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M. Lynel

INCO

ANNUAL REPORT 1981

<i>(in thousands, except per share amounts)</i>	1981	1980
Net sales - continuing operations	\$1,885,923	\$2,150,041
Earnings from continuing operations before income and mining taxes	\$ 101,629	\$ 500,038
Net earnings (loss), after taxes:		
Earnings from continuing operations	\$ 20,467	\$ 249,625
Loss from operations of discontinued business segments	(25,347)	(30,218)
Extraordinary charges:		
Provision for loss on disposition of discontinued business segments	(245,000)	—
Loss on revaluation of investment in Exmibal	(219,638)	—
Net earnings (loss)	\$ (469,518)	\$ 219,407
Net earnings (loss) per common share	\$(6.51)	\$2.56
Common dividends paid	\$ 45,000	\$ 52,054
Dividends per common share	\$ 0.59	\$0.69
Capital expenditures - continuing operations	\$ 152,247	\$ 143,294

Dollar figures in this Report are expressed in United States currency, unless otherwise stated.

Inco Limited is the world's leading producer of nickel and a substantial producer of copper, precious metals and cobalt, and operates an international group of companies producing rolling mill, forged and machined products. The Company also has a variety of other interests. The number of employees at year-end (other than those in "Discontinued Businesses" referred to in that section of the Report) totalled 31,678 in 22 countries.

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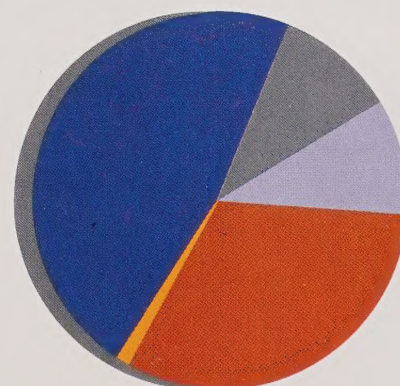
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Annual Meeting

The Company's Annual Meeting will be held in Toronto on April 21, 1982.

1981 Net Sales to Customers
(\$1,886 million)

Inco Metals	
■ Primary nickel	\$891
■ Copper	\$194
■ Other	\$185
■ Inco Alloy Products	\$600
■ Other Business	\$ 16





Chairman Charles F. Baird (*seated*) and President Donald J. Phillips

In last year's Message to Shareholders we said: "Our basic long-term objective is to achieve profitable, sustainable growth in businesses involving technology broadly compatible with our skills . . . A specific objective is to capitalize on the Company's knowledge of natural resources, particularly mineral resources. Acquisitions in support of our objectives are not excluded, nor are divestitures of businesses that cannot meet our

criteria. . . . Critical to the achievement of our plans is the restoration of our financial strength, which is our near-term goal. This restoration must come primarily from earning satisfactory returns on the assets employed in our businesses . . ." We noted that major portions of Inco's assets were not contributing to earnings.

In 1981, we took two particularly significant actions.

First, we decided to mothball the Company's Guatemalan nickel plant, which had been maintained on standby since October 1980. This action, which resulted in a write-down of \$220 million, our entire investment, was taken when we concluded that it was very unlikely, in view of high energy costs and depressed nickel prices, that the facility could operate profitably in the foreseeable future. Subsequent events may prove our investment to have value. However, considering all the circumstances, we determined that we could not, with a justifiable degree of confidence, assign a specific carrying value to it. Results for 1982 and subsequent years will benefit from our actions in that losses and cash outflows associated with the Guatemalan operations will be sharply reduced.

Second, we decided to withdraw from the battery and related products businesses conducted by Inco ElectroEnergy Corporation and write down our investment by \$245 million to provide for anticipated losses relative to the divestiture of these businesses. Inco ElectroEnergy's overall operations have been unprofitable the past two years, despite the fact that important segments have continued to operate profitably. Earlier in 1981, we sold three former units of Inco ElectroEnergy for approximately \$70 million. Our objective is to complete the divestiture of our battery and related products businesses by the end of 1982 and use the proceeds to reduce Inco's debt.

These two basic decisions, as difficult as they were, will have the effect of contributing significantly to Inco's short and long-term financial strength. They will allow us to concentrate our

resources on the more attractive primary metals and alloy products businesses – our “continuing operations.”

1981 Financial Results

By any measure, the year was a difficult one for Inco.

We reported a loss of \$469.5 million, or \$6.51 per common share, in 1981, compared with earnings of \$219.4 million, or \$2.56 per common share, in 1980.

Obviously the loss was heavily weighted by the \$464.6 million of extraordinary charges, but even before these charges, the Company incurred a loss of \$4.9 million in 1981, our first annual loss since 1932. This consisted of \$25.3 million of losses from operations of the “discontinued businesses” of Inco ElectroEnergy, partially offset by \$20.4 million of earnings from continuing operations.

Continuing Operations – In 1981 steep declines in operating earnings, from 1980 levels, occurred in both our primary metals and alloy products businesses. In Inco Metals’ case this was principally the result of significantly lower prices for all of its products and sharply higher operating costs. In the case of Inco Alloy Products it was attributable mainly to reduced deliveries and the adverse effect of currency fluctuations on the financial results, when stated in U.S. dollars, of its United Kingdom operations.

At this time last year we expected that the slow rates of growth in the world’s industrialized economies, as they recovered from the recessionary conditions of 1980, would not permit substantial improvement in our results before the latter half of 1981. Results in the first half were somewhat better than expected as nickel deliveries increased

sharply, although price realizations for all metals were weakening. Conditions suddenly deteriorated in the second half, particularly in the U.S. market.

Nickel demand in the non-communist world in 1981 fell to approximately the level of 1970. Demand declined for a second consecutive year, the first time that this had occurred since the mid-1940s. Inco’s nickel deliveries in the second half of the year were one-third lower than in the first half. Price realizations for all our principal metals fell steadily from quarter to quarter, while unit costs and expenses increased.

These conditions resulted in losses from continuing operations of \$18.8 million in the third quarter and \$40.6 million in the fourth quarter.

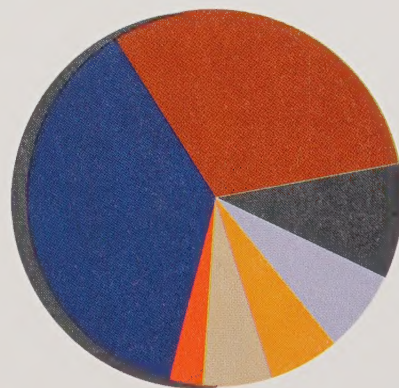
Common Share Dividends

In light of these results, your Board of Directors reduced the regular quarterly dividend from 18 cents to 5 cents per common share beginning with the dividend paid in December 1981. The total common share dividend paid in 1981 amounted to 59 cents as compared to 69 cents in 1980. On February 1 the Board declared a regular quarterly dividend, payable March 12, 1982, at the 5 cent rate.

The continued payment of common share dividends, in these times of extraordinarily adverse business conditions, reflects the Board’s

Inco’s continuing operations spent \$2.4 billion in 1981, of which 81% came from revenues and 19% came principally from external financing. Here’s how the money was spent:

Expenditures	
Purchased goods and services	37%
Employment costs	31%
Taxes	10%
Debt repayment	7%
Interest expense	6%
Capital expenditures	6%
Dividends	3%



confidence in the future of the Company's primary metals and alloy products businesses and Inco's longer-term return to satisfactory levels of profitability.

Objectives for 1982

Our number one priority for the coming year must be to achieve significant progress towards restoring the Company's financial strength. This is paramount to Inco's long-term success. As part of this effort, we will continue to subject all our operations to intensive, ongoing review in order to confirm that each offers the prospect of satisfactory returns on investment.

Longer term, one of our major objectives is to generate one-third of our earnings from businesses other than our traditional metals businesses in order to reduce the cyclical nature of the Company's earnings. All our businesses, including our nickel operations, will benefit if this can be accomplished.

Nevertheless, as we said in last year's Message, in the foreseeable future our primary metals business will be the overriding determinant of Inco's fortunes. With it must be linked our alloy products business, which remains by far the largest customer for our primary nickel products.

As you will read in other sections of this Report, we are already in the process of streamlining our primary metals and alloy products businesses, making them more flexible, and, most importantly, making them more productive and cost effective. We do not and cannot control prices. We must and will control costs.

Outlook

The past year was an extremely disappointing one for Inco, as it was for the mining and metals industry throughout the world.

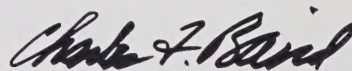
However, in the midst of perplexing economic conditions which moved from recession to recov-

ery and back to recession with unprecedented swiftness, we took important actions to improve the competitiveness of Inco's businesses and contribute significantly towards restoring the Company's financial strength.

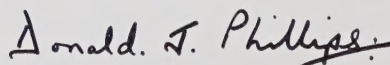
We know the hardships and strains which reverses in our businesses have placed on Inco's shareholders and employees. All have shared the effects. Employees have worked hard and well to deal with them effectively. Without the continuing cooperation of these thousands of people, we would not be so confident of better prospects for the future.

Inco's focus is now and, for the immediately foreseeable future, will be on primary metals and on alloy products. We believe that's the right place for us to be at this time and a good place to be.

Depressed markets for our products are expected to continue well into 1982. Despite our best efforts, a return to profitability will be largely dependent on improvement in metal markets. However, when the turnaround comes - and it is the timing not the event which is in dispute - Inco's underlying strength as the world's leader in our basic businesses will serve us well.



Chairman and Chief Executive Officer

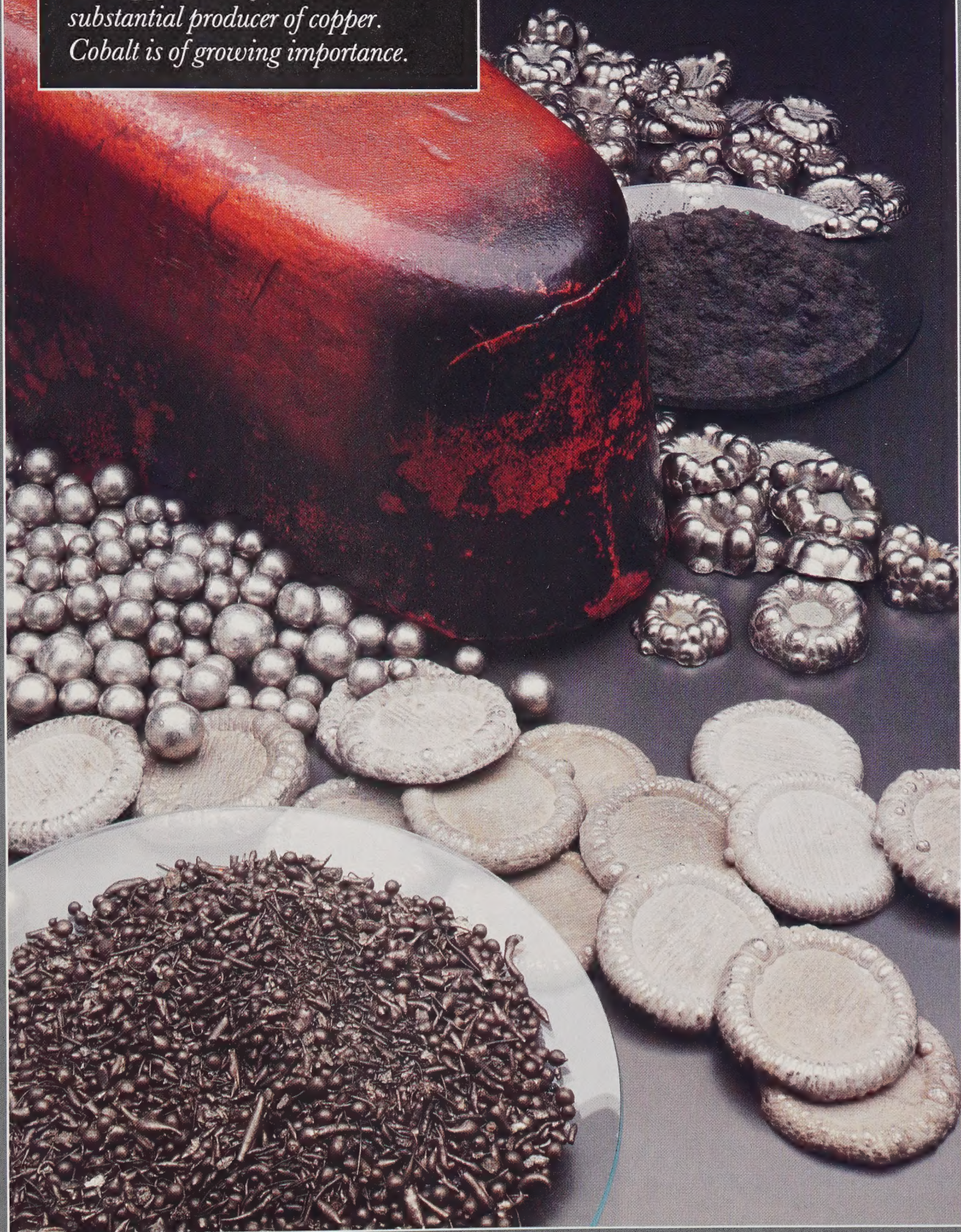


President

February 16, 1982

INCO METALS COMPANY

Inco Metals Company is the world's leading producer of nickel and a substantial producer of copper. Cobalt is of growing importance.



Strategies

In seeking to maximize its long-term return on investment, Inco Metals Company is pursuing two major business strategies:

□ To minimize costs and maximize profitability through increased mining and process research and continuing productivity improvements, prudent management of production and inventory levels, and production flexibility keyed to the cyclical nature of nickel demand;

□ To explore opportunities for diversification into other metals such as gold, uranium, molybdenum, chromium and tungsten.

(\$ millions)	1981	1980	1979
Sales by product			
Primary nickel	\$ 891	\$ 917	\$ 807
Refined copper	194	286	115
Precious metals	103	157	87
Cobalt	58	39	38
Other products	24	12	7
Net sales to customers	\$ 1,270	\$ 1,411	\$ 1,054
Operating earnings	\$ 281	\$ 569	\$ 336
Total assets	\$ 2,797†	\$ 3,020	\$ 2,863
Deliveries (in thousands)			
Primary nickel and intermediates	297,710	291,910	332,090
Nickel contained in alloy products	44,110	53,530	61,540
Total nickel (pounds)	341,820	345,440	393,630
Copper* (pounds)	239,830	288,280	129,090
Platinum-group metals** and gold (troy ounces)	317	349	326
Silver (troy ounces)	1,510	1,490	790
Cobalt* (pounds)	3,620	1,950	1,240
Iron ore (long tons)	156	64	166

†Does not include \$225 million of Exmibal assets which were written down in 1981.

*Includes metals contained in alloy products.

**Platinum, palladium, rhodium, ruthenium and iridium.

1981 Results

The past year was a difficult one for the metals industry and for Inco Metals Company. Relatively encouraging market conditions in the first half of the year gave way to very poor conditions in the second half as demand and prices for nickel and copper declined – and prices for cobalt and precious metals fell sharply – in the wake of recessions in North America and Western Europe and slow economic growth in Japan.

Compared with 1980, Inco Metals' average realized prices in 1981 were down 5 per cent for nickel, 18 per cent for copper, 32 per cent for cobalt, and 27 per cent (based on a weighted average) for platinum-group metals and gold. The company's operating earnings fell to \$281 million from \$569 million in 1980, reflecting lower prices as well as higher costs for labor, energy and supplies.

As nickel demand weakened, the company reduced production to control inventories and conserve cash.

Capital Investments

In October, the company initiated a \$72 million capital investment for the first-phase development of a new mine, Thompson Open Pit, at the Manitoba Division. Production from the new mine will begin in 1984 as the Pipe Open Pit, one of two operating mines in the Manitoba Division, is depleted. With a grade of ore substantially higher than that of the Pipe Open Pit, the new Thompson Open Pit will enhance the company's competitiveness and flexibility.

Construction of a \$24 million cobalt refinery proceeded on schedule at Port Colborne, Ontario. Expected to be completed in 1982, this facility will have an annual capacity of two million pounds of high-purity cobalt metal.

Inco acquired four existing plants which manufacture liquid sulphur dioxide and sulphuric acid from sulphur dioxide gases captured at Inco's Copper Cliff smelter and iron ore recovery plant.

Marketing

Marketing results for Inco's primary metals are shown in the tables on page 6.

Nickel - Nickel demand in the non-communist world declined about 8 per cent in 1981, the first time since the mid-1940s that demand has declined for two consecutive years. Demand is estimated at 1,060 million pounds in 1981, down from 1,150 million pounds in 1980. High interest rates, depressed capital spending and inventory reductions by nickel users were the primary reasons for the continuing slump in demand.

Despite the year's highly competitive market environment, Inco Metals maintained the level of its nickel deliveries and halted the erosion of its market share.

Producer inventories increased during the year, ending the year at an estimated 480

million pounds. Inco's inventories of finished nickel declined slightly to 144 million pounds at year-end 1981.

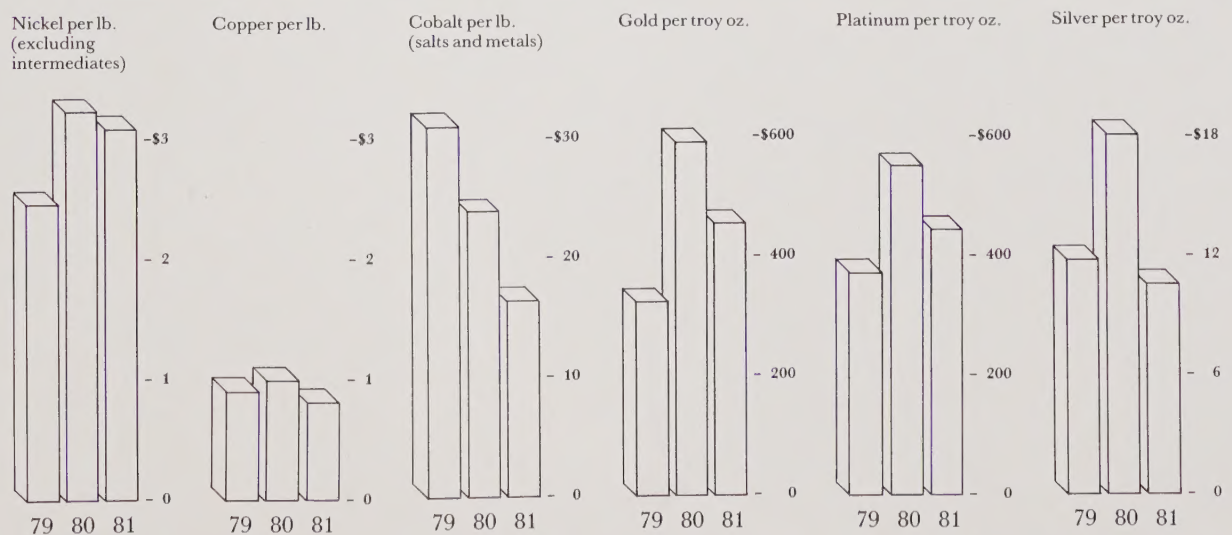
The company's net average realized price for primary nickel, excluding intermediates, was \$3.10 per pound compared with \$3.25 per pound in 1980.

Copper - Inco's copper deliveries declined 17 per cent, as copper availability was reduced by production cutbacks in the Ontario Division. The company realized an average price of 82 cents per pound, compared with \$1.00 per pound in 1980.

Precious Metals - Following sharp price increases in 1980, prices of all precious metals (platinum-group metals, gold and silver) fell during 1981. As a result, Inco's precious metals revenues decreased 34 per cent to \$103 million.

