

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended: **December 31, 2001**

Commission File Number **1-1143**

INCO LIMITED

(Name of Registrant as specified in its charter)

Canada

(Jurisdiction of incorporation)

98-0000676

(I.R.S. Employer Identification No.)

**145 KING STREET WEST, SUITE 1500
TORONTO, ONTARIO, CANADA M5H 4B7**

(Postal Code)

(Address of principal executive offices)

(416) 361-7511

(Telephone number)

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

<u>TITLE OF EACH CLASS</u>	<u>NAME OF EACH EXCHANGE ON WHICH REGISTERED</u>
Common Shares.....	New York Stock Exchange*
5.5% Convertible Redeemable Preferred Shares Series E	New York Stock Exchange†
5.75% Convertible Debentures due 2004	New York Stock Exchange
7.75% Convertible Debentures due 2002 – 2016	New York Stock Exchange
Stock Purchase Rights	New York Stock Exchange†
Common Share Purchase Warrants.....	New York Stock Exchange†

The Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

As of February 5, 2002, the aggregate market value, based upon the closing sale price of the Common Shares and 5.5% Convertible Redeemable Preferred Shares Series E (“Series E Preferred Shares”) on the New York Stock Exchange, of the Registrant’s voting shares (Common Shares and Series E Preferred Shares) held by non-affiliates equaled \$3,632 million.§

As of February 5, 2002, 182,240,732 Common Shares (including non-voting fractional interests aggregating 6,136 Common Shares) and 9,439,700 Series E Preferred Shares of the Registrant were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s proxy circular and statement dated February 5, 2002 for the 2002 Annual and Special Meeting of Shareholders of the Registrant are incorporated by reference in Part III of this Report to the extent set forth in Items 10, 11 and 12 hereof.

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

† In addition, the Series E Preferred Shares, the Stock Purchase Rights and the Common Share Purchase Warrants are listed on The Toronto Stock Exchange.

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

**INDEX TO INCO LIMITED
2001 ANNUAL REPORT ON FORM 10-K**

**UNLESS OTHERWISE STATED, ALL DOLLAR AMOUNTS HEREIN
ARE EXPRESSED IN UNITED STATES CURRENCY**

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PART I

Items 1. and 2. *Business and Properties of Inco Limited*

Introduction

Inco Limited (“Inco” or the “Company”) was incorporated in 1916 under the laws of Canada, succeeding a business established in 1902. In 1979, the Company was continued by articles of continuance under the Canada Business Corporations Act and is governed by that Act. The Company’s executive offices are located at 145 King Street West, Suite 1500, Toronto, Ontario, Canada M5H 4B7. Unless the context otherwise requires, all references in this Report to “Inco” or the “Company” include all of its consolidated subsidiaries, unincorporated units and divisions.

Inco is one of the world’s premier mining and metals companies. The Company is a leading producer of nickel, a hard, malleable metal which, given its properties and wide range of applications, can be found in thousands of products. The Company is also an important producer of copper, precious metals and cobalt and produces sulphuric acid and liquid sulphur dioxide as by-products from its processing operations at Sudbury, Ontario. The Company’s principal mines and processing operations are located in the Sudbury area of Ontario, the Thompson area of Manitoba and, through a subsidiary in which the Company has an equity interest of 59 per cent, PT International Nickel Indonesia Tbk (“PT Inco”), on the island of Sulawesi, Indonesia. The Company has additional wholly-owned metals refineries at Port Colborne, Ontario and in the United Kingdom at Clydach, Wales and Acton, England. The Company also has interests in nickel refining capacity in the following Asian countries: in Japan, through contractual arrangements with Inco TNC Limited (“ITL”), in which the Company has an equity interest of 67 per cent; in Taiwan, through Taiwan Nickel Refining Corporation (“Taiwan Nickel”), in which the Company has an equity interest of 49.9 per cent; and in South Korea, through Korea Nickel Corporation (“Korea Nickel”), in which the Company has an equity interest of 25 per cent. The Company also has a 65 per cent equity interest in Jinco Nonferrous Metals Co., Ltd. (“Jinco”), a company which produces nickel salts for plating and other applications at a plant near Shanghai in the People’s Republic of China (“China”).

Inco has interests in deposits containing nickel and other metals in the French Overseas Territory of New Caledonia and the Province of Newfoundland and Labrador which could provide the Company with additional sources of low-cost nickel in the future.

Through its wholly-owned subsidiary, Inco S.A., Inco owns an 85 per cent interest in Goro Nickel S.A. (“Goro Nickel”) which holds a number of concessions covering nickel-cobalt properties in the French Overseas Territory of New Caledonia (“New Caledonia”). In April 2001, following completion of a new bankable feasibility study, the Company announced that it planned to proceed with the construction of a \$1,400 million commercial nickel-cobalt project in the southern part of New Caledonia in an area referred to as Goro. The project will consist of a fully integrated mining and processing facility with an annual production capacity of approximately 54,000 tonnes of nickel and 5,400 tonnes of cobalt. The Goro project is currently expected to produce a nickel oxide product containing 78 per cent nickel and a cobalt carbonate product commencing in late 2004. The operation is expected to supply nickel to stainless steel customers in South Korea, Taiwan and eventually China. For further information, see “Goro Nickel S.A.” on page 28 of this Report.

Inco also owns a 100 per cent interest in the Voisey’s Bay nickel-copper-cobalt deposit in the Province of Newfoundland and Labrador through its wholly-owned subsidiary, Voisey’s Bay Nickel Company Limited (“VBNC”). In January 2000, the Company announced that it had not been able to reach an agreement with the Province of Newfoundland and Labrador on a project for the commercial development of the Voisey’s Bay deposit. No further negotiations were held until June 2001, when the Company resumed confidential negotiations with representatives of the Province concerning the terms of an agreement on the commercial development of the Voisey’s Bay deposit. While significant progress has been made in these negotiations, the Company cannot predict as of the date of this Report whether such an agreement can ultimately be reached with the Province. For further information, see “Voisey’s Bay Nickel Company Limited” on page 29 of this Report.

Inco's properties are described on pages 16 to 38 of this Report.

The information in this Report is as of December 31, 2001 except where an earlier or later date is expressly indicated. Nothing included herein should be considered as implying that any information is correct as of any date other than December 31, 2001, except as otherwise expressly stated.

Cautionary Statement Regarding Forward-Looking Statements

Certain statements contained in this Report with respect to projections for the supply and demand for nickel, stainless steel and stainless steel scrap, the Company's nickel, copper, cobalt and precious metals production levels and costs, its position as a low-cost producer of nickel, its strategies and objectives, its capital expenditures, its interest and other expenses, premiums realized on its metals prices, its sales organization, its personnel requirements, the sensitivity of its financial results to changes in metals prices, foreign exchange rates, energy and other costs, its environmental, health and safety initiatives, its sales of specialty nickel products, its cost reduction and other financial and operating objectives for 2002 and beyond, the commercial viability of new production processes, the timing of construction and production at, and the cost of, the Goro, Voisey's Bay and other projects, the Company's ore reserve estimates and grades of nickel, copper, cobalt and precious metals, its research and development initiatives, expected reductions in its costs, net reductions in its environmental emissions, environmental proceedings, the negotiation of collective agreements with its unionized employees, the export of intermediate products from Ontario, and other issues and aspects relating to its business and operations and other statements herein which are not historical facts are forward-looking statements (as defined in the U.S. Securities Exchange Act of 1934). Inherent in these statements are risks and uncertainties well beyond the Company's ability to control or predict. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this Report. Such statements are based on a number of factors and assumptions which may prove incorrect, including, but not limited to, such key factors or assumptions as business and economic conditions, supply and demand for the Company's products, product deliveries, production levels, production and other anticipated and unanticipated costs and expenses, metals prices, premiums realized over London Metal Exchange cash and other benchmark prices, tax benefits, the Canadian-U.S. dollar and other exchange rates, the Company's productivity levels, metals price fluctuations, engineering and construction timetables, reserve estimates, the timing of the development of, fiscal and regulatory regimes for, and capital costs and financing and partnership arrangements associated with, the Goro and Voisey's Bay projects, the timing of the receipt of federal, provincial and other governmental and regulatory approvals, the resolution of environmental and other proceedings, political instability in Indonesia and other countries, risks involved in mining, processing, exploration and research and development, market competition, labour relations and settlement of aboriginal land claims. Actual results and developments, including the terms and conditions of any eventual agreements reached with governments and other interested parties to enable the development of the Voisey's Bay project to proceed, may require a significant reduction in the carrying value of the Voisey's Bay project, in the related deferred income and mining tax liability and in shareholders' equity, and may also affect the carrying value of the Company's other investments.

Description of Business

Sales

The following table shows the Company's net sales to customers for the three years ended December 31, 2001:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(IN MILLIONS)		
Primary nickel.....	\$1,488	\$2,336	\$1,658
Copper	195	225	196
Precious metals ⁽¹⁾	292	249	152
Cobalt.....	34	42	48
Other ⁽²⁾	57	65	59
Net sales to customers.....	<u>\$2,066</u>	<u>\$2,917</u>	<u>\$2,113</u>

(1) Excludes toll-refined materials.

(2) Representing principally sales of sulphuric acid, liquid sulphur dioxide, miscellaneous primary metals products and reprocessed waste materials.

Deliveries

The following table shows deliveries of the Company's principal primary metals and related products for the three years ended December 31, 2001:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
Nickel, including intermediates ⁽¹⁾ (tonnes) ⁽²⁾	230,049	259,374	258,088
Copper ⁽³⁾ (tonnes)	116,751	118,025	119,754
Cobalt (tonnes)	1,454	1,422	1,568
Platinum ⁽⁴⁾ (troy ounces, in thousands)	177	153	132
Palladium ⁽⁴⁾ (troy ounces, in thousands)	206	171	168
Rhodium ⁽⁴⁾ (troy ounces, in thousands).....	13	13	13
Ruthenium ⁽⁴⁾ (troy ounces, in thousands).....	4	1	16
Iridium ⁽⁴⁾ (troy ounces, in thousands).....	5	4	18
Gold ⁽⁴⁾ (troy ounces, in thousands)	76	65	52
Silver ⁽⁴⁾ (troy ounces, in thousands).....	1,540	1,360	1,510
Sulphuric acid and liquid sulphur dioxide (tonnes).....	696,000	578,000	589,000

(1) Includes 22,978 tonnes in 2001, 60,277 tonnes in 2000 and 77,038 tonnes in 1999 purchased by the Company.

(2) A tonne is a metric unit equal to approximately 2,204.62 pounds.

(3) Includes 2,685 tonnes in 2000 and 3,260 tonnes in 1999 purchased by the Company.

(4) Excludes toll-refined materials.

Prices

Nickel

Inco's nickel price realizations tend to lag London Metal Exchange ("LME") nickel price movements due primarily to the terms of the Company's contractual sales arrangements with certain of its customers. The LME, a physical market where various metals, including nickel, can be bought or sold for prompt or future delivery, is the principal terminal market in the world for nickel meeting certain specifications. The Company realizes a premium over prevailing LME cash prices for its nickel powders and other value-added products, as discussed under "Inco Special Products" on page 14 of this Report.

The Company's average realized price for its primary nickel products, including intermediates and purchased products, was \$6,468 per tonne (\$2.93 per pound) in 2001, representing a 28 per cent decrease from the average price of \$9,007 per tonne (\$4.09 per pound) realized in 2000. The 2000 average

realized price was 40 per cent higher than the average price of \$6,415 per tonne (\$2.91 per pound) realized in 1999.

The Company's price realizations for its nickel and other primary metals products generally reflect LME or other metal market prices and, over the longer term, depend principally upon the balance between demand for its products in the marketplace relative to the supply available from the Company and its competitors, including for this purpose similar primary metals materials in various producer, merchant and consumer inventories, inventories of secondary or scrap materials containing metals in usable or recyclable form, and supplies of other materials which may compete as substitutes. Of particular importance is the availability of stainless steel scrap, which competes directly with primary nickel as a source of nickel for use in the production of stainless steel. The scrap ratio, or that portion of total nickel units consumed as scrap by stainless steel mills in the Western World¹-plus-China, was 48 per cent in 2001, compared with 48 per cent in 2000 and 44 per cent in 1999. The applications for nickel and variations in demand for and supply of nickel are discussed on pages 7 to 14 of this Report.

For information on the Company's hedging transactions relating to nickel, see "Metals and Other Commodities Price Risk" on page 89 and Notes 1, 17 and 20(c) on pages 101, 122 and 125, respectively, of this Report.

The average prices, per tonne and per pound, realized by Inco for its various primary nickel products, including intermediates and purchased products, for the five years ended December 31, 2001 are shown in the following table:

<u>YEAR</u>	<u>NICKEL</u>	
	(\$ PER TONNE)	(\$ PER POUND)
1997	7,407	3.36
1998	5,291	2.40
1999	6,415	2.91
2000	9,007	4.09
2001 First Quarter	7,217	3.27
Second Quarter	7,065	3.20
Third Quarter	6,169	2.80
Fourth Quarter	5,463	2.48
Year	6,468	2.93

Copper

The Company's average realized price for copper was \$1,668 per tonne (\$0.76 per pound) in 2001, representing a decrease of 13 per cent from the average price of \$1,908 per tonne (\$0.87 per pound) realized in 2000. The 2000 average realized price was 17 per cent higher than the average price of \$1,631 per tonne (\$0.74 per pound) realized in 1999.

¹ "Western World" is defined as the world excluding the former East Bloc countries (as defined in Note 4 below).

The average prices, per tonne and per pound, realized by the Company for refined copper, including purchased products, for the five years ended December 31, 2001 are shown in the following table:

<u>YEAR</u>	<u>COPPER</u>	
	(\$ PER TONNE)	(\$ PER POUND)
1997	2,359	1.07
1998	1,852	0.84
1999	1,631	0.74
2000	1,908	0.87
2001 First Quarter	1,867	0.85
Second Quarter	1,707	0.77
Third Quarter	1,552	0.70
Fourth Quarter	1,503	0.68
Year	1,668	0.76

Other Metals

The average prices realized by the Company for cobalt, the principal platinum-group metals (platinum, palladium and rhodium), gold and silver, which are produced primarily from the Company's Ontario ores, for the five years ended December 31, 2001 are shown in the following table:

<u>YEAR</u>	<u>COBALT</u>	<u>PLATINUM</u>	<u>PALLADIUM</u>	<u>RHODIUM</u>	<u>GOLD</u>	<u>SILVER</u>
	(\$ PER TONNE)	(\$ PER TROY OUNCE)				
1997	48,457	385.46	177.03	319.26	329.98	5.00
1998	44,577	373.77	290.25	600.24	294.89	5.54
1999	30,556	377.59	359.80	888.33	280.69	5.29
2000	29,475	541.55	670.04	1,930.63	278.91	4.99
2001	23,216	541.27	711.32	1,475.85	270.50	4.40

For information on the Company's hedging transactions relating to these metals, see "Metals and Other Commodities Price Risk" on page 89 and Notes 1, 17 and 20(c) on pages 101, 122 and 125, respectively, of this Report.

Operating Results

The Company's operating earnings from continuing operations were \$274 million in 2001, compared with \$743 million in 2000 and \$120 million in 1999. The principal factors affecting the Company's operating results are discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 68 of this Report. In addition, the table on page 82 of this Report illustrates, based on the Company's estimate, as of year-end 2001, of its anticipated 2002 deliveries, the sensitivity of the Company's basic net earnings per Common Share to changes in certain realized prices for its products and other prices, exchange rates and interest rates.

Customers

As in recent years, sales of the Company's primary metals products in 2001 were concentrated in the United States, Europe, Japan, elsewhere in Asia, and Canada. The only non-affiliated customer which accounted for more than five per cent of Inco's nickel deliveries or total net sales in 2001 was Special Metals Corporation ("SMC"), which purchased Inco's alloys business in 1998. SMC's purchases under two long-term supply contracts entered into in connection with the purchase of Inco's alloys business accounted for approximately eight per cent of Inco's total nickel deliveries and approximately six per cent of the Company's total net sales for 2001, compared with approximately seven per cent of total

deliveries and approximately six per cent of total net sales in 2000. See pages 7 to 16 of this Report for additional information on the Company's customers.

Competitors

A discussion of the competitive conditions in the nickel industry appears on pages 7 to 14 of this Report. Competitive conditions with respect to the Company's other primary metals and related products are discussed on pages 14 to 16 of this Report.

Inventories

The Company's general practice is to sell its principal primary metals products at the time of production and not to hold inventories except as necessary to meet its current sales requirements. Inco's finished nickel inventories at the end of each of the five years ended December 31, 2001 are shown in the following table:

<u>YEAR-END</u>	<u>INCO'S FINISHED NICKEL INVENTORIES</u> (IN TONNES)
1997	24,579
1998	27,347
1999	24,333
2000	26,582
2001	26,517

Unit Costs

The Company's operating results, in addition to being affected by worldwide market conditions, are influenced by changes in production costs. Unit production costs for nickel and copper are affected principally by the level of costs and expenses, average ore grades and productivity. Productivity, as measured in pounds of nickel plus copper produced per shift, was the same in 2001 as in 2000. In 2000, productivity increased by three per cent compared with 1999. This improvement reflected a 30 per cent increase in production at PT Inco combined with employment reductions at the Company's Canadian operations.

Nickel unit production costs represent the total of all cash costs (such as wages and benefits, energy and supplies) and non-cash costs (such as depreciation and depletion) incurred by the Company to produce a unit of nickel. These costs were the same in 2001 relative to 2000. In 2000, these costs increased by six per cent relative to 1999, primarily due to higher fuel oil and natural gas costs, partially offset by the favourable effect of higher production levels in 2000.

The Company's nickel unit cash cost of sales before by-product credits, a calculation equal to the total of all cash costs incurred by the Company to produce a unit of nickel before the deduction of credits for by-product metals sold, increased by five per cent to \$3,439 per tonne (\$1.56 per pound) in 2001 compared with 2000. This increase was principally due to higher operating expenses, partially offset by the favourable effect of the lower Canadian dollar, relative to the U.S. dollar, on production costs. In 2000, the Company's nickel unit cash cost of sales before by-product credits increased by 15 per cent compared with 1999. This increase was due to higher energy costs and higher costs for purchased intermediate nickel feeds, partially offset by productivity improvements. The Company's nickel unit cash cost of sales after by-product credits, a calculation equal to the total of all cash costs incurred by the Company to produce a unit of nickel after the deduction of credits for by-product metals sold, increased by 10 per cent to \$2,976 per tonne (\$1.35 per pound) in 2001 compared with 2000, primarily due to higher nickel unit cash cost of sales before by-product credits and lower contributions from by-products, principally resulting from lower realized prices for copper and cobalt, partially offset by higher deliveries of precious metals. In 2000, the Company's nickel unit cash cost of sales after by-product credits decreased by two per cent compared with 1999, primarily due to higher realized prices for platinum-group metals.

The Company's nickel unit cash cost of sales, both before and after by-product credits, for the five years ended December 31, 2001 are shown in the following table:

<u>YEAR</u>	NICKEL UNIT CASH COST OF SALES BEFORE BY- <u>PRODUCT CREDITS</u>	NICKEL UNIT CASH COST OF SALES AFTER BY- <u>PRODUCT CREDITS</u>
	(\$ PER POUND)	
1997	1.71	1.69
1998	1.43	1.42
1999	1.29	1.26
2000	1.48	1.23
2001	1.56	1.35

Based upon the average exchange rate for the year, the Canadian dollar, the currency in which a substantial portion of the Company's operating costs are incurred, declined by four per cent relative to the U.S. dollar in 2001. For 2000, the average exchange rate for the Canadian dollar was virtually unchanged against the U.S. dollar, compared with 1999. At December 31, 2001, the value of the Canadian dollar, relative to the U.S. dollar, was \$0.628, compared with \$0.667 at December 31, 2000, and was \$0.6218 at February 27, 2002. At December 31, 2001, the Company had outstanding currency call option contracts, giving it the right, but not the obligation, to purchase Cdn.\$20 million at an average rate to U.S. dollars of \$0.655 in the first three months of 2002, and outstanding currency put option contracts, giving the buyer the right, but not the obligation, to sell to the Company Cdn.\$20 million at an average rate to U.S. dollars of \$0.638 in the first three months of 2002. These were the only Canadian dollar currency hedges with respect to operating costs that the Company had outstanding at December 31, 2001. For a discussion of the effect of foreign currency exchange rates on the Company's operating earnings, see "Quantitative and Qualitative Disclosures About Market Risk" on page 89 of this Report.

For information regarding the Company's profit sharing and incentive arrangements and the Company's collective agreements with its unionized employees, see "Employees" on page 55 of this Report.

Business Segment Information

For information on the Company's business segments by operating segment and geographic location, see Note 16 on page 120 of this Report.

Nickel

Applications for Nickel ²

Nickel is a hard, malleable metal with a wide range of uses. Its principal characteristics include imparting strength and corrosion resistance in alloys. The following five general categories constitute the principal applications of nickel: the production of nickel-bearing or austenitic stainless steels, low-alloy steels, non-ferrous alloys, foundry industry castings and non-alloying uses. The Company's nickel products represent what is known in the industry as "primary" nickel, a designation given to nickel produced principally from nickel ores. Approximately 78 per cent of Western World-plus-China primary nickel consumption relates to its end use in austenitic stainless steel production and as an alloy with other metals. The other type of nickel used in industrial applications is known as "secondary" nickel, which is also referred to as recycled or scrap nickel. Secondary nickel units are recovered largely from austenitic stainless steel manufacturing and fabricating operations and nickel-containing scrap from obsolete plant and equipment. In the recent past, secondary nickel has represented between 44 and 48 per cent of the total nickel used for austenitic stainless steels, with primary nickel accounting for between 52 and 56 per

² Unless otherwise indicated, data in this Report on applications for nickel are limited to the Western World (as defined in Note 1 above) and China as these countries are the only countries for which such data are generally available.

cent of such nickel use. These percentages can vary based upon relative prices, the availability of scrap and other factors.

The nickel industry generally divides its primary nickel products into three categories: charge nickel products (products of various nickel purities produced in special forms for the stainless and low-alloy steel industries), melting nickel products (relatively pure metallic products for the non-ferrous metals and foundry industries) and plating nickel products (relatively pure metallic products in special shapes or cut to special sizes for the plating industry).

The dominant use of primary nickel in the Western World-plus-China has continued to be in the production of nickel-bearing or austenitic stainless steels. Stainless steels, defined as iron-based alloys containing 10.5 per cent or more chromium, are typically identified by their metallurgical structure – austenitic, ferritic, martensitic, precipitation-hardening and duplex. Approximately 76 per cent of Western World-plus-China stainless steel production in recent years consists of austenitic, or nickel-bearing, grades. On average, austenitic stainless steels contain approximately eight to 10 per cent nickel. Nickel-bearing stainless steels are used throughout the industrialized world in a wide variety of applications ranging from consumer products to industrial process equipment, as well as for power generation and transportation equipment, kitchen appliances and hundreds of other applications where strength and corrosion resistance are required. Despite competition from plastics, ceramics and other substitute materials, demand for austenitic stainless steels currently accounts for about 62 per cent of annual Western World-plus-China primary nickel consumption.

A second, closely related, use of primary nickel is in low-alloy steels for construction and in structural, tool, high-strength and electrical steels. These steels are produced in greater volume than stainless steels but with a much lower nickel content, averaging less than one per cent nickel by weight. They account for about five per cent of annual Western World-plus-China primary nickel demand.

The third category of nickel use is in non-ferrous alloys which, unlike the two categories of steel alloys noted above, contain little or no iron. These alloys, which are used in industrial process plants, marine engineering, coinage, electronics, and gas turbine engine components, as well as in other diverse products, account for approximately 11 per cent of annual Western World-plus-China primary nickel demand.

A fourth category is comprised of foundry industry castings, which consist of either iron alloys, steel alloys or non-ferrous alloys. These uses account for about four per cent of annual Western World-plus-China primary nickel demand and represent the balance of the approximately 82 per cent of primary nickel used to make stainless steels and nickel-containing alloys.

The fifth category consists of various non-alloying uses of primary nickel. These uses account for the remaining 18 per cent of annual Western World-plus-China primary nickel demand, and include electroplating (representing about seven per cent of primary nickel demand) and numerous applications of nickel powders, including Inco's specialty nickel powder products described under "Inco Special Products" on page 14 of this Report. Many consumer durable goods, such as metal furniture, are nickel-chrome electroplated. Nickel powder applications are a relatively small but important nickel-consuming sector. Given the properties of nickel powders, applications include dissolving nickel into salts for plating and catalysts for the petrochemical industry, and use in nickel-cadmium and nickel-hydride rechargeable batteries, welding electrodes, metal sprays and specialized parts made by powder metallurgy.

As indicated above, nickel used in stainless and low-alloy steel sectors account for approximately 67 per cent of annual Western World-plus-China primary nickel demand. In choosing primary nickel, these two sectors can generally use either charge nickel products or melting nickel products to satisfy their nickel requirements; however, they may also use secondary nickel units such as nickel-containing stainless steel scrap or other recycled nickel-containing material, with the selection being based largely on relative prices and availability of these materials. See "Prices – Nickel" on page 3 of this Report for a discussion of the percentages of nickel consumed as stainless steel scrap by stainless steel producers in 2001 and 2000.

Inco has been a member of the Nickel Development Institute (NiDI), a non-profit association which promotes applications for nickel, since it was founded in 1984. NiDI sponsors numerous development and research projects, including projects aimed at promoting the use of nickel-containing stainless steels,

broadening markets for nickel-containing alloys resistant to high and low temperatures, high pressures and corrosion, and ensuring that sound science is used as the basis for regulatory developments relating to the production and use of nickel and nickel-containing products and the recycling or disposal of nickel-containing waste materials.

Historical Review of the Nickel Industry; Recent Industry Conditions

The Western World nickel market has been cyclical in nature over the past half-century.

Primary nickel demand in the Western World grew significantly during the 1946-1974 period in response to postwar reconstruction, increased per capita incomes and the rapid growth of the stainless steel industry. Annual demand increased from approximately 136,100 tonnes in 1950 to a then record level of approximately 620,000 tonnes in 1974. The compound rate of annual growth in nickel demand over the 1946-1974 period was about six per cent.

With the oil crisis in 1973, the substantial rise in energy costs resulted in a reduction in industrial production and a consequent reduction in primary nickel demand. These negative trends were repeated in the early 1980s following a second round of significant oil price increases in 1979-1980, but were reversed in the second half of the 1980s, when a period of strong industrial growth resulted in an increase in the demand for nickel.

Record growth in stainless steel production, accompanied by a shortage of nickel production, placed significant upward pressure on LME nickel prices in 1988 and 1989 which averaged on a cash basis \$13,823 per tonne (\$6.27 per pound) and \$13,338 per tonne (\$6.05 per pound), respectively.

During the early 1990s, significant increases in primary and secondary nickel deliveries to the Western World from the Russian Federation (“Russia”) and other members of the former Commonwealth of Independent States (“CIS”), combined with economic downturns in North America, Western Europe and Japan, led to a surplus in primary nickel supply³, resulting in a further weakening of nickel prices. This situation was exacerbated in 1992 and 1993 by negative economic growth in Western Europe and Japan and continued exports of nickel from the CIS. From 1990 to 1993, annual average LME cash nickel prices fell from \$8,885 per tonne (\$4.03 per pound) to \$5,291 per tonne (\$2.40 per pound).

In 1994 and 1995, a worldwide economic recovery led to strong growth in stainless steel production and nickel demand, resulting in primary nickel demand exceeding supply and a recovery in nickel prices, with the LME cash nickel price rising to an average of \$8,231 per tonne (\$3.73 per pound) for 1995.

In the latter half of the 1990s, strong economic growth led to significant increases in stainless steel production and nickel demand, except that the Asian economic crisis in 1998 caused overall nickel demand to decrease slightly that year. This decrease in the demand for nickel during 1998, combined with the market’s anticipation of large supplies of low-cost nickel from the three new Australian laterite projects referred under “Participants in the Nickel Industry” on page 12 of this Report, resulted in the LME cash nickel price reaching a low for the decade of \$3,725 per tonne (\$1.69 per pound) in December 1998. Nickel prices recovered during 1999, supported by the resumption of strong economic and nickel demand growth, with the LME cash nickel price reaching \$8,450 per tonne (\$3.83 per pound) at the end of 1999.

After building momentum over the course of 1999, the nickel price continued to increase into 2000. From a close of \$8,450 per tonne (\$3.83 per pound) at the end of 1999, the LME cash nickel price increased to a peak of \$10,660 per tonne (\$4.84 per pound) in March 2000 and, subject to some variability, over the balance of 2000 declined to \$7,190 per tonne (\$3.26 per pound) by the end of 2000. Solid market conditions contributed to the average price increase in 2000, as did the anticipation of possible labour disruptions which did not materialize. The world economic recovery that commenced in 1999 continued in 2000, with Organization for Economic Co-operation and Development (OECD) industrial production growth accelerating to 5.0 per cent in 2000 from 3.3 per cent in 1999. As a result,

³ “Primary nickel supply” is defined as production of primary nickel in the Western World plus net trade in nickel with the former East Bloc countries (as defined in Note 5 below).

demand for nickel-containing products strengthened, especially stainless steel where production on a Western World-plus-China basis increased in 2000 by 8.8 per cent to a record level of 19.2 million tonnes. Despite the strong performance of stainless steel production, the use of primary nickel in this segment registered no growth in 2000. This was due to the increased supply of stainless steel scrap, which led to an increase in the scrap ratio to 48 per cent in 2000 from 44 per cent in 1999.

Demand, on a Western World-plus-China basis, for primary nickel grew by 5.3 per cent in 2000 to a record level of 1,081,000 tonnes. This increase in demand reflected both stock building by consumers, who were replenishing their inventories from the relatively low levels at the end of 1999, and an estimated 12 per cent growth in consumption for primary nickel in non-stainless steel applications. Demand from the non-ferrous alloys sector was particularly strong, reflecting the growing use of nickel alloys in electronics and land-based turbines in North America. In addition, demand for specialty nickel products remained high, given the strength in certain high technology sectors where these products are used.

In 2000, the supply of primary nickel to the Western World-plus-China increased by an estimated 50,000 tonnes to 1,050,000 tonnes. The main reason for this increase was a rise in primary nickel production in the Western World of approximately 52,000 tonnes. This increase reflected the return to more normal levels of production by several producers who either had experienced unexpected disruptions or reduced output in 1999. It also reflected production from new nickel capacity and the continued commissioning of three new laterite projects in Australia.

Partially offsetting the rise in Western World production was a decline in net deliveries of nickel from the former East Bloc countries⁴ of approximately 11,000 tonnes. As a consequence, demand for nickel exceeded supply by approximately 31,000 tonnes, thereby reducing apparent stocks to critically low levels, as reflected in nickel inventories held in LME warehouses, which fell over 37,000 tonnes during the year.

The nickel market in 2001 was a very challenging one compared with 2000 when total world demand for primary nickel achieved a record level. Market fundamentals weakened during 2001 as the world's major economies experienced softness and recessionary conditions intensified in the manufacturing sectors of virtually all of the OECD member countries. This weakness in demand was primarily concentrated within the Western World where nickel demand declined significantly. While there was continued strength in nickel demand in China, for 2001 the Company estimates that there was an overall decline in nickel demand, on a Western World-plus-China basis, of approximately 3.2 per cent to 1,047,000 tonnes.

Virtually all major applications for nickel were adversely affected by the economic slowdown experienced in the Western World, including significant weakness in non-stainless applications. Non-ferrous nickel alloys and special powder applications were negatively affected by the substantial decline in electronic and telecommunication applications as manufacturing activity contracted largely in order to liquidate excess inventories that had been built up, particularly in Western World countries. Stainless steel, the largest end use of primary nickel, was also affected. Stainless steel producers in all major producing countries except Japan responded to the slowdown in demand with production cutbacks in order to prevent an accumulation of finished stainless steel inventory. Western World-plus-China stainless steel production declined by 3.8 per cent to 18.4 million tonnes following an increase of 8.8 per cent in 2000. Primary nickel consumption in stainless steel applications, however, declined only slightly, aided by a reduction in the supply of stainless steel scrap to stainless steel producers over the second half of the year.

Growth in primary nickel supply continued in 2001 as most producers increased production, particularly in the first half of the year. However, with the decline in nickel prices and weak market conditions, a number of production cutbacks were announced over the second half of 2001. Taking into account these production cutbacks, 2001 reflected a net increase in Western World-plus-China primary nickel production of 36,000 tonnes to 855,000 tonnes. The largest sources of this increase in supply were

⁴ "East Bloc countries" is defined as the Russian Federation and other members of the former Commonwealth of Independent States, China, Cuba, Bulgaria, the Czech Republic, Slovakia, Hungary, Poland and Romania.

the continued ramping up of certain laterite projects in Australia and the commissioning of new capacity in Venezuela and Colombia. Western World-plus-China supply rose to 1,090,000 tonnes, reflecting increases in the net supply from Russia, Cuba and Eastern Europe to 235,000 tonnes.

Overall, reflecting the decline in demand and increase in supply, the nickel market in 2001 shifted to a surplus position of approximately 43,000 tonnes on a Western World-plus-China basis following the significant deficit positions in the previous two years. Over the year, nickel inventories held by consumers are estimated to have fallen by 13,000 tonnes. Despite the slowdown, LME inventories increased by only 9,510 tonnes ending the year with a relatively low level of LME inventories of 19,188 tonnes. As of February 27, 2002, the LME inventories had increased to 21,966 tonnes.

The cash nickel price on the LME opened the year at \$6,995 per tonne (\$3.17 per pound) and fell during the first quarter, reaching a first half low of \$5,830 per tonne (\$2.64 per pound) in early April before attempting a rally over the second quarter as the market began to anticipate an early economic recovery. However, with the continuation of a supply surplus in the market and ongoing economic uncertainty, the nickel price again moved lower and reached the year's low of \$4,420 per tonne (\$2.00 per pound) in late October. With the aggressive reduction of interest rates in the United States and renewed prospects for an economic recovery, prices for nickel and other non-ferrous metals improved in the fourth quarter. The LME cash nickel price was \$5,680 per tonne (\$2.58 per pound) as of December 31, 2001. As of February 27, 2002, the LME cash nickel price was \$6,030 per tonne (\$2.74 per pound).

The uncertain global economic environment that existed at the end of 2001 and into early 2002, to the extent it continues, would be expected to have a significant adverse effect on the Company's business and financial results given the correlation between industrial production and demand for primary nickel and the Company's other products.

Western World primary nickel demand has increased at an average compound annual rate of approximately 3.2 per cent over the last ten years. As noted under "Applications for Nickel" on page 7 of this Report, about two-thirds of Western World primary nickel demand is associated with the production of austenitic stainless steels. The following table shows the relationship between Inco's most recent estimates of Western World-plus-China primary nickel demand and Western World-plus-China stainless steel production for the five years ended December 31, 2001:

<u>YEAR</u>	WESTERN WORLD- PLUS-CHINA PRIMARY NICKEL DEMAND ⁽¹⁾ (IN TONNES)	WESTERN WORLD- PLUS-CHINA STAINLESS STEEL PRODUCTION (IN MILLIONS OF TONNES)
1997	973,000	16.6
1998	973,000	16.5
1999	1,027,000	17.6
2000	1,081,000	19.2
2001 ⁽²⁾	1,047,000	18.4

(1) Western World-plus-China primary nickel consumption plus or minus changes in consumer inventories, plus deliveries by Western World producers and merchants into former East Bloc countries other than China.

(2) Preliminary estimates.

The following table shows Inco's most recent estimates of world primary nickel demand, world primary nickel supply, year-end combined Western World producer and LME inventories of primary nickel and year-end LME nickel inventories for the five years ended December 31, 2001:

<u>YEAR</u>	<u>WORLD PRIMARY NICKEL DEMAND</u>	<u>WORLD PRIMARY NICKEL SUPPLY</u>	<u>YEAR-END COMBINED WESTERN WORLD PRODUCER AND LME INVENTORIES</u>	<u>YEAR-END LME INVENTORIES</u>
(IN TONNES)				
1997	1,000,000	1,000,000	142,000	66,438
1998	990,000	1,013,000	147,000	65,964
1999	1,051,000	1,027,000	120,000	46,962
2000	1,113,000	1,105,000	90,000	9,678
2001	1,078,000 ⁽¹⁾	1,141,000 ⁽¹⁾	108,000 ⁽¹⁾	19,188

(1) Preliminary estimates.

Future nickel consumption and nickel prices could be adversely affected by a number of factors, including the development of new nickel capacity, such as the new capacity described below under "Participants in the Nickel Industry"; new processing technologies which have made, and are expected to continue to make, the development of relatively low-grade lateritic nickel deposits economically viable; decreases in the general level of business activity in industrial economies which, in turn, could lead to reduced production of stainless steel; levels of nickel-containing stainless steel scrap and other sources of secondary nickel; increased environmental restrictions affecting the production and use of nickel; recommissioning of currently shutdown nickel capacity; and, in the longer term, increased use of substitutes for nickel-containing materials. In addition, the future levels of production and consumption of nickel in Russia are expected to continue to have significant, but unpredictable, effects on world nickel prices.

Participants in the Nickel Industry

The six largest suppliers in the nickel industry, each having its own integrated facilities, including nickel mining, processing, refining and marketing operations, are RAO Norilsk Nickel ("Norilsk"), Inco, WMC Limited ("Western Mining"), Falconbridge Limited ("Falconbridge"), BHP Billiton plc ("BHP Billiton"), and Eramet and its subsidiary, Le Nickel-SLN (collectively, "Eramet"). The Company estimates that these six producers accounted for about 60 per cent of the total world primary nickel production in 2001. In addition to these six principal participants, there are approximately 30 other producers in numerous other countries around the world that participate in the nickel industry. Operations of the six largest producers are located in several countries. Inco, as noted on page 1 of this Report, has operations in Canada, the United Kingdom, Indonesia, Japan and China and in other parts of Asia, through two companies, Taiwan Nickel and Korea Nickel, in whose refining capacity Inco has interests, but less than majority ownership. Norilsk has operations in Russia; Western Mining has operations in Australia; Falconbridge has operations in Canada, Norway and the Dominican Republic; Eramet has operations in France and New Caledonia; and BHP Billiton has operations in Australia and Colombia.

Norilsk has integrated facilities at Norilsk in Siberia and at Pechenga and Severonickel on the Kola Peninsula of Russia. In 2001, it is estimated that Norilsk produced approximately 224,000 tonnes of nickel from all of its facilities, compared with 228,000 tonnes in 2000, and that it exported 177,000 tonnes in 2001 compared with 175,000 tonnes in 2000.

World primary nickel supply is estimated to have been 1,141,000 tonnes in 2001, up from 1,105,000 tonnes in 2000 and 1,027,000 tonnes in 1999. Production increases during 2001 occurred mainly at Falconbridge in Canada, BHP Billiton's Cerro Matoso operation in Colombia, Loma de Niquel in Venezuela and the three lateritic nickel projects (Murrin Murrin, Bulong and Cawse) in Australia, partially offset by lower production at Falconbridge's Falcondo operation in the Dominican Republic and at Pacific Metals Co. Ltd. and Sumitomo Metal Mining Co., Ltd. in Japan. In 2001, Murrin Murrin, the

largest of the three Australian lateritic nickel projects, continued to experience ramp-up difficulties with its hydrometallurgical process while the two smaller projects, Bulong and Cawse, operated at or near their design capacities of approximately 8,000 to 9,000 tonnes each. Murrin Murrin reported total production of approximately 25,000 tonnes of nickel in 2001. However, according to current nickel industry estimates, this project has the potential to produce up to 45,000 tonnes of nickel based on its design capacity. These Australian projects are also producing significant quantities of cobalt.

Inco's Position in the Nickel Industry

Inco is a leading producer of nickel. The Company's nickel deliveries in 2001 represented an estimated 21 per cent of the total world demand for primary nickel, compared with 23 per cent in 2000 and 25 per cent in 1999.

Inco's total deliveries of nickel in 2001 were 230,049 tonnes, representing a decrease of 11 per cent from deliveries of 259,374 tonnes in 2000. This decrease, as well as the decrease referred to above in Inco's deliveries as a percentage of total world demand, was due principally to lower deliveries of purchased finished nickel, reflecting lower demand in all markets across the Western World due to the weakness experienced in the manufacturing sectors of virtually of the OECD member countries. However, deliveries of Inco-source nickel in 2001 were 207,071 tonnes, representing an increase of four per cent from deliveries of 199,097 tonnes in 2000, reflecting higher production at PT Inco and the Company's Manitoba operations. Deliveries of finished nickel purchased from external sources, used by the Company to supplement Inco-source production as required, declined in 2001 as a result of higher Inco production in 2001 and lower demand.

In 2000, while Inco's total nickel deliveries were up slightly from the 1999 level of 258,088 tonnes, deliveries of Inco-source nickel were up 10 per cent to 199,097 tonnes from 181,050 tonnes in 1999. This increase was due to a 30 per cent increase in production at PT Inco resulting from the completion of the expansion of its facilities at the end of 1999 and a return to more normal production levels at the Manitoba operations after a three-month work stoppage in 1999. Deliveries of finished nickel purchased from external sources declined in 2000 as a result of higher Inco production in 2000.

The Company believes that one of the key strengths of its position in the highly-competitive global nickel industry is the broad geographic distribution of its customers. The Company continues to supply its customers worldwide from its operations in Canada, the United Kingdom and Asia. In 2001, reflecting the Company's global market presence, 26 per cent of the Company's total primary nickel deliveries were to customers in the United States, 23 per cent to customers in Japan, 14 per cent to customers in Europe, and 37 per cent to customers in other countries, primarily in Asia, the same as in 2000. In 2001, sales to customers in Asia, including Japan, represented 55 per cent of the Company's total nickel deliveries for the year, compared with 56 per cent in 2000.

In 2001, the Company continued to implement marketing strategies aimed at providing consistent long-term demand for its products. At year-end 2001, the Company had fixed-volume contracts with customers for a substantial portion of its expected annual nickel sales. These contracts, combined with the requirements of the Company's affiliated refineries in Asia and its sales of proprietary nickel products, have provided stable demand for a significant portion of the Company's annual production.

The table below shows, for the five years ended December 31, 2001, Inco's most recent estimates of total world primary nickel demand, Inco's total nickel deliveries, Inco's deliveries of purchased nickel, Inco's estimated share of world demand based on its total nickel deliveries, the LME average cash and three-month nickel prices and Inco's average realized price for its primary nickel products:

<u>YEAR</u>	<u>WORLD PRIMARY NICKEL DEMAND</u>	<u>TOTAL INCO DELIVERIES</u> ⁽¹⁾	<u>INCO DELIVERIES OF PURCHASED NICKEL</u>	<u>INCO SHARE OF WORLD DEMAND</u>	<u>LME AVERAGE CASH NICKEL PRICE</u>	<u>LME AVERAGE 3-MONTH NICKEL PRICE</u>	<u>INCO AVERAGE REALIZED NICKEL PRICE</u> ⁽¹⁾
		(IN TONNES)		(%)		(\$ PER TONNE)	
1997	1,000,000	266,343 ⁽²⁾	84,823	27	6,930	7,032	7,407
1998	990,000	252,925 ⁽²⁾	67,018	26	4,633	4,710	5,291
1999	1,051,000	258,088	77,038	25	6,015	6,073	6,415
2000	1,113,000	259,374	60,277	23	8,642	8,453	9,007
2001	1,078,000 ⁽³⁾	230,049	22,978	21 ⁽³⁾	5,948	5,877	6,468

(1) Includes intermediates and purchased nickel.

(2) Includes nickel contained in alloys.

(3) Preliminary estimates.

Inco Special Products

The Company is a world leader in the development, production and sale of value-added nickel products, including powders, foams, flakes, oxides and nickel-coated graphite and carbon fibres. These value-added products are used for such applications as consumer electronics, rechargeable batteries, fuel cells, powder metallurgy, automotive parts, electromagnetic interference shielding for computers and cellular telephones, special catalysts and salts, metal injection moulding, and hard metal binders.

Inco Special Products, an unincorporated business unit, has responsibility for all business activities related to specialty nickel products. Inco's specialty nickel products are manufactured at Sudbury, Ontario; Clydach, Wales; and at Novamet⁵ Specialty Products Corporation, a wholly-owned subsidiary of the Company located in Wyckoff, New Jersey. Inco Special Products expects to continue to work closely with customers to develop advanced nickel products to meet their needs. Accounting for approximately 12 per cent of the Company's nickel sales revenue in 2001, compared with 10 per cent in 2000 and 13 per cent in 1999, specialty nickel products sell at premium prices and have historically been less sensitive than commodity nickel to fluctuations in LME cash nickel prices.

Inco's specialty nickel products are developed at its research laboratory at Mississauga, Ontario and are manufactured, using the Company's gas decomposition technology, at its refineries in Sudbury, Ontario and Clydach, Wales.

Copper

Inco produces copper at its Ontario operations which it recovers, in conjunction with nickel, principally from the sulphide ores mined in the Sudbury area of Ontario. In 2001, the Company's copper production was 116,255 tonnes, up two per cent from 114,397 tonnes in 2000, notwithstanding the adverse impact on copper production of a fire that occurred at the Company's new copper anode refining facility in Sudbury in February 2001. In 2000, copper production was down 1,863 tonnes, or two per cent, from 116,260 tonnes in 1999, due primarily to a number of performance-related problems experienced with the copper circuit at the Ontario operations which impacted production.

⁵ Inco trademark.

The Company's copper is sold to industrial users under the trademark ORC⁶. While the Company had historically sold a portion of its copper production to customers in Europe, in 2001 all of the Company's copper production was sold in North America at prices based on quotations on the COMEX Division of the New York Mercantile Exchange. Copper accounted for \$195 million, or nine per cent, of the Company's total net sales to customers in 2001, compared with \$225 million, or eight per cent, in 2000 and \$196 million, or nine per cent, in 1999.

The Company's sales and deliveries (including purchased copper) for the past three years and the Company's average realized prices for copper for the past five years are shown in the tables on pages 3 and 5 of this Report.

World refined copper production is estimated to have been approximately 15.3 million tonnes in 2001, compared with 14.8 million tonnes in 2000 and 14.3 million tonnes in 1999.

Like nickel prices, copper prices have been in recent years, and are expected to continue to be, subject to significant price volatility. In the first quarter of 2000, Western World copper inventories peaked, exceeding one million tonnes for the first time. However, by the end of the year, strong demand and higher imports by China had helped to reduce inventories by almost 50 per cent, compared with inventory levels at year-end 1999, and to improve prices. In the early part of 2001, strong demand resulted in further decreases in inventories, with inventories reaching a low for 2001 of 413,000 tonnes on March 6, 2001. However, as the year progressed, the overall economic slowdown resulted in a significant decrease in the demand for copper and production cuts by some of the major producers were insufficient to prevent a decline in copper prices and a dramatic increase in Western World inventories. Copper inventories ended 2001 at 1,006,000 tonnes, more than 2½ times the level of inventories at year-end 2000. The COMEX first position price averaged \$1,600 per tonne (\$0.73 per pound) in 2001, down 14 per cent from \$1,851 per tonne (\$0.84 per pound) in 2000, and was \$1,575 per tonne (\$0.71 per pound) at February 27, 2002.

Other Primary Metals and Related Products

Sales of Inco's primary metals and related products other than nickel and copper accounted for 19 per cent of its total net sales to customers in 2001, compared with 12 per cent in each of 2000 and 1999. These products include cobalt, platinum-group metals (platinum, palladium, rhodium, ruthenium and iridium), gold, silver, sulphuric acid and liquid sulphur dioxide and some modest quantities of selenium and tellurium. Inco, based upon production principally from its Ontario ores, currently accounts for about two per cent of the world's supply of platinum-group metals. Platinum-group metals are utilized primarily for catalysts, electronic components and jewellery. In addition to refining its own ores to obtain platinum-group metals, the Company processes substantial volumes of spent automotive catalytic converters and other material containing these metals at its Sudbury, Ontario and Acton, England refineries. In 2001, such other material, which was principally toll-refined, supplied about 69 per cent of all platinum-group metals refined by the Company, compared with 76 per cent in 2000 and 74 per cent in 1999. Deliveries of toll-refined material, however, are not included in the Company's deliveries of precious metals shown on page 3 of this Report since Inco does not take ownership of these materials. Sales of platinum-group metals accounted for approximately 13 per cent of the Company's net sales to customers in 2001, compared with eight per cent in 2000 and six per cent in 1999. Most of these sales were derived from the Company's Ontario ores.

Approximately 80 per cent of Inco's cobalt production, which is derived from the Company's Canadian ores and purchased feedstock material, is sold as metal, with the balance being sold as cobalt oxide. Cobalt oxide, which normally commands a price premium over cobalt metal, is used primarily in the chemical industry. Cobalt metal is used in the production of various alloys, particularly for aerospace applications.

Copper and nickel producers supply a majority of the world's cobalt production as a by-product of their copper and nickel operations, which has resulted in the supply of cobalt being driven by the demand for copper and nickel rather than the demand for cobalt. As a result, there has been a significant increase

⁶ Inco trademark.

in the supply of cobalt in the last decade without a corresponding increase in demand. This imbalance between supply and demand has resulted in a significant downtrend in the Metal Bulletin reference price for cobalt, the most commonly used benchmark price for cobalt, which averaged \$64,600 per tonne (\$29.30 per pound) in 1995, but has declined significantly since then, averaging \$33,700 per tonne (\$15.30 per pound) in 2000 and \$23,300 per tonne (\$10.60 per pound) in 2001. For 2001, the Metal Bulletin reference price for cobalt averaged \$27,900 per tonne (\$12.65 per pound) in the first half of the year and \$18,750 per tonne (\$8.50 per pound) in the second half of the year. At February 27, 2002, the Metal Bulletin reference cobalt price was \$15,650 per tonne (\$7.10 per pound).

As indicated in the table of the Company's price realizations on page 5 of this Report, Inco's average realized price for its cobalt deliveries was \$23,216 per tonne (\$10.53 per pound) in 2001, compared with \$29,475 per tonne (\$13.37 per pound) in 2000 and \$30,556 per tonne (\$13.86 per pound) in 1999. The new Australian lateritic nickel projects referred to under "Participants in the Nickel Industry" on page 12 of this Report are expected to produce significant quantities of cobalt and Inco's Goro Nickel and Voisey's Bay projects are also currently expected to be significant new sources of cobalt when they begin production.

The Company also produces sulphuric acid and liquid sulphur dioxide from the sulphur dioxide gases captured as part of its sulphur dioxide (SO₂) abatement program at Sudbury, Ontario. A total of 650,651 tonnes of sulphuric acid and liquid sulphur dioxide were produced by the Company in 2001, compared with 633,132 tonnes in 2000 and 613,415 tonnes in 1999. Most of the Company's sulphuric acid production and all of its liquid sulphur dioxide production are sold to Chemtrade Logistics Inc., an unaffiliated customer, under long-term contractual arrangements at prices based on prevailing market prices for these products. These products are included in the table of product deliveries on page 3 of this Report.

Tables showing the Company's sales, deliveries, and average net realized prices of these other primary metals and related products are shown on pages 3 and 5 of this Report.

Mining and Production

General

Based on publicly available information and its own studies and analysis, the Company believes that, relative to other nickel producers, it is a low-cost producer of nickel. Since low-cost operations are essential in the highly competitive global nickel business, one of Inco's key strategic objectives is to become the world's lowest-cost and most profitable producer of nickel. A number of favourable factors, as described below, generally contribute to the Company's current cost structure, with the contribution of each factor varying from year to year.

The Company's ore reserves include both sulphide and laterite nickel deposits, the two types of nickel deposits found in the world. Sulphide deposits currently account for about 30 per cent of the world's nickel resources and are found in bedrock, often deep below the surface which generally make them more costly to mine than laterite deposits. Sulphide deposits commonly contain copper, precious metals and cobalt in addition to nickel. Laterite deposits, which currently account for the remaining 70 per cent of the world's nickel resources, are found in tropical areas where heavy rainfall combined with suitable landforms have resulted in the concentration of nickel through a process of surface weathering and leaching action. Cobalt is also usually present in these deposits. Laterite deposits are found at or near the surface and are therefore usually amenable to low-cost surface mining.

