

PHELPS DODGE CORP  
Form PRER14A  
August 23, 2006

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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

Definitive Proxy Statement

Definitive Additional Materials

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

**Phelps Dodge Corporation**

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

No fee required.

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

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

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

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

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

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

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

Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

\$3,218,407.21

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

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Schedule 14A, File No. 001-00082

(3) Filing Party:

Phelps Dodge Corporation

(4) Date Filed:

July 5, 2006

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**IMPORTANT SPECIAL MEETING OF PHELPS DODGE SHAREHOLDERS**

**1, 2006**

Dear Fellow Shareholder:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sincerely,

J. Steven Whisler  
Chairman and Chief Executive Officer

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

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NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TO THE SHAREHOLDERS OF PHELPS DODGE CORPORATION:

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

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

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

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

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

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

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

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

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

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

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

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

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

By Order of the Board of Directors,

Catherine R. Hardwick  
Assistant General Counsel and Secretary

Phoenix, Arizona  
11/14/2006

**YOUR VOTE IS IMPORTANT**

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

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

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### REFERENCE TO ADDITIONAL INFORMATION

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

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

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

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

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

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

### INDUSTRY DATA

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

### REPORTING CURRENCIES AND ACCOUNTING PRINCIPLES

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

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

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

### EXCHANGE RATES

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

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

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

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

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

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



## QUESTIONS AND ANSWERS

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

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

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

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

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

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

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

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

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

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

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





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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

significant synergies and cost savings;

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

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

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

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

a highly skilled and experienced management team.

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

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

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

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

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

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

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

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

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

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

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

**Q11: How do I vote?**

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

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

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

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

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

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

**Q14: What constitutes a quorum?**

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

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

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

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

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

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

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

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

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

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

important, so please act today.

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

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

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## SUMMARY

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

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

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

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

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

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

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

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

**The Combination (page 29)**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

significant synergies and cost savings;

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

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

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

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

a highly skilled and experienced management team.

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

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

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

the share issuance proposal;

the charter amendment adjournment proposal;

the share issuance adjournment proposal; and

the combination,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**No Dissenters Rights (page 61)**

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

**The Combination Agreement (page 66)**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

by either Inco or Phelps Dodge, if:

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

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

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

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

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

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





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

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

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

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

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

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

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

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



**SELECTED HISTORICAL FINANCIAL DATA OF PHELPS DODGE**

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

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

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

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

cumulative effect of accounting  
changes\*\*\*

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

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

Copper sales from own  
mines (consolidated basis  
thousand tons)

Copper sales from own mines (pro rata basis thousand tons)	510.8	535.9	1,051.6	1,089.1	1,052.6	1,034.5	1,156.0
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COMEX copper price (per pound)(h)	\$ 2.814	1.50	1.68	1.29	0.81	0.72	0.73
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LME copper price (per pound)(i)	\$ 2.756	1.51	1.67	1.30	0.81	0.71	0.72
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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
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Stockpiles and in-process inventories	1.8	1.8	1.5	1.6	1.6	1.4	0.9
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			19.2	24.8	21.1	21.0	23.0
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