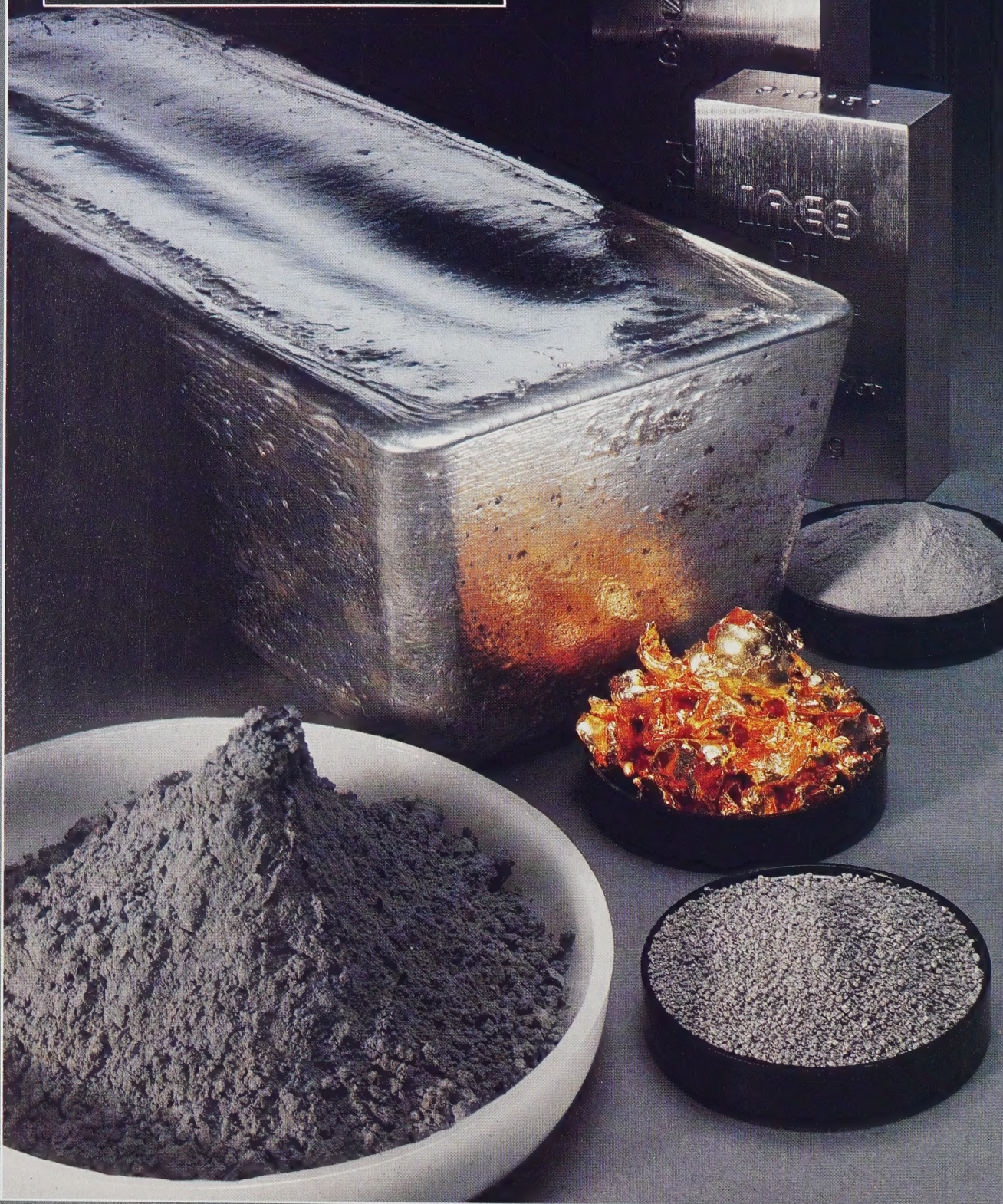
Cobalt - Cobalt deliveries in 1981 were the highest in the company's history, reflecting improved recoveries from ores in both the Ontario and Manitoba Divisions. Prices, however, were considerably lower. Total cobalt revenue came to \$58 million, a 49 per cent increase over 1980.

Three-Year Net Realized Prices



INCO METALS COMPANY

Inco Metals Company produces significant quantities of platinum-group metals, gold and silver, recovered from its Canadian ores.



Production

The company's principal operating mines and processing facilities are located in Canada and Indonesia. The company also has refining facilities in the United Kingdom and minority interests in two nickel processing companies in Japan.

Inco's total nickel and copper production, in millions of pounds, was as follows:

	1981*	1980	1979*
Nickel	330	394	255
Copper	244	291	146

*Strike-affected

Production in the Ontario Division was reduced through attrition and vacation shut-downs. Closing of the Coleman mine and reduced workshifts at the Shebandowan mine were commenced late in the year and will have their full impact in 1982. Cutbacks at the Garson mine were announced early in 1982.

Inco Metals' other major Canadian division, in Manitoba, operated at about 70 per cent of capacity prior to a strike which began on September 16 and was settled on December 14.

Overseas, the Exmibal facility in Guatemala was mothballed in early 1982, and employment was reduced to a level sufficient for security and general maintenance. The facility had been shut down on a standby basis since October 1980. While Exmibal proved itself a technical success, its dependence on high-cost oil as a source of

energy, coupled with depressed nickel prices, made it impossible to operate the facility profitably.

Only two of the three electric furnaces at P.T. International Nickel Indonesia were kept on stream during 1981, to match the needs of the Japanese market for P.T. Inco matte. With the economic slowdown in the latter half of the year, it was necessary to cut back to a single-line operation beginning February 1, 1982.

Energy represents about 60 per cent of the operating costs of a typical laterite project. However, P.T. Inco receives major cost relief because of the availability of hydro-generated power, which reduces P.T. Inco's energy costs by about 50 per cent of that which would be incurred if P.T. Inco were totally dependent on oil. In addition, modifications to the ore dryers and improvements in the dryer and reduction kiln operations, including partial substitution of coal for oil in the reduction kilns, have resulted in a 28 per cent decrease in residual oil consumption in these units.

Employees

In the Ontario Division, due to production cutbacks, the number of hourly-rated jobs is being reduced by 850 in early 1982. The number of staff positions is also being reduced. To minimize the impact on employees, the company has implemented special plans to provide financial incentives for voluntary early retirement. As a result of these and other programs, the number of employees being laid off will be less than 250.

In the Manitoba Division, about 90 per cent of hourly-rated employees returned to work after the strike, eliminating the need for employment cutbacks. Reductions in staff employment are being accomplished

primarily through an early retirement incentive plan for senior staff employees.

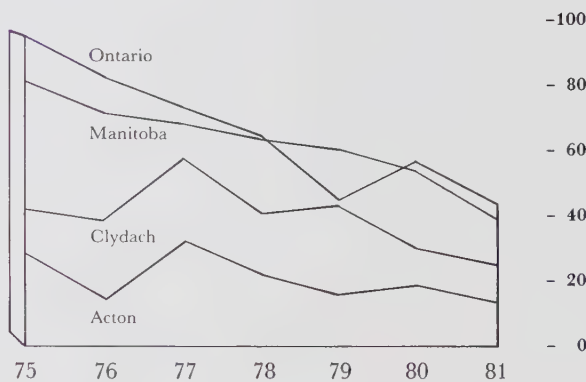
At P.T. Inco, as a result of the production cutback, the total number of workers associated directly or indirectly with the project is being reduced by some 12 per cent.

Inco Metals had 23,180 employees at the end of 1981. Of this total, 17,545 were in Canada; 3,780 in Indonesia; 1,277 in the United Kingdom; 134 in the United States; and 444 in other countries. At year-end 1980, the company had 24,623 employees.

Safety

Safety in the workplace is a top priority of Inco management. The chart below shows Inco Metals' safety record for the past five years, as measured by the number of lost-time accidents per million man hours worked:

Safety Lost Time Accidents per Million Man Hours



This chart illustrates a general downward trend in accident rates in the main operating divisions and units. The abnormal increase in accident rate in the Ontario

Division during the first half of 1980 has been reversed. It is heartening that closer co-operation between Inco Metals management and employees through joint health and safety committees, together with union and government support, has contributed significantly to this overall improvement.

High standards in safety performance have also been maintained at P.T. Inco, but statistics are not directly comparable.

Environmental Control

Inco Metals is substantially in compliance with environmental regulations at all of its operations throughout the world.

The company is proceeding on two major environmental control projects aimed at further reducing sulphur dioxide (SO₂) emissions at its Sudbury operations.

One involves the construction of a new system for removing and discarding additional quantities of pyrrhotite from nickel concentrates prior to smelting. Implementation of this process will enable Inco to meet an Ontario Government regulation mandating that emissions from the Sudbury smelter be reduced from a maximum of 2,500 tons of SO₂ per average working day to a maximum of 1,950 tons by January 1, 1983.

The second project involves a new Inco-developed nickel smelting process being tested at Thompson for possible implementation at Sudbury. This process has the potential to further decrease SO₂ emissions from the Sudbury smelter and provide improvements in workplace conditions, increased metals recovery and improved productivity. Prototype testing of the process commenced in 1981 with encouraging results. Preliminary engineering is also being carried out. Sufficient data should be

available by late 1982 to determine the technical feasibility of employing the new process at Sudbury.

Research and Development

Inco Metals escalated its programs in mining research, in both the Ontario and Manitoba Divisions, to develop safer and more productive mining methods. Considerable progress has been made. In addition to this internal effort, a joint mining research program with three other Canadian mining companies is under consideration.

Significant progress was made in establishing technology for minimizing the losses of nickel and platinum-group metals which will otherwise accompany the rejection of additional pyrrhotite. This technology will undergo pilot-plant testing in 1982.

Inco researchers established a technique for destroying cyanide in effluents from milling operations which employ this reagent in significant quantities. Plant scale tests are being carried out at an Ontario gold mine.

Total research and development expenditures at Inco Metals' process laboratories, research stations and operating locations came to \$19 million, the same as in 1980.

Exploration and New Mineral Ventures

Inco Metals spent \$25 million on exploration, up from \$24 million in 1980.

Expenditures on exploration at Inco Metals' mines in Canada and Indonesia amounted to \$7 million on programs to discover new mineralization and trace the extent of known deposits. The balance of exploration expen-

ditures was applied to field exploration in Canada, the United States, Brazil, Mexico and Australia, searching for gold, uranium, molybdenum, silver, chromium and tungsten. Over 50 per cent of these field expenditures was incurred in Canada.

During 1981, drilling of gold prospects was conducted on the Queenston Gold Mines property (65 per cent Inco owned) in Ontario, the Musselwhite Syndicate claims (23 per cent Inco) in Ontario, and the Crixas property (100 per cent Inco) in Brazil. All provided sufficiently encouraging results to warrant proceeding with feasibility studies. In addition, a molybdenum-gold prospect in Nevada was drilled in sufficient detail to justify underground exploration.

Development of a chromite mine at Tiebaghi in New Caledonia is proceeding on schedule. Production is expected to begin in the second quarter of 1982.

In Mexico, a joint venture with a Mexican partner continued operation of a milling demonstration plant to process tungsten ores at San Alberto, while also exploring for other tungsten deposits in the area.

With the completion of exploration of the McClean uranium deposit in Saskatchewan, on a property held jointly by Inco Metals and Canadian Occidental Petroleum Ltd., attention has been turned to studying methods of mining this high-grade deposit in a cost-efficient and environmentally sound manner. The development of this deposit will depend on the outcome of these studies and on future demand for uranium.

Ore Reserves

At year-end Inco had proven and probable ore reserves in Canada of 502 million short tons, containing 7.7 million tons of nickel

and 4.6 million tons of copper. This compares with year earlier proven and probable reserves of 543 million tons, containing 8.1 million tons of nickel and 4.9 million tons of copper. Only material that is economically viable and has been sampled in sufficient detail to permit a reliable calculation is included in the ore reserves.

The reduction in proven and probable ore reserves in 1981 is due primarily to adverse changes in price/cost relationships.

At the end of 1981, approximately 190 million short tons of nickeliferous laterite with an average grade of 1.85% nickel had been delineated at the company's Indonesian nickel operations. Sampling has been done in sufficient detail in the immediate vicinity of the processing plant to permit the classification of 42 million tons, containing 0.8 million tons of nickel, as proven and probable ore reserves, sufficient for operation of the plant for the next 20 years.

Labor Agreements

Hourly employees at the Manitoba Division were on strike from September 16 through December 14. The settlement, while comparable to settlements in related Canadian industries, was costly and demonstrates a compelling need for improved productivity if the company is to maintain its competitiveness in world markets. The new agreement remains in effect until September 15, 1984.

The Sudbury and Port Colborne labor agreements remain in effect until May 31, 1982; Shebandowan until July 22, 1982, and Indonesia until December 10, 1982.

In the United Kingdom, one-year collective agreements covering production and

maintenance employees at Clydach expire in February 1982, and for staff employees, September 30, 1982. At Acton the collective agreement is in effect until October 1982.



Walter Curlook
President, Inco Metals Company

Other officers Inco Metals Company

W. Roy Aitken
Senior Vice-President
Charles E. O'Neill
Senior Vice-President
Johannes P. Schade
Senior Vice-President
Malcolm C. Bell
Vice-President
William A. Correll
Vice-President
William I. Gordon
Comptroller
Norman W. Hayman
Assistant to the President
Daniel Kelly
*Vice-President, also
President, Inco Tech*
Donald B. MacDermott
Chief Legal Officer
Terrence Podolsky
Vice-President

Principal production operations

Winton K. Newman
President, Ontario Division

William P. Clement
President, Manitoba Division
James D. Guiry
*President and Managing Director,
P. T. International Nickel
Indonesia*

Principal marketing operations

Richard R. DeWitt
*Executive Vice-President
The International Nickel
Company, Inc., New York*
Anthony T. Shadforth
*Chairman and Managing Director
Inco Europe Limited, London*
J. A. Keith McPhail
*General Manager, Canadian
Marketing Division, Toronto*
Kevin H. Belcher
*President, Inco Australasia
Limited, Melbourne*
Dean D. Ramstad
*President, International Nickel
Japan Ltd., General Manager,
Japan Branch, Tokyo*

Other

Harold A. Laine
President, Exmibal

INCO ALLOY PRODUCTS COMPANY

Inco Alloy Products Company is one of the world's leading producers of high-performance alloys, as well as forged and machined components made from high-performance alloys.



Strategy

□ Inco Alloy Products Company holds a leading position in many of the markets it serves. In seeking to maximize long-term returns on its investment, the company's basic strategy is to emphasize low-cost, efficient production and the aggressive development of new alloys, products and processes.

(\$ millions)	1981	1980	1979
Net sales to customers	\$ 600	\$ 731	\$ 553
Operating earnings	\$ 22	\$ 87	\$ 51
Total assets	\$ 650	\$ 780	\$ 725

1981 Results

The company experienced the same market pressures felt throughout the metals industry: relatively encouraging results in the first half of the year, followed by a sharp decline in the second half as the North American and Western European economies weakened.

Net sales decreased 18 per cent to \$600 million, and operating earnings declined to \$22 million.

Lower earnings resulted in large part from weaker demand for the company's products, particularly in aerospace engine markets. In addition, the sharp decline in value of the pound sterling had a very adverse impact on earnings; while the company's British units operated profitably in pound sterling terms, their combined results showed a small operating loss when translated into U.S. dollars. Because of depressed market conditions, Inco Alloy Products' major units operated during the year at somewhat less than two-thirds of capacity. Nonetheless, excluding exchange rate effects, all were profitable.

A strong effort was made throughout the year to adjust operations to the realities of the marketplace, through employment reductions and decreased investment in inventories. Over the year, employment

levels were reduced by about 13 per cent. The improved management of inventories and lower level of business resulted in a reduction of working capital and, thus, a significant positive operating cash flow.

The company continued programs to position itself favorably for the future – including capital investment programs, process improvements and production efficiencies, cost reductions, and alloy development and modification programs. Initial orders for new products and from new markets were received.

Principal Operations

Huntington Alloys, Inc. – Huntington Alloys operates rolling mills in Huntington, West Virginia, and Burnaugh, Kentucky, U.S.A. Net sales declined 17 per cent to \$284 million in 1981, reflecting economic weakness – particularly in the second half of the year – in nearly all markets Huntington serves. Operating earnings, while lower than in 1980, benefited from improved production processes, inventory reductions and effective working capital controls.

Wiggin Alloys Limited – Wiggin Alloys produces high-nickel alloys at facilities in Hereford and Birmingham, England. Net sales declined 30 per cent to \$141 million. In particular, Wiggin was affected by a sharp drop in the aerospace engine market beginning in mid-year. Few new orders were received from aero engine manufacturers in the second half of the year, and some existing orders were cancelled or scheduled for later delivery.

Wiggin was able to acquire a substantial primary and plate mill near Birmingham for \$5 million. The facility, which is being refurbished for about \$4 million, will become operational in early 1982. This facility will enable Wiggin to make wider plate, increase production efficiencies and serve additional European markets.

Daniel Doncaster & Sons Limited – Daniel Doncaster forges and machines high-performance metal components at six locations in the United Kingdom. Net sales fell 18 per cent to \$147 million. Additional production facilities costing \$9 million went into operation at Blaenavon, Wales, in May. This installation will enable Doncaster to meet anticipated demand for large ring components used in gas turbines designed for the newest generation of aircraft.

Turbo Products International, Inc. – Acquired in September 1980, this U.S. based company machines industrial gas turbine blades. Net sales totalled \$18 million in 1981. A principal objective in acquiring Turbo Products was to provide U.S. finishing capability for compressor blades forged at Doncaster's Monk Bridge plant. An initial order for such blades was received during the year.

Canadian Alloys Division – Net sales were \$10 million. In addition to providing nickel coin strip for the Canadian mint, Canadian Alloys undertook experimental work on current and new alloys produced by Inco's powder processes. The aim of this work is to seek additional market opportunities and/or cost benefits in the production of certain alloys.

Daido Inco Alloys Ltd. – Daido Inco Alloys Ltd. (previously called Daido Special Alloys, Ltd.), owned equally by Inco Limited and Daido Steel Co., Ltd., Nagoya, Japan, markets specialty and high-nickel alloys in Japan. Sales were \$19 million in 1981.

Research and Development

Inco Alloy Products Company's research is aimed, in part, at applying new and existing alloys to emerging long-term markets, such as pollution control equipment and new oil and gas production facilities. In addition, a number of new processing techniques in

scrap recovery, casting, coating and fabrication from metal powders are being tested for production cost reduction.

Labor Agreements

At Huntington Alloys, a three-year contract covering hourly employees at the Huntington, West Virginia, facility remains in effect through December 1983. A contract covering the Burnaugh, Kentucky, plant is in effect until March 1984.

Annual contract negotiations were successfully concluded with unionized employees at Wiggin Alloys and Daniel Doncaster.

Employees

At year-end, Inco Alloy Products Company had 7,201 employees, compared with 8,292 at the end of 1980. Of the 1981 total, 4,459 were employed in the United Kingdom, 2,637 in the United States, 69 in Canada and 36 in other countries.



John H. Page
President, Inco Alloy Products
Company

Other officers Inco Alloy Products Company

Benjamin W. Durrant
Vice-President

John L. Shaw
Vice-President

Principal operations

William F. Bissett
President, Huntington Alloys, Inc.
Huntington, West Virginia

Derek O. Herbert
Deputy Chairman and Managing
Director, Wiggin Alloys Limited,
Hereford, England

I. David Balchin
Group Managing Director, Daniel
Doncaster & Sons Limited,
Sheffield, England

Dexter K. Bowers
President and Chief Operating
Officer, Turbo Products
International, Inc.

Ivoryton, Connecticut

C. Bruce Goodrich
President, Canadian Alloys
Division, Lively, Ontario

Saburo Minato
President, Daido Inco Alloys Ltd.
Tokyo

Kevin H. Belcher
President, Inco Australasia
Limited, Melbourne

Through Other Business operations, Inco is seeking to develop profitable, long-term growth opportunities.