The Company has large sulphide orebodies with satisfactory ore grades and metallurgical properties at its operations at Sudbury, Ontario and at Thompson, Manitoba and large lateritic orebodies with satisfactory ore grades and metallurgical properties at its operations in Indonesia. In addition to nickel, Inco recovers significant quantities of copper, precious metals and cobalt from its Ontario ores. These relative economic advantages of Inco's Canadian sulphide ores are offset, to some degree, by the higher mining costs for sulphide ores relative to lateritic ores and by higher costs of doing business in Canada relative to some other nickel-producing countries. The Company's unit costs of production also benefit from economies of scale attributable to its large, integrated mining and processing facilities and from the

use of bulk mining methods and automated mining equipment and other productivity improvements implemented in recent years in all areas of the Company's business.

Energy costs are a significant component of production costs in the nickel industry since nickel production is highly energy intensive, especially in respect of the processing of lateritic ores. Inco enjoys relatively low energy costs because of substantial production from its Canadian sulphide ores, which consume only about one-fifth the energy required to process lateritic ores. In addition, low-cost energy is available from the Company's hydroelectric facilities in Ontario and at PT Inco's lateritic mining operation in Indonesia, and from purchased hydroelectric power at the Company's Manitoba operations. In 2001, the Company's hydroelectric facilities in Ontario generated approximately 18 per cent of the Ontario operations' 2001 electricity requirements, and PT Inco's 165-megawatt hydroelectric generating facility at Laronia and the newer facility at Balambano, which has an average design capacity of 93 megawatts, generated virtually all of PT Inco's 2001 electricity requirements. In 2001, Inco's energy costs at its Canadian operations were 13 per cent of total cash production costs, compared with 39 per cent for PT Inco. The availability of captive hydroelectric power decreased cash energy costs of PT Inco by approximately 50 per cent, compared with 52 per cent in 2000 and 53 per cent in 1999, relative to the energy costs that would have been incurred had PT Inco been totally energy dependent on oil. See "Metals and Other Commodities Price Risk" on page 89 of this Report for information on the Company's hedging transactions for a portion of PT Inco's fuel oil requirements.

Inco's Ontario operations benefit significantly, and its Manitoba operations benefit to a minor extent, from the copper, precious metals and cobalt produced in association with nickel. In 2001, Ontario ores accounted for approximately 93 per cent of the Company's copper production, 90 per cent of its by-product precious metals production and 61 per cent of its by-product cobalt production, with 25 per cent of the remaining cobalt, five per cent of the remaining precious metals and one per cent of the remaining copper production derived from the Company's Manitoba ores. The Company also produces nickel, copper, cobalt and precious metals from purchased materials. Precious metals have relatively high selling values compared with the Company's processing costs for these metals. Inco's accounting and financial reporting practice is to include revenues from deliveries of copper, precious metals and cobalt in net sales and to include costs of recovering such metals in cost of sales. Copper is considered to be a joint product with nickel and, as such, its production costs include an allocation of mining costs plus its identifiable concentrating, smelting and refining costs; precious metals and cobalt are considered to be by-products and, as such, their production costs include no allocation of mining, concentrating and smelting costs, but do include their identifiable upgrading and refining costs.

The Company's nickel production increased by 4,271 tonnes, or two per cent, to 207,077 tonnes in 2001 from 202,806 tonnes in 2000. This increase was due to higher production from the Company's Manitoba operations and from PT Inco, partially offset by lower production from the Company's Ontario operations. Production from the Manitoba operations increased as a result of processing higher volumes of purchased intermediates and the higher production at PT Inco reflected the continuing ramp-up to design capacity of PT Inco's expanded processing facilities. The lower production from the Ontario operations was primarily due to the adverse impact of unexpected production disruptions in the third quarter of 2001, which were rectified. In 2000, the Company's nickel production increased by 25,553 tonnes, or 14 per cent, to 202,806 tonnes from 177,253 tonnes in 1999. This increase was due to higher production at PT Inco, as a result of the completed expansion, and higher production at the Manitoba operations where a three-month work stoppage in 1999 had adversely affected production levels. Production of finished nickel from Canadian ores and purchased material processed in Canada totalled 145,221 tonnes in 2001, compared with 143,932 tonnes in 2000 and 133,638 tonnes in 1999. Additional nickel and copper production statistics for the Company's primary metals operations are shown in the table on page 20 of this Report. For a discussion of PT Inco's operating rates and ore reserves, see "PT International Nickel Indonesia Tbk – Operations" on page 26 of this Report.

The Company's 2002 nickel production is currently expected to be approximately 213,000 tonnes. The Company currently plans to remain flexible with respect to its nickel production plan for 2002 given market conditions. Beyond 2002, as higher-cost mines are phased out, nickel production at both the Ontario and Manitoba operations is currently expected to decline. If sufficient new low-cost sources of nickel are not developed on a timely basis, the Company's unit cost of production could increase significantly with any material decline in mine production from its Canadian operations if such

operations were not restructured. These developments could also materially adversely affect the Company's results of operations, financial condition and liquidity. The Company continues to explore its options to fully utilize its existing Canadian facilities, including the purchase of external feedstock and additional mine development. To that end, the Company has entered into major feedstock purchase programs with two Australian producers, which are expected to provide an aggregate of 85,000 tonnes of nickel in concentrate between 2002 and 2007 to the Ontario and Manitoba operations.

The Company's copper production is currently planned to be approximately 125,000 tonnes in 2002 and its total production of platinum-group metals is planned to be 405,000 troy ounces in 2002.

Capital Expenditures

The primary focus of Inco's capital expenditures is to provide the Company's operations with appropriate production capacity for its nickel and other primary metals products and to develop new projects, including the Goro project. Capital expenditures totalled \$263 million in 2001, compared with \$227 million in 2000 and \$260 million in 1999. The increase in 2001, compared with 2000, was primarily due to expenditures on the Company's Goro project. The lower expenditures in 2000, compared with 1999, principally reflected lower spending in Indonesia associated with the completion of the PT Inco expansion project and reduced capital spending as a result of the Company's continuing cost reduction initiatives.

Capital expenditures, including capitalized interest, included \$84 million in 2001 in respect of the Goro project, compared with \$39 million in 2000 and \$25 million in 1999, and \$9 million in 2001 in respect of the Voisey's Bay project, compared with \$11 million in 2000 and \$17 million in 1999. Capital expenditures, including capitalized interest, in respect of the PT Inco expansion were \$4 million in 2000 and \$113 million in 1999. The balance of capital expenditures in each of the three years was directed primarily to the development, maintenance and improvement of new and existing mining operations in Canada and productivity improvements.

In addition, Inco is developing new mines at its Ontario and Manitoba operations to help sustain its production capacity and reduce costs. Further information on these projects is set out under "Exploration and Project Development" on page 33 of this Report.

The Company's 2002 capital expenditures are currently expected to total \$590 million, including approximately \$170 million in sustaining capital expenditures for its existing operations. The significant increase over 2001 capital expenditures primarily reflects higher planned spending associated with the initial construction phase of the Goro project.

Mining

At December 31, 2001, the Company had the following 10 underground mines operating in Canada:

ONTARIO

Copper Cliff North
Copper Cliff South
Crean Hill
Creighton
Garson
Lower Coleman
McCreedy East
Stobie

MANITOBA

Birchtree
Thompson

The following two mines in Canada, whose reserves are included in the Company's ore reserves as of year-end 2001 and are part of the Company's future mining plans, were on a standby basis in 2001:

ONTARIO

Gertrude
Totten

As part of the comprehensive operational restructuring plan announced in 1997, the Company completed a detailed review of mining operations at both the Ontario and Manitoba operations. Based upon that review, a program involving the closure of certain mines and the development of new mine plans was implemented to maximize cash flows, ensure efficient mining operations and reduce mine costs. Since 1998, as part of this program, the Company closed four high-cost mines in Ontario, Shebandowan, Whistle, Little Stobie and Levack/McCreedy West, and has increased production from low-cost mines. In addition, Froid Mine ceased operations as a separate mine in 2001 and is now being mined as part of Stobie Mine and a further high-cost Ontario mine, Crean Hill, is scheduled for closure in 2002. The closure of these mines will leave four low-cost mines, Copper Cliff North, Copper Cliff South, McCreedy East and Creighton, as the core mines of the Company's Ontario operations.

In 2001, work continued on the two-year project to deepen the Birchtree Mine in Manitoba at a cost of \$48 million, which is expected to extend the life of this mine by at least 15 years. This project involves the development of an estimated 13.6 million tonnes of proven ore reserves grading 1.79 per cent nickel and is expected to allow Birchtree Mine to increase production by over 90 per cent from its current rate of 1,635 tonnes per day. These reserves are included in the table on page 22 of this Report for each of the years shown in the table.

The following table shows the ore mined by the Company in Canada and the nickel and copper content of that ore for the five years ended December 31, 2001:

	<u>MINING OPERATIONS IN CANADA</u>				
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(IN THOUSANDS OF TONNES EXCEPT PERCENTAGES)				
Ore mined	9,484	9,632	10,008	11,628	12,103
Nickel content.....	166	168	156	182	183
Copper content.....	129	129	122	123	116
% Nickel	1.75	1.74	1.56	1.56	1.51
% Copper	1.37	1.34	1.22	1.06	0.96

The grades of ore mined in Ontario averaged 1.57 per cent nickel and 1.68 per cent copper in 2001, compared with 1.57 per cent nickel and 1.67 per cent copper in 2000 and 1.41 per cent nickel and 1.40 per cent copper in 1999. The improvements in ore grades in Ontario since 1997 were the result of reduced production from lower-grade mines in favour of increased production from higher-grade mines. The Company's Manitoba ores yielded an average 2.46 per cent nickel in 2001, compared with 2.38 per cent in 2000 and 2.47 per cent in 1999.

Concentrating, Smelting and Refining

The conversion of nickel ore mined from the Company's sulphide deposits in Canada into commercially marketable products requires various processing and refining steps undertaken at concentrators, smelters and refineries. The ore is first crushed and ground, the sulphides are separated into concentrates, and the concentrates are then smelted to produce nickel matte, an intermediate product containing approximately 75 per cent nickel plus copper. The matte is then refined to produce primary nickel and copper products.

The Company's processing facilities in operation during 2001 in the Sudbury area included a concentrator, a combined nickel and copper smelter, matte processing facilities, a nickel refinery, a copper refinery, a silver refinery, a sulphuric acid plant and a sulphur dioxide liquefaction plant. Nickel matte produced in Sudbury is refined in Sudbury and other locations into nickel pellets, nickel powders, UTILITY⁷ nickel, nickel discs and Nickel Oxide Sinter 75⁸, a product containing approximately 75 per cent nickel. In Thompson, Manitoba, the Company has a concentrator, a nickel smelter and an electrolytic nickel refinery. In 2000, the Company completed a \$15 million project to phase out the separate copper smelting circuit at the Manitoba operations and ship a copper calcine from Manitoba to the Company's Ontario operations for smelting and refining. Certain nickel products produced in Sudbury and Thompson are finished at Port Colborne.

Finished nickel is also produced at Clydach, Wales. The Clydach refinery processes material supplied from Inco's operations in Canada. At Port Colborne, the Company also operates an electrocobalt refinery and a precious metals upgrading facility. The majority of the Company's silver production is refined at Copper Cliff, Ontario and its gold production is refined under a tolling arrangement with the Royal Canadian Mint. This by-product production is reflected in the tables on page 3 of this Report. A refinery at Acton, England produces platinum-group metals from upgraded concentrates from Inco's operations in Canada and from the recovery, through toll-refining, of materials containing platinum-group metals supplied by unaffiliated customers.

The following table shows Inco's total production of finished nickel and copper from its primary metals facilities for the five years ended December 31, 2001:

	FINISHED NICKEL AND COPPER PRODUCTION				
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(IN TONNES)				
Nickel.....	207,077	202,806	177,253	191,603	178,717
Copper	116,255	114,397	116,260	121,107	103,138

See page 17 of this Report for information regarding the Company's expected nickel production for 2002.

Of the amounts reported in the table above as finished nickel production, the following table shows the amounts of such total finished nickel production from nickel matte produced by PT Inco for the five years ended December 31, 2001:

	FINISHED NICKEL FROM PT INCO MATTE				
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
	(IN TONNES)				
Nickel.....	61,854	58,356	43,615	32,791	33,387

The Company's worldwide nickel processing capacity, including capacity at its majority-owned subsidiaries, is adequate to refine the production from its mines at current rates of mine production. The Company also has contractual nickel refining arrangements with nickel refiners in Asia in which the Company has minority equity interests. These include an arrangement with Taiwan Nickel for the supply of intermediate products produced by Inco for Taiwan Nickel's refining operations, and a joint venture, also involving the supply of intermediate products produced by Inco, with Korea Nickel which, in turn, produces UTILITY nickel. The other shareholders of Taiwan Nickel are a number of Taiwanese

⁷ Inco trademark.

⁸ Inco trademark.

investors and the other shareholders of Korea Nickel are Korea Zinc Company, Ltd. ("Korea Zinc"), a number of individuals associated with Korea Zinc and a subsidiary of Pohang Iron and Steel Co., Ltd.

All production facilities at the Company's operations in Ontario, Manitoba, Clydach and Acton are owned by the Company and are located on property which Inco owns or with respect to which it has contractual rights to acquire ownership.

Permission from the Ontario government is required for the export of intermediate products derived from Ontario ores. The Company's practice is to meet with government officials prior to the expiration of each of the required export licences to discuss relevant aspects of the export procedure. In December 1995, the Ontario government granted permission for the Company to export nickel oxide sinter and nickel sulphide matte, as well as nickel sulphate residue, to Clydach until December 31, 2005. During 2001, the Company refined about 16 per cent of its primary nickel production at its refinery in Clydach from intermediate products derived from the Company's Ontario ores. The Ontario government also granted permission for the Company to export its semi-refined platinum-group metals concentrate to the Acton refinery until December 31, 2005. The Company anticipates that it will be granted permission to continue to export these materials for additional years after the expiry of these current permits. There is currently no restriction on the export of the products of the Company's Thompson mines for treatment or refining outside Canada.

Ore Reserves and Mining Rights in Canada

The following table shows the Company's estimates of (i) total proven ore reserves, (ii) total probable ore reserves and (iii) the total aggregate of proven and probable ore reserves in the Provinces of Ontario, Manitoba and Newfoundland and Labrador and the estimated respective average nickel and copper grades of each such total amount expressed as a percentage of such total amount as of the dates indicated. All estimates of proven and probable ore reserves for mines and deposits in Ontario, Manitoba and Newfoundland and Labrador referred to in this Report, including the estimates referred to under "Exploration and Project Development" on page 33 of this Report, are included in this table.

YEAR- END	PROVEN ORE RESERVES (1) (2) (3) (4)			PROBABLE ORE RESERVES (1) (3) (4)			TOTAL PROVEN AND PROBABLE ORE RESERVES (1) (2) (3) (4)		
	AVERAGE		AVERAGE	AVERAGE		AVERAGE	AVERAGE		AVERAGE
	NICKEL		COPPER	NICKEL		COPPER	NICKEL		COPPER
	AMOUNT (IN MILLIONS OF TONNES)	GRADE (%)	GRADE (%)	AMOUNT (IN MILLIONS OF TONNES)	GRADE (%)	GRADE (%)	AMOUNT (IN MILLIONS OF TONNES)	GRADE (%)	GRADE (%)
1997	285	1.61	0.93	71	1.49	1.56	356	1.58	1.06
1998	263	1.59	1.07	74	1.61	1.22	337	1.60	1.10
1999	213	1.62	1.13	92	1.67	1.09	305	1.64	1.11
2000	191	1.69	1.22	107	1.43	0.94	298	1.60	1.12
2001	156	1.81	1.31	111	1.40	0.97	267	1.64	1.17

- (1) Reserves represent, in accordance with applicable rules and regulations of the U.S. Securities and Exchange Commission (the "SEC"), including the definitions thereunder, that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. Proven reserves are reserves for which (i) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling and (ii) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well-established. Probable reserves are reserves for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling, and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.
- (2) Includes proven ore reserves at Voisey's Bay of 31 million tonnes grading 2.88 per cent nickel, 1.69 per cent copper and 0.14 per cent cobalt at December 31, 2001 and 32 million tonnes grading 2.83 per cent nickel, 1.68 per cent copper and 0.12 per cent cobalt at December 31, 2000, 1999, 1998 and 1997. As indicated under "Voisey's Bay Nickel Company Limited – Negotiations with the Provincial Government" on page 32 of this Report, these reserves will not be mined until, among other conditions, agreement is reached with the Government of Newfoundland and Labrador on the scope of the Voisey's Bay project and the required mining leases and other permits are issued.
- (3) The Company, in accordance with applicable Canadian securities regulatory requirements, also estimates its reserves (as well as mineral resources) in compliance with the definitions under the CIM Standards on Mineral Resources and Reserves Definitions and Guidelines adopted by the CIM Council of the Canadian Institute of Mining, Metallurgy and Petroleum in August 2000 (the "CIM Guidelines"). If the reserve numbers above estimated as of year-end 2001 and 2000 were calculated in accordance with such definitions for "mineral reserve", "probable mineral reserve" and "proven mineral reserve" in the CIM Guidelines, there would be no substantive differences in such numbers from the total numbers for proven and probable ore reserves in the table above or as noted in the paragraph immediately following this table or with respect to the other reserve estimates set forth elsewhere in this Report. For the purposes of such Guidelines, the Ontario and Manitoba operations' mineral reserves at their producing mines are estimated based on, among other factors, operating costs, and the mineral reserve estimates at such operations' non-producing mines are based on, among other factors, mining costs derived from certain mining studies. Total reserve estimates are based on a number of assumptions such as mining methods, production and other costs, metal recovery rates and dilution factors. Such costs also include amortization and depreciation; selling, general and administration charges; marketing costs; and charges for stand-by mines. Projections of long-term metal prices and certain exchange rates are also used in calculating reserve estimates. For 2001 and 2000, the long-term metal prices used for the major metals produced by the Company are as follows: nickel at \$3.20 per pound (LME cash nickel price), with adjustments made for special product premiums realized in Ontario and Manitoba, copper at \$1.00 per pound, cobalt at \$10.00 per pound, platinum at \$360 per troy ounce, palladium at \$250 per troy ounce and gold at \$300 per troy ounce; and a long-term U.S. dollar-Canadian dollar exchange rate of \$1.00 to Cdn.\$1.43. With respect to the reserve estimates for the 1997-1999 period in the table, the estimates for 1999 were also calculated based upon the relevant definitions of the Australasian Code for Reporting of Mineral Resources and Ore Reserves prepared by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Mineral Council of Australia as amended or supplemented (the "JORC Code") and the estimates for the 1997-1998 period were calculated based upon corresponding definitions under recognized standards or codes at the time such estimates were first reported. If these estimates were calculated in accordance with such definitions in the CIM Guidelines, there would have been no substantive differences in such numbers from the numbers for such years shown in the table above.
- (4) In accordance with applicable Canadian securities regulatory requirements, including National Instrument 43-101, "Standards of Disclosure for Mineral Projects", Mr. Robert A. Horn, Vice-President, Exploration, and Dr. Lawrence B. Cochrane, Director, Mines Exploration, with the Company, have, each as a qualified person within the meaning of such National Instrument (which means generally an individual with relevant experience as an engineer or geoscientist who is also a member in good standing of a recognized engineering or similar professional association), supervised the preparation of the calculation of the reserve estimates and the other information shown in the table and notes above for the 1998-2001 period, including the calculations referred to in Notes (2) and (3), with respect to the Company's Ontario and Manitoba operations and the Voisey's Bay deposit. Mr. Horn and Dr. Cochrane have, in accordance with the requirements of such National Instrument, including the calculations referred to in Notes (2) and (3) with respect to the Company's Ontario and Manitoba operations and the Voisey's Bay deposit and any other applicable calculations therefor appearing elsewhere in this Report, each conducted, either directly by himself or indirectly through employees of the Company reporting directly or indirectly to him, a comprehensive review and confirmation of the application of the detailed procedures, systems and processes the Company has developed and implemented for the purposes of verifying such data. Mr. Horn and Dr. Cochrane and their staffs also periodically check the adequacy of such procedures, systems and processes which are intended to provide sufficient verification of such data based upon recognized sampling, analytical testing, modeling and other procedures in the mining industry. Estimates for 1997 in the table are of historical relevance only given the more recent estimates in the table and neither Mr. Horn nor Dr. Cochrane nor any other qualified person within the meaning of such National Instrument currently employed by the Company verified such historical estimates and the person(s) affiliated with the Company who verified such estimates at the time have retired and are no longer affiliated with the Company.

Of the 267 million tonnes total aggregate of proven and probable ore reserves in Canada at December 31, 2001, a total of 190 million tonnes grading 1.55 per cent nickel and 1.15 per cent copper were in mines which were producing in 2001, and 77 million tonnes grading 1.85 per cent nickel and 1.21 per cent copper were in mines under development and in non-producing mines and undeveloped properties.

During 2001, in addition to the effect on reserves of normal mining operations conducted during the year, new mine plans developed for certain of the Company's Ontario operations' lower-grade deposits had the effect of reducing the total aggregate of proven and probable ore reserves for these operations at year-end 2001 from year-end 2000 by about 20 million tonnes. In 2000, the decline in the total aggregate of proven and probable ore reserves at the Company's Canadian operations was due to adjustments to mining plans, in addition to the effect on reserves of normal mining operations conducted during the year. Proven and probable ore reserves also declined in 1999 as a result of the exclusion from reserve calculations of the proven and probable reserves associated with mines and standby properties closed in Ontario and Manitoba during the year, in addition to the effect on reserves of normal mining operations conducted during the year. The new proven and probable ore reserves that were identified in 2001, 2000 and 1999 were not sufficient to replace the proven and probable ore reserves that were depleted as part of normal mining operations during those years.

Inco's mines and proven and probable ore reserves which are situated in Ontario are either owned by the Company or held under leases or licences of occupation. The Company is required to maintain these leases and licences of occupation which are issued by the provincial government.

In early March 2001, a party purported to stake mining claims and then initiated an administrative appeal in the Province of Ontario effectively contesting the validity of a licence of occupation originally granted to the Company dating back over 50 years covering a portion of the Company's Kelly Lake deposit identified in 1997 and located near the Company's Copper Cliff South Mine. The action alleged that the rights under such licence had been lost because the Company had not made timely payments in accordance with then applicable requirements for payment of periodic provincial rent required to maintain such licence. The party attacking the validity of the Company's licence attempted to discontinue the proceeding it had initiated in July 2001, and its administrative appeal was dismissed without prejudice in November 2001. While this same party has continued to contest its liability for costs of the proceedings it had initiated and to take other actions contesting or threatening to contest the Company's mining rights to certain other properties in Ontario, the Company believes that all the actions taken or threatened by this party are without merit. During 2001, the Company completed a review of all similar licences held in Ontario which confirmed that there is no valid legal basis for challenges to these licences on the basis that they were not properly maintained in accordance with applicable regulatory and administrative requirements.

The Company has mining rights in Manitoba sufficient for the purposes of its currently planned operations. Approximately 90 per cent of the Company's proven and probable ore reserves in Manitoba are held under a group of mining leases issued by the Province of Manitoba which, after the expiry of their initial terms, were renewable at the option of the Company for two further terms of 21 years each as long as mining operations were in progress at the time of renewal at any location within the area covered by the group of leases, and for an unlimited number of additional 21-year terms as long as production continues from such area or the mine on such area is maintained on a standby basis. The initial terms of these leases expired during the years 1978 to 1983 and they were renewed for 21-year terms expiring in the years 1999 to 2004. The leases expiring in the years 1999 to 2001 were renewed in those years for additional terms of 21 years each and the leases expiring in 2002 are scheduled for renewal in 2002. In 1992, three production leases held by the Company to protect ore reserves which were not within the area covered by the group of mining leases referred to above were converted into leases having initial terms of 21 years in accordance with the applicable regulations; each of these production leases is renewable at the Company's option for an unlimited number of additional 21-year terms as long as production continues from the area covered by this group of leases or the mine on such area is maintained on a standby basis.

VBNC owns a 100 per cent interest in 12 mineral licences covering 2,705 mineral claims in three separate claim blocks in Labrador with a total area of approximately 676 square kilometres, including the mineral claims comprising the Voisey's Bay deposit. As part of an exploration program that has been in

place for over five years, VBNC's mineral claims were further consolidated in 2001, and certain claims outside the block comprising the Voisey's Bay deposit were relinquished. VBNC's mineral licences are renewable annually, subject to VBNC meeting certain minimum requirements for expenditures on the properties covered by the licences and certain periodic reporting requirements. All of the licences are currently in good standing and VBNC expects to continue to meet the minimum requirements for their annual renewal in the future. In order to commercially develop these claims, the licences must be converted into one or more leases in accordance with provincial laws and regulations. In December 1998, the provincial mining legislation was amended to eliminate the requirement that a party must be able to earn a reasonable return on its investment in smelting and/or refining facilities if the Province were to require, as a condition to issuance of a mining lease, that some or all smelting and/or refining be completed in the Province. Under the amendments to such legislation, the provincial government could require that, as a condition to the issuance of any such lease, some or all smelting and/or refining take place in the Province if the government determines that such requirement is in the best interests of the Province. These leases, when issued, could also be subject to other conditions imposed by the provincial government. For further information, see "Voisey's Bay Nickel Company Limited – Negotiations with the Provincial Government" on page 32 of this Report.

Pursuant to the terms of an option agreement dated May 18, 1993 and amended as of April 23, 1995 (the "Option Agreement"), Diamond Fields Resources Inc. ("Diamond Fields") acquired, upon the exercise of the option, all of the mineral claims of Archean Resources Ltd. ("Archean") in Labrador and Archean was granted a royalty, payable quarterly, equal to three per cent of net smelter returns from mining production from VBNC's Labrador properties, including the Voisey's Bay deposit, and a three per cent gross royalty (also payable quarterly) on the gross value of raw diamonds and/or gemstones recovered from these properties. The Option Agreement was assigned to VBNC by Diamond Fields on June 28, 1995. The royalty is secured by a mortgage on VBNC's Labrador properties in the maximum aggregate principal amount of \$100 million. The mortgage is expressly subordinated to any mine development financing that might be obtained in the future.

The Voisey's Bay deposit is within a geographical area that has been the subject of land claims negotiations between certain aboriginal groups and the Governments of Canada and the Province of Newfoundland and Labrador. Aboriginal groups asserting land claims in the area include the Labrador Inuit Association (the "LIA") and the Innu Nation. For further information, see "Voisey's Bay Nickel Company Limited – Negotiations with Aboriginal Groups" on page 31 of this Report.

The Company's exploration activities are discussed under "Exploration and Project Development" on page 33 of this Report.

PT International Nickel Indonesia Tbk

General

Inco owns 59 per cent of the equity of PT Inco, with Sumitomo Metal Mining Co., Ltd. ("SMM") holding slightly more than 20 per cent of the equity of PT Inco and public shareholders holding an aggregate interest of 20 per cent. PT Inco's shares are traded on the Jakarta Stock Exchange. The cost of Inco's investment in the shares of PT Inco was approximately \$364 million at December 31, 2001, 2000 and 1999. At December 31, 2001, PT Inco had outstanding indebtedness to third party lenders totaling \$292 million, compared with \$356 million at year-end 2000 and \$421 million at year-end 1999. This indebtedness, together with net indebtedness of \$55 million to Inco Limited as of year-end 2001, was incurred primarily to finance the expansion project referred to below under "Contract of Work Extension and Expansion of Facilities".

In view of its remote location, PT Inco's production facilities are almost completely self-contained. They consist of an open-cast laterite mine, a processing plant with four electric furnace smelting lines (including a fourth line constructed as part of the PT Inco expansion project referred to below), thermal and hydroelectric power generating facilities and ancillary infrastructure, including a townsite, roads, an airport and port facilities.

Over the past two years, Indonesia has continued to experience economic, social and political unrest in a number of regions of the country and PT Inco has, along with certain other North American-based mining companies with operations or projects in Indonesia, received criticism from, and legislation affecting their mining operations in Indonesia has been proposed by, both central and regional governments and other parties regarding environmental stewardship, tax collections or similar fees and other aspects of their operations and business practices. If these legislative proposals were to be enacted in the form of new laws or regulations, such laws or regulations could adversely affect the operations and financial results of PT Inco. Having operated in Indonesia since the early 1970s, the Company believes that PT Inco has established a reputation as a good corporate citizen and has conducted its business pursuant to the terms of its Contract of Work with the Government of Indonesia. While PT Inco has not been, and currently expects that it will continue not to be, materially adversely affected by the political unrest and criticisms of, and possible governmental, judicial or other initiatives relating to, itself and other mining companies operating in Indonesia, it cannot predict what, if any, impact that such criticisms or initiatives may have on its operations and financial results in the future.

Contract of Work Extension and Expansion of Facilities

PT Inco's operations are conducted pursuant to a Contract of Work with the Government of Indonesia under which PT Inco is the "sole contractor" of the Indonesian government for the production and marketing of nickel and associated minerals (other than radioactive materials) mined in specified areas on the island of Sulawesi. The original Contract of Work was signed in 1968 and in January 1996 PT Inco signed an agreement with the Government of Indonesia to modify and extend the Contract of Work to the year 2025, subject to further extensions with the consent of the Government of Indonesia, from its original expiry date in 2008. The Contract of Work confers upon PT Inco all authorizations necessary for the development and operation of its nickel project.

In late 1999, PT Inco completed the expansion project that began in 1995, increasing its production capacity by 50 per cent to 68,000 tonnes of nickel in matte per year. The expansion involved improvements to the three existing smelting lines and the construction of a fourth electric furnace smelting line together with the construction of 93 megawatts of additional low-cost hydroelectric generating capacity at Balambano, approximately eight kilometres from Sorowako.

PT Inco has ore reserves and other mineralized material at Sorowako on the island of Sulawesi to support its expanded operations for more than 20 years, with potential for a number of additional years. Future expansions are possible, as warranted by market conditions, by developing the extensive nickel resources within PT Inco's Contract of Work area in the Sorowako outer area and at Bahodopi and Pomalaa, located approximately 80 kilometres and 200 kilometres, respectively, from PT Inco's operations at Sorowako.

Financing for the expansion project was provided by a group of international lenders in the total principal amount of \$340 million for the expansion project and an additional \$81 million to refinance existing PT Inco debt. The remainder of the original estimated cost of \$580 million for the project was expected to be provided by PT Inco's available cash balances plus cash generated by existing operations during the construction period. However, as a result of lower production levels caused by limited rainfall and its adverse effect on hydroelectric power generation in 1998 and 1997, low nickel prices and increased costs due to construction delays associated with its new hydroelectric facilities, PT Inco's ability to generate cash was significantly reduced and, as a result, Inco Limited agreed in May 1999 to provide PT Inco with up to \$200 million in the form of loans. Inco Limited advanced \$88 million to PT Inco under this loan facility, of which \$33 million had been repaid by December 31, 2001. The balance is being repaid in scheduled payments totaling \$12 million per year.

PT Inco's existing hydroelectric facilities were constructed and are currently operated pursuant to a 1975 decree of the Indonesian government. This decree, which also covers the additional generating capacity which was part of the expansion project, vests an Indonesian ministry with the right, upon two years' prior written notice to PT Inco, to acquire the hydroelectric facilities. No such notice has been given. If such right were exercised, the decree also provides that the hydroelectric facilities would be acquired at their depreciated value subject to the ministry providing PT Inco with sufficient power to

meet its requirements, at a rate based on costs plus a normal profit margin, for the remaining term of the Contract of Work.

Operations

Production of nickel in matte at PT Inco in 2001 increased by six per cent to 62,600 tonnes from 59,200 tonnes in 2000, primarily due to the continuing ramp-up to design capacity of the PT Inco expansion. Production in 2000 increased by 30 per cent from the 1999 level of 45,400 tonnes, primarily due to the commencement of operation of the expanded facilities. Nickel in matte, an intermediate product, is primarily sold by PT Inco into the Japanese market. Approximately 95 per cent of PT Inco's power requirements are supplied by its 165 megawatt hydroelectric generating facilities on the Larona River and its new 93 megawatt facilities at Balambano which began operation in 2000.

PT Inco's net earnings, as reported to its shareholders, were \$9 million in 2001, compared with \$81 million in 2000 and \$21 million in 1999. PT Inco's net realized price for nickel in matte averaged \$4,836 per tonne (\$2.19 per pound) in 2001, compared with \$6,744 per tonne (\$3.06 per pound) in 2000 and \$4,588 per tonne (\$2.08 per pound) in 1999. The selling price of PT Inco's nickel in matte is determined by a formula which is based upon the LME cash price for nickel.

The following table shows PT Inco's production, together with deliveries by the Company of finished nickel refined from PT Inco's matte, for the five years ended December 31, 2001:

<u>YEAR</u>	<u>PRODUCTION OF NICKEL IN MATTE</u>	<u>DELIVERIES OF FINISHED NICKEL TO CUSTOMERS ⁽¹⁾</u>
	(IN TONNES)	
1997	32,000	33,729
1998	35,300	32,978
1999	45,400	42,285
2000	59,200	60,192
2001	62,600	61,019

(1) Includes 7,135 tonnes in 1997, 6,891 tonnes in 1998, 9,638 tonnes in 1999, 12,064 tonnes in 2000 and 12,283 tonnes in 2001 of nickel in matte delivered to SMM as a final product.

PT Inco's ore reserves at the end of 2001 in the Sorowako plant area were 55 million tonnes of proven reserves grading 1.66 per cent nickel and 42 million tonnes of probable reserves grading 1.74 per cent nickel, compared with 91 million tonnes of proven reserves grading 1.82 per cent nickel and 10 million tonnes of probable reserves grading 1.79 per cent nickel at the end of 2000 and 95 million tonnes of proven reserves grading 1.82 per cent nickel and 11 million tonnes of probable reserves grading

1.80 per cent nickel at the end of 1999.⁹ During 2001, the Company and PT Inco revised the applicable cut-off grades used in such estimates by adopting the breakeven analysis and procedures that have been applied at the Company's Ontario and Manitoba operations. As a result of these changes in analysis and procedures utilized by PT Inco, a portion of the ore reserve estimates as of year-end 2000 were reclassified from proven to probable ore reserves as of year-end 2001 and the average nickel grade for PT Inco's total proven and probable ore reserve estimates decreased as of year-end 2001 by approximately 0.1 per cent with the tonnage remaining relatively unchanged after accounting for mining removal.

Legislation was enacted in Indonesia in late 2001 creating protected forest areas, including some areas covered by PT Inco's Contract of Work. While the Indonesian government in early 2002 indicated that it is reviewing the scope of this legislation, the Company cannot determine what, if any, impact this legislation could have on areas to be mined by PT Inco.

An undertaking in PT Inco's Contract of Work requires PT Inco, subject to economic and technical feasibility and certain other conditions, to explore potential joint ventures with the Government or other parties to develop PT Inco's contract area in the Province of Southeast Sulawesi. In early 2001, PT Inco began discussions with PT Aneka Tambang ("PTAT"), a Government-owned ferronickel producer whose operations share a common boundary with PT Inco's contract area in that Province, regarding such a potential joint venture. Those discussions have continued into early 2002. In connection with those discussions, PT Inco undertook a review of the ore resources which it might elect to include in the joint venture and discovered that PTAT has mined certain areas which PT Inco believes are on the PT Inco side of the PT Inco-PTAT common boundary. The parties have been seeking a resolution of this matter.

Sales

All of PT Inco's production is sold in U.S. dollars under long-term contracts to Inco Limited and SMM which, by their terms, continue until the expiration of the Contract of Work. These contracts provide that if the Contract of Work is extended or renewed, the contracts will be extended for the period of such extension or renewal. Under these contracts, about 20 per cent of PT Inco's production is sold to SMM and the balance to Inco.

PT Inco's deliveries of nickel in matte totalled 60,500 tonnes in 2001, compared with 58,800 tonnes in 2000 and 45,100 tonnes in 1999. The Japanese nickel market continues to be particularly important to PT Inco since PT Inco's operations were conceived, in part, as a stable source of feed material to Japanese nickel refiners in the form of a processed intermediate nickel product which could be imported free of existing Japanese tariffs levied on refined nickel metal and other finished forms of nickel. Based upon estimated 2001 Japanese nickel demand of 165,000 tonnes, finished nickel produced in 2001 from PT Inco matte supplied approximately 22 per cent of this market.

⁹ In accordance with applicable Canadian securities regulatory requirements, including National Instrument 43-101, "Standards of Disclosure for Mineral Projects", Mr. Robert A. Horn, Vice-President, Exploration, and Dr. Lawrence B. Cochrane, Director, Mines Exploration, with the Company, have, each as a qualified person within the meaning of such National Instrument, supervised the preparation of the calculation of the estimate of such proven and probable ore reserves as of year-end 2001 in accordance with the CIM Guidelines. For the years 2000 and 1999, such reserves were based upon definitions under the JORC Code referred to in Note (3) to the table on page 22 of this Report and Mr. Horn and Dr. Cochrane as well as Mr. Robert C. Osborne, Consulting Geologist, Laterites, with the Company, each as a qualified person within the meaning of such National Instrument, either supervised or was involved in the supervision of the preparation of the calculation of the estimate of such reserves. The JORC Code definitions are substantially similar to those under the CIM Guidelines. If such estimates of year-end 2000 and 1999 were calculated in compliance with the relevant definitions under the CIM Guidelines referred to in Note (3) to the table on page 22 of this Report, where such reserves would also be calculated based upon, among other assumptions, cut-off grades derived from then-current operating costs and metal recovery rates, they would not differ substantially from these reserve estimates as calculated based upon the JORC Code definitions. These estimates would be identical under the applicable rules and regulations of the SEC and such definitions are substantially the same as the corresponding definitions under the SEC rules and regulations. For the relevant estimates, Mr. Horn, Dr. Cochrane and Mr. Osborne have, in accordance with the requirements of such National Instrument, each conducted, either directly by himself or indirectly through employees of the Company reporting directly or indirectly to him, a comprehensive review and confirmation of the application of the detailed procedures, systems and processes the Company has developed and implemented for the purposes of verifying such data. Mr. Horn, Dr. Cochrane and Mr. Osborne and their staffs also periodically check the adequacy of such procedures, systems and processes which are intended to provide sufficient verification of such data based upon recognized sampling, analytical testing, modeling and other procedures in the mining industry. Reference is made to Note (3) to the table on page 22 of this Report for additional information on how the reserve estimates for the 1999-2001 period were calculated.

In March 1999, Inco's Japan Branch was combined with Tokyo Nickel Company, Ltd. ("TNC"), a Japanese subsidiary in which Inco had a 51 per cent interest since 1994 and which processes nickel in matte from PT Inco to produce finished products for the stainless steel industry in Japan, to form ITL. As a result of this transaction, the Company's interest in ITL increased to 67 per cent. In late 1998, TNC completed a 50 per cent expansion of its refining capacity to 60,000 tonnes of nickel a year.

Goro Nickel S.A.

Inco indirectly owns an 85 per cent interest in Goro Nickel, with a French government agency, Bureau de Recherches Géologiques et Minières, holding the other 15 per cent. Goro Nickel holds a number of claims covering nickel-cobalt properties in New Caledonia, located about 1,500 kilometres east of Australia.

In April 2001, following completion of a new bankable feasibility study, the Company announced that it planned to proceed with the construction of a \$1,400 million commercial nickel-cobalt project at Goro. The project consists of a fully integrated mining and processing facility with an annual capacity of approximately 54,000 tonnes of nickel and 5,400 tonnes of cobalt. The Goro project is currently expected to produce a nickel oxide product containing 78 per cent nickel and a cobalt carbonate product commencing in late 2004. The operation is expected to supply nickel to stainless steel customers in South Korea, Taiwan and eventually China. In June 2001, the Company announced that Goro Nickel had reached an agreement in principle with a joint venture of Bechtel Overseas Corporation of the United States and Technip France S.A. of France, in association with Hatch Associates Ltd. of Canada, to act as the prime contractors for the construction of the Goro project. The definitive contracts are currently being negotiated with the joint venture companies.

An initial mining zone with 42 million tonnes of proven reserves grading 1.41 per cent nickel and 0.13 per cent cobalt and 12 million tonnes of probable reserves grading 1.94 per cent nickel and 0.08 per cent cobalt has been outlined as an initial source of feed for a commercial plant.¹⁰ This ore reserve base can be mined using low-cost open pit methods, which, when combined with the Company's proprietary pressure-acid leaching and solvent extraction ("PAL-SX") technology, gives the project the potential to have one of the lowest cash costs of nickel production in the world.

The New Caledonian authorities enacted a fiscal regime in 2001 which provides a 15-year tax holiday plus an additional five years at tax rates that are 50 per cent of the prevailing tax rates for metallurgical companies. If the project achieves an internal rate of return in excess of a cumulative threshold rate during this 20-year period, the applicable tax rates or levels for the project would then be adjusted prospectively to be equivalent to the general rates or levels then in effect for mining and processing companies. In addition, the Company has received an agreement in principle for \$350 million covering financing of qualifying Goro project expenditures under a program sponsored by the French government to provide financial support for investments in French Overseas Territories.

In 1999, the Company completed the construction of an integrated pilot plant in New Caledonia capable of processing 12 tonnes of ore per day to continue with the development of the PAL-SX technology required for commercialization. The pilot plant operated successfully throughout 2000 and 2001, both in further proving the PAL-SX technology and in training the core workforce for a future

¹⁰ In accordance with applicable Canadian securities regulatory requirements, including National Instrument 43-101, "Standards of Disclosure for Mineral Projects", Mr. Robert A. Horn, Vice-President, Exploration, and Dr. Lawrence B. Cochrane, Director, Mines Exploration, with the Company, have, each as a qualified person within the meaning of such National Instrument, supervised the preparation of the calculation of the estimate of such proven and probable ore reserves as of year-end 2001 based on the CIM Guidelines. Such estimates are identical under the applicable rules and regulations of the SEC and such definitions are substantially the same as corresponding definitions under the SEC rules and regulations. Mr. Horn and Dr. Cochrane have, in accordance with the requirements of such National Instrument, each conducted, either directly by himself or indirectly through employees of the Company reporting directly or indirectly to him, a comprehensive review and confirmation of the application of the detailed procedures, systems and processes the Company has developed and implemented for the purposes of verifying such data. Mr. Horn and Dr. Cochrane and their staffs also periodically check the adequacy of such procedures, systems and processes which are intended to provide sufficient verification of such data based upon recognized sampling, analytical testing, modeling and other procedures in the mining industry. Reference is also made to Note (3) to the table on page 22 of this Report for additional information on how reserve estimates for 2001 were calculated.

commercial plant. During 2001, engineering work continued and the necessary permits to enable construction to begin were submitted to the governmental authorities. In addition, an application for the project's required operating permit was submitted to the governmental authorities and it is currently expected to be approved in the third quarter of 2002.

Voisey's Bay Nickel Company Limited

Voisey's Bay Deposit

The Voisey's Bay deposit consists of three main bodies of mineralization, the Ovoid, the Eastern Deeps and related deposits and the Western Extension, including the Reid Brook and Discovery Hill zones and other small zones. Proven ore reserves of 31 million tonnes grading 2.88 per cent nickel, 1.69 per cent copper and 0.14 per cent cobalt are currently estimated for the Ovoid, based on a mill throughput of 6,000 tonnes per day rather than the 15,000 tonnes per day previously contemplated in the feasibility study for the project. These ore reserves are included in the table on page 22 of this Report for each of the years shown on the table. See the Notes to such table for information on how these reserves were estimated.

While the Ovoid deposit is amenable to open-pit mining, most of the mineralization discovered to date in the remaining bodies is not amenable to open-pit mining. No detailed exploration and engineering work necessary to design a mining plan for underground zones has as yet been undertaken. An underground exploration program had been planned for 1997 in the Eastern Deeps and the Reid Brook zones to define their grades and the distribution of their contained metals. VBNC had also planned to investigate the mining characteristics and obtain a bulk sample to assist in determining the most appropriate mining method given the metallurgical character of the mineralization. However, as a result of an action brought by certain aboriginal groups against the Government of Newfoundland and Labrador in late June 1997, the Newfoundland Court of Appeal ruled in September 1997 that construction of a temporary road and airstrip to support this underground exploration program could not start until the environmental review and approval process for the mine and mill facilities in the Voisey's Bay area had been completed. For further information, see "Environmental Review Process" below.

VBNC's exploration expenditures in Labrador totalled \$4 million in 2001, compared with \$6 million in 2000 and \$11 million in 1999. A total of 7,431 metres of drilling was completed in 2001, compared with 23,077 metres in 2000 and 50,248 metres in 1999. Evaluation of the exploration claims held by VBNC in Labrador continued in 2001 and by the end of the year approximately 80 per cent of the regional claims, outside of the main block of claims which contains all the currently known mineral reserves as well as resources, were considered to have no further exploration potential and were relinquished to Archean under the terms of the Option Agreement. Reference is also made to the Notes to the table on page 22 of this Report for information on how such reserves were calculated and how the Company meets certain Canadian securities regulatory requirements for the purpose of any resource calculations it might estimate.

In 2001, VBNC's exploration program in the Main Block consisted of completion of the definition drilling on the Eastern Deeps zone and drilling on the Ryan's Pond prospect. The Ryan's Pond prospect is located four kilometres west of, and along strike with, the Eastern Deeps zone. The drilling in 2001 at Ryan's Pond continued to be encouraging and extended the known mineralization 150 metres along strike to the east. The total strike length of the mineralization is estimated at 400 metres. Two drill holes were completed at the Eastern Deeps zone. The program was focussed on improving the deposit model of the grade distribution, outlining the deposit geometry and continuity, collecting material for metallurgical testing and compiling detailed geotechnical data. Two exploration holes were drilled in 2001 on the Nain Bay south claims to test for favourable troctolite intrusions. No troctolite, however, was intersected in the holes.

On September 13, 2001, Inco announced the completion of the first phase of exploration at the Voisey's Bay site and the closure of the exploration camp located at Voisey's Bay. Although several additional target areas have been identified on the Main Block claims, including the Ryan's Pond prospect, further exploration is not cost-effective or warranted until such time as project development were to begin.

Environmental Review Process

The scope of the environmental review and approval process was established under a January 1997 memorandum of understanding among the Governments of Canada and the Province of Newfoundland and Labrador, the LIA and the Innu Nation on a harmonized environmental review process for the mine, mill and related facilities and infrastructure in the Voisey's Bay area (the "Mine/Mill Project").

The Mine/Mill Project was the first major mining project to be subject to full review under the Canadian Environmental Assessment Act since this legislation came into effect in January 1995. In early 1997, a five-person environmental assessment panel was selected pursuant to the January 1997 memorandum of understanding to conduct the environmental assessment of the Mine/Mill Project. The panel developed for review, and made available in March 1997 for comment by interested parties, draft guidelines for the Environmental Impact Statement ("EIS") to be prepared by VBNC in accordance with the timetable established for this process. The EIS guidelines were finalized in late June 1997. The EIS was filed with regulatory authorities and with the environmental assessment panel on December 15, 1997 and was released for public comment in March 1998. Following the initial public review, VBNC was required to provide certain additional information which it completed and submitted in early June 1998. Public hearings on the EIS began in early September 1998 and were completed in November 1998. On April 1, 1999 the environmental assessment panel issued its report and recommendations. The panel recommended that the Mine/Mill Project proceed subject to a number of other separate recommendations. While the environmental assessment panel made over 100 recommendations as part of its report, the Company believed that all of the environmental recommendations could be addressed so long as they did not create unrealistic burdens on the project.

The environmental assessment panel's report included a limited number of recommendations outside the environmental area that could affect the economics, scope and timing of development. One of these recommendations focussed on project life, proposing that production levels should assure a 20 to 25 year project life. Two other non-environmental recommendations concerned having the governments reach agreements in principle on land claims or alternatives to adequately address certain issues of importance to the LIA and the Innu Nation and having the Company and VBNC reach separate impact and benefits agreements ("IBAs") with the LIA and the Innu Nation. With respect to these recommendations, the Company had previously stated that, in addition to receipt of the necessary environmental clearances, in order for the overall project to proceed the following areas had to be adequately addressed on a timely basis: (i) the Company reaching mutually acceptable IBAs with the LIA and the Innu Nation, (ii) the Company reaching agreement with the Province on key issues relating to the project's scope, and (iii) the Company being satisfied that the project is appropriately dealt with under any arrangements reached on land claims between the federal and provincial governments and the LIA and the Innu Nation.

In early August 1999, the federal and provincial governments announced their respective responses to the environmental assessment panel's recommendations. The governments released the Mine/Mill Project from the environmental assessment process under applicable legislation subject to certain terms and conditions, including measures intended to mitigate potential environmental effects relating to the Mine/Mill Project. Both governments accepted a number of the panel's recommendations but the Company does not believe that those recommendations or the terms and conditions of the releases stipulated by the governments will create unduly burdensome financial or other restrictions on the Mine/Mill Project. In the late summer of 1999, the governments entered into negotiations with the LIA and the Innu Nation concerning a consultative agreement to develop a project specific environmental management mechanism which would involve these groups in the process relating to the issuance of the necessary governmental licences and permits for the Mine/Mill Project.

With its release from the environmental review process, the next stage in the regulatory approval process for the Mine/Mill Project would be the issuance by the federal and provincial governments of the necessary licences and permits, including mining leases under applicable provincial legislation, which was amended in late 1998 as discussed below under "Negotiations with the Provincial Government", before any construction and related activities could proceed.

In early September 1999, separate court actions were filed in the Canadian federal courts by the LIA and the Innu Nation asserting that the federal government should have imposed additional conditions to,

and did not meet certain consultative and other requirements in arriving at, its decision to release the Mine/Mill Project from the environmental assessment process. At the request of the two aboriginal groups, the federal court agreed to stay these actions until the end of November 1999 pending the outcome of the ongoing negotiations of IBAs. In addition, in mid-October 1999 another aboriginal group, the Nunavik Inuit, filed an action against a federal minister in the Canadian federal courts, asserting that its rights had not been properly considered or protected in land claims negotiations and the agreement in principle on land claims reached in May 1999 between the federal government and the LIA. Stays covering these court actions have been entered into by the parties and are in effect through June 2002. Based on the information available to it at this time, the Company believes that none of these court actions will have an adverse effect on the ultimate timetable for, or the development of, the Mine/Mill Project.

Negotiations with Aboriginal Groups

In August 1999, VBNC restarted separate negotiations with the LIA and the Innu Nation on IBAs. Since at least certain key terms of the IBAs, including participation in the financial returns from any eventual project, depended on the Company's agreement with the Province, negotiations with the aboriginal groups were effectively suspended after the Company reached an impasse with the Province in January 2000. These negotiations resumed when confidential negotiations with the Province restarted in June 2001. See "Negotiations with the Provincial Government" below for further information on the status of these negotiations.

During the latter half of 2001 and into early 2002, significant progress was made in the negotiation of separate IBAs between VBNC and the LIA and the Innu Nation. These negotiations have focussed on, among other matters, business opportunities and environmental and employment issues, with the nature and participation by these groups in the financial returns from the Voisey's Bay deposit representing one of the critical issues still to be resolved.

The Company understands that separate confidential negotiations between the LIA and the Canadian federal and Newfoundland and Labrador provincial governments on the settlement of the LIA's land claims continued into 2002. Neither VBNC nor the Company has been a party to these negotiations. In December 1998, the Province announced that it and the Canadian federal government had reached an oral agreement in principle with the LIA on the settlement of the LIA's land claims and a comprehensive written agreement in principle was reached between the LIA and the governments on land claims in May 1999. The Company understands that the federal and provincial governments are continuing negotiations towards the conclusion of a final comprehensive land claims agreement with the LIA.

The Innu Nation indicated in January 1999 that it was evaluating the alternatives available to it in pursuing its land claims. The Company understands that, while discussions between the Innu Nation and the two governments have taken place since the beginning of 1999, a formal agreement has not been reached and discussions between the two governments and the Innu Nation have been suspended since mid-summer 2000. The Company also understands that there are still several key issues that require resolution prior to the approval in principle of any agreement between the parties, and that, since the third quarter of 2000, the Innu Nation and the federal government have been negotiating the registration of the Innu Nation under the federal Indian Act. If such registration takes place, land claims negotiations are expected to proceed on an accelerated basis.

In mid-February 1999, the LIA announced that it would not consent to the commercial development of the Voisey's Bay deposit until a definitive agreement on its land claims settlement had been reached between the LIA and the two governments. As noted above, the environmental panel's report and recommendations released in April 1999 also recognized the desirability of reaching a mutually satisfactory resolution on land claims with the LIA and the Innu Nation. See "Environmental Review Process" above for further information on the environmental assessment panel's recommendations. While the Company does not believe that the LIA's stated position or the position of the environmental panel will ultimately affect the timing and scope of the commercial development of the Voisey's Bay deposit, the Company cannot predict what impact these previously announced positions could have in view of court decisions in Canada rendered over the past few years concerning aboriginal rights and

other related issues. The Company still expects that mutually acceptable IBAs would be entered into with the LIA and the Innu Nation before the Voisey's Bay deposit would be commercially developed.

