

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

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/ A

(Amendment No. 1)

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

For the fiscal year ended: December 31, 2003

Commission File Number 1-1143

Inco Limited

(Name of Registrant as specified in its charter)

Canada
(Jurisdiction of incorporation)

145 King Street West, Suite 1500
Toronto, Ontario, Canada
(Address of principal executive offices)

98-0000676
(I.R.S. Employer Identification No.)

M5H 4B7
(Postal Code)

(416) 361-7511

(Telephone number)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares	New York Stock Exchange*
Stock Purchase Rights	New York Stock Exchange
Common Share Purchase Warrants	New York Stock Exchange

The Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Act during the preceding 12 months, 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).

As of June 30, 2003, the aggregate market value, based upon the closing sale price of the Common Shares on the New York Stock Exchange, of the Registrant's voting shares held by non-affiliates equaled \$3,951 million. §

As of February 20, 2004, 187,300,108 Common Shares (including non-voting fractional interests aggregating 5,096 Common Shares) of the Registrant were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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Portions of the Registrant's proxy circular and statement dated February 20, 2004 for the 2004 Annual and Special Meeting of Shareholders of the Registrant are incorporated by reference in Part III of this Report to the extent set forth in Items 10, 11, 12 and 14 hereof.

* In addition, the Common Shares are listed on the Toronto and London stock exchanges and are traded on certain other exchanges principally through independent arrangements made by securities dealers.

In addition, the Stock Purchase Rights and the Common Share Purchase Warrants are listed on the Toronto Stock Exchange.

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

INCO LIMITED

Explanatory Note

Inco Limited (Inco or the Company) is filing this Amendment No. 1 to its Annual Report on Form 10-K for its fiscal year ended December 31, 2003 (Originally Filed 2003 10-K), which was originally filed with the Securities and Exchange Commission (SEC) on March 15, 2004, to amend (1) Note 23 to the Company s consolidated financial statements, Significant differences between Canadian and United States GAAP , included as part of Item 8, Financial Statements and Supplementary Data , and (2) certain information and one of the tables included in Item 6, Selected Financial Data , which table reconciles the Company s results as reported under Canadian generally accepted accounting principles (GAAP), the principles which apply to the Company s primary financial statements, with those results that would have been reported under United States GAAP. The amendments reflect the restatement of certain financial information under United States 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 relating to the Company s Voisey s Bay deferred income and mining tax liabilities. While the amendments relate only to certain parts of Item 6 and Item 8, 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 Items 6 and 8, as amended. For a description of the restatements, reference is made to part (q)(2) in Note 23 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 on the Voisey s Bay deferred income and mining tax liabilities is in accordance with Canadian GAAP.

As a result of this change, under United States GAAP for the years 2003, 2002 and 2001 the Company had (1) a restated net loss of \$129 million in 2003, compared with net earnings of \$78 million before this revision and resulting restatement, (2) a restated net loss of \$2,380 million in 2002, compared with a net loss of \$2,078 million before this revision and resulting restatement and (3) restated net earnings of \$394 million in 2001, compared with net earnings of \$272 million before this revision and resulting restatement. Restatements reflecting these revisions have been made to the Company s property, plant and equipment, retained earnings (deficit) and asset impairment charge relating to the Company s Voisey s Bay project for the applicable periods covered in Item 6 and Note 23 to the Company s consolidated financial statements in Item 8. 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 years reported, with the effects (which are quantified for the quarters in 2003, 2002 and 2001 in Note 23(r) to the Company s consolidated financial statements herein) 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 6 and Item 8, both of which were included in the Originally Filed 2003 10-K. The explanatory note at the beginning of each item of this Amendment No. 1 sets forth the nature of the principal changes made to the particular Items (Items 6 and 8).

The other items of the Originally Filed 2003 10-K have not been repeated in this Amendment No. 1.

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For a discussion of events and developments relating to the Company subsequent to December 31, 2003, 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 subsequent to March 15, 2004.

Amendment No. 1 to our Quarterly Report on Form 10-Q containing our corrected Quarterly Report for the quarterly period ended March 31, 2004, filed with the SEC on August 10, 2004.

Our Current Reports on Form 8-K filed with or furnished to the SEC subsequent to December 31, 2003.

Other than the foregoing items, this Amendment No. 1 does not amend, update or restate any items or sections of the Originally Filed 2003 10-K. The filing of this Amendment No. 1 should not be understood to mean that any statements contained in the amended Report on Form 10-K are true or complete as of any date subsequent to March 15, 2004, the date of the filing with the SEC of the Originally Filed 2003 10-K. Investors should not rely upon this amendment as a reaffirmation or reiteration of any forward-looking statements set forth in the Originally Filed 2003 10-K.

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 6. Selected Financial Data

Note Explaining Amendments to Item 6: The paragraph above the second table in this Item and the second table itself, which table reconciles the results as reported under Canadian GAAP with those results that would have been reported under United States GAAP, have been revised and restated to reflect the effect of recognizing for purposes of United States GAAP 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 the Company's Voisey's Bay deferred income and mining tax liabilities.

The following table provides selected financial data as reported in the Company's Consolidated Financial Statements on the basis of Canadian generally accepted accounting principles (GAAP):

	Year Ended December 31,				
	2003	2002 ⁽³⁾	2001 ⁽³⁾	2000 ⁽³⁾	1999 ⁽¹⁾⁽³⁾
		(Restated)	(Restated)	(Restated)	(Restated)
	(\$ in millions, except per share amounts)				
Net sales	\$2,474	2,161	2,066	2,917	2,113
Cost of sales and operating expenses	\$1,735	1,378	1,416	1,776	1,604
Depreciation and depletion	\$ 265	255	263	265	248
Selling, general and administrative	\$ 169	136	111	105	99
Asset impairment charges	\$	2,415			
Interest expense	\$ 44	50	56	83	73
Income and mining taxes	\$ (49)	(639)	(85)	225	25
Earnings (loss) from continuing operations	\$ 137	(1,482)	304	399	16
Earnings (loss) from discontinued operations	\$				(5)
Net earnings (loss)	\$ 137	(1,482)	304	399	11
Preferred dividends	\$ (6)	(26)	(26)	(26)	(26)
Accretion of convertible debt	\$ (7)	(4)	(3)		
Premium on redemption of Preferred Shares	\$ (15)				
Net earnings (loss) applicable to common shares	\$ 109	(1,512)	275	373	(15)
Net earnings (loss) per common share basic ⁽²⁾	\$ 0.59	(8.27)	1.51	2.06	(0.08)
Common shares outstanding (weighted average, in millions)	185	183	182	182	176
Total assets	\$9,006	8,577	9,630	9,726	9,618
Long-term debt	\$1,409	1,546	759	952	1,154
Convertible debt	\$ 606	238	231		
Preferred shares	\$	472	472	472	471
Class VBN shares	\$				753

- (1) Certain information for the year 1999 has been restated to reflect the retroactive application of the asset and liability method to calculate deferred income and mining taxes (see Note 2 to the Company's 2001 financial statements).
- (2) Net earnings (loss) per common share is calculated by dividing net earnings (loss) applicable to Common Shares by the weighted-average number of Common Shares issued and outstanding for the relevant period.
- (3) Reference is made to Note 2(c) to the financial statements under Item 8 of this Report.

There are a number of differences between Canadian and United States GAAP. The differences, insofar as they affect the Company's Consolidated Financial Statements, relate to accounting for post-retirement benefits, depreciation and depletion, intangible assets, research and development, exploration, asset impairment, our convertible debt, derivative instruments, investments, certain currency translation gains and losses, income and mining taxes and reporting of comprehensive income. A full discussion of these differences is presented in the Notes to the financial statements under Item 8 of this Report and, in particular, Note 23 to such financial statements.

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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:

	Year Ended December 31,				
	2003	2002	2001	2000	1999 ⁽¹⁾
	(Restated) ⁽²⁾	(Restated) ⁽²⁾	(Restated) ⁽²⁾	(Restated) ⁽³⁾	(Restated) ⁽³⁾
	(\$ in millions, except per share amounts)				
Earnings (loss) from continuing operations Canadian GAAP	\$ 137	\$ (1,482)	\$ 304	\$ 400	\$ 17
Increased post-retirement benefits expense	(37)	(23)	(22)	(22)	
Decreased depreciation and depletion expense	38	13			
Increased intangible assets amortization expense	(2)	(2)			
Increased research and development expense	(5)	(6)	(8)		
Increased exploration expense	(4)	(3)	(7)		
Increased asset impairment charges		(961)			
Increased interest expense	(25)	(9)	(11)		
Unrealized net gain (loss) on derivative instruments	(1)	5	(4)		
Unrealized currency translation gains (losses) on Voisey's Bay project					
Deferred income and mining tax liabilities	(207)	(49)	122	79	(128)
Increased income and mining tax expense	(15)				
Decreased (increased) minority interest	(9)	(3)			
Change in accounting policy		1	1		
Taxes on United States GAAP differences	18	141	17	9	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Earnings (loss) from continuing operations United States GAAP	(112)	(2,378)	394	466	(111)
Discontinued operations					(5)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net earnings (loss) United States GAAP before cumulative effect of a change in accounting principle	(112)	(2,378)	394	466	(116)
Cumulative effect of a change in accounting principle	(17)	(2)			
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net earnings (loss) United States GAAP	\$ (129)	\$ (2,380)	\$ 394	\$ 466	\$ (116)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net earnings (loss) per share basic net earnings (loss) per share before cumulative effect of a change in accounting principle	\$ (0.72)	\$ (13.15)	\$ 2.02	\$ 2.42	\$ (0.78)
Cumulative effect of a change in accounting principle	(0.09)	(0.01)			
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net earnings (loss) per share basic	\$ (0.81)	\$ (13.16)	\$ 2.02	\$ 2.42	\$ (0.78)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net earnings (loss) per share diluted net earnings (loss) per share before cumulative effect of a change in accounting principle	\$ (0.72)	\$ (13.15)	\$ 1.98	\$ 2.21	\$ (0.78)
Cumulative effect of a change in accounting principle	(0.09)	(0.01)			
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net earnings (loss) per share diluted	\$ (0.81)	\$ (13.16)	\$ 1.98	\$ 2.21	\$ (0.78)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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- (1) Certain information for the year 1999 has been restated to reflect the retroactive application of the asset and liability method to calculate deferred income and mining taxes.
- (2) Reference is made to Note 23, parts (b), (c), (d), (e), (f), (i), (n), (o), (q) and (r) to the consolidated financial statements under Item 8 of this Report.
- (3) Reference is made to Note 23, parts (i) and (q) to the consolidated financial statements under Item 8 of this Report.

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The selected financial data item Preferred shares would be reported in the same amounts under Canadian and United States GAAP. Under United States GAAP, convertible debt would be classified as debt and the selected financial data item Long-term debt would be increased by \$626 million at December 31, 2003. Under United States GAAP, Total assets would be reported as \$7,973 million at December 31, 2003 (2002 \$7,727 million; 2001 \$9,755 million; 2000 \$9,856 million; 1999 \$9,670 million).

Item 8. Financial Statements and Supplementary Data

Note Explaining Amendments to Note 23 to the Company's Consolidated Financial Statements: Note 23 to the Company's consolidated financial statements has been amended to reflect the revision in 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 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) asset impairment charges referred to in (f), (3) the addition of a new part (i) which provides an explanation of this revision, the United States GAAP difference and resulting restatements, (4) earnings/(loss) per share in (n), (5) stock-based compensation in (o), (6) an explanation and presentation of the effect of the restatement of United States GAAP financial information in (q) and (7) comparative figures in (r). As a result of the addition of the new part (i), all succeeding parts of Note 23 (originally parts (i)-(r)) have been relettered as (j)-(s).

AUDITORS' REPORTS

To the Shareholders of Inco Limited:

We have audited the consolidated balance sheet of Inco Limited as at December 31, 2003, 2002 and 2001 and the consolidated statements of earnings, retained earnings (deficit) and cash flows for the years then ended. In addition, we have audited Schedule VIII Valuation Accounts and Reserves under Item 8 of this Report. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. In addition, in our opinion, Schedule VIII Valuation Accounts and Reserves presents fairly, in all material respects, the financial information set forth therein when read in conjunction with the related consolidated financial statements.

PRICEWATERHOUSECOOPERS LLP

Chartered Accountants
Toronto, Ontario

February 3, 2004

Comments by Auditors for United States Readers on Canada United States Accounting Differences

Accounting principles generally accepted in Canada vary in certain significant respects from accounting principles generally accepted in the United States. Information relating to the nature and effect of such differences is presented in note 23, as restated, to the consolidated financial statements of the Company.

PRICEWATERHOUSECOOPERS LLP

Chartered Accountants
Toronto, Ontario

February 3, 2004 (except as to Note 23(q)(1) which is as of March 12, 2004 and except as to Note 23(q)(2) which is as of August 4, 2004)

CONSOLIDATED STATEMENT OF EARNINGS

	Year ended December 31		
	2003	2002	2001
		(Restated)	(Restated)
		(in millions of United States dollars except per share amounts)	
Revenues			
Net sales (Note 19)	\$2,474	\$ 2,161	\$2,066
Other income, net (Note 6)	104	40	13
	2,578	2,201	2,079
Costs and operating expenses (income)			
Cost of sales and other operating expenses, excluding depreciation and depletion (Note 3)	1,735	1,378	1,416
Depreciation and depletion (Note 3)	265	255	263
Selling, general and administrative	169	136	111
Research and development	27	17	20
Exploration	27	24	23
Currency translation adjustments	177	5	(39)
Interest expense	44	50	56
Asset impairment charges (Note 4)		2,415	
Goro project suspension costs (Note 5)	(4)	25	
	2,440	4,305	1,850
Earnings (loss) before income and mining taxes and minority interest	138	(2,104)	229
Income and mining taxes (Note 7)	(49)	(639)	(85)
Earnings (loss) before minority interest	187	(1,465)	314
Minority interest	50	17	10
Net earnings (loss)	137	(1,482)	304
Dividends on preferred shares (Note 15)	(6)	(26)	(26)
Accretion of convertible debt (Note 14)	(7)	(4)	(3)
Premium on redemption of preferred shares (Note 15)	(15)		
Net earnings (loss) applicable to common shares	\$ 109	\$(1,512)	\$ 275
Net earnings (loss) per common share (Note 8)			
Basic	\$ 0.59	\$ (8.27)	\$ 1.51
Diluted	\$ 0.58	\$ (8.27)	\$ 1.49

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)

	Year ended December 31		
	2003	2002	2001

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		(Restated)	(Restated)
		(in millions of United States dollars)	
Retained earnings (deficit) at beginning of year, as previously reported	\$(335)	\$ 1,194	\$ 918
Change in accounting policy (Note 2)	—	(17)	(16)
	—	—	—
Retained earnings (deficit) at beginning of year, as restated	(335)	1,177	902
Net earnings (loss)	137	(1,482)	304
Dividends on preferred shares	(6)	(26)	(26)
Accretion of convertible debt	(7)	(4)	(3)
Premium on redemption of preferred shares (Note 15)	(15)	—	—
	—	—	—
Retained earnings (deficit) at end of year	\$(226)	\$ (335)	\$ 1,177
	—	—	—

The Notes to Consolidated Financial Statements below are an integral part of these statements.

CONSOLIDATED BALANCE SHEET

	December 31		
	2003	2002	2001
	(Restated)		(Restated)
	(in millions of United States dollars)		
ASSETS			
Current assets			
Cash and cash equivalents (Notes 20 and 22)	\$ 418	\$ 1,087	\$ 306
Accounts receivable	435	251	277
Inventories (Note 9)	746	576	500
Other (Note 7)	112	73	44
	<u> </u>	<u> </u>	<u> </u>
Total current assets	1,711	1,987	1,127
Property, plant and equipment (Note 10)	6,976	6,382	8,260
Deferred charges and other assets (Notes 12 and 20)	319	208	243
	<u> </u>	<u> </u>	<u> </u>
Total assets	\$9,006	\$8,577	\$9,630
	<u> </u>	<u> </u>	<u> </u>
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities			
Long-term debt due within one year (Notes 11 and 20)	\$ 103	\$ 97	\$ 81
Accounts payable	253	338	132
Accrued payrolls and benefits	165	118	107
Other accrued liabilities	332	210	189
Income and mining taxes payable	27	167	58
	<u> </u>	<u> </u>	<u> </u>
Total current liabilities	880	930	567
Deferred credits and other liabilities			
Long-term debt (Notes 11 and 20)	1,409	1,546	759
Deferred income and mining taxes (Note 7)	1,696	1,352	2,105
Post-retirement benefits (Note 12)	603	475	451
Asset retirement obligation (Note 13)	141	119	121
Minority interest	415	368	350
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	5,144	4,790	4,353
	<u> </u>	<u> </u>	<u> </u>
Commitments and contingencies (Note 21)			
Shareholders equity			
Convertible debt (Note 14)	606	238	231
	<u> </u>	<u> </u>	<u> </u>
Preferred shares (Note 15)		472	472
	<u> </u>	<u> </u>	<u> </u>
Common shareholders equity			
Common shares issued and outstanding 186,915,865 (2002 183,238,351, 2001 182,192,732) (Notes 17 and 18)	2,858	2,771	2,756
Warrants (Note 16)	62	62	62
Contributed surplus (Note 18)	562	559	559
Retained earnings (deficit)	(226)	(335)	1,177
	<u> </u>	<u> </u>	<u> </u>
	3,256	3,057	4,554
	<u> </u>	<u> </u>	<u> </u>
Contingently issuable equity (Notes 15 and 17)		20	20

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Total shareholders' equity	<u>3,862</u>	<u>3,787</u>	<u>5,277</u>
Total liabilities and shareholders' equity	<u>\$9,006</u>	<u>\$8,577</u>	<u>\$9,630</u>

The Notes to Consolidated Financial Statements below are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended December 31		
	2003	2002	2001
	(Restated)		(Restated)
	(in millions of United States dollars)		
Operating activities			
Earnings (loss) before minority interest	\$ 187	\$(1,465)	\$ 314
Charges (credits) not affecting cash			
Depreciation and depletion	265	255	263
Deferred income and mining taxes	26	(745)	(127)
Asset impairment charges (Note 4)		2,415	
Other	81	41	(43)
Decrease (increase) in non-cash working capital related to operations			
Accounts receivable	(184)	(8)	88
Inventories	(170)	(77)	20
Accounts payable and accrued liabilities	124	98	(10)
Income and mining taxes payable	(140)	106	(125)
Other	(35)	(26)	(10)
Other	(23)	5	(10)
Net cash provided by operating activities	131	599	360
Investing activities			
Capital expenditures	(591)	(600)	(263)
Other	26	(9)	2
Net cash used for investing activities	(565)	(609)	(261)
Financing activities			
Long-term borrowings	314	884	2
Repayments of long-term debt	(574)	(81)	(192)
Convertible debt issued	470		226
Preferred shares redeemed	(487)		
Common shares issued	60	15	5
Preferred dividends paid	(6)	(26)	(26)
Dividends paid to minority interest	(7)	(1)	(1)
Other	(5)		
Net cash provided by (used for) financing activities	(235)	791	14
Net increase (decrease) in cash and cash equivalents	(669)	781	113
Cash and cash equivalents at beginning of year	1,087	306	193
Cash and cash equivalents at end of year (Notes 20 and 22)	\$ 418	\$ 1,087	\$ 306

The Notes to Consolidated Financial Statements below are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Note 1. Summary of significant accounting policies

The consolidated financial statements of Inco Limited (Inco) and its subsidiaries (referred to as we , us and our) are prepared in accordance with Canadian generally accepted accounting principles (GAAP), consistently applied which, in our case, conform in all material respects with United States GAAP except as explained in Note 23.

Principles of consolidation

The financial statements of entities which are controlled by Inco either directly or indirectly, through wholly-owned subsidiaries, are consolidated. Control is established by our ability to determine strategic, operating, investing and financing policies without the co-operation of others. The criteria we use include an analysis of our level of ownership, voting rights and our level of representation on the board of directors. We evaluate these criteria in terms of determining whether the existence of one of the criteria alone (such as a majority ownership of all voting securities), or a combination of the criteria when taken together, would result in having control, or the right to exercise control, of the management, business focus or strategy and/or critical policies of the particular entity. Entities which are not controlled and for which our ownership in all voting securities is greater than 20 per cent are accounted for using the equity method and are included in deferred charges and other assets. We have no entities for which we have used the equity method and own less than 20 per cent of all voting securities. We have no entities for which we own greater than 50 per cent of all voting securities but do not consolidate. We do not have subsidiaries or joint ventures for which we use the proportionate consolidation method nor do we consolidate any entities for which we own less than 50 per cent of all voting securities. Investments in other entities are accounted for using the cost method.

Estimates

Financial statements prepared in accordance with GAAP require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Translation of consolidated financial statements into United States dollars

These consolidated financial statements are expressed in United States dollars. The United States dollar is our functional currency. Accordingly, we use the temporal method of translation. Monetary assets and liabilities are translated into United States dollars using year-end rates of exchange. All other assets and liabilities are translated at applicable historical rates of exchange. Revenues, expenses and certain costs are translated at monthly average exchange rates except for inventoried costs, depreciation and depletion which are translated at historical rates. Realized exchange gains and losses and currency translation adjustments are included in earnings.

Cash and cash equivalents

Cash and cash equivalents comprise cash, time deposits and other interest bearing instruments with original maturity dates of less than three months.

Inventories

Inventories consist of finished metal products, work in process and operating supplies. Inventories are stated at the lower of cost and estimated net realizable value.

Work in process includes inventory at all stages in the production process, from stockpiled ore through to final refined metal. Broken ore in our mines is not recognized as inventory until delivered to the mine head or temporary storage areas for blending. Cost includes all direct costs incurred through to the applicable stage of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

production, including direct labour and materials, depreciation and depletion as well as an allocated portion of overheads. Costs are allocated based on contained metal. For costing purposes, copper and nickel are treated as co-products and share expenses pro-rata based on pounds unless a plant is specifically for the upgrading of only one metal or the other.

Period costs such as shutdown expenses, standby costs, property write-offs, costs of delivering the product to the end customer, including freight and sales administration, are not allocated to inventory but charged directly to cost of sales and other operating expenses.

The point in our production cycle that costs related to mine and other property, plant and equipment begin to be capitalized as a cost of inventory is at the mine head.

Property, plant and equipment

Property, plant and equipment are stated at cost. Such cost, in the case of mines and undeveloped properties, represents related acquisition and development expenditures. Costs are capitalized for an undeveloped property when it is probable that such costs will be recovered from the exploitation of the property. Capitalization ceases when the property is substantially complete and ready for use. Financing costs, including interest, are capitalized when they arise from indebtedness incurred to finance the development, construction or expansion of significant mineral properties and facilities. Development costs are charged as an expense in the period incurred unless we believe a development project meets generally accepted criteria for deferral and amortization.

Research and development costs

Research costs are expensed in the period in which they are incurred. Development costs are capitalized where the product or process is clearly defined, the technical feasibility has been established and we are committed to, and have the resources to, complete the project.

Asset impairment

When the net carrying value of an item or group of items of property, plant and equipment exceeds the estimated undiscounted future net cash flows together with its residual value, the excess of the carrying value over the fair value is charged to earnings. In estimating future net cash flows, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of cash flows from other asset groups taking into consideration movements of intermediate products to ensure the utilization of available capacity across our operations. Generally, all assets at a particular operation are used together to generate cash flow. Estimates of future cash flows are subject to risks and uncertainties.

We periodically review our equity method investments to determine whether a decline in fair value (as measured by discounted future cash flows) below the carrying amount is other than temporary.

Revenue recognition

Our primary products are nickel and copper. Most of our nickel is sold as refined nickel and our copper is predominantly sold as copper cathode. We also sell precious metals, cobalt and other by-products. Sales of all commodities are recognized as revenue when title has passed under the terms of the relevant contracts or sale, which is generally when shipped. Net sales include revenues from the sale of all metals produced by us, including metals which we refer to as by-products as well as sulphuric acid and liquid sulphur.

For most of our sales, the price is fixed at the time revenue is recognized, and is based on quoted commodity prices on recognized exchanges. A small portion of our revenues are provisionally priced at the time of shipment. For provisionally priced sales, final settlement is generally based on the average LME cash nickel price for a specified future period generally after the month of arrival at the customer's facility which is within 90 days of sale. As such any proceeds received represent provisional sales proceeds and not final sales proceeds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

Exploration

Exploration expenditures are expensed as incurred except in areas currently under development, where production is probable, or in areas under feasibility study, where there is a reasonable expectation to convert existing estimated mineral resources to estimated ore reserves and add additional mineral resources with additional drilling and evaluations in areas near existing ore reserves, and existing or planned production facilities, in which case they are capitalized and amortized using the unit-of-production method.

Depreciation and depletion

Property, plant and equipment is generally depreciated on a straight line basis over the following estimated economic lives:

Mine and mobile equipment	3 to 10 years
Processing facilities	15 to 20 years
Smelter equipment	15 to 20 years
Refinery equipment	5 to 20 years
Power generation equipment	10 to 20 years
Furniture and fixtures	10 years

The estimated economic life is assessed on an annual basis, taking into account the state of the equipment, technological changes and the related facilities or the estimated proven and probable ore reserves where the equipment is located. Some equipment has an estimated economic life in excess of 20 years, and is being amortized on a 5 per cent declining balance basis. When an assessment is made that the remaining life of that equipment is less than 20 years, the depreciation method is switched to straight line. Depreciation starts when the asset is ready for use.

Mine development costs are amortized on a composite basis based on our twenty-year mine plan. Total historical capitalized costs and estimated future development costs relating to developed and undeveloped ore reserves are depreciated using the unit-of-production method based on total developed and undeveloped estimated proven and probable ore reserves. Amortization is limited to forecast production in the twenty-year mine plan even where we have additional estimated proven and probable ore reserves. Depletion starts when production commences.

For our nickel operations in Indonesia, property, plant and equipment and mine development costs are amortized using the unit-of-production method described in the preceding paragraph.

Asset retirement obligations

The accounting for asset retirement obligations encompasses the accounting for legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction or development and/or the normal operation of a long-lived asset. The retirement of a long-lived asset is its other than temporary removal from service, including its sale, abandonment, recycling or disposal in some other manner but not its temporary idling.

We recognize asset retirement obligations as liabilities when a legal obligation with respect to the retirement of an asset is incurred, with the initial measurement of the obligation at fair value. These obligations are accreted to full value over time through charges to income. In addition, an asset retirement cost equivalent to the liabilities is capitalized as part of the related asset's carrying value and is subsequently depreciated over the asset's useful life. A liability for an asset retirement obligation is incurred over more than one reporting period when the events that create the obligation occur over more than one reporting period. For example, if a facility is permanently closed but the closure plan is developed over more than one reporting period, the cost of the closure of the facility is incurred over the reporting periods when the closure plan is finalized. Any incremental liability incurred in a

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

subsequent reporting period is considered to be an additional layer of the original liability. Each layer is initially measured at fair value. As required, a separate layer shall be measured and recognized and accounted for prospectively. Our asset retirement obligations consist primarily of costs associated with mine reclamation and closure activities.

Our operations have been, and may in the future be, affected from time to time in varying degrees by changes in environmental laws and regulations, including those for asset retirement obligation costs. Both the likelihood of future changes in laws and regulations and their overall effect upon us vary greatly from country to country and are not predictable. Our policy is to meet or, if possible, surpass environmental standards set by relevant legislation, by the application of technically proven and economically feasible measures.

For environmental issues that may not involve the retirement of an asset, where we are a responsible party and it is determined that a liability exists, and amounts can be quantified and determined, we will accrue for the estimated liability. In determining whether a liability exists in respect of such environmental issues, we apply the criteria for liability recognition under applicable accounting standards.

Income and mining taxes

Income and mining taxes comprise the provision (relief) for taxes actually paid or payable (received or receivable) and deferred taxes. Deferred income and mining taxes are computed using the asset and liability method whereby deferred income and mining tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred income and mining tax assets and liabilities are computed using current foreign currency exchange rates and using income tax rates in effect when the temporary differences are expected to reverse. The effect on deferred income and mining tax assets and liabilities of a change in tax rates is recognized in earnings in the period of substantive enactment. The provision or relief for deferred income and mining taxes is based on the changes in deferred income and mining tax assets and liabilities during the period. In estimating deferred income and mining tax assets, a valuation allowance is determined to reduce the future income tax assets to that amount that it is more likely than not to be realized.

Investment tax credits are accounted for by the cost reduction method whereby investment tax credits related to the acquisition of assets are deferred and recognized in earnings as the related assets are depreciated, while those related to research and development expenses are included in earnings.

Financial instruments and commodities contracts

Forward, option and swap contracts are periodically used to hedge the effect of exchange rate changes on our future currency requirements. In addition, forward, option and swap contracts are used to hedge the effect of price changes on a portion of the metals we sell. Fuel oil swap contracts are used to hedge the effect of price changes in respect of a portion of our energy requirements in Indonesia. Gains and losses on these contracts are deferred and recognized as a component of the related transaction. Interest rate swaps are used to hedge interest rate risk exposure. Amounts receivable or payable related to the swaps are recorded in interest expense concurrently with the interest expense of the underlying debt. We also purchase and sell foreign currencies and metals by using forward contracts which have not been specifically identified as hedges. The values of these contracts are marked to market with resulting gains and losses included in earnings.

Post-retirement benefits

The cost of providing benefits through defined benefit pensions and post-retirement benefits other than pensions is actuarially determined and recognized in earnings using the projected benefit method prorated on service. Differences arising from plan amendments are recognized in earnings over the expected average remaining service life of employees. Differences arising from changes in assumptions and experience gains and losses are recognized in earnings by amortizing the excess of the net actuarial gains and losses over 10 per cent of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

the greater of the post-retirement benefits obligation and the fair value of plan assets over the expected average remaining service life of employees. The cost of providing benefits through defined contribution pension plans is charged to earnings in the period in respect of which contributions become payable.

Stock compensation plans

Cash received from employees upon exercise of options to purchase Common Shares is credited to then issued and outstanding Common Shares. In respect of Common Share appreciation rights, compensation expense is determined and accrued over the vesting period of the options based on the excess of the quoted market value of the respective shares over the exercise price. In respect of our other stock options, we recognize as an expense the cost over the vesting period based on the estimated fair value of the stock options. The fair value of each stock option granted is estimated on the date of the grant using an option-pricing model.

Net earnings (loss) per Common Share

Basic earnings (loss) per Common Share is computed by dividing net earnings (loss) applicable to Common Shares by the weighted-average number of Common Shares issued and outstanding for the relevant period. Diluted earnings (loss) per Common Share is computed by dividing net earnings applicable to Common Shares, as adjusted for the effects of dilutive convertible securities, 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.

Generally accepted accounting principles

Effective January 1, 2004, we will adopt Canadian Institute of Chartered Accountants (CICA) section 1100, *Generally Accepted Accounting Principles*. CICA 1100 describes what constitutes Canadian GAAP and its sources. We are currently evaluating how this standard will be implemented and what impact the adoption of this new standard will have on our consolidated financial statements.

Note 2. Changes in accounting policies

(a) 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 2003, to reflect the fair value of stock options granted to employees in 2003.

(b) 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.

(c) 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

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. As a result of this change, certain balance sheet accounts as of December 31, 2002 were restated as follows: the deficit increased by \$18 million (2001 \$17 million); property, plant and equipment increased by \$37 million (2001 \$43 million); deferred income and mining taxes decreased by \$12 million (2001 \$12 million); and the asset retirement obligation increased by \$67 million (2001 \$72 million). Net earnings have been reduced by \$1 million each for the years ended December 31, 2002 and December 31, 2001.

(d) Foreign currency translation

Effective January 1, 2002, we adopted a new standard of the CICA in respect of foreign currency translation that eliminated the deferral and amortization of currency translation adjustments related to long-term monetary items with a fixed and ascertainable life. There was no significant impact on our results of operations or financial condition as a result of the adoption of this standard.

(e) Earnings Per Share

Effective January 1, 2001, we adopted, retroactively, as a change in accounting policy, a new accounting standard of the CICA in respect of earnings per share. This new standard changed the method in which diluted earnings per share are calculated.

(f) Interim Financial Statements

Effective January 1, 2001, we adopted, retroactively, a new accounting standard of the CICA in respect of interim financial statements. As a consequence, we changed our accounting policy, for interim reporting purposes only, in connection with the timing of recognizing the costs associated with the planned annual shutdown of operations for maintenance. Previously, these costs were expensed evenly over the year whereas under the new standard such costs are expensed in the period in which they are incurred.

Note 3. Strike expenses

A strike of the unionized workforce at our Ontario operations began on June 1, 2003 and a new collective agreement ending the strike was entered into at the end of August 2003. Strike expenses are those ongoing costs, such as salaries and certain employment benefits, depreciation, property taxes, utilities and maintenance incurred during the strike period which would normally be treated as production costs and charged to inventory but, in the absence of production, have been expensed because we were not achieving commercial production at the related facilities over the period of the strike. During the course of this 13-week strike, we incurred strike expenses in the amount of \$107 million during 2003. Included in these expenses was depreciation expense of \$19 million in 2003. The balance of the strike expenses was included in cost of sales and other operating expenses.

Note 4. Asset impairment charges

On June 11, 2002, we announced that we would be undertaking a review of the net carrying value of our Voisey's Bay project in view of the statement of principles entered into with the Government of the Province of Newfoundland and Labrador on that date and other arrangements with key stakeholders that would enable the development of that project to proceed. We had noted on a number of occasions in our public filings and other documents that such events, if and when they were to occur, might require a significant reduction in the carrying value of the Voisey's Bay project and in the related deferred income and mining tax liability and in shareholders' equity. This review, which was completed in July 2002, included an analysis of the key assumptions which we utilized in evaluating this net carrying value on a quarter-to-quarter basis relating to a number of important

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

factors, including our best assessment of the expected cash flows from the project, how the development of Voisey's Bay, taking into account the agreements which have been reached, fits within our overall long-term development plans and updated mining and other cost assumptions. As a result of this review, we recorded a non-cash charge of \$1,552 million, net of deferred income and mining taxes of \$770 million in 2002.

In addition, in 2002, we recorded a non-cash charge of \$74 million, net of income and mining taxes of \$19 million to reduce the carrying values of certain plant, equipment and other assets to their estimated net recoverable amounts based on an evaluation of their recoverability. The principal component of this charge related to capitalized exploration and development costs of the Victor Deep exploration project at our Ontario operations that, as a result of the development of the deposits covered by our Voisey's Bay projects, would probably not be put into production. The balance of this charge consisted primarily of reductions to certain redundant plant, equipment and non-core assets as well as an additional provision for losses relating to certain receivables and other assets arising from our commercial relationships with one of our principal customers that had filed for bankruptcy protection in late March 2002.

Note 5. Goro project suspension costs

In early September 2002, the Goro project experienced temporary labour disruptions by personnel associated with certain project construction subcontractors. As a result of these disruptions, a decision was made to curtail certain activities at the project's site to enable us, contractors, subcontractors and other interested parties to develop procedures to avoid future disruptions. Over the September - November 2002 period, a number of procedures were put in place as part of a phased resumption of certain of the project activities that had been curtailed. During this period, we also initiated an update of the status of certain key aspects of the project, including the necessary permitting, capital cost estimate, project schedule and organization. Work on certain critical parts of the project, including engineering, continued during this update process.

On December 5, 2002, we announced that we would be undertaking a comprehensive review of the Goro project. This action had been based upon information from the project's principal firms providing project engineering, procurement and construction management services that we had received that, if confirmed, would indicate an increase in the capital cost for the project in the range of 30 to 45 per cent above the then current capital cost estimate of \$1,450 million. As a result of the temporary suspension of certain development activities and other actions which had been taken by year-end 2002 during this review process, we recorded a pre-tax charge of \$25 million in the fourth quarter of 2002. This charge comprised \$62 million relating to the cancellation or termination of certain outstanding contractual obligations, to accrue for demobilization costs and to reduce the carrying value of certain assets relating to the project, partially offset by currency hedging gains of \$37 million on certain forward currency contracts. These contracts, which had been entered into to reduce exposure to exchange rate changes associated with certain planned project expenditures to be incurred in certain currencies, were closed out in early January 2003 since they no longer matched the timing of such expenditures due to their expected deferral as a result of the review being undertaken. The close out of these contracts resulted in a further gain of \$11 million during the first quarter of 2003 which was recorded as other income.

In 2003, additional contracts became ineffective which resulted in a further gain of \$21 million. These gains were partially offset by expenses of \$17 million incurred for the on-going care and custody costs associated with the construction site while the project is under suspension. The overall project review process is still underway given its planned scope. We do not currently expect to be in a position to report on the results of this review, including an updated capital cost estimate for the project and project schedule, and the additional effect, if any, that this review could have on our results of operations and financial condition, until at least the summer of 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

Note 6. Other income, net

Other income (expense), net is comprised of the following:

	Year ended December 31		
	2003	2002	2001
Interest income	\$ 16	\$ 13	\$ 14
Gains from sales of securities and other assets	59	5	
Gains from derivative positions in metals	12		
Interest from a tax refund	7	14	
Gain from closure of ineffective derivative contracts (Note 5)	11		
Loss on redemption of securities	(2)		
Other, net	1	8	(1)
	<u> </u>	<u> </u>	<u> </u>
Other income, net	\$104	\$ 40	\$ 13
	<u> </u>	<u> </u>	<u> </u>

Gains from sales of securities and other assets included a milestone payment under the terms of sale of a non-core exploration property in 1998 in the amount of \$24 million as well as \$35 million realized from the sale or transfer of shares and other interests contributed to or received in conjunction with strategic and other collaborations relating to our primary metals operations.

Note 7. Income and mining taxes

In carrying on our mining operations, we are subject to both income and mining taxes. The amount of such taxes will vary depending on the provisions set out by the relevant legislative authority. Generally, most expenditures incurred by us are deductible in computing income tax, whereas mining tax legislation, although based on a measure of profitability from carrying on mining operations, is more restrictive in respect of the deductions permitted in computing income subject to mining tax. In most jurisdictions deductions for financing expenses, such as interest and royalties, are not allowed to be claimed in computing income subject to mining tax. In addition, income unrelated to carrying on mining operations would not be subject to mining tax.

The provision (relief) for income and mining taxes was as follows:

	Year ended December 31		
	2003	2002	2001
			(Restated)
Current taxes			
Canadian	\$(47)	\$ 129	\$ 26
Foreign	11	(10)	18
	<u> </u>	<u> </u>	<u> </u>
	(36)	119	44
	<u> </u>	<u> </u>	<u> </u>
Deferred taxes			
Canadian	(61)	(776)	(146)
Foreign	48	18	17
	<u> </u>	<u> </u>	<u> </u>

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	<u>(13)</u>	<u>(758)</u>	<u>(129)</u>
Income and mining taxes	\$ (49)	\$ (639)	\$ (85)
	■	■	■

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

Earnings (loss) before income and mining taxes and minority interest, by geographic source, were as follows:

	Year ended December 31		
	2003	2002	2001
		(Restated)	(Restated)
Canada	\$ 63	\$(2,067)	\$ 142
Foreign	75	(37)	87
	\$ 138	\$(2,104)	\$ 229

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

	Year ended December 31		
	2003	2002	2001
		(Restated)	(Restated)
Provision (relief) at combined Canadian federal-provincial statutory income tax rate	\$ 56	\$(863)	\$ 96
Resource and depletion allowances	(12)	(27)	(24)
	44	(890)	72
Mining taxes	17	20	17
	61	(870)	89
Currency translation adjustments	42	20	(2)
Currency translation adjustments on long-term debt	48		
Non-deductible losses (non-taxable gains)	(33)	30	1
Tax rate changes	(142)	(6)	(173)
Foreign tax rate differences	(19)	(10)	(8)
Asset impairment charges		182	
Other	(6)	15	8
	\$ (49)	\$(639)	\$ (85)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

Deferred income and mining tax liabilities and assets consisted of the following:

	December 31		
	2003	2002	2001
		(Restated)	(Restated)
Liabilities:			
Property, plant and equipment	\$ 1,879	\$ 1,589	\$ 2,312
Deferred charges and other assets	65	23	29
Long-term debt	48		
Other		2	3
	1,992	1,614	2,344
Assets:			
Long-term debt		23	23
Post-retirement benefits	204	142	141
Asset retirement obligations	45	44	43
Tax loss carryforwards	70	106	75
Other	4	4	5
	323	319	287
Valuation allowance	(27)	(57)	(48)
	296	262	239
Net deferred income and mining tax liability	\$ 1,696	\$ 1,352	\$ 2,105

The restatements reflect a reclassification of previously reported amounts and the inclusion of the deferred tax asset and corresponding increase in valuation allowance in respect of the tax effect of potential Canadian tax losses which would arise if U.S. dollar denominated debt held by Inco and its Canadian subsidiaries was settled at the Canadian/ U.S. exchange rates in effect at the relevant reporting date. These restatements do not result in a change to our deferred income tax position in any of the years reported.

At December 31, 2003, other current assets included current and deferred income and mining taxes of \$94 million (2002 \$51 million; 2001 \$39 million).

During 2001, tax legislation was passed covering projects meeting certain criteria. Goro Nickel S.A. qualified for certain tax incentives under this legislation in connection with its Goro project in New Caledonia. These incentives include an income tax holiday during the construction phase of the project and throughout a 15-year period commencing in the first year in which commercial production is achieved, as defined by the applicable legislation, followed by a five-year, 50 per cent income tax holiday. In addition Goro Nickel S.A. would qualify for certain exemptions from indirect taxes such as import duties during the construction phase and throughout the commercial life of the project. Certain of these tax benefits, including the income tax holiday, are subject to an earlier phase out should the project achieve a specified cumulative rate of return. To date, we have not realized any net income for New Caledonia tax purposes and the benefits of this legislation are expected to apply with respect to any income taxes otherwise payable once the Goro project is in operation.

In determining the likelihood of realizing an income tax asset we take into account a number of factors, including current conditions and anticipated changes in mine or production plans.

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We have non-capital loss carry forwards in the amount of \$60 million available for New Caledonia income tax purposes. These losses expire in 2007 and 2008. The benefits of these tax loss carry forwards have not been recognized for accounting purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

We have capital loss carry forwards in the amount of \$38 million available for United Kingdom income tax purposes to reduce taxable income in certain circumstances. The capital losses may be carried forward indefinitely. The benefits of these tax loss carry forwards have not been recognized for accounting purposes.

In computing our income tax liability, no amount has been recorded in respect of additional potential taxes which might arise should we distribute income realized in certain of our foreign subsidiaries on the basis that it is our intention to reinvest such income in the foreign operations of the relevant subsidiary. Should management's intentions change in respect of such distribution, additional taxes, if any, would be recorded in respect of the distribution from, or disposition or liquidation of, the relevant foreign entity. For those foreign entities from which distributions occur on a regular basis, any additional taxes that would arise on such distributions, if any, have been included in deriving the annual income tax provision for the year in which the income is earned by the foreign subsidiary.

Note 8. Net earnings (loss) per Common Share

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

	Year ended December 31		
	2003	2002	2001
		(Restated)	(Restated)
Basic earnings (loss) per share computation			
Numerator:			
Net earnings (loss)	\$ 137	\$ (1,482)	\$ 304
Dividends on preferred shares	(6)	(26)	(26)
Accretion of convertible debt	(7)	(4)	(3)
Premium on redemption of preferred shares	(15)		
	\$ 109	\$ (1,512)	\$ 275
Denominator:			
Weighted-average common shares outstanding (thousands)	184,500	182,830	182,074
	\$ 0.59	\$ (8.27)	\$ 1.51

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

	Year ended December 31		
	2003	2002	2001
		(Restated)	(Restated)
Diluted earnings (loss) per share computation			
Numerator:			
Net earnings (loss) applicable to common shares	\$ 109	\$ (1,512)	\$ 275
Dilutive effect of:			
Convertible debentures	2		6
	\$ 111	\$ (1,512)	\$ 281
Denominator:			
Weighted-average common shares outstanding (thousands)	184,500	182,830	182,074
Dilutive effect of:			
Convertible debentures	4,360		5,750
Stock options	1,707		868
Warrants	1,308		
	191,875	182,830	188,692
Diluted earnings (loss) per common share	\$ 0.58	\$ (8.27)	\$ 1.49

At December 31, 2003, convertible debt which is convertible into nil Common Shares (2002 9,705,111; 2001 4,180,601), options on 819,000 Common Shares (2002 7,476,506; 2001 5,261,534), Preferred Shares convertible into nil Common Shares (2002 11,277,868; 2001 11,277,987) and Warrants exercisable for nil Common Shares (2002 11,023,497; 2001 11,021,947) were excluded from the computation of diluted earnings (loss) per Common Share because their effects were not dilutive.

Note 9. Inventories

Inventories consisted of the following:

	December 31		
	2003	2002	2001
Finished metals	\$ 193	\$ 149	\$ 145
In-process metals	478	361	290
Supplies	75	66	65
	\$ 746	\$ 576	\$ 500
	\$ 746	\$ 576	\$ 500

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

Note 10. Property, plant and equipment

Property, plant and equipment consisted of the following:

	December 31		
	2003	2002	2001
		(Restated)	(Restated)
Mines and mining plants	\$ 2,902	\$ 2,806	\$ 2,746
Processing facilities	3,383	3,304	3,192
Voisey's Bay project	3,817	3,338	5,532
Goro project	802	637	180
Other	598	595	604
	<hr/>	<hr/>	<hr/>
Total property, plant and equipment, at cost	11,502	10,680	12,254
	<hr/>	<hr/>	<hr/>
Accumulated depreciation	3,277	3,111	2,888
Accumulated depletion	1,249	1,187	1,106
	<hr/>	<hr/>	<hr/>
Total accumulated depreciation and depletion	4,526	4,298	3,994
	<hr/>	<hr/>	<hr/>
Property, plant and equipment, net	\$ 6,976	\$ 6,382	\$ 8,260
	<hr/>	<hr/>	<hr/>

Evaluation of the future cash flows from major development projects such as the Voisey's Bay and Goro projects entails a number of assumptions regarding project scope, the timing, receipt and terms of regulatory approvals, estimates of future metals prices, estimates of the ultimate size of the deposits, ore grades and recoverability, timing of commercial production, commercial viability of new technological processes, production volumes, operating and capital costs, and foreign currency exchange rates. Inherent in these assumptions are significant risks and uncertainties.

At December 31, 2003, property, plant and equipment, at cost included capitalized development costs relating to infill drilling, gathering geological and geotechnical data, further reserve and other mineralized material evaluation and other related activities of \$27 million (2002 \$22 million; 2001 \$89 million). In 2002, such costs in the amount of \$71 million were written off as a result of the review of the carrying value of the Voisey's Bay project and certain other assets discussed in Note 4.

Effective January 1, 2004, we will adopt for Canadian GAAP purposes the depreciation and depletion method described in Note 23(b) for United States GAAP purposes. We are evaluating what impact this change will have on our 2004 consolidated financial statements and whether we are able to retroactively apply this change although applicable pronouncements indicate that it is to be applied prospectively. Had this method been applied beginning January 1, 2002, net earnings for 2003 and 2002 would have increased by \$16 million and \$5 million, respectively.

At December 31, 2003, the net carrying value of property, plant and equipment under construction or development not subject to depreciation or depletion was \$4,720 million (2002 \$4,109 million; 2001 \$5,761 million) which is comprised of amounts for the Voisey's Bay project totalling \$3,777 million (2002 \$3,299 million; 2001 \$5,492 million), the Goro project of \$802 million (2002 \$637 million; 2001 \$180 million) and other assets under construction at our operations of \$141 million (2002 \$173 million; 2001 \$89 million). It is currently expected, assuming that a favourable decision will be made in 2004 to proceed with the Goro project, that depreciation and depletion for the Voisey's Bay and Goro projects will commence in 2006, in line with the projected or planned start of commercial production at these projects. Capitalized interest costs included in capital expenditures were \$54 million in 2003 (2002 \$27 million; 2001 \$13 million).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

Note 11. Long-term debt

Long-term debt consisted of the following (weighted-average interest rates, where applicable, and repayment periods at December 31, 2003 are shown in parentheses):

	December 31		
	2003	2002	2001
Inco Limited			
5.75% Convertible Debentures ^(a)	\$	\$ 173	\$ 173
15.75% Sterling Unsecured Loan Stock (2006) ^(b)	45	45	45
7.75% Notes (2012) ^(c)	400	400	
5.70% Debentures (2015) ^(d)	300		
7.75% Convertible Debentures ^(e)		151	160
9.6% Debentures ^(f)		159	159
Convertible Debentures (2004-2023) ^(g)	15		
7.20% Debentures (2032) ^(h)	400	400	
Subordinated Convertible Debentures (2004-2052) ⁽ⁱ⁾	100		
PT International Nickel Indonesia Tbk			
Loan facilities (2.3%) (2004 - 2006)	192	269	292
Other			
Other (7.6%) (2004 - 2031)	60	46	11
	1,512	1,643	840
Long-term debt due within one year	103	97	81
	\$ 1,409	\$ 1,546	\$ 759

- (a) The 5.75 per cent Convertible Debentures were convertible, at the option of the holders, into Common Shares, at a conversion price of U.S.\$30 per share. The Debentures were redeemable, at our option, commencing in 1999 at an initial premium of 2.875 per cent, declining annually to redemption at par in 2004. The Debentures were redeemed in May 2003.
- (b) The 15.75 per cent Sterling Unsecured Loan Stock is redeemable in 2006 in sterling or, at the option of the holders, in U.S. dollars at a fixed exchange rate of one pound sterling to \$1.98. In 1981, Inco Limited issued Pound Sterling 25 million aggregate principal amount of unsecured bonds which were called unsecured loan stock in the United Kingdom. These bonds were issued under a Trust Deed which contained many of the same provisions that are included in a trust indenture covering the issuance of unsecured bonds in the United States. These bonds rank equally and ratably with all of Inco's other unsecured and unsubordinated debt. Holders of these debt securities were defined as bondholders under the Trust Deed. Under United Kingdom law, unsecured loan stock represent an unsecured bond issued in bearer form.
- (c) On May 13, 2002, we issued and sold through an underwritten public offering in the United States \$400 million aggregate principal amount of 7.75% Notes due 2012. The Notes are redeemable, at our option, at any time at a price equal to the greater of the principal amount of the Notes and the sum of the present values of the remaining scheduled payments of principal and interest. The interest payments under the Notes were swapped in exchange for a floating rate of 3.25 per cent over LIBOR.
- (d) On September 26, 2003, we issued and sold through an underwritten public offering in the United States \$300 million aggregate principal amount of our 5.70% Debentures due 2015. The Debentures are redeemable, at our option, at any time at a price equal to the greater of the principal amount of the Notes and the sum of the present values of the remaining scheduled payments of principal and interest. The interest payments under the Debentures were swapped in exchange for a floating rate of 0.57 per cent over LIBOR.
- (e) The 7.75 per cent Convertible Debentures were convertible, at the option of the holders, into Common Shares at a conversion price of U.S.\$38.25 per share. The Debentures were redeemable, at our option, in 1999 at a premium of 1.55 per cent, declining annually to redemption at par in 2001 and thereafter. The Debentures were redeemed in October 2003.
- (f)

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The 9.6 per cent Debentures were redeemable, at our option, commencing in 2002 at an initial premium of 4.8 per cent, declining annually to redemption at par in 2012 and thereafter. The interest payments under the Debentures were swapped in exchange for a floating rate of 3.05 per cent over LIBOR. The swap was cancelled in May 2003 and the Debentures were subsequently redeemed in October 2003.

- (g) In March 2003, we issued and sold \$273 million amount payable at maturity of Convertible Debentures due 2023. Reference is made to Note 14 for the details of the Convertible Debentures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

- (h) On September 23, 2002, we issued and sold through an underwritten public offering in the United States \$400 million aggregate principal amount of 7.20% Debentures due 2032. The Debentures are redeemable, at our option, at any time at a price equal to the greater of the principal amount of the Debentures and the sum of the present values of the remaining scheduled payments of principal and interest.
- (i) In March 2003, we issued and sold \$227 million aggregate principal amount of 3 1/2% Subordinated Convertible Debentures due 2052. Reference is made to Note 14 for the details of the Subordinated Debentures.
- (j) Our 59 per cent-owned subsidiary, PT International Nickel Indonesia Tbk (PT Inco), had outstanding at December 31, 2003 loan facilities aggregating \$192 million consisting of a \$131 million expansion loan (2002 \$183 million; 2001 \$236 million); a \$31 million loan (2002 \$44 million; 2001 \$56 million) and a \$30 million loan (2002 \$42 million; 2001 \$nil million). All loans under the loan facilities are repayable in 13 equal semi-annual instalments commencing March 31, 2000. The expansion loan and the \$31 million loan bear interest, when drawn, at 7/8 per cent over LIBOR in the first five years and one per cent over LIBOR in the last five years. The \$30 million loan bears interest at 1 1/2 per cent over LIBOR. As security for these loans, PT Inco has assigned and pledged certain of its cash and cash equivalents, sales agreements, service agreements and insurance policies.
- (k) We maintain committed bank credit facilities aggregating \$680 million. These facilities are provided by a group of banks under separate agreements, the terms of each agreement being substantially the same. Except for four facilities totalling \$145 million in commitments, the facilities include revolving commitments from 364 days to four years. The four facilities totalling \$145 million in commitments have only revolving periods, which expire either in June 2005, June 2006 or June 2007. The respective revolving period of all of the facilities may be extended for an additional 364-day period at the discretion of the respective bank under the particular facility, subject to the approval of lenders representing, in the aggregate, at least 66 2/3 per cent of the total aggregate commitments under the facilities, and any amounts outstanding at the maturity of the revolving period are repayable at that time. The revolving periods for the facilities currently expire on dates ranging from June 1, 2004 to June 4, 2007, with \$273 million of these facilities expiring on June 1, 2004.

Each facility provides that, so long as advances are outstanding, we will be required to maintain a Tangible Net Worth, as defined in the facility agreements, of not less than \$1.5 billion and a ratio of Consolidated Indebtedness, as defined, to Tangible Net Worth, as defined in the facility agreements, not to exceed 50:50. At December 31, 2003, Tangible Net Worth was \$3.8 billion and the ratio of Consolidated Indebtedness to Tangible Net Worth was 26:74.

Interest expense on long-term debt for the years 2003, 2002 and 2001 was \$36 million, \$46 million and \$54 million, respectively. Taking into account the aforementioned interest rate swaps, the average effective interest rate on long-term debt at December 31, 2003 was 5.1 per cent and approximately 61 per cent of long-term debt bears interest at rates that are subject to periodic adjustments based on market interest rates. Approximately 97 per cent of long-term debt is effectively payable in U.S. dollars.

At December 31, 2003, long-term debt maturities and sinking fund requirements for each of the five years through 2008 were: 2004 \$103 million; 2005 \$87 million; 2006 \$90 million; 2007 \$4 million; 2008 \$4 million.

Note 12. Post-retirement benefits

Our pension plans cover essentially all employees and provide certain health care and life insurance benefits for retired employees.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

The change in the funded status of post-retirement defined benefit plans was as follows:

Year ended December 31	Pension benefits			Post-retirement benefits other than pensions		
	2003	2002	2001	2003	2002	2001
Change in post-retirement benefits obligation						
Obligation at beginning of year	\$2,172	\$2,031	\$2,101	\$ 677	\$ 581	\$ 561
Service cost	33	27	27	10	6	6
Interest cost	153	140	138	49	41	39
Plan amendments	20	10				
Changes in assumptions	73	69		36	68	29
Actuarial losses	1	18	28	11	9	10
Benefits paid	(184)	(150)	(142)	(38)	(32)	(31)
Currency translation adjustments	466	27	(121)	149	4	(33)
	\$2,734	\$2,172	\$2,031	\$ 894	\$ 677	\$ 581
Change in pension plan assets						
Fair value of plan assets at beginning of year	\$1,367	\$1,507	\$1,731			
Actual return on plan assets	231	(91)	(54)			
Employer contributions	142	67	60			
Benefits paid	(165)	(138)	(136)			
Currency translation adjustments	282	22	(94)			
	\$1,857	\$1,367	\$1,507			
Unfunded status of plans at end of year	\$ (877)	\$ (805)	\$ (524)	\$ (894)	\$ (677)	\$ (581)
Unrecognized actuarial and investment losses	1,007	864	562	252	173	101
Unrecognized prior service costs	84	67	70			
	\$ 214	\$ 126	\$ 108	\$ (642)	\$ (504)	\$ (480)

The net post-retirement benefits asset (liability) is reflected in the Consolidated Balance Sheet as follows:

December 31	Pension benefits			Post-retirement benefits other than pensions		
	2003	2002	2001	2003	2002	2001
Deferred charges and other assets	\$226	\$138	\$120	\$	\$	\$
Accrued payrolls and benefits	(12)	(12)	(12)	(39)	(29)	(29)
Post-retirement benefits	—	—	—	(603)	(475)	(451)
	\$214	\$126	\$108	\$ (642)	\$ (504)	\$ (480)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

Post-retirement benefits expense included the following components:

Year ended December 31	Pension benefits			Post-retirement benefits other than pensions		
	2003	2002	2001	2003	2002	2001
Service cost	\$ 33	\$ 27	\$ 27	\$ 10	\$ 6	\$ 6
Interest cost	153	140	138	49	41	39
Expected return on plan assets	(162)	(152)	(150)			
Amortization of actuarial and investment losses	62	35	17	11	6	4
Amortization of unrecognized prior service costs	16	13	18			
	102	63	50	70	53	49
Defined benefit pension and post-retirement benefits other than pensions expense						
Defined contribution pension expense	5	4	4			
	\$ 107	\$ 67	\$ 54	\$ 70	\$ 53	\$ 49
Post-retirement benefits expense						

The weighted-average assumptions used in the determination of the post-retirement benefits expense and obligation were as follows:

Year ended December 31	Pension benefits			Post-retirement benefits other than pensions		
	2003	2002	2001	2003	2002	2001
Discount rate	6.5%	7.0%	7.0%	6.5%	7.0%	7.0%
Expected return on plan assets	8.5%	9.0%	9.0%			
Rate of compensation increase	3.0%	3.0%	3.0%			

Effective December 31, 2003, the assumption for the discount rate used to determine the pension benefits obligation was changed to 6 per cent. Effective January 1, 2004, the assumption for the expected return on plan assets was changed to 8 per cent.

The pension plan weighted-average asset allocations, by asset category were as follows:

	December 31		
	2003	2002	2001
Equity securities	57%	55%	56%
Debt securities	43%	45%	44%
	100%	100%	100%
Total			

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The asset allocation policy for the plans is 40% fixed income and 60% equities for most of the significant pension plans, with the exception of the United Kingdom pension plan which has a policy mix of 50% fixed income and 50% equities. The actual asset mix is maintained fairly close to the policy mix at most times by the use of a rigorous rebalancing policy.

Equity securities include Inco Limited common shares in the amount of \$7 million (2002 \$5 million, 2001 \$4 million).

The return on assets assumption has been based on an estimate of the future long-term average return that can reasonably be earned on the assets of the pension fund. The starting point for the calculation of this assumption is the current yield obtainable from the fixed income portion of the portfolio. The yield available on the benchmark used, the Scotia Capital Universe Bond Index (50% of the bond component) and the Scotia Capital Long Bond Index (the remainder of the bond component), is used as the expected return on the bond indices since, in our view, this represents the best estimate of long-term future returns for the bond portfolio.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Equity investments are assumed in aggregate to have an expected long-term future return of 3% in excess of the yield available on long-term Government of Canada bonds; for 2002 and 2003, the 10 Year+ index was used and for 2004, the 10-Year benchmark bond yield was used (this change reflects the marketplace change and significant lack of issuance for 30 year maturities). For the portion of the assets that are invested in actively managed investment managers, an additional return expectation is included to recognize each manager's target anticipated long-term value added above the index return. We note that actual added value over the past periods has been substantially in excess of this amount. The weighted average of the returns determined for each portion of the fund becomes the return on assets assumption (rounded to the next lower 50 basis points).

The composite health care cost trend rate used in measuring post-retirement benefits other than pensions was assumed to begin at 8 per cent, gradually declining to 5 per cent by 2007 and remaining at that level thereafter.

The projected pension benefits obligation and fair value of plan assets for pension plans with accumulated benefits obligations in excess of plan assets were as follows:

December 31	Pension benefits		
	2003	2002	2001
Projected benefits obligation	\$2,734	\$2,172	\$1,940
Fair value of plan assets	1,857	1,367	1,415
Unfunded status	\$ (877)	\$ (805)	\$ (525)

A one per cent change in the assumed composite health care cost trend rate would have the following effects:

	Post-retirement benefits other than pensions	
	1% Increase	1% Decrease
Effect on accumulated benefits obligation	\$ 101	\$ (125)
Effect on net periodic expense	8	(9)

Note 13. Asset retirement obligation

The estimation of asset retirement obligation costs depends on the development of environmentally acceptable closure and post-closure plans, which, in some cases, may require significant research and development to identify preferred methods for such plans which are economically sound and which, in many cases, may not be implemented for several decades. We have continued to utilize appropriate technical resources, including outside consultants, to develop specific site closure and post-closure plans in accordance with the requirements of the various jurisdictions in which we operate. Typical closure and progressive rehabilitation activities include, where applicable, demolition of buildings, removal of underground equipment, sealing of mine openings, treatment to reduce or prevent acid generation from stockpiled waste materials such as tailings, general clean-up activities aimed at returning the area to an environmentally acceptable condition, and post-closure care and maintenance.

In accordance with environmental regulations adopted by the Province of Ontario in 1991, we developed rehabilitation and site restoration plans associated with the eventual closure of our operations in that province. Three closure plans were filed by the end of 1997, having previously received approval from the Province of Ontario for the consolidation of our operating mines and properties in that province into 15 sites for purposes of closure plans, and the remaining 12 closure plans were filed by the end of 1998. As a result of provincial regulatory changes

which became effective in 2000, the plans were refiled to meet these changes in 2001. We have continued to develop future tailings disposal and water management alternatives to accommodate up to approximately 40 years of future production. We believe that cost-effective tailings disposal alternatives exist

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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within the ongoing operating activities of the Sudbury operations which would limit site restoration at closure to a care and maintenance activity, thus significantly reducing the costs of such site restoration.

In accordance with environmental regulations adopted by the Province of Manitoba in 1999, we have developed reclamation plans associated with the eventual closure of operations in that province. The Province of Manitoba has accepted the closure plans for all of our operations in the province.

Closure plans for the proposed mine and mill facilities were prepared and submitted in 1998 in connection with the environmental review process of the Voisey's Bay project in the Province of Newfoundland and Labrador. This plan is currently being updated and will be completed in 2004. Closure plans were prepared and submitted in 2001 in connection with the bankable feasibility study for the Goro project in New Caledonia.

We follow a policy of progressive rehabilitation at our Indonesian operations whereby land disturbed by mining activities is revegetated on an ongoing basis. Based on an independent feasibility study, the expansion of facilities in Sorowako meets or surpasses current standards in Indonesia and Canada for containment of contaminant discharges to air, water and land.

Closure plans are in the process of being prepared for the surface facilities in the United States and the United Kingdom. However, based on currently available information, there are no required significant site restoration activities associated with these facilities.

Substantial asset retirement obligations are incurred on an ongoing basis which will significantly reduce asset retirement obligation costs that may otherwise be incurred following the closure of any sites. This progressive rehabilitation includes tailings management, land reclamation and revegetation programs, decommissioning and demolition of plants and buildings, and waste management activities. Operating costs associated with ongoing environmental and reclamation programs, including progressive rehabilitation, aggregated \$39 million in 2003, \$13 million in 2002 and \$12 million in 2001 and are included in cost of sales and other operating expenses. Capital expenditures on environmental projects were \$28 million in 2003, \$9 million in 2002 and \$17 million in 2001.

Although the ultimate amount to be incurred is uncertain, the total liability for asset retirement obligations in respect of worldwide operations, to be incurred primarily after cessation of operations, is estimated to be approximately \$904 million at December 31, 2003 on an undiscounted basis. The estimate of the total liability for asset retirement obligations has been developed from independent environmental studies including an evaluation of, among other factors, currently available information with respect to closure plans and closure alternatives, the anticipated method and extent of site restoration using current costs and existing technology, and compliance with presently enacted laws, regulations and existing industry standards. The total liability represents estimated expenditures associated with closure, progressive rehabilitation and post-closure care and maintenance. Potential recoveries of funds from the future sale of assets upon the ultimate closure of operations have not been reflected in the estimate of the total liability or related annual provision.

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 obligations and prior period financial statements have been restated to reflect this change. Under the new standard, the asset retirement obligations are recognized when incurred and recorded as liabilities at fair value assuming a credit-adjusted risk-free rate of approximately 5.5 per cent on average. Due to the nature of our closure plans, the timing of such cash expenditures is expected to occur over a significant period of time being from one year for plans which are already in progress and over 100 years for the longest plan. The liability is accreted over time through periodic charges to cost of sales and other operating expenses. In addition, the asset retirement cost is capitalized

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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as part of the asset's carrying value and depreciated over the asset's useful life. The following table shows the movement in the liability for asset retirement obligations:

	Year ended December 31		
	2003	2002	2001
Obligation at beginning of year	119	121	124
Accretion expense	6	5	5
Liabilities settled	(6)	(7)	(8)
Revisions in estimated cash flows	22		
	141	119	121
	141	119	121

As of December 31, 2003, we had outstanding letters of credit in the amount of \$21 million to secure a portion of our closure costs related to the closure of three mines in Ontario. These letters of credit have a term of one year and will automatically renew without any action by either Inco or the counterparty until the earlier of (i) Inco having complied with the terms of the certified closure plans or (ii) funds from such letters of credit being utilized by the Ontario Ministry of Northern Development and Mines, the Ministry responsible for overseeing such closure plans, to perform rehabilitation work if we did not meet the requirements with respect to such closure plans. We are required to submit annual updates on changes to the closure plans, including any decommissioning and rehabilitation work completed during the previous year.

In view of the uncertainties concerning environmental remediation, the ultimate cost of asset retirement obligations could differ materially from the estimated amounts provided. The estimate of the total liability for asset retirement obligation costs is subject to change based on amendments to laws and regulations and as new information concerning our operations becomes available. Future changes, if any, to the estimated total liability as a result of amended requirements, laws, regulations and operating assumptions may be significant and would be recognized prospectively as a change in accounting estimate, when applicable. Environmental laws and regulations are continually evolving in all regions in which we operate. We are not able to determine the impact, if any, of environmental laws and regulations that may be enacted in the future on our results of operations or financial position due to the uncertainty surrounding the ultimate form that such future laws and regulations may take.

Note 14. Convertible debt

On March 29, 2001, we issued and sold, on a bought deal basis, zero-coupon convertible notes (LYON Notes), representing an aggregate amount payable at maturity of \$438 million, which are due and payable March 29, 2021, for net cash proceeds of \$226 million. No interest is payable on the LYON Notes prior to maturity except in connection with any term or condition where the holder receives the then accreted value of the LYON Notes.

The LYON Notes are convertible, at the option of the holder, at any time on or prior to their maturity date into Common Shares at a fixed conversion rate of 26.5530 Common Shares per LYON Note, representing an initial conversion price of \$19.76 per share, with such conversion rate and price being subject to certain anti-dilution adjustment provisions. Holders of LYON Notes also have a special conversion right, exercisable on March 29 in 2007, 2011 and 2016, giving such holders the right to convert the then accreted value of their LYON Notes into Common Shares based upon the then market price for such shares. The LYON Notes are also subject to redemption at our option on or after March 29, 2007 at their then accreted value.

We have the right, subject to certain conditions, in connection with the exercise by a holder of such conversion or special conversion rights, to pay such holders cash, in whole or in part, in lieu of Common Shares. We also have the right, subject to certain conditions, in connection with any redemption or certain purchases of the LYON Notes, to pay the redemption or purchase price in Common Shares, based upon the then market price

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

thereof, or in cash or any combination of Common Shares and cash. We are required to offer to purchase the LYON Notes if there is a change in control of Inco, as defined in the Trust Indenture dated as of March 29, 2001 between Inco and The Bank of New York, as Trustee, occurring before March 29, 2007.

The LYON Notes accrete over the 20-year term of the LYON Notes to their value at maturity through periodic after-tax charges to retained earnings. The LYON Notes are not dilutive for purposes of calculating diluted earnings per share based on our right to and current intention that we will eventually meet the redemption and conversion terms of these Notes in cash.

In March 2003, we issued and sold in concurrent private offerings (i) \$273 million amount payable at maturity of Convertible Debentures due March 14, 2023 (Convertible Debentures), representing \$249 million in gross proceeds to us, and (ii) \$227 million aggregate principal amount of Subordinated Convertible Debentures due March 14, 2052 (Subordinated Convertible Debentures). The total combined gross proceeds were \$476 million from these two issues of convertible debt securities and the net cash proceeds were \$470 million after deduction of commissions and other after-tax expenses. The Convertible Debentures and Subordinated Convertible Debentures pay a cash coupon of 3.5 per cent and 1.0943 per cent, respectively.

The Convertible Debentures and the Subordinated Convertible Debentures are convertible at the option of the holders into Common Shares at the conversion rates referred to below, subject to certain anti-dilution adjustment provisions, only in the following circumstances: (i) if our Common Share price, calculated over a specified period, has exceeded 120% of the effective conversion price of the Convertible Debentures or the Subordinated Convertible Debentures, as applicable; (ii) if the trading price of the Convertible Debentures or the Subordinated Convertible Debentures, as applicable, over a specified period has fallen below 95 per cent of the amount equal to our then prevailing Common Share price times the applicable conversion rate; (iii) if we were to call the Convertible Debentures or the Subordinated Convertible Debentures, as applicable, for redemption; or (iv) if certain specified corporate events were to occur. Each Convertible Debenture will be convertible into 31.9354 Common Shares, representing an initial conversion price of approximately \$28.61 per Common Share, and each Subordinated Convertible Debenture will be convertible into 38.4423 Common Shares, representing a conversion price of approximately \$26.01 per Common Share.

Holder of the Convertible Debentures have the right to have us redeem these Debentures at their issue price plus accrued interest on March 14 in each of 2010, 2014 and 2018. We have the right to redeem the Convertible Debentures at any time on or after March 19, 2010. We have the right to redeem the Subordinated Convertible Debentures on or after March 19, 2008 if our Common Shares trade over a specified period above 125 per cent of the conversion price for these securities. Holders of the Subordinated Convertible Debentures have no right to require us to redeem these subordinated securities. In meeting the conversion, redemption, payment at maturity and other related terms of these convertible debt securities, we have the right, at our option, to satisfy these obligations in cash, Common Shares or any combination thereof.

In the case of the Convertible Debentures, these securities rank equally and rateably with all of our existing and future unsecured and unsubordinated indebtedness. The Subordinated Convertible Debentures are subordinated to all of our senior indebtedness, which includes, among other obligations, all of our existing and future unsecured and unsubordinated indebtedness.

For Canadian reporting purposes, these convertible debt securities were initially recorded as \$114 million of debt and \$356 million of equity. The portion recorded as debt represents the present value of the cash coupons discounted as at the date of issuance.

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Changes in the convertible debt were as follows:

	LYON Notes	Convertible Debentures	Subordinated Convertible Debentures	Total
<i>December 31, 2000</i>	\$	\$	\$	\$
Convertible debt issued	226			226
Accretion of convertible debt	5			5
	—	—	—	—
<i>December 31, 2001</i>	231			231
Accretion of convertible debt	7			7
	—	—	—	—
<i>December 31, 2002</i>	238			238
Convertible debt issued		230	126	356
Accretion of convertible debt	9	3		12
	—	—	—	—
<i>December 31, 2003</i>	\$247	\$233	\$126	\$606
	—	—	—	—

Note 15. Preferred Shares

We are authorized to issue 45,000,000 Preferred Shares with no par value, which are issuable in series for a maximum consideration of Cdn.\$1.5 billion or its equivalent in other currencies.

Preferred Shares Series E

On August 21, 1996, we issued 9,424,657 5.5 per cent Convertible Redeemable Preferred Shares Series E (Preferred Shares Series E), with an issue price of \$50 per share, for an aggregate face value of \$471 million as partial consideration for the acquisition of Diamond Fields Resources Inc. (Diamond Fields). The Preferred Shares Series E had an annual cumulative dividend of 5.5 per cent payable in U.S. dollars or the equivalent in Canadian dollars. The Preferred Shares Series E were convertible at any time into Common Shares at a conversion rate, subject to certain adjustments in the event of stock splits, stock dividends, certain exchange or tender offers and certain fundamental corporate changes, of 1.19474 Common Shares for each Preferred Share Series E and were redeemable at our option after five years at an initial premium of 2.75 per cent, declining annually to 0.55 per cent in 2005, and were subject to mandatory redemption at the \$50 issue price (or the equivalent in Canadian dollars at the option of the holder), together with all then accrued and unpaid dividends, on August 21, 2006. We had the right, subject to certain exceptions, to satisfy the optional or mandatory redemption price payable by issuing Common Shares based upon a formula equivalent to 95 per cent of a weighted-average trading price for the Common Shares over a 20-day period ending five days prior to the particular redemption date. The Preferred Shares Series E had general voting rights on the basis, subject to certain adjustments in the event of certain fundamental corporate changes, of one vote per share and had a separate series vote in the event of certain fundamental changes which required a series vote under applicable corporate laws. The Preferred Shares Series E also had a right to elect two Directors in the event that, and so long as, cumulative quarterly dividends on the series were in arrears for six or more quarters. At the date of issue, a beneficial conversion feature for the Preferred Shares Series E did not exist because the conversion price to common shares was above the then current market price.

Contingently issuable equity included Preferred Shares Series E contingently issuable upon exercise of stock options held by former employees of Diamond Fields, which were exercisable through to December 13, 2003. On April 17, 2003, all remaining outstanding options held by one holder were exercised and upon exercise the holder received a combination of 485,471 Common Shares with a value of \$17 million and cash in the amount of \$3 million partially in lieu of the Preferred Shares Series E that had been called for redemption.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

On March 28, 2003, we announced that we would exercise our optional right to redeem all of our issued and outstanding Preferred Shares Series E having a \$472 million aggregate liquidation preference and which were subject to mandatory redemption in 2006, with such redemption to be effective May 1, 2003. Pursuant to their terms, we redeemed the Preferred Shares Series E by paying the optional redemption price of \$51.10 per share plus all accrued and unpaid dividends to the May 1, 2003 redemption date. Holders of the Series E Preferred Shares had the right to convert their shares into Common Shares at a fixed conversion rate of 1.19474 Common Shares for each Preferred Share Series E held at any time prior to the May 1, 2003 redemption date. The conversion rate represented an effective conversion price of \$41.85 per Common Share. The total aggregate redemption price for the Preferred Shares Series E was \$487 million, including a redemption premium of \$11 million based upon the \$50 issue price per Preferred Share Series E and \$4 million in accrued dividends.

Changes in the Preferred Shares Series E were as follows:

	<u>Number of shares</u>	<u>Amount</u>
<i>December 31, 2000</i>	9,439,725	\$ 472
Shares converted to Common Shares	(25)	—
<i>December 31, 2001</i>	9,439,700	472
Shares converted to Common Shares	(100)	—
<i>December 31, 2002</i>	9,439,600	472
Shares converted to Common Shares	(1,193)	—
Shares redeemed	(9,438,407)	(472)
<i>December 31, 2003</i>	—	\$ —

Note 16. Warrants

On December 14, 2000, we issued warrants upon the redemption of our Class VBN Shares. Each Common Share purchase warrant (a Warrant) has an exercise price, for each whole Warrant, of Cdn.\$30.00 (or the equivalent in U.S. dollars) for the purchase of one Common Share at any time on or before August 21, 2006. The exercise price and/or the number and kind of securities issuable on the exercise of the Warrants are subject to adjustment in certain events, as set forth in the Warrant Agreement dated as of December 1, 2000 among Inco, CIBC Mellon Trust Company and ChaseMellon Shareholder Services LLC, as Canadian and U.S. Warrant Agents, respectively, covering the issuance of the Warrants. These adjustments include, among others, certain changes in our capital structure such as any subdivision or consolidation of Common Shares, stock dividends or other distributions, the consolidation, amalgamation or merger of Inco with another company, or the transfer of all or substantially all of our assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

Changes in the Warrants were as follows:

	Number of warrants	Amount
<i>December 31, 2000</i>	10,997,903	\$ 62
Warrants issued	26,987	
Warrants exercised	(2,943)	
	<hr/>	<hr/>
<i>December 31, 2001</i>	11,021,947	62
Warrants issued	1,782	
Warrants exercised	(232)	
	<hr/>	<hr/>
<i>December 31, 2002</i>	11,023,497	62
Warrants issued	416	
Warrants exercised	(849)	
	<hr/>	<hr/>
<i>December 31, 2003</i>	11,023,064	\$ 62
	<hr/>	<hr/>

Note 17. Common shares

We are authorized to issue an unlimited number of Common Shares without nominal or par value.

Changes in the Common Shares were as follows:

	Number of shares	Amount
<i>December 31, 2000</i>	181,807,214	\$ 2,751
Options exercised	367,350	5
Shares issued under incentive plans	15,196	
Shares issued on conversion of Preferred Shares Series E	29	
Shares issued on exercise of Warrants	2,943	
	<hr/>	<hr/>
<i>December 31, 2001</i>	182,192,732	2,756
Options exercised	1,012,635	14
Shares issued under incentive plans	32,633	1
Shares issued on conversion of Preferred Shares Series E	119	
Shares issued on exercise of Warrants	232	
	<hr/>	<hr/>
<i>December 31, 2002</i>	183,238,351	2,771
Options exercised	3,130,556	68
Shares issued under incentive plans	40,249	1
Shares issued on conversion of Preferred Shares Series E	1,424	
Shares issued upon exercise of former Diamond Fields stock options	485,471	17
Shares issued on conversion of Debentures	18,965	1
Shares issued on exercise of Warrants	849	
	<hr/>	<hr/>

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December 31, 2003

186,915,865

\$2,858

Contingently issuable equity included Common Shares contingently issuable upon exercise of stock options held by former employees of Diamond Fields Resources Inc. On April 17, 2003, all remaining outstanding options held by one holder were exercised and upon exercise the holder received a combination of 485,471

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

Common Shares with a value of \$17 million and cash in the amount of \$3 million in lieu of certain securities that had been called for redemption.

In September 1998, our Board of Directors, given the expiration of a shareholder rights plan which had been implemented in October 1988, adopted a new shareholder rights plan that took effect on October 3, 1998. This new plan, set forth in a Rights Plan Agreement entered into between Inco and CIBC Mellon Trust Company, as Rights Agent, is designed to (i) encourage the fair and equal treatment of shareholders in connection with any bid for control by providing them with more time than the minimum statutory period during which such bid must remain open in order to fully consider their options, and (ii) provide the Board of Directors with additional time, if appropriate, to pursue other alternatives to maximize shareholder value.

The new plan, amended in certain respects by the Board of Directors in February 1999, was approved by shareholders at the 1999 Annual and Special Meeting of Shareholders and will remain in effect until October 2008 subject to reconfirmation of such plan, as may be further amended, by holders of the voting securities at the annual meeting of shareholders to be held in April 2005. The following represents a summary of some of the key terms of the plan.

The rights issued under the plan will initially attach to and trade with the Common Shares and no separate certificates will be issued unless an event triggering these rights occurs. Certificates evidencing Common Shares will be legended to reflect that they evidence the rights until the Separation Time (as defined below). Holders of the Convertible Debentures, Subordinated Convertible Debentures and LYON Notes and the certificates of entitlement attached thereto (which entitle their holders to receive rights in the event that the related security is converted into Common Shares) will generally be entitled to receive, upon conversion of the relevant security and presentment of the certificate of entitlement, respectively, rights in an amount equal to the number of Common Shares issued upon conversion of such securities.

The rights will separate from the Common Shares (Separation Time) and be transferable, trade separately from the Common Shares and become exercisable only when a person acquires, or announces their intention to acquire, beneficial ownership of 20 per cent or more of (i) the then outstanding Voting Securities, or (ii) the then outstanding Common Shares alone, in either case without complying with the permitted bid provisions of the plan (as summarized below), or without the approval of the Board of Directors. Should such an acquisition occur, each right would entitle its holder, other than the acquiring person or persons related to or acting jointly or in concert with such person, to purchase additional Common Shares at a 50 per cent discount to the then current market price. The acquisition by any person (an Acquiring Person) of 20 per cent or more of the Common Shares or Voting Securities, other than by way of a permitted bid, is referred to as a Flip-in-Event . Any rights held by an Acquiring Person will become void upon the occurrence of a Flip-in-Event.

A permitted bid is a bid made to all holders of the outstanding Voting Securities that is open for at least 60 days. If, at the end of such 60-day period, more than 50 per cent of the then outstanding Common Shares, other than those securities owned by the party making the bid and certain related persons, have been tendered, such party may take up and pay for the Common Shares but must extend the bid for a further 10 business days to allow other shareholders to tender, thus providing shareholders who had not tendered to the bid with enough time to tender to the bid once it is clear that a majority of Common Shares have been tendered.

Under this plan, we can (i) waive our application to enable a particular takeover bid to proceed, in which case the plan will be deemed to have been waived with respect to any other takeover bid made prior to the expiry of any bid subject to such waiver or (ii) with the prior approval of the holders of Voting Securities or rights, redeem the rights for nominal consideration at any time prior to a Flip-in-Event.

Note 18. Stock compensation plans

The stock option plans authorize the granting of options to key employees to purchase Common Shares at prices not less than 100 per cent of their market value on the day the option is granted. The 2001 employee plan,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

which replaced the 1997 employee plan and has a term of five years, authorized the granting of options to purchase up to 6,000,000 Common Shares. The Non-Employee Director Share Option Plan, which came into effect in April 2002 and has a term of five years, authorized the granting of options to the non-employee members of our board of directors to purchase up to 300,000 Common Shares. The stock option plans provide that no shares subject to any options granted shall be purchasable after 10 years from the date of grant and also include an anti-dilution provision to protect the option-holder in the event of stock splits or other significant capital changes.

At December 31, 2003, outstanding options for 1,884,400 Common Shares, as amended for the anti-dilution adjustment, also carry share appreciation rights (SARs). These SARs entitle an optionee, in lieu of exercising an option to purchase Common Shares, to surrender all or a portion of the related option in exchange for an amount equal to the difference between the then market price per share and the exercise price per share specified in the stock option, multiplied by the number of shares covered by the stock option, or portion thereof so surrendered. We may elect to deliver Common Shares, cash, or a combination of Common Shares and cash, equal in value to such difference. Compensation expense in respect of SARs for the years 2003, 2002 and 2001 was \$36 million, \$7 million and \$nil, respectively.

One-half of stock options granted are exercisable on or after six months from the grant date, with the remaining options exercisable on or after 18 months from the grant date.

Pursuant to our mid-term incentive plans (MTIPs), awards in the form of Common Shares are made to certain key employees subject to transfer, sale and encumbrance restrictions for a three-year period from the date of the award. In the year ended December 31, 2003, 40,249 Common Shares were awarded in respect of MTIPs (2002 32,633; 2001 15,196).

Changes in Common Share options outstanding are summarized as follows:

Year ended December 31	Number of Common Shares		
	2003	2002	2001
Outstanding at beginning of year	7,476,506	7,729,634	6,977,984
Options granted	1,155,000	1,377,000	1,272,500
Options exercised	(3,867,151)	(1,140,700)	(427,350)
Options terminated	(191,750)	(489,428)	(93,500)
Outstanding at end of year	4,572,605	7,476,506	7,729,634
Available for grant at December 31	3,785,000	4,928,250	6,000,000
Exercisable at December 31	3,954,107	6,765,756	7,095,134

Changes in the weighted-average exercise price of Common Share options are summarized as follows:

Year ended December 31	Weighted-average exercise price		
	2003	2002	2001
Outstanding at beginning of year	\$ 21.42	\$ 21.49	\$ 21.83
Options granted	20.90	17.80	16.96
Options exercised	(18.63)	(14.11)	(12.47)
Options terminated	(26.74)	(29.43)	(26.17)

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Outstanding at end of year	\$ 23.43	\$ 21.42	\$ 21.49
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

The following table summarizes information about Common Share options outstanding at December 31, 2003.

Range of exercise prices	Common Share Options Outstanding			Common Share Options Exercisable	
	Number outstanding at December 31, 2003	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number exercisable at December 31, 2003	Weighted-average exercise price
\$11-16	465,500	4.5	\$ 13.40	465,500	\$ 13.40
17-24	2,387,675	8.0	18.95	1,804,177	18.40
25-37	1,719,430	2.6	32.36	1,684,430	32.46
\$11-37	4,572,605	5.6	\$23.43	3,954,107	\$23.80

The expiration dates of Common Share options outstanding at December 31, 2003 ranged from February 16, 2004 to September 29, 2013. At December 31, 2003, there were 310 employees participating in the Common Share option plans.

Effective January 1, 2003, we prospectively adopted the fair value method of accounting for stock-based compensation. Had we elected to recognize the cost of stock-based compensation based on the estimated fair value of stock options granted, net earnings (loss) would have been as follows for 2001 and 2002:

	Year ended December 31	
	2002	2001
Pro forma net earnings (loss)	\$(1,486)	\$ 301
Pro forma basic earnings (loss) per common share	\$ (8.29)	\$ 1.49
Pro forma diluted earnings (loss) per common share	\$ (8.29)	\$ 1.47

For 2003, an expense of \$3 million was charged to earnings with the offset credited to contributed surplus to reflect the fair value of stock options granted to employees in 2003. The fair value of each stock option granted is estimated on the date of grant using an option pricing model with the following assumptions:

	Year ended December 31		
	2003	2002	2001
Stock price at grant date	\$20.85	\$17.62	\$16.96
Exercise price	\$20.85	\$17.62	\$16.96
Weighted-average fair value of options granted during the year	\$ 6.29	\$ 5.92	\$ 6.24
Expected life of options (years)	3	3	3
Expected stock price volatility	41.1%	44.1%	47.3%
Expected dividend yield	%	%	%
Risk-free interest rate	2.1%	3.6%	4.8%

Note 19. Nature of operations and 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

which include the Voisey's Bay nickel-copper-cobalt project under development in the Province of Newfoundland and Labrador and the Goro nickel-cobalt project in the French Overseas Territory of New Caledonia.

Net sales to customers by product were as follows:

	Year ended December 31		
	2003	2002	2001
Primary nickel	\$2,109	\$1,654	\$1,488
Copper	171	184	195
Precious metals	114	238	292
Cobalt	17	24	34
Other	63	61	57
	\$2,474	\$2,161	\$2,066

Net sales to customers include sales at market prices to affiliates in Taiwan and South Korea aggregating \$547 million in 2003, \$346 million in 2002 and \$245 million in 2001. No single non-affiliated customer accounted for more than 10 per cent of total sales in 2003, 2002 or 2001. At December 31, 2003, accounts receivable included amounts due from affiliates of \$100 million (2002 \$19 million; 2001 \$23 million).

Data by operating segments

Year ended December 31	Finished products			Intermediates			Development Projects			Eliminations			Total		
	2003	2002	2001	2003	2002	2001	2003	2002	2001	2003	2002	2001	2003	2002	2001
	(Restated)												(Restated)		
Net sales to customers	\$2,369	2,096	2,007	\$ 105	65	59	\$				\$		\$2,474	2,161	2,066
Intersegment sales				404	256	237				(404)	(256)	(237)			
Net sales	\$2,369	2,096	2,007	\$ 509	321	296	\$			\$ (404)	(256)	(237)	\$2,474	2,161	2,066
Earnings (loss) before income and mining taxes and minority interest by segment	\$ 266	307	253	\$ 156	53	34	\$ (18)	(2,353)	(6)	\$ (31)	(10)	15	\$ 373	(2,003)	296
Expenses (income) not specifically allocable to segments:															
Corporate selling, general and administrative expenses													118	86	63
Currency translation adjustments													177	5	(39)
Interest expense													44	50	56
Other income, net													(104)	(40)	(13)
Earnings (loss) before income and mining taxes and minority interest													\$ 138	(2,104)	229

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Depreciation and depletion	\$ 171	184	190	\$ 94	71	73	\$		\$			\$ 265	255	263	
Capital expenditures	\$ 158	132	141	\$ 45	42	29	\$ 342	556	93	\$		\$ 545	730	263	
Identifiable assets at December 31	\$ 2,531	2,137	2,154	\$ 1,295	1,217	1,230	\$ 4,648	4,011	5,730	\$ (46)	(15)	(5)	\$ 8,428	7,350	9,109
Other assets													578	1,227	521
Total assets at December 31													\$ 9,006	8,577	9,630

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

Other assets, which are not allocated to operating segments, consist of corporate assets, principally cash and cash equivalents, investments, deferred charges, pension assets and certain receivables.

Data by geographic location

	Net sales to customers year ended December 31			Property, plant and equipment at December 31		
	2003	2002	2001	2003	2002	2001
Canada	\$ 71	\$ 80	\$ 55	\$5,083	(Restated) \$4,606	(Restated) \$6,907
United States	669	667	698	22	22	23
United Kingdom	357	443	520	26	24	34
Indonesia	104	65	59	1,016	1,067	1,071
New Caledonia				798	635	196
Japan	374	313	285	19	18	18
Other	899	593	449	12	10	11
Total foreign	2,403	2,081	2,011	1,893	1,776	1,353
Total	\$2,474	\$2,161	\$2,066	\$6,976	\$6,382	\$8,260

Net sales to customers by geographic location are based on the location in which the sale originated.

Note 20. Financial instruments and commodities contracts

The carrying values for all financial instruments and commodities contracts approximated fair values with the following exceptions:

	December 31					
	2003		2002		2001	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets:						
Cash and cash equivalents	\$ 418	\$ 418	\$1,087	\$1,087	\$306	\$307
Deferred charges and other assets	319	389	208	226	243	221
Financial liabilities:						
Long-term debt including amount due within one year	1,512	1,724	1,643	1,686	840	832
Derivatives:						
LME forward nickel contracts		30		7		1
Platinum put options		1				
Platinum call options		(4)				

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Palladium fixed price swaps	1	10	21
Platinum fixed price swaps	(11)	(3)	3
Gold fixed price swaps	(2)		
Fuel oil swaps	4	3	(2)
Forward currency contracts	47	62	(4)
Interest rate swaps	2	8	(4)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

The fair value of financial instruments at December 31 is based on relevant market information, the contractual terms of the applicable instrument or contract and, in some cases the application of a financial model. The fair value of cash and cash equivalents and investments, including debt securities (both available-for-sale and held-to-maturity investments) and equity investments, is based on market prices at the reporting date for those or similar investments. The fair value of long-term debt, platinum put and call options, and the interest rate swaps are estimated based on market prices. The fair value of LME forward nickel, fuel oil swaps, palladium swaps, platinum swaps and forward currency contracts generally reflect the estimated amounts that we would receive (pay) to terminate such contracts at the reporting date, thereby taking into account the current unrealized gains or losses in respect of open contracts.

In general, we do not use derivative instruments to hedge our exposure to fluctuating nickel prices. We do enter into LME forward purchase contracts which are substantially offset by fixed price customer contracts in order to more fully expose us to nickel price risk. We also enter into LME forward sales contracts to minimize nickel price risk associated with purchased nickel inventories of intermediates and finished nickel products. In respect of these types of hedges, at December 31, 2003 we had outstanding LME forward contracts to purchase 9,048 tonnes of nickel during the 2004 to 2006 period at an average price of \$12,250 per tonne (\$5.56 per pound) and LME forward contracts to sell 4,104 tonnes of nickel during 2004 at an average price of \$15,858 per tonne (\$7.19 per pound).

At December 31, 2003, we had outstanding put option contracts, giving us the right but not the obligation, to sell 60,317 troy ounces of platinum at an average price of \$643 per troy ounce at various dates over the 2004 to 2006 period, and sold call option contracts, giving the buyer the right, but not the obligation, to purchase platinum at an average price of \$777 per troy ounce during the same time period. At December 31, 2003, we also had outstanding put option contracts, giving us the right, but not the obligation, to sell 15,324 troy ounces of gold at an average price of \$345 per troy ounce at various dates during 2004, and sold call option contracts, giving the buyer the right, but not the obligation, to purchase gold at an average price of \$415 per troy ounce during the same time period.

Depending on market conditions, we enter into precious metals hedging contracts with various financial counterparties. These contracts, in the form of swap contracts (whereby we simultaneously sell at a fixed price and buy the same quantities for the same maturity dates at a floating price), are intended to provide certain minimum price realizations in respect of a portion of our future production of such metals. At December 31, 2003, we had outstanding swap contracts to exchange payments on 9,390 troy ounces of palladium during 2005. Under the swap contracts, we receive a fixed price of \$295 per troy ounce and pay a floating price based on monthly average spot prices. At December 31, 2003, we had outstanding swap contracts to exchange payments on 82,428 troy ounces of platinum in aggregate over the period from 2004 to 2006. Under these swap contracts, we receive fixed prices ranging from \$555 to \$718 per troy ounce and pay a floating price based on monthly average spot prices. At December 31, 2003, we had outstanding swap contracts to exchange payments on 60,604 troy ounces of gold in aggregate during 2004 and 2005. Under these swap contracts, we receive fixed prices ranging from \$374 to \$405 per troy ounce and pay a floating price based on monthly average spot prices.

We use fuel oil swap contracts to hedge the effect of fuel oil price changes in respect of a portion of our energy requirements in Indonesia. Under these contracts, we receive or make payments based on the difference between a fixed and a floating price for fuel oil. At December 31, 2003, we had entered into swap contracts with financial institutions to exchange payments on 120,000 tonnes of fuel oil in aggregate during 2004 and 2005. Under the swap contracts, we pay fixed prices averaging \$134 per tonne for fuel oil and receive a floating price based on monthly average spot price quotations.

At December 31, 2003, we had outstanding forward currency contracts to purchase Aus.\$66 million and 40 million Euros at average exchange rates of \$0.525 and \$0.873, respectively, during 2004. The purpose of these contracts, as discussed above, is to hedge a portion of the future construction costs of the planned production facilities for the Goro project in New Caledonia assuming a decision is made to proceed with the project. In

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

respect of our currency contracts to hedge against the foreign exchange risks associated with the Goro project, total gains in the amount of \$21 million were recorded in 2003 as income due to forward currency contracts that became ineffective due to the deferral of a portion of the originally planned expenditures for this project.

At December 31, 2003, we had outstanding forward currency contracts to purchase Cdn.\$50 million at an average exchange rate of \$0.697 during 2004. The purpose of these contracts is to hedge a portion of the future construction costs of the planned facilities for the initial phase of the Voisey's Bay project. We also had outstanding at December 31, 2003, forward currency contracts to purchase Cdn.\$35 million at an average exchange rate of \$0.745 during 2004. The purpose of these contracts is to reduce the risk that the eventual U.S. dollar cash flows relating to a portion of our future Canadian production costs will be adversely affected by an appreciation of the Canadian dollar.

As at December 31, 2003, we had an outstanding interest rate swap of a notional principal amount of \$300 million on our 5.70% Debentures due 2015, whereby we receive a fixed rate of interest of 5.70% and pay a floating rate at 0.57% over 6-month LIBOR. We also had an interest rate swap of a notional principal amount of \$400 million on our 7.75% Notes due 2012, whereby we receive a fixed rate of interest of 7.75% and pay a floating rate at 3.25% over 6-month LIBOR.

At December 31, 2002, we had an interest rate swap to manage the entire amount of the change in fair value associated with our 9.6% Debentures due 2022. Under the swap, we received a fixed rate of interest of 9.6 per cent and paid a floating rate at 3.05 per cent over LIBOR. The counterparty to the swap held a call option giving it the right to cancel the swap commencing in 2002 at an initial premium of 4.8 per cent, declining annually to redemption at par in 2012 and thereafter. This swap was cancelled and the related debt was redeemed during the course of 2003.

We are exposed to credit risk in the event of non-performance by counterparties in connection with our derivative contracts. We do not obtain collateral or other security to support derivative instruments subject to credit risk but mitigate this risk by dealing only with financially sound counterparties and, accordingly, do not anticipate loss for non-performance. There is no substantial concentration of credit risk resulting from these contracts.

We had a limited recourse liability in respect of the sale of undivided interests in certain accounts receivable in the amount of \$17 million at December 31, 2003.

Effective January 1, 2004, we will adopt new accounting guidelines issued by the CICA in respect of hedging relationships. We have determined that there will be no significant impact on our results of operations or financial condition as a result of the adoption of these guidelines.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Note 21. Commitments and contingencies*(a) Commitments*

The following table summarizes as of December 31, 2003 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⁾	\$ 324	\$ 65	\$ 5	\$ 1	\$ 1	\$
Operating leases	30	23	17	11	3	4
Other	2	2	2	3	3	97
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$ 356	\$ 90	\$ 24	\$ 15	\$ 7	\$ 101
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(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.

In connection with our 1996 acquisition of Diamond Fields Resources Inc., we assumed an obligation to pay to a company retained by Diamond Field Resources Inc. to provide certain exploration and other services an annual royalty amounting to three per cent of the net proceeds received from the sale of ores, metals and other minerals produced from our Voisey's Bay project, after deducting certain costs associated with the production and sale of the ores, metals and minerals produced. We have not incurred any such royalty payments to date since the Voisey's Bay project is not yet in production.

We are also committed to pay a quarterly production royalty to the Indonesian government in respect of our nickel ore production in Indonesia. The royalty is determined based on the nickel or cobalt, as applicable, content of the ore and ranges from \$0.015 to \$0.03 per kilogram contained in the ore, based on certain assumptions with respect to the market price of nickel. During the years ended December 31, 2003, 2002 and 2001, we paid royalties to the Indonesian government amounting to \$5 million, \$3 million and \$4 million, respectively.

We are required to make certain periodic payments in connection with the use of our mining properties and processing facilities, including payments for our mining licenses, leases, occupation and surface rights. During the years ended December 31, 2003, 2002 and 2001 we paid \$4 million, \$4 million and \$3 million, respectively, in such payments.

(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 them, to various environmental proceedings, and to other litigation related to such business. 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 position or results of operation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

Note 22. Supplemental information

Supplemental information in connection with the Consolidated Statement of Cash Flows follows:

	Year ended December 31		
	2003	2002	2001
Interest paid, net of capitalized interest	\$ 48	\$ 38	\$ 61
	■	■	■
Income and mining taxes paid (refunded), net	\$ 120	\$ (9)	\$ 190
	■	■	■
Cash	\$ 42	\$ 36	\$ 21
Cash equivalents	376	1,051	285
	■	■	■
Cash and cash equivalents	\$418	\$1,087	\$306
	■	■	■

Note 23. 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, depreciation and depletion, intangible assets, research and development, exploration, asset impairment, our convertible debt, derivative instruments, investments, certain currency translation gains and losses, income and mining taxes and reporting of comprehensive income. As noted in (q) below, certain figures have been restated in 2003, 2002 and 2001.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

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

	Year ended December 31		
	2003	2002	2001
	(Restated)	(Restated)	(Restated)
Net earnings (loss) Canadian GAAP	\$ 137	\$(1,482)	\$ 304
Increased post-retirement benefits expense (a)	(37)	(23)	(22)
Decreased depreciation and depletion expense (b)	38	13	
Increased intangible assets amortization expense (c)	(2)	(2)	
Increased research and development expense (d)	(5)	(6)	(8)
Increased exploration expense (e)	(4)	(3)	(7)
Increased asset impairment charges (f)		(961)	
Increased interest expense (g)	(25)	(9)	(11)
Unrealized net gain (loss) on derivative instruments (h)	(1)	5	(4)
Unrealized currency translation gains (losses) on Voisey's Bay project deferred income and mining tax liabilities (i)	(207)	(49)	122
Increased income and mining tax expense (j)	(15)		
Decreased (increased) minority interest (b)(d)(e)	(9)	(3)	2
Change in accounting policy (k)		1	1
Taxes on United States GAAP differences	18	141	17
	<u> </u>	<u> </u>	<u> </u>
Net earnings (loss) before cumulative effect of a change in accounting principle United States GAAP	\$ (112)	\$(2,378)	\$ 394
Cumulative effect of a change in accounting principle (b)(k)	(17)	(2)	
	<u> </u>	<u> </u>	<u> </u>
Net earnings (loss) United States GAAP	\$ (129)	\$(2,380)	\$ 394
	<u> </u>	<u> </u>	<u> </u>
Other comprehensive income (loss) (m):			
Unrealized net loss on derivatives designated as cash flow hedges at January 1, 2001 (h)			(4)
Reclassification to earnings of net loss (gain) on derivatives designated as cash flow hedges (h)	(21)	(19)	4
Reclassification to earnings of net loss (gain) on derivatives due to ineffectiveness (h)	(8)		
Changes in fair value of derivatives designated as cash flow hedges (h)	5	26	23
Unrealized gains (losses) on long-term investments (l)	68	17	(3)
Unrealized gains (losses) on marketable securities (l)			(1)
Long-term investments reclassified to earnings (l)	(18)	24	
Marketable securities reclassifications (l)		(1)	
Minimum additional pension liability adjustment (a)	(125)	(318)	(180)
Taxes on other comprehensive income (loss)	68	102	56
	<u> </u>	<u> </u>	<u> </u>
Other comprehensive loss United States GAAP (m)	(31)	(169)	(105)
	<u> </u>	<u> </u>	<u> </u>
Comprehensive income (loss) United States GAAP (m)	\$ (160)	\$(2,549)	\$ 289
	<u> </u>	<u> </u>	<u> </u>
Net earnings (loss) per share Basic (n)			
Net earnings (loss) per share before cumulative effect of a change in accounting principle United States GAAP	\$(0.72)	\$(13.15)	\$ 2.02

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Cumulative effect of a change in accounting principle (b)(k)	\$ (0.09)	\$ (0.01)	\$
	<u> </u>	<u> </u>	<u> </u>
Net earnings (loss) per share Basic (n)	\$ (0.81)	\$ (13.16)	\$ 2.02
	<u> </u>	<u> </u>	<u> </u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

	Year ended December 31		
	2003	2002	2001
	(Restated)	(Restated)	(Restated)
Net earnings (loss) per share Diluted (n)			
Net earnings (loss) per share before cumulative effect of a change in accounting principle United States GAAP	\$(0.72)	\$(13.15)	\$ 1.98
Cumulative effect of a change in accounting principle (b)(k)	\$(0.09)	\$ (0.01)	\$
	—	—	—
Net earnings (loss) per share Diluted (n)	\$(0.81)	\$(13.16)	\$ 1.98
	—	—	—

(a) Post-retirement benefits

For Canadian reporting purposes, we amortize the excess of the net actuarial gains and losses over 10 per cent of the greater of the post-retirement benefits obligation and the fair value of plan assets over the expected average remaining service life of employees. For United States reporting purposes, we amortize all actuarial gains and losses systematically 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 difference recorded as a reduction in accumulated other comprehensive income. At December 31, 2003, the minimum additional pension liability would have been \$1,042 million (2002 \$900 million; 2001 \$582 million) and the intangible pension asset would have been \$84 million (2002 \$67 million; 2001 \$67 million), resulting in a \$581 million reduction, after taxes, (2002 \$523 million; 2001 \$309 million) in accumulated other comprehensive income.

(b) Depreciation and depletion expense

Under Canadian GAAP, we deplete mine development costs on a composite basis. Total historical capitalized costs and estimated future development costs relating to our developed and undeveloped reserves are depreciated using the unit-of-production method based on total developed and undeveloped proven and probable reserves in our twenty-year plan. For PT Inco, all assets are being depreciated on the basis of this unit-of-production method.

For United States GAAP purposes, amortization 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 amortization charge.

Life of mine plan development comprises capital expenditures that will be utilized in the extraction of all the estimated proven and probable ore reserves in the current detailed mine plan. These expenditures are predominantly incurred up front and in advance of any ore extraction or in advance of major expansions. The types of development included in this category include ore haulage shafts, initial decline, ore passes, ventilation, and chutes and underground ore crusher cavities and are intended to be used for the extraction of all ore within the current mine plan. These costs are amortized on a unit-of-production basis over the total estimated proven and probable ore reserves.

Area-specific development costs, which are amortized over estimated proven and probable ore reserves for which no further capital is required, consist of capital expenditures to provide access to various areas within the mine to allow the extraction of ore to commence. The types of development costs that are within this category include: access and perimeter drives, ventilation drives and rises, and progressive declining subsequent to initial contact with the orebody. Annual deferred mine development costs incurred to access specific ore blocks or areas

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

are amortized on a unit-of-production basis over the estimated proven and probable ore reserves that can be currently accessed in those areas without future capital development costs being incurred.

Ongoing mine development costs that provide access to ore for less than two years' production are expensed as incurred.

For United States GAAP purposes, we have restated PT Inco's depreciation and depletion expense for the amortization of deferred mine development costs and changed the amortization of other assets from a unit-of-production method to a straight line method over the lesser of the asset's useful life up to 10 years in respect of mine and mobile equipment; the lesser of the asset's useful life and the term of the current contract of work that expires in 2025 in respect of roads, bridges and process plant buildings and equipment; and, in the case hydroelectric facilities, the lesser of the asset's useful life up to 50 years.

We have restated our depreciation and depletion expense for 2002 to conform to United States GAAP. As a result of this change, certain balance sheet accounts as of January 1, 2002 were restated as follows: the deficit increased by \$2 million; property, plant and equipment increased by \$4 million; minority interest increased by \$12 million; and deferred income and mining taxes decreased by \$6 million. The effect of the change in methodology was a decrease to depreciation and depletion expense of \$38 million in 2003 (2002 \$13 million); an increase to property, plant and equipment of \$38 million (2002 \$13 million); an increase to minority interest of \$10 million (2002 \$5 million); and an increase to deferred income and mining taxes of \$12 million (2002 \$3 million). The cumulative effect was a decrease to our net earnings of \$2 million, or 1 cent per share, in 2002, which is shown as a cumulative effect of a change in accounting principle. For 2001, the impact would have been a decrease in depreciation and depletion expense of \$9 million.

(c) 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. In the United States, SFAS No. 141, *Business Combinations*, which is consistent with CICA 1581, requires that under United States GAAP mineral rights are classified as intangible assets. This matter has been referred to the Emerging Issues Task Force (EITF) of the United States Financial Accounting Standards Board for its consideration. There can be no certainty as to the conclusions the EITF will reach, nor as to whether the apparent conflict under Canadian GAAP will be resolved. For Canadian GAAP, we have classified such assets, less the related accumulated depreciation, depletion and amortization, as Property, plant and equipment, net on our consolidated balance sheet.

Under United States GAAP acquisition costs associated with mining interests are classified according to the land tenure position. Under United States GAAP costs associated with owned mineral claims and mining leases where we do not own the underlying land are classified as finite life intangible assets and amortized over the period of intended use. For mineral claims with estimated proven and probable ore reserves, amortization is taken on a unit-of-production basis resulting in no charge during the exploration and development phase. For mineral claims where we have not determined that estimated proven and probable ore reserves exist the associated costs are amortized on a straight-line basis over their estimated useful lives taking into account residual values. At such time as an undeveloped mineral interest is determined to contain proven and probable ore reserves, the remaining unamortized balance is amortized on a unit-of-production basis as described above.

Residual values for undeveloped mineral interests represent the expected fair value of the interests at the time that we plan to convert, develop, further explore or dispose of the interests. Residual values are determined based on (1) discounted cash flow analyses and (2) reference to recent transactions of third parties involving similar undeveloped mineral interests. Based on our knowledge of secondary markets that exist and are expected

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

to continue to exist for the purchase and sale of such assets, we believe that the methods described above to determine residual values are representative of the amounts that we expect to receive if the undeveloped mineral interests were sold to a third party.

These assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying value may not be recoverable.

The only significant mineral rights that have a carrying value on our balance sheet relate to the Voisey's Bay deposits acquired in 1996. For United States GAAP purposes, with respect to this acquisition, the carrying value has been reclassified from property, plant and equipment to intangible assets on the balance sheet and comprises a gross carrying value of \$2,471 million in 2003 and 2002. There is no impact on the amortization of the portion of the intangible asset value assigned to the estimated proven and probable ore reserves until commencement of mine production currently estimated to start in 2006.

With respect to the portion of the intangible asset value assigned to the remainder of the deposit, the difference between the gross carrying value of \$480 million and the residual value is being amortized on a straight line basis over the period until estimated proven and probable ore reserves are established and underground development and mining are expected to commence. We have restated the results for 2002 to adopt the accounting treatment described above which resulted in a pre-tax charge of \$2 million under United States GAAP.

(d) 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. In addition, fixed assets including equipment may be acquired or constructed in order to provide facilities or carry out a research and development project. The use of such assets will extend over a number of accounting periods and, accordingly, are capitalized and amortized over their useful lives. Under United States GAAP research and development costs are charged to expense in the period incurred and certain balance sheet accounts as of December 31, 2002 and 2001 have been restated as follows to reflect this difference to Canadian GAAP: the deficit increased by \$29 million (2001 \$25 million); property, plant and equipment decreased by \$37 million (2001 \$31 million); deferred income and mining taxes decreased by \$3 million (2001 \$2 million); and minority interest decreased by \$5 million (2001 \$4 million). For the year ended December 31, 2003, the impact on our research and development expense was an increase of \$5 million (2002 \$6 million; 2001 \$8 million) representing research and development costs previously capitalized which are now being expensed, net of any related amortization. For the year ended December 31, 2003, minority interest expense was decreased as a result of this restatement in the amount of \$nil (2002 \$1 million; 2001 \$1 million).

(e) 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 proven and probable reserves have been established by a feasibility study. As a result of our adopting this policy for United States GAAP, certain balance sheet accounts as of December 31, 2002 and 2001 have been restated as follows: the deficit increased by \$56 million (2001 \$55 million); property, plant and equipment decreased by \$90 million (2001 \$87 million); deferred income and mining taxes decreased by \$30 million (2001 \$29 million); and minority interest decreased by \$4 million (2001 \$3 million). For the year ended December 31, 2003, the impact on our exploration expense was an increase of \$4 million (2002 \$3 million; 2001 \$7 million) representing exploration costs previously capitalized which are expensed under United States GAAP, net of any related amortization. For the year ended December 31, 2003, the minority interest was decreased as a result of this restatement in the amount of \$1 million (2002 \$1 million; 2001 \$1 million). A portion of the exploration expenses referred to above were previously written off as a part of the asset impairment

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

charges discussed below. As a result of this revision, the asset impairment charges recorded in 2002 were restated with a reduction of \$71 million.

(f) Asset impairment charges

Under United States GAAP in accordance with SFAS No. 144, when the net carrying value of a long-lived asset exceeds the future undiscounted cash flows expected to result from the use and eventual disposition of the asset, the excess over its fair value is charged to earnings. Prior to 2003, under Canadian GAAP, when the net carrying value of a long-lived asset exceeded the future undiscounted cash flows expected to result from the use and eventual disposition of the asset, the excess over its net recoverable amount was charged to earnings. In addition, financing costs are excluded from the evaluation of a long-lived asset for impairment purposes under United States GAAP whereas such costs were previously included under Canadian GAAP. For United States reporting purposes, in 2002, the non-cash asset impairment charges would have been \$2,401 million, net of deferred income and mining taxes of \$915 million, in respect of the reduction in the carrying value of the Voisey's Bay project and \$55 million, net of income and mining taxes of \$5 million, in respect of the reduction in the carrying value of certain property, plant, equipment and other assets. Fair value was estimated using discounted probability-weighted expected net cash flows and a risk-free interest rate. For United States segment reporting purposes, pre-tax charges of \$3,316 million and \$60 million would be included in the development projects and finished products segments, respectively.

(g) Convertible debt

Under Canadian GAAP, the convertible debt is classified as an equity instrument. The 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 in the 12-month periods in advance of their special conversion dates and as long-term debt during the remainder of their term.

(h) Derivative instruments

Under United States GAAP, all derivatives, whether designated in hedging relationships or not, are required to be recorded in the balance sheet at fair value. A derivative must be designated in a hedging relationship in order to qualify for hedge accounting. These standards include a determination of what portions of hedges are deemed to be effective versus ineffective. In general, a hedging relationship is effective when a change in the fair value of the derivative is offset by an equal and opposite change in the fair value of the underlying hedged item. In accordance with these standards, effectiveness tests are performed in order to assess effectiveness and quantify ineffectiveness for all designated hedges. At December 31, 2003, we had outstanding fair value hedges and cash flow hedges. A fair value hedge is a hedge of the change in the fair value of an asset, liability or firm commitment. If a derivative is designated as a fair value hedge, changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. A cash flow hedge is a hedge of the exposure in variability in expected future cash flows that is attributable to a particular risk such as a forecasted purchase or sale. If a derivative is designated as a cash flow hedge, the effective portions of the changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in earnings when the hedged item affects earnings. Ineffective portions of changes in the fair value of the derivatives designated as hedges are recognized in earnings.

LME forward nickel contracts are used to hedge the effect of fluctuations in the price of nickel with respect to sales of Inco-source nickel to customers for delivery three or more months in the future. These LME forward nickel contracts have been designated as fair value hedges in connection with firm sale commitments. For the year ended December 31, 2003, a loss of \$1.4 million was charged to net sales due to the ineffectiveness of such outstanding fair value hedges and a loss of \$0.1 million was charged to other income, net due to hedged firm

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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commitments no longer qualifying as a fair value hedge. At December 31, 2003, we had two interest rate swaps intended to manage the interest rate risk associated with a portion of our fixed-rate debt, which have been designated as fair value hedges. The interest rate swap changes our exposure to the change in fair value of certain debt by effectively converting a portion of our fixed-rate debt to a floating rate.

Depending on market conditions, we enter into precious metals fixed price swap and option contracts and nickel option contracts with various financial counterparties who must meet certain established criteria. These contracts, which have been designated as cash flow hedges, are intended to provide certain minimum price realizations in respect of a portion of forecasted sales. In addition, we have entered into forward currency contracts to hedge a portion of the future construction costs of our planned production facilities in New Caledonia and the Province of Newfoundland and Labrador that will be denominated in currencies other than the U.S. dollar. For the year ended December 31, 2003, we recognized a net gain of \$11 million in other income, net which represented the total ineffectiveness of our outstanding cash flow hedges. A gain of \$21 million, including \$8 million with respect to the reclassification of comprehensive income, was credited to the charge for Goro project suspension costs due to hedged forecasted cash flows no longer qualifying as a cash flow value hedge. At December 31, 2003, \$15 million of deferred net gains on derivative instruments recorded in other comprehensive income are expected to be reclassified to net sales during the next 12 months. The maximum term over which cash flows are hedged is 30 months.

We also purchase and sell metals, fuel oil and foreign currencies which have not been specifically identified as hedges. With respect to metals, we use forward contracts to manage the price risk associated with copper, gold and purchases of nickel and copper from third parties to meet our customers' requirements. With respect to fuel oil, we use swaps to manage the cost of a portion of our energy requirements in Indonesia. With respect to foreign currencies, by virtue of our international operations, we conduct business in a number of foreign currencies other than the U.S. dollar. Our primary exchange risk is to changes in the value of the Canadian dollar, the currency in which a substantial portion of our costs are incurred, relative to the U.S. dollar. The impact of this risk is reduced by entering into forward contracts and foreign currency options which typically do not extend beyond one year. At December 31, 2003, an unrealized net gain of \$1.7 million was credited to other income, net in respect of derivative instruments which were not specifically designated as hedges.

(i) Unrealized currency translation gains (losses) on Voisey's Bay project deferred income and mining tax liabilities

Under United States GAAP, 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 are included in the determination of earnings. As permitted under Canadian GAAP, these unrealized non-cash currency translation gains and losses are deferred and included in property, plant and equipment as part of development costs for the Voisey's Bay project until operations commence.

(j) Income and mining taxes

As discussed in (f) above, there is a difference in the carrying value of the Voisey's Bay project due to the impairment charge in 2002. Under both Canadian and United States GAAP, deferred income and mining taxes are recorded at the expected rate of reversal. In 2003, there was a change in tax rates in the jurisdiction of the Voisey's Bay project. The impact of this change in tax rates is different for Canadian and United States GAAP due to the temporary difference created by the asset impairment charge.

(k) 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*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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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 over either the straight line method and the unit-of-production method assuming estimated proven and probable ore reserves depending on the nature of the asset being retired. The cumulative effect of adopting SFAS No. 143 was a decrease to our net earnings of \$17 million, or 9 cents per share, in 2003, which is shown as a cumulative effect of a change in accounting principle. As at January 1, 2003, property, plant and equipment increased by \$39 million, deferred income and mining taxes decreased by \$11 million, and asset retirement obligations increased by \$67 million. For Canadian GAAP, financial results of comparative periods have been restated which resulted in a net loss to income of \$1 million for the years ended December 31, 2002 and 2001.

(l) Investments

United States accounting standards 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. At December 31, 2003, deferred charges and other assets would have increased by \$69 million (2002 increase of \$19 million; 2001 decrease of \$22 million), cash and cash equivalents would have increased by \$nil million (2002 \$nil million; 2001 \$1 million) and accumulated other comprehensive loss would have decreased by \$69 million (2002 decrease of \$19 million; 2001 increase of \$21 million) before taxes.

(m) 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, derivative instruments and certain foreign currency translation gains and losses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

(n) Earnings (loss) per share

The computation of basic and diluted earnings (loss) per share under United States GAAP was as follows:

	Year ended December 31		
	2003	2002	2001
	(Restated)	(Restated)	(Restated)
Basic earnings (loss) per share computation			
Numerator:			
Net earnings (loss)	\$ (129)	\$ (2,380)	\$ 394
Dividends on preferred shares	(6)	(26)	(26)
Premium on redemption of preferred shares	(15)		
	<u> </u>	<u> </u>	<u> </u>
Net earnings (loss) applicable to common shares	\$ (150)	\$ (2,406)	\$ 368
	<u> </u>	<u> </u>	<u> </u>
Denominator:			
Weighted-average common shares outstanding (thousands)	184,500	182,830	182,074
	<u> </u>	<u> </u>	<u> </u>
Basic earnings (loss) per common share	\$ (0.81)	\$ (13.16)	\$ 2.02
	<u> </u>	<u> </u>	<u> </u>
Diluted earnings (loss) per share computation			
Numerator:			
Net earnings (loss) applicable to common shares	\$ (150)	\$ (2,406)	\$ 368
Dilutive effect of:			
Convertible debentures			13
	<u> </u>	<u> </u>	<u> </u>
Net earnings (loss) applicable to common shares, assuming dilution	\$ (150)	\$ (2,406)	\$ 381
	<u> </u>	<u> </u>	<u> </u>
Denominator:			
Weighted-average common shares outstanding (thousands)	184,500	182,830	182,074
Dilutive effect of:			
Convertible debentures			9,931
Stock options			868
Warrants			
	<u> </u>	<u> </u>	<u> </u>
Weighted-average common shares outstanding, assuming dilution	184,500	182,830	192,873
	<u> </u>	<u> </u>	<u> </u>
Diluted earnings (loss) per common share	\$ (0.81)	\$ (13.16)	\$ 1.98
	<u> </u>	<u> </u>	<u> </u>

At December 31, 2003, convertible debt which is convertible into 17,440,696 Common Shares (2002 9,705,111; 2001 nil), options on 4,572,605 Common Shares (2002 7,476,506; 2001 5,261,534), Preferred Shares convertible into nil Common Shares (2002 11,277,868; 2001 11,277,987) and Warrants exercisable for 11,023,064 Common Shares (2002 11,023,497; 2001 11,021,947) were excluded from the computation of diluted earnings (loss) per Common Share because their effects were not dilutive.

(o) Stock-based compensation

We adopted a new accounting standard of the CICA in respect of stock-based compensation. This new standard is substantially identical to United States GAAP. For further information, reference is made to

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Note 2(a). Had we elected to recognize the cost of our stock-based compensation based on the estimated fair value of stock options granted, our United States GAAP proforma results would have been as follows:

	Year ended December 31	
	2002	2001
Pro forma net earnings (loss)	(Restated) \$(2,384)	(Restated) \$ 390
Pro form net earnings (loss) per common share		
Basic	\$(13.18)	\$2.00
Diluted	\$(13.18)	\$1.96

The fair value of each stock option granted is estimated on the date of grant using an option pricing model with the assumptions noted in Note 18.

(p) Preferred shares

For United States reporting purposes, the Preferred Shares Series E would be excluded from shareholders' equity in the Consolidated Balance Sheet.

(q) Restatement of United States GAAP financial information

- (1) We identified certain accounting matters relating to our December 31, 2003, 2002 and 2001 Consolidated Financial Statements for United States GAAP purposes that require restatement. The matters discussed in parts (b) (c) (d) and (e) above were restated in our Originally Filed 2003 10-K. In addition to these restatements, we have amended our Originally Filed 2003 10-K for the matter discussed below.
- (2) In the second quarter of 2004, for United States GAAP reporting purposes, on a retroactive basis, 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 to increase unrealized non-cash currency translation losses by \$207 million in 2003 (2002 \$49 million; 2001 increase in unrealized non-cash currency translation gains of \$122 million) with a corresponding change each year in property, plant and equipment. In 2002, as described in (f) above, we recorded a non-cash asset impairment charge in respect of the Voisey's Bay project. As a result of this revision to the accounting treatment of these unrealized non-cash currency translation gains and losses, our net book value, for United States reporting purposes, at the time of the asset impairment charge, would have been higher by \$253 million. Therefore, an incremental non-cash asset impairment charge would have been recorded at that time in the amount of \$253 million. No tax relief or tax expense, as the case may be, is available on or applicable with respect to these amounts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

The following table sets forth the effect of these restatements on our consolidated net earnings:

	Year ended December 31		
	2003	2002	2001
Net earning (loss) before cumulative effect of a change in accounting principle United States GAAP, as previously reported	\$ 95	\$(2,119)	\$283
Restatements			
Decreased depreciation and depletion expense (b)		13	
Increased intangible assets amortization expense (c)		(2)	
Increased research and development expense (d)		(6)	(8)
Increased exploration expense (e)		(3)	(7)
Decreased (increased) minority interest (b)(d)(e)		(3)	2
Decreased asset impairment charges (e)		71	
Taxes on restated United States GAAP differences		(27)	2
	—	—	—
Net earnings (loss) as reported before cumulative effect of a change in accounting principle United States GAAP, as reported in Originally Filed 2003 10-K	95	(2,076)	272
Increased asset impairment charge (q)(2)		(253)	
Unrealized currency translation gains (losses) on Voisey's Bay project deferred income and mining tax liabilities (q)(2)	(207)	(49)	122
	—	—	—
Net earning (loss) before cumulative effect of a change in accounting principle United States GAAP, as restated	(112)	(2,378)	394
Cumulative effect of a change in accounting principle (b)	(17)	(2)	
	—	—	—
Net earnings (loss) United States GAAP, as restated	\$(129)	\$(2,380)	\$394

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

The following table sets forth the effect of the restatements referred to above with regard to the currency translation for the Voisey's Bay deferred income and mining tax liabilities on our balance sheet as at December 31, 2003:

	As at December 31, 2003			
	As Previously Reported in Originally Filed 2003 10-K	Currency Translation (q)(2)	Asset Impairment (q)(2)	As Restated
Assets:				
Cash and cash equivalents	\$ 418	\$	\$	\$ 418
Accounts receivable	474			474
Property, plant and equipment	3,671	82	(253)	3,500
Intangible assets	2,467			2,467
Deferred charges and other assets	256			256
Liabilities:				
Long-term debt due within one year	92			92
Other accrued liabilities	369			369
Long-term debt	2,035			2,035
Deferred income and mining taxes	1,115			1,115
Post-retirement benefits	1,522			1,522
Minority interest	432			432
Shareholders' equity:				
Retained earnings (deficit)	(973)	82	(253)	(1,144)
Accumulated other comprehensive loss	(516)			(516)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

The following table sets forth the effect of the restatements referred to in parts (b), (c), (d) and (e) above on our balance sheet as at December 31, 2002 as reported in our Originally Filed 2003 10-K:

As at December 31, 2002

	As Previously Reported in 2002 10-K	Depreciation and Depletion (b)	Intangible Assets (c)	Research and Development (d)	Exploration (e)	Asset Impairment (e)	As Previously Reported in Originally Filed 2003 10-K
Assets:							
Cash and cash equivalents	1,087						1,087
Accounts receivable	289						289
Property, plant and equipment	5,566	17	(2,471)	(37)	(90)	71	3,056
Intangible assets			2,469				2,469
Deferred charges and other assets	141						141
Liabilities:							
Long-term debt due within one year	97						97
Other accrued liabilities	217						217
Long-term debt	1,781						1,781
Deferred income and mining taxes	882	(3)	(1)	(3)	(30)	27	872
Post-retirement benefits	1,304						1,304
Minority interest	368	17		(5)	(4)		376
Shareholders' equity:							
Retained earnings (deficit)	(991)	3	(1)	(29)	(56)	44	(1,030)
Accumulated other comprehensive loss	(485)						(485)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

The following table sets forth the effect of the restatements referred to above with regard to the currency translation for the Voisey's Bay deferred income and mining tax liabilities on our balance sheet as at December 31, 2002:

	As at December 31, 2002			
	As Previously Reported in Originally Filed 2003 10-K	Currency Translation (q)(2)	Asset Impairment (q)(2)	As Restated
Assets:				
Cash and cash equivalents	\$ 1,087	\$	\$	\$ 1,087
Accounts receivable	289			289
Property, plant and equipment	3,056	289	(253)	3,092
Intangible assets	2,469			2,469
Deferred charges and other assets	141			141
Liabilities:				
Long-term debt due within one year	97			97
Other accrued liabilities	217			217
Long-term debt	1,781			1,781
Deferred income and mining taxes	872			872
Post-retirement benefits	1,304			1,304
Minority interest	376			376
Shareholders' equity:				
Retained earnings (deficit)	(1,030)	289	(253)	(994)
Accumulated other comprehensive loss	(485)			(485)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

The following table sets forth the effect of the restatements referred to in parts (d) and (e) above on our balance sheet as at December 31, 2001 as reported in our Originally Filed 2003 10-K:

As at December 31, 2001				
	As Previously Reported in 2001 10-K	Research and Development (d)	Exploration (e)	As Previously Reported in Originally Filed 2003 10-K
Assets:				
Cash and cash equivalents	307			307
Accounts receivable	303			303
Property, plant and equipment	8,217	(31)	(87)	8,099
Deferred charges and other assets	164			164
Liabilities:				
Long-term debt due within one year	317			317
Other accrued liabilities	194			194
Long-term debt	755			755
Deferred income and mining taxes	1,901	(2)	(29)	1,870
Post-retirement benefits	957			957
Minority interest	350	(4)	(3)	343
Shareholders' equity:				
Retained earnings (deficit)	1,154	(25)	(55)	1,074
Accumulated other comprehensive loss	(316)			(316)

The following table sets forth the effect of the restatements referred to above with regard to the currency translation for the Voisey's Bay deferred income and mining tax liabilities on our balance sheet as at December 31, 2001:

As at December 31, 2001			
	As Previously Reported in Originally Filed 2003 10-K	Currency Translation (q)(2)	As Restated
Assets:			
Cash and cash equivalents	\$ 307	\$	\$ 307
Accounts receivable	303		303
Property, plant and equipment	8,099	338	8,437
Deferred charges and other assets	164		164
Liabilities:			
Long-term debt due within one year	317		317
Other accrued liabilities	194		194
Long-term debt	755		755
Deferred income and mining taxes	1,870		1,870
Post-retirement benefits	957		957
Minority interest	343		343
Shareholders' equity:			
Retained earnings (deficit)	1,074	338	1,412
Accumulated other comprehensive loss	(316)		(316)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

(r) Comparative figures

The following tables compare results reported under Canadian GAAP with those that would have been reported under United States GAAP, together with the cumulative effect on balance sheet accounts. Quarterly results are unaudited. Restatements in respect of Canadian GAAP are discussed in Note 2. Restatements in respect of United States GAAP are discussed in Note 23, parts (b) (c) (d) (e) and (q) above.

	Year ended December 31					
	Canadian GAAP			United States GAAP		
	2003	2002	2001	2003	2002	2001
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
Net earnings (loss)						
First quarter	\$ 30	\$ 11	\$ 85	\$ (55)	\$ 5	\$ 181
Second quarter	60	(1,582)	192	(278)	(2,504)	102
Third quarter	(27)	91	33	(35)	128	110
Fourth quarter	74	(2)	(6)	239	(9)	1
Year	\$ 137	\$(1,482)	\$ 304	\$ (129)	\$(2,380)	\$ 394
Net earnings (loss) per common share						
Basic	\$0.59	\$ (8.27)	\$ 1.51	\$(0.81)	\$(13.16)	\$ 2.02
Diluted	\$0.58	\$ (8.27)	\$ 1.49	\$(0.81)	\$(13.16)	\$ 1.98

	December 31					
	Canadian GAAP			United States GAAP		
	2003	2002	2001	2003	2002	2001
	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)	(Restated)
Assets:						
Cash and cash equivalents	\$ 418	\$ 1,087	\$ 306	\$ 418	\$ 1,087	\$ 307
Accounts receivable	435	251	277	474	289	303
Property, plant and equipment	6,976	6,382	8,260	3,500	3,092	8,437
Intangible assets				2,467	2,469	
Deferred charges and other assets	319	208	243	256	141	164
Liabilities:						
Long-term debt due within one year	103	97	81	92	97	317
Other accrued liabilities	332	210	189	369	217	194
Long-term debt	1,409	1,546	759	2,035	1,781	755
Deferred income and mining taxes	1,696	1,352	2,105	1,115	872	1,870
Post-retirement benefits	603	475	451	1,522	1,304	957
Asset retirement obligations	141	119	121	141	52	49
Minority interest	415	368	350	432	376	343
Shareholders' equity:						
Convertible debt	606	238	231			
Retained earnings (deficit)	(226)	(335)	1,177	(1,144)	(994)	1,412
Accumulated other comprehensive loss				(516)	(485)	(316)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

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

	Year ended December 31		
	2003	2002	2001
	(Restated)	(Restated)	(Restated)
Retained earnings (deficit) at beginning of year, as previously reported in our Originally Filed 2003 10-K	\$(1,030)	\$ 1,074	\$ 828
Restatement (q)(2)	36	338	216
	<u>(994)</u>	<u>1,412</u>	<u>1,044</u>
Retained earnings (deficit) at beginning of year, as restated	(994)	1,412	1,044
Net earnings (loss)	(129)	(2,380)	394
Preferred dividends	(6)	(26)	(26)
Premium on redemption of preferred shares	(15)		
	<u>\$(1,144)</u>	<u>\$ (994)</u>	<u>\$ 1,412</u>
Retained earnings (deficit) at end of year	\$(1,144)	\$ (994)	\$ 1,412
Accumulated other comprehensive loss at beginning of year	\$ (485)	\$ (316)	\$ (211)
Other comprehensive loss	(31)	(169)	(105)
	<u>\$(516)</u>	<u>\$ (485)</u>	<u>\$ (316)</u>
Accumulated other comprehensive loss at end of year	\$ (516)	\$ (485)	\$ (316)

(s) Recent Accounting Pronouncements

Effective January 1, 2003, we adopted, for United States reporting purposes, SFAS No. 143, *Accounting for Asset Retirement Obligations*. Under SFAS No. 143, retirement obligations will be 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. The effect of the adoption of the new standard is described in Note 23(j) above.

Effective January 1, 2003, we adopted, for United States reporting purposes, SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 applies to costs associated with an exit activity that does not involve an entity newly acquired in a business combination, an asset retirement obligation covered by SFAS No. 143 or with a disposal activity covered by SFAS No. 144. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity shall be recognized and measured initially at its fair value in the period in which the liability is incurred provided that such fair value can be reasonably estimated. An exception applies for certain one-time termination benefits that are incurred over time. The adoption of the new standard had no impact on our financial statements.

Effective January 1, 2003, we adopted, for United States reporting purposes, SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure - an amendment of FAS 123*. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Effective January 1, 2003, we have adopted, for stock options granted in 2003 and in future years, the fair value based method of accounting for our stock-based employee compensation. This change in accounting decreased net earnings by \$3 million for the year ended December 31, 2003.

Effective June 30, 2003, we adopted, for United States reporting purposes, SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 amends Statement 133 for decisions made (1) as part of the Derivatives Implementation Group process that effectively required amendments to Statement 133, (2) in connection with other FASB projects dealing with financial instruments, and (3) in

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in millions of United States dollars except number of shares and per share amounts)

connection with implementation issues raised in relation to the application of the definition of a derivative, in particular, the meaning of an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, the meaning of underlying, and the characteristics of a derivative that contains financing components. In particular, this Statement (1) clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative discussed in paragraph 6(b) of Statement 133, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying to conform it to language used in FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, and (4) amends certain other existing pronouncements. The standard had no impact on our financial statements.

Effective July 1, 2003, we adopted, for United States reporting purposes, SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 requires, for financial instruments meeting certain criteria, that an issuer must classify the instruments as liabilities (or assets in some circumstances). The adoption of this new standard did not have a significant impact on our results of operations or financial condition.

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

This Item 15 is amended to include new Exhibits 31.1 and 32.1 which are included with this Amendment No. 1 and to list the current reports under subsection (b).

- * (a) 1. List of Financial Statements Included under Item 8 of this Report
 - Auditors Report
 - Consolidated Statement of Earnings
 - Consolidated Statement of Retained Earnings
 - Consolidated Balance Sheet
 - Consolidated Statement of Cash Flows
 - Notes to Consolidated Financial Statements
 - Supplementary Financial Information (unaudited)
- * (a) 2. List of Financial Statement Schedules included under Item 8 of this Report
 - Schedule VIII Valuation accounts and reserves
- * (a) 3. Exhibits
 - (3)(i) Articles of Continuance of the Company as amended to April 25, 2001 (incorporated by reference to Exhibit 3(i) and 4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001)
 - * (ii) (a) General By-law No. 1 of the Company as amended to February 3, 2004 (subject to shareholder ratification)
 - (b) Standing Resolution of the Company as amended to February 3, 2004
 - * (4)(i) (a) Reference is made to (3)(i) and (ii) above
 - (b) Warrant Agreement dated December 1, 2000 among the Company, CIBC Mellon Trust Company and ChaseMellon Shareholder Services LLC, as Canadian and U.S. Warrant Agents, respectively (incorporated by reference to the Registration Statement on Form F-10 (File No. 333-12748) as filed with the Commission on December 7, 2000)
 - (c) Shareholder Rights Plan Agreement dated as of September 14, 1998, as amended and restated as of April 28, 1999, between Inco Limited and CIBC Mellon Trust Company, as Rights Agent (incorporated by reference to Attachment A to the Company's 1999 Proxy Statement attached as Exhibit 99 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998)
 - (ii) The Company hereby agrees to furnish to the Commission a copy of any instrument relating to outstanding long-term debt of the Company upon request of the Commission
 - * (10) (a) Voisey's Bay Development Agreement dated as of September 30, 2002 among Her Majesty the Queen in Right of Newfoundland and Labrador, Voisey's Bay Nickel Company Limited and Inco Limited (incorporated by reference to Exhibit 99(i) to the Company's Current Report on Form 8-K dated October 7, 2002)
 - (b) Voisey's Bay Industrial and Employment Benefits Agreement dated as of September 30, 2002 among Her Majesty the Queen in Right of Newfoundland and Labrador, Voisey's Bay Nickel Company Limited and Inco Limited (incorporated by reference to Exhibit 99(ii) to the Company's Current Report on Form 8-K dated October 7, 2002)
 - (c) 2002 Non-Employee Director Share Option Plan (incorporated by reference to Exhibit B to the Company's 2002 Proxy Statement filed as Exhibit 99 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001)
 - (d) 2001 Key Employees Incentive Plan (incorporated by reference to Exhibit A to the Company's 2001 Proxy Statement filed as Exhibit 99 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000)
 - (e) 1997 Key Employees Incentive Plan (incorporated by reference to Exhibit A to the Company's 1997 Proxy Statement filed as Exhibit 99 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 1-1143))

- (f) 1993 Key Employees Incentive Plan (incorporated by reference to the Prospectus in Registration Statement No. 33-71298)
- (g) 1998 Non-Employee Director Share Ownership Plan as amended to December 4, 2001 (incorporated by reference to Exhibit 10(g) to the Company's Annual Report on Form 10-K for the year ended December 31, 2001)
- (h) Forms of two Agreements, each dated as of between March 23, 1998 and December 3, 2002 between certain executive officers of the Company (all executive officers in the case of the form of Agreement referred to in (2) below and S.M. Hand, R.C. Aelick S.F. Feiner, P.J. Goudie, F.S. Hakimi, P.C. Jones and L. Kruger in the case of the form of Agreement referred to in (1) below) and Inco Limited covering severance payments and continuation of certain benefits in the event of (1) involuntary termination of employment (except for cause) or resignation under certain circumstances not wholly voluntary or (2) involuntary termination of employment (except for cause) or resignation under certain circumstances not wholly voluntary within two years following a change in control (as defined in such agreements) (incorporated by reference to Exhibit 10(iii)(A) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998 (File No. 1-1143))
- (i) Description of the Company's Management Incentive Plans (incorporated by reference to the first paragraph under Management Incentive Plans and Other Arrangements with Officers in the 2004 Proxy Statement)
 - * (21) Subsidiaries of the Company
 - * (23) Consents of Lawrence B. Cochrane, Robert A. Horn and Robert C. Osborne, each as a Qualified Person named in this Report pursuant to National Instrument 43-101 issued by the Canadian Securities Administrators
 - * (24)
 - (a) Powers of Attorney
 - (b) Resolution of the Board of Directors
 - * (31)
 - (a) Rule 13a-14(a)/15d-14(a) Certifications Covering Originally Filed 2003 10-K
 - 31.1 Rule 13a-14(a)/15d-14(a) Certifications Covering Form 10-K/ A Amendment No. 1
 - * (32)
 - (a) Section 1350 Certifications Covering Originally Filed 2003 10-K
 - 32.1 Section 1350 Certifications Covering Form 10-K/ A Amendment No. 1
 - * (99) 2004 Proxy Statement

* Filed as an Exhibit with the Originally Filed 2003 10-K
 (b) Reports on Form 8-K

Current Report on Form 8-K dated October 15, 2003 covering Item 12 of Form 8-K relating to the Company's press release concerning to the impact of the post-strike ramp-up at the Company's Ontario operations.

Current report on Form 8-K dated October 29, 2003 covering Current Report on Form 8-K dated October 29, 2003 covering Item 12 of Form 8-K relating to the Company's press release concerning its third quarter 2003 financial and operating results.

(Peter C. Jones)

Signature	Title
*JOHN T. MAYBERRY	Director
(John T. Mayberry)	
*DAVID P. O BRIEN	Director
(David P. O Brien)	
*ROGER PHILLIPS	Director
(Roger Phillips)	
*JAMES M. STANFORD	Director
(James M. Stanford)	
/s/ EDWARD A. STEEN	Authorized Representative in the United States
Edward A. Steen International Nickel, Inc. Park 80 West, Plaza Two Saddle Brook, NJ 07663	

* Pursuant to powers of attorney executed by the directors named above whose names are preceded by an asterisk, Stuart F. Feiner, as attorney-in-fact, does hereby sign this Amendment No. 1 to this Report on behalf of each of such directors, in each case in the capacity of director, on the 10th day of August 2004.

/s/ STUART F. FEINER

Stuart F. Feiner, *attorney-in-fact*

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectuses constituting part of the Registration Statements on Form S-3 (Nos. 33-22435 and 33-50816), on Form S-8 (Nos. 33-71298, 333-7798, 333-13714 and 333-98601) and on Form F-10 (Nos. 333-13470, 333-12588, 333-104688 and 333-104687) of Inco Limited of our reports dated February 3, 2004 and February 3, 2004 (except as to Note 23(q) (1) which is as of March 12, 2004 and except as to Note 23 (q) (2) which is as of August 4, 2004) relating to the financial statements and the financial statement schedule which appear in this Annual Report on Form 10-K. We also consent to the reference to us under the heading "Experts" in each of such Prospectuses.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Ontario
August 10, 2004