

INCO LTD
Form 10-Q/A
August 10, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

x

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

For the quarterly period ended: March 31, 2004

Commission File Number 1-1143

INCO LIMITED

(Name of Registrant as specified in its charter)

Canada

98-0000676

(Jurisdiction of Incorporation)

(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).

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

Common Shares outstanding at March 31, 2004: 187,415,808 shares, no par value.

*Notices and communications from the Securities and Exchange Commission may be sent to S.F. Feiner, Executive Vice-President, General Counsel and Secretary, 145 King Street West, Suite 1500, Toronto, Ontario M5H 4B7. His telephone number is (416) 361-7680.

INCO LIMITED

Explanatory Note

Inco Limited (Inco or the Company) is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the period ended March 31, 2004 (Originally Filed First Quarter 2004 10-Q), which was originally filed with the Securities and Exchange Commission (SEC) on May 10, 2004, to amend a note to the Company s consolidated financial statements, Note 14, Significant differences between Canadian and United States GAAP , included in Item 1, Financial Statements . The amendments reflect the restatement of certain financial information under United States generally accepted accounting principles (GAAP) based upon a revision in accounting treatment made by the Company in the second quarter of 2004 to correct an error under United States GAAP with respect to the treatment of unrealized non-cash currency translation gains and losses in relation to the Company s Voisey s Bay deferred income and mining tax liabilities. While the revision relates only to certain parts of such Note 14, in compliance with the requirements of Rule 12b-15 under the Securities Exchange Act of 1934 the Company has included in this Amendment No. 1 the full text of Item 1, as amended. For a description of the restatements, reference is made to part (f) in Note 14 to the Company s consolidated financial statements herein. The revision in accounting treatment for unrealized non-cash currency translation gains and losses with respect to the Company s Voisey s Bay deferred income and mining tax liabilities for United States GAAP purposes made by the Company in the second quarter of 2004 has the effect of recognizing in earnings, rather than deferring, as a component of property, plant and equipment, the unrealized non-cash currency translation gains or losses with respect to such deferred income and mining tax liabilities. This revision has had no effect on the cash flows of the Company for any period.

The revision in accounting treatment under United States GAAP has had no effect on the Company s primary financial statements and related notes prepared in accordance with Canadian GAAP since the policy of deferring unrealized non-cash currency translation gains and losses with respect to the Company s Voisey s Bay deferred income and mining tax liabilities is in accordance with Canadian GAAP.

As a result of this revision, under United States GAAP for the quarter ended (1) March 31, 2004 the Company had restated net earnings of \$261 million, compared with net earnings of \$245 million before this revision and resulting restatement and (2) March 31, 2003 the Company had a restated net loss of \$55 million, compared with net earnings of \$14 million before this revision and resulting restatement. Corresponding restatements have been made to the Company s property, plant and equipment and retained earnings (deficit) for the applicable periods covered in Note 14 to the Company s consolidated financial statements. This revision in accounting treatment under United States GAAP affects our results under United States GAAP for the quarterly periods of each of the comparative periods reported, with the effects (which are quantified for the quarters in 2003 and certain prior years in Note 23(r) to the Company s consolidated financial statements included in Amendment No. 1 to the Company s Annual Report on Form 10-K for the year ended December 31, 2003) varying on a quarter-to-quarter basis depending principally upon the Canadian dollar to United States dollar exchange rate at the end of the applicable quarter.

This Amendment No. 1 amends and restates Item 1 of the Company s consolidated financial statements included in the Originally Filed First Quarter 2004 10-Q. The explanatory note at the beginning of Item 1 set forth in this Amendment No. 1 describes the nature of the changes made to Note 14 to the Company s consolidated financial statements.

The other items of the Originally Filed First Quarter 2004 10-Q have not been repeated in this Amendment No. 1.

For a discussion of events and developments relating to the Company subsequent to March 31, 2004, please refer to the following items, which are not being incorporated by reference into this Amendment No. 1:

Our Quarterly Reports on Form 10-Q filed with the SEC on or subsequent to May 10, 2004;

Our Current Reports on Form 8-K filed with or furnished to the SEC subsequent to March 31, 2004.

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Other than the foregoing items related thereto, this Amendment No. 1 does not amend, update or restate any other items or sections of the Originally Filed First Quarter 2004 10-Q. The filing of this Amendment No. 1 should not be understood to mean that any other statements contained in the Originally Filed First Quarter 2004 10-Q as amended are true or complete as of any date subsequent to May 10, 2004, the date of the filing with the SEC of the Originally Filed First Quarter 2004 10-Q. Investors should not rely upon this amendment as a reaffirmation or reiteration of any forward-looking statements set forth in the Originally Filed First Quarter 2004 10-Q.

Definitions: Unless the context otherwise requires, all references in this Amendment No. 1 to Inco or the Company include all of its consolidated subsidiaries, unincorporated units and divisions.