Negotiations with the Provincial Government

In mid-1998, following confidential discussions with the Government of Newfoundland and Labrador, the Company and VBNC proposed to provincial officials an initial Mine/Mill Project to produce intermediate concentrate from the Voisey's Bay deposit, with the concentrate to be further processed at the Company's existing processing facilities in Ontario and Manitoba, where there will be excess capacity. As part of this initial project, the Company proposed to carry out an extensive underground exploration program to determine the economic feasibility of the underground deposits at Voisey's Bay. The Company's proposal also included the development, if and when economic, of additional processing facilities in the Province. This approach is similar to the approach used successfully in Sudbury and other nickel locations where facilities have been developed in stages as additional ore reserves have been proved. In July 1998, the Province turned down this proposal and suspended negotiations with the Company.

Over the last six months of 1999, the Company engaged in discussions with the provincial government on a revised project framework for development of the Voisey's Bay deposit. In these discussions, the Company outlined to the Province a comprehensive project framework, including an initial phase consisting of a 6,000 tonne per day Mine/Mill Project at Voisey's Bay at a cost of \$500 million, a \$65 million underground exploration program, and a \$125 million research and development program. These negotiations did not result in an agreement, however, as the Province insisted that the Company provide an unconditional guarantee that processing facilities would be built in the Province, even if they were not economic.

No further negotiations were held until June 2001, when the Company resumed confidential negotiations with representatives of the Province of Newfoundland and Labrador concerning the terms of an agreement on the commercial development of the Voisey's Bay deposit. While significant progress has been made in these negotiations, the Company cannot predict at this time whether such an agreement can ultimately be reached with the Province. The principal issues to be resolved between the parties include (i) the terms of the movement of intermediate concentrate to be produced by the project to the Company's existing Canadian operations as part of the financing of the project, (ii) the scope of the guarantee covering processing in the Province required by the provincial government, (iii) government financial participation and (iv) the required flexibility in the timing of the project's development and financing arrangements that would enable the Company to proceed in a prudent and measured way given the current uncertain economic environment. There are also a number of issues that would have to be resolved, in addition to reaching an agreement with the Province, before commercial development of the Voisey's Bay deposit could proceed, including (i) the Company reaching mutually acceptable IBAs with the LIA and Innu Nation, (ii) the Company being satisfied that the project is appropriately dealt with under the arrangements on land claims between the federal and provincial governments and the LIA and Innu Nation, and (iii) completion of the necessary permitting and design and engineering parameters for project facilities.

In addition to receipt of the necessary environmental approvals and permits, VBNC will require the issuance by the Province of Newfoundland and Labrador of mining leases under provincial mining legislation in order for commercial development to proceed. As discussed under "Ore Reserves and Mining Rights in Canada" on page 21 of this Report, in December 1998 the provincial mining legislation was amended to eliminate certain economic tests to determine whether smelting and/or refining facilities are required in the Province.

The Voisey's Bay deposit remains part of the Company's strategy of developing new low-cost nickel production capacity on a basis that will not only meet the Company's objectives but will provide significant benefits to the Province and the rest of Canada.

See "Ore Reserves and Mining Rights in Canada" on page 21 of this Report for further information regarding VBNC's mineral licences.

Redemption of Class VBN Shares

For information on the redemption of the Class VBN Shares in December 2000, see “Class VBN Shares” on page 62 of this Report.

Exmibal

The mining and processing facilities of the Company’s 70 per cent-owned Guatemalan subsidiary, Exploraciones y Explotaciones Mineras Izabal, S.A. (“Exmibal”), which has a design capacity of about 11,300 tonnes of nickel in matte annually, have been mothballed since 1982. Exmibal has a nickel deposit which could be brought back into production under appropriate market conditions. However, the recommencement of operations at these facilities would require substantial capital expenditures and start-up costs.

Exploration and Project Development

One of the objectives of Inco’s exploration program is to provide the Company with sufficient reserves to sustain production at current levels for at least 20 years at its Ontario and Manitoba operations. See “Mining and Production – General” on page 16 of this Report for further information on the Company’s planned production levels and to the introduction to the table and the table itself on pages 21 and 22 of this Report for information on proven and probable ore reserves.

Exploration expense, excluding \$1 million of capitalized exploration costs in respect of the Voisey’s Bay project, totalled \$23 million in 2001, the same level as in 2000 and 1999. Exploration efforts continue to focus on finding additional high-grade nickel deposits in Canada near existing mine workings to expand the Company’s ore reserves and provide additional feed for existing processing facilities. Of the total exploration expenditures in 2001, \$10 million was for exploration in Ontario and Manitoba directed at finding additional nickel, copper and platinum-group metals reserves near the Company’s existing mines, compared with \$10 million in 2000 and \$9 million in 1999. Additions to proven and probable ore reserves at the Company’s Ontario operations in 2001 totalled 3.4 million tonnes averaging 1.3 per cent nickel, 1.5 per cent copper and 5.1 grams per tonne of combined platinum, palladium and gold. The Company also continued to evaluate non-nickel exploration targets and joint venture opportunities that have the potential to enhance the Company’s overall mining operations.

In 2001, exploration and development continued on the high-grade platinum-group metals and gold extension to the 138 orebody at the Copper Cliff North Mine which was announced in January 2001. The mining of ore from this extension in 2001 increased the production of platinum-group metals and gold from Copper Cliff North Mine by approximately 75 per cent in 2001 compared with 2000, and further increases are expected in 2002. Exploration in 2001 added a further 100,000 tonnes of proven ore reserves grading 0.6 per cent nickel, 1.9 per cent copper and 8.8 grams per tonne of combined platinum, palladium and gold.

Drilling from surface continued in 2001 at Totten Mine, located 39 kilometres southwest of the Copper Cliff metallurgical complex. This drilling confirmed the tonnage estimate of the reserve and significantly increased the grades of the reserve. Additional mineralization was also discovered which will be further tested from underground when the deposit is developed. At year-end 2001, the deposit contained a probable ore reserve of 7.4 million tonnes grading 1.51 per cent nickel, 2.10 per cent copper and 4.9 grams per tonne of combined platinum, palladium and gold. Geophysical surveys indicate that the deposit is open along strike to the south and down-dip. Exploration drilling and more detailed delineation drilling are expected to continue in conjunction with any future development and production of the deposit.

Drilling at the Pump Lake deposit, located 2,500 metres north of the Copper Cliff North Mine production shaft, continued in 2001. This deposit is located 300 metres north of the 191 orebody and the initial evaluation studies are being carried out on the Pump Lake zone in conjunction with the proposed development of the 191 orebody. These studies, together with recent drilling, has resulted in the identification of significantly more mineralization in both the 191 orebody and the Pump Lake deposit.

Both deposits are located between 700 and 1,200 metres below surface. Exploration and evaluation of the Pump Lake deposit are expected to continue in 2002.

Drilling also continued during 2001 from the 3320 foot level development drift at Copper Cliff South Mine to explore for extensions of the 830 orebody below the 1400-metre level. The 830 orebody is located 100 metres north of the Copper Cliff South Mine production shaft. In 2001, the exploration results continued to be encouraging. A preliminary feasibility study was carried out to develop the 830 orebody in conjunction with the extension of the 810 orebody, located adjacent to the production shaft at approximately the same depth. Exploration was also carried out on the 810 orebody, which provided additional confirmation of the reserve. Exploration and a preliminary feasibility study resulted in the addition of 2.7 million tonnes of probable ore reserves grading 1.27 per cent nickel, 1.31 per cent copper and 4.0 grams per tonne combined platinum, palladium and gold in the 830 orebody. Exploration is expected to continue on the 830 orebody in 2002.

Underground exploration drilling continued in 2001 in the footwall at McCreedy East Mine to explore for new high-grade platinum-group metal deposits similar to the 153 orebody which is currently being mined at the 1340 metre level and which contains proven and probable ore reserves of 3.8 million tonnes grading 1.14 per cent nickel, 10.41 per cent copper and 9.3 grams per tonne of combined platinum, palladium and gold. Drilling continued with encouraging results on a new zone of footwall mineralization containing grades similar to the 153 orebody which was discovered in 2000. Drilling is expected to continue in 2002 to confirm the quantity and grade of mineralization for feasibility studies.

Exploration drilling continued at the Victor project in 2001 to validate the engineering feasibility studies and potentially enhance the project. Two holes were drilled from surface in 2001 to further test both the footwall deposit and the high-grade nickel portion of the main orebody. Further exploration and assessments are planned for 2002.

In November 2001, the Company entered into an option agreement with Fort Knox Gold Resources Inc. ("Fort Knox") relating to certain rights extended to Fort Knox to explore and develop five non-core properties in the Sudbury Basin. These properties all have a history of past production but are currently inactive and the Company has no further plans for the exploration or development of these properties. Subject to meeting certain conditions enabling it to exercise the option, Fort Knox has agreed, pursuant to the terms of the option agreement, to commit to spend Cdn.\$14 million over a 16-month period beginning in July 2002 and has the option to earn 100 per cent of the mineral rights in the properties by spending a further Cdn.\$16 million over the next four years. As part of such agreement, Inco would receive additional shares in Fort Knox to bring its ownership interest to 19.9 per cent. Under the terms of a related offtake agreement, Inco would also have the right to purchase and refine all of Fort Knox's ore production from these properties subject to reaching agreement on pricing and certain other terms.

In 2000, a decision was made to proceed with the development of the low-grade area of Stobie Mine. The development and construction for the ore-handling component of this project was completed in the third quarter of 2001. Production began in 2001 and is expected to increase to 6,700 tonnes per day in 2002 and continue at that rate through the end of 2005. The Company also announced plans for a \$33 million development of a high-grade nickel deposit at McCreedy East Mine in 2000. The project is on budget and on schedule. The down-ramp has been completed and the initial silling in the orebody is in progress. This project is expected to allow McCreedy East Mine to increase its production by approximately 55 per cent from current levels by 2004 when it is expected to be in full production.

Development continued on the first phase of the Creighton Deep project which was announced in 1998. Capital expenditures on this project totalled \$13 million in 2001 and production from the first stoping block began during the year. Production in 2002 is expected to be 81,000 tonnes grading 4.6 per cent nickel and 2.4 per cent copper and ore development on the second production level (the 7660-foot level) is expected to begin in 2003. Production is expected to ramp up to 300,000 tonnes of ore annually at full production by 2008.

In the Thompson Nickel Belt, drill testing of anomalies identified during the 2000 audio-magnetotelluric (AMT) and 2001 surface electromagnetic (UTEM) geophysical surveys continued in the Soab, Owl, Kipper, Moak, Highway, Birchtree and Thompson mine areas. AMT surveys conducted in

2001 in the Setting, Soab, Joey, Mid, Owl-Nichols, Moak-Mystery and Sigurd Lake areas completed the AMT coverage of all of the leases held in the Thompson area. UTEM surveys were completed during 2001 in the Soab, McPhail, Hambone, Kipper, Oswagan, Owl-Nichols, Moak and Birchtree areas. Anomalies that require further work were identified on approximately one-half of the areas that were surveyed.

The Manitoba operations' systematic surface exploration program is expected to continue in 2002, with UTEM surveys scheduled to be completed over AMT anomalies that were identified during the 2001 geophysical program. Data analysis is ongoing and drill testing of the anomalies identified as a result of the 2001 UTEM surveys is expected to continue during 2002. The drilling has confirmed the presence of formations which host the orebodies in the Thompson Nickel Belt in some areas that were not known prior to this program. Several of the drill holes intersected narrow widths of nickel-bearing sulphides, including 1.57 per cent nickel across a width of 5.0 metres, east of Birchtree Mine. Several anomalies associated with favourable geological environments which were identified in 2001 remain to be tested.

Underground exploration was initiated in priority areas of Thompson Mine that are not currently in the Company's five-year plan but could be accessed within five years given exploration success. Diamond drilling tested the down plunge extension of the Thompson 1C orebody and the continuity of nickel mineralization at the Thompson 3-4 Zone. Additional work is warranted below the 1C orebody and in the Thompson 3-4 Zone above the 2400-foot level. During 2002, exploration drilling is planned below the Thompson 1C orebody, at the Thompson 3-4 Zone, down dip of the Thompson 820 Zone below the 4000-foot level, down plunge of the Thompson 1A and Thompson 1B orebodies and at the Thompson 1D above the 2400-foot level. Additional target areas will be developed in Thompson and Birchtree mines during 2002.

Exploration continued at the Mel project, located 25 kilometres north of the City of Thompson, under the terms of an agreement signed with Nuinsco Resources Limited ("Nuinsco") in August 1999 that granted Nuinsco the right to acquire certain claims and the Mel deposit by spending \$6 million over a five-year period, subject to Inco's right to buy back a 51 per cent interest in the deposit by spending the next \$6 million over a further four-year period. Under the terms of the agreement, all production from any commercial quantities of ore discovered will be delivered to Inco's Thompson facilities for processing on then prevailing market terms. During 2001, Nuinsco funded a regional AMT coverage of the property which was carried out by Inco. Several strong AMT responses were identified which require further work in 2002.

Work continued in 2001 on the \$48 million project to deepen Birchtree Mine in Manitoba. This project is expected to increase production at Birchtree Mine by over 90 per cent from current levels and to extend the life of the mine by 15 years. Mine development and detailed diamond drilling are expected to be completed in 2002 and the project is expected to ramp up to full production in late 2003.

An advanced exploration program was carried out on the Thompson Mine 1-D Phase 2 orebody located below the 3500 foot level. A 300 metre drift was driven and 47,000 metres of diamond drilling were carried out covering the upper portion of the orebody. The drilling has confirmed the quantity and grade of the ore reserve in this area and provided more detail on the shape of the orebody and the distribution of the grades for a feasibility study.

In 2001, field exploration apart from the Company's producing mines and development projects focussed on Turkey, Brazil, Peru, Australia, the United States and Canada. In Turkey, Dowa Mining Co., Ltd. of Japan continued to fund the exploration of the Company's Pontid Belt copper-zinc properties under its 1999 joint venture agreement with Inco. In Brazil, a large-scale reconnaissance program with Teck Cominco Limited continued to explore for copper-gold and copper-zinc deposits. In Peru, the Bambas West Joint Venture with Minera Del Suroeste S.A., a subsidiary of Southwestern Resources Corporation, focussed on three copper-lead-zinc-silver-gold prospects. A second joint venture agreement was entered into with Minera Del Suroeste S.A. to carry out reconnaissance for copper-lead-zinc-silver-gold deposits in a separate designated area. In Australia, five copper-gold prospects were drilled and reconnaissance surveys were carried out on eight other copper-gold-lead-zinc properties under the Company's strategic alliance with PlatSearch NL. In the United States, the joint venture with Minerals

Processing Corporation to evaluate lead-zinc-silver targets in Minnesota was terminated following the drilling of two boreholes. In Canada, Inco signed an agreement with Soquem Inc. to follow up on targets identified by airborne geophysical surveys flown by the Company in parts of Quebec and also entered into an option agreement with Atikokan Resources Inc. ("Atikokan") under which the Company could, subject to certain terms and conditions, acquire a 55 per cent interest in Atikokan's zinc-copper-silver property in Ontario. In Indonesia, the Company submitted documentation to the Government to relinquish its Maluku base metals property due to continued civil unrest in the region in which this property is located. For a discussion of the effect of such political unrest on PT Inco's operations in Indonesia, see "PT International Nickel Indonesia Tbk" on page 24 of this Report.

With China's entry into the World Trade Organization and the resulting changes in mining legislation in that country, Inco has been actively evaluating exploration projects in China during the last year. To date, memoranda of understanding covering certain exploration areas have been signed in Jilin and Yunnan Provinces, the latter in joint venture with Falconbridge Limited, for which formal joint venture agreements are currently being drafted. In addition, a number of confidentiality agreements have been signed covering the evaluation of other areas of China considered favourable for exploration.

See "Voisey's Bay Nickel Company Limited - Voisey's Bay Deposit" on page 29 of this Report for information on exploration activities at the Voisey's Bay project.

Research and Development

Inco conducts its research and development activities at its central research facility, J. Roy Gordon Research Laboratory ("JRGL"), located at Sheridan Park in Mississauga, Ontario, and at process testing facilities located in its operating divisions. The Company's research and development activities at JRGL are organized into two groups, process research and product research. The Company also operates a mines research department at its Ontario operations.

Inco believes that it is a nickel industry leader in research and technology development. The Company's research and development focus is closely aligned with its key strategic objectives, including becoming the lowest-cost nickel producer and increasing revenue from value-added nickel products. The Company's major research and development projects currently include the development of remote-controlled mining capabilities, metallurgical process improvements, process development work for the Goro and Voisey's Bay deposits, and the development of proprietary value-added nickel products. Research and development expenditures totalled \$20 million in 2001, compared with \$22 million in 2000 and \$21 million in 1999.

Much of Inco's process research and technology development work is conducted in partnership with operating teams at the Company's operating divisions. These efforts are aimed at improving metals recoveries and achieving cost reductions, as well as developing opportunities for increased operating earnings through process modifications. During 2001, the process research group continued to assist in further improving the performance of the Clarabelle Mill, the Copper Cliff Smelter and the refineries at the Company's Ontario operations. Having already achieved nickel recovery gains of 3.4 per cent at the Clarabelle Mill since 1999, the Company expects to fully achieve its mill redesign target of a 4.5 per cent increase in nickel recoveries during 2002, and realize additional increases in copper and platinum-group metals recoveries. At an assumed LME cash nickel price of \$6,614 per tonne (\$3.00 per pound), the targeted 4.5 per cent increase in nickel recovery at the Clarabelle Mill represents approximately \$30 million in additional annual sales for the Company. Significant progress was also made during 2001 towards improving smelter efficiencies and in developing practical alternatives for the further reduction of sulphur dioxide emissions from the Copper Cliff Smelter, and the Company has started to work on the simplification of its processes for the recovery of platinum-group metals, gold and silver in order to lower operating costs.

At the Company's Manitoba operations, the process research group has been working with mill and smelter personnel to deal with changes in ore composition that are anticipated as a result of the increased production of ore from Birchtree Mine. The bio-assisted heap leaching of ultramafic ores, which are difficult to treat, is being tested to determine whether the Company's ore reserves in Manitoba can be increased by using this method.

The process research group is also responsible for developing new processes for the recovery of nickel, cobalt and copper from Inco's Goro and Voisey's Bay ores. During 2001, process research and engineering personnel assisted in the collection of plant design data from the successful operation of Goro Nickel's fully integrated pilot plant in New Caledonia and are currently engaged in the final selection of equipment for the Goro project. Subject to reaching agreement with the Government of Newfoundland and Labrador regarding the Voisey's Bay project and the resolution of certain issues as discussed under "Voisey's Bay Nickel Company Limited" on page 29 of this Report, in 2002 the Company currently expects to begin integrated mini-pilot plant testing of its novel hydrometallurgical process for treating Voisey's Bay ores as part of the next phase in the development of this process.

In the area of product research, Inco maintains a highly-focussed research and development program, aimed at creating new, proprietary value-added nickel products, as well as new applications for existing products, and at providing technical assistance to customers for these products.

The rechargeable battery, powder-metallurgy, electronic and other markets continue to grow and broaden into diverse applications, creating new requirements for specialty nickel products. To serve these rapidly evolving markets, Inco's product research group has been developing new sintering nickel powders, extra-fine powders used in battery and electronic applications and nickel foam and felts for battery applications.

In conjunction with personnel at the Clydach Refinery, the product research group continued commercial-scale development of the Company's proprietary process that plates nickel from nickel carbonyl gas streams onto foam and similar substrates. A topic of increasing interest and investigation is the production of nickel powders suitable for use in multi-layer chip capacitors which have experienced rapid growth in applications in mobile telephones and similar electronic devices. Continued growth in these applications is projected as electronic components are reduced in size and deliver more features and the Company's carbonyl technology has the potential to lower production costs and make unique products for these markets.

In 2001, the Company suspended its development work on the production of spherical nickel hydroxide for electric vehicle batteries. Deteriorating markets and a continuing oversupply were key factors in this decision. The environmentally benign technology developed from this work has potential applications in a number of related products, and applied research is continuing in these areas.

In the area of mines research, the Company continued during 2001 to make progress toward its long-term objective of developing the world's first remotely-controlled mines which would reduce operating costs and enhance safety and workplace conditions. This project involves the use of state-of-the-art technology (some of which is proprietary to Inco), including underground communications, positioning, process engineering, monitoring and control systems, to operate remotely-controlled mining equipment and systems. Several components of the Company's current mining operations, including loaders, drills and trackless tramming units, are being operated remotely, in some cases by operators controlling multiple pieces of equipment from locations on surface. This project has included a long-term focus on developing and testing technology to make the entire mining process capable of remote operation.

Metals Recycling

Inco's subsidiary, The International Metals Reclamation Company, Inc. ("Inmetco¹¹"), located near Pittsburgh, Pennsylvania, is a world leader in metals recycling. Using proprietary Inco technology, Inmetco recycles nickel, chromium and iron from stainless steel mill and metal finishing wastes and nickel and cadmium from spent batteries. Since 1978, Inmetco has recycled over one million tonnes of wastes that might otherwise have been disposed of in landfills.

In 2001, Inmetco's operating earnings were \$4 million, compared with \$7 million in 2000 and \$5 million in 1999. Net sales to customers, which are included in "Other" in the table on page 3 of this Report, were \$29 million in 2001, compared with \$34 million in 2000 and \$29 million in 1999.

¹¹ Inco trademark.

Certain feedstocks and by-products of Inmetco's process are regulated as hazardous or residual wastes by the U.S. Environmental Protection Agency (the "EPA") and the Commonwealth of Pennsylvania. While such regulation increases the demand for Inmetco's services in some respects, it also increases Inmetco's operating costs. The Company expects that in the years ahead the EPA and the Commonwealth of Pennsylvania may promulgate a number of regulations that could impose additional costs on Inmetco's operations. The Company is not able to predict at this time the effect of such additional regulations on its financial position or operating costs.

Environment, Health and Safety

The Company's operations are subject to numerous environmental laws and regulations relating to, among other things, air emissions, water discharges, tailings and waste management, site reclamation, hazardous substances, and employee health and safety. While environmental requirements vary considerably from country to country, future laws and regulations may be expected to impose stricter environmental requirements on the mining and metals processing industries in general, and on specific uses of certain metals. The Company devotes considerable resources to environmental compliance and health and safety. However, the impact of future environmental laws and regulations on the Company cannot be predicted with any degree of certainty.

SO₂ Emissions

Sudbury

Total sulphur dioxide ("SO₂") emissions at the Company's Ontario operations were 232,000 tonnes in 2001, below the current maximum SO₂ emission limit of 265,000 tonnes which was established by the Government of Ontario in 1994. SO₂ emissions totalled 223,000 tonnes in 2000 and 221,000 tonnes in 1999.

In September 2001, the Ontario Ministry of the Environment (the "MOE") issued a draft control order which would require reductions of SO₂ emissions at the Ontario smelting operations by 34 per cent, from the current limit of 265,000 tonnes to 175,000 tonnes annually, by the end of 2006. The Company has proposed a \$65 million investment in fluid bed roaster ("FBR") off-gas scrubbing technology intended to reduce SO₂ emissions to the new levels mandated by the MOE by the end of 2006. The FBR technology would have the added benefit of decreasing total metal emissions of nickel, copper, arsenic and lead by 80 to 100 tonnes per year. The FBR project involves installation of water scrubbers that capture the SO₂ gases and particles before they escape the emissions stack. As part of the draft control order, the Company would also (i) agree to continue its research into the technology and economics of further SO₂ and total metals reductions, and (ii) report to the MOE and the public on the progress of this research program. The draft control order calls for a final report on achieving the additional reductions to be submitted to the MOE by December 31, 2010.

In addition to the FBR investment, the Company immediately lowered on a voluntary basis the limit for SO₂ Ground Level Concentrations ("GLCs") by 22 per cent, from 0.50 parts per million ("ppm") to 0.39 ppm, over specified monitoring periods. GLCs refer to the concentrations of SO₂ at ground level after being emitted from the stack and then forced to the ground by atmospheric conditions rather than being dispersed. This reduction was the first step in complying with certain aspects of this draft control order relating to the reduction in GLCs to 0.34 ppm by April 2002. The Company believes the proposed new GLC standard can be achieved through changes in operating practices and costs are expected to be nominal.

The Company submitted its response to the draft control order in November 2001. In mid-February 2002 the final control order was issued. The final control order did not change the required level or timing of reductions in SO₂ emissions from the smelter operations and SO₂ GLCs. The Company has determined that, based upon certain clarifications it has received with respect to certain provisions, it will not pursue any actions to propose certain changes to the order. The Company does not currently expect that compliance with the annual SO₂ emission levels from its smelter operations or GLC levels as set forth in the final control order will have any significant effect on its annual production of nickel and other primary metals from its Ontario operations. The Company remains committed to further reductions

in SO₂ and other emissions on a cost-effective basis and will continue to evaluate and pursue the development, taking into account cost-benefit considerations, of technologies to meet these challenges. While the Company is not able to determine the impact, if any, of significant future changes in regulatory emission limits and other environmental laws and regulations that may be enacted in the future on its results of operations or financial position or operations due to the uncertainty surrounding the timing and ultimate form that such changes may take, any such changes could have a material adverse effect on the Company's results of operations and financial condition.

Thompson

The Company's Thompson, Manitoba smelter operated during 2001 under a regulation issued by the Manitoba government which limits emissions of SO₂ from the Company's Manitoba ores to 23,000 tonnes per month and 220,000 tonnes per calendar year. Inco met both of these limits during 2001, with the total of such emissions at 217,000 tonnes for the year. SO₂ emissions totalled 215,000 tonnes in 2000 and 139,000 tonnes in 1999.

Port Colborne and Sudbury Soils

Port Colborne

The Company has been working with regulatory authorities and other interested parties to evaluate elevated levels of nickel and other metals in the surface soils (up to five centimetres below the surface) located in the immediate vicinity of the Company's processing facilities in Sudbury and Port Colborne, Ontario that may have been affected by the historical emission of windblown metal-containing particulates. The Company believes that government guidelines (the "MOE Remediation Guidelines") for the remediation of metals in soils which were issued by the MOE in 1996 do not satisfactorily account for the importance of metal speciation, which controls the ability of metals in soils to cause potential toxic effects. In accordance with the MOE Remediation Guidelines, in 1997 the Company began to consider what, if any, remediation methods would treat surface soils having elevated levels of nickel and other metals to lessen the potential risks of such levels to the environment, particularly sensitive plant species. In 1998, the Company submitted a generic risk assessment of nickel in surface soils to the MOE. This study, which was authored by recognized experts, concluded that potential toxicity to certain sensitive plant species was the only health or ecological risk resulting from the range of nickel concentrations expected in such soils, and that risks to other organisms, including wildlife, grazing animals and humans, were negligible. The study indicated that soil acidity, and concomitant nickel ion bioavailability, was the principal factor controlling toxicity. Research subsequently funded by the Company on sensitive plant species confirmed that adjusting soil acidity was both a practical and an effective solution to removing all toxic effects to such plants.

Beginning in 1998, the Company began discussions with the City of Port Colborne and the MOE concerning certain metals in the surface soils downwind of the Company's Port Colborne refinery. MOE soil sampling results released in January 2000 indicated a wide area having surficial soils with levels of nickel, copper and cobalt above the generic safe levels for phytotoxicity. Based upon these results, the Company suggested that a Community-Based Risk Assessment ("CBRA") process, funded by the Company, would represent an objective, fair and more efficient way of assessing any risks than conducting many site-specific risk assessments. The CBRA process was accepted by the MOE and the City of Port Colborne and in April 2000 the Port Colborne city council appointed a seven-member Public Liaison Committee ("PLC"), consisting of local citizens, to interface and work with the Company and its consultants on the CBRA process. A stakeholder technical sub-committee was also formed consisting of the MOE, the Regional Public Health Department, the City, Inco and consultants. In November 2000, the scope of work for the CBRA process was agreed upon and work commenced. The CBRA process will determine whether additional chemicals of concern exist in the surface soils, and will conduct ecological and human health assessments involving all potential pathways for exposure of the metals to all living species and all health endpoints.

Several aspects of the CBRA process were completed in 2001. One of the more important of these aspects involved evaluating additional chemicals of concern. Special pits were dug and soil samples

were obtained and a large number of metals and organic components were analyzed. The only additional chemical of concern found and potentially linked to Inco's operations was arsenic, which was added to the existing nickel, copper and cobalt chemicals of concern and will be included in all health and environmental assessments within the CBRA process. The CBRA process will also include a special health survey of residents, conducted by a team of medical experts, to determine if adverse health effects linked to the metals in the soils are currently being experienced by people in the community. The Company retained Ventana Clinical Research Corporation ("Ventana") of Toronto, Ontario to conduct this work. During 2001, Ventana interviewed citizens in the community and medical professionals and presented a conceptual scope of work in October 2001. This scope of work has been reviewed, revised and prioritized by the stakeholders and certain initial studies will begin in the first quarter of 2002.

During preliminary discussions in 2000 with the MOE and the PLC, some residents expressed concerns about health risks to children attending schools and playing in school yards during dust-generating activities such as plowing and cultivation in agricultural fields adjacent to the schools. The Company retained consultants to conduct air sampling campaigns during periods when no field activities were being conducted and also during periods when tractor and plowing work was being conducted in preparation for the planting of crops. Results from these studies were released in late 2000, showing very low total nickel, copper, cobalt and arsenic levels in dusts collected at the schools. These levels were far below the Ontario ambient air standards for these elements. Sampling of water from several area wells in 2000 also showed no excessive levels of any contaminant and additional sampling in 2001 confirmed these results.

Most of the CBRA process is expected to be completed in 2002. The CBRA process will define Port Colborne specific safe levels of metals as a function of soil type and use. It will also recommend options for remediation for soils in which some risk exists. While it is not possible at this time to predict the results of the CBRA process, the Company believes, based on currently available information, that the area of land, if any, that could require remediation would be small. However, it is not possible to predict the cost of any remediation work.

In late March 2001, two developments occurred in connection with the historic operations of Inco's refinery in Port Colborne, Ontario: (i) the filing of a purported class action in an Ontario court and (ii) the release of a report from the MOE covering elevated levels of nickel and other metals found in the soils at depth (below five centimetres) on 16 out of nearly 180 properties sampled by the MOE in Port Colborne (the "March 2001 MOE Report") and a draft remediation order issued by the MOE. Based upon the March 2001 MOE Report, the draft order would have required Inco to remediate the soils at depth on the 16 properties where elevated levels of nickel had been found from such sampling and undertake certain other studies and actions.

The purported class action filed against Inco and several other parties under Ontario class action proceedings legislation alleges Cdn.\$600 million in compensatory damages and Cdn.\$150 million in punitive damages covering certain residents who lived in the Port Colborne area since 1995 and allegedly suffered a decline in their property values as a result of, and health and other injuries from exposure to, metals and related emissions from the refinery. This action mixes two issues: (i) the levels of nickel and other metals found in the surface soils in the Port Colborne area and covered by the CBRA process discussed above and (ii) the levels of nickel and other metals found by the MOE at various depths in the soils adjacent to the Port Colborne refinery as noted in the March 2001 MOE Report. The Company believes that this action, still in its preliminary stages, is without merit and there is no basis for either the claims made or the damages alleged.

With respect to the issue of the finding of nickel, in particular nickel oxide as the primary form, at various depths in the Port Colborne soils adjacent to the Port Colborne refinery, the March 2001 MOE Report established an intervention level of 10,000 ppm or more of nickel at depth as a potential health risk and soil samples from 16 properties reflected nickel above this level. The Company believes that the elevated levels of nickel were from landfill activities that had been conducted in the area at the turn of the 20th century. While the Company did not accept the March 2001 MOE Report's findings and conclusions, it proposed a voluntary remediation program for the 16 properties. It is currently estimated that the remediation cost for these and, as noted below, nine other properties identified by the MOE, together with certain other voluntary work, would not exceed \$1 million.

The Company evaluated the MOE's findings and data in support of their findings and in late April 2001 submitted a detailed comment letter to the MOE on the March 2001 MOE Report. Based upon such key issues as what the exposure pathways would be and the level of exposure from nickel oxide and other forms of nickel found in the soils at depth, the Company does not believe that the levels of nickel found as reported in the March 2001 MOE Report represent a health hazard. In May 2001, the MOE indicated that, given the comments it had received on the March 2001 MOE Report from the Company and others, it would effectively be withdrawing the report and draft order and would be undertaking further studies and analyses and did not expect that it would be in a position to update and issue a revised report for up to six months. A revised report was issued by the MOE in late October 2001 together with a new draft order which would require that 25 properties be remediated based upon a slightly lower intervention level, 8,000 ppm, for nickel established by the MOE in their revised report. The Company submitted a new comment letter to the revised report and revised draft order in late November 2001. The MOE has not issued a final or new remediation order or responded to the Company's comment letter. By early 2002, the Company had remediated, as part of its voluntary program, five of the 25 properties. The Company cannot predict what, if any, additional actions the MOE might take in connection with its revised report and revised draft order but the Company believes that the voluntary remediation program and certain other voluntary actions undertaken by the Company in connection with the March 2001 MOE Report address most of the key aspects of the revised draft order.

Sudbury

In September 2001, the MOE released a report stating that it had analyzed soil samples collected within the Sudbury area for various substances, including arsenic and certain other metals. The MOE found nickel, copper, cobalt and arsenic in certain soil samples taken to be in excess of the applicable MOE Remediation Guidelines. The MOE's report indicated that the elevated soil concentrations of these elements were attributable to the history of nickel-copper mining and smelting in the area by Inco and Falconbridge. The two companies have accepted that a risk assessment for human and environmental health should be conducted in the Sudbury region and they have also joined the MOE in extending soil sampling to areas that are currently undersampled.

The Sudbury area soil data reflected in the MOE's report show nickel concentrations lower than those in Port Colborne soils, but the area affected in Sudbury is larger than in Port Colborne. Some of the work being conducted at Port Colborne will be applicable to Sudbury, but the risk assessment for Sudbury must be based on the specific soil types located there. A stakeholder technical committee has been formed to assist the Sudbury risk assessments and a public advisory committee and a process observer, to oversee the timeliness and effectiveness of public consultation, will be formed in early 2002 to assist in the risk assessment. No decision has yet been made on the specific scope of the risk assessment study, its budget, or the company that would conduct the study.

Decommissioning and Reclamation

Inco is committed to decommissioning its facilities, at both existing and inactive mine sites, in an environmentally sound manner commonly referred to as "progressive decommissioning". In Ontario, progressive decommissioning is ongoing at the Copper Cliff tailings area where exposed tailings are being covered. By the end of 2001, more than 1,500 hectares of inactive tailings had been vegetated for stabilization as part of this program. In 2001, the Company spent more than \$10 million at its Ontario operations on decommissioning and reclamation projects which included demolition and closure work at Shebandowan and Levack mines, infilling of Whistle open pit mine to a state where it is ready for capping, ongoing tailings reclamation work and tree planting. In Manitoba, the Company submitted reclamation plans for the Pipe Lake and Birchtree mines to the Manitoba government and approximately \$700,000 of reclamation work was completed on Soab North Mine in 2001. Reference is also made to "Future Removal and Site Restoration; Closure and Post-Closure Plans" below.

Revegetation Programs

A continued part of the Company's environmental program in both Canada and Indonesia involves the revegetation of impacted and mined-out lands to return them to a natural state.

In 2001, Inco continued to produce seedlings at its underground nursery in Creighton Mine. The nursery is located at a depth of more than one kilometre, where temperature and humidity are constant. Automated watering and lighting systems optimize the growth of seedlings year-round. The Company planted 209,000 seedlings in 2001, 243,000 seedlings in 2000 and 150,000 seedlings in 1999 in the Sudbury area.

At PT Inco in Indonesia, reclamation efforts involve returning the waste rock and soil to mined-out areas and planting trees on the site. The objective of this program continues to be to maintain the size of the mine footprint at 350 hectares and restore mined out areas to their natural state.

PT Inco

PT Inco's operations are subject to environmental permits issued by the Government of Indonesia, the most recent of which were issued in 1998. PT Inco is substantially in compliance with these permits except for the levels of dust emissions from its facilities. PT Inco has reviewed with the Government a five-year phased program to reduce dust emissions. This program includes the installation of equipment, in particular electrostatic precipitators ("ESPs"), and other solutions to reduce dust emissions. The principal sources of dust emissions and other particulate emissions from PT Inco's facilities are PT Inco's dryers, electric furnaces and converters. Some 40 to 50 per cent of the total dust emissions are expected to be captured by a new ESP which was commissioned at the end of November 2001. The principal remaining sources of dust emissions are the furnaces. The Company and an independent engineering firm are continuing to study options for cleaning the furnace off-gases. As part of its expansion project, PT Inco installed and is operating four new ESPs to handle the off-gases from the ore dryer, kiln, converter and product dryer comprising PT Inco's new fourth smelting line. PT Inco has also recently installed an automated pneumatic dust handling system which collects and transports dusts for reprocessing. Standby blowpot systems have been installed on four of PT Inco's five kilns to allow maintenance of systems without dumping of dust. An audit of the blowpot systems is being prepared and it is expected to recommend further improvements to enhance their performance and reduce fugitive emissions. Workplace dust issues are also being addressed to improve workplace quality. The drop-out chamber on the fifth kiln has been a major source of dust and this was considerably improved in 2001 by installing a baffle plate for greater collection efficiency.

Future Removal and Site Restoration; Closure and Post-Closure Plans

The following includes information that appears in "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 68 and in Notes 1 and 10 on pages 101 and 112, respectively, of this Report.

The operations of the Company have been, and may in the future be, affected from time to time in varying degrees by changes in environmental laws and regulations, including those for future removal and site restoration costs. Both the likelihood of future regulations and their overall effect upon the Company vary greatly from country to country and are not predictable. The Company's policy is to meet or, if possible, surpass environmental standards set by relevant legislation, by the application of technically proven and economically feasible measures. Environmental expenditures that relate to ongoing environmental and reclamation programs are charged to earnings as incurred or capitalized and depreciated depending on their future economic benefits. Estimated future removal and site restoration costs are charged to earnings on a straight-line basis over the estimated remaining life of the related business operation. Actual removal and site restoration expenditures are charged to the related liability.

The estimation of future removal and site restoration costs depends on the development of environmentally acceptable closure and post-closure plans, which, in some cases, may require significant research and development to identify preferred methods which are economically sound and which, in

many cases, may not be implemented for several decades. The Company has continued to utilize appropriate technical resources, including outside consultants, to develop specific site closure and post-closure plans in accordance with the requirements of the various jurisdictions within which it operates. Typical closure and progressive rehabilitation activities include, where applicable, demolition of buildings, removal of underground equipment, sealing of mine openings, treatment to reduce or prevent acid generation from stockpiled waste materials such as tailings, general clean-up activities aimed at returning the area to an environmentally acceptable condition, and post-closure care and maintenance.

In accordance with environmental regulations adopted by the Province of Ontario in 1991, the Company developed rehabilitation and site restoration plans associated with the eventual closure of its operations in that province. The Company filed three closure plans by the end of 1997, having previously received approval from the Province of Ontario for the consolidation of its operating mines and properties in that province into 15 sites for purposes of closure plans, and filed the remaining 12 closure plans by the end of 1998. As a result of provincial regulatory changes which became effective in 2000, the Company refiled these plans to meet these changes in 2001. The Company has continued to develop its future tailings disposal and water management alternatives to accommodate up to approximately 40 years of future production. The Company believes that cost-effective tailings disposal alternatives exist within the ongoing operating activities of the Sudbury operations which would limit site restoration at closure to a care and maintenance activity, thus significantly reducing the costs of such site restoration.

In accordance with environmental regulations adopted by the Province of Manitoba in 1999, the Company is in the process of developing reclamation plans associated with the eventual closure of operations in that province. The Company submitted two reclamation plans for its mines and processing facilities in 2000, two plans in 2001 and the remaining two plans will be submitted in 2002, even though it is highly unlikely that the Company would have any intentions of closing its operations at that time. The Company continued to develop its future tailings disposal and water management alternatives. The ongoing operating procedures associated with these alternatives limit site restoration to a care and maintenance activity after the operations are closed.

Closure plans for the proposed mine and mill facilities were prepared and submitted in 1998 in connection with the environmental review process of the Company's Voisey's Bay property in the Province of Newfoundland and Labrador. Closure plans were prepared and submitted in 2001 in connection with the bankable feasibility study for the Goro project in New Caledonia.

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

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

The Company incurs substantial removal and site restoration costs on an ongoing basis which will significantly reduce future removal and site restoration costs that may otherwise be incurred following the closure of any of the Company's sites. This progressive rehabilitation includes tailings management, land reclamation and revegetation programs, decommissioning and demolition of plants and buildings, and waste management activities. Operating costs associated with ongoing environmental and reclamation programs, including progressive rehabilitation, aggregated \$12 million in 2001, \$7 million in 2000 and \$7 million in 1999 and are included in cost of sales and operating expenses. Capital expenditures on environmental projects were \$17 million in 2001, \$10 million in 2000 and \$3 million in 1999. The Company currently anticipates that capital expenditures on environmental control projects in 2002 will be approximately \$20 million.

Although the ultimate amount to be incurred is uncertain, the total liability for future removal and site restoration costs in respect of the Company's worldwide operations, to be incurred primarily after cessation of operations, is estimated to be approximately \$315 million at December 31, 2001, compared with \$300 million at December 31, 2000 and 1999. In recognition of this future liability, the Company,

starting in 1995, has annually provided an accounting provision of \$10 million for future removal and site restoration costs, which is included in cost of sales and operating expenses. This amount is based upon the estimated remaining lives of the Company's applicable ore reserves and facilities and is in addition to ongoing operating and capital expenditures. The estimate of the total liability for future removal and site restoration costs has been developed from independent environmental studies, which include an evaluation of, among other factors, currently available information with respect to closure plans and closure alternatives, the anticipated method and extent of site restoration using current costs and existing technology, and compliance required by presently enacted laws, regulations and existing industry standards. The total liability for future removal and site restoration costs represents estimated expenditures associated with closure, progressive rehabilitation and post-closure care and maintenance. Potential recoveries of funds from the future sale of assets upon the ultimate closure of operations have not been reflected in the estimate of the total liability or related annual provision.

Recent changes in mining regulations in the Province of Ontario have required the Company to provide letters of credit or other forms of financial security to fund the Company's future reclamation and restoration costs which are not expected to be incurred for many years if the Company were to no longer meet certain minimum investment-grade credit ratings for its outstanding publicly traded debt securities. Although the Company's debt securities are currently rated investment grade, they were rated below investment grade in recent times and there can be no assurance that this situation will not reoccur. If the Company were not able to maintain such ratings, it is currently estimated that such letters of credit or other forms of financial security associated with the currently estimated costs of the eventual future closure of mines and other facilities in Ontario would have to cover approximately \$290 million in such costs. Given the recent closure of two mines and the pending closure of another mine in Ontario, the Company was required under such mining regulations to provide surety bonds in the amount of \$23 million as of December 31, 2001 to secure such closure costs. In the case of the Manitoba operations, it is expected that, based upon recently enacted regulations in the Province of Manitoba, the Company will be required to provide some form of financial security for future reclamation and restoration costs. However, at these operations it is not currently expected that such security will be significant. These potential costs might not be incurred until many years in the future. If these requirements for letters of credit or other forms of financial security had to be satisfied, they could have an adverse effect on the amounts available for borrowing under the Company's bank credit facilities.

In view of the uncertainties concerning environmental remediation, the ultimate cost of future removal and site restoration to the Company could differ from the estimated amounts provided. The estimate of the total liability for future removal and site restoration costs is subject to change based on amendments to laws and regulations and as new information concerning the Company's operations becomes available. Future changes, if any, to the estimated total liability, as a result of amended requirements, laws, regulations and operating assumptions may be significant and would be recognized prospectively as a change in accounting estimate, when applicable. Environmental laws and regulations are continually evolving in all areas in which the Company operates. The Company is not able to determine the impact, if any, of environmental laws and regulations that may be enacted in the future on its financial position due to the uncertainty surrounding the ultimate form that such future laws and regulations may take.

Health and Safety

The health and safety of the Company's employees are of the highest priority. The prevention of workplace accidents and illnesses is a major goal of the Company. Safety training and educational programs for workers have continued to be enhanced at all of the Company's operations and, through international workshops and other activities, the Company is a leader in efforts to determine how to better test and assess the impact of metal compounds on humans and ecosystems.

MITE Research Network

The Company is one of the major contributors to the Metals in the Environment ("MITE") research network initiative in Canada sponsored, in part, by the Mining Association of Canada. This five-year program, begun in 1998, includes studies on (i) the relative importance between natural and human sources of metals placed in the environment, (ii) the processes that control the ultimate disposition of

metals from whatever source, and (iii) the effects, both beneficial and harmful, that metals and metal compounds have on aquatic and terrestrial organisms. The results from this program are anticipated to affect the course of regulatory activity relating to metals throughout the world and will provide data with which to carry out needed risk assessments and to determine risk management strategies that would be relevant to the proper stewardship and continued safe use of the Company's processes and products. As part of the network's annual review, a special policy workshop was conducted in Ottawa, Ontario in March 2001. This workshop brought together research scientists and government policy makers to discuss where science is needed in policy development in Canada and to review how the current results from the MITE initiative can be applied. Such interaction is expected to be an important ongoing activity of this initiative.

Diesel Particulate Matter

In 1995, the American Conference of Governmental Industrial Hygienists ("ACGIH") announced its intention of establishing for the first time a Threshold Limit Value ("TLV") for diesel particulate matter ("DPM") of 0.15 mg/m³. This proposed TLV, based primarily on rat and mice studies, constitutes nearly a seven-fold reduction from the current Canadian target level of 1.0 mg/m³ DPM, which is two-thirds of the current safe level of 1.5 mg/m³ for Respirable Combustible Dust ("RCD") (based on empirical evidence that DPM is generally about two-thirds of RCD in the majority of the Company's underground mining operations) and would, if adopted by regulatory authorities, require substantial changes in the Company's use of diesel equipment in its underground operations since such equipment emits DPM. The Company responded to this proposed TLV by making written and oral presentations to the ACGIH in 1996, noting that toxicological and epidemiological studies on health effects of DPM have given inconsistent and unreliable results and that it would, accordingly, be impossible to set scientifically sound occupational exposure limits for DPM.

The ACGIH did not take any action to adopt the TLV in 1997 or 1998. However, in 1999 the ACGIH announced that it intended to further reduce the proposed TLV to 0.05 mg/m³ for DPM of less than one micrometre in diameter. In 2001, it lowered this proposed TLV even further, to 0.02 mg/m³, analyzed as elemental carbon. The U.S. Mine Safety and Health Administration (the "MSHA"), recognizing the likelihood of the ACGIH adopting a low TLV, initiated a rulemaking activity in 1998 to establish a regulatory exposure limit for DPM in underground mines in the United States. Action of this kind by MSHA is usually considered significant as Canadian provincial governments often consider taking similar action. After a period of extensive public comment, the MSHA adopted its new exposure limit in late 2000 of 0.4 mg/m³ DPM determined using the total carbon technique. The new MSHA rule has an 18-month phase-in period to allow companies to reach compliance. The new limit will then be enforced for a period of five years, after which DPM exposure will be regulated at 0.16 mg/m³. It is not known whether, when or how Canadian provincial governments will respond with similar actions, but an ad-hoc group of governmental and mining industry personnel (including personnel from the Company) was formed in late 2000 to start discussions on this subject. However, in 2001 the Ontario Ministry of Labour (the "MOL") accepted over 200 TLVs from the ACGIH and made them regulatory Occupational Exposure Limits ("OELs") in Ontario. The MOL further indicated that its preferred method for setting future OELs was to simply adopt the ACGIH TLVs. The Company has joined other members of the Ontario Mining Association in forming a task force aimed at developing a sound procedure for setting OELs, including for DPM, and discussing such a procedure with the MOL.

Recognizing the importance of regulatory OELs for DPM on the Company's operations in Ontario and Manitoba, the Company helped form in 1997 an industry-labour-government research consortium, the Diesel Emissions Evaluation Program ("DEEP"), to determine sampling and analytical techniques capable of measuring low levels of DPM and to evaluate techniques capable of controlling DPM emissions to workplace air. DEEP has investigated a number of research areas, in particular, biodiesel, fuels, maintenance improvements, and the effect of light duty vehicles on DPM in underground mines. In 2000, DEEP extended its original three-year term to allow completion of field tests on particulate filters, which potentially hold the most promise for cost-effective control of DPM. Several of these underground tests were conducted at Inco's Stobie Mine in 2001 and will continue in 2002. Adoption by the Company of ultimate DPM control strategies developed by DEEP, and the cost of such adoption, will depend on a number of factors, including the types of engines used and their duty cycles as well as the final regulatory limit the Company will be required to meet. The enactment of a significantly reduced

OEL for DPM could have a significant adverse effect on the Company's underground mining operations and production.

WSIB Occupational Disease Policies

The Company is subject to workers' compensation laws in various jurisdictions pursuant to which occupational injuries to, and diseases of, individual workers making claims are examined and payments are awarded by a governmental board or agency. The expense of such awards is funded by the employer, typically as a percentage of payroll costs within the jurisdiction of the relevant board or agency, and is adjusted according to the experience with such claims either with respect to employees of the particular employer alone or on the basis of all claims in respect of employees in the same industry within the relevant jurisdiction.

In 1994, the Occupational Disease Panel (the "ODP") of the MOL concluded that there was a "probable connection" between miners' lung cancer and all hardrock mining. In 1996, the ODP asserted that a 1996 cancer morbidity study conducted by researchers at McMaster University, using a large group of Ontario male nickel production workers from Inco and Falconbridge, confirmed such a connection for nickel miners. Consequently, the ODP recommended that primary lung cancer and the occupation of hardrock mining be categorized under a particular schedule of the Ontario Workers' Compensation Act which would create a presumption in favour of a causal relationship for lung cancer claims unless the contrary could be proven. In 1997, the ODP issued another report dealing specifically with laryngeal cancer and workers in nickel production. This report relied heavily on the 1996 McMaster University study referred to above. The ODP recommended that laryngeal cancer and certain nickel producing occupations be treated in the same manner as lung cancer and hardrock mining. The Company retained independent medical and epidemiological specialists to analyze these assertions and, as a result, has made several submissions to the Workplace Safety and Insurance Board (the "WSIB"), the regulatory body of the MOL responsible for evaluating and adjudicating workplace injuries and diseases, taking exception to the ODP recommendations, primarily on the basis that tobacco smoking is likely a confounding factor, and to the validity of the findings of both the original hardrock mining report and the McMaster University study. These submissions explained why the Company believes that the ODP report is flawed and suggest that no policies on this matter be established until more methodologically sound studies are conducted. Similar submissions have been made by Falconbridge and by the Ontario Mining Association.

Also, in late 1994, the former Ontario Worker's Compensation Board (now the WSIB) revised and extended its policy with respect to lung cancer compensation claims by nickel smelter and refinery workers. Inco objected to the process that was used in considering the revised policy, which, in the Company's opinion, failed to take into account applicable scientific data, and to flaws in the policy itself. As a result of submissions to, and discussions with, WSIB staff, in early 1998 the WSIB proposed a revision to the 1994 policy. However, this revision failed to address the Company's central concerns with the policy and the Company made additional written submissions to the WSIB suggesting further significant revisions. The Company continued its efforts to have the WSIB change this policy, but no changes were made in 2000. In mid-2001, the Company was invited to join a special stakeholder panel being formed by the WSIB. This panel, called the Occupation Disease Advisory Panel ("ODAP"), consists of industry and labour representatives from a broad range of industrial sectors. The ODAP's mandate is to advise the WSIB of criteria that should be applied in developing policies, to review contentious policies that currently exist, and to recommend how the WSIB should deal with controversial studies previously conducted by the ODP. The work of the ODAP is expected to continue during much of 2002. The Company cannot predict what actions the WSIB will take after the work of this panel is completed or what impact those actions could have on the Company's operations or financial results.

