Common Shares on the New York Stock Exchange, of the registrant's voting shares held by non-affiliates was \$7,125 million<sup>(3)</sup>

As of February 17, 2006, 192,769,128 Common Shares of the registrant were issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's proxy circular and statement dated February 17, 2006 for the 2006 Annual Meeting of Shareholders of the Registrant are incorporated by reference in Part III of this Report to the extent set forth in Items 10, 11, 12 and 14 hereof.

- (1) In addition, the Common Shares are listed on the Toronto Stock Exchange and are traded on certain other exchanges principally through independent arrangements made by securities dealers.
  - (2) In addition, the Stock Purchase Rights and the Common Share Purchase Warrants are listed on the Toronto Stock Exchange.
  - (3) Unless otherwise stated, all dollar amounts in this Report are expressed in United States currency.
-

**INDEX TO INCO LIMITED**  
**2005 ANNUAL REPORT ON FORM 10-K**  
**UNLESS OTHERWISE STATED, ALL DOLLAR AMOUNTS IN THIS REPORT**  
**ARE EXPRESSED IN UNITED STATES CURRENCY**

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## PART I

### Items 1. and 2. Business and Properties of Inco Limited

#### Introduction

Inco Limited ( Inco , the Company , we or us ) 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. Our executive offices are located at 145 King Street West, Suite 1500, Toronto, Ontario, Canada M5H 4B7. Unless the context otherwise requires, all references in this Report to Inco , the Company , we , our or us include all of its consolidated subsidiaries, unincorporated units and divisions.

Inco is one of the world's premier mining and metals companies. We are a leading producer of nickel, a hard, malleable metal which, given its properties and wide range of applications, can be found in thousands of products. We are also an important producer of copper, precious metals and cobalt and a major producer of value-added specialty nickel products. We also produce sulphuric acid and liquid sulphur dioxide as by-products from our processing operations in Sudbury, Ontario. Our principal mines and processing operations are located in the Sudbury area of Ontario, the Thompson area of Manitoba, Voisey's Bay in Newfoundland and Labrador, and, through a subsidiary in which we have an equity interest of approximately 61 per cent, PT International Nickel Indonesia Tbk ( PT Inco ), on the Island of Sulawesi, Indonesia (see PT International Nickel Indonesia Tbk below). We also operate additional wholly-owned metals refineries at Port Colborne, Ontario and in the United Kingdom at Clydach, Wales and Acton, England. We also have interests in nickel refining capacity in the following Asian countries: in Japan, through Inco TNC Limited ( ITL ), in which we have an equity interest of 67 per cent; in Taiwan, through Taiwan Nickel Refining Corporation ( Taiwan Nickel ), in which we have an equity interest of 49.9 per cent; and in South Korea, through Korea Nickel Corporation ( Korea Nickel ), in which we have an equity interest of 25 per cent. In addition, we have a 65 per cent equity interest in Jinco Nonferrous Metals Co., Ltd., a company that produces nickel salts in Kunshan City, People's Republic of China ( China ). We also have joint venture operations in China, through Inco Advanced Technology Materials (Dalian) Co., Ltd. ( Dalian ), in which we have a total direct and indirect equity interest of 81.6 per cent, and Inco Advanced Technology Materials (Shenyang) Co., Ltd. ( Shenyang ), in which we have a total direct and indirect equity interest of 82 per cent. In March 2005, Shenyang acquired substantially all of the assets which represented the nickel foam business of Shenyang Golden Champower New Materials Corp., a leading Chinese producer of nickel foam. These two ventures in China produce nickel foam products for the Asian battery market. We also have a shearing and packaging operation in China for certain nickel products to meet the specific needs of this geographic market.

The first nickel concentrates were produced in September 2005 at our wholly-owned Voisey's Bay nickel-copper-cobalt project in the Province of Newfoundland and Labrador, Canada. The first shipments of nickel concentrates from the Voisey's Bay project were made to Inco's operations in Sudbury, Ontario and Thompson, Manitoba in November 2005 and the first production of finished nickel from these concentrates occurred in January 2006. In October 2005, Inco's demonstration plant, part of the initial phase of this project, was completed and began operations at Argentia in the Province of Newfoundland and Labrador. This facility is being used to test proprietary hydrometallurgical processing technologies to treat Voisey's Bay nickel concentrates as part of our research and development program covering those processes, a program which is scheduled to run until late 2007. For further information on the Voisey's Bay project and related matters, see Voisey's Bay Nickel Company Limited below.