Item 1. Financial Statements

Note Explaining Amendments to Note 14 to the Company's Consolidated Financial Statements Note 14 to the Company's consolidated financial statements has been revised to reflect the revision in the accounting treatment for United States GAAP of unrealized non-cash currency translation gains and losses relating to the Voisey's Bay deferred income and mining tax liabilities and the restatement of related balances. Accordingly, the amendments made relate principally to (1) the first table in this Note which reconciles results as reported under Canadian GAAP with those that would have been reported under United States GAAP, (2) the addition of a new part (f) which provides an explanation of this revision, the United States GAAP difference, and resulting restatements and (3) changes to the table under Supplemental information. As a result of the addition of a new part (f) to Note 14, all succeeding parts of Note 14 (originally parts (f) (h)) have been relettered as parts (g) (i).

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

Three Months Ended March 31, (in millions of United States dollars except per share amounts)	2004	2003 (Restated)
Revenues		
Net sales	\$ 1,094	\$ 593
Other income, net (Note 3)	5	28
	<u>1,099</u>	<u>621</u>
Costs and expenses (income)		
Cost of sales and other expenses, excluding depreciation and depletion	557	419
Depreciation and depletion	57	54
Selling, general and administrative	34	24
Research and development	9	5
Exploration	6	6
Currency translation adjustments	(15)	78
Interest expense	8	14
Goro project suspension	(6)	
	<u>650</u>	<u>600</u>
Earnings before income and mining taxes and minority interest	449	21
Income and mining taxes (Note 4)	160	(23)
Earnings before minority interest	289	44
Minority interest	34	11
Net earnings	255	33
Accretion of convertible debt, net of tax (Note 8)	(2)	(2)
Dividends on preferred shares		(6)
Premium on redemption of preferred shares		(15)
Net earnings applicable to common shares	<u>\$ 253</u>	<u>\$ 10</u>
Net earnings per common share (Note 7)		
Basic	<u>\$ 1.35</u>	<u>\$ 0.06</u>

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Diluted

\$ 1.26

\$0.05

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See Notes to Consolidated Financial Statements.

Consolidated Statement of Retained Earnings (Deficit)

(Unaudited)

Three months ended March 31, (in millions of United States dollars)	2004	2003 (Restated)
Deficit at beginning of period, as previously reported	\$(226)	\$(335)
Change in accounting policy (Note 2)	20	4
Deficit at beginning of year	(206)	(331)
Net earnings	255	33
Accretion of convertible debt, net of tax (Note 8)	(2)	(2)
Dividends on preferred shares		(6)
Premium on redemption of preferred shares		(15)
Retained earnings (deficit) at end of period	\$ 47	\$(321)

See Notes to Consolidated Financial Statements.

INCO LIMITED AND SUBSIDIARIES

Consolidated Balance Sheet

(Unaudited)

(in millions of United States dollars)	March 31, 2004	December 31, 2003 (Restated)
ASSETS		
Current assets		
Cash and cash equivalents (Note 12)	\$ 596	\$ 418
Accounts receivable	494	435
Inventories (Note 12)	843	746
Other	148	112
	<u> </u>	<u> </u>
Total current assets	2,081	1,711
Property, plant and equipment (Note 12)	7,072	7,033
Deferred charges and other assets	329	319
	<u> </u>	<u> </u>
Total assets	\$9,482	\$9,063
	<u> </u>	<u> </u>
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Long-term debt due within one year	\$ 101	\$ 103
Accounts payable	287	253
Accrued payrolls and benefits	166	165
Other accrued liabilities	309	332
Income and mining taxes payable	195	27
	<u> </u>	<u> </u>
Total current liabilities	1,058	880
Deferred credits and other liabilities		
Long-term debt	1,367	1,409
Deferred income and mining taxes	1,703	1,706
Post-retirement benefits	604	603
Asset retirement obligation (Note 6)	142	141
Minority interest	453	442
	<u> </u>	<u> </u>
Total liabilities	5,327	5,181
	<u> </u>	<u> </u>
Commitments and contingencies (Note 10)		
Shareholders equity		
Convertible debt (Note 8)	609	606
	<u> </u>	<u> </u>
Common shareholders equity		
Common shares issued and outstanding 187,415,808 (2003 186,915,865 shares) (Note 7)	2,872	2,858
Warrants (Note 9)	62	62
Contributed surplus (Note 13)	565	562
Retained earnings (deficit)	47	(206)
	<u> </u>	<u> </u>
	3,546	3,276
	<u> </u>	<u> </u>

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Total shareholders' equity	<u>4,155</u>	<u>3,882</u>
Total liabilities and shareholders' equity	<u>\$9,482</u>	<u>\$9,063</u>

See Notes to Consolidated Financial Statements.