WSIB Appeal Case

In 1997, the Company requested and was granted intervenor status in a compensation appeals hearing concerning a nickel and uranium miner who died of squamous cell lung cancer at the age of 31, having had only about six years of mining experience. The WSIB had denied the original claim for compensation. The appeal was filed by the worker's estate and revolved around the issue of whether this mixed mining exposure was sufficient to have caused lung cancer. The employer community strongly

believed that the workplace had no significant role in the development of this cancer and that compensation should be denied. After four years of hearing this case, the appeals tribunal issued its decision in January 2002, denying compensation. The tribunal's extensive written decision is helpful in describing the scientific and medical criteria used to judge applicability of epidemiological data. If compensation had been awarded on appeal in this case, a substantial number of claims from Company employees with similar exposure histories might have been made.

Worker Safety

The Company reduced its disabling injury frequency rate per 100 employees from 2.5 in 1999 and 2000 to 1.8 in 2001, placing the Company among the safest in the Canadian mining and metals industry based on this measure. However, in spite of this improvement, the Company's safety performance in 2001 was overshadowed by a fatality at the Company's Ontario operations. In July 2001, Gord Heffern, a supervisor at the Copper Cliff Nickel Refinery, died in an accident during a maintenance shutdown. The Company is saddened by this tragic loss and remains committed to the goal of eliminating workplace injuries. Safety remains a key priority for the Company as it continues to reevaluate every aspect of how it conducts business.

To reinforce the importance of safety in the Company's culture and to help ensure that every employee works as safely as possible in a safe environment, a Company-wide team has developed an updated Inco Safety Charter which requires all employees, including managers at every level of the Company, to be accountable for safety, emphasizing prevention through the rigorous evaluation of all work situations. In 2001, a safety management framework was developed to guide everyday thinking and discussion in the work that the Company's employees do. Work is continuing on the development of systems designed to measure and hold all employees accountable for their safety performance and the performance of those reporting to them.

Regulation of Nickel and Other Nonferrous Metals

Regulatory and non-governmental agencies in the United States, Canada and Europe have proposed and, in certain instances, adopted regulations and other standards relating to environmental releases of nickel, exposure to nickel in various forms, and management of nickel-containing wastes, as summarized below.

Occupational Exposure Limits

The ACGIH evaluates toxicological data and establishes a chemical's TLV, an airborne concentration to which nearly all workers can be exposed for eight hours per day for five days per week for their entire working life without suffering adverse health effects. Although the ACGIH has no regulatory power, TLVs are commonly used as starting points for setting mandatory standards for exposure to certain materials by regulatory authorities throughout the world. In November 1997, the ACGIH Board of Directors approved new TLVs and carcinogen classifications for nickel and its compounds. These classifications were published as "adopted values" in 1998. The new TLVs, which are to be measured as nickel in inhalable particulate, are as follows: 1.5 mg/m³ for elemental/metallic nickel; 0.2 mg/m³ for insoluble nickel compounds; and 0.1 mg/m³ for soluble nickel compounds and nickel subsulphide (which forms during the metallurgical processing of the Company's nickel ores). The TLV for nickel carbonyl was unchanged at 0.05 ppm. Since 1998, insoluble nickel compounds and nickel subsulphide have been classified by ACGIH as "Confirmed Human Carcinogens"; soluble nickel compounds have been designated "Not Classifiable as a Human Carcinogen"; and elemental nickel has been classified as "Not Suspected as a Human Carcinogen". Nickel carbonyl was not classified for carcinogenicity at all.

The Province of Manitoba automatically adopts the ACGIH's TLVs as mandatory OELs and it adopted the TLVs for nickel as OELs in 1998. In the absence of a reliable inhalable sampling method, occupational exposures for nickel species have been estimated from current measurements at the Company's Manitoba operations. Very few instances of non-compliance have been predicted and, where they exist, respiratory protection or engineering or operational controls have provided practical and effective solutions.

The Province of Ontario does not automatically adopt the ACGIH's TLVs and the MOL normally consults stakeholders prior to setting OELs. In the case of nickel, these discussions started in 1999. By mid-2000 the MOL had stated that it intended to adopt OELs for only two of the four ACGIH nickel TLVs, nickel subsulfide and insoluble nickel. The proposed OELs were numerically equivalent to the TLVs, but were based on a so-called "total" dust sampler (currently used extensively in Ontario) instead of an inhalable dust sampler. However, when the final regulation was published in September 2000, the MOL chose to adopt all four of the ACGIH nickel TLVs as new inhalable OELs. While the Company's Ontario operations would have had relatively minor compliance problems under "total" dust sampling, significant problems existed for inhalable sampling and inhalable OELs. The Company believes that there are two reasons for these problems. First, the inhalable samplers have a higher collection efficiency for coarse fractions of dust, effectively further reducing the OELs by a factor of between two and four. This is significant when OELs are already very low. Second, the Company's experience with commercial inhalable samplers at its Ontario operations has shown that technical problems exist with these samplers.

In September 2000, the MOL conducted tests on a new inhalable sampler at the Company's Copper Cliff operations. In March 2001, the MOL published its report indicating that some problems with the inhalable samplers were confirmed and that speciation analysis of the samples was technically uncertain. Also in March 2001, a tripartite inhalable nickel committee, made up of representatives of the MOL, the Company and several locals of the union that represents the Company's workers, was formed by the MOL to cooperatively review and consult on several new commercial products for inhalable sampling which became available in 2001. A viable commercial sampler was found to be workable in the Company's workplace environments in May 2001. In September 2001, the MOL stated that the new nickel OELs would be enforced through compliance plans. The new nickel OELs have the most significant impact on the smelter, matte processing and crushing facilities at the Company's Ontario operations. To meet these OELs, a four-year workplace environment improvement plan has been developed by the Company and reviewed with the MOL. Expenditures of approximately \$5 million for ventilation improvements have been committed for 2002 as phase one of this plan. It is not possible to state at this time the full extent of the program or the total capital expenditures that will be necessary to comply with these OELs at the Company's Ontario operations. The Company and the MOL have agreed in principle to a long-term cooperative approach of engineering control upgrades that will take place in a number of workplaces over several years to meet these OELs.

Occupational Exposure Limits in the U.S. and the U.K.

The Company is generally in compliance with the permissible exposure limits for all forms of nickel that are currently applied by the U.S. and U.K. governments.

U.S. Regulatory Actions

In 1990, the United States Congress amended the U.S. Clean Air Act to require, among other things, that 189 chemicals or chemical groups (including nickel compounds) be regulated as hazardous air pollutants ("HAPs"). Pursuant to this legislation, the EPA has been promulgating stringent technology-based standards for controlling emissions of these hazardous air pollutants from designated source categories. This process will continue in the future and ultimately may include the promulgation of additional risk-based standards. Some of these standards may limit emissions of nickel and its compounds. The Company is unable to determine what nickel-emitting sources may ultimately be covered by such standards or to predict what capital expenditures or operating cost increases the Company or its customers may incur as a result of the promulgation of such hazardous air pollutant standards.

In July 1999, the EPA issued its final Integrated Urban Air Toxics Strategy under which 33 hazardous air pollutants judged to pose the greatest threat to public health in urban areas are to be targeted for future regulation. Nickel compounds are among the 33 HAPs listed under this strategy. As a result, nickel compounds will be included in periodic Air Toxics Assessments designed to estimate and track trends in emissions, ambient air concentrations, population exposures, and associated characterizations of risk. A draft of the first such assessment, the National-Scale Air Toxics Assessment for 1996, was issued in early 2001. It estimates emissions, ambient air concentrations, and population

exposures based on a 1996 emissions inventory, and characterizes the resulting population risks on a national and regional basis. The document shows much lower total national emissions of nickel compounds than an earlier estimate that was based on information for 1990. Moreover, the National-Scale Air Toxics Assessment for 1996 does not list nickel compounds among the 12 hazardous air pollutants that are projected to have the greatest potential to pose health threats to individuals either nationally or on a regional basis. In addition to issuing National Air Toxics Assessments, the EPA's Urban Air Toxics Strategy will target various sources of hazardous air pollutants for further emissions reductions. It is possible that some sources of nickel compound emissions will be among them. While some of these sources are likely to be fossil fuel combustion units, others may involve nickel-using industries. The Company is unable to predict what impact, if any, the inclusion of nickel compounds on the EPA's list of Urban Air Toxics and related assessments might have on nickel users and, indirectly, on the Company's operations or financial results.

In 1998 and 1999, the National Toxicology Program ("NTP") within the U.S. Department of Health and Human Services considered a proposal to list all nickel compounds as "known human carcinogens" in its 9th Report on Carcinogens ("ROC"). In conjunction with other nickel producers, Inco argued that such a listing would be overly broad and scientifically unjustified. Although the NTP was not persuaded by these arguments, it deferred the proposed listing of nickel compounds until the 10th ROC (which is expected to be issued in 2002) and indicated that it may reconsider the decision to include soluble nickel compounds in the "known human carcinogen" category. More recently, the NTP has been considering whether to list metallic nickel and certain nickel alloys as "reasonably anticipated to be human carcinogens" in the 10th ROC. At a meeting in December 2000, the NTP's Board of Scientific Counselors recommended that metallic nickel should be listed as a "reasonably anticipated human carcinogen" in the 10th ROC but that nickel alloys should not be included in the 10th ROC at all. The Company is unable to predict what final action the NTP will take on these pending matters. Since nickel compounds already are characterized as carcinogenic to humans by the International Agency for Research on Cancer, it is not clear what additional impact, if any, a "known human carcinogen" designation for nickel compounds by the NTP would have on businesses that produce, use, handle, or otherwise manage nickel compounds and wastes in which they are contained. Similarly, since metallic nickel has been listed as a "reasonably anticipated human carcinogen" by the NTP for many years, it is not clear what impact, if any, a reaffirmation of that listing in the 10th ROC would have.

Canadian Environmental Protection Act

In 1994, under the Canadian Environmental Protection Act ("CEPA"), Environment Canada and Health Canada published toxicity assessments of 17 substances, including nickel and its compounds. The assessment concluded that metallic nickel was not considered toxic under CEPA. However, oxidic, sulphidic and soluble compounds of nickel were considered toxic, according to statutory definitions and criteria. As a result of this finding, together with CEPA toxic declarations for mercury, lead, and certain compounds of arsenic and cadmium, a base metal smelter Strategic Options Process ("SOP") was conducted in 1997 with the result that the industrial sector committed to develop site-specific environmental management plans and to reduce sector-wide releases of arsenic, cadmium, lead, mercury and nickel by 80 per cent from 1988 (as the base year) to 2008.

In 1999, a revised CEPA was enacted and has been viewed as granting increased authority to, and mandating increased attention by, federal departments in data collection, pollution prevention and other regulatory actions. As a result of the revised CEPA, Environment Canada has initiated several additional programs. One is to review the progress being made under the original base metal smelter commitments made as part of the SOP and possibly accelerating their implementation. Another program is to take action regarding substances known to be toxic under CEPA, including emissions of dioxins and furans, sulfur dioxide and particulate matter. The Company is part of the industry group interacting with Environment Canada on this program. A base metal smelter multi-stakeholder advisory group workshop will be held in 2002 and will include discussions about proposed emission standards for particulate matter and sulphur dioxide and the status of the smelters' voluntary dioxin stack testing programs.

Another CEPA-related program seeks to categorize and prioritize all substances on the Domestic Substances List (the "DSL"). Environment Canada has elected to apply criteria for this process that the Company believes are inappropriate for inorganic substances. These criteria were originally developed

for synthetic organic chemicals and involve assessments of persistence, bioaccumulation and toxicity. In 2001, an expert advisory group, including a consultant representing the Mining Association of Canada, was convened by Environment Canada for the purpose of reviewing the scientific validity of using persistent, bioaccumulative and toxic (“PBT”) criteria for inorganic substances. In late 2001, this group issued its findings and recommendation to Environment Canada. This group concluded that the persistent and bioaccumulative criteria do not properly categorize metals and other inorganic substances. However, recognizing that the use of PBT criteria is legislated, the group recommended that all inorganic substances should be considered as “persistent” for the purposes of this categorization, and that “toxicity” alone should be the criterion by which inorganic substances should be categorized. It is impossible at this time to identify what additional operating or capital expenditures will be required by the Company to meet the ultimate regulations that may result from these and other possible CEPA-based and Environment Canada programs.

California Regulatory Actions

In 1991, the California Air Resources Board (“CARB”) identified nickel and its compounds as a toxic air contaminant. A series of guidelines were then issued for assessing risks of non-occupational exposure, and acute and chronic reference exposure levels (“RELs”) were proposed along with a cancer potency factor for nickel compounds. Because the Company and other nickel producers believed that the guidelines and RELs were not well-founded scientifically and might lead to unjustifiable controls being placed on users of nickel in California and elsewhere, Inco and other nickel producers made submissions criticizing the methods used by the CARB in developing the RELs. In February 2000, California adopted final RELs. Although the final RELs represent an improvement over the initial proposals, the Company believes they are still unjustifiably low. The Company cannot currently determine what impact the RELs will have on nickel users in California or, indirectly, in other jurisdictions in which nickel is produced or used.

Late in 1999, the California Office of Environmental Health Hazard Assessment proposed a Public Health Goal of one microgram of nickel per litre of drinking water. In conjunction with other nickel producers, Inco submitted comments arguing that this proposal was scientifically unjustified. In August 2001, a final Public Health Goal of 12 micrograms of nickel per litre of drinking water was adopted by the California authorities. Although not itself a mandatory standard, this goal presumably will serve as a benchmark for setting a drinking water standard in California. This goal could also affect the perception of the health risks associated with nickel by producers and consumers of nickel-containing products. In addition, it may have an impact on the EPA’s consideration of a future drinking water standard for nickel or on the drinking water guideline values for nickel being developed or reviewed by the World Health Organization, as discussed below, or by other bodies.

Right-to-Know Legislation

“Right-to-Know” and other reporting laws have been adopted in many jurisdictions in which the Company operates. These laws generally require employers to advise their workers and their local communities, as well as specified governmental authorities, of the kinds and amounts of specified chemicals, including some chemicals made or used by the Company, which may be present in the workplace, released to the environment, or sent to a recycling or waste management unit, and to develop emergency response programs. Compliance with these “Right-to-Know” requirements has had no material effect on the Company’s financial position or operations.

Harmonization of Classification and Labeling of Chemicals

In 1990, the International Labour Organization (the “ILO”) initiated a project to harmonize existing systems for the classification and labeling of chemicals. This goal was endorsed by the 1992 UN Conference on Environment and Development (“UNCED”) and was included as one of the six areas for action identified in Chapter 19 of Agenda 21 of UNCED on the environmentally sound management of toxic chemicals. UNCED recommended that a globally harmonized hazard classification and compatible labeling system, including material safety data sheets (“MSDSs”) and easily understandable symbols, should be available, if feasible, by the year 2000. In September 2001, a Harmonized Integrated Hazard

Classification System for Chemical Substances and Mixtures was approved by the ILO's Task Force on Harmonization of Classification and Labeling and endorsed by the Joint Meeting of the Chemicals Committee and Working Party on Chemicals, Pesticides and Biotechnology. This document and similar documents on Physical Hazard Classification and Hazard Communication Tools are currently being merged to form the Globally Harmonized System ("GHS") which is expected to be adopted by the UN parent committee in 2002. Although implementation of the GHS criteria is considered voluntary, several jurisdictions that have existing "Right-to-Know" laws have given notice that they will adopt the GHS. It is possible that those jurisdictions that do not currently have "Right to Know" laws will also adopt the GHS.

European Union Actions

A number of formal and informal initiatives affecting nonferrous metals such as nickel have been advanced in recent years in the European Union ("EU") and by the OECD and other intergovernmental groups and agencies. In the EU, legislation is currently being developed for occupational exposure limits for nickel in the workplace. An Occupational Exposure Limits Criteria Document was submitted to the Commission of the EU by the nickel industry research association, the Nickel Producers Environmental Research Association (NiPERA), in collaboration with one of the European Commission's departments, independent experts and Eurometaux in January 1997. This document recommended workplace exposure limits of 1.0 mg/m³ for metallic nickel, 0.5 mg/m³ for oxidic nickel, 0.1 mg/m³ for soluble nickel and sulphidic nickel, and 0.24 mg/m³ for nickel carbonyl. In December 2000, NiPERA was asked to make a further presentation to the EU Commission Scientific Committee on Occupational Exposure Limits on the technical aspects of sampling and analysis for nickel in the workplace in relation to the recommended levels referred to above. These recommendations have not as yet been adopted and the Company is unable to predict whether these recommendations or other values ultimately will be adopted as workplace exposure limits in the EU and, accordingly, cannot judge what changes, if any, might be necessary in its workplaces or those of its customers if and when the EU adopts workplace exposure limits for nickel. In 2000, Norway, which is not a member of the EU, reviewed its recommended nickel occupational exposure limit. Following discussions between the Norwegian authorities and the Norwegian nickel industry and its labour union, a generic value of 0.05 mg/m³ for all nickel compounds and nickel metal was recommended. It is not known at this time if this recommendation will have any impact on the EU's deliberations and ultimate implementation of occupational exposure limits for nickel.

Another initiative in the EU concerned the possible elimination of the use of nickel in Euro coins. While the European Parliament ultimately accepted the use of nickel in the highest denomination coins, the fear that nickel in coins could cause widespread allergic dermatitis in the population was voiced by a number of EU countries. In response to this concern, a risk assessment of nickel in coins was carried out by the Danish government in 1999. This study concluded that there is no evidence that nickel-containing coins cause any nickel allergy among the general population. The results of this Danish risk assessment will help negate unfounded health concerns about nickel in coins. A number of other initiatives potentially affecting nickel are also being considered by the EU and other intergovernmental groups. If some or all of these initiatives were to be adopted through legislation or regulation by member countries of these intergovernmental groups and agencies, they could have the effect of reducing the use of nickel and nickel-containing products based upon alleged occupational or environmental hazards. These initiatives, in turn, have caused similar formal and informal initiatives to be developed by industrial associations and users of products containing nonferrous metals such as nickel. These initiatives are, for the most part, still preliminary in nature and the Company cannot predict at this time, what, if any, impact they might have on the Company's financial position or operations.

Under the Existing Substances Directive in the EU, Denmark placed elemental nickel and nickel sulphate on one of the priority substances lists developed by the EU because of their ability to cause dermal sensitization and in 1996 Denmark was appointed the principal jurisdiction for conducting risk assessments on these substances. In 2000, three further nickel compounds (nickel carbonate, nickel chloride and nickel dinitrate) were added to the risk assessment program as part of another priority substances list developed by the EU. These nickel risk assessments have progressed slowly due, in part, to the rapidly changing methodologies for assessing environmental risks of metals in general. For example, during the zinc risk assessment procedure being conducted by the EU, scientific data were found to be lacking regarding the bioavailability of zinc ions. This prompted the EU to mandate that the zinc industry, and other industries concerned with other metals (including nickel) subject to risk assessments, proceed with further research on metal bioavailability. The nickel industry has started

addressing the scope and content of such research and has until September 2002 to complete data collection. Meanwhile, the Danish government has changed and the priorities of the new environmental minister may also change. It is not known how these events will impact on these various nickel risk assessments by Denmark and the EU.

In 2001 a new draft of the proposed European Union Chemicals Policy was issued. This new policy, if adopted and implemented through the passage of legislation, would require producers to register their products with the EU Commission. Registration would be followed by evaluation and authorization stages with the burden of proving the safety of the products falling on industry. Seven working groups have been set up to discuss key aspects of the forthcoming new chemicals legislation, including both EU Commission representatives and industry delegates. The metals industry is working together with the chemicals industry in this respect, but careful consideration is being given to metals because of their unique characteristics. At this stage, it is too early to determine the impact of the new policy except that the testing of metals for health and environmental effects is likely to increase, as will the administrative procedures associated with marketing products. The policy is likely to come into effect in 2005 with the data collection and test results requirements of the policy expected to continue until 2010. A proposed directive on integrated product policy was introduced in 2001. This directive introduces the strategy for sustainable use of resources and recycling of products, including extended producer responsibility for best environmental options in the manufacture and use of "green" products. This directive is an instrument in the EU sustainable development strategy. In May 2001, the EU sustainable development strategy was released. This strategy will be used as the European negotiating position at the Global Sustainable Development meeting in September 2002 in Johannesburg, South Africa. The EU Commission believes that sustainable development is a priority in policy making and will expect companies to issue sustainability reports and will consider the use of sustainable development indicators as the basis for the drafting and implementation of environmental policy.

In 1997, the EU issued a draft proposal for a revision of its directive on batteries and accumulators. In the proposal, all batteries and accumulators containing more than 0.005 per cent cadmium by weight, as well as the corresponding appliances into which such batteries and accumulators are incorporated, would be prohibited by January 1, 2008. In June 2001, at a special meeting, virtually all of the departments of the European Commission opposed the proposed ban on cadmium-containing batteries (including nickel-cadmium batteries), preferring collection and recycling instead. They also argued that any directive should be postponed pending the results of an EU cadmium risk assessment. The next discussions on the technical issues relating to the directive are scheduled for June 2002, with a further revised draft proposal for the revision of the battery directive expected in late 2002.

In September 2001, the European Commission of the EU published an End of Life Vehicles directive. The intent of this directive is the prevention of waste from vehicles, and the promotion of reuse, recycling and other forms of recovery of end-of-life vehicles, their components and materials to reduce the disposal of waste. This directive, among many other things, requires that materials and components of vehicles put on the market after July 1 2003 not contain lead, mercury, cadmium or hexavalent chromium. This ban is subject to an evaluation by the European Commission of a number of uses, including cadmium in batteries for electrical vehicles. In the evaluation, the European Commission is obligated, in the framework of an environmental assessment, to consider the availability of substitutes as well as the need to maintain the availability of electric vehicles. According to the directive, the evaluation can result in (i) establishing tolerable concentration values for any of the banned materials, (ii) exempting the materials and components from the ban if their use is unavoidable, or (iii) deleting the materials and components of vehicles from the list of banned items. As a potential major supplier of nickel that might be used in the production of batteries for electric vehicles, the Company does not know at this time what impact this directive will have on the possible use of nickel-cadmium and other nickel-containing batteries in electric vehicles. The Company, as part of a consortium of companies interested in the battery industry, will be providing information to the European Commission for evaluation of the use of nickel-cadmium batteries in electric vehicles.

To comply with pollution control regulations under the U.K. Environmental Protection Act 1990, the Company's refineries at Clydach, Wales and Acton, England have obtained the necessary authorizations to continue to operate. These authorizations include prescribed release limits and are conditional upon the Company carrying out certain environmental improvements. In order to achieve continuous improvement, the government reviews these authorizations at least every four years, at which time new

environmental improvement conditions may be established. In late 2001 and early 2002, the authorizations were resubmitted to the relevant governmental authorities as required under new legislation arising from EU directives. The Company is awaiting final discussions with the authorities regarding any possible improvement conditions required as part of the governmental review of these authorizations.

WHO Drinking Water Guidelines

The World Health Organization (“WHO”) periodically reviews its guideline values for contaminants in drinking water. Its most recent review of nickel in drinking water began in 1995. Over the past several years nickel producers’ organizations, including NiPERA, have made submissions to WHO concerning the most appropriate method for extrapolating animal test data to humans. WHO recommended an extraordinarily stringent guideline value of 20 micrograms of nickel per litre of drinking water. This value was disputed by the nickel industry and, in a final action in 1997, WHO accepted the value as “provisional”. In 2000, a new regulatory research study on the reproductive effects of oral nickel in animals was completed. This study, which was funded by the nickel industry as part of its regulatory initiative in the EU regarding the regulation of existing substances, demonstrates an improved scientific basis for the nickel guideline in drinking water and has been submitted to the WHO for its consideration. The WHO is currently expected to issue its final guideline in 2002, although it is not known at this time what the final guideline value will be. While not a regulatory body itself, the WHO guideline values influence governmental regulatory agencies around the world in adopting standards. It is impossible to predict what impact the WHO guideline for nickel in drinking water will have on specific jurisdictions, including Canada, and its possible effect on the Company’s financial position or operations.

Other Environmental Control Regulations

The Company and other mining companies in Canada are aware of and concerned about the increasing desire on the part of many regulatory authorities throughout the world to limit the mining, refining and use of metals in the future. This desire is based on the belief of governments in the changing expectations of society towards various approaches to the concept of “sustainable development”, meeting the needs of the present without compromising the ability of future generations to meet their own needs. In response to this view, the Company believes that there is a tendency for some governments to use inadequate or incorrect information, to rely on inappropriate methodologies, and to apply the so-called “precautionary principle” in an unwarranted manner in making regulatory decisions regarding metals. An example of this approach is the predisposition by some regulators to identify metals, including nickel, as PBT chemicals that should be targeted for use reduction or waste minimization. A workshop on PBT chemicals, called the Review of the State-of-the-Science Regarding PBT Concepts and Metals and Metals Compounds Workshop, was held in January 2000. At this workshop, which was sponsored in part by the EPA and was attended by experts from numerous scientific disciplines as well as experts in the field of policy development, the prevailing view was that PBT criteria, which were developed to evaluate potential environmental hazards of organic chemicals, could not appropriately be applied to metals and inorganic metal compounds. While the Company encourages the recycling of nickel and other metals as part of waste minimization efforts, it opposes the designation of nickel as a PBT chemical for this purpose.

In 1998, the EPA published a draft list of 53 chemicals or groups of chemicals described as PBT substances that were to be the focus of a voluntary waste minimization initiative. Eleven of the 53 chemicals on the list were metals and included nickel. Inclusion on this list could lead to increased regulation of nickel, placing additional burdens on customers and possibly resulting in the substitution of other products for nickel. In submissions made to the EPA, the Company pointed out that the scoring and ranking scheme used to construct this list does not, on a scientific and technical basis, properly apply to metals and that nickel should be removed from the list. Although the EPA has not taken final action on this matter, the Company currently expects that nickel will not be listed as a PBT chemical by the EPA and will not otherwise be identified as a priority chemical for purposes of the EPA’s waste minimization program.

In the future, as in the past, various supranational, national, provincial, state and local governments and authorities under which the Company operates may impose regulations covering the emission of air

pollutants, the discharge of process wastewater and the generation, storage, treatment and disposal of liquid and solid wastes that could apply to various of the Company's operations and that could impose additional compliance costs on the affected Inco operating entities or on nickel-using industries. In December 2000, for example, the EPA issued a wastewater discharge rule applicable to Inmetco, the Company's metals recycling facility near Pittsburgh, Pennsylvania. Neither that rule nor any other proposed regulation of which the Company is aware would currently impose costs that would materially affect the Company's financial position or operations. Reference is made to the discussion of future removal and site restoration costs and related plans on page 42 of this Report.

Environment, Health and Safety Audits

The Company has, over the past number of years, conducted environment, health and safety ("EH&S") audits at its wholly-owned operating facilities as well as at operations in which it has at least a 50 per cent equity interest and certain affiliates in which it has less than a 50 per cent equity interest. In 1998, this audit program was extended to Taiwan Nickel, in which the Company has an equity interest of 49.9 per cent. The Company has broadened the focus of its EH&S audits from compliance audits, aimed at identifying specific problems, to management system audits that seek not only to identify problems but also to examine the root cause of these problems and correct deficiencies in the system. Audit results are reported to the facility management, which develops an action plan to correct any deficiencies. Inco's Board of Directors oversees the program, reviewing audit findings and action plans. EH&S audits were conducted at seven facilities worldwide in 2001.

Life Cycle Inventory Project

The collection of all information required for the Company's life cycle inventory project was completed in 2000. This project, which was initiated in 1997, involves the compilation of the resource requirements, such as energy and materials, and environmental burdens to air, water and land associated with the production of the Company's products. This project is based, in part, on a desire to correct existing flawed information on this phase of the life cycle of the Company's products. Typically, the information collected by the Company for this project may be utilized by governments, regulators and end-product users to evaluate the environmental acceptability of manufactured goods. In addition, the project will enable the Company to contribute information specific to nickel to the European stainless steel industry for its life cycle inventory project on stainless steel. The Company recognizes that there may be other internal and external benefits from this project, such as the opportunity to gain operating efficiencies and improved process and product design, the development of better environmental performance indicators to guide decision-making, and the provision of comprehensive data to customers, designers, engineers and governments to meet their needs for additional environmental information. A report detailing and analyzing the results of the project was issued in 2001. In addition, the life cycle inventory concept was used in 2001 to support an application for government funding for the development of a hydrometallurgical process for the Voisey's Bay ores.

Environmental and Health Management Systems

In 2001, the Company's Canadian operations began to develop and implement formal environmental management systems conforming to the Mining Association of Canada's Environmental Management Framework (the "EMF"). The EMF also conforms to the ISO 14001 Environmental Management System Standard. The Company's operations in the United Kingdom have been certified to the ISO 14001 Environmental Management System Standard since 2000.

In order to conform to the ISO 14001 Standard, in 2001 the Company broadened its environmental, health and safety policy to include policies related to social responsibility and sustainable development and to include pollution prevention as key elements of its policy. Work also began on the identification and ranking of environmental aspects and impacts relating to the Company's operations and the development of action plans to deal with significant environmental impacts. This work will continue into 2002. The Company also intends to extend formalized environmental management systems to PT Inco in 2002.

In 2001, the Company established a Core Working Group to undertake an analysis of current health practices and activities in the Company's operations in Canada and the United Kingdom with a view to creating a single overarching Health Management System ("HMS"). The HMS will provide a mechanism for workplace health management to assist in meeting applicable legal and other health requirements. The HMS also takes into account workplace health risks that a facility can control and directly manage, and those that the facility can be expected to influence. A document setting forth the requirements of the HMS and its elements is expected to be produced in 2002. It is expected that this document will include a health policy and a health risk assessment methodology. The document is intended to serve as a planning tool for each of the Company's operations to develop more detailed information and documentation to facilitate health management. The HMS will be extended to PT Inco at a later date.

Employees

At year-end 2001, the Company had 10,258 employees, compared with 10,143 employees at year-end 2000 and 10,198 employees at year-end 1999. At year-end 2001, 6,404 of the Company's employees were located in Canada, 171 in the United States, 425 in the United Kingdom, 2,951 in Indonesia and 307 in other countries. All full-time employees participate in the Company's performance through profit-sharing or other bonus arrangements.

The Company and its unionized office, clerical and technical employees at the Company's Ontario operations successfully negotiated a new three-year contract in March 2001. The Company's contract with unionized hourly production and maintenance workers at the Ontario operations remains in effect until May 31, 2003, while its contract with unionized production and maintenance workers at the Manitoba operations expires on September 15, 2002. When the prior contract covering the Manitoba operations expired in September 1999, these operations experienced a three-month labour interruption before the current contract was entered into in December 1999. The contract with unionized employees at PT Inco expires on December 15, 2002.

Operational Restructurings and Other Actions

In 2000, the Company met its target of sustainable annualized savings of \$250 million compared with annual expenses in 1997. These savings, which the Company is committed to sustaining, have helped to lower costs and improve operating margins.

In November 2001, the Company announced that it was consolidating its Ontario Division, its Manitoba Division and its United Kingdom operations into a new division to be known as Inco Canadian and UK Operations. This new organization is expected to facilitate the sharing of knowledge and optimize the use of the Company's resources to benefit customers, shareholders and employees.

In February 2002, the Company announced a target of \$50 million in cost savings and related actions on an annualized basis by the end of 2002.

Miscellaneous Investments

In connection with the disposition of the battery and related products businesses conducted by Inco ElectroEnergy Corporation ("IEEC"), which was completed in 1983, the Company assumed responsibilities for certain expenditures and other costs associated with certain proceedings or administrative actions initiated by or involving the EPA or state environmental agencies concerning certain facilities of these businesses. It also assumed responsibility for compliance by these facilities with applicable local environmental regulations covering the treatment or discharge of certain wastewaters, compounds or effluents into publicly-owned treatment works, sewage systems, groundwater resources and watercourses and the related cleanup of deposits of certain minerals and compounds from such watercourses. The Company's total accounting reserve relating to these remaining responsibilities, which reflects their estimated cost, was \$8 million at year-end 2001, compared with \$9 million at year-end 2000 and \$10 million at year-end 1999.

Other Information

In addition to properties discussed under “Description of Business” on page 3 of this Report, certain of Inco’s sales offices are leased and the Company also leases office space in Toronto, Ontario; London, England; Saddle Brook, New Jersey; and in other locations around the world.

Operations in certain foreign countries involve certain risks, including risks of monetary instability, changes in exchange rates, inconvertibility of currencies and expropriation and nationalization. For example, Indonesia has experienced a significant devaluation of its currency and other economic issues since mid-1997 and the uncertain political situation in Indonesia, primarily the result of the economic, social and political issues facing that country, could adversely affect PT Inco’s ability to operate and, accordingly, the Company’s results of operations, financial condition and prospects. For further information on the political situation in Indonesia, see “PT International Nickel Indonesia Tbk – General” on page 24 of this Report.

For financial information by geographic location, see Note 16 on page 120 of this Report.

Shareholder Rights Plan

The Company’s current shareholder rights plan is set out in a Rights Plan Agreement entered into between the Company and CIBC Mellon Trust Company, as Rights Agent, and is designed to (i) encourage the fair and equal treatment of shareholders in connection with any bid for control of the Company by providing them with more time than the minimum statutory period during which such bid must remain open in order to fully consider their options, and (ii) provide the Company’s Board of Directors with additional time, if appropriate, to pursue other alternatives to maximize shareholder value.

The plan was approved by the Company’s Board of Directors in September 1998 and became effective in October 1998. It was amended in certain respects by the Company’s Board of Directors in February 1999 to ensure that the plan was consistent with plans which had been recently adopted by other Canadian companies. The amended plan, which was approved by the shareholders at the Company’s 1999 Annual and Special Meeting of Shareholders in April 1999, will remain in effect until October 2008 subject to reconfirmation by holders of the Company’s voting securities at the Company’s annual meetings in April 2002 and in 2005. Inco’s Board of Directors in February 2002 approved certain minor amendments to the current rights plan to provide that its terms remained consistent with current rights plans in Canada and has unanimously recommended that the current rights plan, as it is proposed to be amended, be reconfirmed by the shareholders at the Company’s Annual and Special Meeting of Shareholders to be held on April 17, 2002.

The rights issued under the plan are attached to and trade with the Company’s Common Shares and no separate certificates will be issued unless an event triggering these rights occurs. Certificates evidencing Common Shares will be legended to reflect that they evidence the rights until the Separation Time (as defined below). Holders of the Company’s 7.75% Convertible Debentures, 5.75% Convertible Debentures, LYON Notes and Series E Preferred Shares and the certificates of entitlement attached thereto (which entitle their holders to receive rights in the event that the related security is converted into Common Shares) will generally be entitled to receive, upon conversion of the relevant security and presentment of the certificate of entitlement, respectively, rights in an amount equal to the number of Common Shares issued upon conversion of such securities.

The rights will separate from the Common Shares and be transferable, trade separately from the Common Shares and become exercisable at the time (the “Separation Time”) when a person acquires, or announces its intention to acquire, beneficial ownership of 20 per cent or more of (i) the Company’s then outstanding Voting Securities (defined to include the Company’s Common Shares and Series E Preferred Shares) or (ii) its then outstanding Common Shares alone, in either case without complying with the “permitted bid” provisions of the plan (as summarized below), or without the approval of the Company’s Board of Directors. Should such an acquisition occur, each right would entitle its holders, other than the acquiring person or persons related to or acting jointly or in concert with such person, to purchase additional Common Shares of the Company at a 50 per cent discount to the then current market price. The acquisition by any person (an “Acquiring Person”) of 20 per cent or more of the Company’s

Common Shares or Voting Securities, other than by way of a permitted bid, is referred to as a “Flip-in-Event”. Any rights held by an Acquiring Person will become void upon the occurrence of a Flip-in-Event.

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

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

Item 3. *Legal Proceedings*

There are no material pending legal proceedings to which the Company or any of its subsidiaries is a party or of which their property is the subject. The Company and its subsidiaries are subject to routine litigation incidental to the business conducted by them and to various environmental proceedings. Among the environmental proceedings are claims for personal injury, enforcement actions and one claim in which one of the Company’s subsidiaries has been designated, under the United States federal environmental law known as “Superfund”, or “CERCLA”, as a potentially responsible party. The Superfund claim asserts that, as a potentially responsible party, the Company’s subsidiary sent waste to a contaminated landfill or similar site and is jointly and severally liable for the cost of cleaning up such site. This claim has not proceeded to a point where a reliable assessment can be made of the costs to the Company, assuming responsibility is found to exist or liability is determined. The Company does not deem to be material, either singly or in the aggregate, such environmental proceedings based upon its present information concerning these matters and its past experience.

The Company has from time to time been named as a party or charged in connection with the alleged violation of, including exceeding regulatory limits relating to discharges under, certain environmental or similar laws and regulations applicable to its operations in Canada and elsewhere. Such proceedings have involved, and with respect to currently pending charges may ultimately involve, fines or similar sanctions in excess of \$100,000. However, none of these currently pending or threatened proceedings are material, either singly or in the aggregate, to the Company’s operations or financial results.

Item 4. *Submission of Matters to a Vote of Security Holders*

None.

Executive Officers of Inco Limited

The names, offices held and ages as of February 5, 2002 of the executive officers of Inco Limited are shown below.

<u>NAME</u>	<u>OFFICE</u>	<u>AGE</u>	<u>OFFICER SINCE</u>
Scott M. Hand	Deputy Chairman and Chief Executive Officer	59	1984
Peter C. Jones.....	President and Chief Operating Officer	54	1997
Stuart F. Feiner.....	Executive Vice-President, General Counsel and Secretary	53	1992
Peter J. Goudie	Executive Vice-President, Marketing	53	1997
George C. Halatsis	Executive Vice-President and Chief Financial Officer	47	2000
Ronald C. Aelick.....	President, Canadian and U.K. Operations	53	1995
Wm. Gordon Bacon.....	Vice-President, Technology and Engineering	57	1997
Subi Bhandari.....	Vice President and Chief Information Officer	57	2001
Bruce R. Conard.....	Vice-President, Environmental and Health Sciences	59	1995
Mark J. Daniel.....	Vice-President, Human Resources	55	2000
A. Stewart Gendron.....	President, Voisey's Bay Nickel Company Limited	59	1997
Robert A. Horn	Vice-President, Exploration	58	1995
Donald T. Hurley	Vice-President and Treasurer	54	1998
John B. Jones.....	Vice-President, Inco Special Products	59	1999
Gary G. Kaiway.....	Vice President, Taxation	53	2001
Ronald A. Lehtovaara	Vice-President and Comptroller	51	1996
William A. Napier	Vice-President, Environment and Health	47	2000
Terry L. Owen.....	Vice-President, Capital Projects	53	2001
Alan C. Stubbs	Vice-President, Public and Government Affairs	57	1999

Each executive officer is elected by the Board of Directors of Inco Limited annually, at the first meeting of such Board ("Annual Board Meeting") after the annual meeting of shareholders, for a term of one year or until a successor shall have been duly chosen and qualified, except in those cases where an executive officer is elected at other than the Annual Board Meeting, in which event such executive officer's tenure will expire at the next Annual Board Meeting unless re-elected. Such tenure is subject always to resignation or to removal as provided in the Company's By-law No. 1, its sole by-law, and the standing resolution adopted pursuant thereto.

Except for the officers mentioned below, each executive officer named above has been an officer or executive or key managerial employee of Inco Limited or one of its subsidiaries during the past five years. From January 1993 until June 1995, Dr. Bacon was Vice President, Bacon Donaldson, a Division of Canspec Group Inc., an engineering and testing company based in Calgary, Alberta; and from November 1995 until March 1997, he held management positions, most recently Vice-President, Technologies, with Sherritt International Corporation, a metals, oil and gas and metallurgical technology company based in Calgary, Alberta, and its predecessor, Sherritt Inc. From January 1993 until March 1996, Mr. Halatsis was Executive Vice-President and Chief Financial Officer, Esso Australia Limited, an upstream oil and gas company based in Melbourne, Australia; from April 1996 until July 1996 he was Director, Finance, AMP Investments Australia Limited, an Australian investment management company based in Sydney, Australia; and from August 1996 until February 2000 he was Executive Vice-President and Chief Financial Officer, Canadian Pacific Railway Company, a Canadian railway company based in Calgary, Alberta. From January 1995 until January 2000, Mr. Owen was Vice-President, Project Development and Construction, Cyprus Amax Minerals Company, a leading producer of copper and the world's largest producer of molybdenum, based in Englewood, Colorado, and from January 2000 until February 2001, he was President, International Core Services, a management consulting and project development services company based in Littleton, Colorado. During the five-year period prior to joining the Company, Mr. Bhandari held senior management positions, most recently as General Manager, Purchasing and Information Systems, with Toyota Motor Manufacturing Canada Ltd., an automobile manufacturing company based in Cambridge, Ontario; Mr. P.C. Jones held senior management positions,

most recently as President and Chief Executive Officer, with Hudson Bay Mining and Smelting Co. Limited, a mining company based in Winnipeg, Manitoba; Mr. Kaiway held senior management positions, most recently as Vice-President, Taxation, with Placer Dome Inc., a gold mining company based in Vancouver, British Columbia; and Mr. Stubbs was Vice-President, Public Affairs, MacMillan Bloedel Limited, a forest products company based in Vancouver, British Columbia. None of these companies is affiliated with Inco Limited.

The dates shown in the table extend from the first date of election as an executive officer of the Company. There are no family relationships among the directors and executive officers of Inco Limited, and no arrangements or understandings between any executive officer and any other person pursuant to which he was elected as an executive officer.

Change in Chief Financial Officer Position

The Company announced on February 27, 2002 that George C. Halatsis, Executive Vice-President and Chief Financial Officer, would be resigning from that position and that Farokh S. Hakimi would succeed Mr. Halatsis as Executive Vice-President and Chief Financial Officer. Mr. Hakimi had joined the Company as a consultant in January 2002 and had served as Vice-President and Chief Financial Officer of Rio Algom Limited, a global metals and mining company, from January 2000 to July 2001 and has held a number of senior financial positions with another global metals and mining company, Cyprus Amex Mineral Company, from 1986 to 1999, including as Vice-President and Treasurer from 1997 to 1999.

PART II

Item 5. *Markets for Inco Limited's Common Shares and Related Shareholder Matters*

Common Shares

Market Information

There are two principal markets on which the Company's Common Shares are traded, the New York Stock Exchange (the "NYSE") and The Toronto Stock Exchange (the "TSE").

The high and low closing prices for the Company's Common Shares as reported on the NYSE and the TSE for each quarter during the past two years are as follows:

	NEW YORK STOCK EXCHANGE (U.S. \$)							
	2001				2000			
	<u>1ST Q</u>	<u>2ND Q</u>	<u>3RD Q</u>	<u>4TH Q</u>	<u>1ST Q</u>	<u>2ND Q</u>	<u>3RD Q</u>	<u>4TH Q</u>
High	18.83	20.51	17.70	16.94	24.75	18.75	19.13	16.77
Low	14.60	14.25	11.35	12.20	15.06	14.75	14.34	14.13

	THE TORONTO STOCK EXCHANGE (CDN. \$)							
	2001				2000			
	<u>1ST Q</u>	<u>2ND Q</u>	<u>3RD Q</u>	<u>4TH Q</u>	<u>1ST Q</u>	<u>2ND Q</u>	<u>3RD Q</u>	<u>4TH Q</u>
High	29.09	30.70	27.10	27.05	35.90	27.55	28.20	25.18
Low	22.10	22.54	17.90	19.50	21.80	21.65	20.90	21.50

On February 27, 2002, the closing prices for the Company's Common Shares were \$18.52 on the NYSE and Cdn.\$29.80 on the TSE.

Holder of Common Shares

The total number of holders of record of the Company's Common Shares as of February 5, 2002 was 20,742.

Dividends

Subject to the preferential rights of the holders of the Company's Preferred Shares and any other prior ranking 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 Share shall be acquired for value, unless dividends on all outstanding Preferred Shares have been paid for all past quarterly periods.

At its meeting in February 1999, the Board of Directors eliminated the payment of quarterly dividends in respect of the Common Shares. The Board will continue to review on a periodic basis the declaration and payment of dividends on the Common Shares in the future. The Company's dividend policy, under normal circumstances and after taking into account the Company's short-term and long-term needs and objectives, is to declare and pay dividends on the Common Shares averaging approximately one-third of reported net earnings over a period of years. A sustainable level of regular quarterly dividends would be paid, adjusted, when appropriate, by extra dividends. The quarter-to-quarter decision as to the restoration and amount of any quarterly dividend per Common Share is

reviewed by the Board of Directors and determined with reference to a number of factors, including current business results and cash needs.

Common Share Purchase Warrants

As part of the redemption price the Company paid in connection with the redemption of the Company's Class VBN Shares effective December 14, 2000, the Company issued approximately 11 million Common Share Purchase Warrants (the "Warrants"). The Warrants were issued under, and are governed by, a Warrant Agreement dated as of December 1, 2000 by and among the Company, CIBC Mellon Trust Company, as the Canadian Warrant Agent, and ChaseMellon Shareholder Services, L.L.C., as the U.S. Warrant Agent (the "Warrant Agreement").

Each whole Warrant entitles the holder to purchase one Common Share at an exercise price of Cdn.\$30.00 (or the equivalent in U.S. dollars based upon then prevailing exchange rates at the time of exercise), subject to certain adjustments (the "Exercise Price"), until 5:00 pm (Toronto time) on August 21, 2006. Any Warrants not exercised prior to such date will expire. A Warrantholder does not have any voting or pre-emptive rights or any other rights as a shareholder of the Company until the Warrants held by such holder have been duly exercised and Common Shares of the Company have been issued to the holder pursuant thereto.

The Warrant Agreement provides that the Exercise Price and/or the number and kind of securities or property issuable on the exercise of the Warrants are subject to adjustment in certain events, including (1) the subdivision or consolidation of the Common Shares, (2) the issuance to all or substantially all the holders of Common Shares of a stock dividend or other distributions excluding any issuance of securities to holders of outstanding Common Shares which constitutes a "Dividend Paid in the Ordinary Course" (defined generally in the Warrant Agreement to include dividends or other distributions exceeding certain threshold aggregate or annual amounts based upon the value of the dividends or other distributions paid or consolidated net earnings for specified periods), and (3) the distribution to all or substantially all the holders of Common Shares of (i) shares of any other class, (ii) rights, options or warrants to acquire Common Shares, or (iii) cash, property or other assets of the Company (excluding, in each case, "Dividends Paid in the Ordinary Course").

The Exercise Price and/or the number and kind of securities or property issuable on exercise will also be subject to certain adjustments in connection with certain other events, including any change, reclassification or alteration of the Common Shares, the consolidation, amalgamation, merger or other similar arrangement of the Company with another Company, or the transfer of all or substantially all of the Company's assets.

No adjustment in the Exercise Price or the number or kind of securities or property issuable upon exercise will be required to be made (1) unless the cumulative effect of such adjustment or adjustments would change the Exercise Price by at least one per cent or, in the event of a change in the number of Common Shares purchasable upon exercise, the number of Common Shares issuable would change by at least one one-hundredth of a Common Share or (2) in respect of the issue of Common Shares pursuant to (i) the exercise of the Warrants or (ii) the Company's Optional Stock Dividend Program and Share Purchase Plan and options granted current or former employees of the Company or any other option or share purchase plan.

The Warrant Agreement provides that modifications and alterations to it and to the Warrants may be made if authorized by extraordinary resolution and if all other necessary approvals are received. The term "extraordinary resolution" is defined in the Warrant Agreement to mean, in effect, a resolution passed by the affirmative votes of the holders of not less than 66 2/3 per cent of the Warrants represented and voting at a meeting of Warrantholders or an instrument or instruments in writing signed by the holders of not less than 66 2/3 per cent of the outstanding Warrants. The Warrant Agreement and the Warrants may be modified and altered without authorization by extraordinary resolution and if all necessary approvals are received in order to cure defects or ambiguities, to make ministerial amendments otherwise provided that the rights of Warrantholders are not materially adversely affected thereby.

The Warrants are listed on the TSE and on the NYSE. Subject to applicable law, Inco may purchase Warrants in the market or by tender or private contract, and any Warrants so purchased will be cancelled.

Other Information

Under its articles of continuance, the Company is authorized to issue an unlimited number of Common Shares.

Under the Company's Optional Stock Dividend Program, holders of Common Shares may elect to receive Common Shares, valued at the prevailing market price at the time of election, in lieu of cash dividends if and when the payment of cash dividends on the Company's Common Shares is restored.

For a description of the Company's outstanding debentures and notes which are convertible into Common Shares, see Notes 8 and 11 on pages 108 and 113, respectively, of this Report.

The Common Shares and the Series E Preferred Shares have general voting rights. At shareholders' meetings, each holder of these securities is entitled to one vote for each share held and there are no cumulative voting provisions. See Note 14 on page 116 of this Report.

Class VBN Shares

At a special meeting of shareholders held on November 28, 2000, the Company received the requisite shareholder approval to amend the terms of the Class VBN Shares to provide for their redemption. The amendments allowed the Company to redeem each of its Class VBN Shares for Cdn.\$7.50 (or the equivalent in U.S. dollars) in cash and a fraction, 0.45, of a Warrant. For a description of the Warrants, see "Common Share Purchase Warrants" on page 61 of this Report. All of the Class VBN Shares were redeemed by the Company, effective December 14, 2000, for a total redemption price of \$133 million plus approximately 11.6 million Warrants. As of December 31, 2001, approximately 11 million of the Warrants had been issued.

The decision of the Company to redeem the Class VBN Shares was based upon the objectives of eliminating the potential for conflicts between the financial interests of the Class VBN Shareholders and the interests of Inco and its other shareholders, simplifying the Company's capital structure and maximizing the Company's strategic options and flexibility with respect to the development of Voisey's Bay and other major capital development projects. At the Company's Annual and Special Meeting of Shareholders held on April 25, 2001, the Company received the requisite shareholder approval to eliminate the Class VBN Shares from its authorized capital.

Series E Preferred Shares

The 5.5% Convertible Redeemable Preferred Shares Series E ("Series E Preferred Shares") were issued in August 1996 in connection with the acquisition of Diamond Fields. The Series E Preferred Shares are listed on the New York and Toronto stock exchanges.

Certain Provisions of the Preferred Shares as a Class

Issuable in Series

At the Company's Annual and Special Meeting of Shareholders held on April 25, 2001, the Company received the requisite shareholder approval to increase the number of authorized Preferred Shares from (i) 30 million Preferred Shares issuable in series, provided that the total maximum aggregate issue price of the Preferred Shares shall not exceed Cdn.\$750 million (or the equivalent in other currencies), to (ii) 45 million Preferred Shares issuable in series, provided that the total maximum aggregate issue price of the Preferred Shares shall not exceed Cdn.\$1,500 million (or the equivalent in other currencies).

Accordingly, the Company's authorized share capital currently includes 45 million Preferred Shares issuable in series, each series consisting of such number of shares and having such provisions attached

thereto as may be determined by the Board of Directors of the Company subject to a maximum aggregate issue price of Cdn.\$1,500 million (or the equivalent in other currencies).

Priority

The Preferred Shares of each series rank on a parity with the Preferred Shares of every other series, and prior to the Common Shares with respect to the payment of cumulative dividends and the distribution of assets on a liquidation, dissolution or winding up of the Company or for the purpose of winding up its affairs (“liquidation”).

Creation and Issue of Additional Preferred Shares

Subject to applicable law, the Company may, without the consent of the holders of the Preferred Shares as a class, (i) create additional Preferred Shares, (ii) create preferred shares of another class or classes ranking on a parity with the Preferred Shares with respect to the payment of dividends and/or the distribution of assets on liquidation and (iii) increase any maximum number of authorized shares of any one or more of such other classes of shares. If (but only so long as) any dividends are in arrears on any outstanding series of the Preferred Shares, the Company may not, without the consent, by a simple majority of the votes cast, of the holders of the Preferred Shares as a class, (i) issue any additional series of the Preferred Shares, or (ii) issue preferred shares of another class ranking on a parity with the Preferred Shares with respect to the payment of dividends and/or the distribution of assets on liquidation.

Class Voting Rights

The holders of the Preferred Shares are not entitled to any voting rights as a class except (i) as provided above, (ii) as provided by law, or (iii) with respect to the right to vote on certain matters as described under “Modification” below. When the holders of Preferred Shares vote as a class, or when two or more series of Preferred Shares vote together at a joint meeting, each holder has one one-hundredth of a vote in respect of each Canadian dollar (or its equivalent in a foreign currency at the date of issuance) of the issue price of the Preferred Shares he or she holds.