Inco is also currently developing another major new greenfield project, the Goro nickel-cobalt project in the French overseas territorial community (*collectivité territoriale*) of New Caledonia ( New Caledonia ). We currently hold a 71 per cent interest in the project company, Goro Nickel S.A.S. ( Goro Nickel ), following the capitalization of certain shareholder advances in late February 2005, the sale of shares representing a 21 per cent interest in Goro Nickel to a joint venture between Sumitomo Metal Mining Co., Ltd. and Mitsui & Co., Ltd. of Japan on April 8, 2005 and, taking into account the additional capital contribution we have made to Goro Nickel as a result of the election by Société de Participation Minière du Sud Calédonien SAS ( SPMSC ), a company formed by the three provinces of New Caledonia which acquired an initial 10 per cent interest in Goro Nickel in February 2005, not to make certain pro-rata capital contributions to the project since it became a shareholder in Goro Nickel in February 2005. Having announced our decision to proceed with the project in October 2004 after the completion of our comprehensive review of the project,

we have moved the project forward on a phased approach, with the first phase focusing on engineering, contract development and permitting. Engineering was about 70 per cent complete as of year-end 2005 and approximately 900 construction personnel were on site, initially focusing on earthworks for the process plant, the residue storage facility and road realignment. We are also building some 400 process plant modules and pre-finished units for the process plant in the Philippines which are expected to be delivered to the Goro site beginning in April 2006. We expect to have a definitive capital cost estimate by the second quarter of 2006 when engineering is

expected to be at least 80 per cent complete and all major contracts are expected to have been awarded. The expected initial start-up of the project remains in late 2007. For further information on the Goro project and related matters, see Goro Nickel S.A.S. below.

On October 11, 2005, Inco and Falconbridge Limited ( Falconbridge ) announced that their respective Boards of Directors had approved the acquisition by Inco of all of the outstanding common shares of Falconbridge by way of a friendly take-over bid. The combined organization which would be created by the pending transaction would be one of the world's premier mining and metals companies in both nickel and copper, with one of the mining industry's most attractive portfolios of low-cost, profitable growth projects. Our offer, which was mailed to Falconbridge common shareholders on October 24, 2005 (the Offer ), is conditional upon at least 66 2/3 per cent of the common shares of Falconbridge being tendered, the receipt of all necessary regulatory clearances and certain other conditions. The Offer was initially open for acceptance until December 23, 2005 but has been extended on three occasions in order to provide additional time to obtain the required regulatory clearances. It is currently open for acceptance by Falconbridge common shareholders until June 30, 2006. We currently expect to take up and pay for the Falconbridge common shares tendered to the Offer prior to this date or shortly thereafter. For further information on this transaction, see Proposed Acquisition of Falconbridge Limited below.

Inco's properties are described under Description of Business and Ore Reserves and Mining Rights below.

The information in this Report is as of December 31, 2005 except where an earlier or later date is expressly indicated. Nothing included herein should be considered as implying that any information is correct as of any date other than December 31, 2005, except as otherwise expressly stated.

In this Report, certain data and estimates which had been previously limited to the Western World or the Western World plus China because of limited available data from certain countries or regions have been reported on a global or worldwide basis.

#### **Availability of Documents**

Inco files Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K with the Securities and Exchange Commission (the SEC ). You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. You may obtain information on the hours of operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Such reports and all amendments to such reports regarding Inco are available free of charge on our website, [www.inco.com](http://www.inco.com), as soon as reasonably practicable after such reports are electronically filed with the SEC. Information contained in or otherwise accessed through our website or any other website does not form part of this Report. All such references to websites are inactive textual references only.