INCO LIMITED AND SUBSIDIARIES

Consolidated Statement of Cash Flows

(Unaudited)

Three Months Ended March 31, (in millions of United States dollars)	2004	2003 (Restated)
Operating activities		
Earnings before minority interest	\$ 289	\$ 44
Charges not affecting cash		
Depreciation and depletion	57	54
Deferred income and mining taxes	16	20
Other	3	32
Decrease (increase) in non-cash working capital related to operations		
Accounts receivable	(59)	(70)
Inventories	(97)	(20)
Accounts payable and accrued liabilities	42	(41)
Income and mining taxes payable	168	(121)
Other	(34)	(9)
Other	(5)	13
	<u>380</u>	<u>(98)</u>
Investing activities		
Capital expenditures	(139)	(163)
Other	(28)	(1)
	<u>(167)</u>	<u>(164)</u>
Financing activities		
Repayments of long-term debt	(46)	(46)
Convertible debt issued		470
Common shares issued	12	4
Preferred dividends paid		(6)
Dividends paid to minority interest	(1)	(1)
	<u>(35)</u>	<u>421</u>
Net increase in cash and cash equivalents	178	159
Cash and cash equivalents at beginning of period	418	1,087
	<u>596</u>	<u>1,246</u>
Cash and cash equivalents at end of period	<u>\$ 596</u>	<u>\$ 1,246</u>

See Notes to Consolidated Financial Statements.

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

The unaudited consolidated financial statements presented herein have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada (see Note 14 for significant differences between Canadian and United States GAAP) for interim financial information and in accordance 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, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004 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 2003 Annual Report on Form 10-K for the year ended December 31, 2003 (2003 Annual Report on Form 10-K).

Note 2. Changes in Accounting Policies

(a) Depreciation and depletion expense

In the first quarter of 2004, effective January 1, 2004, on a retroactive basis we changed the method in which we calculate depreciation and depletion expense. Under the previous method, we depleted mine development costs on a composite basis. Total historical capitalized costs and estimated future development costs relating to our developed and undeveloped estimated proven and probable ore reserves were depleted using the unit-of-production method based on total developed and undeveloped estimated proven and probable ore reserves in our twenty-year plan. Under the revised method, depletion of the deferred mine development costs is calculated on a unit-of-production basis over the estimated proven and probable ore reserves which relate to the particular category of development, either life of mine plan or area-specific. No future development costs are taken into account in calculating the depletion charge. In addition, the depreciation method covering certain other assets of our 61 per cent owned subsidiary, PT International Nickel Indonesia Tbk (PT Inco), has been changed to a straight line basis to conform the depreciation method used to the depreciation methods generally used for similar assets in other company locations.

Adoption of this change in accounting policy also removes a significant difference between Canadian GAAP and United States GAAP. The impact of this change on first quarter 2004 depreciation and depletion expense was a reduction of \$15 million in such expense in the first quarter of 2004 compared with what that expense would have been based upon the previous methodology we used for Canadian GAAP (a reduction of \$9 million for the first quarter of 2003).

Reference is made to Note 23(b) of our consolidated financial statements set forth in our 2003 Annual Report on Form 10-K for a more complete description of this method of calculating depreciation and depletion expense.

(b) Generally accepted accounting principles

Effective January 1, 2004, we adopted Canadian Institute of Chartered Accountants (CICA) section 1100, *Generally Accepted Accounting Principles*. CICA 1100 describes what constitutes Canadian GAAP and its sources. Adoption of this guideline did not have a significant impact on our results of operations or financial condition.

(c) Hedging Relationships

Effective January 1, 2004, we adopted a new accounting guideline issued by the CICA in respect of hedging relationships which provides guidance concerning documentation and effectiveness testing for derivative contracts. Adoption of this guideline did not have a significant impact on our results of operations or financial condition for the first quarter of 2004.

(d) Stock-based compensation

Effective January 1, 2003, we changed our accounting for stock options from the intrinsic value method to one that recognizes as an expense the cost of stock-based compensation based on the estimated fair value of new stock options granted to employees in 2003 and in future years. The fair value of each stock option granted is estimated on the date of the grant using an option-pricing model. As a result of this change in accounting policy, which was applied prospectively, an expense of \$3 million was recorded in the first three months of 2004 (2003: \$1 million) to reflect the fair value of stock options, including their applicable vesting periods, granted to employees in 2003 and 2004.

(e) Impairment of long-lived assets

Effective January 1, 2003, we adopted a new accounting standard of the CICA in respect of the impairment or disposal of long-lived assets. The new standard requires that a fair value determination be made for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and broadens the presentation of discontinued operations to include more disposal transactions. The initial adoption of the new standard had no impact on our results of operations or financial condition.

(f) Asset retirement obligations

Effective January 1, 2003, we adopted a new accounting standard of the CICA relating to asset retirement obligations. This standard significantly changed the method of accounting for asset retirement obligation costs. Under this new standard, asset retirement obligations are recognized when incurred and recorded as liabilities at fair value. The liability is accreted over time through periodic charges to earnings. In addition, the asset retirement cost is capitalized as part of the asset's carrying value and depreciated over the asset's useful life. This change in accounting policy was applied retroactively and, accordingly, the consolidated financial statements of prior periods were restated.