The Board of Directors of the Company may, at the time of creation of any series of Preferred Shares, confer voting rights on such series in addition to the voting rights of the holders of the Preferred Shares as a class. It is the Board of Director’s intention that, with respect to the creation of any future series of Preferred Shares, to the extent that such Preferred Shares would have general voting rights then such shares would not have more than one vote in respect of each Preferred Share. The voting rights attached to the Series E Preferred Shares as a series are summarized below under “Certain Provisions of the Series E Preferred Shares as a Series – Series Voting Rights”.

Modification

The class provisions attaching to the Preferred Shares may be amended at any time with such approval of the holders of such shares as may then be required by law or by the rules of any stock exchange on which the shares or any series of Preferred Shares are then listed. Currently, this approval requirement is by at least two-thirds of the votes cast at a meeting of such holders duly called for the purpose and at which a quorum is present, or as are required by the rules of any stock exchange upon which the shares of any series of Preferred Shares are then listed. In addition, the approval by at least two-thirds of the votes cast at a meeting of the holders of all shares of the Company carrying general voting rights is currently required by law for the amendment of such class provisions.

Certain Provisions of the Series E Preferred Shares as a Series

In addition to the foregoing class provisions, the Series E Preferred Shares have the following provisions.

Dividends

The holders of the Series E Preferred Shares are entitled to receive, as and when declared by the Board of Directors of the Company, fixed cumulative cash dividends accruing from their issue date at the rate of 5.5 per cent per annum. Such dividends are payable in U.S. dollars (or, at the election of the holder, in Canadian dollars) quarterly in arrears on the first business day of March, June, September and December in each year.

Optional and Mandatory Redemption

The Series E Preferred Shares, or any of them, will be redeemable at the option of the Company at any time after August 21, 2001 at the applicable redemption price of \$51.375, declining by \$0.275 per year until it reaches \$50.00 in 2006.

The optional redemption price is payable in U.S. dollars or, at the option of the holder, Canadian dollars, provided that the Company has the right to satisfy the optional redemption price payable to each holder by requiring such holder to exchange the Series E Preferred Shares so redeemed for that number of Common Shares obtained by dividing the aggregate optional redemption price of the shares of such holder to be so redeemed by 95 per cent of a 20-day weighted average trading price on the NYSE ending five days before the optional redemption date.

The Company is required to redeem all of the then outstanding Series E Preferred Shares on August 21, 2006 upon 30 days' notice at a redemption price of \$50 per share, together with all accrued and unpaid dividends thereon. This mandatory redemption price is payable in U.S. dollars or, at the option of the holder, in Canadian dollars, provided that the Company has the right to satisfy the redemption price payable to each holder by requiring such holder to exchange the Series E Preferred Shares so redeemed for that number of Common Shares obtained by dividing the aggregate redemption price of the Series E Preferred Shares of such holder to be so redeemed by 95 per cent of a 20-day weighted average trading price of the Common Shares on the NYSE ending five days before the mandatory redemption date.

Conversion

The Series E Preferred Shares are convertible at the holder's option into Common Shares at any time, at a conversion rate of 1.19474 Common Shares for each Series E Preferred Share (representing an effective conversion price of \$41.85 per Series E Preferred Share), subject to certain adjustments including adjustments in the event of stock splits, distributions of Common Shares other than as dividends paid in the ordinary course and certain rights offerings.

Series Voting Rights

The Series E Preferred Shares (together with the Common Shares) carry general voting rights. The holders of Series E Preferred Shares are entitled to receive notice of, to attend (in person or by proxy) and be heard and to vote on the basis of one vote in respect of each such share held, at all meetings of the shareholders of the Company other than meetings of which holders of another class or series of Shares are entitled to vote separately. The holders of Series E Preferred Shares shall also be entitled, voting exclusively and separately as a series, to one vote in respect of each Series E Preferred Share held in respect of certain amendments to the articles of the Company or actions which under any legislation, regulation or rule applicable to the Company requires the approval or authorization of a class vote. In the event that, and as long as, the Company fails to make six quarterly dividend payments, the holders of Series E Preferred Shares shall have the right as a series to elect two directors to the Board of Directors of the Company while such dividends remain in arrears.

Restrictions on Dividends and Exchange or Other Retirement of Shares and Issuance of Senior Shares

So long as any of the Series E Preferred Shares are outstanding, the Company is not entitled to:

(a) declare or pay any dividend on the Common Shares or any other shares of the Company ranking junior to the Series E Preferred Shares in respect of the payment of dividends and the distribution of assets on liquidation (other than stock dividends in Common Shares or any such junior shares of the Company);

(b) redeem, purchase or otherwise retire for value any Common Shares or any other shares of the Company ranking junior to the Series E Preferred Shares in respect of the payment of dividends and the distribution of assets on liquidation; or

(c) redeem, purchase or otherwise retire for value (i) less than all the Series E Preferred Shares, (ii) any other Preferred Shares, or (iii) any other shares of the Company ranking prior to or on a parity with the Series E Preferred Shares in respect of the distribution of assets on liquidation;

unless all dividends then payable on the Series E Preferred Shares and on all other shares ranking prior to or on a parity therewith in respect of the payment of dividends shall have been paid or set apart for payment.

Other Information

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, as such, to hold or vote any of the Common Shares of the Company. There are, however, certain restraints on the holding of Inco's voting equity securities. The *Investment Canada Act* (the "Act") limits the number of shares of a Canadian corporation which may be acquired by a non-Canadian without approval under the Act. The effect of the Act is to prohibit the acquisition of control by a non-Canadian of certain Canadian businesses, such as the Company, unless such acquisition is found by the responsible Minister of the Government of Canada to be of net benefit to Canada. See also the discussion of the Shareholder Rights Plan on page 56 and in Note 14 on page 116 of this Report.

Canadian federal tax legislation, in conjunction with applicable tax treaties, generally requires a 15 per cent withholding from dividends paid to the Company's shareholders resident in the United States, the United Kingdom and most western European countries. Similarly, depending upon applicable tax treaties, dividends paid to other non-residents of Canada are subject to a withholding tax at a maximum rate of 25 per cent. The amount of a stock dividend (for tax purposes) would generally be equal to the amount by which the stated capital of the Company has increased by reason of the payment of such dividend. 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 and any applicable tax treaties. Under regulations presently in effect in the United States, the Company is generally not subject to U.S. backup withholding rules, which would require withholding at a rate of 31 per cent on dividends and interest paid to certain U.S. persons who have not provided the Company with a taxpayer identification number.

Through subsidiaries and affiliates, the Company's operations are conducted in numerous countries and some \$1,800 million of the Company's consolidated total assets 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 many overseas locations.

At year-end 2001, of the shareholders of record having general voting rights, 63 per cent had addresses in Canada, 28 per cent in the United States and nine per cent elsewhere. Of the Company's voting shares, Canadian residents of record held 45 per cent, United States residents of record 54 per cent and residents of record in other countries one per cent.

Item 6. Selected Financial Data

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

	YEAR ENDED DECEMBER 31,				
	2001	2000	1999 ⁽¹⁾	1998 ⁽¹⁾	1997
		(\$ IN MILLIONS, EXCEPT PER SHARE AMOUNTS)			
Net sales	\$ 2,066	2,917	2,113	1,766	2,367
Cost of sales and operating expenses.....	\$ 1,414	1,774	1,602	1,473	1,816
Depreciation and depletion	\$ 263	265	248	244	226
Selling, general and administrative	\$ 111	105	99	96	109
Interest expense	\$ 56	83	73	86	81
Income and mining taxes.....	\$ (84)	226	26	(67)	30
Earnings (loss) from continuing operations	\$ 305	400	17	(139)	17
Earnings (loss) from discontinued operations	\$ —	—	(5)	36	58
Net earnings (loss)	\$ 305	400	12	(103)	75
Preferred dividends	\$ (26)	(26)	(26)	(26)	(26)
Accretion of notes	\$ (3)	—	—	—	—
Class VBN dividends	\$ —	—	—	(2)	(8)
Net earnings (loss) applicable to common shares	\$ 276	374	(14)	(131)	41
Net earnings (loss) per common share – basic ⁽²⁾	\$ 1.52	2.06	(0.08)	(0.79)	0.25
Common dividends declared.....	\$ —	—	—	16	67
Per common share	\$ —	—	—	0.10	0.40
Common shares outstanding (weighted average, in millions)	182	182	176	166	167
Total assets.....	\$ 9,587	9,676	9,560	9,397	7,772
Long-term debt.....	\$ 759	952	1,154	1,457	1,495
LYON Notes	\$ 231	—	—	—	—
Preferred shares.....	\$ 472	472	471	471	471
Class VBN shares.....	\$ —	—	753	753	753

(1) Certain information for the years 1998 and 1999 has been restated to reflect the retroactive application of the asset and liability method to calculate deferred income and mining taxes. Years prior to 1998 have not been restated because the impact of the change in accounting policy is not reasonably determinable (see Note 2 on page 103 of this Report).

(2) Net earnings (loss) per common share is calculated by dividing net earnings (loss) applicable to Common Shares by the weighted-average number of Common Shares issued and outstanding for the relevant period.

There are a number of differences between Canadian and United States GAAP. The most significant differences, insofar as they affect the Company's Consolidated Financial Statements, relate to accounting for post-retirement benefits, LYON Notes, derivative instruments, investments and reporting of comprehensive income. A full discussion of these differences is presented in the Notes to Consolidated Financial Statements on page 101 and, in particular, Note 20 on page 124 of this Report.

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

	YEAR ENDED DECEMBER 31,				
	2001	2000	1999 ⁽¹⁾	1998 ⁽¹⁾	1997
	(\$ IN MILLIONS, EXCEPT PER SHARE AMOUNTS)				
Earnings (loss) from continuing operations – Canadian GAAP	\$ 305	\$ 400	\$ 17	\$ (139)	\$ 17
Increased post-retirement benefits expense	(13)	(13)	–	(8)	(7)
Increased interest expense	(7)	–	–	–	–
Unrealized net loss on derivative instruments	(2)	–	–	–	–
(Increased) income and mining taxes	–	–	–	–	(11)
Earnings (loss) from continuing operations – United States GAAP	283	387	17	(147)	(1)
Discontinued operations	–	–	(5)	31	52
Net earnings (loss) – United States GAAP	<u>\$ 283</u>	<u>\$ 387</u>	<u>\$ 12</u>	<u>\$ (116)</u>	<u>\$ 51</u>
Earnings (loss) from continuing operations per share – United States GAAP					
Basic – Common	<u>\$ 1.41</u>	<u>\$ 1.99</u>	<u>\$ (0.05)</u>	<u>\$ (1.05)</u>	<u>\$ (0.21)</u>
– Class VBN	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 0.08</u>	<u>\$ 0.32</u>
Net earnings (loss) per share – United States GAAP					
Basic – Common	<u>\$ 1.41</u>	<u>\$ 1.99</u>	<u>\$ (0.08)</u>	<u>\$ (0.87)</u>	<u>\$ 0.10</u>
– Class VBN	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 0.08</u>	<u>\$ 0.32</u>

(1) Certain information for the years 1998 and 1999 has been restated to reflect the retroactive application of the asset and liability method to calculate deferred income and mining taxes. Years prior to 1998 have not been restated because the impact of the change in accounting policy is not reasonably determinable (see Note 2 on page 103 of this Report).

The selected financial data item “Preferred shares” would be reported in the same amounts under Canadian and United States GAAP. The Series E Preferred Shares would be excluded from Shareholders’ equity on the Consolidated Balance Sheet for United States reporting purposes. The selected financial data item “Long-term debt” would be increased by \$236 million at December 31, 2001, the United States GAAP carrying value of the LYON Notes, for United States reporting purposes. Under United States GAAP, “Total assets” would be reported as \$9,535 million at December 31, 2001 (2000 – \$9,640 million; 1999 – \$9,533 million; 1998 – \$9,388 million; 1997 – \$9,975 million).

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

Overview

The price of nickel has represented, and is currently expected to continue to represent, the principal determinant of the Company's profitability and ability to generate cash flow from its operations. Accordingly, the Company's financial performance has been, and is expected to continue to be, closely linked to the price of nickel and, to a lesser extent, the price of copper and other primary metals produced by the Company. Since the Company sells its nickel products in all major geographical markets, the realized prices for its primary nickel and other primary metals products are influenced by both global and regional supply and demand factors and by the availability and prices of secondary or metal-containing scrap material, including scrap generated by the stainless steel industry, and other substitute or competing commodity products for the primary nickel and other metals products produced by the Company.

2001

The nickel market in 2001 was a very challenging one compared with 2000 when total world demand for primary nickel achieved a record level. Market fundamentals weakened during 2001 as the world's major economies experienced softness and recessionary conditions intensified in the manufacturing sectors of virtually all of the OECD member countries. This weakness in demand was primarily concentrated within the Western World where nickel demand declined significantly. While there was continued strength in nickel demand in China, for 2001 the Company estimates that there was an overall decline in nickel demand, on a Western World-plus-China basis, of approximately 3.2 per cent to 1,047,000 tonnes.

Virtually all major applications for nickel were adversely affected by the economic slowdown experienced in the Western World, including significant weakness in non-stainless applications. Non-ferrous nickel alloys and special powder applications were negatively affected by the substantial decline in electronic and telecommunication applications as manufacturing activity contracted largely in order to liquidate excess inventories that had been built up, particularly in Western World countries. Stainless steel, the largest end use of primary nickel, was also affected. Stainless steel producers in all major producing countries except Japan responded to the slowdown in demand with production cutbacks in order to prevent an accumulation of finished stainless steel inventory. Western World-plus-China stainless steel production declined by 3.8 per cent to 18.4 million tonnes following an increase of 8.8 per cent in 2000. Primary nickel consumption in stainless steel applications, however, declined only slightly, aided by a reduction in the supply of stainless steel scrap to stainless steel producers in the second half of the year.

Growth in primary nickel supply continued in 2001 as most producers increased production, particularly in the first half of the year. However, with the decline in nickel prices and weak market conditions, a number of production cutbacks were announced over the second half of 2001. Taking into account these production cutbacks, 2001 reflected a net increase in Western World-plus-China primary nickel production of 36,000 tonnes to 855,000 tonnes. The largest sources of this increase in supply were the continued ramping up of certain laterite projects in Australia and the commissioning of new capacity in Venezuela and Colombia. Western World-plus-China supply rose to 1,090,000 tonnes, reflecting increases in net supply from Russia, Cuba and Eastern Europe of 235,000 tonnes.

Overall, reflecting the decline in demand and increase in supply, the nickel market in 2001 shifted to a surplus position of approximately 43,000 tonnes on a Western World-plus-China basis following the significant deficit positions in the last two years. Over the year, nickel inventories held by consumers are estimated to have fallen by 13,000 tonnes. Despite the slowdown, LME inventories increased by only 9,510 tonnes, ending the year with a relatively low level of LME inventories of 19,188 tonnes. As of February 5, 2002, LME inventories had increased to 23,844 tonnes.

The cash nickel price on the LME opened the year at \$6,995 per tonne (\$3.17 per pound) and fell during the first quarter, reaching a first half low of \$5,830 per tonne (\$2.64 per pound) in early April before attempting a rally over the second quarter as the market began to anticipate an early economic

recovery. However, with the continuation of a supply surplus in the market and ongoing economic uncertainty, the nickel price again moved lower and reached the year's low of \$4,420 per tonne (\$2.00 per pound) in late October. With the aggressive reduction of interest rates in the United States and renewed prospects for an economic recovery, prices for nickel and other non-ferrous metals improved in the fourth quarter. The LME cash nickel price was \$5,680 per tonne (\$2.58 per pound) as of December 31, 2001. As of February 5, 2002, the LME cash nickel price was \$6,270 per tonne (\$2.84 per pound). The uncertain global economic environment that existed at the end of 2001 and into early 2002, to the extent it continues, would be expected to have a significant adverse effect on the Company's business and financial results given the correlation between industrial production and demand for primary nickel and the Company's other products.

2000

After building momentum over the course of 1999, the nickel price continued to increase into 2000. From a close of \$8,450 per tonne (\$3.83 per pound) at the end of 1999, the LME cash nickel price increased to a peak of \$10,660 per tonne (\$4.84 per pound) in March 2000 and, subject to some variability, over the balance of 2000 declined to \$7,190 per tonne (\$3.26 per pound) by the end of 2000.

Solid market conditions contributed to the average price increase in 2000, as did the anticipation of possible labour disruptions, which did not materialize. The world economic recovery that commenced in 1999 continued in 2000, with OECD industrial production growth accelerating to 5.0 per cent in 2000 from 3.3 per cent in 1999. As a result, demand for nickel-containing products strengthened, especially stainless steel where production on a Western World-plus-China basis increased in 2000 by 8.8 per cent to a record level of 19.2 million tonnes.

Despite the strong performance of stainless steel production, the use of primary nickel in this segment registered no growth in 2000. This was due to the increased supply of stainless steel scrap, which led to an increase in the scrap ratio to 48 per cent in 2000 from 44 per cent in 1999.

Demand, on a Western World-plus-China basis, for primary nickel grew by 5.3 per cent in 2000 to a record level of 1,081,000 tonnes. This increase in demand reflected both stock building by consumers, who were replenishing their inventories from the relatively low levels at the end of 1999, and an estimated 12 per cent growth in consumption for primary nickel in non-stainless steel applications. Demand from the non-ferrous alloys sector was particularly strong, reflecting the growing use of nickel alloys in electronics and land-based turbines in North America. In addition, demand for specialty nickel products remained high, given the strength in certain high technology sectors.

In 2000, the supply of primary nickel to the Western World-plus-China increased by an estimated 50,000 tonnes to 1,050,000 tonnes. The main reason for this increase was a rise in primary nickel production in the Western World of approximately 52,000 tonnes. This increase reflected the return to more normal levels of production by several producers who either had experienced unexpected disruptions or reduced output in 1999. It also reflected production from new nickel capacity and the continued commissioning of three new laterite projects in Australia.

Partially offsetting the rise in Western World production was a decline in net deliveries of nickel from the former East Bloc countries of approximately 11,000 tonnes. As a consequence, demand for nickel exceeded supply by approximately 31,000 tonnes, thereby reducing apparent stocks to critically low levels, as reflected in nickel inventories held in LME warehouses, which fell over 37,000 tonnes during the year.

LME Average Cash Nickel Price

	2001	2000	1999
Per tonne	\$ 5,948	\$ 8,642	\$ 6,015
Per pound	2.70	3.92	2.73

Results of Operations

2001 Compared with 2000

Earnings Summary

The Company's net earnings were \$305 million, or \$1.52 per common share, in 2001, compared with \$400 million, or \$2.06 per share, in 2000. The lower earnings in 2001 reflected significantly lower realized prices for nickel and lower realized prices for copper, partially offset by higher deliveries of Inco-source nickel and platinum-group metals and reduced interest and minority interest expenses. The 2001 results included a non-cash deferred tax benefit of \$173 million, or 95 cents per share, recorded in the second quarter of 2001, and favourable currency translation adjustments of \$39 million, or 22 cents per share, for the year. The tax benefit was due to the revaluation of deferred income tax liabilities for reductions in future tax rates by the Provinces of Ontario and Manitoba. Results for 2000 included a non-cash deferred tax benefit of \$38 million, or 21 cents per share, resulting from a reduction in future tax rates by the Province of Ontario and favourable currency translation adjustments of \$15 million, or 8 cents per share.

Net Sales

Net sales to customers decreased by 29 per cent in 2001 due to significantly lower realized prices for and deliveries of nickel and lower realized prices for copper, partially offset by higher deliveries of platinum-group metals.

Primary nickel sales decreased by 36 per cent in 2001 due to a 28 per cent decline in the Company's average realized price and an 11 per cent decline in deliveries. Total deliveries of nickel were lower in 2001 due to lower deliveries of purchased finished nickel, reflecting lower demand in all markets across the Western World due principally to the weakness experienced in the manufacturing sectors of virtually all of the OECD member countries. However, deliveries of Inco-source nickel increased by four per cent in 2001, reflecting higher production at PT Inco, and the Company's Manitoba operations. Deliveries of finished nickel purchased from external sources, used by the Company to supplement Inco-source production as required, declined in 2001 as a result of higher Inco-source production in 2001 and lower demand.

The Company's nickel deliveries in 2001 represented an estimated 21 per cent share of the world market, compared with 23 per cent in 2000 and 25 per cent in 1999.

The Company's price realizations tend to lag LME price movements, due primarily to the terms of its contractual sales agreements with certain of its customers. The LME, a physical market where various metals, including nickel, can be bought or sold for prompt or future delivery, is the principal terminal market for primary nickel in the world. The Company realizes a premium over the prevailing LME cash price for its nickel powders and other value-added products. The Company's average realized price for its primary nickel products, including intermediates, was \$6,468 per tonne (\$2.93 per pound) in 2001, compared with \$9,007 per tonne (\$4.09 per pound) in 2000. For the January 2-February 5, 2002 period, the LME cash nickel price averaged \$6,054 per tonne (\$2.75 per pound).

The Company's price realizations for its nickel and other metals products generally reflect LME or other metal market prices and, over the longer term, depend principally upon the balance between demand for its products in the marketplace relative to supply available from the Company and its competitors, including for this purpose secondary or scrap materials containing metals in usable or recyclable form and supplies of other materials which may compete as substitutes. Of particular importance is the availability of stainless steel scrap, which competes directly with primary nickel as a source of nickel for use in the production of stainless steel. The scrap ratio, or that portion of total nickel units consumed as scrap by stainless steel mills, was 48 per cent in 2001, compared with 48 per cent in 2000 and 44 per cent in 1999.

Realized Prices

(\$ per tonne/per pound)	2001	2000	1999
Primary nickel, including intermediates	\$ 6,468 2.93	\$ 9,007 4.09	\$ 6,415 2.91
Copper	1,668 0.76	1,908 0.87	1,631 0.74
Cobalt	23,216 10.53	29,475 13.37	30,556 13.86
(\$ per troy ounce)			
Platinum	\$ 541.27	\$ 541.55	\$ 377.59
Palladium	711.32	670.04	359.80
Rhodium	1,475.85	1,930.63	888.33
Gold	270.50	278.91	280.69
Silver	4.40	4.99	5.29

Deliveries and Net Sales by Product

	Deliveries (tonnes)	Sales (\$ millions)	Deliveries (tonnes)	Sales (\$ millions)	Deliveries (tonnes)	Sales (\$ millions)
	2001	2001	2000	2000	1999	1999
Primary nickel including intermediates						
– Inco-source	207,071		199,097		181,050	
– Purchased	22,978		60,277		77,038	
	230,049	\$ 1,488	259,374	\$ 2,336	258,088	\$ 1,658
Copper						
– Inco-source	116,751		115,340		116,494	
– Purchased	-		2,685		3,260	
	116,751	195	118,025	225	119,754	196
Cobalt	1,454	34	1,422	42	1,568	48
Precious metals (thousands of troy ounces) ⁽¹⁾	2,021	292	1,767	249	1,909	152
Other		57		65		59
Net sales to customers		\$ 2,066		\$ 2,917		\$ 2,113

(1) Excludes toll-refined materials.

Copper sales decreased by 13 per cent in 2001 due to a 13 per cent decline in the average realized price and a one per cent decline in deliveries. Sales of precious metals increased by 17 per cent in 2001 due to higher deliveries from increased production.

Costs and Expenses/Other Income

(\$ millions)	2001	2000	1999
Cost of sales and operating expenses	\$ 1,414	\$ 1,774	\$ 1,602
Depreciation and depletion	263	265	248
Selling, general and administrative	111	105	99
Research and development	20	22	21
Exploration	23	23	23
Currency translation adjustments	(39)	(15)	-
Interest expense	56	83	73
Other income, net	(13)	(10)	(5)
Income and mining taxes	(84)	226	26
Minority interest	10	44	9

Cost of Sales and Operating Expenses

Cost of sales and operating expenses decreased by \$360 million, or 20 per cent, in 2001. This decrease was primarily due to lower deliveries of and prices paid for purchased nickel and the favourable impact on production costs of the weaker Canadian dollar relative to the U.S. dollar, partially offset by slightly higher operating expenses. The Canadian dollar, the currency in which a substantial portion of the Company's operating expenses are incurred, weakened against the U.S. dollar by four per cent in 2001, based upon the average exchange rate for the year. The value of the Canadian dollar relative to the U.S. dollar was six per cent lower at year-end 2001 than at year-end 2000.

Depreciation and Depletion

Depreciation and depletion expenses of \$263 million in 2001 were comparable with \$265 million in 2000.

Selling, General and Administrative

Selling, general and administrative expenses increased by \$6 million in 2001, primarily due to higher expenses related to new projects and higher legal fees.

Research and Development

Research and development expense decreased by \$2 million in 2001, primarily due to reduced spending on development of certain nickel products.

Exploration

Exploration expense in 2001 was comparable with the 2000 expense.

Currency Translation Adjustments

Currency translation adjustments of \$39 million in 2001 primarily represented the translation of Canadian dollar denominated liabilities, principally accounts payable, deferred income and mining taxes and post-retirement benefits, into U.S. dollars. The increase of \$24 million from 2000 was due to the further weakening of the Canadian dollar relative to the U.S. dollar during 2001.

Interest Expense

Interest expense excluded capitalized interest of \$13 million in 2001 and \$15 million in 2000 on debt incurred to finance the acquisition and development of the Voisey's Bay and Goro projects. The decrease in interest expense in 2001 was primarily due to lower average debt outstanding and lower rates in 2001 relative to 2000.

At December 31, 2001, approximately 55 per cent of the Company's long-term debt bore interest at rates that were subject to periodic adjustments based on market interest rates. The Company's long-term debt and average effective interest rates at December 31, 2001 are summarized in Note 8 to the Consolidated Financial Statements. Reference is also made to "Financing Activities" below.

Other Income, Net

Other income increased by \$3 million in 2001, primarily due to increased interest income as a result of higher levels of cash and marketable securities in 2001 compared with 2000.

Income and Mining Taxes

Income and mining taxes included a deferred tax benefit of \$173 million in 2001 due to the revaluation of deferred income and mining tax liabilities for reductions in future tax rates by the Provinces of Ontario and Manitoba. In 2000, income and mining taxes included a deferred tax benefit of \$38 million due to the revaluation of deferred income and mining tax liabilities for reductions in future tax rates by the Province of Ontario. In 2001, the effective income and mining tax rate of relief was 36.4 per cent, compared with a tax rate of 33.7 per cent in 2000. The increase was primarily due to the impact of higher tax rate changes on deferred taxes, partially offset by lower mining taxes, resource and depletion allowances, non-deductible currency translation adjustments and foreign tax rate differences.

Minority Interest

Minority interest of \$10 million in 2001 represents principally the respective minority shareholders' interests in the earnings of PT Inco, ITL and Jinco. The decrease in minority interest in 2001 was due primarily to the lower earnings of PT Inco.

Nickel Unit Production Costs

Nickel unit production costs represent the total of all cash costs (such as wages and benefits, energy and supplies) and non-cash costs (such as depreciation and depletion) incurred by the Company to produce a unit of nickel. These costs were the same in 2001 relative to 2000.

Productivity levels also affect unit production costs for nickel. Productivity, as measured in pounds of nickel and copper produced per shift, was the same in 2001 as in 2000.

The Company's nickel unit cash cost of sales before by-product credits increased by five per cent to \$3,439 per tonne (\$1.56 per pound) in 2001. This increase was principally due to higher operating expenses, partially offset by the favourable effect of the lower Canadian dollar, relative to the U.S. dollar, on production costs. Nickel unit cash cost of sales after by-product credits increased by 10 per cent to \$2,976 per tonne (\$1.35 per pound) in 2001 primarily due to higher nickel unit cash cost of sales before by-product credits and lower contributions from by-products, principally resulting from lower realized prices for copper and cobalt, partially offset by higher deliveries of precious metals.

Energy Cost Advantages

Energy costs are a significant component of production costs in the nickel industry since nickel production is highly energy-intensive, especially in respect of processing lateritic ores. The Company enjoys relatively low energy costs because of substantial production from its Canadian sulphide ores, which consume only about one-fifth of the energy required to process lateritic ores. In addition, low-cost energy is available from the Company's hydroelectric facilities in Ontario and at PT Inco's lateritic mining operation in Indonesia, and from purchased hydroelectric power at the Company's Manitoba operations.

Approximately 95 per cent of PT Inco's power requirements are met from its 165-megawatt hydroelectric generating facility at Larona and the newer facility at Balambano, which has an average design capacity of 93 megawatts. The availability of captive hydroelectric power decreased cash energy costs of PT Inco in 2001 by about 50 per cent, compared with about 52 per cent in 2000 and 53 per cent

in 1999, relative to the energy costs that would have been incurred had PT Inco been totally energy dependent on oil.

Labour Contracts

The Company and its unionized office, clerical and technical employees at the Ontario operations successfully negotiated a new three-year contract in March 2001. The Company's contract with unionized hourly production and maintenance workers at the Ontario operations remains in effect until May 31, 2003, while its contract with unionized production and maintenance workers at the Manitoba operations expires on September 15, 2002. The contract with unionized employees at PT Inco expires on December 15, 2002.

Nickel Production

Nickel production increased by two per cent to 207,077 tonnes in 2001 from 202,806 tonnes in 2000. The increase was due to higher production from the Manitoba operations and PT Inco, partially offset by lower production from the Ontario operations. Production from the Manitoba operations increased as a result of processing higher volumes of purchased intermediates and the higher production at PT Inco reflected the continuing ramp up to design capacity of the expanded processing facilities. The lower production at the Ontario operations was primarily due to the adverse impact of unexpected production disruptions in the third quarter of 2001, which were rectified. Finished nickel inventories were 26,517 tonnes at December 31, 2001, compared with 26,582 tonnes at the end of 2000.

Production of nickel in matte at PT Inco increased by six per cent to 62,600 tonnes in 2001. Nickel in matte, an intermediate product, is sold by PT Inco primarily into the Japanese market.

Copper Production

Notwithstanding the adverse impact of a fire at a new copper anode refining facility at the Ontario operations in 2001, the Company's copper production increased by two per cent to 116,255 tonnes in 2001.

2000 Compared with 1999

Earnings Summary

The Company's financial results improved significantly in 2000. Net earnings were \$400 million, or \$2.06 per share, in 2000, compared with \$12 million, or a loss after preferred dividends of eight cents per share, in 1999, primarily reflecting higher sales due to significantly higher metals prices and higher deliveries of Inco-source nickel. The 2000 results included a \$38 million, or 21 cents per share, non-cash deferred tax benefit, resulting from a reduction in future tax rates by the Province of Ontario, and favourable currency translation adjustments of \$15 million, or 8 cents per share. Results for 1999 included an after-tax loss of \$5 million, or three cents per share, from discontinued operations resulting from a post-closing adjustment relating to the 1998 sale of Inco Alloys International, the Company's former alloys business.

Net Sales

Net sales to customers increased by 38 per cent in 2000 due primarily to substantially higher realized prices for nickel (up 40 per cent), copper (up 17 per cent), platinum (up 43 per cent) and palladium (up 86 per cent).

Deliveries of all metals in 2000 were comparable to those in 1999, with nickel slightly higher and copper, cobalt and precious metals slightly lower. Deliveries of Inco-source nickel were up 10 per cent from the 181,050 tonnes delivered in 1999. This increase was due to increased production at PT Inco and the Manitoba operations. PT Inco production increased by 30 per cent from the expanded facilities which were completed at the end of 1999. The year 2000 also represented a return to more normal

production levels at the Manitoba operations after the reductions experienced in 1999 due primarily to a three-month work stoppage.

Deliveries of finished nickel purchased from external sources, used by the Company to supplement Inco-source production as required, declined in 2000 as a result of higher production in 2000.

The Company's average realized price for its primary nickel products was \$9,007 per tonne (\$4.09 per pound) in 2000, compared with \$6,415 per tonne (\$2.91 per pound) in 1999.

Cost of Sales and Operating Expenses

Cost of sales and operating expenses increased by \$172 million, or 11 per cent, in 2000. This increase was primarily due to higher deliveries of Inco-source nickel, higher prices paid for purchased nickel and higher production costs resulting from higher fuel oil and natural gas costs, partially offset by the impact of higher production.

In November 1997, the Company announced a comprehensive operational restructuring plan under which \$165 million of sustainable annual cost savings were to be achieved by the end of 2000 through a series of cost-reduction initiatives. In mid-1999, a new target of \$250 million in such annualized cost savings was set and achieved in the second half of 2000.

Depreciation and Depletion

Depreciation and depletion expenses increased by \$17 million in 2000. This increase was primarily due to higher depreciation at PT Inco as a result of the commencement of production from its expanded facilities in late 1999.

Selling, General and Administrative

Selling, general and administrative expenses increased by \$6 million in 2000. This increase was primarily due to higher expenses related to new projects and higher direct marketing expenses in 2000.

Research and Development

Research and development expense increased by \$1 million in 2000, primarily due to increased spending on development of value-added nickel products.

Exploration

Exploration expense in 2000 was comparable with 1999.

Currency Translation Adjustments

Currency translation adjustments of \$15 million were due to a weakening of the Canadian dollar relative to the U.S. dollar during 2000.

Interest Expense

Interest expense excluded capitalized interest of \$15 million in 2000 and \$37 million in 1999 on debt incurred to finance the acquisition and development of the Voisey's Bay and Goro projects and the expansion at PT Inco. The increase in interest expense in 2000 was primarily due to interest expense of \$24 million relating to the PT Inco expansion project. As this project was completed by the end of 1999, the related interest costs have been expensed beginning in 2000. In prior years, as the expansion was not complete, such interest was capitalized. The increase in PT Inco interest expense was partially offset by a reduction in interest expense on the Company's other debt due to the lower average balances in 2000 relative to 1999.

Other Income, Net

Other income increased by \$5 million in 2000 primarily due to increased interest income as a result of higher levels of cash and marketable securities in 2000 than in 1999.

Income and Mining Taxes

In 2000, the effective income and mining tax rate was 33.7 per cent, compared with a tax rate of 50.0 per cent in 1999. The decrease was primarily due to the impact of lower non-deductible currency translation adjustments and mining taxes, partially offset by reduced resource and depletion allowances and lower foreign tax rate differences. In addition, the effective income and mining tax rate in 2000 benefitted from the effect of a reduction in future tax rates in the Province of Ontario.

Minority Interest

The increase of \$35 million in minority interest in 2000 was primarily due to the higher earnings of PT Inco.

Nickel Unit Production Costs

Nickel unit production costs increased by six per cent in 2000, primarily due to higher fuel oil and natural gas costs, partially offset by the impact of higher production.

Productivity increased by three per cent in 2000, reflecting a 30 per cent increase in production at PT Inco combined with employment reductions at the Canadian operations.

The Company's nickel unit cash cost of sales before by-product credits increased by 15 per cent in 2000. This increase was due to higher energy costs and higher costs for purchased intermediate nickel feeds, partially offset by productivity improvements. While the costs associated with these purchased intermediates were higher, the price realizations were also higher, resulting in margins on these purchases remaining unchanged. The nickel unit cash cost of sales after by-product credits decreased by two per cent over the same period, primarily due to an increase in realized prices for platinum-group metals.

Nickel Production

Nickel production increased by 14 per cent to 202,806 tonnes in 2000 from 177,253 tonnes in 1999. This increase was due to higher production at PT Inco, as a result of the completed expansion, and higher production at the Manitoba operations where a three-month work stoppage in 1999 adversely affected production levels. The Company's finished nickel inventories were 26,582 tonnes at December 31, 2000, compared with 24,333 tonnes at the end of 1999.

Production of nickel in matte at PT Inco increased by 30 per cent to 59,200 tonnes in 2000 from 45,400 tonnes in 1999. The higher production was primarily due to the commencement of operation of the expanded facilities. This expansion has increased PT Inco's annual production capacity to 68,000 tonnes.

Copper Production

The Company's copper production in 2000 was down 1,863 tonnes, or two per cent, primarily due to difficulties experienced with the Ontario operations copper circuit.

Cash Flows, Liquidity and Capital Resources

2001 Compared with 2000

Operating Activities

Net cash provided by operating activities was \$360 million in 2001, down from \$842 million in 2000. This decrease was primarily due to lower operating earnings and income and mining taxes payable, partially offset by a decrease in accounts receivable. Tax payments were \$190 million in 2001 and \$38 million in 2000.

(\$ millions)	2001	2000	1999
Net cash provided by operating activities	\$ 360	\$ 842	\$ 128

Investing Activities

Net cash used for investing activities increased to \$261 million in 2001, compared with \$217 million in 2000. The increase was primarily due to higher capital expenditures, mainly in respect of the Goro project.

(\$ millions)	2001	2000	1999
Capital expenditures:			
Ontario operations	\$ 97	\$ 98	\$ 69
Manitoba operations	33	35	10
PT Inco	29	32	130
Goro	84	39	25
Voisey's Bay	9	11	17
Other	11	12	9
Total	\$ 263	\$ 227	\$ 260

Financing Activities

Notwithstanding a decline in net cash provided by operating activities, reflecting lower earnings due to lower nickel demand and reduced nickel prices, and increased capital expenditures in 2001, compared with 2000, the Company's net cash flow before financing activities was positive. Net cash provided by financing activities in 2001 was \$14 million, compared with net cash used for financing activities of \$470 million in 2000.

On March 29, 2001, the Company issued and sold, on a bought deal basis, 20-year zero coupon convertible notes ("LYON Notes") for gross proceeds of \$230 million. The net cash proceeds received from this sale of \$226 million, after commissions and other expenses, were used to repay fixed-rate debt and for general corporate purposes, including capital expenditures for the Goro and other development projects. Under Canadian generally accepted accounting principles, the LYON Notes are classified as an equity instrument and not debt. The LYON Notes accrete over 20 years to their value at maturity of \$438 million through periodic after-tax charges to retained earnings. The LYON Notes are not dilutive for purposes of calculating diluted earnings per share based on the Company's right to and current intention that it will eventually meet the redemption and conversion terms of these Notes in cash. Reference is made to Note 11 to the Consolidated Financial Statements.

Holders of LYON Notes have a special conversion right, exercisable on April 1, 2002, giving holders the right to convert the then accreted value of their Notes (totalling approximately \$238 million) into common shares of the Company at the then market price of such shares. If holders exercise this right, the Company has the right to satisfy this special conversion feature by delivering cash in lieu of common shares and it is the Company's current intention to satisfy any conversions and the related accreted value in cash. Based upon, among other factors, the Company's common share price as of February 5, 2002, the Company does not currently believe that a significant number of holders would exercise this special conversion right.

Preferred dividends totalling \$26 million were paid in each of the years 2001 and 2000 on the Company's Series E Preferred Shares in accordance with the terms of those shares. Dividends paid to minority interest shareholders were \$1 million in 2001 and \$1 million in 2000.

To provide liquidity for its operations, the Company maintains committed bank credit facilities aggregating \$575 million at December 31, 2001. The facilities are provided by a group of banks under separate agreements, the terms of which are substantially the same. The facilities are divided equally between a five-year revolving commitment and a 364-day revolving commitment. The revolving period of each of the facilities may be extended for an additional 364-day period at the discretion of the respective bank and any amounts outstanding at the maturity of the revolving period are repayable at that time. The revolving periods for the 364-day and five-year facilities currently expire on June 5, 2002 and June 5, 2006, respectively. In addition, the Company maintains committed four-year revolving bank credit facilities aggregating \$75 million at December 31, 2001. The revolving period of the facilities may be extended for an additional 364-day period at the discretion of the respective bank and any amounts outstanding at the maturity of the revolving period are repayable at that time. The revolving period for these facilities currently expires on June 5, 2005. The facilities currently bear interest, when drawn, at one per cent over the London Interbank Offered Rate.

Each such credit facility provides that, so long as advances are outstanding, the Company will be required to maintain a Tangible Net Worth, as defined, of at least \$1,500 million and a ratio of Consolidated Indebtedness to Tangible Net Worth, as defined, not to exceed 50:50. At December 31, 2001, the Company's Tangible Net Worth was \$4,781 million and the ratio of Consolidated Indebtedness to Tangible Net Worth was 14:86. None of these facilities has any covenant which would require any acceleration or prepayment of outstanding balances if the Company's credit ratings on its outstanding debt securities were downgraded or there were a significant decline in its earnings, cash flow or in the price of its publicly traded common shares or other equity securities but a downgrade in rating would increase the interest rate payable on borrowings under the facilities. The credit rating agencies rate the Company's outstanding debt securities according to standard criteria for mining companies. These criteria include, among others, profitability, balance sheet and interest coverage ratios, and future business plans and prospects. Accordingly, the Company's credit ratings are dependent upon a number of factors, including the views of the credit rating agencies on the nickel industry's supply-demand balance and the long-term price of nickel, and the Company's ability to continue to be one of the low-cost producers of primary nickel and generate cash flow from operations. Any significant downgrade in the Company's credit ratings could have a material adverse effect on its access to the capital markets and the terms under which it can borrow funds on a short-term and long-term basis.

December 31	2001	2000	1999
Net debt as % of net debt plus equity	9%	15%	22%

The Company's total debt at December 31, 2001 was \$840 million, down \$190 million from \$1,030 million at the end of 2000. The decrease in debt in 2001 was due to repayments, primarily from the proceeds of the sale of the LYON Notes as well as regularly scheduled repayments of PT Inco debt.

The Company believes that its cash provided by operations, together with available cash proceeds from its unused lines of credit and its access to international capital markets, will be more than sufficient to meet its currently anticipated cash requirements in 2002. These requirements would include the Company's ongoing cash needs as well as the cash required to finance the Company's currently planned expenditures on capital projects. For 2002, including its Goro project given its total capital cost of approximately \$1,400 million, the Company could be required, depending upon the nature and specific obligations to be financed by the Company, to raise substantial additional debt and/or other forms of capital to finance the currently planned capital expenditures for its Goro project for 2002 and 2003. The level and timing of capital expenditures on the Voisey's Bay project would depend on the terms of the eventual agreements which would enable the project to proceed.

The Company's only significant off-balance sheet financing arrangements, in addition to the derivative instruments referred to under "Risks and Uncertainties" below, involved (i) accounts receivable securitized financing arrangements with unrelated entities under which up to approximately \$85 million in eligible receivables may be sold by the Company to these entities at any time and (ii)

standby letters of credit and similar forms of security pledged to secure up to \$57 million in currently estimated pension obligations which are outside of the Company's funded pension plans referred to in Note 9 to the Consolidated Financial Statements. In addition, reference is made to Note 9 to the Consolidated Financial Statements for information concerning the Company's pension benefit obligations under its pension plans. Under the accounts receivable financing arrangements, a downgrading in the Company's credit ratings could give the purchaser of such receivables the right not to renew the arrangements. At December 31, 2001, the Company had a limited recourse liability of \$41 million in respect of the sale of undivided interests in certain accounts receivable in connection with these accounts receivable financing arrangements.

The Company does not have any significant long-term contractual arrangements with any related parties that create or result in any obligations that are not on an arm's length, negotiated basis.

With respect to the Company's debt repayment obligations and mandatory redemption requirements over the 2002-2006 period, reference is made to (i) the discussion above relating to the special conversion right holders of the LYON Notes have, (ii) Note 8 to the Consolidated Financial Statements for the Company's aggregate annual long-term debt repayment requirements, and (iii) Note 12 to the Consolidated Financial Statements for information on the mandatory redemption of the Company's Series E Preferred Shares in August 2006. As of December 31, 2001, the Company did not have any significant capital or operating lease commitments, unconditional purchase obligations or other contractual or commercial commitments that are reasonably likely to materially change its level of liquidity.

2000 Compared with 1999

Operating Activities

Net cash provided by operating activities increased to \$842 million in 2000 from \$128 million in 1999. This increase was primarily due to higher operating earnings and a decrease in working capital due to higher accounts payable, accrued liabilities and income and mining taxes payable. Tax payments were \$38 million in 2000 and \$42 million in 1999.

Investing Activities

Net cash used for investing activities decreased to \$217 million in 2000, compared with \$238 million in 1999. The decrease was primarily due to a reduction in capital expenditures in 2000. This reduction was due to the completion of the construction of the PT Inco expansion at the end of 1999, partially offset by increased spending in Canada and in the French Overseas Territory of New Caledonia in respect of the Goro project.

Financing Activities

Net cash used for financing activities in 2000 was \$470 million, compared with net cash provided by financing activities of \$66 million in 1999.

In 2000, the Company redeemed the 25.9 million outstanding Class VBN Shares for an aggregate cost consisting of \$133 million in cash plus 11.6 million Common Share purchase warrants. Each warrant entitles the holder to purchase one Common Share at a price of Cdn.\$30 (or the equivalent in U.S. dollars) at any time on or before August 21, 2006. The cash component of the redemption was funded from cash flows generated from operations.

Preferred dividends totalling \$26 million were paid in each of the years 2000 and 1999 on the Company's Series E Preferred Shares in accordance with the terms of those shares. Dividends paid to minority interest shareholders were \$1 million in 2000 and \$10 million in 1999.

The Company's total debt at December 31, 2000 was \$1,030 million, down \$314 million from \$1,344 million at the end of 1999. The decrease in debt in 2000 was due to repayments from higher cash flows from operating activities.

Risks and Uncertainties

Market Risk

Market risk is the risk of potential economic loss arising from adverse changes in market rates and prices. Given the nature of the Company's business and operations, the areas of highest exposure are nickel prices and, to a lesser extent, other metals and commodity prices (metals and commodities risk), foreign currency exchange rates (foreign exchange risk) and interest rates (interest rate risk). In the case of metals and commodities risks, the Company sells its products at prices based on world market prices and purchases fuel oil and other supplies at market prices for these commodities. While prices for the Company's primary nickel and other metals produced are based largely on, and sold in, U.S. dollars, the Company is subject to foreign exchange risk because it incurs a substantial portion of its costs and expenses in currencies other than the U.S. dollar, in particular in the Canadian dollar. The Company is exposed to additional foreign exchange risk and is also exposed to interest rate risk because it funds its operations and capital expenditures primarily through long-term and short-term borrowings in U.S. dollars. Based upon past movements of certain foreign currency exchange rates and interest rates, the Company believes that the potential near-term impact on its future earnings and cash flows with respect to foreign currency and interest rate risks will not have a material impact on the Company's financial condition. The metals and commodity risk relating to nickel and other metals produced by the Company, given the significance of price realizations to the Company of such metals, is expected to continue to have a material impact on the Company's results of operations, cash flow and financial condition.

The Company has engaged in transactions to reduce the impact of certain of these market risks to which it is exposed to a significant degree on its earnings and cash flows. The Company has established policies and procedures governing the use of derivative instruments to address certain market risks. These policies and procedures are intended to reduce certain of the uncertainties associated with the market risks specific to the Company's business and operations and reduce the effect of market fluctuations on its earnings and cash flows. The Company does not use these instruments for trading or speculative purposes. The Company only uses derivative instruments based on an economic analysis of the underlying exposures, anticipating that adverse effects on future earnings and cash flows due to fluctuations in metals and commodities prices, foreign currency exchange rates and interest rates will be offset by proceeds from, and changes in the fair value of, the derivative instruments. The Company does not, however, hedge its exposure to all market risks and does not hedge its exposure to any market risk in a manner that completely eliminates the effects of changing market conditions on its earnings or cash flows.

Metals and Commodities Risk

The Company is subject to metals and commodities risk because the Company sells its products and purchases its fuel oil and other supplies at prices effectively determined through trading on major commodity exchanges, notably the LME and the New York Mercantile Exchange. The prices offered on these exchanges generally reflect the global balance of supply and demand for a particular commodity but are also influenced in the short-term by such factors as investment funds flow, speculative activity and currency exchange rates.

The price of nickel, the Company's principal product, was the major factor influencing operating earnings and cash flows for the years ended December 31, 2001, 2000 and 1999. Inco's selling price for primary nickel is generally based on the LME cash nickel price. However, certain of the Company's products are customarily sold at a premium over the LME cash price, particularly Inco's special products such as nickel powders and foams. The markets for the Company's products have been, and are expected to be, cyclical and prices are volatile. However, because the Company is one of the largest producers and marketers of primary nickel in the world, it has chosen, subject to certain exceptions, not to hedge or otherwise attempt to mitigate to any significant degree the risk of fluctuations in the price of nickel. The Company reviews this policy from time to time and may increase the currently limited use of derivative instruments to reduce such risks in the future. In the case of other metals produced by the Company, the Company has from time to time entered into derivative instruments to establish minimum prices. The Company does enter into LME forward sales and/or purchase contracts to hedge its exposure to changes

in the prices of purchased nickel and of Inco-source nickel to be delivered to customers at fixed prices in the future.

The following table shows the Company's principal derivative instrument positions as of December 31, 2001:

Principal Derivative Instrument Positions

December 31, 2001	2002	2003	Total
LME Forward Nickel Purchase Contracts			
Tonnes	15,042	2,424	17,466
Average price (\$ per tonne)	5,535	5,322	5,505
Palladium Fixed Price Swaps			
Troy ounces	33,480	15,330	48,810
Average price (\$ per troy ounce)	905	830	881
Platinum Fixed Price Swaps			
Troy ounces	28,740	12,450	41,190
Average price (\$ per troy ounce)	550	500	535
Fuel Oil Fixed Price Swaps			
Tonnes	240,000	80,000	320,000
Average price (\$ per tonne)	119.28	117.53	118.84
Currencies			
Range Forward Options			
Cdn.\$ (millions)	20	—	20
Average (minimum–maximum)			
Price (U.S.\$)	0.638–0.655	—	0.638–0.655
Forward Contracts to buy:			
Cdn.\$ (millions)	—	35	35
Average price (U.S.\$)	—	0.643	0.643
Aus.\$ (millions)	140	150	290
Average price (U.S.\$)	0.495	0.515	0.505
Euro (millions)	75	230	305
Average price (U.S.\$)	0.889	0.893	0.892
Interest Rate Swap			
Notional principal (\$ millions)	—	—	159
(maturity 2022)			

The Company uses oil swap contracts to hedge the effect of energy price changes in respect of a portion of its energy requirements in Indonesia. Under these contracts, the Company receives or makes payments based on the difference between a fixed and floating price for fuel oil.

Reference is made to Notes 17 and 20 (c) to the Consolidated Financial Statements for information concerning the Company's derivative instruments including how the fair value of such instruments has been determined.

Foreign Exchange Risk

By virtue of its international operations, the Company conducts business in a number of foreign currencies other than the U.S. dollar. These exchange rates have varied substantially in the last three years. A substantial portion of the Company's revenue is received in U.S. dollars since the price of nickel and other metals produced are generally referenced in U.S. dollars, while a significant portion of its costs and expenses are incurred in Canadian dollars. Fluctuations in exchange rates between the U.S. dollar and the Canadian dollar and between the U.S. dollar and other currencies will give rise to foreign currency exposure, either favourable or unfavourable, which have materially affected and may in the future impact the Company's results of operations and financial condition. The Company's primary foreign exchange risk is to changes in the value of the Canadian dollar relative to the U.S. dollar. The Company reduces, from time to time, the impact of this risk by entering into forward currency contracts

and foreign currency options. At the end of 2001, these contracts took the form of “range forward options,” which effectively establish a minimum and maximum exchange rate for the Canadian dollar, and forward currency contracts that establish a fixed price for the future purchase of certain currencies in connection with the Goro project. The purpose of the Company’s Canadian dollar hedging activities is to reduce the risk that the eventual U.S. dollar cash flows relating to a portion of its future Canadian production costs will be adversely affected by an appreciation of the Canadian dollar. The purpose of the Company’s Euro and Australian dollar forward currency contracts is to hedge a portion of the future construction costs of the planned production facilities for the Goro project in the French Overseas Territory of New Caledonia.

The Company is, to a substantially lesser extent, subject to fluctuations in the value of the Indonesian Rupiah relative to the U.S. dollar from its operations in Indonesia. This reduced impact is due to a significant portion of PT Inco’s costs and revenues being effectively denominated in U.S. dollars. Because of the limited nature of this exposure, the Company does not customarily hedge the value of the Rupiah against the U.S. dollar and no such financial instruments were in effect at December 31, 2001.

Interest Rate Risk

The Company’s exposure to changes in interest rates results from investing and borrowing activities undertaken to manage its liquidity and capital requirements. The Company generally has used fixed-rate debt to finance long-term investments, while variable-rate debt has been used to meet working capital requirements and related requirements on a more near-term basis. At December 31, 2001, approximately 55 per cent of the Company’s total debt, or \$460 million, was subject to variable interest rates. The impact of a 10 per cent change in interest rates, or 19 basis points, would change interest expense by \$1 million over a full year. At the end of 2001, the Company had entered into an interest rate swap agreement to manage the interest rate risk associated with a portion of its fixed-rate debt. The interest rate swap effectively changes the Company’s exposure to interest rate risk by converting a portion of its fixed-rate debt to a floating rate.