#### **Cautionary Statement Regarding Forward-Looking Statements and Forward-Looking Information**

Certain statements contained in this Report are forward-looking statements (as defined in the U.S. *Securities Exchange Act of 1934*) or contain forward-looking information (as defined in the Ontario *Securities Act*). Examples of such statements include, but are not limited to, statements concerning: (1) the price volatility for nickel and other primary metal products produced by the Company; (2) the demand for and supply of nickel, copper and other metals, both globally and for certain markets and uses, as well as the availability of, and prices for, and the Company's requirements for, intermediate products containing nickel purchased by the Company and/or to be produced by the Company and nickel-containing stainless steel scrap and other substitutes for primary nickel and nickel inventories; (3) the premiums realized by the Company over London Metal Exchange ( LME ) cash prices and the sensitivity of the Company's results of operations to changes in metals prices, prices of commodities and other supplies used in its operations, interest and exchange rates, and our common share price; (4) the Company's strategies and plans and level of capital expenditures and contributions thereto from third parties; (5) the Company's nickel unit cash cost of sales before and after by-product credits, interest and other expenses; (6) the Company's energy and other costs, and pension contributions and expenses and assumptions relating thereto; (7) the Company's position as a low-cost producer of nickel; (8) the Company's debt-equity ratio and tangible net worth; (9) the political unrest or instability in countries (such as Indonesia) in which the Company and its subsidiaries (such as PT Inco) operate and the impact thereof on the Company; (10) construction, commissioning, initial start-ups, shipments and other schedules, capital costs and other

aspects of the Goro and Voisey's Bay projects and PT Inco's latest program start-ups to increase its production, changes in the ownership of the Goro project, capital expenditures, and hydroelectric power generation at PT Inco and the effect thereon of lower water levels; (11) receipt of funds under the necessary financing plans and arrangements for, and partner or similar investment and other agreements or arrangements associated with, the Goro project, and the timing of the start of production and the costs of construction with respect to, the issuance of the necessary permits and other authorizations required for,

and engineering and construction timetables for, the Goro project and the additional phases of the Voisey's Bay project; (12) the Company's estimates of the quantity and quality of its ore/mineral reserves and mineral resources, exploration and drilling schedules and the timing of completion of feasibility assessments of the Company's reserves; (13) planned capital expenditures and tax payments; (14) the Company's costs of production, deliveries of products, and production levels for 2006 and beyond, including the costs of and potential impact on operations and production of complying with existing and proposed environmental laws and regulations and net reductions in environmental emissions; (15) the impact of changes in Canadian dollar-U.S. dollar and other exchange rates on the Company's costs and the results of its operations; (16) the Company's sales of specialty nickel products; (17) the Company's cost reduction and other financial and operating objectives and planned maintenance and other shutdowns; (18) the commercial viability of new production processes and process changes and processing recoveries for its development projects; (19) the Company's productivity, exploration and research and development initiatives as well as environmental, health and safety initiatives; (20) the negotiation of collective agreements with its unionized employees; (21) the Company's sales organization and personnel requirements; (22) business and economic conditions; (23) the extension of current mining and other leases, export licences and concessionary rights; (24) third party tolling, smelting and refining arrangements; and (25) factors relating to the Offer made by the Company to the common shareholders of Falconbridge to purchase all of the outstanding common shares of Falconbridge and the results expected to be achieved from the successful completion of the Offer and the combination of the Company and Falconbridge, including the timing and conditions to receipt of required regulatory clearances, the synergies and cost savings expected to be achieved and the timing thereof; the increased market capitalization, share price multiple and improved liquidity of the Company's shares; the improved cash flow and earnings of the Company; statements regarding strategies, objectives, goals and targets; and the financial position and international presence that would permit the combined company to better compete against global mining companies. Inherent in forward-looking statements and forward-looking information are risks and uncertainties that are well beyond the Company's ability to predict or control. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements and forward-looking information contained in this Report.