Note 3. Other income, net

Other income, net is comprised of the following:

Three Months Ended March 31,	2004	2003
Interest and dividend income	\$ 3	\$ 4
Earnings from affiliates accounted for using the equity method	3	
Losses from derivative positions in metals	(4)	
Gains from sales of securities and other assets		19
Gain from closure of ineffective derivative contracts		11
Other	3	(6)
	<u> </u>	<u> </u>
Other income, net	\$ 5	\$ 28
	<u> </u>	<u> </u>

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:

Three Months Ended March 31,	2004	2003 (Restated)
Provision at combined Canadian federal-provincial statutory income tax rate	\$ 179	\$ 8
Resource and depletion allowances	(24)	(3)
Adjusted income taxes	155	5
Mining taxes	24	2
	179	7
Currency translation adjustments	(6)	27
Currency translation adjustments on long-term debt	(5)	
Non-deductible losses	(4)	(13)
Prior year adjustments	9	(38)
Foreign tax rate differences	(18)	(4)
Other	5	(2)
Effective income and mining taxes	\$ 160	\$ (23)

Note 5. Post-retirement benefit obligations

Employer contributions in respect of our defined benefit plans during the first three months of 2004 was \$37 million (2003: \$17 million). For the year ending December 31, 2004, we currently expect that employer contributions and defined benefit pension expense will amount to approximately \$160 million and \$112 million, respectively.

Post-retirement benefits expense included the following components:

Three Months Ended March 31,	Pension benefits		Post-retirement benefits other than pensions	
	2004	2003	2004	2003
Service cost	\$ 10	\$ 7	\$ 2	\$ 2
Interest cost	39	36	13	11
Expected return on plan assets	(42)	(38)		
Amortization of actuarial and investment losses	15	15	3	3
Amortization of unrecognized prior service costs	4	4		
Defined benefit pension and post-retirement benefits other than pensions expense	26	24	18	16
Defined contribution pension expense	1	1		
Post-retirement benefits expense	\$ 27	\$ 25	\$ 18	\$ 16

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Note 6. Asset retirement obligations

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

	<u>Amount</u>
<i>December 31, 2003</i>	\$ 141
Accretion expense	2
Liabilities settled	(1)
	<u> </u>
<i>March 31, 2004</i>	\$ 142
	<u> </u>

Note 7. Common Shares and Earnings per Common Share

Basic earnings per Common Share is computed by dividing net earnings applicable to Common Shares by the weighted-average number of Common Shares issued and outstanding for the relevant period. Diluted earnings per Common Share is computed by dividing net earnings applicable to Common Shares, as adjusted for the effect of dilutive convertible debt using the if-converted method, by the sum of the weighted-average number of Common Shares issued and outstanding and all additional Common Shares that would have been outstanding if potentially dilutive Common Shares had been issued.

We are authorized to issue an unlimited number of Common Shares without nominal or par value. Changes in Common Shares were as follows for the period ended March 31, 2004:

	<u>Number of shares</u>	<u>Amount</u>
<i>December 31, 2003</i>	186,915,865	\$2,858
Options exercised	459,200	12
Warrants exercised	878	
Shares issued under incentive plans	39,865	2
	<u> </u>	<u> </u>
<i>March 31, 2004</i>	187,415,808	\$2,872
	<u> </u>	<u> </u>

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

Three Months Ended March 31,	2004	2003 (Restated)
Basic earnings per share computation		
Numerator:		
Net earnings	\$ 255	\$ 33
Dividends on preferred shares		(6)
Accretion of convertible debt	(2)	(2)
Premium on redemption of preferred shares		(15)
	<u> </u>	<u> </u>
Net earnings applicable to common shares	\$ 253	\$ 10
	<u> </u>	<u> </u>
Denominator:		
Weighted-average common shares outstanding (in thousands)	187,222	183,436
	<u> </u>	<u> </u>
Basic earnings per common share	\$ 1.35	\$ 0.06
	<u> </u>	<u> </u>
Diluted earnings per share computation		
Numerator:		
Net earnings applicable to common shares	\$ 253	\$ 10
Dilutive effect of:		
Convertible debt	1	
	<u> </u>	<u> </u>
Net earnings applicable to common shares, assuming dilution	\$ 254	\$ 10
	<u> </u>	<u> </u>
Denominator:		
Weighted-average common shares outstanding (in thousands)	187,222	183,436
Dilutive effect of:		
Convertible debt	8,731	
Stock options	4,156	1,486
Warrants	1,540	604
	<u> </u>	<u> </u>
Weighted-average common shares outstanding, assuming dilution (in thousands)	201,649	185,526
	<u> </u>	<u> </u>
Diluted earnings per common share	\$ 1.26	\$ 0.05
	<u> </u>	<u> </u>

Note 8. Convertible debt

Changes in convertible debt were as follows:

