

INCO LTD  
Form 10-Q  
May 10, 2006

Table of Contents

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

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the quarterly period ended: March 31, 2006**

**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 M5H 4B7\***

*(Address of principal executive offices, including zip code)*

**(416) 361-7511**

*(Telephone number)*

The Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the "Act") during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

The Registrant is an accelerated filer (as defined in Rule 12b-2 under the Act).

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Unless otherwise stated, dollar amounts in this Report are expressed in United States currency.

Common Shares outstanding at March 31, 2006: 193,406,249 shares, no par value.

\* Notices and communications from the Securities and Exchange Commission may be sent to S.A. Fish, Executive Vice-President, General Counsel and Secretary, 145 King Street West, Suite 1500, Toronto, Ontario M5H 4B7. His telephone number is (416) 361-7774.

## TABLE OF CONTENTS

	Page No.
<b><u>PART I FINANCIAL INFORMATION</u></b>	2
<u>Item 1.</u> <u>Financial Statements (Unaudited) Inco Limited and Subsidiaries</u>	2
<u>Consolidated Statement of Earnings (Unaudited) Three Months Ended March 31,</u>	
<u>2006 and 2005</u>	2
<u>Consolidated Statement of Retained Earnings (Unaudited) Three Months Ended</u>	
<u>March 31, 2006 and 2005</u>	3
<u>Consolidated Balance Sheet (Unaudited) March 31, 2006 and December 31, 2005</u>	4
<u>Consolidated Statements of Cash Flows (Unaudited) Three Months Ended</u>	
<u>March 31, 2006 and 2005</u>	5
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	6
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results</u>	
<u>of Operations</u>	18
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risks</u>	28
<u>Item 4.</u> <u>Controls and Procedures</u>	29
 <b><u>PART II OTHER INFORMATION</u></b>	
 <u>Item 6.</u> <u>Exhibits</u>	30
31.1.      Certification of the Chief Executive Officer of the Registrant pursuant to	
Rule 13a-14(a) of the U.S. Securities Exchange Act of 1934, as amended	
31.2.      Certification of the Chief Financial Officer of the Registrant pursuant to	
Rule 13a-14(a) of the U.S. Securities Exchange Act of 1934, as amended	
Certification of the Chief Executive Officer and Chief Financial Officer of	
the Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to	
32.1.      Section 906 of the Sarbanes-Oxley Act of 2002	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

**INCO LIMITED AND SUBSIDIARIES**  
**Consolidated Statement of Earnings**  
**(Unaudited)**

	Three Months Ended March 31,	
	2006	2005
		(Restated)
(in millions of United States dollars except per share amounts)		
Net sales	\$ 1,211	\$ 1,121
Costs and operating expenses		
Cost of sales and other expenses, excluding depreciation and depletion	733	603
Depreciation and depletion	68	61
Selling, general and administrative	47	43
Research and development	8	7
Exploration	15	9
Currency translation adjustments	(3)	(5)
Interest expense	18	7
	886	725
Other income, net (Note 3)	8	1
Earnings before income and mining taxes and minority interest	333	397
Income and mining taxes (Note 4)	113	83
Earnings before minority interest	220	314
Minority interest	18	(3)
Net earnings	\$ 202	\$ 317
Net earnings per common share (Note 7)		
Basic	\$ 1.05	\$ 1.68
Diluted	\$ 0.91	\$ 1.43

See Notes to Consolidated Financial Statements.

**Table of Contents**

**INCO LIMITED AND SUBSIDIARIES**  
**Consolidated Statement of Retained Earnings**  
**(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
		<b>(Restated)</b>
<b>(in millions of United States dollars)</b>		
Retained earnings at beginning of period, as previously reported	\$ 1,181	\$ 390
Restatements (Note 2)		38
Retained earnings at beginning of year, as restated	1,181	428
Net earnings	202	317
Common dividends paid \$0.125 per share	(24)	
Retained earnings at end of period	\$ 1,359	\$ 745

See Notes to Consolidated Financial Statements.