Sensitivities

The Company’s financial results are sensitive to, among other things, changes in prices for nickel and other metals, the Canadian/U.S. dollar exchange rate and interest rates. The financial results are also affected by changes in the Indonesian Rupiah/U.S. dollar exchange rate, but to a lesser extent as PT Inco’s revenues and many of its expenses are denominated in U.S. dollars. The following table indicates the approximate full-year impact of the Company’s principal market risk exposures on net earnings per share, based on planned 2002 deliveries of Inco-source metals and after taking into consideration the principal derivative instrument positions as of December 31, 2001:

Sensitivities	Change in Amount	Impact on Basic Net Earnings per Share
Realized prices for:		
Nickel	\$ 880 per tonne	\$ 0.60
Copper	220 per tonne	0.09
Cobalt	2,205 per tonne	0.01
Platinum	50 per troy ounce	0.02
Palladium	50 per troy ounce	0.03
Fuel oil	10 per tonne	0.003
Natural gas	0.10 per MM BTU	0.002
U.S.\$1.00 per Cdn.\$	1 cent	0.09
U.S.\$1.00 per Rupiah (per thousand)	1 cent	0.009

The changes in realized prices noted above reflect approximately 16 per cent of the value of nickel, 15 per cent of the value of copper, 14 per cent of the value of cobalt, 10 per cent of the value of platinum, 11 per cent of the value of palladium, nine per cent of the value of fuel oil, and four per cent of the value of natural gas at the end of 2001. In respect of foreign currency dollar sensitivities, the changes reflect

approximately two per cent of the value of the U.S. dollar relative to the Canadian dollar and 10 per cent of the value of the U.S. dollar relative to the Rupiah at the end of 2001.

Environmental Risk

The operations of the Company have been, and may in the future be, affected from time to time in varying degrees by changes in environmental laws and regulations, including those for future removal and site restoration costs. The Company's policy is to meet or, if possible, surpass environmental standards set by relevant legislation, by the application of technically proven and economically feasible measures. Operating and capital expenditures during 1999 to 2001 relating to the Company's ongoing environmental and reclamation programs and removal and site restoration costs and related details are summarized in Note 10 to the Consolidated Financial Statements.

Although the ultimate amount to be incurred is uncertain, the total liability for future removal and site restoration costs in respect of the Company's worldwide operations, to be incurred primarily after cessation of operations, is estimated to be approximately \$315 million at December 31, 2001. In recognition of this future liability, the Company, starting in 1995, has annually provided an accounting provision of \$10 million for future removal and site restoration costs, which is included in cost of sales and operating expenses. This amount is based upon the estimated remaining lives of the Company's applicable ore reserves and facilities and is in addition to ongoing operating and capital expenditures. The estimate of the total liability for future removal and site restoration costs has been developed from independent environmental studies, which include an evaluation of, among other factors, currently available information with respect to closure plans and closure alternatives, the anticipated method and extent of site restoration using current costs and existing technology, and compliance required by presently enacted laws, regulations and existing industry standards. The total liability for future removal and site restoration costs represents estimated expenditures associated with closure, progressive rehabilitation and post-closure care and maintenance. Potential recoveries of funds from the future sale of assets upon the ultimate closure of operations have not been reflected in the estimate of the total liability or related annual provision. Future changes, if any, to the estimated total liability, as a result of amended requirements, laws, regulations and operating assumptions may be significant and would be recognized prospectively as a change in accounting estimate, when applicable. Environmental laws and regulations are continually evolving in all areas in which the Company operates.

Recent changes in mining regulations in the Province of Ontario have required the Company to provide letters of credit or other forms of financial security to fund the Company's future reclamation and restoration costs which are not expected to be incurred for many years if the Company were to no longer meet certain minimum investment-grade credit ratings for its outstanding publicly traded debt securities. Although the Company's debt securities are currently rated investment-grade, they were rated below investment-grade in recent times and there can be no assurance that this situation will not reoccur. If the Company were not able to maintain such ratings, it is currently estimated that such letters of credit or other forms of financial security associated with the currently estimated costs of the eventual future closure of mines and other facilities in Ontario would have to cover approximately \$290 million in such costs. Given the recent closure of two mines and the pending closure of another mine in Ontario, the Company was required under such mining regulations to provide surety bonds in the amount of \$23 million as of December 31, 2001 to secure such closure costs. In the case of the Manitoba operations, it is expected that, based upon recently enacted regulations in the Province of Manitoba, the Company will be required to provide some form of financial security for future reclamation and restoration costs. However, at these operations it is not currently expected that such security will be significant. These potential costs might not be incurred until many years in the future. If these requirements for letters of credit or other forms of financial security had to be satisfied, they could have an adverse effect on the amounts available for borrowing under the Company's bank credit facilities.

In September 2001, the Ontario Ministry of the Environment (MOE) issued a draft control order which would require reductions of sulphur dioxide (SO₂) emissions at the Ontario smelting operations by 34 per cent, from the current limit of 265,000 tonnes to 175,000 tonnes annually, by the end of 2006. The Company has proposed a \$65 million (Cdn.\$100 million) investment in fluid bed roaster (FBR) off-gas scrubbing technology intended to reduce SO₂ emissions to the new levels mandated by the MOE by the end of 2006. The FBR technology would have the added benefit of decreasing total metal emissions

of nickel, copper, arsenic and lead by 80 to 100 tonnes per year. The FBR project involves installation of water scrubbers that capture the SO₂ gases and particles before they escape the emissions stack. As part of the draft control order, the Company would also (i) agree to continue its research into the technology and economics of further SO₂ and total metals reductions, and (ii) report to the MOE and the public on the progress of this research program. The draft control order calls for a final report on achieving the additional reductions to be submitted to the MOE by December 31, 2010. In addition to the FBR investment, the Company immediately lowered on a voluntary basis the limit for SO₂ Ground Level Concentrations (GLCs) by 22 per cent, from 0.50 parts per million (“ppm”) to 0.39 ppm, over specified monitoring periods. GLCs refer to the concentrations of SO₂ at ground level after being emitted from the stack and then forced to the ground by atmospheric conditions rather than being dispersed. This reduction was the first step in complying with certain aspects of this draft control order relating to the reduction in GLCs to 0.34 ppm by April 2002. The Company believes the proposed new GLC standard can be achieved through changes in operating practices and costs are expected to be nominal. The Company submitted its response to the draft control order in November 2001. In mid-February 2002 the final control order was issued. The final control order did not change the required level or timing of reductions in SO₂ emissions from the smelter operations and SO₂ GLCs. The Company has determined that, based upon certain clarifications it has received with respect to certain provisions, it will not pursue any actions to propose certain changes to the order. The Company does not currently expect that compliance with the annual SO₂ emission levels from its smelter operations or GLC levels as set forth in the final control order will have any significant effect on its annual production of nickel and other primary metals from its Ontario operations. The Company remains committed to further reductions in SO₂ and other emissions on a cost-effective basis and will continue to evaluate and pursue the development, taking into account cost-benefit considerations, of technologies to meet these challenges. While the Company is not able to determine the impact, if any, of significant future changes in regulatory emission limits and other environmental laws and regulations that may be enacted in the future on its results of operations or financial position or operations due to the uncertainty surrounding the timing and ultimate form that such changes may take, any such changes could have a material adverse effect on the Company’s results of operations and financial condition.

Other changes in environmental legislation could have a material adverse effect on product demand, product quality and methods of production and distribution. The complexity and breadth of these issues make it difficult to predict their future impact on the Company. It is currently anticipated that capital expenditures and operating expenses will increase in the future as a result of the implementation of new and increasingly stringent environmental regulations. Compliance with environmental legislation can require significant expenditures and failure to comply with environmental legislation may result in the imposition of fines and penalties, liability for clean-up costs, damages and the loss of important operating permits. Although the Company is committed to meeting environmental requirements, there can be no assurance that the Company will be able at all times to be in compliance with all environmental regulations or that steps to bring the Company into compliance would not materially adversely affect its business, financial condition or results of operations.

Other Risks

The uncertain political situation in Indonesia, primarily as a result of the economic, social and other issues facing that country, could adversely affect PT Inco’s ability to operate and, accordingly, the Company’s results of operations, financial condition and prospects.

Critical Accounting Policies

The Company reviews and evaluates its property, plant and equipment and other assets for impairment when events or changes in economic and other circumstances indicate that the carrying value of such assets may not be fully recoverable. The net recoverable value of an asset is calculated by estimating undiscounted future net cash flows from the asset together with the asset’s residual value. Future net cash flows are developed using assumptions that reflect the Company’s planned course of action for an asset given the Company’s best estimate of the most probable set of economic conditions.

Evaluation of the future cash flows from major development projects such as the Voisey’s Bay and Goro projects entails a number of assumptions regarding project scope, the timing, receipt and terms of

regulatory approvals, estimates of future metals prices, estimates of the ultimate size of the deposits, ore grades and recoverability, timing of commercial production, commercial viability of new technological processes, production volumes, operating and capital costs, and foreign currency exchange rates. Inherent in these assumptions are significant risks and uncertainties. In the Company's view, based on assumptions which it believes to be reasonable, a reduction in the carrying value of its major development projects is not required at this time. It is possible that events such as any eventual agreements with governments and other interested parties to enable the development of the Voisey's Bay project to proceed or changes in future economic conditions and other circumstances, and the resulting adverse impact on some or all of these assumptions, may require a significant reduction in the carrying value of the Voisey's Bay project, in the related deferred income and mining tax liability and in shareholders' equity.

Accounting Changes in 2001

Effective, January 1, 2001, the Company adopted, retroactively as a change in accounting policy, a new accounting standard of the Canadian Institute of Chartered Accountants (CICA) in respect of earnings per share. This new standard, which is consistent with United States generally accepted accounting principles, changed the method in which diluted earnings per share are calculated. The effect of this change is described in Note 2 to the Consolidated Financial Statements.

Also effective January 1, 2001, the Company adopted, retroactively as a change in accounting policy, a new accounting standard of the CICA in respect of stock-based compensation and other stock-based payments. This new standard, which substantially conforms to United States generally accepted accounting principles, requires either the recognition of a compensation expense for grants of stock, stock options and other equity instruments to employees or, alternatively, the disclosure of pro forma net earnings and earnings per share data as if stock-based compensation had been recognized in earnings. The effect of this change is described in Note 2 to the Consolidated Financial Statements.

Also effective January 1, 2001, the Company adopted, retroactively, a new accounting standard of the CICA in respect of interim financial statements. As a consequence, the Company changed its accounting policy, for interim reporting purposes only, in connection with the timing of recognizing the costs associated with its planned annual shutdown of operations for maintenance. Previously, these costs were expensed evenly over the year whereas under the new standard such costs are expensed in the period in which they are incurred. The effect of this change is described in Note 2 to the Consolidated Financial Statements.

The Company also adopted, for United States reporting purposes, certain United States standards relating to accounting for derivative instruments and hedging activities effective January 1, 2001. The effect of adopting these standards is described in Note 20 to the Consolidated Financial Statements.

Accounting Changes in 2002

The Company will be adopting new standards of the CICA in respect of business combinations and goodwill for Canadian reporting purposes commencing in the first quarter of 2002. These standards conform substantially to new United States standards, which the Company will also adopt for United States reporting purposes commencing in the first quarter of 2002. In addition, the Company will be adopting a new United States standard in respect of accounting for the impairment or disposal of long-lived assets for United States reporting purposes commencing in the first quarter of 2002. The effect of adopting these standards is described in Note 20 to the Consolidated Financial Statements.

The Company also will be adopting a new standard of the CICA in respect of foreign currency translation, which conforms substantially to United States generally accepted accounting principles, that will eliminate the deferral and amortization of currency translation adjustments related to long-term monetary items with a fixed and ascertainable life. The effect of adopting this standard is described in Note 8 to the Consolidated Financial Statements.

Accounting Changes in 2003

The Company will be adopting new accounting guidelines issued by the CICA in respect of hedging relationships for Canadian reporting purposes. The new guidelines will be applied commencing with hedging relationships outstanding on January 1, 2003. The Company does not anticipate that the new guidelines will have a material effect on its results of operations and financial condition.

The Company will be adopting a new United States standard in respect of accounting for asset retirement obligations for United States reporting purposes commencing in the first quarter of 2003. The effect of adopting this standard is described in Note 20 to the Consolidated Financial Statements.

Other Information

The financial information presented in Management's Discussion and Analysis of Financial Condition and Results of Operations is consistent with the Company's Consolidated Financial Statements which are prepared in accordance with Canadian generally accepted accounting principles which, in the Company's case, generally conform with those established in the United States, except as explained in Note 20 to the Consolidated Financial Statements.

Reference is made to "Other Information" on page 65 of this Report for certain information on governmental and other policies and factors affecting the Company's operations and investments by non-Canadians in the Company's securities. Reference is also made to "Quarterly Financial Information" on page 132 of this Report for the Company's quarterly net sales, net earnings and earnings per share data for 2001 and 2000.

Outlook

The Company will continue to pursue its strategy of maintaining low-cost and profitable existing operations, developing new profitable low-cost nickel production capacity and strengthening its global marketing position and range of products. The Company's goal remains to be the world's lowest cost and most profitable nickel producer.

The Company expects to implement new initiatives during 2002 to reduce costs and improve margins in 2002 and future years. In 2000, the Company met its target of sustainable annualized savings of \$250 million compared with annual expenses in 1997. These savings, which the Company is committed to sustaining, have helped to lower costs and improve operating margins.

Production, revenues and profits are expected to be enhanced in future years by the expanded facilities at PT Inco. The expansion has increased PT Inco's production capacity by 50 per cent to an annual rate of 68,000 tonnes of nickel in matte. The increase in PT Inco's production to 62,600 tonnes of nickel in matte in 2001 represents the first step in bringing this additional capacity into production. However, in 2002, production at PT Inco is expected to decrease to approximately 59,000 tonnes as a result of a scheduled furnace rebuild.

The Company has several major development projects under review which are currently expected to have a significant effect on operating results in future years.

At the Ontario operations, work continued on development of the new area of mineralization near the existing Totten Mine which was discovered in 1999. The environmental permitting process for this deposit began in 2001 and initial production is currently estimated for 2005. In addition, development continued on the Creighton Deep project, with \$13 million of capital expenditures in 2001. Initial ore production began in 2001. In 2002, annual production from Creighton Deep is expected to be 2,300 tonnes of nickel, 1,200 tonnes of copper and 2,200 troy ounces of platinum-group metals. This production level is expected to increase in later years to 8,200 tonnes of nickel, 4,000 tonnes of copper and 7,100 troy ounces of platinum-group metals annually. Ore development of a second area of Creighton Deep is expected to begin in 2003 with production beginning in 2006 at similar annual production rates. The Company decided in 2000 to proceed with development of a low-grade zone at Stobie Mine. This development is expected to result in Stobie production of approximately 23,000

tonnes of contained nickel per year from 2002 to 2005. In 2000, the Company announced plans for a \$33 million development of a high-grade nickel deposit at McCreedy East Mine. This project is underway and will allow McCreedy East Mine to gradually increase its production by approximately 55 per cent from current levels by 2004.

In the Manitoba operations, work continued on the \$48 million project to deepen Birchtree Mine. Deepening Birchtree will allow the mine to increase production by over 90 per cent from current levels, developing proven reserves of 13.6 million tonnes of ore, and will extend the life of the mine by 15 years.

In April 2001, following completion of a new bankable feasibility study, the Company announced that it planned to proceed with the construction of a \$1,400 million commercial nickel-cobalt project at Goro in the French Overseas Territory of New Caledonia. The project consists of a fully integrated mining and processing facility with an annual capacity of approximately 54,000 tonnes of nickel and 5,400 tonnes of cobalt. The Goro project is currently expected to produce a nickel oxide product containing 78 per cent nickel and a cobalt carbonate product commencing in late 2004. The operation is expected to supply stainless steel customers in South Korea, Taiwan and eventually China. The Goro property has an extensive laterite resource base, including an initial mining zone with proven and probable mineral reserves of 54 million tonnes which has been outlined as an initial source of feed for a commercial plant. This ore reserve base can be mined using low-cost open pit methods, which, when combined with the Company's proprietary pressure-acid leaching and solvent extraction (PAL-SX) technology, gives the project the potential to have one of the lowest cash costs of nickel production in the world. The New Caledonian authorities enacted a fiscal regime in 2001 which provides a 15-year tax holiday plus an additional five years at tax rates that are 50 per cent of the prevailing tax rates for metallurgical companies. In addition, the Company received a commitment of \$350 million covering financing of qualifying Goro project expenditures under a program sponsored by the French Government to provide financial support for investments in French Overseas Territories. In 1999, the Company completed the construction of an integrated pilot plant in New Caledonia capable of processing 12 tonnes of ore per day to continue with the development of the PAL-SX technology required for commercialization. The pilot plant operated successfully throughout the year, both in further proving the PAL-SX technology and in training the core workforce for a future commercial plant. During 2001, engineering work continued and the necessary permits to enable construction to begin were submitted to the governmental authorities. In addition, an application for the project's required operating permit was submitted to the governmental authorities and it is currently expected to be approved in the third quarter of 2002.

In June 2001, the Company resumed negotiations with representatives of the Province of Newfoundland and Labrador concerning the terms of an agreement on the commercial development of the Voisey's Bay deposit. While significant progress has been made in these negotiations, the Company cannot predict at this time whether such an agreement can ultimately be reached with the Province. The principal issues to be resolved between the parties include (i) the terms of the movement of intermediate concentrate to be produced by the project to the Company's existing Canadian operations as part of the financing of the project, (ii) the scope of the guarantee covering processing in the Province required by the Provincial government, (iii) government financial participation and (iv) the required flexibility in the timing of the project's development and financing arrangements that would enable the Company to proceed in a prudent and measured way given the current uncertain economic environment. There are also a number of issues that would have to be resolved, in addition to reaching an agreement with the Province, before commercial development of the Voisey's Bay deposit could proceed, including (i) the Company reaching mutually acceptable impact and benefits agreements with the Labrador Inuit Association (LIA) and Innu Nation, (ii) the Company being satisfied that the project is appropriately dealt with under the arrangements on land claims between the federal and provincial governments and the LIA and Innu Nation, and (iii) completion of the necessary permitting and design and engineering parameters for project facilities.

The Company has certain potential new mine development projects at its existing operations in Canada, as well as additional orebodies that could be developed in Indonesia, in addition to the Goro and Voisey's Bay projects discussed above. Beyond 2002, as higher-cost mines are phased out, nickel production at both the Ontario and Manitoba operations is currently expected to decline. If sufficient new low-cost sources of nickel are not developed on a timely basis, the Company's unit cost of

production could increase significantly with any material decline in mine production from its Canadian operations if such operations were not restructured. These developments could also materially adversely affect the Company's results of operations, financial condition and liquidity. The Company continues to explore its options to fully utilize its existing Canadian facilities, including the purchase of external feedstock and additional mine development. To that end, the Company has entered into major feedstock purchase programs with two Australian producers, which are expected to provide an aggregate 85,000 tonnes of nickel in concentrate between 2002 and 2007 to the Ontario and Manitoba operations.

A number of risks and uncertainties are associated with the commercial development of the Goro and Voisey's Bay projects, including political, regulatory, design, construction, operating and financing risks and, in the case of the Voisey's Bay project, as described above, completion of land claims negotiations by the federal and provincial governments with aboriginal groups and completion of negotiations between the Company and aboriginal groups on impact and benefits agreements.

The Company's 2002 capital expenditures are currently expected to total \$590 million, including approximately \$170 million in sustaining capital expenditures for its existing operations. The significant increase over 2001 capital expenditures primarily reflects higher planned spending associated with the initial construction phase of the Goro project.

The Company's 2002 nickel production is currently expected to be approximately 213,000 tonnes. The Company currently plans to remain flexible with respect to its nickel production plan for 2002 given market conditions. Copper production is currently planned to be approximately 125,000 tonnes in 2002. Total production of platinum-group metals is planned to be 405,000 troy ounces in 2002.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

Market risk is the risk of potential economic loss arising from adverse changes in market rates and prices. Given the nature of the Company's business and operations, the areas of highest exposure are nickel prices and, to a lesser extent, other metals and commodity prices (metals and commodities risk), foreign currency exchange rates (foreign exchange risk), and interest rates (interest rate risk). In the case of metals and commodities risks, the Company sells its products at prices based on world market prices and purchases fuel oil and other supplies at market prices for these commodities. While prices for the Company's primary nickel and other metals produced are based largely on, and sold in, U.S. dollars, the Company is subject to foreign exchange risk because it incurs a substantial portion of its costs in currencies other than the U.S. dollar, in particular in the Canadian dollar. The Company is exposed to additional foreign exchange risk and is also exposed to interest rate risk because it funds its operations and capital expenditures largely through long-term and short-term borrowings in U.S. dollars. Based upon past movements of certain foreign currency exchange rates and interest rates as described below, and the Company's current expectations of changes in such exchange rates and interest rates for 2002, the Company believes that the potential near-term impact on its future earnings and cash flows with respect to foreign currency and interest rate risks will not have a material impact on the Company's financial condition. The metals and commodity risk relating to nickel and other metals produced by the Company, given the significance of price realizations to the Company of such metals, is expected to continue to have a material impact on the Company's results of operations, cash flow and financial condition.

The Company has engaged in transactions to reduce the impact of certain of these market risks to which it is exposed to a significant degree on earnings and cash flows. The Company has established policies and procedures governing the use of derivative instruments to address certain market risks. These policies and procedures are intended to reduce certain of the uncertainties associated with the market risks specific to the Company's business and operations and reduce the effect of market fluctuations on its earnings and cash flows. The Company does not use these instruments for trading or speculative purposes. The Company only uses derivative instruments based on an economic analysis of the underlying exposures, anticipating that adverse effects on future earnings and cash flows due to fluctuations in metals and commodities prices, foreign currency exchange rates and interest rates will be offset by proceeds from, and changes in the fair value of, the derivative instruments. The Company does not, however, hedge its exposure to any market risk in a manner that completely eliminates the effects of changing market conditions on earnings or cash flows.

The nickel market and other markets for metals produced by the Company are global in nature and are influenced by, among other things, both global and regional supply and demand factors. The Company's policy with respect to nickel has been to be exposed to the market risks for nickel produced and sold by the Company except in certain situations. These situations normally cover (i) sales of Inco-source nickel to customers where delivery is generally to be made three or more months in the future and (ii) purchases by the Company of nickel from other sources to meet its customer requirements. In these situations the Company will enter into derivative commodity instruments representing either forward purchase contracts to hedge its exposure to price fluctuations with respect to such future sales of Inco-source nickel or forward sale contracts to hedge its exposure to price fluctuations with respect to purchased nickel.

Metals and Other Commodities Price Risk

The Company is subject to metals and commodities risk because the Company sells its products and purchases its fuel oil and other supplies at prices effectively determined through trading on major commodity exchanges, notably the LME and the New York Mercantile Exchange. The prices offered on these exchanges generally reflect the global balance of supply and demand for a particular commodity but are also influenced by such factors as investment funds flow, speculative activity and currency exchange rates.

The price of nickel, the Company's principal product, was the major factor influencing operating earnings and cash flows for the years ended December 31, 2001 and 2000 and for prior years. Inco's selling price for primary nickel is generally based on the LME cash nickel price. However, certain of the Company's products are customarily sold at a premium over the LME cash price, particularly Inco's special products such as nickel powders and foams. The markets for the Company's products have been, and are expected to continue to be, cyclical in nature and prices are volatile. However, because the Company is one of the largest producers and marketers of primary nickel in the world, it has chosen, with certain limited exceptions, not to hedge or otherwise attempt to mitigate to any significant degree the risk of fluctuations in the price of nickel. The Company reviews this policy from time to time and may increase the currently limited use of derivative instruments to reduce such risks in the future. In the case of metals other than nickel produced by the Company, the Company has from time to time entered into derivative instruments to establish minimum prices. The Company does enter into LME forward sales and/or purchase contracts to hedge its exposure to changes in the prices of purchased nickel and of Inco-source nickel to be delivered to customers at fixed prices in the future.

Although the Company has generally not hedged the risk of fluctuations in the price of nickel, it does hedge this risk with respect to (i) sales of Inco-source nickel to customers for delivery three or more months into the future and (ii) purchases by the Company of nickel from third parties to meet its customers' requirements. In these situations, the Company will enter into derivative commodity instruments representing either forward purchase contracts to hedge the risk of price fluctuations with respect to forwards sales of Inco-source nickel or forward sale contracts to hedge the risk of price fluctuations with respect to purchased nickel.

At December 31, 2001, the Company had outstanding LME forward contracts to purchase 15,042 tonnes of nickel in 2002 at prices averaging \$5,535 per tonne (\$2.51 per pound) and a further 2,424 tonnes in 2003 at prices averaging 5,322 per tonne (\$2.41 per pound). At December 31, 2000, the Company had outstanding LME forward contracts to purchase 11,820 tonnes of nickel in the period 2001-2003 at prices averaging \$6,988 per tonne (\$3.17 per pound), 10,950 tonnes of which were for purchases in 2001. At December 31, 2000, the Company also had outstanding put option contracts, giving it the right, but not the obligation, to sell 4,500 tonnes of nickel at prices averaging \$7,500 per tonne (\$3.40 per pound) during 2001, and call option contracts, giving the buyer the right, but not the obligation, to purchase 4,500 tonnes of nickel from the Company at nickel prices averaging \$9,500 per tonne (\$4.31 per pound) during 2001. The total quantities of nickel outstanding under these LME forward purchase contracts outstanding at December 31, 2001 which were for purchases in 2002 represented seven per cent of the Company's projected nickel deliveries for 2002, and the total quantities outstanding at December 31, 2000 which were for purchases in 2001 represented five per cent of the Company's total actual nickel deliveries for 2001.

Depending on market conditions, the Company enters into precious metals contracts with various financial counterparties. These contracts are intended to provide certain minimum price realizations in respect of a portion of the Company's future production. At December 31, 2001, the Company had outstanding swap contracts to exchange payments on 33,480 troy ounces of palladium during 2002 and a further 15,330 troy ounces during 2003. Under these swap contracts, the Company receives fixed prices averaging \$905 per troy ounce in 2002 and \$830 per troy ounce in 2003 and pays a floating price. At December 31, 2000, the Company had outstanding swap contracts to exchange payments on 80,167 troy ounces of palladium during 2001. Under these swap contracts, the Company receives a fixed prices averaging \$816 per troy ounce and pays a floating price.

At December 31, 2001, the Company had outstanding swap contracts to exchange payments on 28,740 troy ounces of platinum during 2002 and a further 12,450 troy ounces during 2003. Under these swap contracts, the Company receives fixed prices averaging \$550 per troy ounce in 2002 and \$500 per troy ounce in 2003 and pays a floating price. No such contracts were in place at the end of 2000.

The Company's Indonesian subsidiary, PT Inco, uses oil swap contracts to hedge the effect of price changes in respect of a portion of its energy requirements in Indonesia which are met in the form of fuel oil products. Under such contracts, the Company receives or makes payments based on the difference between a fixed and a floating price for fuel oil. At December 31, 2001, the Company had swap contracts with a financial institution to exchange payments on 240,000 tonnes of fuel oil during 2002 and

a further 80,000 tonnes during 2003, representing about 61 per cent and 20 per cent, respectively, of PT Inco's estimated fuel oil requirements for those years. Under these swap contracts, the Company will pay fixed prices averaging \$119.28 per tonne in 2002 and \$117.53 per tonne in 2003 and receives a floating price. At December 31, 2000, the Company had swap contracts with a financial institution to exchange payments on 101,800 tonnes of fuel oil during 2001 and a further 40,000 tonnes during 2002, representing about 27 per cent and 10 per cent, respectively, of PT Inco's estimated fuel oil requirements for those years. Under these swap contracts, the Company paid or will pay fixed prices averaging \$134.89 per tonne in 2001 and \$119.36 per tonne in 2002 and receives a floating price.

Foreign Exchange Risk

By virtue of its international operations, the Company conducts business in a number of foreign currencies other than the U.S. dollar. These exchange rates have varied substantially in the last three years. A substantial portion of the Company's revenue is received in U.S. dollars since the price of nickel and other metals produced are generally referenced in U.S. dollars, while a significant portion of its costs and expenses are incurred in Canadian dollars. Fluctuations in exchange rates between the U.S. dollar and the Canadian dollar and between the U.S. dollar and other currencies will give rise to foreign currency exposure, either favourable or unfavourable, which have materially affected and may in the future impact the Company's results of operations and financial condition. The Company's primary foreign exchange risk is to changes in the value of the Canadian dollar relative to the U.S. dollar. The Company reduces, from time to time, the impact of this risk by entering into forward currency contracts and foreign currency options. At December 31, 2001, these contracts took the form of "range forward options," which effectively establish a minimum and maximum exchange rate for the Canadian dollar, and forward currency contracts that establish a fixed price for the future purchase of certain currencies in connection with its Goro project.

At December 31, 2001, the Company had outstanding currency call option contracts, giving it the right, but not the obligation, to purchase Cdn.\$20 million at an average rate to U.S. dollars of \$0.655 in the first three months of 2002, and outstanding currency put option contracts, giving the buyer the right, but not the obligation, to sell to the Company Cdn.\$20 million at an average rate to U.S. dollars of \$0.638 in the first three months of 2002. At December 31, 2000, the Company had outstanding currency call option contracts, giving it the right, but not the obligation, to purchase Cdn.\$50 million at an average rate to U.S. dollars of \$0.685 in each of the first three quarters of 2001, and outstanding currency put option contracts, giving the buyer the right, but not the obligation, to sell to the Company Cdn.\$50 million at an average rate to U.S. dollars of \$0.667, in each of the first three quarters of 2001. The purpose of the Company's Canadian dollar hedging activities is to reduce the risk that the eventual U.S. dollar cash flows relating to a portion of its future Canadian production costs will be adversely affected by an appreciation of the Canadian dollar. These foreign currency options represent approximately one per cent of the Company's total estimated Canadian production costs for 2002 and approximately four per cent of its total Canadian production costs for 2001. At December 31, 2000, the Company also had outstanding forward currency contracts to purchase Cdn.\$50 million at an average rate to U.S. dollars of \$0.665 in February 2001 to hedge future Canadian dollar tax payments.

At December 31, 2001, the Company had outstanding forward currency contracts to purchase Aus.\$140 million in 2002 at an average price of \$0.495 and Aus.\$150 million in 2003 at an average price of \$0.515, EUR 75 million in 2002 at an average price of 0.889 and EUR 230 million in 2003 at an average price of \$0.893, and Cdn.\$35 million in 2003 at an average price of \$0.643. The purpose of the Company's Euro and Australian dollar forward currency contracts is to hedge a portion of the future construction costs of the planned production facilities for the Goro project in New Caledonia.

The Company is, to a substantially lesser extent, subject to fluctuations in the value of the Indonesian Rupiah relative to the U.S. dollar from its operations in Indonesia. This reduced impact is due to a significant portion of PT Inco's costs and revenues being effectively denominated in U.S. dollars. Because of the limited nature of this exposure, the Company does not hedge the value of the Rupiah against the U.S. dollar and no such financial instruments were in effect at December 31, 2001 or 2000.

The Company does not engage in any significant foreign currency activities which have not been specifically identified as hedges.

Interest Rate Risk

The Company's exposure to changes in interest rates results from investing and borrowing activities undertaken to manage its liquidity and capital requirements. The Company has generally used fixed rate debt to finance long-term investments, while variable rate debt has been used to meet working capital and related requirements on a more near-term basis.

At December 31, 2001, approximately 55 per cent of the Company's total debt, or \$460 million, was subject to variable interest rates. The impact of a 10 per cent change in interest rates, or 19 basis points, would change interest expense by \$1 million over a full year. If interest rates were to decrease by one percentage point, or 100 basis points, the fair value of the Company's fixed-rate debt (\$372 million at December 31, 2001) would increase by approximately \$15 million. Such fair value was determined based on the discounted values of their related cash flows. The sensitivity analysis associated with such fair value does not consider the impact of changes in the Company's Common Share price on the fair value of its convertible debt or the conversion of such convertible debt. The change in other long-term debt is not material to the Company's financial position.

At the end of 2001, the Company had entered into an interest rate swap agreement in the notional amount of \$159 million to manage the interest rate risk associated with a portion of its fixed rate debt. This interest rate swap effectively changes the Company's exposure to interest rate risk by converting a portion of its fixed rate debt to a floating rate.

Sensitivities

In evaluating the effects of changes in metals and commodities prices, foreign currency exchange rates and interest rates on its business and operations, the Company uses a sensitivity analysis as its primary analytical technique to evaluate the hypothetical effect that certain market risks may have on future earnings and cash flows. Each analysis assumes simultaneous changes or variations in each rate or price which is intended to quantify the impact of such changes on the Company's earnings, cash flows, and fair values of assets and liabilities during a one-year period while holding all other factors constant except for each of the particular items of exposure which is varied. The range of changes used for the purpose of this analysis reflects the Company's view of changes that are reasonably possible over a one-year period. Fair values are the present value of projected future cash flows based on market rates and prices chosen.

As noted above, the Company's financial results are sensitive to, among other things, changes in prices for nickel and other metals, commodities prices, the Canadian/U.S. dollar exchange rate, and interest rates. The financial results are also affected by changes in the Indonesian Rupiah/U.S. dollar exchange rate, but to a lesser extent as PT Inco's revenues and many of its expenses are denominated in U.S. dollars. The following table indicates the approximate full-year impact on net earnings per Common Share, based on planned 2002 deliveries of Inco-source metals and after taking into consideration the principal derivative instrument positions as of December 31, 2001, of the hypothetical changes shown for each of the Company's principal market risk exposures, and the after-tax impact of the changes indicated on the Company's market risk sensitive instruments:

Sensitivities	Change in Amount	Impact on Basic Earnings per Common Share	After-tax Impact on Market Risk Sensitive Instruments
Realized prices for:			
Nickel	\$ 880 per tonne	\$ 0.60	\$ 6 million
Copper	220 per tonne	0.09	—
Cobalt	2,205 per tonne	0.01	—
Platinum	50 per troy ounce	0.02	1 million
Palladium	50 per troy ounce	0.03	1 million
Fuel oil	10 per tonne	0.003	1 million
Natural gas	0.10 per MM BTU	0.002	—
U.S. \$1.00 per Cdn. dollar	1 cent	0.09	—
U.S. \$1.00 per Rupiah (per thousand)	1 cent	0.009	—

The changes in realized prices noted above reflect approximately 16 per cent of the value of nickel, 15 per cent of the value of copper, 14 per cent of the value of cobalt, 10 per cent of the value of platinum, 11 per cent of the value of palladium, nine per cent of the value of fuel oil and four per cent of the value of natural gas at the end of 2001. In respect of foreign currency/U.S. dollar sensitivities, the changes in the value of the foreign currencies shown reflect approximately two per cent of the value of the U.S. dollar relative to the Canadian dollar and 10 per cent of the value of the U.S. dollar relative to the Indonesian Rupiah at the end of 2001.

The comparable figures for 2001, based upon the Company's expected production levels for 2001 and its derivative instrument positions as at December 31, 2000, were as follows:

Sensitivities	Change in Amount	Impact on Basic Earnings per Common Share	After-tax Impact on Market Risk Sensitive Instruments
Realized prices for:			
Nickel	\$ 880 per tonne	\$ 0.60	\$ 8 million
Copper	220 per tonne	0.09	—
Cobalt	2,205 per tonne	0.01	—
Platinum	50 per troy ounce	0.03	2 million
Palladium	50 per troy ounce	0.02	4 million
Fuel oil	10 per tonne	0.006	1 million
Natural gas	0.10 per MM BTU	0.003	—
U.S. \$1.00 per Cdn. dollar	1 cent	0.07	1 million
U.S. \$1.00 per Rupiah (per thousand)	1 cent	0.006	—

In this second table, the changes in price realizations reflect approximately 12 per cent of the value of nickel, 12 per cent of the value of copper, seven per cent of the value of cobalt, eight per cent of the value of platinum, five per cent of the value of palladium, five per cent of the value of fuel oil and one per cent of the value of natural gas at the end of 2000. In respect of foreign currency/U.S. dollar sensitivities, the changes in the value of the foreign currencies shown reflect approximately one per cent of the value of the U.S. dollar relative to the Canadian dollar and 10 per cent of the value of the U.S. dollar relative to the Indonesian Rupiah at the end of 2000.

The hypothetical changes in the prices and rates shown in both of the above tables were selected based upon what the Company believes reflect reasonably possible near-term changes in such prices and rates, given historical trends and other factors.

Risk of Non-Performance Associated with Derivative Contracts

The Company is exposed to credit risk in the event of non-performance by counterparties in connection with its derivative instruments. The Company does not obtain collateral or other security to support derivative financial instruments subject to credit risk but mitigates such credit risk by dealing only with, based upon its analysis and other data, financially sound counterparties and, accordingly, does not anticipate loss for non-performance. There is no substantial concentration of credit risk resulting from these instruments.

The Company's hedging activities are intended to mitigate the effect of adverse movements in the price of certain metals, fuel oil, interest rates and foreign currency exchange rates for a period of time in the future. Although hedging transactions may protect the Company against adverse movements in such prices or rates, they may also limit the price, interest rate or foreign currency exchange rate that the Company receives on hedged transactions, resulting in the Company foregoing potential realization of additional revenue.

Forward-Looking Statements

The estimated impact of changes in the price of various metals and other commodities, foreign currency exchange rates and interest rates included in the foregoing market risk discussion are forward-looking statements as defined in the U.S. Securities and Exchange Act of 1934. The actual impact of such changes is likely to differ, and may differ materially, from the estimates included in this discussion. Such estimates are based on a number of assumptions which may prove incorrect, including, but not limited to, assumptions about the relevant commodity, currency and credit markets, including markets in Indonesia and other countries in the Far East and Europe. In addition, these estimates do not take into account the collateral effects of the events causing the changes in the price of the various metals, foreign currency exchange rates and interest rates. The estimates provided should not be considered projections of future events or results.

Item 8. *Financial Statements and Supplementary Data*

INCO LIMITED AND SUBSIDIARIES INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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All other schedules are omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or notes thereto.

Separate financial statements of subsidiaries not consolidated and companies owned 50 per cent or less which are accounted for by the equity method have been omitted since such companies, if considered in the aggregate, do not constitute a significant subsidiary.

Auditors' Report

To the Shareholders of Inco Limited:

We have audited the consolidated balance sheet of Inco Limited as at December 31, 2001, 2000 and 1999 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended appearing on pages 97 through 130 of this Report. In addition, we have audited the financial statement schedule appearing on page 131 of this Report. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. In addition, in our opinion, the financial statement schedule presents fairly, in all material respects, the financial information set forth therein when read in conjunction with the related consolidated financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Toronto, Ontario
February 5, 2002

Consolidated Statement of Earnings

<i>Year ended December 31</i>	2001	2000	1999
<i>(in millions of United States dollars except per share amounts)</i>			<i>(Restated)</i>
Net sales (Note 16)	\$ 2,066	\$ 2,917	\$ 2,113
Costs and operating expenses			
Cost of sales and operating expenses	1,414	1,774	1,602
Depreciation and depletion	263	265	248
Selling, general and administrative	111	105	99
Research and development	20	22	21
Exploration	23	23	23
Currency translation adjustments	(39)	(15)	—
Total costs and operating expenses	1,792	2,174	1,993
Operating earnings	274	743	120
Interest expense	56	83	73
Other income, net	(13)	(10)	(5)
Earnings before income and mining taxes and minority interest	231	670	52
Income and mining taxes (Note 3)	(84)	226	26
Earnings before minority interest	315	444	26
Minority interest	10	44	9
Earnings from continuing operations	305	400	17
Loss from discontinued operations (Note 5)	—	—	(5)
Net earnings	305	400	12
Dividends on preferred shares (Note 12)	(26)	(26)	(26)
Accretion of notes (Note 11)	(3)	—	—
Net earnings (loss) applicable to common shares	\$ 276	\$ 374	\$ (14)
Net earnings (loss) per common share (Note 4)			
Basic			
Continuing operations	\$ 1.52	\$ 2.06	\$ (0.05)
Discontinued operations	—	—	(0.03)
	\$ 1.52	\$ 2.06	\$ (0.08)
Diluted			
Continuing operations (Restated)	\$ 1.49	\$ 1.89	\$ (0.05)
Discontinued operations	—	—	(0.03)
	\$ 1.49	\$ 1.89	\$ (0.08)

The Notes to Consolidated Financial Statements on pages 101 through 130 are an integral part of these statements.

Consolidated Statement of Retained Earnings

<i>Year ended December 31</i>	2001	2000	1999
<i>(in millions of United States dollars)</i>			(Restated)
Retained earnings at beginning of year			
as previously reported	\$ 918	\$ 544	\$ 646
Change in accounting policies (Note 2)	—	—	(88)
Retained earnings at beginning of year	918	544	558
Net earnings	305	400	12
Preferred dividends	(26)	(26)	(26)
Accretion of notes	(3)	—	—
Retained earnings at end of year	\$1,194	\$ 918	\$ 544

The Notes to Consolidated Financial Statements on pages 101 through 130 are an integral part of these statements.

Consolidated Balance Sheet

December 31	2001	2000	1999
(in millions of United States dollars)			(Restated)
ASSETS			
Current assets			
Cash and marketable securities (Notes 17 and 19)	\$ 306	\$ 193	\$ 38
Accounts receivable	277	310	318
Inventories (Note 6)	500	520	472
Other (Note 3)	44	33	44
Total current assets	1,127	1,056	872
Property, plant and equipment (Note 7)	8,217	8,352	8,472
Deferred charges and other assets	243	268	216
Total assets	\$ 9,587	\$ 9,676	\$ 9,560
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Long-term debt due within one year (Notes 8 and 17)	\$ 81	\$ 78	\$ 190
Accounts payable	132	163	120
Accrued payrolls and benefits	107	106	118
Other accrued liabilities	189	159	152
Income and mining taxes payable	58	185	—
Total current liabilities	567	691	580
Deferred credits and other liabilities			
Long-term debt (Notes 8 and 17)	759	952	1,154
Deferred income and mining taxes (Note 3)	2,117	2,401	2,475
Post-retirement benefits (Note 9)	451	469	479
Future removal and site restoration costs (Note 10)	49	47	46
Minority interest	350	334	289
Total liabilities	4,293	4,894	5,023
Contingencies (Note 18)			
Shareholders' equity			
Notes (Note 11)	231	—	—
Preferred shares (Note 12)	472	472	471
Class VBN shares (Note 13)	—	—	753
Common shareholders' equity			
Common shares issued and outstanding 182,192,732			
(2000 – 181,807,214; 1999 – 181,569,141) (Notes 14 and 15)	2,756	2,751	2,747
Warrants (Note 13)	62	62	—
Contributed surplus (Note 13)	559	559	—
Retained earnings	1,194	918	544
	4,571	4,290	3,291
Contingently issuable equity (Notes 12 and 14)	20	20	22
Total shareholders' equity	5,294	4,782	4,537
Total liabilities and shareholders' equity	\$ 9,587	\$ 9,676	\$ 9,560

The Notes to Consolidated Financial Statements on pages 101 through 130 are an integral part of these statements.

Consolidated Statement of Cash Flows

<i>Year ended December 31</i>	2001	2000	1999
<i>(in millions of United States dollars)</i>			<i>(Restated)</i>
Operating activities			
Earnings before minority interest	\$ 315	\$ 444	\$ 26
Charges (credits) not affecting cash			
Depreciation and depletion	263	265	248
Deferred income and mining taxes	(126)	23	(28)
Other	(45)	(81)	35
Decrease (increase) in non-cash working capital related to operations			
Accounts receivable	88	8	(67)
Inventories	20	(48)	1
Accounts payable and accrued liabilities	(10)	38	(54)
Income and mining taxes payable	(125)	185	(23)
Other	(20)	8	(10)
Net cash provided by operating activities	360	842	128
Investing activities			
Capital expenditures	(263)	(227)	(260)
Acquisition of interest in subsidiary	—	—	(8)
Other	2	10	30
Net cash used for investing activities	(261)	(217)	(238)
Financing activities			
Long-term borrowings	2	82	206
Repayments of long-term debt	(192)	(396)	(385)
Notes issued	226	—	—
Common shares issued	5	4	281
Class VBN shares redeemed	—	(133)	—
Preferred dividends paid	(26)	(26)	(26)
Dividends paid to minority interest	(1)	(1)	(10)
Net cash provided by (used for) financing activities	14	(470)	66
Increase (decrease) in cash and marketable securities	113	155	(44)
Cash and marketable securities at beginning of year	193	38	82
Cash and marketable securities at end of year (Note 19)	\$ 306	\$ 193	\$ 38

The Notes to Consolidated Financial Statements on pages 101 through 130 are an integral part of these statements.

Notes to Consolidated Financial Statements

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

Note 1. Summary of significant accounting policies

The consolidated financial statements of Inco Limited (“Inco”) and its subsidiaries (the “Company”) are prepared in accordance with Canadian generally accepted accounting principles (GAAP), consistently applied, which, in the Company’s case, conform in all material respects with United States GAAP except as explained in Note 20.

Principles of consolidation

The financial statements of entities which are directly or indirectly controlled by Inco, referred to as subsidiaries, are consolidated. Entities which are not controlled and over which Inco has the ability to exercise significant influence, referred to as affiliates, are accounted for using the equity method. Investments in other entities are accounted for using the cost method.

Estimates

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

Translation of consolidated financial statements into United States dollars

These consolidated financial statements are expressed in United States dollars. Monetary assets and liabilities are translated into United States dollars using year-end rates of exchange. All other assets and liabilities are translated at applicable historical rates of exchange or at rates established by related forward currency contracts. Revenues, expenses and certain costs are translated at monthly average exchange rates except for inventoried costs, depreciation and depletion which are translated at historical rates. Realized exchange gains and losses and currency translation adjustments are included in earnings except for currency translation adjustments related to long-term monetary items with a fixed and ascertainable life which are deferred and amortized on a straight-line basis over the life of the item.

Cash and marketable securities

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost for metals is mainly average production or purchase cost, and for supplies is average purchase cost.

Property, plant and equipment

Property, plant and equipment are stated at cost. Such cost, in the case of the Company’s mines and undeveloped properties, represents related acquisition and development expenditures. Financing costs, including interest, are capitalized when they arise from indebtedness incurred to finance the development, construction or expansion of significant mineral properties and facilities. When the net carrying value of an item of property, plant and equipment, less its related provision for future removal and site restoration costs and deferred income and mining taxes, exceeds the estimated undiscounted future net cash flows together with its residual value, the excess is charged to earnings. The Company’s estimates of future cash flows are subject to risks and uncertainties.

Revenue recognition

Revenue is recorded when title passes to the customer. The passing of title is based on terms of the contract, which is generally upon shipment. Revenue is generally recognized based on the monthly average of prevailing commodity prices according to the terms of the contracts. Prices used for provisionally priced shipments are based on London Metal Exchange (LME) prices prevailing at the time of shipment and are adjusted to actual prices at the time of final settlement.

Exploration

Exploration expenditures are expensed as incurred except in areas currently under development, where production is probable, or in areas under feasibility study, where there is production potential, in which case they are capitalized and amortized using the unit-of-production method.

Depreciation and depletion

Depreciation is calculated using the straight-line method and, for the nickel operations in Indonesia, the unit-of-production method, and is based on the estimated economic lives of property, plant and equipment. Such lives are generally limited to a maximum of 20 years. Depletion is calculated by a method which allocates mineral property acquisition and mine development costs rateably to the tonnes of ore mined.

Environmental expenditures

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

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged to earnings as incurred or capitalized and depreciated depending on their future economic benefits. Estimated future removal and site restoration costs are charged to earnings on a straight-line basis over the estimated remaining life of the related business operation. Actual removal and site restoration expenditures are charged to the related liability.

Income and mining taxes

Income and mining taxes comprise the provision (relief) for taxes actually paid or payable (received or receivable) and deferred taxes. Deferred income and mining taxes are computed using the asset and liability method whereby deferred income and mining tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred income and mining tax assets and liabilities are computed using current foreign currency exchange rates and using income tax rates in effect when the temporary differences are expected to reverse. The effect on deferred income and mining tax assets and liabilities of a change in tax rates is recognized in earnings in the period of substantial enactment. The provision or relief for deferred income and mining taxes is based on the changes in deferred income and mining tax assets and liabilities during the period.

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

Financial instruments and commodities contracts

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

Post-retirement benefits

The cost of providing benefits through defined benefit pensions and post-retirement benefits other than pensions is actuarially determined and recognized in earnings using the projected benefit method prorated on service. Differences arising from plan amendments, changes in assumptions and experience gains and losses are recognized in earnings over the expected average remaining service life of employees. The cost of providing benefits through defined contribution pension plans is charged to earnings in the period in respect of which contributions become payable.

Stock compensation plans

Cash received from employees upon exercise of options to purchase Common Shares and Class VBN Shares is credited to Common Shares issued and outstanding and Class VBN Shares, respectively. In respect of Common Share and Class VBN Share appreciation rights, compensation expense is determined and accrued over the vesting period of the options based on the excess of the quoted market value of the respective shares over the exercise price.

Net earnings (loss) per Common Share

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

Note 2. Changes in accounting policies

(a) Earnings Per Share

Effective January 1, 2001, the Company adopted, retroactively as a change in accounting policy, a new accounting standard of the Canadian Institute of Chartered Accountants (CICA) in respect of earnings per share. This new standard, which is consistent with United States GAAP, changes the method in which diluted earnings per share are calculated. The effect of adopting this new standard was to decrease diluted earnings per share by eight cents in 2000 and by nil cents in 1999.

(b) Interim Financial Statements

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

which they are incurred. Certain quarterly 2000 and 1999 comparative figures have been restated in connection with the retroactive adoption of this new accounting standard.

(c) Stock-based compensation

Effective January 1, 2001, the Company adopted, retroactively, a new accounting standard of the CICA in respect of stock-based compensation and other stock-based payments. The standard requires either the recognition of a compensation expense for grants of stock, stock options and other equity instruments to employees, based on the estimated fair value of the instrument at the grant date, or, alternatively, the disclosure of pro forma net earnings and earnings per share data, as if stock-based compensation had been recognized in earnings. As the Company elected to disclose pro forma net earnings and earnings per share data there was no effect of adopting this change in accounting on the Company's results of operations and financial position.

(d) Income and mining taxes

Effective January 1, 2000, the Company adopted a new accounting standard of the CICA in respect of income taxes. This standard significantly changed the method of accounting for deferred income taxes from the deferral method to the asset and liability method. Among other differences, the asset and liability method requires periodic adjustment of deferred tax assets and liabilities to reflect current tax and foreign currency exchange rates and changes the accounting for acquisitions in prior years.

This change in accounting policy was applied retroactively and, accordingly, the consolidated financial statements for 1999 were restated. As a result of this change, retained earnings were reduced by \$88 million at January 1, 1999; property, plant and equipment were increased by \$2,222 million at December 31, 1999; deferred income and mining taxes were increased by \$2,284 million at December 31, 1999; other current assets were reduced by \$31 million at December 31, 1999; and net earnings were reduced by \$5 million, or three cents per Common Share, in 1999.

(e) Post-retirement benefits

Effective January 1, 2000, the Company adopted a new accounting standard of the CICA in respect of employee future benefits. The Company adopted the requirement for accrual accounting in respect of post-retirement benefits other than pensions under the new standard in 1995 and the other requirements of the new standard were adopted prospectively. The effect of this change in accounting on the Company's results of operations and financial position was not significant.