Reprocessing Facilities

Inco's reprocessing facilities, Inmetco and Pittsburgh Pacific Processing Company (PPP), are involved in metals reclamation and recycling. During 1981 Inmetco, which reclaims steelmaking wastes and transforms them into ferronickel-chrome pigs, overcame its operational problems and demonstrated its ability to operate at full design capacity. However, results were depressed by production problems early in the year and poor market conditions later.

PPP's metals reclaiming business was severely affected by the softness of the steel and specialty steel businesses. Late in 1981 PPP began construction of a \$2.5 million plant to reclaim nickel from spent catalysts using an Inco-developed process. This new facility will be operational in the first quarter of 1982.

Oil and Gas

Inco's hydrocarbon exploration and development activities are conducted by Inco Energy Resources Ltd., headquartered in Calgary. This modest program continued to gain momentum in 1981.

During the year Inco Energy Resources increased its acreage in Western Canada, participated in 51 wells (including eight

successful oil wells and 24 successful gas wells), participated in the development of a small gas field which will come on stream in mid-1982, began an exploration program in the United States and acquired a 27 per cent interest in some 600,000 acres of promising offshore tracts east of Nova Scotia. Total program expenditures were \$15 million, of which \$7 million was capitalized.

Growth from Internal Development

MPD Technology promotes the sale of new products based on Inco research. Sales increased to \$3.7 million in 1981.

The year's largest sales volume was achieved in proprietary nickel flake, used as a conductive pigment for electromagnetic shielding of sensitive electronic devices.

Good sales growth was recorded in Inco's mechanically-alloyed aluminum alloys, which offer excellent strength and corrosion resistance; metal hydrides, which provide a safe, nonpolluting source of hydrogen fuel in specialized vehicles; and Maxorb* blackened nickel foil, used for solar energy collector surfaces.

Venture Capital

Inco continued an active investment posture in its highly successful, six-year-old venture capital program. The objective of this program is to invest in emerging technologies with the potential for excellent growth and high returns within five to ten years.

During 1981, venture capital investments costing \$0.7 million were sold for \$2.1 million. In the previous year, investments costing \$0.9 million were sold for \$6.8 million.

At year-end 1981, the book value of Inco's venture capital investments totalled \$21 million. Based upon valuation methods employed in the venture capital industry, these investments might be worth as much as \$80 million. Comparable figures at the end of 1980 were \$15.4 million and \$50 million, respectively.

Inco's portfolio contains investments in about 40 companies in Canada, the United States, France and Switzerland. Major areas of interest include genetic engineering, electronics, medical technology, communications and computer technologies.

Biogen N.V. remained Inco's largest single venture capital investment, at a cost of about \$9 million at the end of 1981. Biogen is involved in recombinant DNA research and technology. During the year Inco expanded its participation in other companies in the bio-technology area with investments in ImmunoGen, Inc. (monoclonal antibodies), Plant Genetics, Inc. (plant genetics) and The Liposome Company (liposomes-artificial lipid structures). Inco actively participated in the founding of these three companies, similar to its role in the founding of Biogen.

The North American Ventures Fund, an Ontario limited partnership formed by Inco Limited and SB Capital Corporation Limited of Toronto, received capital commitments of \$19 million in 1981 (including a commitment of about \$0.8 million from Inco). This venture capital fund will invest contributions by various pension funds and corporations in venture capital investments in Canada and the United States.

Inco conducts a highly diverse research and development program at both the corporate and operating unit levels. Major research goals include improvement of the Company's processes and products, development of new products and markets, and advances in resource recovery, materials and energy conservation and environmental control.

Inco Metals Company's research activities are discussed on page 11 of this Report, and Inco Alloy Products Company's on page 15.

Corporate research activities are conducted at three locations: Sterling Forest, New York; Wrightsville Beach, North Carolina; and Birmingham, England.

The Company's commitment to technology in support of corporate strategic objectives is illustrated by this sampling of research developments during 1981: An improved version of S-ROUNDS*, Inco's proprietary product used in nickel plating; a patented method for producing a platinum-based chemical used by pharmaceutical firms to make cisplatin, an anticancer compound; techniques for the production of higher-efficiency sintered nickel electrodes; a new low-cost maraging steel, IN-777, for the manufacture of tools and dies and for defence applications; and processes for the recovery of metals from used catalysts.

All told, Inco and its operating units spent \$37 million on research and development in 1981.

*Trademark of the Inco family of companies

DISCONTINUED BUSINESSES

Inco is divesting the battery and related products businesses conducted by Inco ElectroEnergy Corporation, an Inco subsidiary. The Company plans an orderly withdrawal from these businesses, principally through sale to purchasers in a position to realize the businesses' full potential. Inco intends to support each of these units until divestiture.

During 1981 the Company sold three units which had formerly been parts of Inco ElectroEnergy: Universal Electric Company, which manufactures fractional horsepower electric motors and had sales of \$73 million in 1980; Inco Safety Products Company, which produces worker safety equipment and had sales of \$35 million in 1980; and Willard Africa, a manufacturer of secondary batteries with sales of \$21 million in 1980. Combined proceeds from the sale of these three units approximated \$70 million.

Inco is divesting three additional Inco ElectroEnergy units: Exide Corporation, Exide Electronics Corporation and RAYOVAC Corporation.

Exide Corporation is a leading manufacturer, in the U.S. and Canada, of automotive and industrial batteries and related products. Sales in recent years have been about \$400 million annually. Exide Corporation's industrial battery business is profitable, but its automotive battery operations have experienced operating losses since 1980.

A number of actions have been taken to make Exide Corporation more efficient and competitive. During the past two years, the company's automotive battery manufacturing complex has been reduced from 12 plants to the six most modern and efficient. Exide Corporation has also streamlined its product line and has opened regional distribution centers for more efficient distribution.

Exide Electronics Corporation has established itself as a worldwide leader in the design, manufacture and maintenance of

uninterruptible power systems. These systems are used to control power supplies for computers and other sensitive electronic equipment. The company also produces emergency lighting systems for industrial and commercial facilities, and industrial battery chargers. Exide Electronics continues to be profitable. Sales are approximately \$75 million annually.

RAYOVAC is one of the world's largest manufacturers of dry-cell batteries, flashlights and related products. Sales have been about \$300 million annually in recent years. RAYOVAC's Latin American divisions, as well as its U.S. operations in lighting devices, lantern batteries and micro batteries ("button" cells), enjoy strong market positions. However, its North American operations in carbon-zinc and premium (alkaline) batteries have experienced intense competition, depressed prices and high marketing costs, resulting in operating losses. The nine-volt alkaline batteries plant in Lancaster, Ohio, will improve the company's competitiveness. RAYOVAC has established a leading research and development capability in lithium battery systems, believed to represent the next generation of primary batteries.

At year-end Inco ElectroEnergy had 14,318 employees.



David C. Dawson
*President and Chief Executive
Officer, Inco ElectroEnergy
Corporation*

Senior officers Principal operations

Thomas P. Callahan
*President and Chief Executive
Officer, Exide Corporation,
Philadelphia, Pennsylvania*

Warren G. Mang
*President, Exide Electronics
Corporation, Philadelphia,
Pennsylvania*

Benno A. Berni
*President, RAYOVAC
Corporation, Madison, Wisconsin*

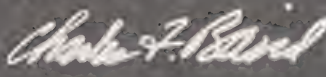
Management's Statement on Financial Reporting

The information and representations in this Annual Report have been prepared by management. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in Canada and, where appropriate, reflect management's best estimates and judgments. The financial information presented throughout this Report is consistent with the data presented in the financial statements.

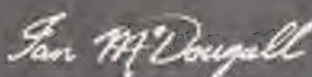
Systems of internal accounting control are maintained in order to assure on a reasonable basis the reliability of this financial information. These systems include formal policies and procedures, the careful selection and training of qualified personnel, and an organization providing for appropriate delegation of authority and segregation of responsibilities. These systems are monitored by our internal auditors who perform extensive tests and related procedures at major locations worldwide. Our independent auditors, whose report on their examination of the consolidated financial statements appears on page 38, also review our systems of internal accounting control in accordance with generally accepted auditing standards for the purpose of expressing their opinion on the consolidated financial statements.

Financial management personnel, our internal auditors and our independent auditors meet with the Audit Committee of the Board of Directors at least four times a year to report on accounting, auditing, internal accounting control and financial reporting matters. The Audit Committee also has other duties which are described on page 46.

The consolidated financial statements in this Annual Report have been reviewed and approved by the Board of Directors.



*Chairman and
Chief Executive Officer*



*Senior Vice-President
(Chief Financial Officer)*

Economic and Market Trends	20
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The health of world economies and developments in major end-markets are important factors influencing the Company's results.

The past year was marked by continued economic weakness throughout the Western world. The U.S. entered 1981 on a trend of recovery from the 1980 recession, but this proved to be one of the shortest economic upswings in U.S. history. By mid-1981 a new recession was under way, with little sign of improvement at year-end. Serious economic weakness was also evident in Western Europe, where unemployment in a number of countries reached unprecedented levels. Slow economic growth continued in Japan.

Member countries of the Organization for Economic Cooperation and Development (OECD) account for about two-thirds of the world's output of goods and services and an even higher proportion of investment in plant and equipment. Investment within OECD nations - a crucial factor in demand for many Inco products - has not increased since 1979; in fact, it

experienced a sharp decline in 1980 in the U.S. and in 1981 in Western Europe.

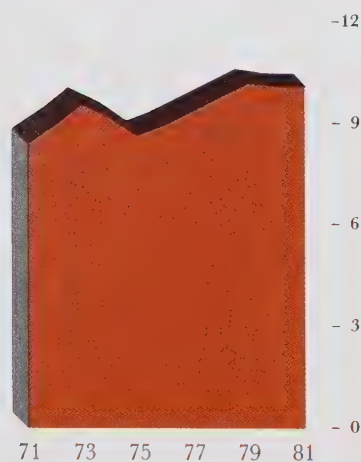
Of all markets, stainless steel production has the single greatest impact on nickel demand. Stainless steel production in the non-communist world fell about 10 per cent in 1981, the second consecutive yearly decline.

Specific end-markets important to the Company include chemical and petrochemical plants, aerospace production, environmental control systems, automotive production, energy exploration and production, and general engineering. Almost all these markets were weak in 1981 due to the general economic slowdown.

High inflation rates have a significantly negative impact by increasing the Company's costs and depressing its markets. Although prices continued to escalate in both North America and Western Europe, there was some easing toward the end of the year.

Capital investment within OECD countries has not risen since 1979.

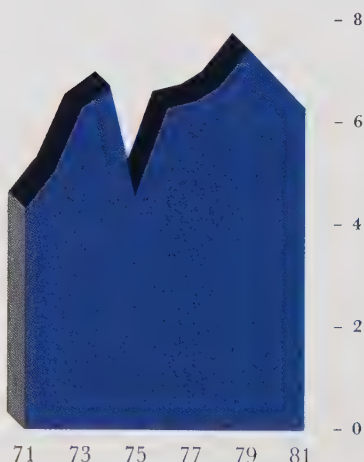
**Gross Fixed Capital Formation
OECD Countries**
(hundreds of billions of 1975 U.S. dollars)



Source: OECD and Inco estimates

Stainless steel production, a major nickel end-market, declined 10 per cent in 1981 to its lowest level since 1975.

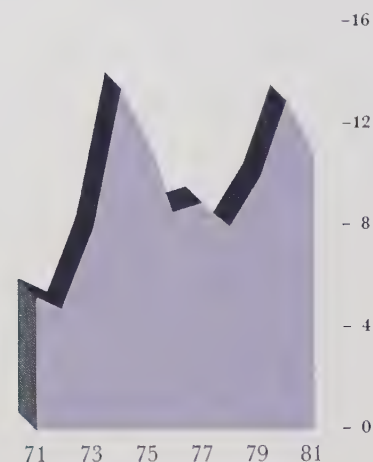
**Stainless Steel Production
Non-communist World**
(in millions of metric tons)



Source: Inco estimates

While inflation remained high in 1981, there was some easing from 1980.

**Inflation Rate - Consumer Prices
OECD Countries**
(per cent change from previous year)



Source: OECD and Inco estimates

Management's Discussion and Analysis

Charts have been provided to assist the reader in reviewing the Company's results of operations and financial position. As a result of the Company's decision to withdraw from the battery and related products businesses of Inco ElectroEnergy, these businesses, as well as three former units of Inco ElectroEnergy which were sold during 1981, are treated as discontinued business segments. Accordingly, the Company's Statement of Earnings for 1979-1981 reflects revenues, costs, expenses and taxes for continuing operations only. The Company's 1981 Balance Sheet reflects the net assets of Inco ElectroEnergy at estimated net realizable value of \$205 million. The Balance Sheets for 1979 and 1980, which have not been restated, continue to reflect the assets and liabilities of Inco ElectroEnergy at historical amounts.

Results of Operations

Primary Metals (\$ millions)	1979	1980	1981
Sales by product			
Primary nickel	\$ 807	\$ 917	\$ 891
Refined copper	115	286	194
Precious metals	87	157	103
Cobalt	38	39	58
Other products	7	12	24
Net sales to customers	\$1,054	\$1,411	\$1,270
Operating earnings			
	\$ 336	\$ 569	\$ 281
Deliveries (pounds in millions)			
Primary nickel and intermediates	332	292	298
Nickel contained in alloy products	62	53	44
Total nickel	394	345	342
Copper	129	288	240

Primary Metals The Company's nickel business is the primary determinant of its profitability. In early 1979, strong demand, particularly in the stainless steel sector, and curtailed production, due in part to the 8½ month strike at the Company's Sudbury operations, improved nickel markets and prices began to recover from the depressed 1978 levels. Demand remained strong through the first quarter of 1980, but weakened as recessionary conditions began to take hold first in the United States and then in Europe. Relatively encouraging market conditions in the first half of 1981 deteriorated quickly in the second half as more severe recessionary conditions prevailed. Nickel demand in the non-communist world declined successively in 1980 and 1981, the first time since the mid-1940s that demand has declined for two consecutive years. High interest rates, depressed capital spending and inven-

tory reductions by nickel users were the primary reasons for the continuing slump in demand. Weak nickel demand is expected to continue well into 1982. The Company's average net price realized for its primary nickel products, including intermediate products, was \$2.43 a pound in 1979, \$3.14 a pound in 1980, and \$2.99 a pound in 1981. In response to market conditions, over the past two years, the Company has taken a number of measures to reduce production.

Copper was unavailable for sale in the first half of 1979 due to the Sudbury strike and availability was reduced in 1981 by production cutbacks at the Ontario Division. The Company's average realized price per pound of copper was 91 cents in 1979, \$1.00 in 1980, and 82 cents in 1981.

Following sharp price increases in 1980, prices for all precious metals fell during 1981. Cobalt deliveries of 3.6 million pounds in 1981 (1.9 in 1980 and 1.2 in 1979) were the highest in the Company's history, reflecting improved recoveries from ores, but prices declined. The Company's average realized price per pound of cobalt was \$31.00 in 1979, \$24.00 in 1980, and \$16.40 in 1981.

The 8½ month strike in the Sudbury area of the Ontario Division was ended in mid-1979 when production and maintenance employees ratified an agreement which expires in May 1982. Expenses associated with that strike totalled \$61 million in 1978 and \$76 million in 1979. Expenses associated with a three-month strike at the Manitoba Division, which ended in December 1981, totalled \$18 million. While comparable to settlements in related Canadian industries, the Manitoba settlement was costly and demonstrates a compelling need for improved productivity. Unit costs and expenses have increased sharply in the past few years due to costly labor settlements, escalating supply and energy costs, and lower production levels.

Inco Metals' operating earnings also reflected operating losses from its Indonesian and Guatemalan nickel operations of \$30 million in 1979, \$9 million in 1980 and \$37 million in 1981.

Alloy Products Sales and operating earnings in 1981 dropped sharply from the record 1980 levels. Results for 1980, as compared with 1979, reflected higher prices, a shift of business towards higher performance alloys and productivity improvements. However, weak demand, particularly in aerospace engine markets, resulted in reduced deliveries in 1981. Another

Ten-Year Review

significant factor affecting 1981 results was the decline in the value of the pound sterling relative to the U.S. dollar which, in comparison with 1980, accounted for one-third of the reduction in sales and one-half of the reduction in operating earnings.

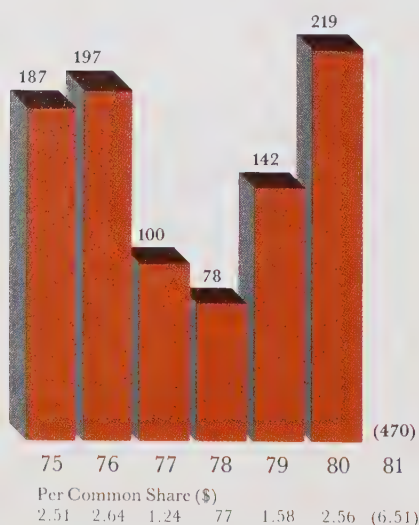
Alloy Products (\$ millions)	1979	1980	1981
Net sales to customers	\$553	\$731	\$600
Operating earnings	\$ 51	\$ 87	\$ 22

Other Business The principal units included in this segment are Inmetco, involved in metals reclamation and recycling, and Inco Energy Resources, which was formed in 1979 to conduct oil and gas exploration and development. Inmetco experienced operational problems in 1980 which resulted in an operating loss of \$10 million. These problems were overcome but poor market conditions depressed sales and led to a \$10 million loss in 1981. Inco Energy Resources' operating losses, all of which related to its exploration activities, were \$0.1 million in 1979, \$2.6 million in 1980, and \$8.0 million in 1981; capitalized exploration expenditures totalled \$13 million at December 31, 1981.

Other Business (\$ millions)	1979	1980	1981
Net sales to customers	\$ 4	\$ 8	\$16
Operating loss	\$ 6	\$18	\$27

Interest and Taxes Interest expense has increased steadily over the past two years, mainly due to higher market interest rates. The relationship of income and mining taxes to pretax earnings is largely influenced by the level of losses of the nickel operations in Guatemala and Indonesia, on which no tax benefit is recognized, and by the effect of currency translations. In addition,

Net Earnings (Loss)
(\$ millions)



1981

Summary of operations (in thousands)

Net sales*	\$1,885,900
Cost of sales and operating expenses*	\$1,454,400
Selling, general and administrative expenses*	\$ 144,400
Interest, net of amounts capitalized*	\$ 147,100
Income and mining taxes*	\$ 81,200
Earnings from continuing operations before extraordinary charges*	\$ 20,400
Net earnings (loss) applicable to common shares	\$ (497,500)
Per common share	\$ (6.51)
Common dividends	\$ 45,000
Per common share	\$ 0.59
Common shares outstanding (weighted average)	76,395

Other financial data (in thousands)

Capital expenditures*	\$ 152,200
Depreciation and depletion*	\$ 139,900
Pension expense*	\$ 59,800
Research and development expense*	\$ 37,000
Exploration expense*	\$ 32,700
Working capital**	\$ 981,500
Net property, plant and equipment**	\$2,136,100
Total assets**	\$3,774,000
Total debt**	\$1,331,400
Preferred shares	\$ 341,800
Common shareholders' equity**	\$1,291,100
Return on total assets**	—
Return on common shareholders' equity**	—

Operating data (in thousands)

Ore mined - short tons	13,400
Nickel production - pounds	330,100
Nickel deliveries - pounds	341,800
Copper deliveries - pounds	239,800
Platinum-group metals and gold deliveries - troy ounces	317

Other statistics

Employees at year end*	31,678
Common shareholders at year end	62,054

*Amounts reported are for continuing operations only. Years prior to 1981 have been restated to exclude discontinued business segments.

**Amounts reported for years prior to 1981 have not been restated; such years include historical amounts for discontinued business segments.

1980	1979	1978	1977	1976	1975	1974	1973	1972
2,150,000	1,611,300	1,298,000	1,247,800	1,442,600	1,198,000	1,450,600	1,172,800	900,300
1,352,300	1,116,400	992,900	917,800	946,600	756,400	768,300	693,300	617,600
144,500	109,400	102,500	97,200	91,000	79,500	78,900	66,300	60,600
124,800	109,900	59,000	52,600	56,500	38,500	38,900	42,300	43,800
250,400	121,200	72,600	65,500	130,200	125,400	244,000	120,500	42,600
249,600	135,800	61,700	87,700	178,500	179,800	296,700	225,600	112,100
193,200	118,500	57,300	92,300	196,800	186,900	298,600	225,600	112,100
2.56	1.58	0.77	1.24	2.64	2.51	4.01	3.02	1.50
52,100	37,400	52,200	93,200	119,300	119,300	119,300	89,400	74,500
0.69	0.50	0.70	1.25	1.60	1.60	1.60	1.20	1.00
75,464	74,762	74,595	74,593	74,576	74,552	74,541	74,535	74,525
143,300	85,400	193,400	402,500	434,900	315,800	141,400	88,800	125,200
142,500	111,000	89,700	96,900	98,100	96,600	92,100	76,800	56,300
61,600	54,700	47,900	46,500	47,400	33,700	32,000	21,300	12,400
34,100	26,600	31,400	39,400	34,200	32,200	31,200	26,700	25,700
26,900	13,900	14,200	22,400	34,100	26,500	18,200	15,200	13,700
1,039,500	943,100	961,900	826,200	595,300	589,500	648,000	537,800	395,700
2,542,400	2,523,400	2,540,500	2,436,700	2,119,400	1,785,000	1,560,200	1,395,400	1,402,200
4,631,500	4,335,400	4,145,600	4,075,800	3,628,300	3,025,700	2,799,700	2,248,800	2,078,300
1,351,700	1,274,100	1,307,000	1,315,600	1,251,600	803,300	621,900	466,500	514,600
345,000	348,300	351,600	353,300	—	—	—	—	—
1,817,300	1,657,900	1,566,700	1,561,600	1,562,400	1,484,400	1,416,400	1,236,900	1,100,700
4.7%	3.3%	1.9%	2.5%	5.4%	6.2%	10.7%	10.0%	5.4%
10.6%	7.1%	3.7%	5.9%	12.6%	12.6%	21.1%	18.2%	10.2%
16,400	9,600	10,900	19,600	19,800	21,200	22,000	19,700	19,200
393,800	255,000	267,300	416,700	461,600	458,900	509,600	469,200	401,200
345,400	393,600	377,400	312,300	409,800	351,100	549,100	517,000	425,100
288,300	129,100	224,600	341,200	356,000	334,600	367,200	327,100	308,200
349	326	468	438	554	301	317	413	452
33,975	33,864	33,326	38,216	38,696	37,755	32,459	31,311	32,082
67,609	74,541	75,067	77,875	78,014	84,369	86,795	90,660	92,024

Management's Discussion and Analysis

as a result of tax legislation relative to "stock appreciation relief", enacted in the United Kingdom in 1979 and then revised in 1981, income and mining taxes were reduced by \$43.4 million in 1979, \$13.4 million in 1980, and \$18.3 million in 1981.

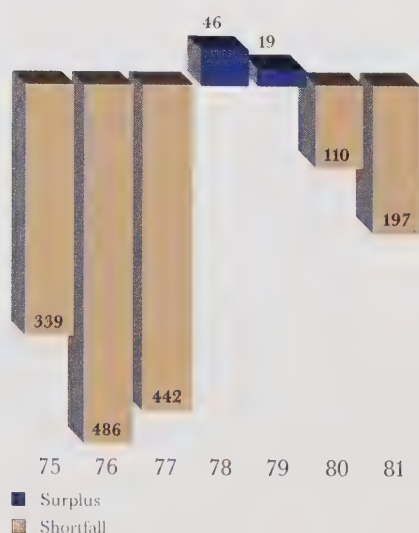
Extraordinary Charges The Company incurred two extraordinary charges in the fourth quarter of 1981. In connection with its decision to mothball the nickel mining and processing facilities in Guatemala, the Company revalued its investment in Exmibal, its 80 per cent owned subsidiary, resulting in a charge of \$219.6 million. The charge is equivalent to the Company's total investment in Exmibal and reflects the write-off of all loans and advances already made by the Company to Exmibal, provision for repayment of Exmibal's external debt for which the Company has certain obligations, and a full reserve for the Company's investment in Exmibal's common shares. In accordance with applicable accounting rules, no tax relief was recognized relative to this extraordinary charge.

The Company also recognized a charge of \$245 million as a result of its decision to withdraw from the battery and related products businesses of Inco Electro-Energy Corporation. This provision of \$245 million, which is after tax relief of \$47 million, includes net losses expected to be incurred by the various businesses after November 30, 1981 until the estimated dates of disposition, as well as anticipated losses on disposition. The Company's objective is to complete this divestiture by the end of 1982.

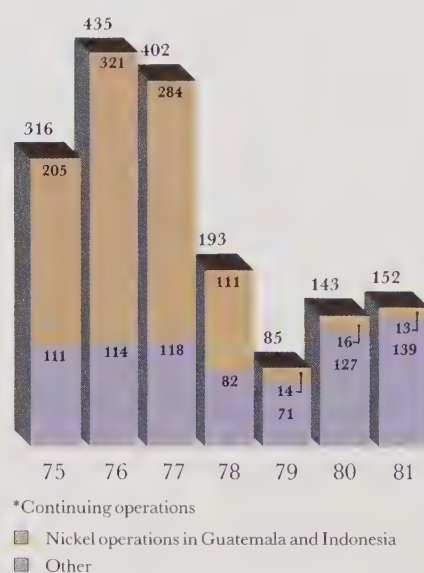
Financial Position

Cash Flow In the three-year period 1975-1977, the Company incurred internal cash shortfalls totalling \$1,267 million, as the Guatemalan and Indonesian nickel projects were under construction and nickel production in Canada was maintained at relatively high levels in anticipation of improved market conditions that did not materialize. The Company generated internal cash surpluses in 1978 and 1979. These surpluses were due to the fact that during the Sudbury strike nickel continued to be delivered from inventories while production costs were not being incurred, reduced capital expenditures on the Guatemalan and Indonesian projects, and the effects of cash conservation programs. In 1980, however, the Company incurred a shortfall of \$110 million resulting principally from an increase in its primary metals inventories. In 1981, the Company incurred a shortfall of \$197 million related to continuing operations resulting principally from the very low level of earnings and \$130 million related to discontinued business segments including \$108 million for the repayment of debt and \$92 million for operating and working capital requirements and capital expenditures, partially offset by \$70 million of proceeds from the sale of Universal Electric, Inco Safety Products and Willard Africa, units which had formerly been part of Inco ElectroEnergy. Repayment of debt is not normally included in the determination of internal cash flows. However, in view of the treatment of Inco ElectroEnergy as a discontinued business segment, repayment of its debt in 1981 has been included in the internal cash shortfall relative to discontinued business segments.

Internal Cash Flow
(\$ millions)



Capital Expenditures*
(\$ millions)



In response to these shortfalls, the Company has imposed severe restraints on capital and operating expenditures, cut back production, shut down and subsequently mothballed the Guatemalan operations, reduced employment levels at all major locations, and reduced the common dividend. Nevertheless, the Company believes that internal cash shortfalls from continuing operations will persist in 1982 as long as metal markets remain depressed. However, substantial proceeds should be realized from the disposition of the Inco ElectroEnergy businesses. Capital expenditures for continuing operations, which totalled \$152 million in 1981, are expected to approximate \$180 million in 1982 as the Company proceeds with the development of the Thompson Open Pit mine at the Manitoba Division.

Capital Resources and Liquidity Until the early 1970s, the Company was able to finance its cash requirements primarily with internally generated funds. As the decade of the 1970s progressed, competition intensified, cash requirements to maintain and expand investment in plant, equipment and inventories increased substantially, rates of inflation rose sharply and there was a consequent decline in levels of profitability and internal cash generation. As a result, the Company had to rely heavily on external financing to meet its cash requirements. In recent years, this has become more difficult and more costly in view of the deterioration of the capital markets, in general, and the reduction in the Company's credit ratings. In late

1981, the Company's long-term bond rating was lowered from an A to the equivalent of a BBB by major rating agencies.

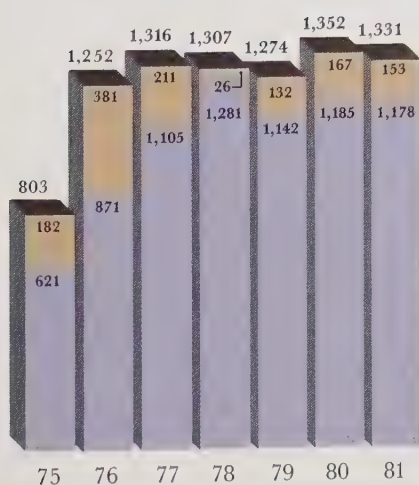
The internal cash shortfalls of the 1975-1977 period were financed principally by some \$530 million of long-term borrowings by the Company's majority-owned Guatemalan and Indonesian subsidiaries in connection with the construction of their respective nickel projects, an increase in short-term debt of about \$130 million, and the sale in Canada of two series of preferred shares totalling \$375 million (Cdn.). Since 1977, three major public financings were undertaken - \$150 million raised in 1978 by the issuance of long-term notes and debentures in the Eurobond market, \$100 million raised in 1980 by the issuance of debentures in the United States, and 25 million pounds sterling raised in 1981 by the issuance of debentures in the United Kingdom domestic market. In addition, since its inception in 1979, over \$40 million of equity capital has been raised through the Inco Optional Stock Dividend Program. In 1981, the Company also borrowed \$271 million under its bank credit facilities, virtually all of which was used to retire or prepay other long-term debt.

At the end of 1981, the Company had unutilized committed credit facilities of some \$270 million. In addition, the Company has obtained commitments from banks to increase such facilities by \$175 million. Reference is made to Note 8 of the Explanatory Financial Section for a description of these facilities, including certain covenants relating to maintenance of net worth and limitations on consolidated debt.

The Company's financing needs in 1982 will be influenced by conditions in the metals markets and by the amount and timing of proceeds from the sales of Inco ElectroEnergy's businesses. In addition to utilizing internally generated funds and borrowings available under committed credit facilities, the Company will also consider the issuance of additional equity capital in view of the desirability of improving its net worth and will remain alert for opportunities in 1982 to raise funds through the issuance of long-term, fixed-rate debt.

Other Information Reference is made to pages 39 and 44 of this Report for certain information on the effects of inflation and governmental and other policies and factors affecting the Company's operations and investments by non-Canadians in the Company's securities.

Debt Levels
(\$ millions)



■ Notes payable
■ Long-term debt (including current portion)

Consolidated Statement of Earnings

Inco Limited and Subsidiaries

Year ended December 31	1981	1980*	1979*
	<i>(in thousands)</i>		
Revenues			
Net sales	\$1,885,923	\$2,150,041	\$1,611,260
Other income	25,677	36,968	32,017
	1,911,600	2,187,009	1,643,277
Costs and expenses			
Cost of sales and operating expenses	1,454,430	1,352,255	1,116,418
Selling, general and administrative expenses	144,378	144,536	109,385
Research and development	36,996	34,124	26,550
Exploration	32,653	26,882	13,865
Interest expense	147,130	124,783	109,863
Currency translation adjustments	(5,616)	4,391	10,194
	1,809,971	1,686,971	1,386,275
Earnings from continuing operations before income and mining taxes	101,629	500,038	257,002
Income and mining taxes	81,162	250,413	121,242
Earnings from continuing operations before extraordinary charges	20,467	249,625	135,760
Earnings (loss) from operations of discontinued business segments, net of applicable income taxes (Note 2)	(25,347)	(30,218)	5,965
Earnings (loss) before extraordinary charges	(4,880)	219,407	141,725
Extraordinary charges			
Provision for loss on disposition of discontinued business segments, net of applicable income taxes (Note 2)	(245,000)	—	—
Loss on revaluation of investment in Exmibal (Note 3)	(219,638)	—	—
Net earnings (loss)	\$ (469,518)	\$ 219,407	\$ 141,725
Net earnings (loss) per common share			
Continuing operations	\$ (.10)	\$ 2.96	\$ 1.50
Discontinued business segments	(.33)	(.40)	.08
Extraordinary charges	(6.08)	—	—
Net earnings (loss) per common share	\$ (6.51)	\$ 2.56	\$ 1.58

*Restated - see Note 2

Consolidated Statement of Retained Earnings

Year ended December 31	1981	1980	1979
	<i>(in thousands)</i>		
Retained earnings at beginning of year	\$1,630,852	\$1,489,678	\$1,408,607
Net earnings (loss)	(469,518)	219,407	141,725
Preferred dividends	(28,017)	(26,179)	(23,274)
Common dividends - \$.59 per share (1980 - \$.69, 1979 - \$.50)	(45,000)	(52,054)	(37,380)
Retained earnings at end of year	\$1,088,317	\$1,630,852	\$1,489,678

The Explanatory Financial Section on pages 29 through 37 is an integral part of these statements.

Consolidated Balance Sheet

Inco Limited and Subsidiaries

December 31	1981	1980	1979
		<i>(in thousands)</i>	
Current assets			
Cash	\$ 6,795	\$ 26,321	\$ 37,956
Marketable securities, at cost which approximates market for 1979 and 1980; (market 1981 - \$33,000,000)	27,874	26,962	36,018
Accounts receivable	310,987	574,700	518,260
Inventories	1,005,510	1,305,613	1,081,644
Prepaid expenses	11,561	17,977	11,548
Net assets of discontinued business segments, at estimated net realizable value (Note 2)	205,000	—	—
Total current assets	1,567,727	1,951,573	1,685,426
Property, plant and equipment	3,523,833	3,951,238	3,794,506
Less - Accumulated depreciation and depletion	1,387,691	1,408,882	1,271,123
	2,136,142	2,542,356	2,523,383
Other assets			
Investments in and advances to affiliates, on an equity basis	14,776	66,152	62,170
Miscellaneous securities	39,248	27,841	23,373
Charges to future operations	16,115	16,964	11,344
Unamortized cost in excess of net assets of business acquired	—	26,594	29,693
	70,139	137,551	126,580
Total assets	\$3,774,008	\$4,631,480	\$4,335,389
Current liabilities			
Notes payable	\$ 153,227	\$ 166,646	\$ 131,731
Long-term debt due within one year	76,153	140,260	70,073
Trade accounts payable	42,544	112,063	102,861
Accrued payrolls and vacations	84,130	92,802	82,162
Other payables and accrued liabilities	211,635	249,205	230,884
Income and mining taxes payable	18,503	151,139	124,594
Total current liabilities	586,192	912,115	742,305
Other liabilities			
Long-term debt	1,101,981	1,044,780	1,072,326
Deferred income and mining taxes	412,100	445,000	446,000
Pension benefits	34,357	52,156	49,493
Minority interest	6,433	15,088	19,010
	1,554,871	1,557,024	1,586,829
Preferred shares issued, \$25 (Cdn.) par value:			
Series A floating rate	239,250	239,250	239,250
Series B 7.85 %	102,548	105,790	109,066
	341,798	345,040	348,316
Common shareholders' equity			
Common shares issued, without nominal or par value	141,794	125,413	107,225
Capital surplus	61,036	61,036	61,036
Retained earnings	1,088,317	1,630,852	1,489,678
Total common shareholders' equity	1,291,147	1,817,301	1,657,939
Total liabilities and shareholders' equity	\$3,774,008	\$4,631,480	\$4,335,389

The Explanatory Financial Section on pages 29 through 37 is an integral part of these statements.

Approved by the Board of Directors: **Charles F. Baird**
Donald J. Phillips

Consolidated Statement of Changes in Financial Position

Inco Limited and Subsidiaries

Year ended December 31	1981	1980*	1979*
Financial resources were provided by		<i>(in thousands)</i>	
Continuing operations			
Earnings before extraordinary charges	\$ 20,467	\$249,625	\$135,760
Charges (credits) not affecting working capital			
Depreciation	123,716	124,103	100,901
Depletion	16,190	18,383	10,120
Deferred income and mining taxes	17,300	6,300	27,000
Loss on disposals of property, plant and equipment	16,707	4,388	2,686
Currency translation adjustments not affecting working capital	(7,042)	2,954	5,693
Other - net	2,558	(11,955)	(8,355)
	189,896	393,798	273,805
Discontinued operations			
Earnings (loss) from operations	(25,347)	(30,218)	5,965
Charges (credits) not affecting working capital			
Depreciation	20,522	22,858	20,690
Deferred income taxes	(24,600)	(7,300)	1,900
Other - net	1,066	3,039	4,483
	(28,359)	(11,621)	33,038
Working capital provided by operations before extraordinary charges	161,537	382,177	306,843
Extraordinary charges			
Changes in working capital resulting from:			
Discontinuance of business segments	(93,898)	—	—
Revaluation of investment in Exmibal	(20,728)	—	—
Working capital provided by operations	46,911	382,177	306,843
Long-term borrowings	346,031	153,655	42,785
Shares issued in lieu of cash dividends	15,215	16,923	10,048
Other - net	11,070	(2,418)	9,926
Total	419,227	550,337	369,602
Financial resources were used for			
Preferred dividends	28,017	26,179	23,274
Common dividends	45,000	52,054	37,380
Capital expenditures for continuing operations	152,247	143,294	85,429
Capital expenditures for discontinued business segments	33,392	48,167	43,419
Reduction of long-term debt	218,494	184,306	198,916
Total	477,150	454,000	388,418
Increase (decrease) in working capital	\$ (57,923)	\$ 96,337	\$ (18,816)
Analysis of changes in working capital			
Increase (decrease) in current assets			
Cash and marketable securities	\$ (18,614)	\$ (20,691)	\$ (11,288)
Accounts receivable	(263,713)	56,440	123,323
Inventories	(300,103)	223,969	96,358
Prepaid expenses	(6,416)	6,429	656
Net assets of discontinued business segments	205,000	—	—
Total	(383,846)	266,147	209,049
Increase (decrease) in current liabilities			
Notes payable and other debt	(77,526)	105,102	118,735
Payables and accrued liabilities	(115,761)	38,163	88,117
Income and mining taxes payable	(132,636)	26,545	21,013
Total	(325,923)	169,810	227,865
Increase (decrease) in working capital	\$ (57,923)	\$ 96,337	\$ (18,816)

*Restated - see Note 2. The Explanatory Financial Section on pages 29 through 37 is an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

This summary of the major accounting policies of Inco Limited and subsidiaries is presented to assist the reader in evaluating the financial statements contained in this Report. These policies apply to the continuing operations of the Company and have been followed consistently in all material respects for the periods covered in the financial statements.

Principles of consolidation The financial statements consolidate the accounts of the Company and its subsidiaries and are prepared in conformity with generally accepted accounting principles as established in Canada which, in the Company's case, generally conform with those established in the United States except as explained in Note 4.

Translation of financial statements into United States dollars The financial statements are expressed in United States currency. Cash, accounts receivable, current liabilities, the liability for pension benefits and long-term debt are translated at year-end rates of exchange. The translation of all other assets and liabilities generally recognizes the rates historically applicable. Revenues, expenses and certain costs are translated at monthly average rates during each year; inventoried costs, depreciation and depletion are translated at historical rates. Realized exchange gains and losses and currency translation adjustments are included in earnings currently.

Inventories Inventories are stated at the lower of cost or net realizable value. Cost for certain metals inventories in the United States is determined by the last-in, first-out method. Cost for other metals is average production or purchase cost, and for supplies is average purchase cost.

Property, plant and equipment Property, plant and equipment, which includes preproduction costs associated with major new facilities, is stated at cost. Such cost in the case of the Company's mines represents related acquisition and development expenditures.

Depreciation and depletion Depreciation is calculated using the straight-line method and, for the nickel operations in Guatemala (while in operation) and Indonesia, the unit-of-

production method based on the estimated economic lives of property, plant and equipment. Such lives are generally limited to a maximum of 20 years and are subject to annual review. Depletion is calculated by a method which allocates the related recorded costs ratably to the tons of ore mined. Depletion is the systematic amortization of the recorded cost of the Company's mines and does not represent the decrease, if any, in the value of ore reserves as a result of ore mined.

Exploration Expenditures for mineral exploration are expensed as incurred. Expenditures for oil and gas prospects are accounted for by the successful efforts method, under which expenditures are expensed if a prospect is determined to be unsuccessful.

Income and mining taxes Deferred taxes are provided in recognition of timing differences that arise in reporting depreciation and other expense and revenue items for financial statement and income and mining tax purposes. Investment tax credits are accounted for by the "flow-through" method. Income taxes have not been provided on undistributed earnings of subsidiaries because only a minor portion of such earnings has not been or will not be permanently reinvested.

Pension plans The Company has pension plans covering essentially all employees. Pension costs are calculated and funded based on actuarial estimates. Prior service costs at December 31, 1981 approximated \$100 million, the major portion of which will be charged to operations within the next 13 years. The liability for pension benefits consists of supplements for pensioners.

Net earnings per common share Net earnings per common share is calculated by dividing net earnings less preferred dividends by the weighted average number of common shares outstanding. The common stock equivalents of outstanding stock options do not dilute earnings per common share.



Larry Klauck
Foundry Additive Plant,
Port Colborne, Canada

Note 2. Discontinued Business Segments

On December 7, 1981, the Company announced its decision to withdraw from the battery and related products businesses of Inco ElectroEnergy Corporation. The Company has recorded a provision for the loss on disposition of these businesses of \$245 million, which is after tax relief of \$46.9 million. The provision includes net losses expected to be incurred by the various businesses after November 30, 1981 until the estimated dates of disposition, as well as anticipated losses on disposition. The Company's objective is to complete this divestiture by the end of 1982. The Company intends an orderly withdrawal principally through sale of the various businesses and operations.

The net assets of the discontinued business segments for 1979, 1980 and 1981 are shown below (in millions):

December 31	1981	1980	1979
Net current assets excluding debt	\$310.4	\$321.7	\$323.5
Property, plant and equipment - net	186.2	195.0	174.1
Other assets and liabilities - net	40.7	51.4	49.1
	537.3	568.1	546.7
Less: total debt	82.0	189.1	191.0
Total net assets	\$455.3	\$379.0	\$355.7

The 1981 Consolidated Balance Sheet reflects the 1981 net assets at an estimated net realizable value of \$205 million; however, these net assets are reflected at historical amounts in the 1979 and 1980 Consolidated Balance Sheets.

The Consolidated Statement of Earnings for 1981 excludes the revenues, costs, expenses and income taxes of the discontinued business segments; the years 1979 and 1980 have been restated on the same basis. The net earnings or loss from the discontinued segments has been reported separately. The 1981 net loss also reflects the operations and sale of Universal Electric, Inco Safety Products, and Willard Africa, three former units of Inco ElectroEnergy which were sold in mid-1981. Net

sales applicable to the discontinued business segments were \$877.2 million in 1979, \$890.6 million in 1980 and \$737.1 million from January 1 to November 30, 1981, the date at which they have been accounted for as discontinued.

The provisions for income taxes (credits) relative to the discontinued business segments for the years 1979 - 1981, including in 1981 the \$46.9 million credit relative to the provision for loss on disposition, were as follows:

	1981	1980	1979
	<i>(in thousands)</i>		
Current taxes	\$ (1,197)	\$ (1,912)	\$ 2,400
Current deferred	(14,900)	(3,800)	12,700
Future deferred	(49,200)	(7,300)	1,900
Total deferred taxes	(64,100)	(11,100)	14,600
Total income taxes	\$(65,297)	\$(13,012)	\$17,000

The \$46.9 million tax relief recognized in connection with the provision for the loss on disposition is essentially limited to the amount of deferred tax liabilities established in prior years relative to the Company's operations in the United States. Based on the pretax provision for loss of \$291.9 million and the limitation on the tax relief recognizable at this time, some \$170 million of losses relative to the disposition could be carried forward - fifteen years for ordinary losses and five years for capital losses - to offset future taxable income and gains in the United States.

Note 3. Loss on Revaluation of Investment in Exmibal

In the fourth quarter of 1981, the Company announced that the nickel mining and processing facilities of its 80 per cent owned Guatemalan subsidiary, Exploraciones y Explotaciones Mineras Izabal, S.A. (Exmibal), would be mothballed starting early in 1982. As a result of this decision, the Company's investment in Exmibal was written down by \$219.6 million. In accordance with applicable accounting rules, no tax relief was recognized relative to this write-down.

The \$219.6 million charge is equivalent to the Company's total investment in Exmibal and reflects the write-off of all



Hera Suhario
Secretary, P. T. International
Nickel, Jakarta, Indonesia

loans and advances already made by the Company to Exmibal, provision for repayment of Exmibal's external debt for which the Company has certain obligations, and a full reserve for the Company's investment in Exmibal's common shares.

Subject to force majeure, the Company intends to provide Exmibal with sufficient funds to meet regularly scheduled payments of principal and interest due Exmibal's external lenders. In addition, the Company intends to provide funds for ongoing maintenance costs which are expected to be minimal.

It is possible that future events may prove the investment in Exmibal to have value, particularly in view of the fact that the Exmibal plant is relatively new and has proven itself to be a technical success. However, in view of current and foreseeable circumstances affecting Exmibal, including nickel supply/demand and price/cost relationships, the Company concluded that it could not assign a specific carrying value to the Exmibal investment which could be supported with a justifiable degree of confidence.

Note 4. Differences Between Canadian and United States Generally Accepted Accounting Principles

The extraordinary charge of \$219.6 million related to the revaluation of the Company's investment in Exmibal does not meet the criteria of an extraordinary item under United States practice; consequently, that amount would be deducted to determine the results from continuing operations. Additionally, the extraordinary charge of \$245 million relating to the withdrawal from the battery and related products businesses of Inco ElectroEnergy would have been reported as an element of the loss from discontinued business segments under United States practice. The Company's net loss for 1981 is identical under both Canadian and United States accounting practices.

If the above charges were reported in accordance with accounting principles generally accepted in the United States,

the presentation in the Consolidated Statement of Earnings for the year 1981 would be as follows (in thousands):

Loss from continuing operations (including \$219.6 million loss on revaluation of investment in Exmibal)	\$199,171
Loss from discontinued business segments	
Loss from operations	25,347
Provision for loss on disposition	245,000
	270,347
Net loss for the year	\$469,518
Net loss per common share	
Continuing operations	\$ 2.97
Discontinued business segments	3.54
Net loss for the year	\$ 6.51

Note 5. Other Income

Other income includes net gains on sales of assets, gains on retirement of long-term debt, interest, dividends, results of equity interests in affiliates and joint ventures, and realized exchange gains and losses which were not material. Also included in other income are gains on sales of securities of \$1,720,000 in 1981, \$7,580,000 in 1980 and \$8,630,000 in 1979. The gains in 1981 and 1979 resulted principally from sales of marketable equity securities.

Note 6. Inventories

Inventories consist of the following:

December 31	1981	1980	1979
	<i>(in thousands)</i>		
Metals (at average cost)			
Finished and in-process	\$ 823,174	\$ 829,175	\$ 605,340
Supplies	119,821	139,390	118,277
	942,995	968,565	723,617
Metals (at last-in, first-out cost)			
Finished and in-process	58,810	64,492	84,950
Other products (principally at first-in, first-out cost)	3,705	5,376	5,638
Total - continuing operations	1,005,510	1,038,433	814,205
Discontinued business segments	—	267,180	267,439
Total	\$1,005,510	\$1,305,613	\$1,081,644



Danny Thomas
Nickel Refinery, Clydach, Wales

Explanatory Financial Section

During 1981, 1980 and 1979, the quantity of inventories accounted for by the last-in, first-out (LIFO) method was reduced. The resultant liquidation of inventories valued at lower costs prevailing in prior years, as compared with 1981, 1980 and 1979 costs, had the effect of reducing cost of sales and operating expenses by approximately \$11,300,000, \$14,100,000 and \$8,500,000 for the three years, respectively. Current cost in excess of the recorded cost of metals inventories accounted for by the LIFO method was \$83,400,000 at December 31, 1981.

Note 7. Property, Plant and Equipment

Property, plant and equipment consists of the following:

December 31	1981	1980	1979
	<i>(in thousands)</i>		
Mines and mining plants	\$1,132,069	\$1,107,036	\$1,083,853
Processing facilities	1,508,311	1,606,534	1,578,372
Other	365,478	453,184	447,225
Primary metals facilities	3,005,858	3,166,754	3,109,450
Alloy products facilities	394,833	377,513	348,336
Other	123,142	109,651	79,472
Total continuing operations	3,523,833	3,653,918	3,537,258
Discontinued business segments	—	297,320	257,248
Total property, plant and equipment	3,523,833	3,951,238	3,794,506
Accumulated depreciation	1,084,470	1,019,572	919,346
Accumulated depletion	303,221	287,031	268,648
Discontinued business segments - accumulated depreciation	—	102,279	83,129
	1,387,691	1,408,882	1,271,123
Net property, plant and equipment	\$2,136,142	\$2,542,356	\$2,523,383

Net property, plant and equipment at December 31, 1981 includes \$769 million relative to the Indonesian nickel operations and \$148 million applicable to standby mines in Canada. Net property, plant and equipment at December 31, 1980 included \$215 million relative to the Guatemalan nickel operations which were revalued in 1981 (see Note 3).

Note 8. Long-Term Debt

The Company's long-term debt consists of the following (the applicable weighted average interest rates and repayment periods as at December 31, 1981 are shown in parentheses):

December 31	1981	1980	1979
	<i>(in thousands)</i>		
Inco Limited			
6.85% U.S. \$ Debentures (1986-1993)	\$ 103,875	\$ 117,667	\$ 123,820
8.625% Cdn. \$ Debentures (1983-1991)	51,830	53,486	57,194
9.25% Cdn. \$ Debentures (1983-1990)	49,976	51,079	54,784
9.0% Eurodollar Debentures (1983-1992)	89,994	91,944	93,744
8.25% Eurodollar Notes (1984)	50,000	50,000	50,000
12.375% U.S. \$ Debentures (1991-2010)	100,000	100,000	—
15.75% Sterling Unsecured Loan Stock (2006)	49,500	—	—
U.S. \$ Revolving term loans (13.9%) (1984-1990)*	232,000	—	—
Cdn. \$ Revolving term loans (17.3%) (1986-1995)**	38,778	—	—
P.T. International Nickel Indonesia			
Eurodollar bank loans (17.2%) (1982-1989)*	107,692	211,538	215,385
Export & supplier credits (8.9%) (1982-1989)	167,459	184,727	193,243
Export & supplier credits (18.3%) (1982-1984)**	8,430	15,318	22,608
8.0625% U.S. \$ Production sharing loan (1982-1986)	16,200	19,800	23,400
Exmibal			
Export & supplier credits (8.7%) (1982-1988)	37,357	39,083	38,906
9.5% U.S. \$ International agency loans (1982-1988)	9,600	11,100	12,600
Eurodollar bank loans (16.1%) (1982-1983)*	6,000	9,882	9,882
U.S. \$ Subordinated completion loan	—	2,734	4,000
Inco Europe Limited and subsidiaries			
U.S. \$ Revolving term loans (13.8%) (1985-1988)*	10,000	23,890	28,841
Other (10.2%) (1982-2002)	10,776	9,841	4,087
Other indebtedness (6.9%) (1982-2002)	38,667	28,036	56,985
Total continuing operations	1,178,134	1,020,125	989,479
Discontinued business segments	—	164,915	152,920
	1,178,134	1,185,040	1,142,399
Long-term debt due within one year			
Continuing operations	76,153	89,139	68,071
Discontinued business segments	—	51,121	2,002
	76,153	140,260	70,073
Long-term debt	\$1,101,981	\$1,044,780	\$1,072,326

*Interest is based on the London interbank offered rate for Eurodollar deposits.

**Interest is based on Canadian and/or U.S. banks' prime commercial lending rates.



Jim Rawlick
Process Supervisor of Mills,
Clarabelle Mill, Sudbury, Canada

The average interest rate on long-term debt of continuing operations at December 31, 1981 was 11.4%. Approximately 34% of such debt carries interest rates that are subject to periodic adjustments based on market interest rates. Long-term debt is payable in the following currencies: 73% -U.S. dollars, 16% -Canadian dollars, 6% -pounds sterling, and 5% -other currencies.

Interest expense on long-term debt of continuing operations for the years 1979, 1980 and 1981 was \$105,067,000, \$106,276,000 and \$119,830,000, respectively. Total interest expense of continuing operations is net of interest charges to discontinued business segments under formal intercompany loan agreements. Such charges, which are based on market interest rates, totalled \$1,938,000 in 1979, \$9,573,000 in 1980, and \$19,438,000 in 1981, but will be reduced substantially in 1982.

In December 1981, P.T. International Nickel Indonesia ("P.T. Inco") amended certain of its financial arrangements. The amendments, which reduced P.T. Inco's debt service requirements, included a \$100 million prepayment of principal amounts under a Eurodollar \$200 million syndicated credit facility, a reduction in interest margins under such credit facility, additional equity contributions to P.T. Inco by Inco Limited and certain other changes intended to meet increased working capital requirements.

The Company has not extended a financial guarantee of the debt of P.T. Inco. However, the Company has agreed, subject to force majeure, to provide sufficient funds in the form of equity and senior loans to enable P.T. Inco to achieve project completion, which requires, in part, that the project produce

nickel in matte during a 90-day period at an annualized rate of approximately 81 million pounds. Project completion also includes a cash flow test. The project's ability to achieve project completion before its senior debt is repaid will depend on future price/cost relationships and on improvements to its physical plant to permit the project to increase production to an annualized rate of 81 million pounds. In addition, the Company has agreed to purchase P.T. Inco's annual production in excess of 30.8 million pounds of nickel in matte at a formula price based on the price for Nickel Oxide Sinter 75.

At the end of 1981, the Company had unutilized committed credit facilities of some \$270 million. In addition, the Company has obtained commitments from banks to increase its credit facilities by \$175 million. Certain of these facilities contain covenants which provide that the ratio of the Company's consolidated debt to its net worth shall not exceed 50:50 or that the Company's net worth shall not be less than \$1,500 million. Under these facilities, net worth is essentially defined as the sum of preferred shares and common shareholders' equity, and consolidated debt is defined to include borrowings and certain other minimal obligations. At December 31, 1981 under the most restrictive covenants set forth in these facilities, the Company's ratio of consolidated debt to its net worth was 45:55 and its net worth was \$1,632 million.

The Company uses a combination of fees and bank balances to compensate banks in the United States, Canada and the United Kingdom for credit facilities. During 1981, the balances maintained averaged approximately \$2,550,000 and fees paid totalled approximately \$730,000. Where compensation takes the form of balances, the requirement can be met on an average basis so that the availability of the cash is not restricted at any point in time.

Long-term debt maturities and sinking fund requirements for continuing operations for each of the five years through 1986 are: 1982 - \$76,153,000; 1983 - \$29,687,000; 1984 - \$90,111,000; 1985 - \$56,096,000; 1986 - \$102,771,000.



Irmgard Decken
Commercial Officer, International
Nickel GmbH, Düsseldorf, West
Germany



David Ward
Principal Technologist, European
Research and Development Centre,
Birmingham, England

Note 9. Income and Mining Taxes

The provisions for income and mining taxes for continuing operations for the years 1979-1981 were as follows:

	1981	1980	1979
	<i>(in thousands)</i>		
Current taxes	\$ 75,462	\$250,513	\$144,342
Current deferred	(11,600)	(6,400)	(50,100)
Future deferred	17,300	6,300	27,000
Total deferred taxes	5,700	(100)	(23,100)
Total income and mining taxes	\$ 81,162	\$250,413	\$121,242
Canada	\$ 77,283	\$223,620	\$133,436
Other (principally United States and United Kingdom)	3,879	26,793	(12,194)
	\$ 81,162	\$250,413	\$121,242

Earnings before income and mining taxes, by source, were as follows:

	1981	1980	1979
	<i>(in thousands)</i>		
Canada	\$163,684	\$457,595	\$252,716
Other*	(62,055)	42,443	4,286
Total	\$101,629	\$500,038	\$257,002

*Includes the losses of the Guatemalan and Indonesian nickel operations.

Deferred taxes result from timing differences arising from transactions which enter into the determination of net income and taxable income in different reporting periods. The sources of material timing differences, and the tax effect of each, for the three years were as follows:

	1981	1980	1979
	<i>(in thousands)</i>		
Tax (over) under book inventory valuation	\$10,900	\$(3,600)	\$ (500)
Tax over book depreciation	7,300	10,200	6,000
Effect of foreign tax credit	5,300	—	(5,300)
Effect of U.K. tax change relating to prior years	(9,700)	—	(25,700)
Tax (under) book employee benefits	(8,200)	(4,500)	(500)
Other	100	(2,200)	2,900
Total	\$ 5,700	\$ (100)	\$(23,100)

For continuing operations, the reconciliation between the combined federal-provincial statutory income tax rate in Canada and the effective income and mining tax rate follows:

Year ended December 31	1981	1980	1979
	Percentage of pretax earnings		
Combined Canadian federal-provincial statutory income tax rate	49.0%	49.1%	49.3%
Resource and depletion allowances	(39.3)	(14.1)	(16.4)
Adjusted income tax rate	9.7	35.0	32.9
Mining taxes	30.4	11.7	15.0
	40.1	46.7	47.9
Effects of losses of nickel operations in Guatemala and Indonesia	51.8	6.9	14.9
Currency translations	20.9	0.4	4.1
U.K. stock relief - prior years	(9.5)	—	(10.0)
- current year	(8.5)	(2.7)	(6.9)
Investment tax credits	(6.8)	(1.4)	(1.4)
Inventory allowance - Canada	(5.6)	(0.7)	(1.6)
Tax rate differential outside Canada	(2.4)	1.4	2.9
Other	(0.1)	(0.5)	(2.7)
Effective income and mining tax rate	79.9%	50.1%	47.2%

In the three-year period 1979 through 1981, the changes in the effective income and mining tax rate were largely influenced by the level of losses of the nickel operations in Guatemala and Indonesia, on which no tax benefit is recognized, and by the effect of currency translations arising mainly from fluctuations in the relative values of the Canadian dollar, the pound sterling and the U.S. dollar. In addition, the effective tax rates for the years 1979 and 1981 were reduced by changes in tax legislation in the United Kingdom related to stock relief. The percentages for 1981 reconciling items above were accentuated significantly by the low level of pretax earnings in 1981.

Effective from the year 1973, legislation in the United Kingdom provided tax relief on increases in the value of inventories, subject to recapture if such value declines. Accordingly, tax payments were reduced each year, but deferred tax liabilities were established simultaneously to provide for the possibility of recapture. Legislation enacted in 1979 removed such recapture for the years 1973 and 1974 and limited to six years the period during which tax relief on increases in the value of inventories occurring subsequent to 1974 could be recaptured if such value declines. As a result, income and



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mining taxes were reduced by \$13.4 million in 1980 and \$43.4 million in 1979, of which latter amount \$25.7 million represents the reversal of deferred tax liabilities established in prior years. In addition, legislation enacted in 1981, which relates stock relief to the effect of inflation on inventories, reduced income and mining taxes by \$18.3 million in 1981, of which \$9.7 million represents the reversal of deferred tax liabilities established in 1980.

The cumulative tax effect of timing differences relating to items of a non-current nature for continuing operations is shown separately as deferred income and mining taxes of \$412,100,000 in the Consolidated Balance Sheet at December 31, 1981. The cumulative tax effect of timing differences relating to items of a current nature of \$31,900,000 at December 31, 1981 is reflected as a reduction in the current liability for income and mining taxes payable. Investment tax credits reduced income and mining taxes by \$6,886,000 in 1981, \$7,158,000 in 1980 and \$3,515,000 in 1979.

The losses and unutilized investment tax credits relative to the Company's nickel operations in Indonesia, which totalled \$217 million and \$54 million, respectively, through December 31, 1981, can be carried forward indefinitely to reduce future taxes.

Note 10. Stock Option Plans

The Key Employees Incentive Plan ("1968 Plan") and the 1979 Key Employees Incentive Plan ("1979 Plan") each authorized the granting of options to purchase up to 1,000,000 common shares at prices not less than 100% of their market value on the day the option is granted. The Plans provide that no shares subject to option shall be purchasable after ten years from the date of grant. With respect to stock options, the 1968 Plan was terminated in 1978 except as to options then outstanding, and no further options may be granted thereunder. At December 31, 1981, outstanding options for 251,175 shares under these Plans also carry share appreciation rights.

Directors who are not officers of the Company are not entitled to participate in the Plans. Changes during the year 1981 in options outstanding are summarized as follows:

	Number of Shares	
	1979 Plan	1968 Plan
Outstanding at December 31, 1980	593,210	522,764
Options granted at an average price of \$23.19 a share	4,500	—
Exercised at average option price of \$16.07 a share	(825)	(18,743)
Expired or cancelled	(31,350)	(27,084)
Outstanding at December 31, 1981	565,535	476,937
Shares available for grant at December 31, 1981	421,800	—
Shares exercisable as at December 31, 1981	297,402	382,546

At December 31, 1981, the average option price per share of options outstanding was \$20.63 (range \$15.57 - \$33.00) under the 1968 Plan and \$20.93 (range \$19.13 - \$23.94) under the 1979 Plan. The expiration dates of options outstanding at December 31, 1981 ranged from January 2, 1982 to January 1, 1991. At December 31, 1981, there were 820 employees participating in the 1979 Plan and 452 employees participating in the 1968 Plan.

Note 11. Preferred and Common Shares

At December 31, 1981, the authorized share capital of the Company consisted of 30,000,000 preferred shares and an unlimited number of common shares.

The Series A Preferred Shares, which do not have general voting rights, have a cumulative floating rate dividend equal to half of the Canadian bank prime rate plus 1¼ per cent. The shares are redeemable at the option of the Company at \$25.5625 (Cdn.) currently, such price decreasing annually to \$25.00 (Cdn.) by March 1, 1984. The shares are retractable at par, at the option of the holders, in 1987. The dividends of \$20,563,000 paid in 1981 on these preferred shares reflected an average annual dividend rate of approximately 9.9%; this dividend rate averaged 8.5% in 1980 and 7.1% in 1979.

The 7.85% cumulative Series B Preferred Shares have general voting rights and are redeemable at \$26.00 (Cdn.)



Dillard Jarrell
Crane Operator, Huntington
Alloys, Huntington, West Virginia

Explanatory Financial Section

commencing December 1, 1982, such price decreasing annually to \$25.00 (Cdn.) by December 1, 1987. The Company is required to repurchase 150,000 Series B Preferred Shares annually if such shares are available at a price not greater than par value.

Series B Preferred shareholders have the right to elect to receive Series B Preferred Shares or Common Shares in lieu of cash dividends. Under the Inco Optional Stock Dividend Program, common shareholders may elect to receive Common Shares, valued at a five per cent discount from the market price of the shares, in lieu of cash dividends.

Under the Company's Share Purchase Plan, common shareholders can purchase Common Shares of the Company at prevailing market prices. Common shareholders can contribute from \$30 to \$6,000 (Cdn.) or from \$30 to \$5,200 (U.S.) quarterly (the maximum amount to be adjusted periodically to make allowance for significant currency fluctuations) for such purchases on scheduled quarterly dividend payment dates.

Changes in the Series B Preferred Shares and Common Shares for the years 1979 - 1981 are shown below. There were no changes in the 10,000,000 Series A Preferred Shares issued in 1977.

	Series B Preferred Shares		Common Shares	
	Number of shares	\$ in thousands	Number of shares	\$ in thousands
Balance at December 31, 1978	4,928,515	\$112,366	74,597,925	\$ 97,089
Shares purchased	(149,300)	(3,404)	—	—
Stock options exercised	—	—	12,025	192
Shares issued in lieu of dividends	4,875	104	524,377	9,944
December 31, 1979	4,784,090	109,066	75,134,327	107,225
Shares purchased	(150,000)	(3,420)	—	—
Stock options exercised	—	—	55,714	971
Shares issued in lieu of dividends	6,662	144	755,771	16,779
Shares sold under Share Purchase Plan	—	—	21,075	438
December 31, 1980	4,640,752	105,790	75,966,887	125,413
Shares purchased	(150,000)	(3,420)	—	—
Stock options exercised	—	—	19,568	315
Shares issued in lieu of dividends	8,504	178	809,019	15,037
Shares sold under Share Purchase Plan	—	—	55,019	1,029
December 31, 1981	4,499,256	\$102,548	76,850,493	\$141,794

Note 12. Pension Plans

Pension expense for continuing operations totalled \$59,795,000 in 1981, \$61,557,000 in 1980 and \$54,686,000 in 1979. A comparison of accumulated plan benefits and plan net assets for the Company's Canadian, United States and United Kingdom pension plans for continuing operations is shown below. The actuarial present value of accumulated plan benefits and the net assets available for benefits have not been calculated for other pension plans relative to continuing operations; such benefits and related net assets are not material. At December 31, 1981, vested and non-vested benefits exceeded the related net assets of one of the Company's major Canadian pension trust funds by approximately \$64 million.

December 31	1981	1980
	(in thousands)	
Actuarial present value of accumulated plan benefits, using an assumed discount rate of 7.3% (1980 - 6.5%)		
Vested benefits	\$527,800	\$513,400
Nonvested benefits	122,200	131,000
	\$650,000	\$644,400
Net assets, at market value, available for benefits	\$759,300	\$735,300



Gary Scott
Driller, McCreedy West Mine,
Sudbury, Canada

Note 13. Financial Data by Business Segment for Continuing Operations

Financial data by business segment and geographic area for the years 1981, 1980 and 1979 follow (in millions of dollars):

Data by Business Segment	Year 1981					Year 1980 (Restated)					Year 1979 (Restated)				
	Primary metals	Alloy products	Other	Eliminations	Total	Primary metals	Alloy products	Other	Eliminations	Total	Primary metals	Alloy products	Other	Eliminations	Total
Net sales to customers	\$1,270	\$600	\$ 16	\$ —	\$1,886	\$1,411	\$731	\$ 8	\$ —	\$2,150	\$1,054	\$553	\$ 4	\$ —	\$1,611
Intersegment sales	133	5	—	(138)	—	144	3	—	(147)	—	135	7	—	(142)	—
Total net sales	\$1,403	\$605	\$ 16	\$ (138)	\$1,886	\$1,555	\$734	\$ 8	\$ (147)	\$2,150	\$1,189	\$560	\$ 4	\$ (142)	\$1,611
Operating earnings (loss)	\$ 281	\$ 22	\$ (27)	\$ 2	\$ 278	\$ 569	\$ 87	\$ (18)	\$ 4	\$ 642	\$ 336	\$ 51	\$ (6)	\$ (5)	\$ 376
Non-operating expenses*					176					142					119
Earnings from continuing operations before income and mining taxes					\$ 102					\$ 500					\$ 257
Capital expenditures	\$ 110	\$ 23	\$ 19	\$ —	\$ 152	\$ 93	\$ 28	\$ 22	\$ —	\$ 143	\$ 56	\$ 15	\$ 14	\$ —	\$ 85
Depreciation and depletion	\$ 114	\$ 18	\$ 8	\$ —	\$ 140	\$ 120	\$ 17	\$ 5	\$ —	\$ 142	\$ 94	\$ 15	\$ 2	\$ —	\$ 111
Identifiable assets at December 31	\$2,797**	\$650	\$ 81	\$ (76)	\$3,452	\$3,020	\$780	\$ 78	\$ (85)	\$3,793	\$2,863	\$725	\$ 63	\$ (109)	\$3,542
Other assets					322					838					793
Total assets at December 31					\$3,774					\$4,631					\$4,335

Data by Geographic Area	Year 1981					Year 1980 (Restated)					Year 1979 (Restated)				
	Canada	United States	Europe	Other	Total after eliminations	Canada	United States	Europe	Other	Total after eliminations	Canada	United States	Europe	Other	Total after eliminations
Net sales to customers	\$ 279	\$705	\$728	\$ 174	\$1,886	\$ 325	\$781	\$870	\$ 174	\$2,150	\$ 189	\$657	\$657	\$ 108	\$1,611
Sales between geographic areas	977	15	12	27	—	1,057	29	17	59	—	874	38	23	11	—
Total net sales	\$1,256	\$720	\$740	\$ 201	\$1,886	\$1,382	\$810	\$887	\$ 233	\$2,150	\$1,063	\$695	\$680	\$ 119	\$1,611
Operating earnings (loss)	\$ 274	\$ 27	\$ 9	\$ (12)	\$ 278	\$ 562	\$ 32	\$ 70	\$ 28	\$ 642	\$ 335	\$ 1	\$ 56	\$ 5	\$ 376
Non-operating expenses*					176					142					119
Earnings from continuing operations before income and mining taxes					\$ 102					\$ 500					\$ 257
Identifiable assets at December 31	\$1,800	\$445	\$460	\$1,015**	\$3,452	\$1,852	\$517	\$519	\$1,266	\$3,793	\$1,709	\$537	\$450	\$1,230	\$3,542
Other assets					322					838					793
Total assets at December 31					\$3,774					\$4,631					\$4,335

*Includes interest expense, general corporate expenses, general corporate income, equity in earnings of affiliates and currency translation adjustments.

**Includes assets of \$860 million relating to the Company's nickel operations in Indonesia.

The Company's business is organized around two principal groups: primary metals and alloy products. The Company's principal primary metals are nickel and copper. Wrought nickel, high-nickel alloys in rolling mill forms, and forgings are the Company's major alloy products.

Other assets include assets of discontinued business segments of: 1981 - \$205, net assets at estimated net realizable value; 1980 - \$743, total assets and 1979 - \$726, total assets. Other assets also include \$15 (1980 - \$24, 1979 - \$15) of investments in and advances to affiliated companies and \$102 (1980 - \$71, 1979 - \$52) of corporate assets, principally cash, securities and certain fixed assets.

The Company's intersegment sales generally are made at approximate prices used for sales to unaffiliated customers. Sales between geographic areas generally are made at prevailing market prices, except that sales of primary metals from Canada to other primary metals affiliates are net of discounts. In 1981, sales to customers include \$44 (1980 - \$108, 1979 - \$42) exported from Canada and \$61 (1980 - \$68, 1979 - \$50) exported from the United States. The sales from Canada include \$459 (1980 - \$505, 1979 - \$413) exported to the United States and \$461 (1980 - \$494, 1979 - \$428) exported to Europe.

Auditors' Report

To the Shareholders of Inco Limited:

We have examined the consolidated financial statements and explanatory financial section appearing on pages 26 through 37 of this report. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Inco Limited at December 31, 1981, 1980 and 1979 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles in Canada applied on a consistent basis.

Toronto, Ontario
New York, New York
February 16, 1982

Price Waterhouse

Supplementary Financial Information

Quarterly Financial Information

Quarterly financial information follows (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1981					
Net sales - continuing operations	\$516,748	\$588,017	\$367,222	\$ 413,936	\$1,885,923
Cost of sales and operating expenses	\$355,166	\$419,154	\$291,958	\$ 388,152	\$1,454,430
Currency translation adjustments - loss (gain)	\$ (2,729)	\$ 3,529	\$ 1,238	\$ (7,654)	\$ (5,616)
Earnings (loss) before income and mining taxes	\$ 86,406	\$ 85,606	\$ (6,236)	\$ (64,147)*	\$ 101,629
Earnings (loss) from continuing operations before extraordinary charges	\$ 37,667	\$ 42,120	\$ (18,764)	\$ (40,556)	\$ 20,467
Net earnings (loss) from operations of discontinued business segments	(10,773)	712	(10,694)	(4,592)	(25,347)
Extraordinary charges	—	—	—	(464,638)**	(464,638)
Net earnings (loss)	\$ 26,894	\$ 42,832	\$ (29,458)	\$ (509,786)	\$ (469,518)
Net earnings (loss) per common share:					
Continuing operations	\$.42	\$.45	\$ (.34)	\$ (.63)	\$ (.10)
Discontinued business segments	(.14)	.01	(.14)	(.06)	(.33)
Extraordinary charges	—	—	—	(6.08)	(6.08)
Net earnings (loss) per common share	\$.28	\$.46	\$ (.48)	\$ (6.77)	\$ (6.51)
Dividends per common share	\$.18	\$.18	\$.18	\$.05	\$.59
1980					
Net sales - continuing operations	\$604,402	\$515,641	\$481,254	\$ 548,744	\$2,150,041
Cost of sales and operating expenses	\$347,994	\$319,744	\$314,307	\$ 370,210	\$1,352,255
Currency translation adjustments - loss (gain)	\$ (4,366)	\$ 9,275	\$ 117	\$ (635)	\$ 4,391
Earnings before income and mining taxes	\$197,236	\$110,847	\$ 91,306	\$ 100,649	\$ 500,038
Earnings from continuing operations	\$101,630	\$ 51,665	\$ 47,919	\$ 48,411	\$ 249,625
Net loss from operations of discontinued business segments	(4,151)	(5,543)	(8,989)	(11,535)	(30,218)
Net earnings	\$ 97,479	\$ 46,122	\$ 38,930	\$ 36,876	\$ 219,407
Net earnings (loss) per common share:					
Continuing operations	\$ 1.27	\$.60	\$.54	\$.55	\$ 2.96
Discontinued business segments	(.06)	(.07)	(.12)	(.15)	(.40)
Net earnings per common share	\$ 1.21	\$.53	\$.42	\$.40	\$ 2.56
Dividends per common share	\$.15	\$.18	\$.18	\$.18	\$.69

*Includes approximately \$35 million of unusual charges including strike and start-up expenses at the Manitoba Division, miscellaneous property write-offs and other items. Strike and start-up expenses amounted to \$16 million.

**Consists of a provision for loss on disposition of discontinued business segments of \$245 million, and a net loss on revaluation of investment in Exmibal of \$219.6 million (see Notes 2 and 3).

Pension Trust Funds

The Company has established irrevocable pension trust funds, which are separate and distinct from the accounts of the Company, to implement its major pension plans. The funds consist of marketable securities at cost, cash and other assets. Trust fund data for continuing operations are summarized as follows:

Year ended December 31	1981	1980
	<i>(in thousands)</i>	
Balance in funds at beginning of year	\$608,724	\$501,167
Company contributions	45,442	52,428
Employee contributions	1,204	1,190
Income from investments	103,343	92,565
Currency translation adjustments*	(11,028)	(5,008)
	747,685	642,342
Benefits paid	36,723	33,618
Balance in funds at end of year	\$710,962	\$608,724
Market value of funds at end of year	\$759,300	\$735,300

*Currency translation adjustments result from translating assets in Canadian and other currencies into U.S. dollars at year-end exchange rates. Trust fund assets are denominated principally in those currencies in which corresponding retirement benefits are paid.

Effect of Inflation on Selected Financial Data The Financial Accounting Standards Board's (FASB) Statement No. 33 requires that historical cost financial statements of large companies be supplemented by selected information that reflects the more significant impacts of inflation on an enterprise's results of operations and financial position. The statement prescribes two supplementary income computations: one based on the effects of general inflation (constant dollar) and the other based on the effects of changes in the specific prices (current cost) of resources used by an enterprise. FASB Statement No. 39, which deals with the problems of reporting current cost information for specialized assets, requires mining companies to provide supplementary information on mineral resources, metals production and selling prices.

In the accompanying statement of income from continuing operations adjusted for changing prices, the Company's results

as reported in the primary financial statements are compared with inflation-adjusted data. The terminology used in that presentation and elsewhere in this discussion has been defined in Statement No. 33 as follows:

Historical cost/nominal dollar accounting – The generally accepted method of accounting, used in the primary financial statements, based on measures of historical prices.

Constant dollar accounting – A method of reporting financial statement elements in dollars each of which has the same (i.e., constant) general purchasing power.

Current cost accounting – A method of measuring and reporting assets and expenses associated with the use or sale of assets at their current cost or lower recoverable amount at the balance sheet date or at the date of use or sale.

The inflation accounting data relate only to continuing operations and, except for shareholders' equity, exclude the Company's investment in Inco ElectroEnergy and the three former units of Inco ElectroEnergy which were sold during 1981. Common shareholders' equity, for purposes of computing inflation-adjusted net assets, includes these operations at net realizable value in 1981 and at historical book value for 1979 and 1980. Inco ElectroEnergy was reclassified and reported in 1981 as net assets of discontinued business segments, at net realizable value (see Note 2 of the Explanatory Financial Section).

The historical cost/nominal dollar values for property, plant and equipment associated with Exmibal have been used in the inflation-adjusted data provided for 1979 and 1980. As discussed in Note 3 of the Explanatory Financial Section, in 1981 the Company's investment in Exmibal was written down by \$220 million, a charge equivalent to its total investment in



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Acton, England

Exmibal; accordingly, no value has been assigned to Exmibal's property, plant and equipment at December 31, 1981.

The historical cost/nominal dollar values of property, plant and equipment, inventories, and cost of sales and operating expenses expressed in U.S. dollars, have been restated into average 1981 constant dollars by applying, as required, the U.S. Consumer Price Index for All Urban Consumers (CPI-U). The current cost of property, plant and equipment has been determined principally by the application of specific indices to the historical/nominal dollar value of the assets. The current cost of inventories and cost of sales and operating expenses is based on recent production or manufacturing costs appropriately adjusted for current prices of raw materials and supplies. Current cost values for depreciation and depletion are used in these calculations. The current cost information has been estimated initially in local currency and translated into U.S. dollars using year-end exchange rates for property, plant and equipment and inventories and average exchange rates for cost of sales and operating expenses and depreciation and depletion. Depreciation and depletion have been calculated by applying the methods used in historical cost/nominal dollar accounting to the values of property, plant and equipment expressed in constant dollars and at current cost.

The gain from decline in purchasing power derives from the concept that the value of monetary assets and monetary liabilities decreases over time due to inflation. The gain is calculated by measuring the decrease in purchasing power for the year attributable to general inflation having taken into account net balances of monetary liabilities at the beginning and end of the year and transactions for the year.

As required, in the accompanying five-year comparison of selected supplementary financial data adjusted for the effects of changing prices, net sales and other income, dividends per common share, and market price per common share at year end are restated into constant/average 1981 dollars for each of the five years shown. Earnings or losses from continuing operations, gains from decline in purchasing power of net amounts owed, and net assets at year end are required to be reported only from 1979. Net assets at year end is a restatement into constant/average 1981 dollars of common shareholders' equity at year end, as reported in the primary financial statements, adjusted to reflect the excess of the constant dollar and current cost values for inventories and property, plant and equipment over the respective historical cost/nominal dollar amounts.

Comments on Inflation-Adjusted Data Net earnings from continuing operations as reported for the years 1979-1981 are generally restated into net losses when determined by either the constant dollar or current cost accounting method. The losses in 1979 and 1980 result principally from the requirement that income and mining taxes be reported at the same amount as in the primary financial statements based on historical cost/nominal dollar accounting. This treatment highlights the hidden tax being borne by companies because tax legislation does not give adequate recognition to the effects of inflation. With respect to 1981, the Company's poor performance in historical cost/nominal dollar terms, due principally to declining prices and rising costs, is accentuated when restated into constant dollars or at current cost.

With respect to pretax earnings, the inflation-adjusted results are influenced by the same factors that affected results expressed in historical cost/nominal dollars. The low level of pretax earnings in 1979 reflects the depressed prices for nickel,



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and Development Center, Sterling
Forest, New York

particularly in the first half of the year, the Sudbury strike costs and the reduction in earnings attributable to the Guatemalan and Indonesian nickel operations. The improvement in 1980 reflects increased metals prices, the absence of strike costs and reduced losses from Guatemala and Indonesia. The 1981 results were adversely affected by significantly lower price realizations and sharply higher costs and expenses. Inflation-adjusted pretax earnings at current cost are generally lower than constant dollar pretax results due mainly to the fact that prices specific to certain key elements of the Company's production costs have been increasing at a faster rate than the CPI-U. In 1981, current cost results reflect a benefit from the strengthening of the U.S. dollar relative to the pound sterling.

Since the Company's monetary liabilities were substantially in excess of its monetary assets at year end 1979, 1980 and 1981 there were purchasing power gains of \$293 million, \$247 million and \$172 million, respectively, in net amounts owed. The decrease in the gain reflects mainly the decline in the rate of inflation over this period.

A loss in constant dollars or at current cost in any one year should not be interpreted to mean that the Company will be unable to replace its productive capacity particularly if the year's results reflect depressed metals prices as is true of the Company's 1981 results. The Company is particularly well positioned with respect to its productive capacity for mining and processing primary metals in that very substantial expenditures have been made in recent years to expand and modernize these facilities. More than 50% of the Company's gross investment in property, plant and equipment has been made in the last 10 years.

Statement of Income from Continuing Operations Adjusted for Changing Prices

For the Year Ended December 31, 1981 (in millions of dollars)

	As reported in the primary statements (Historical/ nominal dollars)	Adjusted for general inflation (Average 1981 constant dollars; 1967 = 100)	Adjusted for specific price changes (Current cost)
Net sales and other income	\$1,912	\$1,912	\$1,912
Cost of sales and operating expenses	1,454*	1,694*	1,702*
Selling, general and administrative expenses	144*	147*	147*
Research and development	37*	40*	40*
Exploration	33	33	33
Interest	147	147	147
Currency translation adjustments	(5)	(5)	(5)
Total costs and expenses	1,810	2,056	2,064
Earnings (loss) before income and mining taxes	102	(144)	(152)
Income and mining taxes	81	81	81
Income (loss) from continuing operations before extraordinary charges	\$ 21	\$ (225)	\$ (233)
Gain from decline in purchasing power of net amounts owed		\$ 172	\$ 172
*Includes depreciation and depletion, which for the year 1981 totalled	\$ 140	\$ 282	\$ 281
Increase in specific prices (current cost) of inventories and net property, plant and equipment held during the year**			\$ 516
Effect of increase in general price level			439
Excess of increase in specific prices over general price level			\$ 77

**At December 31, 1981 current cost of inventory was \$1,218 million and property, plant and equipment, net of accumulated depreciation, was \$3,840 million.



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International Nickel Japan Ltd.,
Tokyo, Japan

Supplementary Financial Information

Five-Year Supplementary Operating Statistics

Year ended December 31	1981	1980	1979	1978	1977
Canadian Operations:					
Proven and probable ore reserves at year end (tons in millions)	502	543	514	462	470
Nickel content (tons in millions)	7.7	8.1	7.6	7.5	7.7
Copper content (tons in millions)	4.6	4.9	4.8	4.7	4.8
Ore mined (tons in millions)	12.2*	14.5	8.4*	10.1*	19.6
Average grade of ore mined					
Nickel	1.42%	1.46%	1.53%	1.56%	1.40%
Copper	1.09%	1.07%	1.02%	1.07%	0.98%
Guatemalan and Indonesian Operations:**					
Proven and probable ore reserves at year end (tons in millions)	42				
(Indonesia only)					
Nickel content (tons in millions)	0.8				
(Indonesia only)					
Ore mined (tons in millions)	1.2	1.9	1.2		
Average grade of nickel in ore mined	2.09%	2.02%	2.08%		
Combined Canadian, Guatemalan and Indonesian Operations:**					
Production (pounds in millions)					
Nickel	330.1*	393.8	255.0*	267.3*	416.7
Copper	244.0	290.8	146.1*	197.5*	327.5
Average prices realized					
Nickel - Historical/nominal dollars	\$2.99	\$3.14	\$2.43	\$1.98	\$2.17
- Constant/average					
1981 dollars	\$2.99	\$3.47	\$3.04	\$2.76	\$3.26
Copper - Historical/nominal dollars	\$0.82	\$1.00	\$0.91	\$0.61	\$0.63
- Constant/average					
1981 dollars	\$0.82	\$1.10	\$1.14	\$0.85	\$0.95

*Strike-affected years.

**The Guatemalan facilities did not operate in 1981 and were mothballed in 1982.

Supplementary Operating Statistics The accompanying five-year summary of operating statistics is required to assist users of mining company financial statements in assessing a company's ability to maintain operating capability. From this information, it is clear that Inco is well positioned to continue to operate at its present level well into the future.

Of the Company's 502 million short tons of proven and probable ore reserves in Canada at December 31, 1981, a total of 306 million tons were in mines which were producing in 1981 and 196 million tons were in mines under development and in non-producing mines. Only material that has been sampled in sufficient detail to enable a reliable calculation is classified as reserves. Ore grades are shown for both nickel and copper. The Canadian ore reserves also contain significant quantities of platinum-group metals, gold, silver and cobalt. The reduction in proven and probable ore reserves in 1981 is due principally to adverse changes in price/cost relationships utilized in calculating reserves.

At the end of 1981, approximately 190 million short tons of nickeliferous laterite with an average grade of 1.85% nickel had been delineated at the Company's Indonesian nickel operations. Sampling has been done in sufficient detail in the immediate vicinity of the processing plant to permit the classification of 42 million short tons, containing 0.8 million tons of nickel, as proven and probable ore reserves, sufficient for operation of the plant for the next 20 years.

In Guatemala approximately 50 million short tons of nickeliferous laterite with an average nickel content of 1.80% have been delineated. As reported elsewhere in this Annual Report, the Guatemalan facilities were mothballed early in 1982.



Michael Glover
Process Operator, Canadian
Alloys Division, Lively, Canada



Janet Bleasdale
Doncasters Monk Bridge Limited,
Leeds, England

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for the Effects of Changing Prices*

Year Ended December 31	1981	1980	1979	1978	1977
	<i>(dollar amounts in millions, except per share amounts)</i>				
Net sales and other income					
As reported	\$1,912	\$2,187	\$1,643	\$1,318	\$1,267
Constant/average 1981 dollars	1,912	2,414	2,059	1,837	1,902
Earnings (loss) from continuing operations before income and mining taxes					
As reported	\$ 102	\$ 500	\$ 257		
Constant/average 1981 dollars	(144)	295	124		
Current cost/average 1981 dollars	(152)	266	86		
Net earnings (loss) from continuing operations					
As reported	\$ 21	\$ 250	\$ 136		
Constant/average 1981 dollars	(225)	19	(28)		
Current cost/average 1981 dollars	(233)	(10)	(65)		
Net earnings (loss) from continuing operations per common share					
As reported	\$(0.10)	\$ 2.96	\$ 1.50		
Constant/average 1981 dollars	(3.31)	(0.13)	(0.75)		
Current cost/average 1981 dollars	(3.42)	(0.52)	(1.26)		
Gain from decline in purchasing power of net amounts owed (constant/average 1981 dollars)	\$ 172	\$ 247	\$ 293		
Net assets at year end (common shareholders' equity)					
As reported	\$1,291	\$1,817	\$1,658		
Constant/average 1981 dollars	3,729	4,347	4,367		
Current cost/average 1981 dollars	3,104	3,700	3,573		
Excess of increase in specific prices of inventories and net property, plant and equipment held during the year over general inflation	\$ 77	\$ 163	\$ 165		
Dividends per common share					
As reported	\$ 0.59	\$ 0.69	\$ 0.50	\$ 0.70	\$ 1.25
Constant/average 1981 dollars	0.59	0.76	0.63	0.98	1.88
Market price per common share, New York Stock Exchange - Composite transactions, at year end					
Historical dollars	\$14.25	\$20.38	\$23.75	\$15.88	\$17.13
Constant/average 1981 dollars	13.79	22.49	29.76	22.14	25.71
Average consumer price index	272.4	246.8	217.4	195.4	181.5

*Amounts reported are for results of continuing operations only. Years prior to 1981 have been restated to exclude results of discontinued business segments.



Joe Egli
Furnace Operator Assistant,
Copper Cliff Smelter,
Sudbury, Canada

Shareholders

At year-end 1981, according to the Company's records, 70 per cent of the shareholders had addresses in Canada, 28 per cent in the United States and 2 per cent elsewhere. Of the shares having general voting rights, the Common Shares and Series B Preferred Shares, Canadian residents of record held 54 per cent, United States residents of record 34 per cent, and residents of record in other countries 12 per cent.

Dividends

On February 1, 1982 the Board of Directors declared a regular quarterly dividend of 5 cents a common share, payable March 12 to shareholders of record on February 11. The Company paid total dividends per common share of 59 cents in 1981 and 69 cents in 1980. The Board of Directors on February 1 also declared a quarterly dividend at an annual rate of 11.725 per cent on the Company's floating rate Series A Preferred Shares, payable March 1 to shareholders of record on February 17 and declared a quarterly dividend on the Company's 7.85% Series B Preferred Shares, payable March 1 to shareholders of record on February 11.

Optional Stock Dividend Program

Under the Company's Optional Stock Dividend Program, common shareholders have the right to elect to receive a stock dividend, valued at a 5 per cent discount from the market price of the Company's Common Shares, in lieu of a cash dividend. Holders of 31 per cent of the Company's outstanding Common Shares are now participating in the Program. The Program permits many shareholders to receive tax benefits similar to those previously available to holders of the Company's former

Class B Common Shares and also provides common shareholders with a simple and convenient method of obtaining additional Common Shares at a 5 per cent discount and without payment of brokerage commissions or service charges.

Share Purchase Plan

Under the Company's Share Purchase Plan, common shareholders are entitled to make cash payments to purchase Common Shares of the Company at prevailing market prices. There are no service charges or brokerage commissions for Common Shares purchased under the Plan. Common shareholders can contribute from \$30 to \$6,000 (Cdn.) or from \$30 to \$5,200 (U.S.) per calendar quarter to purchase Common Shares from the Company on scheduled quarterly dividend payment dates. Those shareholders who wish to participate in the Plan or the Optional Stock Dividend Program or who desire additional information should write to Shareholder Services, Inco Limited, at either the Company's Toronto or New York address.

Other Information

Based upon the relevant provisions of the Canadian federal budget announced in November 1981, cash dividends paid after November 12, 1981 to common shareholders resident in the United States, the United Kingdom and most Western European countries will generally be subject to Canadian withholding tax at a rate of 15% (formerly 10%) and, depending upon applicable tax treaties, cash dividends paid thereafter to other non-residents of Canada would be subject to a withholding tax at a maximum rate of 25% (formerly 20%). Interest payable on the Company's debt securities held by non-Canadian residents may also be subject to Canadian withholding tax, depending upon the terms and provisions of such securities. Stock dividends paid to non-Canadian residents are generally not subject to Canadian withholding tax.



Ken Calvert
Design Engineer, Wiggin Alloys
Limited, Hereford, England

The Company has two classes or series of securities which have general voting rights, its Common Shares and its 7.85% Preferred Shares Series B. At shareholders' meetings, each holder of these securities is entitled to one vote for each share held and there are no cumulative voting provisions. In addition, the institutional holders of the Company's Series A Preferred Shares have certain limited rights to elect two directors if dividends thereon are in arrears. At December 31, 1981, the number of Series A Preferred shareholders totalled 28, all Canadian residents, and the number of Series B Preferred shareholders totalled 1,767, principally Canadian residents.

Subject to the preferential rights of the holders of the Company's Preferred Shares, the holders of Common Shares are entitled to such dividends as may be declared by the Board of Directors out of funds legally available therefor. No dividend or other distribution on the Common Shares shall be paid, and no Common Shares shall be acquired for value, unless dividends on all outstanding Preferred Shares have been paid for all past quarter-yearly periods. There are no charter or contractual provisions expressly limiting either the amount of cash dividends which the Company may declare and pay on its Common Shares or the right of non-residents of Canada to hold or vote any of the Common Shares of the Company.

There are certain restraints on the holding of Inco's voting equity securities. The Company's Series B Preferred Shares were issued and sold in a 1977 underwritten public offering in Canada only and no market for such shares exists outside Canada. Under the Foreign Investment Review Act of Canada (FIRA) enacted in 1973, there are limitations on the number of shares of a Canadian company which may be acquired by non-Canadian persons (a "non-eligible person"). The effect of

FIRA is to prohibit the acquisition of "control" (as defined under FIRA) of Canadian business enterprises such as the Company by a "non-eligible person" (as defined under FIRA) unless such acquisition is found by the Canadian Government to be of significant benefit to Canada.

Through subsidiaries and affiliates, the Company's continuing operations are conducted in over 20 countries; some \$1,500 million of the Company's consolidated total assets related to continuing operations are located outside Canada and the United States. Accordingly, operations are subject to various governmental policies or regulations and changes therein and the risks associated with doing business in numerous overseas locations.

Market Price Range for Common and Series B Preferred Shares

Year ended December 31	1981	1980
- Common Shares -		
New York Stock Exchange (Composite transactions)		
First quarter	\$23 ³ / ₈ - 18 ¹ / ₄	\$33 ¹ / ₄ - 19 ³ / ₈
Second quarter	23 ³ / ₈ - 19 ¹ / ₂	24 ³ / ₄ - 19 ³ / ₈
Third quarter	20 ³ / ₄ - 14 ³ / ₈	27 ³ / ₄ - 21 ¹ / ₄
Fourth quarter	15 ³ / ₈ - 12 ¹ / ₂	24 ³ / ₈ - 17 ³ / ₄
Toronto Stock Exchange (Canadian dollars)		
First quarter	\$28 - 21 ¹ / ₂	\$38 ³ / ₄ - 23 ¹ / ₂
Second quarter	28 ¹ / ₂ - 23 ³ / ₈	29 ¹ / ₈ - 22 ³ / ₄
Third quarter	25 - 16 ³ / ₄	31 ³ / ₈ - 24 ³ / ₈
Fourth quarter	18 ³ / ₈ - 14 ³ / ₈	25 - 21 ¹ / ₈
- Series B Preferred Shares -		
First quarter	\$20 ³ / ₄ - 18 ¹ / ₂	\$25 - 19 ³ / ₈
Second quarter	19 ³ / ₈ - 17 ¹ / ₄	24 ¹ / ₄ - 20 ¹ / ₄
Third quarter	18 - 13 ³ / ₈	23 ¹ / ₄ - 20
Fourth quarter	14 ³ / ₄ - 12 ¹ / ₂	21 - 17 ¹ / ₄



John Skwarchuk
Geological Assistant, Thompson,
Canada



Inco Limited Senior Vice-Presidents (and their corporate responsibilities) are (top) Ian McDougall (*finance*) and Ashby McC. Sutherland (*corporate affairs*).



Dr. William Steven, a Director and Senior Vice-President, retires in February.

Directors

(Term expires 1982)

Harold Bridges
Former President and Chief Executive Officer Shell Oil Company Lausanne, Switzerland

Peter D. Curry
Deputy Chairman, Power Corporation of Canada Montreal (a holding and management corporation)

Walter F. Light
President and Chief Executive Officer, Northern Telecom Limited, Mississauga, Ontario (manufacturer of telecommunications equipment)

Robert P. Luciano
President and Chief Executive Officer, Schering-Plough Corporation, New Jersey (ethical and proprietary drugs, health care products, cosmetics, toiletries and household products)

Ian McDougall
Senior Vice-President

The Rt. Hon. Lord Nelson of Stafford
Chairman of the Board, The General Electric Company, p.l.c., London, England

George T. Richardson
President, James Richardson & Sons, Limited, Winnipeg (financial, grain and management holding company)

Lucien G. Rolland
President and Chief Executive Officer, Rolland inc., Montreal (manufacturer and wholesale distributor of fine papers)

Ashby McC. Sutherland
Senior Vice-President

Directors

(Term expires 1983)

Charles F. Baird
Chairman and Chief Executive Officer

Robert W. Bonner, Q.C.
Chairman of the British Columbia Hydro and Power Authority, Vancouver

Reva Gerstein, O.C.
Consultant and educator, Toronto

Alexander D. Hamilton
Chairman of the Board and Chief Executive Officer, Domtar Inc., Montreal (manufacturer of pulp and paper, packaging materials, construction materials and chemicals)

G. Arnold Hart, M.B.E., C.M.
Former Chairman of the Board and Chief Executive Officer, Bank of Montreal, Mountain, Ontario

Edward R. Kane
Former President and Chief Operating Officer, E. I. du Pont de Nemours and Company, Delaware (producer of chemicals and energy)

Stephen F. Keating
Former Chairman, Honeywell Inc., Minnesota (manufacturer of computers and control systems)

Donald J. Phillips
President

Donald G. Willmot
Chairman of the Board, The Molson Companies Limited Toronto (brewing, retailing and distribution)

Board of Directors

The Board of Directors presently consists of 18 members of whom four are officers of the Company. Each year regular meetings are scheduled to be held, and special meetings may be called from time to time. In 1981 the Board held 12 meetings.

Each year the Board holds at least one meeting at an operational site. In 1981, the Board met in England on October 7 during a five-day tour of the Company's operations in the United Kingdom.

The activities of the Board are supported by its various committees.

Executive Committee

The Executive Committee, which held eight meetings during 1981, consists of Mr. Baird, Chairman, and Messrs. Bridges, Curry, Hart, Phillips, Rolland and Willmot. During intervals between meetings of the Board, the Executive Committee, with certain exceptions, has all the powers vested in the Board.

Audit Committee

The Audit Committee, which held four meetings during 1981, consists of Mr. Bonner, Chairman, and Messrs. Hart, Kane, Keating and Light. This committee meets with the Company's financial management personnel, its internal auditors and its

independent auditors at least four times a year to review and appraise the Company's financial reporting practices and procedures, the adequacy of the system of internal accounting control, the planned scope of examinations by both the internal auditors and the independent auditors and their findings and recommendations, and the non-auditing services performed by the independent auditors.

It reviews the Company's financial statements and monitors the results of reviews covering employee compliance with the Company's policies on business conduct, conflicts of interest and other internal control policies. It also recommends to the Board the independent auditors to be proposed to the Shareholders for appointment at the Annual Meeting.

Nominating Committee

The Nominating Committee, which held five meetings during 1981, consists of the same Directors who comprise the Executive Committee and has the function of recommending to the Board nominees for election as Directors.

Management Resources and Compensation Committee

The Management Resources and Compensation Committee, which held ten meetings during 1981, consists of Mr. Hart, Chairman, and Messrs. Bridges, Curry, Rolland and Willmot. This committee advises and consults with the Chairman of the Board and makes recommendations to the Board on the remuneration of senior executives of the Company. The committee makes recommendations to the Board with respect to the Company's incentive compensation plans, including the Company's corporate achievement plans, and administers and makes recommendations for awards under the 1979 Key Employees Incentive Plan of the Company. The committee also reviews the management development programs, the succession plans relating to senior management and the performance goals of the major units of the Company as they relate to incentive plans of each unit.

Pension Committee

The Pension Committee, which held four meetings during 1981, consists of Mr. Richardson, Chairman, Dr. Gerstein, Mr. Hamilton, Mr. Luciano and Lord Nelson. This committee advises the Board regarding the

financial aspects of the pension programs of the Company and its subsidiaries, including actuarial assumptions, the adequacy of funding and the implementation of sound investment of pension funds. In addition, this committee recommends to the Board the appointment of trustees and investment advisers or managers.

Directors and Officers

Dr. William Steven retired as a Director on February 16, 1982 and will retire as a Senior Vice-President on February 22, 1982, in accordance with the retirement policy adopted by the Board. Dr. Steven has been a Senior Vice-President of the Company since 1972 and a Director since 1974. He has served the Company in various positions for more than 34 years.

Allen T. Lambert, O.C., who had served as a Director since 1964, retired from the Board on February 16, 1982 in accordance with the retirement policy adopted by the Board.

Charles F. Hews was elected Vice-President of the Company on March 1, 1981, with corporate responsibility for public affairs. Mr. Hews joined Inco in 1952.

Officers

Charles F. Baird
*Chairman and
Chief Executive Officer*

Donald J. Phillips
President

Ian McDougall
Senior Vice-President

Ashby McC. Sutherland
Senior Vice-President

Frank C. Burnet
Vice-President

Raymond F. Decker
Vice-President

Robert T. deGavre
Treasurer

Charles F. Hews
Vice-President

Philip C. Jessup, Jr.
*Vice-President, General
Counsel & Secretary*

Philip E. McCarthy
Vice-President

John J. Moran
Vice-President

Dean D. Ramstad
Vice-President

Anthony J. Sabatino
Comptroller

Donald G. Walker
Vice-President

J. Stuart Warner
Vice-President

Principal Regional Officers

John H. Page
*President, Inco
United States, Inc. New York*

Anthony T. Shadforth
*Chairman, Inco Europe
Limited, London,
and Chairman of Inco's
other major companies in the
United Kingdom*

Dean D. Ramstad
*General Manager,
Japan Branch*

Principal Executive Offices

*1 First Canadian Place, Toronto, Ontario, M5X 1C4
(416) 361-7511*

Other Executives Offices

*One New York Plaza, New York, N. Y.
10004, U.S.A. (212) 742-4000*

Principal Subsidiaries and Operating Units

Inco Metals Company

1 First Canadian Place, Toronto, Ontario, M5X 1C4

Ontario Division

Copper Cliff, Ontario P0M 1N0

Manitoba Division

Thompson, Manitoba R8N 1P3

P.T. International Nickel Indonesia

*“Wisma Antara”, Jalan Merdeka Selatan 17, Jakarta Pusat,
Indonesia*

The International Nickel Company, Inc.

One New York Plaza, New York, N. Y. 10004, U.S.A.

Inco Europe Limited

Thames House, Millbank, London, SW1P 4QF, England

Inco Alloy Products Company

One New York Plaza, New York, N. Y. 10004, U.S.A.

Huntington Alloys, Inc.

Huntington, West Virginia 25720, U.S.A.

Wiggin Alloys Limited

Holmer Road, Hereford HR4 9SL, England

Daniel Doncaster & Sons Limited

Birley House, Wadsley Bridge, Sheffield, S6 1ET, England

Turbo Products International, Inc.

Pond Meadow Road

Ivoryton, Connecticut 06442, U.S.A.

Canadian Alloys Division

Walden Industrial Park, Lively, Ontario P0M 2E0

Daido Inco Alloys Ltd. (50% owned)

*Daido Building, 7-13 Nishi-Shinbashi, 1-Chome,
Minato-ku, Tokyo 105, Japan*

Regional Subsidiaries and Operating Unit

Inco United States, Inc.

One New York Plaza, New York, N. Y. 10004, U.S.A.

Inco Europe Limited

Thames House, Millbank, London, SW1P 4QF, England

Inco Limited, Japan Branch

Shin Muromachi Building, 4-7, Nihonbashi- Muromachi

2-Chome, Chuo-ku, Tokyo 103, Japan

Inco Australasia Limited

14 Queen's Road, Melbourne, Victoria, Australia 3004

Other Subsidiaries Include

Canada

Canadian Nickel Company Limited, *Toronto*

Inco Alloys Canada Limited, *Toronto*

Inco Energy Resources Limited, *Calgary*

International Sales Limited, *Toronto*

United States

The International Metals Reclamation Company, Inc.

Ellwood City, Pennsylvania

Pittsburgh Pacific Processing Co., *Pittsburgh*

American Copper & Nickel Company, Inc., *Denver*

Europe

International Nickel B.V., *The Hague*

International Nickel G.m.b.H., *Düsseldorf*

International Nickel France S.A., *Paris*

International Nickel Iberica Limited, *Madrid*

International Nickel Italia Srl, *Milan*

International Nickel Océanie S.A., *Paris*

Wiggin Alloys G.m.b.H., *Düsseldorf*

Wiggin Alloys S.A., *Brussels*

Central and South America

Exmibal, *Guatemala City*

International Nickel do Brasil Comercial Ltda., *São Paulo*

Mineração Serras do Sul Ltda., *Rio de Janeiro*

Asia

International Nickel Japan Ltd., *Tokyo*

Inco Gulf, E.C., *Bahrain*

International Nickel Services (U.K.) Limited,

Bombay – Indian liaison office

Counsel

Osler, Hoskin & Harcourt, Toronto
Sullivan & Cromwell, New York

Auditors

Price Waterhouse,
Toronto and New York

**Transfer Agents and Registrars
for the Common Shares**

Canada Permanent Trust Company,
Toronto and Calgary

The Royal Trust Company,
Montreal and London

Morgan Guaranty Trust Company
of New York,
New York

**Transfer Agent and Registrar for
the 7.85% Preferred Shares
Series B**

Canada Permanent Trust Company,
Toronto, Calgary and Montreal

10-K Report Available

A copy of the 1981 Annual Report
on Form 10-K to be filed
with the United States Securities
and Exchange Commission
may be obtained from the
Company upon request.
Requests should be addressed to
The Secretary, Inco Limited at
1 First Canadian Place,
Toronto, Ontario M5X 1C4
or at One New York Plaza,
New York, New York 10004.

Rapport Annuel

La version française du Rapport
Annuel sera fournie sur demande.



INCO

Second Quarter Report 1981

Cover: A photomicrograph of norite rock from the Sudbury Basin.

HIGHLIGHTS

	First Half	
	1981	1980
	(in thousands)	
Net sales	\$1,509,292	\$1,541,459
Net earnings	\$ 69,726	\$ 143,601
Net earnings per common share	\$0.74	\$1.74

Amounts in this Report are expressed in U.S. currency, unless otherwise stated.

The Company

Inco Limited is a diversified company engaged in three principal businesses: primary metals, batteries and related products, and alloy products.

Inco Metals Company is the world's leading producer of nickel and a substantial producer of copper and precious metals.

Inco ElectroEnergy Corporation is a worldwide manufacturer of automotive, dry-cell and industrial batteries and related products.

Inco Alloy Products Company is an international group of companies producing rolling mill, forged and machined products.

MESSAGE TO SHAREHOLDERS

The Company's earnings for the second quarter of 1981 were \$42.8 million, or 46 cents a common share, compared with earnings of \$46.1 million, or 53 cents a share, for the second quarter of 1980. Earnings for the first six months of 1981 were \$69.7 million, or 74 cents a common share, compared with earnings of \$143.6 million, or \$1.74 a share, in the corresponding period of 1980. Earnings per share are calculated after allowances for preferred dividends which totalled \$13.0 million in the first half of 1981 and \$12.9 million in the first half of 1980.

Net sales to customers in these periods were as follows (in millions of dollars):

	Second Quarter		First Half	
	1981	1980	1981	1980
Inco Metals Company	\$419	\$323	\$ 769	\$ 749
Inco ElectroEnergy Corp.	194	198	385	405
Inco Alloy Products Company	163	189	326	366
Other Business	<u>16</u>	<u>10</u>	<u>29</u>	<u>21</u>
Net sales	<u>\$792</u>	<u>\$720</u>	<u>\$1,509</u>	<u>\$1,541</u>

Operating earnings for these periods were as follows (in millions of dollars):

	Second Quarter		First Half	
	1981	1980	1981	1980
Inco Metals Company*	\$126	\$145	\$ 234	\$ 348
Inco ElectroEnergy Corp.	—	(4)	(12)	1
Inco Alloy Products Company	7	22	22	49
Other Business	(4)	(4)	(8)	(6)
Eliminations	<u>4</u>	<u>(6)</u>	<u>9</u>	<u>(10)</u>
Operating earnings	<u>\$133</u>	<u>\$153</u>	<u>\$ 245</u>	<u>\$ 382</u>

*Includes Indonesian and Guatemalan operating earnings (losses) of

	<u>\$ (10)</u>	<u>\$ (1)</u>	<u>\$ (18)</u>	<u>\$ 1</u>
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Operating earnings comprise earnings before: income and mining taxes, interest expense, general corporate income and expenses, and currency translation adjustments.

Earnings for the second quarter of 1981 benefited from two non-recurring factors: a tax change in the United Kingdom which reduced income and mining tax expense by \$10 million and a \$6 million gain from the sale of Universal Electric. Despite these factors, earnings for both the second quarter and first six months of 1981 declined in comparison to the respective periods last year. Benefits in the 1981 periods from higher deliveries of primary metals, improved prices for alloy products and the effects of currency translation adjustments were more than offset by higher costs and expenses, lower prices for primary metals and reduced deliveries of alloy products.

Legislation pending in the United Kingdom would change the method of determining "stock appreciation relief" relative to the effect of inflation on inventories. Since enactment is imminent, certain deferred tax liabilities established in prior years have been reversed, thereby increasing second quarter 1981 earnings by \$10 million.

In June 1981, the Company sold its subsidiary, Universal Electric, for approximately \$45 million. Universal Electric manufactures fractional horsepower electric motors for consumer and industrial products.

The Company's consolidated earnings were affected by currency translation adjustments as follows (in millions of dollars):

	1981	1980
First Quarter gain	\$ 3.4	\$ 4.0
Second Quarter (loss)	<u>(3.2)</u>	<u>(8.9)</u>
First Half gain (loss)	<u>\$.2</u>	<u>\$(4.9)</u>

The Company's deliveries of primary metals are shown below:

	Second Quarter		First Half	
	1981	1980	1981	1980
	(in millions)			
Nickel in all forms (pounds)	<u>112</u>	<u>87</u>	<u>205</u>	<u>200</u>
Copper (pounds)	<u>73</u>	<u>57</u>	<u>136</u>	<u>130</u>
	(in thousands)			
Platinum-group metals and gold (troy ounces)	<u>86</u>	<u>73</u>	<u>154</u>	<u>143</u>
Silver (troy ounces)	<u>396</u>	<u>304</u>	<u>895</u>	<u>615</u>
Cobalt (pounds)	<u>890</u>	<u>300</u>	<u>1,670</u>	<u>530</u>

Finished nickel inventories declined to 157 million pounds at June 30, 1981 from 162 million pounds at March 31, 1981. Reduced production levels and a modest improvement in nickel markets in the second quarter contributed to this decline. Some portion of this business may reflect accelerated purchases by customers in anticipation of third quarter requirements. Vacation shutdowns in Canada will reduce the Company's third quarter production consistent with the Company's strategy to maintain a balance between sales and production.

Markets for the Company's primary metals and alloy products are currently depressed, and it now appears that a recovery will be delayed into 1982. As a result, lower earnings are expected in the remaining quarters of this year.

On June 30, 1981, Inco Limited arranged to issue £25 million of 15¾ per cent unsecured debentures maturing in 25 years. Proceeds from the issue will be received in July and November of this year and will be applied to reduce the Company's short-term debt. This issue was the first debt placement in the U.K. domestic market by a foreign corporation in nearly a decade. The debentures will be listed on the London Stock Exchange.

The Board of Directors today declared a regular quarterly dividend of 18 cents (U.S.) a common share, payable September 1 to shareholders of record on August 4. The Board of Directors also declared a quarterly dividend at an annual rate of 10.36 per cent on the Company's Series A Preferred Shares, payable September 1 to shareholders of record on August 20, and a quarterly dividend on the Company's 7.85% Series B Preferred Shares, payable September 1 to shareholders of record on August 4.

Charles F. Baird

Chairman and Chief Executive Officer

Donald T. Phillippe

President

July 23, 1981

INCO LIMITED AND SUBSIDIARIES

Consolidated Financial Statements (Unaudited)

(in thousands of dollars)

Statement of Earnings

Revenues

Net sales

Other income

Costs and expenses

Cost of sales and operating expenses

Selling, general and administrative expenses

Research and development

Exploration

Interest expense

Currency translation adjustments

Earnings before income and mining taxes

Income and mining taxes

Net earnings

Dividends on preferred shares

Net earnings applicable to common shares

Net earnings per common share

Dividends per common share

Common shares outstanding (weighted
average, in thousands)

—June 30, 1981

Second Quarter		First Half	
1981	1980	1981	1980
\$792,306	\$720,953	\$1,509,292	\$1,541,459
21,030	7,259	27,645	16,469
813,336	728,212	1,536,937	1,557,928
580,551	487,547	1,105,280	1,010,370
76,384	72,349	148,877	136,848
14,165	12,945	26,429	23,252
7,782	6,079	15,607	11,932
44,978	41,506	83,690	78,986
3,158	8,882	(197)	4,851
727,018	629,308	1,384,686	1,266,239
86,318	98,904	152,251	291,689
43,486	52,782	82,525	148,088
42,832	46,122	69,726	143,601
7,217	6,592	13,039	12,939
\$ 35,615	\$ 39,530	\$ 56,687	\$ 130,662
\$0.46	\$0.53	\$0.74	\$1.74
\$0.18	\$0.18	\$0.36	\$0.33
76,295	75,350	76,155	75,261

Balance Sheet

	June 30, 1981	December 31, 1980
Cash and securities	\$ 51,121	\$ 53,283
Accounts receivable	562,317	574,700
Inventories	1,308,544	1,305,613
Prepaid expenses	25,556	17,977
<hr/>		
Total current assets	1,947,538	1,951,573
Property, plant and equipment—net	2,513,267	2,542,356
Cost in excess of net assets acquired	24,082	26,594
Other assets	130,016	110,957
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Total assets	\$4,614,903	\$4,631,480
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Notes payable	\$ 264,188	\$ 166,646
Long-term debt due within one year	81,331	140,260
Accounts payable	459,184	454,070
Current taxes payable	39,410	151,139
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Total current liabilities	844,113	912,115
Long-term debt	1,057,287	1,044,780
Deferred taxes	449,300	445,000
Other liabilities	63,623	67,244
Preferred shares	343,547	345,040
Common shares	135,854	125,413
Capital surplus	61,036	61,036
Retained earnings	1,660,143	1,630,852
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Total liabilities and shareholders' equity	\$4,614,903	\$4,631,480

Statement of Changes in Financial Position

	First Half	
	1981	1980
Financial resources were provided by		
Net earnings	\$ 69,726	\$143,601
Charges (credits) to earnings not affecting working capital		
Depreciation and depletion	84,317	81,570
Deferred income and mining taxes	5,000	7,000
Currency translation adjustments not affecting working capital	(9,997)	6,872
Other—net	2,544	2,198
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Working capital provided by operations	151,590	241,241
Long-term borrowings	113,943	32,005
Shares issued in lieu of cash dividends	9,597	8,186
Other—net	(5,048)	5,851
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Total	270,082	287,283
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Financial resources were used for		
Preferred dividends	13,039	12,939
Common dividends	27,396	24,829
Capital expenditures	72,706	77,880
Reduction of long-term debt	92,974	96,388
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Total	206,115	212,036
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Increase in working capital	\$ 63,967	\$ 75,247

NEWS IN BRIEF

Sulphur Emission Control Tests Encouraging

The commercial scale tests of the new nickel concentrate smelting process, with the potential of reducing sulphur dioxide emissions at the Sudbury, Ontario operations, continued at the Company's Thompson, Manitoba smelter during the second quarter. This new technology also has the potential for improving workplace conditions and metals recovery. Test results to date have been encouraging.

Inco Tech Sells Smelting Technology

Inco Tech, a division of Inco Metals Company, has sold copper flash smelting technology to Asarco Incorporated, a major copper producer in the United States. This high-productivity process was developed by Inco in Canada and has been proven in commercial operation at Inco Metals' copper smelter in Sudbury.

Sale of Subsidiary Companies

In addition to the June 1981 sale of Universal Electric, the Company also reached an agreement in June to sell Willard Africa, a secondary battery manufacturer, subject to the approval of the South African Government. The sale is expected to be completed by the end of next month.

Company Earns Majority Interest in Gold Claims

Canadian Nickel Company Limited, an exploration unit of Inco Metals Company, has met commitments which entitle the Company to a majority interest in mineral claims held by Queenston Gold Mines Limited in the Kirkland Lake area of Ontario. The Company is continuing a program of work to earn a 65 per cent undivided interest in these claims. It is also evaluating the feasibility of developing an open pit mine on the claims at the site of the former Queenston Mine which was partly developed prior to 1951 but never brought into production.

New Inco Alloy Products Company Facilities in the U.K.

New production facilities costing over \$9 million went into operation at Doncasters Blaenavon Limited in Wales in May 1981. This installation will enable Doncaster to meet the anticipated demand for large ring components used in gas turbines designed for the latest generation of high-performance aircraft.

Additionally, a plate mill costing approximately \$5 million was acquired by Wiggin Alloys Limited. The facility, which will become operative in early 1982, will allow Wiggin to expand its sales in the European market.

INVESTOR INFORMATION (Common Shares)

	<u>New York Stock Exchange (Composite transactions)</u>	<u>Toronto Stock Exchange (Canadian \$)</u>
Market price range:		
Year 1979	\$24 - 15 ³ / ₄	\$27 ³ / ₄ - 18 ⁵ / ₈
Year 1980	33 ¹ / ₄ - 17 ³ / ₄	38 ¹ / ₄ - 21 ³ / ₈
1st Quarter 1981	23 ⁵ / ₈ - 18 ¹ / ₄	28 - 21 ³ / ₄
2nd Quarter 1981	23 ⁵ / ₈ - 19 ¹ / ₂	28 ³ / ₈ - 23 ³ / ₈

Shares outstanding at June 30, 1981: 76,479,407 shares

Next dividend payment:

Record date	August 4, 1981
Payment date	September 1, 1981
Amount per share	\$0.18

Optional Stock Dividend Program:

Next election date*	August 14, 1981
Valuation period	August 26-28, 31 and September 1, 1981
Stock dividend payment date	September 1, 1981

Share Purchase Plan:

Next contribution period	August 4-28, 1981
Valuation period	August 26-28, 31 and September 1, 1981
Share purchase date	September 1, 1981

*No action is required by shareholders who are currently participating in the Program.

INCO OPTIONAL STOCK DIVIDEND PROGRAM and SHARE PURCHASE PLAN

Optional Stock Dividend Program

Under the Company's Optional Stock Dividend Program, common shareholders have the right to elect to receive a stock dividend, valued at a 5 per cent discount from the market price of the Company's Common Shares, in lieu of a cash dividend. Holders of about 35 per cent of the Company's outstanding Common Shares are now participating in the Program. The Program permits many shareholders to receive tax benefits similar to those previously available to holders of the Company's former Class B Common Shares and also provides common shareholders with a simple and convenient method of obtaining additional Common Shares without payment of brokerage commissions or service charges. Under the Program, the Company is permitted to issue fractional shares which will be held for participants. As a result, all common shareholders may receive stock dividends under the Program regardless of how many shares they own. The Program also avoids the need for safekeeping of share certificates by participants, since the Company will accumulate whole and fractional shares for the participants and will issue statements shortly after each quarterly payment date showing the number of whole and fractional shares held by the Company on behalf of each participant.

Share Purchase Plan

Under the Company's Share Purchase Plan, common shareholders are entitled to make cash payments to purchase Common Shares of the Company at prevailing market prices. There are no service charges or brokerage commissions for Common Shares purchased under the Plan. Common shareholders can contribute from \$30 to \$6,000 (Cdn.) or from \$30 to \$5,200 (U.S.) per calendar quarter to purchase Common Shares from the Company on scheduled quarterly dividend payment dates.

Those shareholders who wish to participate in the Program or the Plan or desire additional information should write to Shareholder Services, Inco Limited, at either the Company's Toronto or New York address.

INCO

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