Such forward-looking statements and forward-looking information are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about: business and economic conditions generally; exchange rates, availability and cost of energy and other anticipated and unanticipated costs and pension contributions and expenses; the supply and demand for, deliveries of, and the level and volatility of prices of, nickel, copper, cobalt, aluminum, zinc and other primary metals products, purchased intermediates and nickel-containing stainless steel scrap and other substitutes and competing products for the primary nickel and other metal products the Company produces; the timing and quantities of available Voisey's Bay intermediate nickel and copper concentrates and the feasibility and timing of the development of the hydrometallurgical process at Voisey's Bay; the timing of the receipt of remaining regulatory and governmental approvals for the Goro project and other operations; the continued availability of financing on appropriate terms, including through partner or other participation arrangements in the case of the Goro project, for the Company's development projects; the Company's costs of production and production and productivity levels, as well as those of the Company's competitors; our ability to continue to pay quarterly cash dividends in amounts as our Board of Directors may determine in light of other uses for such funds; metal recovery rates and ore recovery and dilution factors; engineering and construction timetables and capital and operating costs for the Goro and Voisey's Bay projects and PT Inco's latest expansion program; market competition; mining, processing, exploration and research and development activities and methods; the accuracy of ore/mineral reserve and mineral resource estimates; premiums realized over LME cash and other benchmark prices; tax benefits/charges; the resolution of environmental reviews and environmental and other proceedings and the impact on the Company of various environmental regulations and initiatives; the ability to obtain or renew permits, licences, leases and concessions; assumptions concerning political and economic stability and expectations of inflation in Indonesia and other countries or locations in which the Company operates or otherwise; and the Company's ongoing relations with its employees at its operations throughout the world. In addition to the foregoing, forward-looking statements and forward-looking information relating to the Offer, its completion and the consequences thereof are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions respecting Falconbridge and its operations

and plans, the ability of the Company to successfully compete against global metals and mining and exploration companies by creating through the combination of the Company and Falconbridge an enterprise of increased scale; continued strong demand for nickel, copper and other metals in emerging markets such as China; the level of pre-tax operating and other synergies and cost savings, and other benefits to be realized based on the achievement of operational efficiencies from restructuring, integration and other initiatives relating to the combination; the approvals or clearances required to be obtained by the Company and Falconbridge from regulatory and other agencies and bodies being obtained in a timely manner; divestitures required by regulatory agencies being acceptable and completed in a timely manner; there being limited costs, difficulties or delays relating to the integration of Falconbridge's operations with those of the Company; and the timely completion of the steps required to be taken for the eventual combination and integration of the two companies.

The forward-looking statements and forward-looking information included in this Report represent the Company's views as of the date of this Report. While the Company anticipates that subsequent events and developments may cause the Company's views to



change, the Company specifically disclaims any obligation to update these forward-looking statements and forward-looking information. These forward-looking statements and forward-looking information should not be relied upon as representing the Company's views as of any date subsequent to the date of this Report. Although the Company has attempted to identify important factors or assumptions that could cause actual actions, events or results to differ materially from those described in forward-looking statements and forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements and forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers of this Report should not place undue reliance on forward-looking statements and forward-looking information. These factors are not intended to represent a complete list of the factors that could affect the Company. Additional factors are noted elsewhere in this Report.

### **Material Assumptions**

A number of assumptions were made by Inco in connection with certain forward-looking statements and forward-looking information for 2006 and beyond included in this Report and in connection with our pending acquisition of Falconbridge. These assumptions include estimates on the U.S. dollar-Canadian dollar exchange rate for 2006, global industrial production and in key geographic markets, interest rates, global nickel and other metals demand and supply and in key geographical markets, growth in the key end-use markets for the metals produced by the Company, that we would not have any labour, equipment or other disruptions at any of our operations of any significance in 2006 other than any planned maintenance or similar shutdowns and that any third parties which we are relying on to supply purchased intermediates or provide toll smelting or other processing do not experience any unplanned disruptions. Some of the material assumptions made by us involve confidential or particularly sensitive information and, accordingly, we do not believe it is appropriate to disclose such assumptions for competitive or other business reasons. Forward-looking statements and forward-looking information for time periods subsequent to 2006 involve longer term assumptions and estimates than forward-looking statements and forward-looking information for 2006 and are consequently subject to greater uncertainty. Therefore, the reader is especially cautioned not to place undue reliance on such long-term forward-looking statements and forward-looking information.