	LYON Notes	Convertible Debentures	Subordinated Convertible Debentures	Total
<i>December 31, 2003</i>	\$247	\$233	\$126	\$606
Accretion of convertible debt	2	1		3
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<i>March 31, 2004</i>	\$249	\$234	\$126	\$609
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Note 9. Warrants

Changes in warrants were as follows:

	Number of warrants	Amount
<i>December 31, 2003</i>	11,023,064	\$ 62
Warrants exercised	(878)	—
<i>March 31, 2004</i>	11,022,186	\$ 62

Note 10. Commitments and contingencies**(a) Commitments**

The following table summarizes as of March 31, 2004 certain of our long-term contractual obligations and commercial commitments for each of the next five years and thereafter:

	Payments due in					
	2004	2005	2006	2007	2008	Thereafter
Purchase obligations(1)	\$ 343	\$ 71	\$ 5	\$ 4	\$ 4	\$ 88
Operating leases	26	25	18	12	3	4
Other	1	2	2	3	3	97
Total	\$ 370	\$ 98	\$ 25	\$ 19	\$ 10	\$ 189

- (1) These purchase obligations largely relate to the Goro and Voisey's Bay projects with the balance comprising routine orders to purchase goods and services at current operating locations.

(b) Contingencies

In the course of our operations, we and our subsidiaries are subject to routine claims and litigation incidental to the business conducted by us and them, to various environmental proceedings, and to other litigation related to these businesses. With respect to the environmental proceedings currently pending or threatened against us, they include (1) a proceeding brought under the Ontario class action legislation covering claims relating to the alleged decline in property values in a community where we had operated a nickel refinery over the 1918–1984 period, (2) claims for personal injury, (3) enforcement actions, (4) alleged violations of, including exceeding regulatory limits relating to discharges under, certain environmental or similar laws and regulations applicable to our operations in Canada and elsewhere and (5) certain claims dating back a number of years in which one of our subsidiaries was designated, under the United States federal environmental law known as Superfund or CERCLA, as a potentially responsible party. We believe that the ultimate resolution of such proceedings, claims and litigation will not significantly impair our operations or have a material adverse effect on our financial condition or results of operations.

We currently expect to be in a position by late May 2004 to provide an update through a conference call with the investment community on the status and key preliminary findings to date of the second phase, or Phase Two, of the Goro project comprehensive review. This review had been initiated following our decision to suspend work on this project in December 2002. This update covering Phase Two of the review is expected to include a revised capital cost estimate for the project in the plus or minus 25 per cent range, as well as an indication of what an updated project schedule would likely be, including when we would expect project commissioning would begin and when the project would

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initially start up if and when a decision to proceed is made. We currently expect to be in a position to announce our decision on whether we will proceed with the project shortly after Phase Two of the review is completed, which completion is currently anticipated to be in the late summer of 2004.

We currently believe that, based upon the work undertaken as part of the Phase Two review on certain potential new approaches to construction of that project, including the process plant layout, and expected

changes to certain of the equipment required for the process to be used to produce nickel and cobalt from the project, once we have identified those assets that would be impaired as a result of these changes we will be required to take additional non-cash charges beyond the \$62 million of pre-tax non-cash charges taken in the fourth quarter of 2002 and that the level of these additional non-cash charges could have a material adverse effect on our results of operations for 2004. An estimate of such non-cash charges cannot currently be made. As of March 31, 2004, we had spent approximately \$626 million on the Goro project since July 1, 2001 when the project was formally launched. This amount excludes a current estimate of approximately \$39 million that would still have to be spent for equipment, services and other requirements under existing contracts and commitments, and accruals of approximately \$24 million relating to such requirements as of March 31, 2004.

Note 11. Segment Information

We are a leading producer of nickel and an important producer of copper, precious metals and cobalt. Our operations consist of the finished products segment, which comprises the mining and processing operations in Ontario and Manitoba, Canada, and refining operations in the United Kingdom and interests in refining operations in Japan and other Asian countries, and the intermediates segment, which comprises the mining and processing operations in Indonesia, where nickel-in-matte, an intermediate product, is produced and sold primarily into the Japanese market. In addition, we hold mineral claims and licenses for development projects which include our Voisey's Bay nickel-copper-cobalt project under development in the Province of Newfoundland and Labrador and our Goro nickel-cobalt project in the French overseas territorial community (collectivité territoriale) of New Caledonia.