Note 3. Income and mining taxes

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

<i>Year ended December 31</i>	2001	2000	1999 (Restated)
Current taxes			
Canadian	\$ 26	\$ 188	\$ 28
Foreign	18	21	34
	44	209	62
Deferred taxes			
Canadian	(145)	(31)	(44)
Foreign	17	48	8
	(128)	17	(36)
Income and mining taxes	\$ (84)	\$ 226	\$ 26

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

<i>Year ended December 31</i>	2001	2000	1999
Canada	\$ 144	\$ 392	\$ (106)
Foreign	87	278	158
	<u>\$ 231</u>	<u>\$ 670</u>	<u>\$ 52</u>

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

<i>Year ended December 31</i>	2001	2000	1999 (Restated)
Provision (relief)			
Combined Canadian federal-provincial statutory income tax rate	40.6%	41.5%	41.7%
Resource and depletion allowances	(10.2)	(8.7)	(26.5)
Adjusted income tax rate	30.4	32.8	15.2
Mining taxes	7.5	8.9	19.7
	37.9	41.7	34.9
Currency translation adjustments	0.5	1.6	45.3
Foreign tax rate differences	(4.3)	(5.1)	(32.1)
Effect of tax rate changes on deferred taxes	(74.8)	(10.0)	—
Other	4.3	5.5	1.9
Effective income and mining tax rate	<u>(36.4)%</u>	<u>33.7%</u>	<u>50.0%</u>

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

<i>December 31</i>	2001	2000	1999
Liabilities:			
Property, plant and equipment	\$ 2,247	\$ 2,562	\$ 2,683
Post-retirement benefits	29	24	27
Other	3	2	10
	<u>2,279</u>	<u>2,588</u>	<u>2,720</u>
Assets:			
Accounting provisions not currently deductible for tax	157	182	178
Tax loss carryforwards	53	17	81
Other	5	5	3
	<u>215</u>	<u>204</u>	<u>262</u>
Valuation allowance	(53)	(17)	(17)
	<u>162</u>	<u>187</u>	<u>245</u>
Net deferred income and mining tax liability	<u>\$ 2,117</u>	<u>\$ 2,401</u>	<u>\$ 2,475</u>

At December 31, 2001, other current assets included current deferred income and mining taxes of \$39 million (2000 – \$29 million; 1999 – \$33 million).

Deferred income and mining taxes have not been provided on the undistributed earnings of foreign subsidiaries, which are considered to be reinvested indefinitely outside of Canada.

Note 4. Net earnings (loss) per Common Share

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

<i>Year ended December 31</i>	2001	2000 (Restated)	1999 (Restated)
Basic earnings (loss) per share computation			
Numerator:			
Earnings from continuing operations	\$ 305	\$ 400	\$ 17
Dividends on preferred shares	(26)	(26)	(26)
Accretion of notes	(3)	—	—
Earnings (loss) from continuing operations applicable to common shares	\$ 276	\$ 374	\$ (9)
Denominator:			
Weighted-average common shares outstanding (millions)	182	182	176
Basic earnings (loss) per common share	\$ 1.52	\$ 2.06	\$ (0.05)
Diluted earnings (loss) per share computation			
Numerator:			
Earnings (loss) from continuing operations applicable to common shares	\$ 276	\$ 374	\$ (9)
Dilutive effect of:			
Convertible debentures	6	13	—
Earnings (loss) from continuing operations applicable to common shares, assuming dilution	\$ 282	\$ 387	\$ (9)
Denominator:			
Weighted-average common shares outstanding (millions)	182	182	176
Dilutive effect of:			
Class VBN shares	—	12	—
Convertible debentures	6	10	—
Stock options	1	1	—
Weighted-average common shares outstanding, assuming dilution	189	205	176
Diluted earnings (loss) per common share	\$ 1.49	\$ 1.89	\$ (0.05)

In 2001, debentures convertible into 4,180,601 Common Shares (2000 – nil; 1999 – 9,930,601), options on 5,261,534 Common Shares (2000 – 4,082,534; 1999 – 6,320,418), Preferred Shares convertible into 11,277,987 Common Shares (2000 – 11,278,017; 1999 – 11,267,148) and Warrants exercisable for 11,021,947 Common Shares (2000 – 10,997,903; 1999 – nil) were excluded from the computation of diluted earnings (loss) per Common Share because their effects were not dilutive.

Note 5. Discontinued operations

On October 28, 1998, the Company completed the sale of its 100 per cent interest in Inco Alloys International (IAI), its former alloys business segment, for gross proceeds of \$365 million. An after-tax gain of \$20 million from the sale of IAI was recorded in the fourth quarter of 1998. In accordance with the terms of the definitive agreement covering the sale, the sale price was subject to a post-closing adjustment based upon certain changes in IAI's net worth up to closing. The process for determining this adjustment was completed in October 1999, resulting in a \$5 million effective reduction in the sale price and a corresponding \$5 million loss from discontinued operations recorded in the third quarter of 1999.

Note 6. Inventories

Inventories consisted of the following:

<i>December 31</i>	2001	2000	1999
Finished and in-process metals	\$ 435	\$ 450	\$ 396
Supplies	65	70	76
	<u>\$ 500</u>	<u>\$ 520</u>	<u>\$ 472</u>

Note 7. Property, plant and equipment

Property, plant and equipment consisted of the following:

<i>December 31</i>	2001	2000	1999 (Restated)
Mines and mining plants	\$ 2,682	\$ 2,646	\$ 2,556
Processing facilities	3,169	3,176	3,205
Voisey's Bay project	5,532	5,647	5,712
Goro project	180	96	57
Other	604	575	535
Total property, plant and equipment, at cost	<u>12,167</u>	<u>12,140</u>	<u>12,065</u>
Accumulated depreciation	2,874	2,780	2,654
Accumulated depletion	1,076	1,008	939
Total accumulated depreciation and depletion	<u>3,950</u>	<u>3,788</u>	<u>3,593</u>
Property, plant and equipment, net	<u>\$ 8,217</u>	<u>\$ 8,352</u>	<u>\$ 8,472</u>

The Company reviews and evaluates its property, plant and equipment for impairment when events or changes in economic and other circumstances indicate that the carrying value of such assets may not be fully recoverable. The net recoverable value of an asset is calculated by estimating undiscounted future net cash flows from the asset together with the asset's residual value. Future net cash flows are developed using assumptions that reflect the Company's planned course of action for an asset given the Company's best estimate of the most probable set of economic conditions. Evaluation of the future cash flows from major development projects such as the Voisey's Bay and Goro projects entails a number of assumptions regarding project scope, the timing, receipt and terms of regulatory approvals, estimates of future metal prices, estimates of the ultimate size of the deposits, ore grades and recoverability, commercial viability of new technological processes, timing of commercial production, production volumes, operating and capital costs, and foreign currency exchange rates. Inherent in these assumptions are significant risks and uncertainties. It is possible that events such as any eventual agreements with governments and other interested parties to enable the development of the Voisey's Bay project to proceed or changes in future economic conditions and other circumstances, and the resulting adverse impact on some or all of these assumptions, may require a significant reduction in the carrying value of the Voisey's Bay project.

At December 31, 2001, the net carrying value of property, plant and equipment under construction or development not subject to depreciation or depletion was \$5,761 million (2000 – \$5,929 million; 1999 – \$6,623 million). Capitalized interest costs included in capital expenditures were \$13 million in 2001 (2000 – \$15 million; 1999 – \$37 million).

Note 8. Long-term debt

The Company's long-term debt consisted of the following (weighted-average interest rates, where applicable, and repayment periods at December 31, 2001 are shown in parentheses):

<i>December 31</i>	2001	2000	1999
Inco Limited			
U.S.\$ bank credit facilities (a)	\$ —	\$ 34	\$ 109
5.75% Convertible U.S.\$ Debentures (2004)(b)	173	173	173
15.75% Sterling Unsecured Loan Stock (2006)(c)	45	45	45
7.75% Convertible U.S.\$ Debentures (2002 – 2016)(d)	160	160	160
9.6% U.S.\$ Debentures (2022)(e)	159	159	181
9.875% U.S.\$ Debentures (f)	—	91	143
Other	—	—	104
PT International Nickel Indonesia Tbk			
U.S.\$ Loan facility (3.5%) (2002 – 2006)(g)	292	356	421
Other			
Other (5.1%) (2002–2010)	11	12	8
	840	1,030	1,344
Long-term debt due within one year	81	78	190
	\$ 759	\$ 952	\$ 1,154

(a) The Company maintains committed bank credit facilities aggregating \$575 million at December 31, 2001. The facilities are provided by a group of banks under separate agreements, the terms of which are substantially the same. The facilities are divided equally between a five-year revolving commitment and a 364-day revolving commitment. The revolving period of each of the facilities may be extended for an additional 364-day period at the discretion of the respective bank and any amounts outstanding at the maturity of the revolving period are repayable at that time. In addition, the Company maintains committed four-year revolving bank credit facilities aggregating \$75 million at December 31, 2001. The revolving period of the facilities may be extended for an additional 364-day period at the discretion of the respective bank and any amounts outstanding at the maturity of the revolving period are repayable at that time. The facilities currently bear interest, when drawn, at one per cent over the London Interbank Offered Rate (LIBOR). Each such credit facility provides that, so long as advances are outstanding, the Company will be required to maintain a ratio of Consolidated Indebtedness to Tangible Net Worth, as defined, not to exceed 50:50 and ensure that its Tangible Net Worth, as defined, is not less than \$1,500 million. At December 31, 2001, the ratio of Consolidated Indebtedness to Tangible Net Worth was 14:86 and Tangible Net Worth was \$4,781 million.

(b) The 5.75 per cent Convertible U.S.\$ Debentures, which are listed on the New York Stock Exchange, are convertible, at the option of the holders, into Common Shares of the Company, at a conversion price of U.S.\$30 per share. The Debentures are redeemable, at the Company's option, commencing in 1999 at an initial premium of 2.875 per cent, declining annually to redemption at par in 2004.

(c) The 15.75 per cent Sterling Unsecured Loan Stock is redeemable in 2006 in sterling or, at the option of the holders, in U.S. dollars at a fixed exchange rate of one pound sterling to \$1.98.

(d) The 7.75 per cent Convertible U.S.\$ Debentures, which are listed on the New York Stock Exchange, are convertible, at the option of the holders, into Common Shares of the Company at a conversion price of U.S.\$38.25 per share. The Debentures are redeemable, at the Company's option, in 1999 at a premium of 1.55 per cent, declining annually to redemption at par in 2001 and thereafter.

(e) The 9.6 per cent U.S.\$ Debentures are redeemable, at the Company's option, commencing in 2002 at an initial premium of 4.8 per cent, declining annually to redemption at par in 2012 and thereafter. The Company has swapped the interest payments under the Debentures in exchange for a floating rate of 3.05 per cent over LIBOR.

(f) The 9.875 per cent U.S.\$ Debentures were redeemable, at the Company's option, commencing in 1999 at an initial premium of 3.638 per cent, declining annually to 0.364 per cent in 2008 and at par thereafter. The Debentures were redeemed in June 2001.

(g) The Company's 59 per cent-owned subsidiary, PT International Nickel Indonesia Tbk ("PT Inco"), had outstanding at December 31, 2001 a loan facility aggregating \$292 million consisting of a \$236 million expansion loan (2000 – \$288 million; 1999 – \$340 million) and a \$56 million loan (2000 – \$68 million; 1999 – \$81 million). All loans under the loan facility are repayable in 13 equal semi-annual installments commencing March 31, 2000 and bear interest, when drawn, at 7/8 per cent over LIBOR in the first five years and one per cent over LIBOR in the last five years. As security for these loans, PT Inco has assigned and pledged certain of its cash and marketable securities, sales agreements, service agreements and insurance policies.

Interest expense on long-term debt for the years 2001, 2000 and 1999 was \$54 million, \$76 million and \$67 million, respectively. The average effective interest rate on long-term debt at December 31, 2001 was 5.5 per cent. Approximately 55 per cent of long-term debt bears interest at rates that are subject to periodic adjustments based on market interest rates. Approximately 99 per cent of long-term debt is effectively payable in U.S. dollars.

At December 31, 2001, long-term debt maturities and sinking fund requirements for each of the five years through 2006 were: 2002 – \$81 million; 2003 – \$74 million; 2004 – \$246 million; 2005 – \$74 million; 2006 – \$87 million.

Effective January 1, 2002, the Company will adopt a new standard of the CICA in respect of foreign currency translation that will eliminate the deferral and amortization of currency translation adjustments related to long-term monetary items with a fixed and ascertainable life. The Company has determined that there will be no significant impact on the Company's results of operations or financial condition as a result of the adoption of this standard.

Note 9. Post-retirement benefits

The Company has pension plans covering essentially all employees and provides certain health care and life insurance benefits for retired employees.

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

	Pension benefits			Post-retirement benefits other than pensions		
<i>Year ended December 31</i>	2001	2000	1999	2001	2000	1999
Change in post-retirement benefits obligation						
Obligation at beginning of year	\$ 2,101	\$ 2,001	\$ 1,785	\$ 561	\$ 561	\$ 526
Service cost	27	29	27	6	6	6
Interest cost	138	138	128	39	38	37
Plan amendments	—	52	7	—	—	—
Changes in assumptions	—	—	65	29	—	—
Actuarial losses (gains)	28	104	4	10	1	(9)
Curtailment loss	—	—	22	—	—	—
Benefits paid	(142)	(154)	(124)	(31)	(29)	(26)
Currency translation adjustments	(121)	(69)	87	(33)	(16)	27
Obligation at end of year	\$ 2,031	\$ 2,101	\$ 2,001	\$ 581	\$ 561	\$ 561
Change in pension plan assets						
Fair value of plan assets at beginning of year	\$ 1,731	\$ 1,833	\$ 1,569			
Actual return on plan assets	(54)	55	231			
Employer contributions	60	57	76			
Benefits paid	(136)	(155)	(118)			
Currency translation adjustments	(94)	(59)	75			
Fair value of plan assets at end of year	\$ 1,507	\$ 1,731	\$ 1,833			
Unfunded status of plans at end of year	\$ (524)	\$ (370)	\$ (168)	\$ (581)	\$ (561)	\$ (561)
Unrecognized actuarial and investment losses	562	362	174	101	73	63
Unrecognized prior service costs	70	93	61	—	—	—
Net post-retirement benefits asset (liability) at end of year	\$ 108	\$ 85	\$ 67	\$ (480)	\$ (488)	\$ (498)

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

	Pension benefits			Post-retirement benefits other than pensions		
<i>December 31</i>	2001	2000	1999	2001	2000	1999
Deferred charges and other assets	\$ 120	\$ 97	\$ 79	\$ —	\$ —	\$ —
Accrued payrolls and benefits	(12)	(12)	(12)	(29)	(19)	(19)
Post-retirement benefits	—	—	—	(451)	(469)	(479)
Net post-retirement benefits asset (liability)	\$ 108	\$ 85	\$ 67	\$ (480)	\$ (488)	\$ (498)

Post-retirement benefits expense included the following components:

<i>Year ended December 31</i>	Pension benefits			Post-retirement benefits other than pensions		
	2001	2000	1999	2001	2000	1999
Service cost	\$ 27	\$ 29	\$ 27	\$ 6	\$ 6	\$ 6
Interest cost	138	138	128	39	38	37
Expected return on plan assets	(150)	(146)	(132)	—	—	—
Amortization of actuarial and investment losses	17	9	24	4	3	7
Amortization of unrecognized prior service costs	18	24	20	—	—	—
Curtailment loss	—	—	25	—	—	—
Defined benefit pension and post-retirement benefits other than pensions expense	50	54	92	49	47	50
Defined contribution pension expense	4	4	4	—	—	—
Post-retirement benefits expense	\$ 54	\$ 58	\$ 96	\$ 49	\$ 47	\$ 50

In 1999, the Company offered incentives to certain employees eligible for retirement benefits resulting in a curtailment loss of \$25 million.

The weighted-average assumptions used in the determination of the post-retirement benefits obligation at year-end were as follows:

<i>December 31</i>	Pension benefits			Post-retirement benefits other than pensions		
	2001	2000	1999	2001	2000	1999
Discount rate	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Expected return on plan assets	9.0%	9.0%	9.0%			
Rate of compensation increase	3.0%	3.0%	3.0%			

The composite health care cost trend rate used in measuring post-retirement benefits other than pensions was assumed to begin at eight per cent, gradually declining to five per cent by 2006 and remaining at those levels thereafter.

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

<i>December 31</i>	Pension benefits		
	2001	2000	1999
Projected benefits obligation	\$ 1,940	\$1,947	\$1,295
Fair value of plan assets	1,415	1,562	1,046
Unfunded status	\$ (525)	\$ (385)	\$ (249)

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

	Post-retirement benefits other than pensions	
	1% Increase	1% Decrease
Effect on accumulated benefits obligation	\$ 85	\$ (69)
Effect on net periodic expense	7	(6)

At December 31, 2001, the Company had standby letters of credit and similar forms of security pledged to cover up to \$57 million for currently estimated pension obligations which are outside of the Company's funded pension plans.

Note 10. Future removal and site restoration costs

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

In accordance with environmental regulations adopted by the Province of Ontario in 1991, the Company developed rehabilitation and site restoration plans associated with the eventual closure of its operations in that province. The Company filed three closure plans by the end of 1997, having previously received approval from the Province of Ontario for the consolidation of its operating mines and properties in that province into 15 sites for purposes of closure plans, and filed the remaining 12 closure plans by the end of 1998. As a result of provincial regulatory changes which became effective in 2000, the Company refiled these plans to meet these changes in 2001. The Company has continued to develop its future tailings disposal and water management alternatives to accommodate up to approximately 40 years of future production. The Company believes that cost-effective tailings disposal alternatives exist within the ongoing operating activities of the Sudbury operations which would limit site restoration at closure to a care and maintenance activity, thus significantly reducing the costs of such site restoration.

In accordance with environmental regulations adopted by the Province of Manitoba in 1999, the Company is in the process of developing reclamation plans associated with the eventual closure of operations in that province. The Company submitted two reclamation plans for its mines and processing facilities in 2000, two plans in 2001 and the remaining two plans will be submitted in 2002, even though it is highly unlikely that the Company would have any intentions of closing its operations at that time. The Company continued to develop its future tailings disposal and water management alternatives. The ongoing operating procedures associated with these alternatives limit site restoration to a care and maintenance activity after the operations are closed.

Closure plans for the proposed mine and mill facilities were prepared and submitted in 1998 in connection with the environmental review process of the Company's Voisey's Bay property in the Province of Newfoundland and Labrador. Closure plans were prepared and submitted in 2001 in connection with the bankable feasibility study for the Goro project in New Caledonia.

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

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

The Company incurs substantial removal and site restoration costs on an ongoing basis which will significantly reduce future removal and site restoration costs that may otherwise be incurred following the closure of any of the Company's sites. This progressive rehabilitation includes tailings management, land reclamation and revegetation programs, decommissioning and demolition of plants and buildings,

and waste management activities. Operating costs associated with ongoing environmental and reclamation programs, including progressive rehabilitation, aggregated \$12 million in 2001, \$7 million in 2000 and \$7 million in 1999 and are included in cost of sales and operating expenses. Capital expenditures on environmental projects were \$17 million in 2001, \$10 million in 2000 and \$3 million in 1999.

Although the ultimate amount to be incurred is uncertain, the total liability for future removal and site restoration costs in respect of the Company's worldwide operations, to be incurred primarily after cessation of operations, is estimated to be approximately \$315 million at December 31, 2001. In recognition of this future liability, the Company, starting in 1995, has annually provided an accounting provision of \$10 million for future removal and site restoration costs, which is included in cost of sales and operating expenses. This amount is based upon the estimated remaining lives of the Company's applicable ore reserves and facilities and is in addition to ongoing operating and capital expenditures. The estimate of the total liability for future removal and site restoration costs has been developed from independent environmental studies including an evaluation of, among other factors, currently available information with respect to closure plans and closure alternatives, the anticipated method and extent of site restoration using current costs and existing technology, and compliance with presently enacted laws, regulations and existing industry standards. The total liability for future removal and site restoration costs represents estimated expenditures associated with closure, progressive rehabilitation and post-closure care and maintenance. Potential recoveries of funds from the future sale of assets upon the ultimate closure of operations have not been reflected in the estimate of the total liability or related annual provision.

As of December 31, 2001, the Company had outstanding surety bonds in the amount of \$23 million to secure a portion of its closure costs in Ontario.

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

Note 11. Notes

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

The LYON Notes are convertible, at the option of the holder, at any time on or prior to their maturity date into Common Shares of the Company at a fixed conversion rate of 26.5530 Common Shares per LYON Note, representing an initial conversion price of U.S.\$19.76 per share, with such conversion rate and price being subject to certain anti-dilution adjustment provisions. Holders of LYON Notes also have a special conversion right, exercisable on April 1, 2002, and on March 29 in 2007, 2011 and 2016, giving such holders the right to convert the then accreted value of their LYON Notes into Common Shares of the Company based upon the then market price for such shares. The LYON Notes are also subject to redemption by the Company on or after March 29, 2007 at their then accreted value.

The Company has the right, subject to certain conditions, in connection with the exercise by a holder of such conversion or special conversion rights, to pay such holders cash, in whole or in part, in lieu of

Common Shares. The Company will also have the right, subject to certain conditions, in connection with any redemption or certain purchases by the Company of the LYON Notes, to pay the redemption or purchase price in Common Shares, based upon the then market price thereof, or in cash or any combination of Common Shares and cash. The Company is required to offer to purchase the LYON Notes if there is a change in control of the Company, as defined in the Trust Indenture dated as of March 29, 2001 between the Company and The Bank of New York, as Trustee, occurring before March 29, 2007.

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

Changes in the LYON Notes were as follows:

	Amount
<i>December 31, 2000</i>	\$ —
Notes issued	226
Accretion of notes	5
<i>December 31, 2001</i>	\$ 231

Note 12. Preferred Shares

The Company is authorized to issue 45,000,000 Preferred Shares with no par value, which are issuable in series for a maximum consideration of Cdn.\$1,500 million or its equivalent in other currencies.

Preferred Shares Series E

On August 21, 1996, the Company issued 9,424,657 5.5 per cent Convertible Redeemable Preferred Shares Series E ("Preferred Shares Series E"), with an issue price of U.S.\$50 per share, for an aggregate face value of \$471 million as partial consideration for the acquisition of Diamond Fields Resources Inc. ("Diamond Fields"). The Preferred Shares Series E have an annual cumulative dividend of 5.5 per cent payable in U.S. dollars or the equivalent in Canadian dollars. The Preferred Shares Series E are convertible at any time into Common Shares of the Company at a conversion rate, subject to certain adjustments in the event of stock splits, stock dividends, certain exchange or tender offers and certain fundamental corporate changes, of 1.19474 Common Shares for each Preferred Share Series E and are redeemable at the option of the Company after five years at an initial premium of 2.75 per cent, declining annually to 0.55 per cent in 2005, and are subject to mandatory redemption at the \$50 issue price (or the equivalent in Canadian dollars at the option of the holder), together with all then accrued and unpaid dividends, on August 21, 2006. The Company has the right, subject to certain exceptions, to satisfy the optional or mandatory redemption price payable by issuing Common Shares of the Company based upon a formula equivalent to 95 per cent of a weighted-average trading price for the Common Shares over a 20-day period ending five days prior to the particular redemption date. The Preferred Shares Series E have general voting rights on the basis, subject to certain adjustments in the event of certain fundamental corporate changes, of one vote per share and have a separate series vote in the event of certain fundamental changes which require a series vote under applicable corporate laws. The Preferred Shares Series E also have a right to elect two Directors in the event that, and so long as, cumulative quarterly dividends on the series are in arrears for six or more quarters.

Contingently issuable equity includes Preferred Shares Series E contingently issuable upon exercise of stock options held by former employees of Diamond Fields.

Changes in the Preferred Shares Series E were as follows:

	Number of shares	Amount
<i>December 31, 1998</i>	9,427,261	\$ 471
Shares issued upon exercise of former Diamond Fields' stock options	3,367	—
<i>December 31, 1999</i>	9,430,628	471
Shares converted to Common Shares	(3)	—
Shares issued upon exercise of former Diamond Fields' stock options	9,100	1
<i>December 31, 2000</i>	9,439,725	472
Shares converted to Common Shares	(25)	—
<i>December 31, 2001</i>	9,439,700	\$ 472

Note 13. Class VBN Shares and Warrants

On August 21, 1996, the Company issued 25,892,469 Class VBN Shares valued at \$753 million as partial consideration for the acquisition of Diamond Fields. The Class VBN Shares issued represented a separate class of equity shares which were intended to reflect an interest, aggregating approximately 25 per cent, in the financial performance of the Voisey's Bay project and all future discoveries in Labrador with respect to which Voisey's Bay Nickel Company Limited (VBNC), formerly a 75 per cent-owned subsidiary of Diamond Fields and now a wholly-owned subsidiary of the Company, has the right to explore and develop. Accordingly, the Class VBN Shares were intended to provide holders with a financial return based on the performance of VBNC and not any other subsidiaries, divisions or operations of the Company.

Effective December 14, 2000, pursuant to amendments to the terms of the Class VBN Shares approved at the special shareholders' meeting held on November 28, 2000, the Company redeemed each of its Class VBN Shares for Cdn.\$7.50 cash (or the equivalent in U.S. dollars) and a fraction, 0.45, of an Inco Common Share purchase warrant (a "Warrant") having an exercise price, for each whole Warrant, of Cdn.\$30.00 (or the equivalent in U.S. dollars) for the purchase of one Common Share at any time on or before August 21, 2006. The exercise price and/or the number and kind of securities issuable on the exercise of the Warrants are subject to adjustment in certain events, as set forth in the Warrant Agreement dated as of December 1, 2000 among the Company, CIBC Mellon Trust Company and ChaseMellon Shareholder Services LLC, as Canadian and U.S. Warrant Agents, respectively, covering the issuance of the Warrants. These adjustments include, among others, certain changes in the capital structure of the Company such as any subdivision or consolidation of Common Shares, stock dividends or other distributions, the consolidation, amalgamation or merger of the Company with another company, or the transfer of all or substantially all of the Company's assets.

The excess of the carrying value of the Class VBN Shares over the cash redemption price and associated expenses, net of taxes, totalled \$621 million, of which \$62 million was allocated to the Warrants and \$559 million was allocated to contributed surplus. The Class VBN Shares were eliminated from the Company's authorized share capital by the requisite shareholder vote in April 2001.

Changes in the Class VBN Shares were as follows:

	Number of shares	Amount
<i>December 31, 1998</i>	25,902,468	\$ 753
Shares issued upon exercise of former Diamond Fields' stock options	9,250	—
<i>December 31, 1999</i>	25,911,718	753
Shares issued upon exercise of former Diamond Fields' stock options	25,000	1
Shares redeemed	(25,936,718)	(754)
<i>December 31, 2000 and 2001</i>	—	\$ —

Changes in the Warrants were as follows:

	Number of warrants	Amount
<i>December 31, 1999</i>	—	\$ —
Warrants issued	10,997,903	62
<i>December 31, 2000</i>	10,997,903	62
Warrants issued	26,987	—
Warrants exercised	(2,943)	—
<i>December 31, 2001</i>	11,021,947	\$ 62

Note 14. Common shares

The Company is authorized to issue an unlimited number of Common Shares without nominal or par value.

Changes in the Common Shares were as follows:

	Number of shares	Amount
<i>December 31, 1998</i>	166,059,082	\$ 2,466
Shares sold under public offering	15,000,000	273
Options exercised	489,450	7
Shares issued upon exercise of former Diamond Fields' stock options	20,609	1
<i>December 31, 1999</i>	181,569,141	2,747
Options exercised	182,370	2
Shares issued on conversion of Preferred Shares Series E	3	—
Shares issued upon exercise of former Diamond Fields' stock options	55,700	2
<i>December 31, 2000</i>	181,807,214	2,751
Options exercised	367,350	5
Shares issued under incentive plans	15,196	—
Shares issued on conversion of Preferred Shares Series E	29	—
Shares issued on exercise of Warrants	2,943	—
<i>December 31, 2001</i>	182,192,732	\$ 2,756

In May 1999, the Company sold 15,000,000 Common Shares through an underwritten public offering on a bought deal basis principally in Canada and the United States for net cash proceeds of \$273 million.

Contingently issuable equity includes Common Shares contingently issuable upon exercise of stock options held by former employees of Diamond Fields.

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

The new plan, amended in certain respects by the Company's Board of Directors in February 1999, was approved by shareholders at the Company's 1999 Annual and Special Meeting of Shareholders and will remain in effect until October 2008 subject to reconfirmation of such plan, as may be further amended, by holders of the Company's voting securities at the Company's annual meeting of shareholders to be held in April 2002 and in 2005. The following represents a summary of some of the key terms of the plan.

The rights issued under the plan will initially attach to and trade with the Company's Common Shares and no separate certificates will be issued unless an event triggering these rights occurs. Certificates evidencing Common Shares will be legended to reflect that they evidence the rights until the Separation Time (as defined below). Holders of the Company's 7.75 per cent Convertible U.S.\$ Debentures, 5.75 per cent Convertible U.S.\$ Debentures, LYON Notes and Preferred Shares Series E and the certificates of entitlement attached thereto (which entitle their holders to receive rights in the event that the related security is converted into Common Shares) will generally be entitled to receive, upon conversion of the relevant security and presentment of the certificate of entitlement, respectively, rights in an amount equal to the number of Common Shares issued upon conversion of such securities.

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

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

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

Note 15. Stock compensation plans

The Company's stock option plans authorize the granting of options to key employees to purchase Common Shares and Class VBN Shares at prices not less than 100 per cent of their market value on the day the option is granted. The 2001 plan, which replaced the 1997 plan and has a term of five years, authorized the granting of options to purchase up to 6,000,000 Common Shares. The Company's stock option plans provide that no shares subject to option shall be purchasable after 10 years from the date of grant and also include an anti-dilution provision to protect the option-holder in the event of stock splits or other significant capital changes.

At December 31, 2001, outstanding options for 3,071,300 Common Shares, as amended for the anti-dilution adjustment, also carry share appreciation rights ("SARs"). These SARs entitle an optionee, in lieu of exercising an option to purchase Common Shares, to surrender all or a portion of the related option in exchange for an amount equal to the difference between the then market price per share and the exercise price per share specified in the stock option, multiplied by the number of shares covered by the stock option, or portion thereof so surrendered. The Company may elect to deliver Common Shares, cash, or a combination of Common Shares and cash, equal in value to such difference. Compensation expense in respect of SARs for the years 2001, 2000 and 1999 was \$nil, \$nil and \$8 million, respectively.

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

Pursuant to the Company's long-term incentive plans (LTIPs), awards in the form of Common Shares are made to certain key employees of the Company subject to transfer, sale and encumbrance restrictions for a three-year period from the date of the award. In the year ended December 31, 2001, the Company awarded 15,196 Common Shares in respect of LTIPs (2000 – nil; 1999 – nil).

Changes in Common Share options outstanding are summarized as follows:

<i>Year ended December 31</i>	Number of Common Shares		
	2001	2000	1999
Outstanding at beginning of year	6,977,984	6,320,418	5,129,418
Options granted	1,272,500	1,123,700	1,818,000
Options exercised	(427,350)	(267,500)	(508,750)
Options terminated	(93,500)	(198,634)	(118,250)
Outstanding at end of year	7,729,634	6,977,984	6,320,418
Available for grant at December 31	6,000,000	1,305,300	2,424,000
Exercisable at December 31	7,095,134	6,464,734	5,412,918

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

<i>Year ended December 31</i>	Weighted-average exercise price		
	2001	2000	1999
Outstanding at beginning of year	\$ 21.83	\$ 22.37	\$ 25.50
Options granted	16.96	17.94	11.56
Options exercised	(12.47)	(12.51)	(13.58)
Options terminated	(26.17)	(29.62)	(29.95)
Outstanding at end of year	\$ 21.49	\$ 21.83	\$ 22.37

The following table summarizes information about Common Share options outstanding at December 31, 2001.

Range of exercise prices	Common Share Options Outstanding			Common Share Options Exercisable	
	Number outstanding at December 31, 2001	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number exercisable at December 31, 2001	Weighted-average exercise price
\$ 11-16	2,468,100	6.5	\$ 13.52	2,468,100	\$ 13.52
17-24	2,405,500	8.3	17.78	1,771,000	18.07
25-37	2,856,034	4.2	31.51	2,856,034	31.51
\$ 11-37	7,729,634	6.2	\$ 21.49	7,095,134	\$ 21.90

The expiration dates of Common Share options outstanding at December 31, 2001 ranged from April 21, 2003 to February 6, 2011. At December 31, 2001, there were 317 employees participating in the Common Share option plans.

Changes in Class VBN Share options outstanding are summarized as follows:

Year ended December 31	Number of Class VBN Shares	
	2000	1999
Outstanding at beginning of year	238,000	152,000
Options granted	3,500	86,000
Options terminated	(241,500)	—
Outstanding at end of year	—	238,000
Available for grant at December 31	—	762,000
Exercisable at December 31	—	195,000

In December 2000, pursuant to the terms of the 1997 plan, all outstanding Class VBN Share options totalling 171,500 were terminated in connection with the redemption of the Class VBN Shares and exchanged for 100,700 Common Share options.

The Company uses the intrinsic value method to account for stock options. Had the Company elected to recognize the cost of its stock-based compensation based on the estimated fair value of stock options granted, the Company's results would have been as follows:

Year ended December 31	2001	2000	1999
Pro forma earnings from continuing operations	\$ 301	\$ 396	\$ 13
Pro forma net earnings	\$ 301	\$ 396	\$ 8
Pro forma basic earnings (loss) per common share			
Earnings (loss) from continuing operations	\$ 1.49	\$ 2.03	\$ (0.07)
Net earnings (loss)	\$ 1.49	\$ 2.03	\$ (0.10)

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

<i>Year ended December 31</i>	2001	2000	1999
Stock price at grant date	\$ 16.96	\$ 18.16	\$ 11.56
Exercise price	\$ 16.96	\$ 18.16	\$ 11.56
Weighted average fair value of options granted during the year	\$ 6.24	\$ 6.66	\$ 3.49
Expected life of options (years)	3	3	3
Expected stock price volatility	47.3%	43.5%	35.9%
Expected dividend yield	–%	–%	–%
Risk-free interest rate	4.8%	6.8%	4.9%

Note 16. Nature of operations and segment information

The Company is a leading producer of nickel and an important producer of copper, precious metals and cobalt. The Company's operations consist of the finished products segment, which comprises the Company's mining and processing operations in Ontario and Manitoba, Canada, the Company's refining operations in the United Kingdom and interests in refining operations in Japan and other Asian countries, and the intermediates segment, which comprises the Company's mining and processing operations in Indonesia, where nickel in matte, an intermediate product, is produced and sold primarily into the Japanese market. In addition, the Company holds mineral claims and licenses covering the undeveloped Voisey's Bay nickel-copper-cobalt deposit in the Province of Newfoundland and Labrador.

Net sales to customers by product were as follows:

<i>Year ended December 31</i>	2001	2000	1999
Primary nickel	\$ 1,488	\$ 2,336	\$ 1,658
Copper	195	225	196
Precious metals	292	249	152
Cobalt	34	42	48
Other	57	65	59
	\$ 2,066	\$ 2,917	\$ 2,113

Net sales to customers include sales at market prices to affiliates in Taiwan and South Korea aggregating \$245 million in 2001, \$556 million in 2000 and \$456 million in 1999. No single non-affiliated customer accounted for more than 10 per cent of the Company's total sales in 2001, 2000 or 1999. At December 31, 2001, accounts receivable included amounts due from affiliates of \$23 million (2000 – \$57 million; 1999 – \$76 million).

Data by operating segments

	Finished products			Intermediates			Voisey's Bay project			Eliminations			Total		
<i>Year ended December 31</i>	2001	2000	1999	2001	2000	1999	2001	2000	1999	2001	2000	1999	2001	2000	1999
	(Restated)			(Restated)			(Restated)			(Restated)			(Restated)		
Net sales to customers	\$2,007	2,836	2,069	\$ 59	81	44	\$ —	—	—	\$ —	—	—	\$2,066	2,917	2,113
Intersegment sales	—	—	—	237	321	165	—	—	—	(237)	(321)	(165)	—	—	—
Net sales	\$2,007	2,836	2,069	\$ 296	402	209	\$ —	—	—	\$ (237)	(321)	(165)	\$2,066	2,917	2,113
Segment operating earnings (loss)	\$ 255	636	178	\$ 34	151	36	\$ (6)	(7)	(8)	\$ 15	5	(26)	\$ 298	785	180
Currency translation adjustments													(39)	(15)	—
Corporate selling, general and administrative expenses													63	57	60
Operating earnings													274	743	120
Interest expense													56	83	73
Other income, net													(13)	(10)	(5)
Earnings before income and mining taxes and minority interest													\$ 231	670	52
Depreciation and depletion	\$ 190	196	196	\$ 73	68	52	\$ —	1	—	\$ —	—	—	\$ 263	265	248
Capital expenditures	\$ 225	183	114	\$ 29	33	130	\$ 9	11	16	\$ —	—	—	\$ 263	227	260
Identifiable assets at December 31	\$2,309	2,445	2,343	\$1,230	1,301	1,310	\$5,532	5,647	5,712	\$ (5)	(20)	(25)	\$9,066	9,373	9,340
Other assets													521	303	220
Total assets at December 31													\$9,587	9,676	9,560

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

Data by geographic location

	Net sales to customers <i>year ended December 31</i>			Property, plant and equipment <i>at December 31</i>		
	2001	2000	1999	2001	2000	1999
	(Restated)			(Restated)		
Canada	\$ 55	\$ 55	\$ 65	\$ 6,864	\$ 7,034	\$ 7,146
United States	698	938	678	23	24	24
United Kingdom	520	624	429	37	36	36
Indonesia	59	81	44	1,094	1,147	1,158
Japan	285	450	309	18	21	24
Other	449	769	588	181	90	84
Total foreign	2,011	2,862	2,048	1,353	1,318	1,326
Total	\$ 2,066	\$ 2,917	\$ 2,113	\$ 8,217	\$ 8,352	\$ 8,472

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

Note 17. Financial instruments and commodities contracts

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

<i>December 31</i>	2001		2000		1999	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets:						
Cash and marketable securities	\$ 306	\$ 307	\$ 193	\$ 195	\$ 38	\$ 38
Deferred charges and other assets	243	221	268	249	216	204
Financial liabilities:						
Long-term debt including amount due within one year	840	832	1,030	1,016	1,344	1,312
Derivatives:						
LME forward nickel contracts	—	1	—	(3)	—	(7)
Nickel put options	—	—	—	5	—	—
Palladium swaps	—	21	—	(10)	—	—
Platinum swaps	—	3	—	—	—	—
Oil swaps	—	(2)	—	—	—	2
Forward currency contracts	—	(4)	—	1	—	2
Currency call option contracts	—	—	—	—	—	1
Interest rate swap	—	(4)	—	—	—	—

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

In general, the Company does not use derivative instruments to hedge its exposure to fluctuating nickel prices. The Company does, however, enter into forward sales and/or purchase contracts with the LME to hedge its exposure to changes in prices of purchased intermediate and finished nickel and of Inco-source nickel to be delivered to customers three or more months in the future. At December 31, 2001, the Company had outstanding LME forward contracts to purchase 17,466 tonnes of nickel during 2002 and 2003 at prices ranging from \$4,460 to \$7,570 per tonne (\$2.02 to \$3.43 per pound) and LME forward contracts to sell 5,268 tonnes of nickel during 2002 at prices ranging from \$4,450 to \$5,740 per tonne (\$2.02 to \$2.60 per pound).

Depending on market conditions, the Company enters into precious metals contracts with various financial counterparties. These contracts are intended to provide certain minimum price realizations in respect of a portion of the Company's future production. At December 31, 2001, the Company had outstanding swap contracts to exchange payments on 48,810 troy ounces of palladium during 2002 and 2003. Under the swap contracts, the Company receives fixed prices ranging from \$830 to \$905 per troy ounce and pays a floating price. At December 31, 2001, the Company also had outstanding swap contracts to exchange payments on 41,190 troy ounces of platinum during 2002 and 2003. Under the swap contracts, the Company receives fixed prices ranging from \$500 to \$550 per troy ounce and pays a floating price.

The Company uses oil swap contracts to hedge the effect of price changes in respect of a portion of its energy requirements in Indonesia. Under such contracts, the Company receives or makes payments based on the difference between a fixed and a floating price for fuel oil. At December 31, 2001, the Company had swap contracts with financial institutions to exchange payments on 320,000 tonnes of fuel oil in 2002 and 2003. Under the swap contracts, the Company pays fixed prices averaging \$118.84 per tonne and receives a floating price.

At December 31, 2001, the Company had outstanding currency call option contracts, giving it the right but not obligation, to purchase Cdn.\$20 million at an average rate to U.S. dollars of \$0.655 in the first quarter of 2002, and outstanding currency put option contracts, giving the buyer the right but not obligation, to sell to the Company Cdn.\$20 million at an average rate to U.S. dollars of \$0.638 in the first quarter of 2002. The purpose of the Company's Canadian dollar hedging activities is to reduce the risk that the eventual U.S. dollar cash flows relating to a portion of its future Canadian production costs will be adversely affected by an appreciation of the Canadian dollar. At December 31, 2001, the Company had outstanding forward currency contracts to purchase Aus.\$290 million, EUR 305 million and Cdn.\$35 million at average exchange rates of \$0.505, \$0.892 and \$0.643, respectively, during 2002 and 2003. The purpose of these contracts is to hedge a portion of the future construction costs of the Company's planned production facilities for the Goro project in New Caledonia.

At December 31, 2001, the Company had an outstanding interest rate swap to manage the entire amount of the interest rate risk exposure associated with its 9.6% U.S.\$ Debentures due in 2022. Under the swap, the Company receives a fixed rate of interest of 9.6 per cent and pays a floating rate at 3.05 per cent over LIBOR. The counterparty to the swap holds a call option giving it the right to cancel the swap commencing in 2002 at an initial premium of 4.8 per cent, declining annually to redemption at par in 2012 and thereafter.

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

The Company had a limited recourse liability in respect of the sale of undivided interests in certain accounts receivable in the amount of \$41 million at December 31, 2001.

Effective January 1, 2003, the Company will adopt new accounting guidelines issued by the CICA in respect of hedging relationships. The Company has determined that there will be no significant impact on the Company's results of operations or financial condition as a result of the adoption of these guidelines.

Note 18. Contingencies

In the course of its operations, the Company is subject to environmental and other claims and legal proceedings. The Company does not believe that any such pending claims or proceedings will significantly impair its operations or have a material adverse effect on its financial position.

Note 19. Cash flows

Supplemental disclosures in connection with the Consolidated Statement of Cash Flows follow:

<i>Year ended December 31</i>	2001	2000	1999
Interest paid, net of capitalized interest	\$ 61	\$ 87	\$ 73
Income and mining taxes paid, net	\$ 190	\$ 38	\$ 42
Cash	\$ 21	\$ 11	\$ 11
Marketable securities	285	182	27
Cash and marketable securities	\$ 306	\$ 193	\$ 38

Note 20. Significant differences between Canadian and United States GAAP

The Company's consolidated financial statements are prepared in accordance with Canadian GAAP. The most significant differences between Canadian and United States GAAP, insofar as they affect the Company's consolidated financial statements, relate to accounting for post-retirement benefits, notes, derivative instruments, investments, and reporting of comprehensive income.

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

<i>Year ended December 31</i>	2001	2000	1999
Earnings from continuing operations – Canadian GAAP	\$ 305	\$ 400	\$ 17
Increased post-retirement benefits expense (a)	(13)	(13)	—
Increased interest expense (b)	(7)	—	—
Unrealized net loss on derivative instruments (c)	(2)	—	—
Earnings from continuing operations – United States GAAP	283	387	17
Discontinued operations	—	—	(5)
Net earnings – United States GAAP	\$ 283	\$ 387	\$ 12
Other comprehensive income (loss) (h):			
Unrealized net loss on derivatives designated as cash flow hedges at January 1, 2001 (c)	4	—	—
Reclassification to earnings of net loss on derivatives designated as cash flow hedges (c)	(4)	—	—
Changes in fair value of derivatives designated as cash flow hedges (c)	23	—	—
Unrealized gains (losses) on long-term investments (e)	(3)	(7)	(12)
Unrealized gains (losses) on marketable securities (e)	(1)	2	—
Long-term investments reclassifications (e)	—	—	6
Minimum additional pension liability adjustment (a)	(180)	(155)	(17)
Taxes on other comprehensive income (loss)	56	65	8
Other comprehensive loss – United States GAAP (h)	(105)	(95)	(15)
Comprehensive income (loss) – United States GAAP (h)	\$ 178	\$ 292	\$ (3)
Earnings (loss) from continuing operations per share – United States GAAP (d)			
Basic	\$ 1.41	\$ 1.99	\$ (0.05)
Diluted	\$ 1.39	\$ 1.82	\$ (0.05)
Net earnings (loss) per share – United States GAAP (d)			
Basic	\$ 1.41	\$ 1.99	\$ (0.08)
Diluted	\$ 1.39	\$ 1.82	\$ (0.08)

(a) Post-retirement benefits

United States accounting standards for post-retirement benefits are set forth in Statement of Financial Accounting Standards (SFAS) No. 87, No. 88, No. 106 and No. 132.

Effective January 1, 2000, the Company adopted a new accounting standard of the CICA in respect of employee future benefits for Canadian reporting purposes. This new standard is substantially identical to United States accounting standards for post-retirement benefits. For Canadian reporting purposes, the excess of the net actuarial gains and losses over 10 per cent of the greater of the post-retirement benefits obligation and the fair value of plan assets is amortized over the expected average remaining service life of employees. For United States reporting purposes, the Company continues to amortize all actuarial gains and losses systematically over the expected average remaining service life of employees.

United States GAAP also require the recognition of a minimum additional pension liability in the amount of the excess of the Company's unfunded accumulated benefits obligation over the recorded pension benefits liability; an offsetting intangible pension asset is recorded equal to the unrecognized prior service costs, with any difference recorded as a reduction in accumulated other comprehensive income. At December 31, 2001, the minimum additional pension liability would have been \$582 million (2000 – \$423 million; 1999 – \$232 million) and the intangible pension asset would have been \$67 million (2000 – \$88 million; 1999 – \$52 million), resulting in a \$309 million reduction, after taxes, (2000 – \$194 million; 1999 – \$105 million) in accumulated other comprehensive income.

(b) Notes

Under Canadian GAAP, the LYON Notes are classified as an equity instrument. The LYON Notes accrete over the 20-year term of the LYON Notes to their value at maturity through periodic after-tax charges to retained earnings. Under United States GAAP, the LYON Notes would be accounted for as debt and, accordingly, accretion charges and amortization of debt issuance costs would be recorded as interest expense. The holders of LYON Notes have a special conversion right exercisable on April 1, 2002, and on March 29 in 2007, 2011 and 2016, giving such holders the right to convert the then accreted value of their LYON Notes into Common Shares. For United States GAAP, the LYON Notes would be classified as current debt in the 12-month periods in advance of such special conversion dates and as long-term debt during the remainder of their 20-year term.

(c) Derivative instruments

Effective January 1, 2001, the Company adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133*, and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. Under these new standards, all derivatives, whether designated in hedging relationships or not, are required to be recorded in the balance sheet at fair value. A derivative must be designated in a hedging relationship in order to qualify for hedge accounting. These new standards include a determination of what portions of hedges are deemed to be effective versus ineffective within the meaning of such standards. In general, a hedging relationship is effective when a change in the fair value of the derivative is offset by an equal and opposite change in the fair value of the underlying hedged item. In accordance with these new standards, effectiveness tests are performed in order to assess effectiveness and quantify ineffectiveness for all designated hedges. At December 31, 2001, the Company had outstanding fair value hedges and cash flow hedges as defined by these standards. A fair value hedge is a hedge of the change in the fair value of an asset, liability or firm commitment. If a derivative is designated as a fair value hedge, changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. A cash flow hedge is a hedge of the exposure in variability in expected future cash flows that is attributable to a particular risk such as a forecasted purchase or sale. If a derivative is designated as a cash flow hedge, the effective portions of the changes in the fair value of the derivative are recorded in other comprehensive income and are recognized in earnings when the hedged item affects earnings. Ineffective portions of changes in the fair value of the derivatives designated as hedges are recognized in earnings.

The Company uses LME forward nickel contracts to hedge the effect of fluctuations in the price of nickel with respect to sales of Inco-source nickel to customers for delivery three or more months in the future. These LME forward nickel contracts have been designated as fair value hedges in connection with firm sale commitments. For the year ended December 31, 2001, a gain of \$0.9 million before taxes (\$0.5 million after taxes) was credited to net sales due to the ineffectiveness of such outstanding fair value hedges and a gain of \$0.1 million was credited to other income, net due to hedged firm commitments no longer qualifying as a fair value hedge. The Company also entered into an interest rate swap agreement for interest rate risk exposure management purposes, which has been designated as a fair value hedge of a portion of its fixed-rate debt. The interest rate swap agreement utilized by the Company effectively modifies the Company's exposure to interest risk by converting a portion of the Company's fixed-rate debt to a floating rate.

Depending on market conditions, the Company enters into precious metals fixed price swap contracts and nickel option contracts with various financial counterparties who must meet certain established criteria. These contracts, which have been designated as cash flow hedges, are intended to provide certain minimum price realizations in respect of a portion of the Company's forecasted sales. In addition, the Company has entered into forward currency contracts to hedge a portion of the future construction costs of its planned production facilities in New Caledonia that will be denominated in currencies other than the U.S. dollar. For the year ended December 31, 2001, the Company recognized a net loss of \$0.5 million before taxes (\$0.3 million after taxes) in other income, net which represented the total ineffectiveness of its outstanding cash flow hedges. At December 31, 2001, \$19 million (\$11 million after taxes) of deferred net gains on derivative instruments recorded in other comprehensive income are expected to be reclassified to net sales during the next 12 months. The maximum term over which the Company is hedging its cash flows is 24 months.

The Company also purchases and sells metals, oil and foreign currencies which have not been specifically identified as hedges in accordance with SFAS No. 133. With respect to metals, the Company uses forward contracts to manage the price risk associated with copper, gold and purchases of nickel and copper from third parties to meet its customers' requirements. With respect to oil, the Company uses swaps to manage the cost of a portion of its energy requirements in Indonesia. With respect to foreign currencies, the Company, by virtue of its international operations, conducts business in a number of foreign currencies other than the U.S. dollar. The Company's primary exchange risk is to changes in the value of the Canadian dollar, the currency in which a substantial portion of the Company's costs are incurred, relative to the U.S. dollar. The Company reduces the impact of this risk by entering into forward contracts and foreign currency options which typically do not extend beyond one year. At December 31, 2001, an unrealized net loss of \$4 million before taxes (\$2 million after taxes) was charged to other income, net in respect of derivative instruments which were not specifically designated as hedges.

The adoption of these new accounting standards on January 1, 2001 did not result in a cumulative effect of an accounting change.

(d) Earnings (loss) per share

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

<i>Year ended December 31</i>	2001	2000	1999
Basic earnings (loss) per share computation			
Numerator:			
Earnings from continuing operations	\$ 283	\$ 387	\$ 17
Dividends on preferred shares	(26)	(26)	(26)
Earnings (loss) from continuing operations applicable to common shares	\$ 257	\$ 361	\$ (9)
Denominator:			
Weighted-average common shares outstanding (millions)	182	182	176
Basic earnings (loss) per common share	\$ 1.41	\$ 1.99	\$ (0.05)
Diluted earnings (loss) per share computation			
Numerator:			
Earnings (loss) from continuing operations applicable to common shares	\$ 257	\$ 361	\$ (9)
Dilutive effect of:			
Convertible debentures	6	13	—
Earnings (loss) from continuing operations applicable to common shares, assuming dilution	\$ 263	\$ 374	\$ (9)
Denominator:			
Weighted-average common shares outstanding (millions)	182	182	176
Dilutive effect of:			
Class VBN shares	—	12	—
Convertible debentures	6	10	—
Stock options	1	1	—
Weighted-average common shares outstanding, assuming dilution	189	205	176
Diluted earnings (loss) per common share	\$ 1.39	\$ 1.82	\$ (0.05)

In 2001, debentures convertible into 4,180,601 Common Shares (2000 – nil; 1999 – 9,930,601), options on 5,261,534 Common Shares (2000 – 4,082,534; 1999 – 6,320,418), Preferred Shares convertible into 11,277,987 Common Shares (2000 – 11,278,017; 1999 – 11,267,148) and Warrants exercisable for 11,021,947 Common Shares (2000 – 10,997,903; 1999 – nil) were excluded from the computation of diluted earnings (loss) per Common Share because their effects were not dilutive.

(e) Investments

United States accounting standards for equity investments, which are set forth in SFAS No. 115, require that certain equity investments not held for trading be recorded at fair value with unrealized holding gains and losses excluded from the determination of earnings and reported as a separate component of other comprehensive income. At December 31, 2001, deferred charges and other assets would have decreased by \$22 million (2000 – \$19 million; 1999 – \$12 million), cash and marketable securities would have increased by \$1 million (2000 – \$2 million; 1999 – \$nil) and accumulated other comprehensive loss would have increased by \$21 million (2000 – \$17 million; 1999 – \$12 million).

(f) Stock-based compensation

Effective January 1, 2001, the Company adopted a new accounting standard of the CICA in respect of stock-based compensation. This new standard is substantially identical to United States GAAP. For further information, reference is made to Note 2(c). Under United States GAAP, had the Company elected to recognize the cost of its stock-based compensation based on the estimated fair value of stock options granted, the Company's results would have been as follows:

<i>Year ended December 31</i>	2001	2000	1999
Pro forma earnings from continuing operations	\$ 279	\$ 383	\$ 13
Pro forma net earnings	\$ 279	\$ 383	\$ 8
Pro forma basic earnings (loss) per common share			
Earnings (loss) from continuing operations	\$ 1.39	\$ 1.96	\$ (0.07)
Net earnings (loss)	\$ 1.39	\$ 1.96	\$ (0.10)

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model with the assumptions noted in Note 15.

(g) Preferred shares

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

(h) Comprehensive income

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

The following tables compare the Company's results reported under Canadian GAAP with those that would have been reported under United States GAAP, together with the cumulative effect on balance sheet accounts. Quarterly results are unaudited.

<i>Year ended December 31</i>	Canadian GAAP			United States GAAP		
	2001	2000	1999	2001	2000	1999
	(Restated)	(Restated)		(Restated)	(Restated)	
Net earnings (loss)						
First quarter	\$ 85	\$ 101	\$ (18)	\$ 81	\$ 101	\$ (18)
Second quarter	192	154	(19)	174	154	(19)
Third quarter	33	62	5	39	53	5
Fourth quarter	(5)	83	44	(11)	79	44
Year	\$ 305	\$ 400	\$ 12	\$ 283	\$ 387	\$ 12
Net earnings (loss) per common share						
Basic	\$ 1.52	\$ 2.06	\$ (0.08)	\$ 1.41	\$ 1.99	\$ (0.08)
Diluted	\$ 1.49	\$ 1.89	\$ (0.08)	\$ 1.39	\$ 1.82	\$ (0.08)

<i>December 31</i>	Canadian GAAP			United States GAAP		
	2001	2000	1999	2001	2000	1999
			(Restated)			
Assets:						
Cash and marketable securities	\$ 306	\$ 193	\$ 38	\$ 307	\$ 195	\$ 38
Other current assets	44	33	44	70	33	44
Deferred charges and other assets	243	268	216	164	230	189
Liabilities:						
Long-term debt due within one year	81	78	190	317	78	190
Other accrued liabilities	189	159	152	194	159	152
Long-term debt	759	952	1,154	755	952	1,154
Deferred income and mining taxes	2,117	2,401	2,475	1,901	2,251	2,416
Post-retirement benefits	451	469	479	957	807	644
Shareholders' equity:						
Notes	231	—	—	—	—	—
Retained earnings	1,194	918	544	1,154	897	536
Accumulated other comprehensive loss	—	—	—	(316)	(211)	(116)

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

<i>Year ended December 31</i>	2001	2000	1999
Retained earnings at beginning of year	\$ 897	\$ 536	\$ 550
Net earnings	283	387	12
Preferred dividends	(26)	(26)	(26)
Retained earnings at end of year	\$ 1,154	\$ 897	\$ 536
Accumulated other comprehensive loss at beginning of year	\$ (211)	\$ (116)	\$ (101)
Other comprehensive loss	(105)	(95)	(15)
Accumulated other comprehensive loss at end of year	\$ (316)	\$ (211)	\$ (116)

Recent Accounting Pronouncements

The Company will adopt, for United States reporting purposes, SFAS No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and prohibits the use of the pooling of interests method. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach and, as a result, the amortization of goodwill will cease. These new standards conform substantially to similar new standards issued by the CICA, which the Company will also adopt in the first quarter of 2002. The Company has determined that there will be no significant impact on the Company's results of operations or financial condition as a result of the adoption of these standards.

The Company will also adopt, for United States reporting purposes, SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, in the first quarter of 2002 which supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of*, and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30. SFAS No. 144 requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and will broaden the presentation of discontinued operations to include more disposal transactions. The adoption of the new standard will not have a significant impact on the Company's results of operations or financial condition.

The Company will adopt, for United States reporting purposes, SFAS No. 143, *Accounting for Asset Retirement Obligations*, in the first quarter of 2003. Under SFAS No. 143, retirement obligations will be recognized when incurred and recorded as liabilities at fair value. In addition, the asset retirement cost will be capitalized as part of the asset's carrying value and depreciated over the asset's useful life. The Company has not yet determined the effect of the adoption of SFAS No. 143 on its results of operations or financial condition.

SCHEDULE VIII
INCO LIMITED AND SUBSIDIARIES
VALUATION ACCOUNTS AND RESERVES
(IN THOUSANDS)

	<u>BALANCE AT BEGINNING OF YEAR</u>	<u>ADDITIONS CHARGED TO COSTS AND EXPENSES</u>	<u>DEDUCTIONS FOR ACCOUNTS RECEIVABLE WRITTEN OFF</u>	<u>BALANCE AT END OF YEAR</u>
	<u>YEAR ENDED DECEMBER 31, 2001</u>			
Allowance for doubtful accounts	<u>\$ 3,886</u>	<u>\$ 1,959</u>	<u>\$ 1,970</u>	<u>\$ 3,875</u>
	<u>YEAR ENDED DECEMBER 31, 2000</u>			
Allowance for doubtful accounts	<u>\$ 3,968</u>	<u>\$ 329</u>	<u>\$ 411</u>	<u>\$ 3,886</u>
	<u>YEAR ENDED DECEMBER 31, 1999</u>			
Allowance for doubtful accounts	<u>\$ 4,540</u>	<u>\$ 904</u>	<u>\$ 1,476</u>	<u>\$ 3,968</u>

Supplemental Financial Information

Quarterly Financial Information

<i>(in millions of United States dollars except per share amounts)</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2001					
Net sales	\$ 586	\$ 583	\$ 434	\$ 463	\$ 2,066
Operating earnings (loss)	\$ 145	\$ 88	\$ 53	\$ (12)	\$ 274
Net earnings (loss)	\$ 85	\$ 192	\$ 33	\$ (5)	\$ 305
Net earnings (loss) per common share					
Basic	\$ 0.43	\$ 1.01	\$ 0.14	\$ (0.07)	\$ 1.52
Diluted	\$ 0.42	\$ 0.95	\$ 0.14	\$ (0.07)	\$ 1.49
2000 (Restated)					
Net sales	\$ 774	\$ 837	\$ 642	\$ 664	\$ 2,917
Operating earnings	\$ 198	\$ 258	\$ 138	\$ 149	\$ 743
Net earnings	\$ 101	\$ 154	\$ 62	\$ 83	\$ 400
Net earnings per common share					
Basic	\$ 0.52	\$ 0.81	\$ 0.31	\$ 0.42	\$ 2.06
Diluted	\$ 0.48	\$ 0.74	\$ 0.29	\$ 0.39	\$ 1.89

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

PART III

Item 10. *Directors and Executive Officers of Inco Limited*

The information under “Election of Directors” on pages 3 to 7 of the Company’s Proxy Circular and Statement dated February 5, 2002 (the “2002 Proxy Statement”), filed as Exhibit 99 hereto, is incorporated herein by reference to such information. Reference is also made to “Executive Officers of Inco Limited” beginning on page 58 of this Report, including the subheading “Change in Chief Financial Officer Position” on page 59.

Item 11. *Executive Compensation*

The information under “Executive Compensation” on pages 13 to 19, “Report of the Management Resources and Compensation Committee on Executive Compensation” on pages 23 to 25 and “Comparative Shareholder Return” on page 26 of the 2002 Proxy Statement is incorporated herein by reference to such information. Reference is also made to “Executive Officers of Inco Limited” beginning on page 58 of this Report.

Item 12. *Security Ownership of Certain Beneficial Owners and Management*

Security Ownership of Certain Beneficial Owners and Management

The information under “Security Ownership of Certain Beneficial Owners and Management” on pages 8 and 9 of the 2002 Proxy Statement is incorporated herein by reference to such information. Reference is also made to “Executive Officers of Inco Limited” beginning on page 58 of this Report.

Changes in Control

There are no arrangements known to the Company the operation of which may at a subsequent date result in a change of control of the Company.

Item 13. *Certain Relationships and Related Transactions*

None.

PART IV

Item 14. *Exhibits, Financial Statement Schedules, and Reports on Form 8-K*

- (a) 1. List of Financial Statements Included under Item 8 of this Report.
 - Auditors' Report
 - Consolidated Statement of Earnings
 - Consolidated Statement of Retained Earnings
 - Consolidated Balance Sheet
 - Consolidated Statement of Cash Flows
 - Notes to Consolidated Financial Statements
 - Supplementary Financial Information (unaudited)
- (a) 2. List of Financial Statement Schedules included under Item 8 of this Report.
 - Schedule VIII – Valuation accounts and reserves
- (a) 3. Exhibits.
 - (3) (i) Articles of Continuance of the Company as amended to April 25, 2001 (incorporated by reference to Exhibit 3(i) and 4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001).
 - (ii) (a) General By-law No. 1 of the Company as amended to May 22, 1996 (incorporated by reference to Exhibit 3(ii)(a) to the Company's Annual Report on Form 10-K (File No. 1-1143) for the year ended December 31, 1996).
 - (b) Standing Resolution of the Company as amended to February 5, 2002.
 - (4) (i) (a) Reference is made to (3)(i) and (ii) above.
 - (b) Warrant Agreement dated December 1, 2000 among the Company, CIBC Mellon Trust Company and ChaseMellon Shareholder Services LLC, as Canadian and U.S. Warrant Agents, respectively (incorporated by reference to the Registration Statement on Form F-10 (File No. 333-12748) as filed with the Commission on December 7, 2000).
 - (c) Shareholder Rights Plan Agreement dated as of September 14, 1998, as amended and restated as of April 28, 1999, between Inco Limited and CIBC Mellon Trust Company, as Rights Agent (incorporated by reference to Attachment A to the 1999 Proxy Statement attached as Exhibit 99 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998).
 - (ii) The Company hereby agrees to furnish to the Commission a copy of any instrument relating to outstanding long-term debt of the Company upon request of the Commission.
 - (10) (a) 2001 Key Employees Incentive Plan (incorporated by reference to Exhibit A to the 2001 Proxy Statement filed as Exhibit 99 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000).
 - (b) 1997 Key Employees Incentive Plan (incorporated by reference to Exhibit A to the 1997 Proxy Statement filed as Exhibit 99 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996).
 - (c) 1993 Key Employees Incentive Plan (incorporated by reference to the Prospectus in Registration Statement No. 33-71298).
 - (d) 1998 Non-Employee Director Share Ownership Plan as amended to December 4, 2001.
 - (e) Forms of two Agreements, each dated as of between March 23, 1998 and May 1, 2000, between certain executive officers of the Company (all executive officers in the case of the form of Agreement referred to in (2) below and S.M. Hand, S.F. Feiner, P.J. Goudie, G.C. Halatsis and P.C. Jones in the case of the form of Agreement referred to in (1) below) and Inco Limited covering severance payments and continuation of certain benefits in the event of (1) involuntary termination of employment (except for cause) or resignation under certain circumstances not wholly voluntary or (2) involuntary termination of employment (except for

- cause) or resignation under certain circumstances not wholly voluntary within two years following a change in control (as defined in such agreements) (incorporated by reference to Exhibit 10(iii)(A) to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1998).
- (f) Agreement dated April 18, 2001 between M.D. Sopko and the Company relating the retirement of M.D. Sopko as Chief Executive Officer, his service as non-executive Chairman and future consulting services to be provided to the Company, and Consulting Agreement dated April 18, 2001 between M.D. Sopko and the Company relating to consulting services to be provided by M.D. Sopko from April 2002 to October 2006 (incorporated by reference to Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2001).
 - (g) Description of the Company's Management Incentive Plans (incorporated by reference to the first paragraph under "Management Incentive Plans and Other Arrangements with Officers" on page 14 of the 2002 Proxy Statement).
 - (21) Subsidiaries of the Company.
 - (23) Consents of Robert A. Horn, Lawrence B. Cochrane and Robert C. Osborne, each as a Qualified Person named in this Report pursuant to National Instrument 43-101 issued by the Canadian securities administrators.
 - (24) (a) Powers of Attorney.
 - (b) Resolution of the Board of Directors.
 - (99) 2002 Proxy Statement.
 - (b) Reports on Form 8-K filed in the fourth quarter of 2001.
None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in Toronto, Ontario, on the 28th day of February, 2002.

INCO LIMITED
(Registrant)

By: (Signed) STUART F. FEINER
(Stuart F. Feiner, Executive Vice-President,
General Counsel & Secretary)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 28th day of February, 2002.

<u>SIGNATURE</u>	<u>TITLE</u>
SCOTT M. HAND (Scott M. Hand)	Deputy Chairman and Chief Executive Officer and Director (Principal Executive Officer)
GEORGE C. HALATSIS (George C. Halatsis)	Executive Vice-President and Chief Financial Officer (Principal Financial Officer)
RONALD A. LEHTOVAARA (Ronald A. Lehtovaara)	Vice-President and Comptroller (Principal Accounting Officer)

<u>SIGNATURE</u>	<u>TITLE</u>
*MICHAEL D. SOPKO (Michael D. Sopko)	Non-Executive Chairman and Director
*GLEN A. BARTON (Glen A. Barton)	Director
*ANGUS A. BRUNEAU (Angus A. Bruneau)	Director
*ELEANOR R. CLITHEROE (Eleanor R. Clitheroe)	Director
*PURDY CRAWFORD (Purdy Crawford)	Director
*JUDITH A. EROLA (Judith A. Erola)	Director
*WILLIAM F. GLAVIN (William F. Glavin)	Director
*CHARLES H. HANTHO (Charles H. Hantho)	Director
_____ (Chaviva M. Hošek)	Director
*DAVID P. O'BRIEN (David P. O'Brien)	Director
*JAMES M. STANFORD (James M. Stanford)	Director
*RICHARD M. THOMSON (Richard M. Thomson)	Director
 (Signed) EDWARD A. STEEN _____ (Edward A. Steen) Inco United States, Inc. Park 80 West, Plaza Two Saddle Brook, NJ 07663	Authorized Representative in the United States

* Pursuant to powers of attorney executed by the directors named above whose names are preceded by an asterisk, Stuart F. Feiner, as attorney-in-fact, does hereby sign this Report on behalf of each of such directors, in each case in the capacity of director, on the 28th day of February, 2002.

(Signed) STUART F. FEINER

(Stuart F. Feiner, attorney-in-fact)

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectuses constituting part of the Registration Statements on Form S-3 (Nos. 33-22435 and 33-50816), on Form S-8 (Nos. 33-71298, 333-7798 and 333-13714) and on Form F-10 (Nos. 333-13470 and 333-12588) of Inco Limited of our report dated February 5, 2002 relating to the financial statements and the financial statement schedule which appear in this Annual Report on Form 10-K. We also consent to the reference to us under the heading "Experts" in each of such Prospectuses.

PricewaterhouseCoopers LLP
Chartered Accountants
Toronto, Ontario
February 28, 2002

INCO LIMITED

**EXHIBIT INDEX TO ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2001**

<u>Exhibit No.</u>	<u>Exhibit</u>	<u>Sequentially Numbered Page</u>
3(ii)(b)	Standing Resolution of the Registrant as amended to February 5, 2002	
10(d)	1998 Non-Employee Director Share Ownership Plan as amended to December 4, 2001	
21	Subsidiaries of Inco Limited	
23	Consent of Independent Accountants	
23	Consents of Robert A. Horn, Lawrence B. Cochrane and Robert C. Osborne, each as a Qualified Person under National Instrument 43-101	
24(a)	Powers of Attorney	
24(b)	Resolution of the Board of Directors of the Registrant	
99	Proxy Circular and Statement dated February 5, 2002*	

* Portions of the Proxy Circular and Statement are incorporated by reference in Part III of this Report.

EXHIBIT 3(ii)(b)

**STANDING RESOLUTION OF THE REGISTRANT
AS AMENDED TO FEBRUARY 5, 2002**

STANDING RESOLUTION

BOARD OF DIRECTORS

There shall be 13 Directors who are divided into two classes, one class comprised of 7 Directors and one class of 6.

OFFICERS AND ASSISTANTS

SECTION 1. Officers. The Officers of the Company shall be a Chairman, Chief Executive Officer and a President, at least one of whom shall be members of the Board, one or more, Vice-Presidents (to which title may be added words indicating seniority or function), a Treasurer, a Secretary, and a Comptroller, and such other Officers as the Board may determine, all of whom shall be appointed by the Board annually at the first meeting thereof held after the annual meeting of shareholders in each year or, in default of such election, at a succeeding meeting. The Board may appoint from its members one or more Vice-Chairmen or Deputy Chairmen of the Company.

The offices of the Chairman, Chief Executive Officer and/or President may be filled by the same person, and the office of Vice-President and Treasurer, Vice-President and Secretary or Vice-President and Comptroller may be filled by the same person, provided, however, that the powers and duties contemplated by any resolution of the Board to be exercised and performed by two Officers jointly shall not in any event be performed by one and the same person.

The term of office of all Officers shall be one year, or until their respective successors are chosen, but any Officer may be removed from office at any time by the Board, except that the Chairman, Chief Executive Officer, President or a Deputy Chairman or Vice-Chairman may be removed only by the affirmative vote of a majority of the Directors then in office.

(a) **Chief Executive Officer.** The Chief Executive Officer of the Company shall be either the Chairman, the Deputy Chairman or the President as may be stipulated from time to time by the Board.

(b) **The Chairman.** The Chairman shall preside at all meetings of the shareholders and the Board, and he shall have such other powers and perform such other duties as may be assigned to him from time to time by the Board, and, if and so long as he is not the Chief Executive Officer of the Company, as may be delegated to him by the Chief Executive Officer of the Company.

(c) **The President.** The President shall, in the absence of the Chairman or Chief Executive Officer (if the President is not also the Chief Executive Officer), preside at all meetings of the shareholders and the Board, and shall have such other powers and perform such other duties as may be assigned to the President from time to time by the Board and, if and so long as he is not the Chief Executive Officer of the Company, as may be delegated to him by the Chief Executive Officer of the Company.

(d) **Deputy Chairman or Vice-Chairman.** The Deputy Chairman or Vice-Chairman shall, in the absence of the Chairman, the Chief Executive Officer or the President, preside at all meetings of the shareholders and the Board, and he shall have such other powers and perform such other duties as may be assigned to him from time to time by the Board or delegated to him by the Chief Executive Officer of the Company.

(e) **Vice-Presidents.** Each Vice-President shall have such powers and perform such duties as may from time to time be assigned to him by the Board and shall be subject to the control and direction of the senior Officer to whom such Vice-President reports.

(f) **The Treasurer.** The Treasurer shall have the powers and perform the duties usually incident to the office of treasurer and that may be assigned to him from time to time by the Board, and shall be subject to the control and direction of the senior Officer to whom he reports.

(g) **The Secretary.** The Secretary shall have the powers and perform the duties usually incident to the office of secretary and that may be assigned to him from time to time by the Board, and shall be subject to the control and direction of the senior Officer to whom he reports.

(h) **The Comptroller.** The Comptroller shall have the powers and perform the duties usually incident to the office of comptroller and that may be assigned to him from time to time by the Board, and shall be subject to the control and direction of the senior Officer to whom he reports.

SECTION 2. Assistants. The Board may also appoint one or more Assistant Treasurers, Assistant Secretaries, Assistant Comptrollers, and other assistants to or deputies of Officers (to the title of any of whom may be added words indicating seniority or function), who shall have such powers and perform such duties as may be assigned to them.

FISCAL YEAR

The fiscal year of the Company shall begin on the 1st day of January and end on the 31st day of December.

CORPORATE SEAL

The corporate seal of the Company shall be in the form impressed hereon.

EXECUTION OF DOCUMENTS

Unless otherwise authorized by the Board in the case of a particular instrument or class of instruments; (1) all instruments to which the seal of the Company is affixed shall be signed by the Chairman, Deputy Chairman or a Vice-Chairman or the President or a Vice-President and by the Secretary or Treasurer or an Assistant Secretary or an Assistant Treasurer or an Associate General Counsel or an Assistant General Counsel or, in any case, by such Officer, employee, agent or other person as the Board may from time to time appoint to perform such duties; (2) all other instruments may be signed by the Chairman, Deputy Chairman, a Vice-Chairman or the President or a Vice-President or by such Officer, employee, agent or other person as the Board may from time to time appoint to perform such duties.

Notwithstanding the foregoing, the Secretary, an Assistant Secretary, or any other Officer or assistant to or deputy of an Officer, may sign an instrument and affix the seal of the Company thereto for the purpose of certifying with respect to factual matters on behalf of the Company.

EXHIBIT 10(d)

**1998 NON-EMPLOYEE DIRECTOR
SHARE OWNERSHIP PLAN
AS AMENDED TO DECEMBER 4, 2001**

INCO LIMITED
1998 NON-EMPLOYEE DIRECTOR SHARE
OWNERSHIP PLAN, AS AMENDED *

Article I. Establishment, Purpose and Duration

Section 1.1 Establishment of the Plan

Inco Limited, a corporation organized under the laws of Canada (hereinafter, including any successor to all or substantially all of its businesses by merger, consolidation, amalgamation, purchase of assets or otherwise, referred to as the "Company"), hereby establishes a share plan for Non-Employee Directors (as hereinafter defined) to be known as the "Inco Limited 1998 Non-Employee Director Share Ownership Plan", as may be amended from time to time (hereinafter referred to as the "Plan"), as set forth in this document. The Plan (i) permits, subject to Section 5.2 hereof, the election by Non-Employee Directors (as hereinafter defined) to have all or a portion of their Cash Compensation (as hereinafter defined) used to purchase Common Shares of the Company or credited in the form of Share Units (as hereinafter defined) and (ii) provides for annual grants of Awards (as hereinafter defined) to Non-Employee Directors in the form of Shares (as hereinafter defined) or, if any Non-Employee Director so elects, Awards credited in the form of Share Units.

The Plan shall succeed and replace the 1995 Non-Employee Director Share Ownership Plan and become effective as of April 1, 1998 (the "Effective Date"), and shall remain in effect as provided in Section 1.3, except that any Non-Employee Director who is elected in 1998 will receive an Award in accordance with the terms of the 1995 Non-Employee Director Share Ownership Plan.

Section 1.2 Purposes of the Plan

The purposes of the Plan are to encourage Non-Employee Directors to own the Company's Shares or Share Units and thereby to align their interests more closely with the interests of the other shareholders of the Company, to encourage the highest level of Non-Employee Director performance by providing Non-Employee Directors with a direct interest in the Company's attainment of its financial goals, and to provide a financial incentive that will help attract and retain the most qualified Non-Employee Directors.

Section 1.3 Duration of the Plan

The Plan shall commence on the Effective Date, as described in Section 1.1, and shall remain in effect, subject to the right of the Board of Directors (as hereinafter defined) to terminate the Plan at any time pursuant to Section 8.2.

Article II. Definitions

Section 2.1 Definitions

Whenever used in the Plan unless otherwise defined, the following terms shall have the meanings set forth below:

- (a) "Average Cost" means the average cost per share of all Shares purchased by the Trustee, pursuant to Section 6.2, on the relevant Due Date for all Participants who have elected to receive Shares as of such Date, excluding commissions and other expenses.

* Amended as of December 6, 1999 and December 4, 2001

- (b)** "Award" means a grant under the Plan of a notional number of Shares which shall be payable on the Due Date of the Award to (x) each Non-Employee Director in the case of the annual Award made to each Non-Employee Director under the Plan, (y) each Non-Employee Director annually for service on one or more Committees and (z) each Non-Employee Director annually for service as a Chair of a Committee, all in either: (i) Shares or (ii) Share Units, based upon a Participant's election.
- (c)** "Award Shares" mean Shares granted as an Award to Participants which, if not in the form of Share Units, shall be purchased by the Trustee, pursuant to Section 6.2, as of the Due Date on behalf of the Participants for purposes of Article VI hereof with funds made available by the Company for such purpose.
- (d)** "Board" or "Board of Directors" means the Board of Directors of the Company.
- (e)** "Cash Compensation" means a notional dollar amount representing the annual retainer, meeting attendance and membership and chairperson fees payable to any Participant for serving on the Board or on any formal or standing committee of the Board in (i) cash (which may be used to purchase Shares under the Plan pursuant to Article VII) or (ii) Share Units based upon a Participant's election pursuant to the Plan.
- (f)** "CG&N Committee" means the Corporate Governance and Nominating Committee of the Board of Directors or any successor committee.
- (g)** "Committee" means any formal standing and duly constituted committee of the Board other than the Executive Committee.
- (h)** "Director" means any individual who is a member of the Board of Directors of the Company.
- (i)** "Due Date" means (i) with respect to any Award, the first business day in respect of which such Award for the applicable calendar year is being made, except for Awards to Participants who have become Non-Employee Directors and/or members and, if applicable, chairs of any Committee, during a calendar year, in which case the last business day of the calendar year during which such person first becomes a Non-Employee Director and/or member of a Committee and, if applicable, chair of a Committee unless otherwise determined by the CG&N Committee; and (ii) with respect to Cash Compensation to be used to purchase Shares, the last business day of March, June, September and December of the calendar year, unless otherwise determined by the CG&N Committee.
- (j)** "Election Form" means a document substantially in the form of Schedule A to the Plan, as may be amended or revised from time to time.
- (k)** "Fair Market Value" on a particular date means the mean between the high and low sales prices of the Shares as reported for such date on the composite tape (or other reporting basis) for securities traded on the New York Stock Exchange or the Toronto Stock Exchange, as elected by a Participant pursuant to his or her Election Form (or, if such exchange is not open on such date, the immediately preceding date on which such exchange is open), or, if the Shares are not so listed or traded on such exchange, the mean between the high and low prices of the Shares as reported for such date on the

principal securities exchange on which such Shares are then listed or admitted to trading (or, if such exchange is not open on such date, the immediately preceding date on which such exchange is open), or if the Shares are not so listed or traded, the mean between the closing bid price and the closing asked price as quoted on the National Association of Securities Dealers Automated Quotation System for such date, or such other market in which such prices are regularly quoted, or, if there have been no published bid or asked quotations with respect to the Shares, the Fair Market Value shall be the value established by the CG&N Committee in good faith.

- (l) "Non-Employee" means any person who is not, during the time in which he or she shall be a Participant under the Plan, either a part-time or a full-time employee (other than by the holding of a Board office) of the Company or any subsidiary or affiliate of the Company.
- (m) "Non-Employee Director" means a person who is a Director of the Company and is a Non-Employee.
- (n) "Participant" means any Non-Employee Director of the Company who has elected, pursuant to Section 5.2 hereof, to receive some or all of his or her Cash Compensation in Share Units or have such Cash Compensation used to purchase Shares and/or who has an outstanding Award granted under the Plan in Shares or Share Units.
- (o) "Shares" or "Common Shares" means the Common Shares of the Company.
- (p) "Share Unit" means a unit, equivalent in value to a Common Share, credited by means of a bookkeeping entry in the books of the Company to a Participant's account pursuant to the terms and conditions of the Plan and such Participant's Election Form.
- (q) "Termination Date" means the date upon which a Participant ceases to be a member of the Board for any reason whatsoever, including death.
- (r) "Termination Value" means average of the Fair Market Values of the Shares on the applicable exchange (as elected by the Participant pursuant to his or her Election Form) for the five business days preceding the Termination Date.
- (s) "Trustee" means Royal Trust Corporation of Canada or such other trustee or trustees from time to time appointed as successor pursuant to Section 3.3 hereof.

Article III. Administration

Section 3.1 CG&N Committee

The Plan shall be administered by the CG&N Committee.

Section 3.2 Authority of the CG&N Committee

The CG&N Committee shall, by majority action, have full power, except as limited by law, the Articles of Continuance, By-law No. 1 or any Standing Resolution of the Company, and subject to the provisions herein, to construe and interpret the Plan and any agreement or instrument entered into under the Plan, make all determinations which may be necessary or advisable for the administration of the Plan, including the enactment of rules relating to the manner and timing of the purchase of Shares on behalf of the

Participants by the Trustee for purposes of the Plan, and provide for conditions and assurances deemed necessary or advisable to protect the interests of the Company, but only to the extent not contrary to the express provisions of the Plan. No member of the CG&N Committee shall be liable for any action or determination made in good faith. The CG&N Committee may delegate to other persons any duties or responsibilities relating to the administration of the Plan. The determinations, interpretations and other actions of the CG&N Committee pursuant to the provisions of the Plan shall be binding and conclusive for all purposes and on all persons, including the Company, its shareholders, employees, Trustee, Participants and their respective estates and beneficiaries.

Section 3.3 Trustee(s)

The CG&N Committee may appoint, in replacement for Royal Trust Corporation of Canada, one or more parties, or up to four persons, any one or more of whom may be a Non-Employee Director and/or a member of the CG&N Committee, to act as a successor Trustee and purchasing agent for the Plan.

Article IV. Shares Subject to the Plan

Section 4.1 Number of Shares

Subject to adjustment as provided in Section 4.2, the total number of Shares available for purchase or subject to grants of Awards under the Plan may not exceed one hundred and fifty thousand (150,000). These one hundred and fifty thousand (150,000) Shares shall be issued and outstanding Shares acquired by the Trustee through one or more registered brokers or dealers selected by the Trustee on behalf of the Participants pursuant to the terms of the Plan.

Section 4.2 Adjustments in Authorized Shares

- (a) If:
- (i) any recapitalization, reclassification, spin-off, subdivision, split-up, consolidation of Shares or similar event is effected;
 - (ii) the outstanding Shares are exchanged in connection with a reorganization, including any merger, amalgamation, statutory arrangement, consolidation of the Company or similar event, or a sale by the Company of all or a part of its assets, for a different number or class of shares or other securities of the Company or for shares or other securities of any other corporation;
 - (iii) new, different or additional shares or other securities of the Company or of another company are received by the holders of Shares; or
 - (iv) any distribution is made to the holders of Shares other than a non-extraordinary cash dividend or dividends under the Company's Optional Stock Dividend Program or any successor plan;
- then the appropriate adjustments may be made, subject to subparagraph (b) of this Section 4.2, to the number and class of Shares or other securities and Share Units that may have been made as outstanding Awards or received by Participants under the Plan;

- (b) Adjustments, if any, under subparagraph (a) of this Section 4.2 shall be as recommended by the CG&N Committee for approval by the Board and shall not be effective unless approved by the Board; and
- (c) Except as provided in subparagraph (a) of this Section 4.2, the issuance by the Company of shares of any class of the Company, or rights, warrants, options or any other securities convertible into or exchangeable for shares of any class shall not affect the number of Award Shares under Awards or Shares or Share Units received by Participants under the Plan.

Article V. Eligibility and Participation

Section 5.1 Eligibility and Participation

All Non-Employee Directors of the Company will participate in **Article VI** of the Plan and all Non-Employee Directors may participate in **Article VII** of the Plan.

Section 5.2 Elections

Each Participant shall, subject to the terms of this Section, have the right to elect annually the manner in which the Participant wishes to receive Awards in Shares or in Share Units credited to an account maintained for such Participant on the books of the Company and, in the case of Cash Compensation, cash, Shares or Share Units, by completing, signing, and delivering to the Secretary of the Company the Election Form (a) in respect of 1998 by March 31, 1998 and (b) for each subsequent year while this Plan is in effect by December 31 of the immediately preceding year, provided that (1) any such election shall apply only to Awards made or Cash Compensation earned after the date on which such election is made, (2) until such time as a Non-Employee Director owns beneficially the greater of (x) Shares and/or Share Units totalling 7,500 (subject to adjustment in the event of any of the adjustments referred to in Section 4.2) and (y) Share and/or Share Units having a then Fair Market Value of \$150,000 (U.S.) or the equivalent in Canadian dollars, a Non-Employee Director shall elect to have at least 25% of all Cash Compensation earned to be used to purchase Shares or credited as Share Units pursuant to the terms of the Plan, (3) subject to clause (2), elections shall be made in increments of 0%, 25%, 50% or 100% of all Cash Compensation, and (4) that any person who becomes a Non-Employee Director during the course of a calendar year shall have the right to make his or her election in respect of Awards and Cash Compensation earned after the date he or she becomes a Non-Employee Director by completing an Election Form within 30 days after first becoming a Non-Employee Director.

Any election made pursuant to the terms of this Plan shall remain effective until it is changed by the completion, signature, and delivery to the Secretary of a new Election Form in accordance with the terms of the Plan, which shall take effect for the calendar year(s) or other applicable period commencing after the delivery of the form.

If no election is made, and no prior election remains effective, the Participant shall be deemed to have elected to receive all Awards in Share Units and all Cash Compensation in cash.

Article VI. Awards

Section 6.1 Awards

Subject to the terms and provisions of the Plan, Awards of Award Shares shall be granted to each Participant on the first business day of each calendar year, beginning in 1999, while such Participant remains a Non-Employee Director.

In the event that a new Non-Employee Director (i) is elected to the Board and/or (ii) becomes a member, and, if applicable, chair, of a Committee after the first business day of a calendar year, he or she will receive one or more Awards for such calendar year, as of the end of such calendar year, equal to the whole number (rounded up) of Award Shares or Share Units, as elected, calculated by multiplying the number of Award Shares constituting the latest applicable Award(s) made to Participants under the Plan by a fraction the numerator of which shall be the total number of whole months in such year during which such Non-Employee Director served as a Director, member and, if applicable, chair, of a Committee and the denominator of which shall be 12.

Section 6.2 Share Purchases by Trustees

Shares to be received under the Plan shall be issued and outstanding Shares acquired by the Trustee on behalf of the Participants with funds provided by the Company pursuant to the terms of the Plan. The Trustee may acquire Shares for purposes of the Plan by the purchase through one or more registered dealers or brokers on any stock exchange in Canada or the United States on which the Shares are publicly traded in accordance with applicable federal, provincial or state securities laws of Canada and the United States and the rules of the relevant stock exchanges.

Section 6.3 Number of Common Shares

During a calendar year, the number of Shares to be purchased on a Due Date on behalf of a Participant shall be:

- a. with respect to an Award, the number of Shares that the Participant has elected to receive; and
- b. as provided under Section 7.1, with respect to Cash Compensation, such number of Shares as is obtained by dividing the total dollar amount that the Participant has elected in respect of each quarter to be used to purchase Shares under the Plan by the Average Cost of the Shares.

Any fractional shares or balance due shall be paid by the Company in cash.

Section 6.4 Number of Share Units to be Credited

During a calendar year, the number of Share Units to be credited in the books of the Company to the account of a Participant on a Due Date shall be:

- a. with respect to Awards, such number of Share Units equivalent to the number of Award Shares covered by such Awards that the Participant has elected to receive as Share Units under the Plan; and

- b. with respect to Cash Compensation, such number of Share Units (including fractional Share Units calculated to four decimal points rounded down) as is obtained by dividing the total dollar amount that the Participant has elected in each calendar quarter to be paid in Share Units under the Plan by the Fair Market Value on the relevant Due Date.

The grant of Share Units for a calendar year by a Participant shall be evidenced by an agreement in writing between the Participant and the Company.

Section 6.5 Credit for Dividends on Share Units

A Participant's account covering Share Units shall be credited with dividend equivalents in the form of additional Share Units when cash dividends are paid on Shares. Such dividend equivalents shall be computed by dividing: (a) the amount obtained by multiplying the amount of the dividend declared and paid per Share by the number of Share Units recorded in the Participant's account on the record date for the payment of such dividend, by (b) the Fair Market Value on the dividend payment date for such dividend, with fractions computed to four decimal places (rounded down).

Section 6.6 Reporting of Share Units

Statements of Shares purchased on behalf of a Participant and Share Unit accounts will be provided to the Participants on a quarterly basis.

Section 6.7 Payment of Share Units Upon Termination

A Participant shall receive not later than thirty days following the Participant's Termination Date a lump sum payment in cash equal to the number of Share Units recorded in the Participant's account on the Termination Date multiplied by the Termination Value of the Shares. Upon payment in full of the Share Units, the Share Units shall be cancelled.

Section 6.8 Additional Restrictions on Delivery and Sale of Award Shares; Legends

Each Award Share shall be subject to the condition that if, at any time the CG&N Committee, in its discretion, shall determine that the listing, registration or qualification of such Award Share upon any securities exchange or under any provincial, state or federal laws of Canada or the United States is necessary or desirable as a condition of or in connection with the granting of an Award or the purchase or delivery of Shares thereunder, the delivery of any or all such Award Shares may be withheld unless and until such listing, registration or qualification shall have been effected. If a registration statement or prospectus, as the case may be, is required and is not in effect under applicable federal, provincial or state securities laws of Canada or the United States with respect to the Award Shares or Shares purchasable or otherwise deliverable under the Plan, the Participant shall, as a condition of delivery of Award Shares or Shares pursuant to the Plan, represent, in writing, that the Award Shares or Shares received pursuant to the Plan are being acquired for investment and not with a view to distribution and agrees that such Shares will not be disposed of except pursuant to an effective registration statement and/or prospectus, if required, unless the Company shall have received an opinion of counsel that such disposition is exempt from such requirement under applicable federal, provincial or state securities laws of Canada or the United States. The Company may include on certificates representing Award Shares delivered pursuant to an Award or any Shares under the Plan such legends referring to the foregoing representations or restrictions or any other applicable restrictions on resale as the Company, in its discretion, shall deem appropriate.

Article VII. Elections to Purchase Shares with Cash Compensation

Section 7.1 Purchase of Shares with Cash Compensation

Each Participant will, subject to Section 5.2, be given the opportunity to elect annually, for the applicable calendar year, in the manner required by Section 5.2, directing that up to one hundred percent (100%) (subject to the limitations in Section 5.2 in terms of electing either 0%, 25%, 50% or 100%) of his or her Cash Compensation be paid to the Trustee by the Company on behalf of such Participant and allocated to the purchase of Shares on his or her behalf. Such election shall remain in effect until a change is made in accordance with the Plan. Such an election will entitle, in accordance with this Section, a Participant to a number of whole Shares, based upon the Average Cost as of the applicable quarterly Due Date, equal in value to 100% of the portion of the Cash Compensation that was elected for participation under this Section 7.1 for the applicable calendar year, provided that, any amount of Cash Compensation so elected for purchase of Shares still available after the purchase of the maximum number of whole Shares shall be paid by cheque to the Participant. For valuation and bookkeeping purposes, purchases of Shares shall be made by the Trustee on the Due Date in accordance with the Plan and any rules enacted by the CG&N Committee for this purpose at the Average Cost on the Due Date of each calendar quarter and the number of whole Shares purchased on behalf of the Participant shall be equal to that portion of the Cash Compensation pursuant to his or her election under this Section and earned during each such quarter divided by the Average Cost on the applicable Due Date. Immediately upon the purchase of such Shares on behalf of a Participant, the Participant shall be entitled to receive all dividends paid on such Shares and to vote the Shares. The certificates representing Shares, subject to Section 6.8, purchased on behalf of a Participant in respect of such Cash Compensation so earned during a calendar quarter shall be delivered as soon as possible following completion of the purchase of Shares in respect of the applicable quarter.

- (a) Elections pursuant to this Section 7.1 may be revoked or modified effective as of the beginning of any applicable year in the manner required by the Committee, provided that, notwithstanding the preceding requirement, an election or a modification or revocation of an election may be given effect on an earlier date, if the CG&N Committee, in its sole discretion, permits it.
- (b) In the event a Participant ceases to be a Non-Employee Director prior to earning that portion of his or her Cash Compensation with respect to which the Participant has elected to purchase Shares under this Section 7.1, the direction to purchase Shares shall terminate. For purposes of this Section, a Participant shall be deemed to have earned the Cash Compensation payable for a calendar quarter if he or she serves as a Non-Employee Director for at least one day of that calendar quarter.

Article VIII. General

8.1 Non-alienation of Benefits

No benefit under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt to do so shall be void. The Company, the CG&N Committee and the Trustee shall not, with respect to any such benefit prior to receipt by the Participant, be in any manner liable for or subject to the debts, contracts, liabilities, engagements or torts of the Participant.

8.2 Termination and Amendment of the Plan

The Board of Directors at any time may amend or terminate the Plan, provided, however, that the Board of Directors may condition any amendment on the approval of shareholders of the Company if such approval is necessary or advisable with respect to tax, securities or other applicable laws or rules of relevant stock exchanges and provided further that any such amendment or termination shall not adversely affect the accrued rights of any Participant without the consent of such Participant.

If the Board terminates the Plan, no additional Shares or new Share Units will be credited to the account of a Participant after the effective date of such termination, but previously credited Share Units shall remain outstanding, be entitled to dividend equivalents as provided under the Plan, and be paid in accordance with the terms and conditions of the Plan existing at the time of termination. The Plan will finally terminate for all purposes when the last remaining Participant receives payment of all Shares Units recorded in the Participant's account.

8.3 Service

Nothing in the Plan shall confer upon any Participant any right to continue to serve as a Director for any period of time or to continue his or her present or any other form or rate of compensation of any kind as a Director.

8.4 Limits of Liability

Any liability of the Company to any Participant with respect to receipt of Shares, Share Units or an Award shall be based solely upon contractual obligations created by this Plan. The CG&N Committee, the Board and the Trustee shall not be liable for any actions taken in accordance with the terms of the Plan.

8.5 Compliance with Applicable Legal Requirements

No certificate for Shares allocated pursuant to this Plan shall be issued and delivered unless the issuance of such certificate complies with all applicable legal requirements, including, without limitation, compliance with the provisions of applicable federal, provincial and state securities laws in Canada or the United States and the requirements of any stock exchanges on which the Shares may, at the time, be listed or on which they may be traded.

8.6 Gender

Except where otherwise indicated by the context, the masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

8.7 Severability

In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

8.8 Applicable Taxes and Deductions

The Company shall be authorized to deduct from any amount paid or credited hereunder such taxes and other amounts as may be required by applicable law or regulation to withhold in such manner as it determines.

8.9 Restrictions on Common Shares

The Company and the Participants shall comply with the Company's then applicable Conflicts of Interest Policy Statement and policies regarding insider trading, insider disclosure, and business conduct with respect to the purchase, ownership, and disposition of Shares. It is desirable, but not obligatory, for the Shares acquired under the Plan to be held as long-term investments.

8.10 Requirements of Law

The granting of Awards and the allocation of Award Shares, Shares and Share Units under the Plan shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or any exchanges on which the Shares may be listed or traded as may be required.

EXHIBIT 21
SUBSIDIARIES OF INCO LIMITED

SUBSIDIARIES OF INCO LIMITED

Inco Limited (the “Registrant”) has no parent. The Registrant’s subsidiaries as of December 31, 2001 (excluding those subsidiaries which considered in the aggregate as a “single subsidiary” would not constitute a “significant subsidiary” as defined under Rule 1-02. of Regulation S-X of the Securities and Exchange Commission), the jurisdiction in which each such subsidiary was organized, and the percentage of voting securities owned by the immediate parent of such subsidiary are shown in the following chart:

Inco Limited (the Registrant)	
Inco United States, Inc. (Delaware)	100%
International Nickel, Inc. (Delaware)	100%
I.E.L. Holdings (England)	100%
Inco Europe Limited (England)	100%
Inco S.A. (France)	100%
Goro Nickel S.A. (France)	85%
Monticello Capital (Barbados) Limited (Barbados)	100%
Inco Asia Limited (Barbados)	100%
P.T. International Nickel Indonesia Tbk (Indonesia)	59%
Inco TNC Limited (Japan)	67%
Voisey’s Bay Nickel Company Limited (Newfoundland and Labrador)	100%

None of the subsidiaries listed above generally conducts business under a name other than the particular name so listed.

All of the above named subsidiaries are included in the consolidated financial statements of the Registrant for the year ended December 31, 2001.

EXHIBIT 23

**CONSENTS OF ROBERT A. HORN, LAWRENCE B.
COCHRANE AND ROBERT C. OSBORNE, EACH
AS A QUALIFIED PERSON UNDER
NATIONAL INSTRUMENT 43-101**

CONSENT OF ROBERT A. HORN

The undersigned hereby consents to the reference to him as having responsibility for the statements as to the ore reserves of Inco Limited's operations in Ontario and Manitoba and the Voisey's Bay deposit and the ore reserves of Goro Nickel S.A. and PT International Nickel Indonesia Tbk in the Annual Report on Form 10-K of Inco Limited for the year ended December 31, 2001 under the headings "Ore Reserves and Mining Rights in Canada", "PT International Nickel Indonesia Tbk" and "Goro Nickel S.A.".

Dated the 28th day of February, 2002.

(Signed) ROBERT A. HORN _____

Robert A. Horn

CONSENT OF LAWRENCE B. COCHRANE

The undersigned hereby consents to the reference to him as having responsibility for the statements as to the ore reserves of Inco Limited's operations in Ontario and Manitoba and the Voisey's Bay deposit and the ore reserves of Goro Nickel S.A. and PT International Nickel Indonesia Tbk in the Annual Report on Form 10-K of Inco Limited for the year ended December 31, 2001 under the headings "Ore Reserves and Mining Rights in Canada", "PT International Nickel Indonesia Tbk" and "Goro Nickel S.A.".

Dated the 28th day of February, 2002.

(Signed) LAWRENCE B. COCHRANE

Lawrence B. Cochrane

CONSENT OF ROBERT C. OSBORNE

The undersigned hereby consents to the reference to him as having responsibility for the statements as to the ore reserves of PT International Nickel Indonesia Tbk for the years ended December 31, 2000 and 1999 in the Annual Report on Form 10-K of Inco Limited for the year ended December 31, 2001 under the heading "PT International Nickel Indonesia Tbk."

Dated the 28th day of February, 2002.

(Signed) ROBERT C. OSBORNE
Robert C. Osborne

EXHIBIT 24(a)

POWERS OF ATTORNEY

POWER OF ATTORNEY

TAKE NOTICE FROM THIS POWER OF ATTORNEY, that the undersigned Chairman and Director of INCO LIMITED (the "Company"), a Canadian corporation, hereby constitutes and appoints Stuart F. Feiner, Richard L. Guido and Thomas W. Leishman, and each of them with full power to act alone, as true and lawful attorneys and agents in the name and on behalf of the undersigned, to do any and all acts and things and to execute any and all instruments which the said attorneys and agents, or any of them, may deem necessary or advisable to enable the Company to comply with the United States Securities Exchange Act of 1934, as amended (the "1934 Act"), and any rules, regulations and requirements of the United States Securities and Exchange Commission in respect thereof, in connection with the preparation and filing of the Company's Annual Report on Form 10-K for the year ended December 31, 2001 ("10-K Report") pursuant to Section 13 or 15(d) of the 1934 Act, including specifically but without limiting the generality of the foregoing, the power and authority to sign the undersigned's name in the capacity of Chairman and Director to the 10-K Report to be filed with said Securities and Exchange Commission, and to any and all amendments and/or supplements to the 10-K Report, and to any and all exhibits, instruments or documents to be filed as part of or in connection with the 10-K Report and any and all amendments and/or supplements thereto; and the undersigned Chairman and Director hereby ratifies and confirms all that the said attorneys and agents, or any of them, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has subscribed this power of attorney this 5th day of February, 2002.

(Signed) MICHAEL D. SOPKO

Michael D. Sopko

POWER OF ATTORNEY

TAKE NOTICE FROM THIS POWER OF ATTORNEY, that the undersigned Director of INCO LIMITED (the "Company"), a Canadian corporation, hereby constitutes and appoints Stuart F. Feiner, Richard L. Guido and Thomas W. Leishman, and each of them with full power to act alone, as true and lawful attorneys and agents in the name and on behalf of the undersigned, to do any and all acts and things and to execute any and all instruments which the said attorneys and agents, or any of them, may deem necessary or advisable to enable the Company to comply with the United States Securities Exchange Act of 1934, as amended (the "1934 Act"), and any rules, regulations and requirements of the United States Securities and Exchange Commission in respect thereof, in connection with the preparation and filing of the Company's Annual Report on Form 10-K for the year ended December 31, 2001 ("10-K Report") pursuant to Section 13 or 15(d) of the 1934 Act, including specifically but without limiting the generality of the foregoing, the power and authority to sign the undersigned's name in the capacity of Director to the 10-K Report to be filed with said Securities and Exchange Commission, and to any and all amendments and/or supplements to the 10-K Report, and to any and all exhibits, instruments or documents to be filed as part of or in connection with the 10-K Report and any and all amendments and/or supplements thereto; and the undersigned Director hereby ratifies and confirms all that the said attorneys and agents, or any of them, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has subscribed this power of attorney this 5th day of February, 2002.

(Signed) GLEN A. BARTON

Glen A. Barton

POWER OF ATTORNEY

TAKE NOTICE FROM THIS POWER OF ATTORNEY, that the undersigned Director of INCO LIMITED (the "Company"), a Canadian corporation, hereby constitutes and appoints Stuart F. Feiner, Richard L. Guido and Thomas W. Leishman, and each of them with full power to act alone, as true and lawful attorneys and agents in the name and on behalf of the undersigned, to do any and all acts and things and to execute any and all instruments which the said attorneys and agents, or any of them, may deem necessary or advisable to enable the Company to comply with the United States Securities Exchange Act of 1934, as amended (the "1934 Act"), and any rules, regulations and requirements of the United States Securities and Exchange Commission in respect thereof, in connection with the preparation and filing of the Company's Annual Report on Form 10-K for the year ended December 31, 2001 ("10-K Report") pursuant to Section 13 or 15(d) of the 1934 Act, including specifically but without limiting the generality of the foregoing, the power and authority to sign the undersigned's name in the capacity of Director to the 10-K Report to be filed with said Securities and Exchange Commission, and to any and all amendments and/or supplements to the 10-K Report, and to any and all exhibits, instruments or documents to be filed as part of or in connection with the 10-K Report and any and all amendments and/or supplements thereto; and the undersigned Director hereby ratifies and confirms all that the said attorneys and agents, or any of them, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has subscribed this power of attorney this 5th day of February, 2002.

(Signed) ANGUS A. BRUNEAU

Angus A. Bruneau

POWER OF ATTORNEY

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(Signed) ELEANOR R. CLITHEROE

Eleanor R. Clitheroe

POWER OF ATTORNEY

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(Signed) PURDY CRAWFORD

Purdy Crawford

POWER OF ATTORNEY

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(Signed) JUDITH A. EROLA

Judith A. Erola

POWER OF ATTORNEY

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(Signed) WILLIAM F. GLAVIN

William F. Glavin

POWER OF ATTORNEY

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(Signed) CHARLES H. HANTHO

Charles H. Hantho

POWER OF ATTORNEY

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(Signed) DAVID P. O'BRIEN

David P. O'Brien

POWER OF ATTORNEY

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(Signed) JAMES M. STANFORD

James M. Stanford

POWER OF ATTORNEY

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IN WITNESS WHEREOF, the undersigned has subscribed this power of attorney this 5th day of February, 2002.

(Signed) RICHARD M. THOMSON

Richard M. Thomson

EXHIBIT 24(b)

**RESOLUTION OF THE BOARD OF DIRECTORS
OF THE REGISTRANT**

CERTIFICATE

I, Thomas W. Leishman, Assistant Secretary of Inco Limited (the "Company"), do hereby certify that the following resolution was duly passed at a meeting of the Board of Directors of the Company duly called and held on February 5, 2002 and that the said resolution is presently in full force and effect, unamended:

"RESOLVED, that the filing with the United States Securities and Exchange Commission ("SEC") and with the various securities commissions in Canada of the Company's Annual Report on Form 10-K for the year ended December 31, 2001, substantially in the form presented to the Board, subject to such changes, modifications and deletions thereto as may be approved by any officer of the Company, such approval to be conclusively evidenced by the filing of such Report with the SEC and such securities commissions in Canada, be, and it is hereby, authorized and approved; and further

"RESOLVED, that the execution of the Company's Annual Report on Form 10-K for the year ended December 31, 2001 by the Company's Chief Executive Officer, by its Chief Financial Officer, by its Chief Accounting Officer, and by any of its Directors, through S.F. Feiner, R.L. Guido or T.W. Leishman as attorney-in-fact under powers of attorney of each such Officer or Director, such powers of attorney to be filed with such Report, in such form as such Officer or Director may approve, such approval to be evidenced by his or her signing of such power of attorney, be, and it is hereby, authorized and approved."

DATED at Toronto, Ontario this 28th day of February, 2002.

(Signed) Thomas W. LEISHMAN

Assistant Secretary