### **Description of Business**

#### *Sales*

The following table shows Inco's net sales to customers for the three years ended December 31, 2005:

	<b>2005</b>	<b>2004</b>	<b>2003</b>
		<b>(in millions)</b>	
Primary nickel	\$ 3,655	\$ 3,503	\$ 2,109
Copper	463	364	171
Precious metals <sup>(1)</sup>	267	246	114
Cobalt	57	72	17
Other <sup>(2)</sup>	76	93	63
Net sales to customers	\$ 4,518	\$ 4,278	\$ 2,474

(1) Excludes toll-refined materials.

(2) Representing principally sales of sulphuric acid, liquid sulphur dioxide, miscellaneous primary metals products, reprocessed waste materials and certain price adjustments.

*Deliveries*

The following table shows deliveries of Inco's principal primary metals and related products for the three years ended December 31, 2005:

	<b>2005</b>	<b>2004</b>	<b>2003</b>
Nickel, including intermediates <sup>(1)</sup> (tonnes) <sup>(2)</sup>	246,282	251,882	213,890
Copper <sup>(3)</sup> (tonnes)	120,543	124,884	93,335
Cobalt (tonnes)	1,694	1,542	903
Platinum <sup>(4)</sup> (troy ounces, in thousands)	172	183	83
Palladium <sup>(4)</sup> (troy ounces, in thousands)	220	221	101
Rhodium <sup>(4)</sup> (troy ounces, in thousands)	16	9	17
Ruthenium <sup>(4)</sup> (troy ounces, in thousands)	2	3	2
Iridium <sup>(4)</sup> (troy ounces, in thousands)	5	4	6
Gold <sup>(4)</sup> (troy ounces, in thousands)	76	80	50
Silver <sup>(4)</sup> (troy ounces, in thousands)	1,429	1,990	1,435
Sulphuric acid and liquid sulphur dioxide (tonnes)	695,000	747,000	548,000

(1) Includes 22,471 tonnes in 2005, 16,697 tonnes in 2004 and 29,780 tonnes in 2003 purchased by Inco.

(2) A tonne is a metric unit equal to approximately 2,204.6 pounds.

(3) Includes 1,133 tonnes in 2003 purchased by Inco.

(4) Excludes toll-refined materials.

*Prices**Nickel*

Inco's nickel price realizations tend to lag LME cash nickel price movements due primarily to the terms of its contractual sales arrangements with certain of its customers. The LME, a physical market where various metals, including nickel, can be bought or sold for prompt or future delivery, represents the principal terminal market for primary nickel in the world. We realize a premium over prevailing LME cash prices for many of our finished nickel products, including certain of our nickel powders and other value-added products discussed under Inco Special Products below.

Our average realized price for our primary nickel products, including intermediates and purchased products, was \$14,842 per tonne (\$6.73 per pound) in 2005, representing an increase of seven per cent from the average price of

\$13,906 per tonne (\$6.31 per pound) in 2004 and an all-time record average realized nickel price for Inco. The 2004 average realized price was 41 per cent higher than the average price of \$9,860 per tonne (\$4.47 per pound) in 2003.

The price realizations for our nickel and other primary metals products generally reflect LME or other metal market prices and, over the longer term, depend principally upon the balance between demand for our products in the marketplace relative to the supply available from us and our competitors, including for this purpose similar primary metals materials in various producer, merchant and consumer inventories, inventories of secondary or scrap materials containing nickel and other metals in usable or recyclable form, and supplies of other materials which may compete as substitutes. Of particular importance is the availability of nickel-containing stainless steel scrap, which competes directly with primary nickel as a source of nickel for use in the production of stainless steel and certain other industrial applications. The stainless steel scrap ratio, or the proportion or ratio of nickel-containing stainless steel scrap relative to the total nickel (including primary nickel) consumed by stainless steel producers, was 49 per cent in 2005, compared with 47 per cent in 2004 and 44 per cent in 2003. The applications for nickel and variations in demand for and supply of nickel are discussed under **Nickel** below.