Data by operating segments as of and for the period indicated was as follows:

Three Months Ended March 31,	Finished Products		Intermediates		Development Projects		Eliminations		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
		(Restated)		(Restated)						(Restated)
Net sales to customers	1,056	578	38	15					1,094	593
Intersegment sales			154	72			(154)	(72)		
Net sales	1,056	578	192	87			(154)	(72)	1,094	593
Earnings (loss) before income and mining taxes and minority interest by segment	368	74	118	31	(4)		(25)	(8)	457	97
Expenses (income) not specifically allocable to segments:										
Corporate selling, general and administrative expenses									20	12
Currency translation adjustments									(15)	78
Interest expense									8	14
Other income, net									(5)	(28)
Earnings before income and mining taxes and minority interest									449	21
Identifiable assets at March 31, 2004 and December 31, 2003	2,703	2,496	1,410	1,387	4,711	4,648	(71)	(46)	8,753	8,485
Other assets									729	578
Total assets at March 31, 2004 and December 31, 2003									9,482	9,063

Note 12. Supplemental information

The following represents certain supplemental information in connection with the Consolidated Balance Sheet:

	March 31, 2004	December 31, 2003
Cash	\$ 54	\$ 42
Cash equivalents	542	376
Cash and cash equivalents	<u>\$ 596</u>	<u>\$ 418</u>
Finished metals	\$ 234	\$ 193
In-process metals	530	478
Supplies	79	75
Inventories	<u>\$ 843</u>	<u>\$ 746</u>
		(Restated)
Property, plant and equipment, at cost	\$ 11,598	\$ 11,502
Accumulated depreciation and depletion	4,526	4,469
Property, plant and equipment, net	<u>\$ 7,072</u>	<u>\$ 7,033</u>

Note 13. Stock compensation plans

For the three months ended March 31, 2004, an expense of \$3 million (2003: \$1 million) was charged to earnings with an equivalent offset credited to contributed surplus to reflect the fair value of stock options granted to employees in 2003 and 2004. The fair value of each stock option granted is estimated on the date of grant using an option pricing model with the following assumptions:

	2004	2003
Stock price at grant date	\$ 36.40	\$ 20.85
Exercise price	\$ 36.40	\$ 20.85
Weighted-average fair value of options granted during the period	\$ 10.37	\$ 6.29
Expected life of options (years)	3.4	3
Expected dividend yield	%	%
Expected stock price volatility	35.0%	41.1%
Risk-free interest rate	2.5%	2.1%

Note 14. Significant differences between Canadian and United States GAAP

Our consolidated financial statements are prepared in accordance with Canadian GAAP. The differences between Canadian and United States GAAP, insofar as they affect our consolidated financial statements, relate to accounting for post-retirement benefits, intangible assets, research and development, exploration, convertible debt, derivative instruments, investments certain currency translation gains and losses, income and mining taxes and reporting of comprehensive income. As noted in (b), (f) and under Depreciation and depletion expense below, certain figures have been restated for 2003.

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The following table reconciles results as reported under Canadian GAAP with those that would have been reported under United States GAAP:

Three Months Ended March 31,	2004 (Restated)	2003 (Restated)
Net earnings Canadian GAAP	\$ 255	\$ 33
Increased post-retirement benefits expense(a)	(10)	(5)
Increased research and development expense(b)	(2)	(1)
Increased exploration expense(c)	(1)	
Increased interest expense(d)	(6)	(2)
Unrealized net gain on derivative instruments(e)	3	5
Unrealized currency translation gains (losses) on Voisey's Bay project deferred income and mining tax liabilities(f)	16	(69)
Taxes on United States GAAP differences	6	1
	<u> </u>	<u> </u>
Net earnings (loss) before cumulative effect of a change in accounting principle United States GAAP	261	(38)
Cumulative effect of a change in accounting principle(g)		(17)
	<u> </u>	<u> </u>
Net earnings (loss) United States GAAP	261	(55)
	<u> </u>	<u> </u>
Other comprehensive income (loss)(i):		
Reclassification of net gain on derivatives designated as cash flow hedges(e)	(2)	(10)
Reclassification of net gain on derivatives due to ineffectiveness(e)	(9)	
Change in fair value of derivatives designated as cash flow hedges(e)	(6)	9
Reclassification to earnings of gain on long-term investments(h)		(5)
Unrealized gain (loss) on long-term investments(h)	(9)	3
Taxes on other comprehensive income (loss)	5	2
	<u> </u>	<u> </u>
Other comprehensive loss(i)	(21)	(1)
	<u> </u>	<u> </u>
Comprehensive earnings (loss)(i)	\$ 240	\$ (56)
	<u> </u>	<u> </u>
Net earnings (loss) per share Basic		
Net earnings per share before cumulative effect of a change in accounting principle United States GAAP	\$ 1.39	\$ (0.32)
Cumulative effect of a change in accounting principle(g)		(0.09)
	<u> </u>	<u> </u>
Net earnings (loss) per share Basic	\$ 1.39	\$ (0.41)
	<u> </u>	<u> </u>
Net earnings (loss) per share Diluted		
Net earnings per share before cumulative effect of a change in accounting principle United States GAAP	\$ 1.30	\$ (0.32)
Cumulative effect of a change in accounting principle(g)		(0.09)
	<u> </u>	<u> </u>
Net earnings (loss) per share Diluted	\$ 1.30	\$ (0.41)
	<u> </u>	<u> </u>

(a) *Post-retirement benefits*

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For Canadian GAAP reporting purposes, we amortize the excess of the net unrecognized actuarial and investment gains and losses over 10 per cent of the greater of (i) the post-retirement benefits obligation and (ii) the fair value of plan assets. Such excess is amortized over the expected average remaining service life of employees. For United States reporting purposes, we amortize net unrecognized actuarial and investment gains and losses on a straight-line basis over the expected average remaining service life of employees.