Table of Contents

**INCO LIMITED AND SUBSIDIARIES**  
**Consolidated Balance Sheet**  
**(Unaudited)**

	March 31, 2006	December 31, 2005
<b>(in millions of United States dollars)</b>		
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 13)	\$ 751	\$ 958
Accounts receivable	734	673
Inventories (Note 13)	1,105	996
Other	86	68
Total current assets	2,676	2,695
Property, plant and equipment (Note 13)	8,676	8,459
Accrued pension benefits asset	633	611
Deferred charges and other assets	266	245
Total assets	\$ 12,251	\$ 12,010
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Long-term debt due within one year	\$ 75	\$ 122
Accounts payable	310	253
Accrued payrolls and benefits	210	221
Other accrued liabilities	524	533
Income and mining taxes payable	88	36
Total current liabilities	1,207	1,165
<b>Deferred credits and other liabilities</b>		
Long-term debt	1,840	1,852
Deferred income and mining taxes	2,018	2,018
Accrued post-retirement benefits liability	744	732
Asset retirement obligation (Note 6)	169	168
Deferred credits and other liabilities	122	131
Total liabilities	6,100	6,066
<b>Minority interest</b>	768	761
<b>Commitments and contingencies (Note 11)</b>		
<b>Shareholders' equity</b>		
Convertible debt (Note 9)	351	362
Common shareholders' equity	3,034	3,000

Edgar Filing: INCO LTD - Form 10-Q

Common shares issued and outstanding 193,406,249 (2005 192,237,394 shares) (Note 7)		
Warrants (Note 10)	62	62
Contributed surplus (Note 14)	577	578
Retained earnings	1,359	1,181
	5,032	4,821
Total shareholders' equity	5,383	5,183
Total liabilities and shareholders' equity	\$ 12,251	\$ 12,010

See Notes to Consolidated Financial Statements.

Table of Contents

**INCO LIMITED AND SUBSIDIARIES**  
**Consolidated Statement of Cash Flows**  
**(Unaudited)**

	Three Months Ended March 31,	
	2006	2005
	(Restated)	
(in millions of United States dollars)		
Operating activities		
Earnings before minority interest	\$ 220	\$ 314
Items not affecting cash		
Depreciation and depletion	68	61
Deferred income and mining taxes	17	(5)
Other	8	12
Contributions greater than post-retirement benefits expense	(10)	(14)
Decrease (increase) in non-cash working capital related to operations		
Accounts receivable	(61)	(12)
Inventories	(60)	(56)
Accounts payable and accrued liabilities	(12)	43
Income and mining taxes payable	55	(225)
Other	(23)	(27)
Net cash provided by operating activities	202	91
Investing activities		
Capital expenditures	(337)	(226)
Other	(1)	
Net cash used for investing activities	(338)	(226)
Financing activities		
Repayments of long-term debt	(56)	(48)
Long-term borrowings		16
Common shares issued	10	20
Common dividends paid	(24)	
Dividends paid to minority interest	(1)	(1)
Net cash used for financing activities	(71)	(13)
Net decrease in cash and cash equivalents	(207)	(148)
Cash and cash equivalents at beginning of period	958	1,076
Cash and cash equivalents at end of period	\$ 751	\$ 928

See Notes to Consolidated Financial Statements.





Table of Contents

**INCO LIMITED AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements**  
**(Unaudited)**

(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

**Note 1. Basis of Presentation**

These unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada (see Note 15 for significant differences between Canadian GAAP and United States GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments considered necessary for a fair presentation of results for the periods reported have been included. These adjustments consist only of normal recurring adjustments. Results of operations for the three-month period ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006 or any other interim period. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2005.

**Note 2. Changes in Accounting Policies and Restatements*****Earnings Per Share***

We adopted the Canadian Institute of Chartered Accountants Emerging Issues Committee Abstract No. 155, *The Effects of Contingently Convertible Instruments on the Computation of Diluted Earnings per Share*, on a retroactive basis. The new abstract, which was effective for interim and annual periods beginning after October 1, 2005, requires that the effects of contingently convertible instruments be included in the computation of diluted earnings per share regardless of whether the market price trigger has been met. There was no impact of adoption on 2005 first quarter earnings per share as the market price triggers on our contingently convertible debt were met for this period and thus the contingently convertible instruments were already included in the computation of diluted earnings per share.

***Restatements***

Effective January 1, 2005, on a retroactive basis, we restated our minority interest and related current deferred income taxes to correct an error in the allocation of net earnings to minority interests. The impact on net earnings for the first quarter of 2005 was an increase of \$4 million, or 2 cents per share. The cumulative adjustment to retained earnings to December 31, 2004 was an increase of \$38 million.

**Note 3. Other Income, net**

Other income, net is comprised of the following:

	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
Interest and dividend income	\$ 7	\$ 7
Loss from affiliates accounted for using the equity method		(1)
Net gain from derivative positions	2	
Other	(1)	(5)
Other income, net	\$ 8	\$ 1

Table of Contents

**INCO LIMITED AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 4. Income and Mining Taxes**

The reconciliation between taxes at the combined federal-provincial statutory income tax rate in Canada and the effective income and mining tax rates was as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
		<b>(Restated)</b>
Provision at combined Canadian federal-provincial statutory income tax rate	\$ 122	\$ 154
Resource and depletion allowances	(17)	(17)
Adjusted income taxes	105	137
Mining taxes	22	15
	127	152
Currency translation adjustments	(6)	(4)
Currency translation adjustments on long-term debt	(1)	(2)
Non-taxable (gains) losses	4	(11)
Foreign tax rate differences	(7)	(13)
Adjustment of prior year tax issues and tax rate changes	(2)	(42)
Other	(2)	3
Income and mining taxes	\$ 113	\$ 83

**Note 5. Post-retirement Benefits**

Employer contributions in respect of our defined benefit plans during the first quarter of 2006 were \$46 million (2005: \$46 million). For the year ending December 31, 2006, we currently expect that such employer contributions will amount to approximately \$180 million.

Post-retirement benefits expense included the following components:

	Pension Benefits		Post-retirement Benefits Other than Pensions	
	Three Months Ended March 31,			
	2006	2005	2006	2005
Service cost	\$ 12	\$ 10	\$ 3	\$ 2
Interest cost	42	41	15	14
Expected return on plan assets	(49)	(44)		
Amortization of net actuarial and investment losses	19	16	6	4
Amortization of unrecognized prior service costs	4	3		

Defined benefit pension and post-retirement benefits other than pensions expense	28	26	24	20
Defined contribution pension expense	1	1		
Post-retirement benefits expense	\$ 29	\$ 27	\$ 24	\$ 20

Table of Contents

**INCO LIMITED AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**

**Note 6. Asset Retirement Obligation**

The following table shows the movement in the liability for our asset retirement obligation:

	<b>Amount</b>
<i>December 31, 2005</i>	\$ 171
Accretion expense	2
Liabilities settled	(1)
<i>March 31, 2006</i>	172
Current portion of asset retirement obligation	(3)
Long-term portion of asset retirement obligation	\$ 169

The balance at December 31, 2005 includes a current portion of \$3 million.

**Note 7. Common Shares and Earnings per Common Share**

We are authorized to issue an unlimited number of Common Shares without nominal or par value. Changes in Common Shares were as follows:

	<b>Number of Shares</b>	<b>Amount</b>
<i>December 31, 2005</i>	192,237,394	\$ 3,000
Options exercised	304,472	10
Warrants exercised	5,026	
Shares issued under incentive plans	56,769	3
Shares issued on conversion of LYON Notes	802,588	19
Transfer from accrued liabilities in respect of stock appreciation rights exercised		2
<i>March 31, 2006</i>	193,406,249	\$ 3,034

**Table of Contents**

**INCO LIMITED AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

The computation of basic and diluted earnings per share was as follows:

&nbs