For information on Inco's hedging transactions relating to nickel, see **Off-Balance Sheet Arrangements and Aggregate Contractual Obligations** **Derivative Instrument Positions** in **Management's Discussion and Analysis of Financial Condition and Results of Operations** under Item 7 of this Report and Notes 1, 19 and 24(h) to the financial statements under Item 8 of this Report.

The average prices, per tonne and per pound, realized by Inco for its primary nickel products, including intermediates and purchased products, for the five years ended December 31, 2005, including by quarter for 2005, are shown in the following table:

Year	Nickel	
	(\$ per tonne)	(\$ per pound)
2001	6,468	2.93
2002	7,143	3.24
2003	9,860	4.47
2004	13,906	6.31
<b>2005</b>		
First Quarter	15,312	6.95
Second Quarter	16,578	7.52
Third Quarter	14,857	6.74
Fourth Quarter	12,780	5.80
Year	14,842	6.73

*Copper*

Inco's average realized price for copper was \$3,839 per tonne (\$1.74 per pound) in 2005, representing an increase of 32 per cent from the average realized price of \$2,916 per tonne (\$1.32 per pound) in 2004. The 2004 average realized price was 59 per cent higher than the average realized price of \$1,832 per tonne (\$0.83 per pound) in 2003.

The average prices, per tonne and per pound, realized by us for copper, including purchased products, for the five years ended December 31, 2005, including by quarter for 2005, are shown in the following table:

Year	Copper	
	(\$ per tonne)	(\$ per pound)
2001	1,668	0.76
2002	1,629	0.74
2003	1,832	0.83
2004	2,916	1.32
<b>2005</b>		
First Quarter	3,365	1.53
Second Quarter	3,427	1.56
Third Quarter	3,921	1.78
Fourth Quarter	4,528	2.05
Year	3,839	1.74

*Other Metals*

The average prices, per tonne or per troy ounce, realized by Inco for cobalt, the principal platinum-group metals (platinum, palladium and rhodium), gold and silver, all of which are produced primarily from our Ontario ores, for the five years ended December 31, 2005 are shown in the following table:

Year	Cobalt (\$ per tonne)	Platinum	Palladium (\$ per troy ounce)	Rhodium	Gold	Silver
2002	15,124	545.92	419.70	804.59	309.17	4.58

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2003	18,846	588.96	297.36	530.66	367.72	4.86
2004	46,442	762.73	225.56	1,166.85	398.68	6.73
2005	32,828	841.27	209.46	2,055.55	423.21	7.06

For information on our hedging transactions relating to these metals, see Off-Balance Sheet Arrangements and Aggregate Contractual Obligations Derivative Instrument Positions under Item 7 of this Report and Notes 1, 19 and 24(h) to the financial statements under Item 8 of this Report.

*Results of Operations*

All financial statement information in this Report is based on our financial statements prepared in accordance with generally accepted accounting principles ( GAAP ) in Canada. A reconciliation of our Canadian GAAP financial statements to United States GAAP is presented in Note 24 to the financial statements under Item 8 of this Report.

*Customers*

As in recent years, sales of Inco's primary metals products in 2005 were concentrated in the United States, Europe, Japan, other countries in Asia, and Canada, with sales of nickel to customers in Asia representing about 60 per cent of its total nickel sales revenues for 2005. For further information, see Inco's Position in the Nickel Industry below.

No single non-affiliated customer of Inco accounted for more than 10 per cent of total sales in 2005, 2004 or 2003.

See Nickel, Copper and Other Primary Metals and Related Products below for additional information on the Company's customers.

*Competitors*

A discussion of the competitive conditions in the nickel industry appears under Nickel below. Competitive conditions with respect to our other primary metals and related products are discussed under Copper and Other Primary Metals and Related Products below.

*Inventories*

Inco's general practice is to sell its principal primary metals products at the time of production and not to hold inventories except as necessary to meet its current sales requirements. Our finished nickel inventories at the end of each of the five years ended December 31, 2005 are shown in the following table:

<b>Year-end</b>	<b>Inco's Finished Nickel (in tonnes)</b>
2001	26,517
2002	23,126
2003	25,604
2004	27,334
2005	23,444

Historically, we have believed that the minimum finished nickel inventories we generally need to run our business and meet our customers' requirements should be about 26,000 tonnes, depending upon the required product mix and other factors. We expect to continue to evaluate the factors to be considered in determining what our minimum inventory level should be.