United States GAAP also requires the recognition of a minimum additional pension liability in the amount of the excess of the unfunded accumulated benefits obligation over the recorded pension benefits liability; an offsetting intangible pension asset is recorded equal to the unrecognized prior service costs, with any net difference recorded as a reduction in accumulated other comprehensive income.

(b) Research and development expense

Under Canadian GAAP, development costs are deferred and amortized if the development project meets certain generally accepted criteria for deferral and amortization. Fixed assets, including equipment, may be acquired or constructed in order to provide facilities for a research and development project. The use of such assets will extend over a number of accounting periods and, accordingly, such costs are capitalized and amortized over their useful lives. Under United States GAAP, research and development costs are charged to expense in the period incurred. As noted in Note 23(d) of our consolidated financial statements set forth in our 2003 Annual Report on Form 10-K, we have restated our results for 2003 for United States GAAP purposes as they relate to the accounting for research and development costs. The impact was a \$1 million increase in research and development expense for the first quarter of 2003 for United States GAAP purposes.

(c) Exploration expense

Under Canadian GAAP, capitalized exploration expenditures are classified under property, plant and equipment with the related mineral claim. For United States GAAP, exploration expenditures are not capitalized unless estimated proven and probable ore reserves to which they relate have been established by a feasibility study. As noted in Note 23(e) of our consolidated financial statements set forth in our 2003 Annual Report on Form 10-K, we have restated our results for 2003 for United States GAAP purposes as they relate to the accounting for exploration expenditures. There was no impact on exploration expense for the first quarter of 2003 as a result of this difference between Canadian and United States GAAP.

(d) Convertible debt

Under Canadian GAAP, a portion of the convertible debt is classified as an equity instrument. This convertible debt accretes over their respective terms to their value at maturity through periodic after-tax charges to retained earnings. Under United States GAAP, the convertible debt would be accounted for as debt and, accordingly, accretion charges and amortization of debt issuance costs would be recorded as interest expense. For United States GAAP, the convertible debt would be classified as current debt beginning 12-months prior to their special conversion dates and as long-term debt during the remainder of the term of such debt.

(e) Accounting for derivatives

Under United States GAAP, all derivative contracts, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. Under Canadian GAAP, we continue to recognize gains and losses on derivative contracts in income concurrently with the recognition of the transactions being hedged. The requirements for documentation and effectiveness testing, however, are substantially the same under both Canadian and United States GAAP.

(f) Restatement of United States GAAP financial information

In the second quarter of 2004, for United States GAAP reporting purposes, we revised our accounting treatment for unrealized non-cash currency translation gains and losses arising from the translation into U.S. dollars, at the end of each period, of certain Canadian dollar-denominated deferred income and mining tax liabilities established in 1996 upon the acquisition of the Voisey's Bay deposits. We have concluded that, under United States GAAP, such currency translation gains and losses should be included in the determination of earnings. Previously, these unrealized non-cash currency translation gains and losses had been deferred and included in property, plant and equipment as part of development costs for the Voisey's Bay project until operations were to commence. The impact of this revision, which has been accounted for retroactively by

restating prior period results, was an increase in the unrealized non-cash currency translation gains of \$16 million for the first quarter of 2004 (first quarter of 2003 increase in the unrealized non-cash currency translation losses of \$69 million). The deficit at the beginning of 2004 has been increased by \$171 million to reflect the cumulative impact of the revision to December 31, 2003.

(g) Asset retirement obligations

Effective January 1, 2003, we adopted, for United States reporting purposes, Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations and CICA 3110, Asset Retirement Obligations, which are substantially identical. Under SFAS No. 143, asset retirement obligations are recognized when incurred and recorded as liabilities at fair value. The liability is accreted over time through periodic charges to earnings. In addition, the asset retirement cost is capitalized as part of the asset's carrying value and depreciated. Depending on the nature of the asset being retired, we depreciate such costs using either the straight line or the unit-of-production method. The cumulative effect of adopting SFAS No. 143 was a decrease to our net earnings of \$17 million, or nine cents per share, in 2003, which is shown as a cumulative effect of a change in accounting principle.

(h) Investments

United States GAAP for equity investments, which are set forth in SFAS No. 115, require that certain equity investments not held for trading be recorded at fair value with unrealized holding gains and losses excluded from the determination of earnings and reported as a separate component of other comprehensive income.

(i) Comprehensive income

United States accounting standards for reporting comprehensive income are set forth in SFAS No. 130. Comprehensive income represents the change in equity during a reporting period from transactions and other events and circumstances from non-owner sources. Components of comprehensive income include items such as net earnings (loss), changes in the fair value of investments not held for trading, minimum pension liability adjustments and gains and losses on derivative instruments.

Intangible assets

Canadian GAAP contains an apparent conflict in the treatment of mineral rights with respect to balance sheet classification. CICA 1581, Business Combinations, defines such assets as intangible assets, while CICA 3061, Property, Plant and Equipment, defines acquired mineral rights as property, plant and equipment. We have interpreted the adoption of CICA 1581 and its companion statement CICA 3062, Goodwill and Other Intangible Assets, in a manner that has led us to conclude that we are not required to change how we account for such mineral rights under Canadian GAAP (which is to classify such assets, less the related accumulated depreciation, depletion and amortization, as Property, plant and equipment, net on our consolidated balance sheet). In the United States, SFAS No. 141, Business Combinations, which is consistent with CICA 1581, requires that under United States GAAP mineral rights be classified as intangible assets. On March 18, 2004, the Emerging Issues Task Force of the Financial Accounting Standards Board (FASB) in the United States met and concluded that mineral rights were tangible assets and recommended to the FASB that SFAS Nos. 141 and 142 should be amended. These changes are expected to be finalized by the FASB in the second quarter of 2004. There can be no certainty as to whether this apparent conflict under Canadian GAAP will be resolved.

Depreciation and depletion expense

As discussed in Note 2, we retroactively changed our method of calculating depreciation and depletion expense for Canadian GAAP reporting purposes effective January 1, 2004. This method of calculation is the method described in Note 23(b) of our consolidated financial statements set forth in our 2003 Annual Report on Form 10-K for United States reporting purposes and, consequently, there is no longer a difference between

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Canadian and United States GAAP. The results of operations for the first quarter of 2003 have been restated which resulted in a decrease to depreciation and depletion expense of \$9 million, an increase in income and mining taxes of \$3 million and an increase in minority interest expense of \$3 million.

Supplemental information

Changes in deficit and accumulated other comprehensive loss under United States GAAP were as follows:

Three Months Ended March 31,	2004 (Restated)	2003 (Restated)
Deficit at beginning of period, as previously reported in the Originally Filed First Quarter 2004 10-Q	\$ (973)	\$(1,030)
Restatement(f)	(171)	36
	<u> </u>	<u> </u>
Deficit at beginning of period, as restated	(1,144)	(994)
Net earnings (loss)	261	(55)
Dividends on preferred shares		(6)
Premium on redemption of preferred shares		(15)
	<u> </u>	<u> </u>
Deficit at end of period	\$ (883)	\$(1,070)
	<u> </u>	<u> </u>
Accumulated other comprehensive loss at beginning of period	\$ (516)	\$ (485)
Other comprehensive loss	(21)	(1)
	<u> </u>	<u> </u>
Accumulated other comprehensive loss at end of period	\$ (537)	\$ (486)
	<u> </u>	<u> </u>

Recent Accounting Pronouncements

During the first three months of 2004, no new accounting pronouncements were put into effect that would impact our financial condition or results of operations.

PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 10-K

This Item is amended to include new Exhibits 31.1(b), 31.2(b), 32.1(b) and 32.2(b) which are included with this Amendment No. 1.

(a) *Exhibits*

- 3.1 Restated Articles of Incorporation of the Registrant dated May 7, 2004.*
- 10.1 Inco Limited Non-Employee Director Share Ownership Plan, as amended and restated effective as of February 3, 2004.*
- 31.1 (a) Certification of the Originally Filed First Quarter 2004 10-Q 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.*
(b) Certification Relating to the Originally Filed First Quarter 2004 Report for the period ended March 31, 2004, as amended by Form 10-Q/A (Amendment No. 1), 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 (a) Certification of the Originally Filed First Quarter 2004 10-Q 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.*
(b) Certification Relating to the Originally Filed First Quarter 2004 Report for the period ended March 31, 2004, as amended by Form 10-Q/A (Amendment No. 1), 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.
- 32.1 (a) Certification of the Originally Filed First Quarter 2004 10-Q of the Chief Executive Officer of the Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
(b) Certification Relating to the Originally Filed First Quarter 2004 Report for the period ended March 31, 2004, as amended by Form 10-Q/A (Amendment No. 1), of the Chief Executive Officer of the Registrant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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(b) *Reports on Form 8-K*

Current Report on Form 8-K dated February 3, 2004 covering Item 12 of Form 8-K relating to the Registrant's press releases on its fourth quarter 2003 and full year 2003 financial and operating results.*

*Filed with Originally Filed First Quarter 2004 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 to this Report to be signed on its behalf by the undersigned thereunto duly authorized.

INCO LIMITED

Date: August 10, 2004

By: /s/ S. F. FEINER

S. F. Feiner

Date: August 10, 2004

By: /s/ R. A. LEHTOVAARA

R. A. Lehtovaara

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