*Nickel Unit Cash Cost of Sales*

Since this cost measure captures our key costs of production and the effect of prices for our by-products, nickel unit cash cost of sales after by-product credits represents a key performance measurement that management uses to manage our costs and operations.

Nickel unit cash cost of sales before by-product credits, representing a calculation equal to the total of all cash costs incurred to produce a unit of nickel before the deduction of contributions from by-products sold divided by Inco-source nickel deliveries, increased to \$6,702 per tonne (\$3.04 per pound) in 2005 from \$5,732 per tonne (\$2.60 per pound) in 2004. For 2005, the increase in nickel unit cash cost of sales before by-product credits was principally due to (i) the higher average Canadian U.S. dollar exchange rate which adversely affected our costs incurred in Canadian dollars, (ii) higher costs for heavy fuel oil and diesel fuel at PT Inco, (iii) higher electricity and natural gas prices at our Ontario operations, (iv) higher spending on supplies and services, and (v) lower nickel production, partially offset by approximately \$40 million of net cost reductions and related savings achieved in 2005. In addition, we experienced lower costs for purchased intermediates due to lower volumes processed at our Canadian operations in 2005 partially offset by higher benchmark prices upon which such purchases are made. In 2004, nickel unit cash cost of sales before by-



product credits of \$5,732 per tonne (\$2.60 per pound) increased from \$4,453 per tonne (\$2.02 per pound) in 2003. For 2004, the increase in nickel unit cash cost of sales before by-product credits was principally due to (i) the higher cost for, and volumes of, purchased nickel intermediates, (ii) the higher average Canadian dollar-U.S. dollar exchange rate compared with 2003, (iii) higher costs for heavy oil at PT Inco, (iv) higher spending on supplies and services primarily as a result of increased production rates, and (v) higher earnings-based compensation payments, partially offset by the absence of ramp-up costs which we incurred in the third quarter of 2003 after the end of a strike at our Ontario operations, and the cost reductions and related savings as discussed below.

Nickel unit cash cost of sales after by-product credits increased to \$5,842 per tonne (\$2.65 per pound) in 2005 from \$5,115 per tonne (\$2.32 per pound) in 2004. For 2005, the increase in nickel unit cash cost of sales after by-product credits was due to higher unit cash cost of sales before by-product credits, partially offset by an increase in by-product credits. The increase in by-product credits was primarily due to higher realized prices for copper and certain PGMs partially offset by higher production costs for copper and lower deliveries of certain PGMs. In 2004, nickel unit cash cost of sales after by-product credits of \$5,115 per tonne (\$2.32 per pound) increased from \$4,740 per tonne (\$2.15 per pound) in 2003. For 2004, the increase in nickel unit cash cost of sales after by-product credits was due to higher nickel unit cash cost of sales before by-product credits, partially offset by higher by-product credits as a result of higher realized selling prices for and higher deliveries of our principal by-products.

We have used, and expect to continue to use, at least in 2006, purchased nickel intermediates to increase processing capacity utilization at our Ontario and Manitoba operations. While the cost of purchased nickel intermediates is higher than that for processing our own mine production and such costs increase as the prevailing prices, LME cash nickel or other benchmark prices, on which this material is purchased by us increases, the price realizations are also higher, resulting in margins on these purchases remaining relatively unchanged.

A reconciliation of our nickel unit cash cost of sales before and after by-product credits to cost of sales under Canadian GAAP for the periods indicated is shown in the table entitled "Reconciliation of Nickel Unit Cash Cost of Sales Before and After By-Product Credits to Canadian GAAP Cost of Sales" under "Non-GAAP Financial Measure" in Management's Discussion and Analysis of Financial Condition and Results of Operations under Item 7 of this Report.

In 2005, Inco realized net cost reductions and related savings of \$40 million, which was below our target of \$60 million for the year. In 2004, we realized cost reductions and related savings of \$59 million.

Inco's nickel unit cash cost of sales, both before and after by-product credits, for the five years ended December 31, 2005 are shown in the following table: