



Inco

**Annual Report
1985**



The cover of this Report, a photograph of a computer display at Inco's Sudbury operations, illustrates mined out blocks of ore underground. Numeric Modelling Specialist Dr. Terry Wiles, right, says this valuable tool allows accurate planning and costing. Another benefit is improved mine safety, through the computer's unique ability to simulate the impact of mining activity on underground structures. Left is Bob Mark, Mine Engineering, at Copper Cliff North Mine.

Inco Limited is the non-communist world's leading producer of nickel and a substantial producer of copper, precious metals and cobalt. In addition, Inco is the world's largest supplier of wrought and mechanically alloyed nickel alloys as well as a leading manufacturer of blades, discs, rings and other forged and precision-machined components made from special alloy materials. The Company is also a major producer of sulphuric acid and liquid sulphur dioxide, and has other interests in metals, venture capital, mining equipment manufacturing, and engineering and technology sales. At year end, Inco employed 20,828 in 19 countries. Inco is a founding member of the Nickel Development Institute, formed in 1984 to develop new markets for nickel and promote the use of nickel-containing products.

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Annual Meeting

The Company's Annual Meeting will be held in Toronto on April 23, 1986.

Rapport Annuel

La version française du Rapport Annuel sera fournie sur demande.

10-K Report Available

A copy of the 1985 Annual Report on Form 10-K to be filed with the United States Securities and Exchange Commission may be obtained from the Company upon request. Requests should be addressed to: The Secretary, Inco Limited at 1 First Canadian Place, Toronto, Ontario M5X 1C4 or at One New York Plaza, New York, New York 10004.

Message to Shareholders

We are pleased to report that Inco earned \$52.2 million in 1985 following four consecutive years of losses. After-tax results bettered 1984 by \$129 million, clearly a major turnaround.

While still far from satisfactory, these results are gratifying as evidence of Inco's continuing recovery. They have been achieved principally through productivity improvement and cost reduction programs. We recognize the outstanding efforts of all Inco employees, whose involvement has been essential to the success of our productivity programs.

1985 Operating Results

Primary metals operating earnings rose to \$174 million in 1985 from \$100 million in 1984. The Company's average unit production costs of nickel and copper were reduced for the third consecutive year and are below the 1980 level despite significant inflation in the intervening years. Further improvement is anticipated in 1986, aided by the start-up of production at the Thompson Open Pit in Manitoba and Creighton deep orebody in Ontario – which will be Inco's lowest cost nickel mining operations in Canada.

Alloy products operating earnings were \$25 million compared with a \$5 million operating loss in 1984. This recovery was led by increased demand from aerospace markets.

Our other business segment registered operating earnings of \$2 million compared with a loss of \$6 million in 1984. The 1985 result was highlighted by record venture capital profits of about \$10 million.

Metal Prices

World nickel demand remained fairly strong in 1985 but prices failed to achieve any sustained recovery. This failure reinforces our conviction that Inco must continue to control costs in order to attain consistent, acceptable levels of profitability in today's competitive marketplace.

Results in Brief

(\$ millions)	1985	1984	1983
Net sales	\$1,491	\$1,468	\$1,173
Net earnings (loss)	\$ 52	\$ (77)	\$ (235)
Internal cash flow – surplus (shortfall)	\$ 243	\$ (4)	\$ (57)
Total debt	\$ 929	\$1,114	\$1,174
Capital expenditures	\$ 93	\$ 104	\$ 71
Employees	20,828	22,239	24,866

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

HOWARD ROSS LIBRARY
OF MANITOBA

MAR 18 1986

WILLIAMSBURG UNIVERSITY

Chairman Charles F. Baird (right) and President Donald J. Phillips pose in front of the new vacuum induction furnace at Inco Alloys' Huntington plant. The Company's Board of Directors visited the West Virginia facility in September.



The nickel price on the London Metal Exchange (LME) increased early in the year then weakened. In the third quarter, the LME price fell sharply, perhaps influenced by the tin crisis, before recovering somewhat at year end. Inco's average realized price for primary nickel was \$2.31 per pound, only one per cent above 1984 and still below the 1979 level.

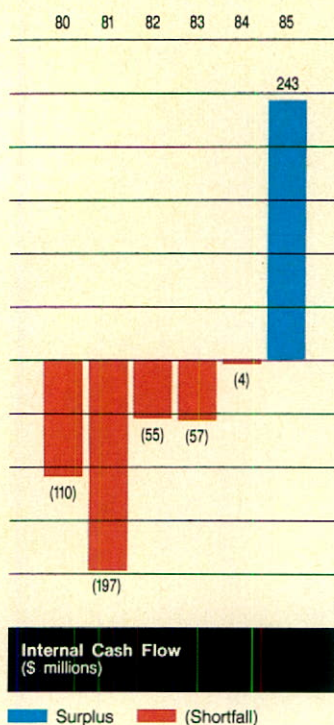
Copper prices remained near their lowest level, in real terms, since the mid-1930s. Platinum, gold and silver prices all declined from average 1984 levels before improving somewhat late in the year. The continued price strength of cobalt, a metal of growing importance to Inco, was one bright spot.

Inco's Financial Strength

The Company's financial strength was improved significantly in 1985. The Company generated an internal cash surplus of \$243 million, including \$198 million from the reversion of surplus funds from two of its non-contributory pension plans in Canada and the United States. This cash surplus, together with \$40 million received from the exercise of warrants to purchase common shares, enabled us to reduce Inco's debt by 17 per cent to \$929 million, the lowest level in a decade, and to retire \$120 million of Series A preferred shares. During 1986, we shall continue to focus on strengthening Inco's balance sheet.

Environmental Control

Since the mid-1960s, we have reduced sulphur dioxide (SO₂) emissions from our Sudbury, Ontario operations by more than two-thirds, the



largest emission decrease from any single point source in North America. In April 1985, based on extensive research, development and engineering work, we made a commitment to reduce SO₂ emissions from Sudbury by 1994 to a level 70 per cent below the 1980 baseline level established by the Canadian Federal and Provincial Governments. This major commitment was well in excess of the governments' target of a 50 per cent SO₂ emission reduction in Eastern Canada.

In December, however, the Ontario Ministry of the Environment imposed a more stringent emission limit to be achieved by 1994 (see "Environmental Control" on page nine of this report). By the end of 1988, we must report on methods and costs of meeting the new objective. While we are disappointed that our voluntary initiative was not viewed as sufficient, we are hard at work to meet the new limit. The regulation provides that if the Company is unable to devise an economically viable method by the end of 1988, the government will consider the need for financing. Should the cost be unacceptably high, Inco has been assured that the government will review the limit.

Outlook

Inco has come through the worst market conditions in its history and remains a worldwide leader in its basic businesses. Throughout this difficult period, we have continued to invest in employee training and in new methods, equipment and processes to reduce costs. That policy has paid off and will continue to bear fruit. We have also continued exploration programs and are approaching decisions on developing gold properties at Casa Berardi, Quebec and Crixas, Brazil.

We enter 1986 with optimism about our Company's long-term prospects but with considerable caution about the near-term outlook. Recent price weakness suggests that this will be another challenging year for Inco, but over the longer term we believe that nickel, essential as it is to industrial development, will benefit from the continued growth of the world economy.

We are encouraged by Inco's degree of recovery to date. We are determined to build upon this recovery and achieve a reasonable return for our shareholders.

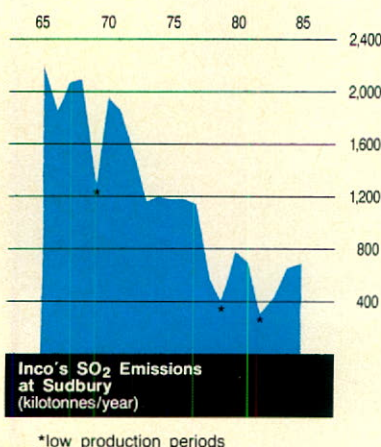
Charles F. Baird

Chairman and Chief Executive Officer

Donald J. Phillips

President and Chief Operating Officer

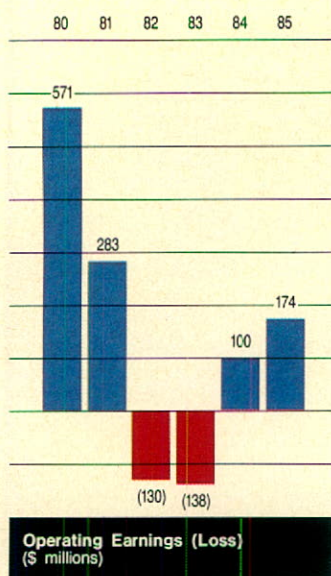
February 20, 1986



The CD 360 is one of a new line of drills designed by Inco to convert underground mining to the more productive and safer vertical retreat mining method. It has the unique ability to drill in all directions, horizontally or vertically. In this photo, Carl Lewis operates the CD 360 at Stobie Mine at Sudbury. The second phase of development of this machinery is to automate all of the drill's operations except for the physical movement of the rig.



Primary Metals



Primary metals net sales to customers were \$1.04 billion in 1985 compared with \$1.05 billion in 1984. Operating earnings rose 74 per cent to \$174 million in 1985. This further recovery, from the extremely depressed levels of 1982-83, reflected the continuing impact of productivity improvements and cost reductions in the absence of any significant increase in metals prices or demand.

Objectives

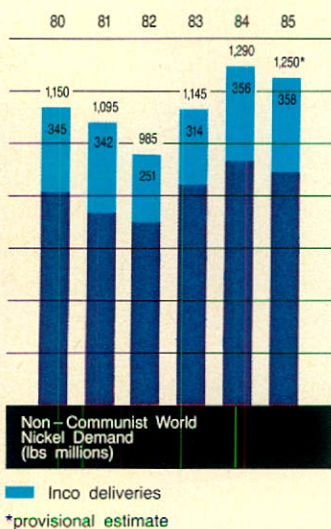
Inco has established six major objectives for its primary metals operations:

- Continue to improve productivity and reduce costs.
- Maintain market share.
- Balance production with sales.
- Maintain favourable employee relations.
- Further reduce on-the-job injuries.
- Continue to reduce sulphur dioxide emissions in a practical and economic manner.

Nickel Demand and Prices

During the first half of 1985, nickel demand was strong, supplies tightened and prices increased. In the second half, demand weakened due primarily to a slowdown in stainless steel production, and prices declined. Nickel demand in the non-communist world is provisionally estimated at slightly less than 1.25 billion pounds in 1985, a slight decrease from 1984. Inco's nickel deliveries, including nickel in alloy products, were 358 million pounds compared with 356 million pounds in 1984.

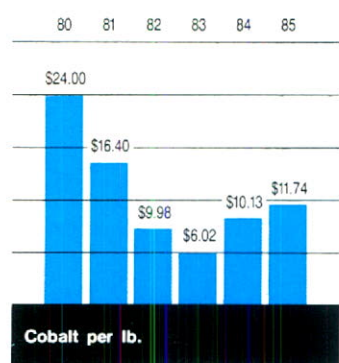
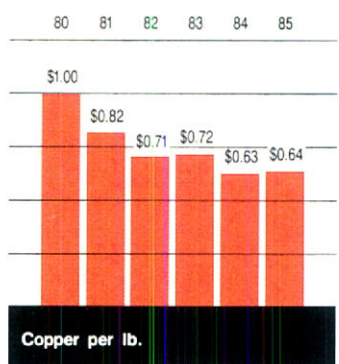
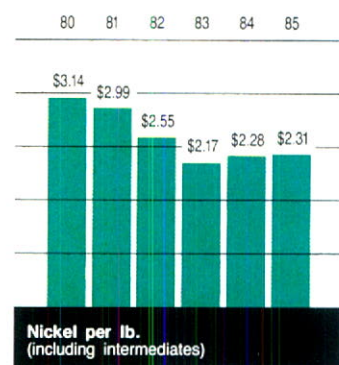
The cash nickel price on the London Metal Exchange (LME) reached a 1985 peak of \$2.65 a pound in the second quarter and then declined precipitously to \$1.77 a pound at the end of October. It recovered slightly to \$1.85 at year end. Inco's average realized price for primary nickel, excluding intermediates, was \$2.39 per pound for the year, up slightly from the average of \$2.37 per pound in 1984. For the fourth quarter of 1985, however, the Company's average realized price, excluding intermediates, was \$2.16 per pound.



Nickel Inventories

Inco's finished nickel inventory was reduced to 70 million pounds at year-end 1985 from 88 million pounds a year earlier. Total producer and LME finished nickel inventories in the non-communist world probably remained constant in 1985, ending the year at just over 300 million pounds – equivalent to about three months of demand, a normal and necessary working level.

Average Realized Prices (\$US)



Production

Inco's total nickel and copper production was as follows:

(millions of pounds)	1985	1984	1983
Nickel	334	359	283
Copper	264	259	147

Actions taken in 1985 to reduce production costs while meeting sales demand included employment reductions effected primarily through voluntary early retirement and severance incentives with limited layoffs. As a result, the Company's primary metals work force was reduced by about nine per cent worldwide.

Copper and Other Metals

Inco produces 14 elements in addition to nickel, primarily from its Canadian ores. These account for 30 per cent of the Company's primary metals net sales. Copper prices remained near their lowest level, in real terms, since the mid-1930s.

Cobalt continued to be of growing importance to Inco, as both prices and deliveries increased in 1985. Through a modest capital investment, production capacity at the Company's electrolytic cobalt refinery in Port Colborne, Ontario was expanded to three million pounds a year from an original design of two million pounds.

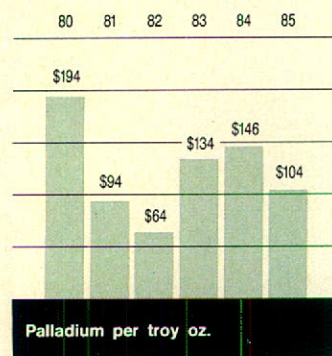
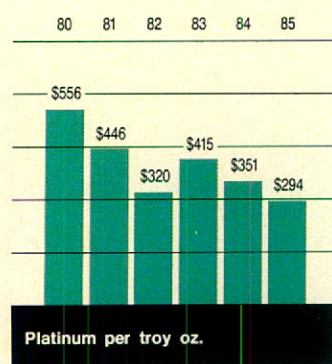
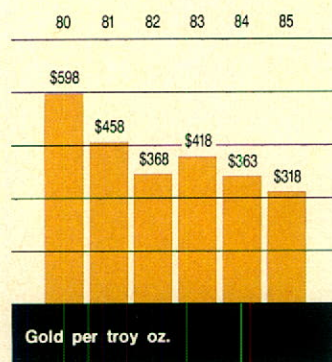
Prices of platinum-group metals, gold and silver declined through most of 1985, but strengthened late in the year.

(\$ millions)	1985	1984	1983
Sales by product			
Primary nickel	\$ 732	\$ 720	\$ 603
Refined copper	160	170	98
Precious metals	97	110	56
Cobalt	29	24	10
Other products	22	28	19
Net sales to customers	\$ 1,040	\$ 1,052	\$ 786
Operating earnings (loss)	\$ 174	\$ 100	\$ (138)
Total assets	\$ 2,307	\$ 2,346	\$ 2,388
Deliveries (in thousands)			
Primary nickel and intermediates	317,300	315,650	278,050
Nickel contained in alloys	40,460	40,570	36,030
Total nickel (pounds)	357,760	356,220	314,080
Copper* (pounds)	251,490	272,910	139,980
Platinum-group metals** and gold (troy ounces)	384	379	201
Silver (troy ounces)	1,490	1,340	620
Cobalt* (pounds)	2,670	2,410	1,790

* Includes metals contained in alloy and engineered products.

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

Average Realized Prices (\$US)



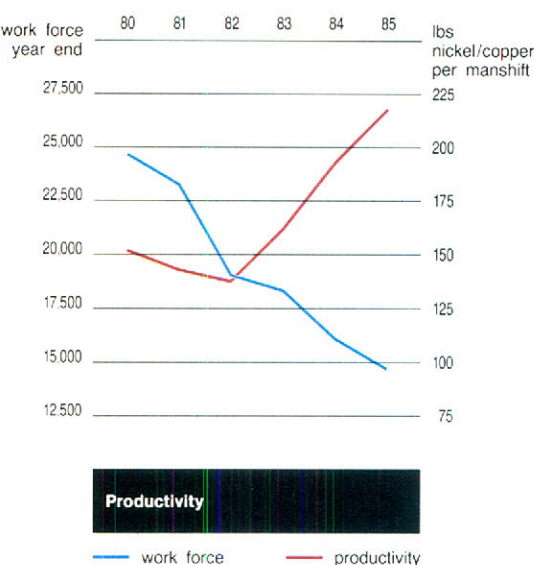
Productivity Improvements

Inco continued to stress productivity improvement, safety and cost reduction at all its mines and operating facilities. The Company achieved a 13 per cent productivity improvement in 1985, as measured in pounds of nickel and copper produced per manshift, following a record 18 per cent increase in 1984. These improvements are being effected through the increased application of safer, less costly bulk mining methods and the use of automated mining equipment combined with productivity improvements at smelting and refining facilities. Nearly 80 per cent of the Company's Canadian ore was mined using bulk methods in 1985, up from about 70 per cent in 1984.

The use of continuous loaders and radio-controlled locomotives was expanded in 1985, as was the use of computers in mining. New mining equipment being tested during the year included conveyors to handle large run-of-mine ore and a one-man, mobile electric-hydraulic diamond drill that is safer and more productive than conventional drills. To reduce smelting costs, a second nickel reverberatory furnace fired with natural gas and oxygen was brought on stream at Copper Cliff.

Mine productivity will be further enhanced by the start-up of production at the Thompson Open Pit in Manitoba in early 1986 and at the Creighton deep orebody project in Sudbury in the latter part of the year. The Thompson Open Pit will give Inco greater flexibility to increase or decrease nickel production levels with minimal changes in employment.

At P.T. Inco Indonesia, a Pierce-Smith converter was installed to provide increased and more reliable converting capacity at lower operating cost. Production costs at P.T. Inco are also benefitting from other productivity improvements and falling oil prices.



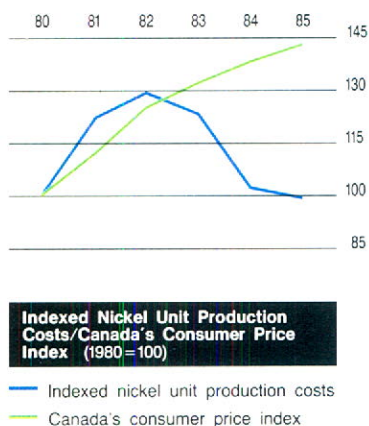
1986 Production Plans

In response to weakening demand and declining prices late in 1985, the Company announced a series of actions planned for 1986 to keep production in balance with demand while minimizing the need for permanent layoffs. In Ontario, these actions include a five-week production shutdown followed by a five-week vacation shutdown. In addition, operation of the Company's highest unit-cost mines in the Sudbury District is being suspended or curtailed: the Clarabelle Open Pit and Creighton No. 3 have been placed on a standby basis, and operations at Stobie Mine are being restricted to lower-cost areas. Operations at the Shebandowan Mine in the Thunder Bay District were suspended in January 1986.

In Manitoba, the Company plans a four-week vacation shutdown followed by a five-week production shutdown. A five-week production shutdown and a five-week vacation shutdown are also planned at the Clydach, Wales refinery. A three-week vacation and a three-week production shutdown are planned at P.T. Inco Indonesia and one of the electric furnaces will be taken out-of-service for major overhaul late in the year.

Employee Relations

The Company places great emphasis on maintaining open lines of communication with employees and working cooperatively with their unions. Productivity improvements have been achieved with excellent employee support. Employees at all levels recognize that costs must be contained if Inco is to remain profitable and compete effectively in world markets. Collective bargaining agreements were negotiated successfully with employees in Ontario and Wales.



Occupational Safety and Health

Improved safety performance goes hand in hand with productivity improvements. As shown by the accompanying chart, the safety record of Inco employees continued to improve in 1985. For the first time in the Company's history, its underground mines in Ontario and Manitoba had lower lost-time accident rates than surface plants, reflecting, at least in part, the conversion to bulk mining methods which are safer. The Little Stobie and Creighton Mines in Sudbury became the first underground mines in North America to win four star ratings at the advanced level of the International Five Star Mine Safety Rating Program.

Tragically, one underground miner and one refinery maintenance mechanic sustained fatal injuries during the year. Achieving fatality-free operations remains a top priority at all operating units.

By the end of 1985 pre-production ore was being hauled at the rate of 1,000 tons per day from the new Thompson Open Pit in Manitoba. During the pit's development, more than 20 million cubic yards of overburden were dredged to expose the orebody.



Environmental Control

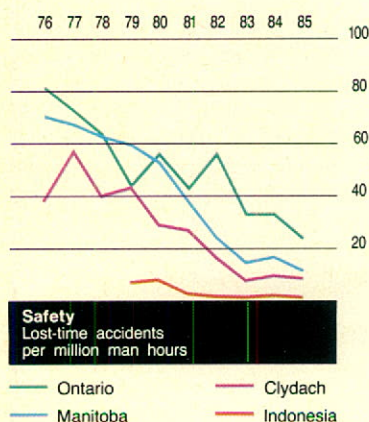
The Company continued to operate in compliance with government regulations and control orders relating to sulphur dioxide (SO₂) emissions at all its operations.

In December, the Ontario Ministry of the Environment issued a new regulation, effective immediately, limiting annual emissions of SO₂ from the Company's Sudbury operations to 685 kilotonnes. This limit is close to the 1985 level of emissions and recognizes Inco's substantial achievement in reducing SO₂ emissions over the years. Under the regulation, emissions are to be reduced to 265 kilotonnes annually by 1994. This level, representing a 77 per cent reduction from the 1980 baseline agreed to by Federal and Provincial ministers, would require containment of some 90 per cent of the sulphur in the Sudbury ores and would entail by far the largest percentage or tonnage reduction required under the Canadian acid rain control program. The Company is also required to study how it might reduce emissions to as low as 175 kilotonnes annually.

Over the next three years the Company will conduct a series of studies and tests and report to the government on the progress towards solutions seeking to reduce emissions to the regulated level in a sound, economic manner.

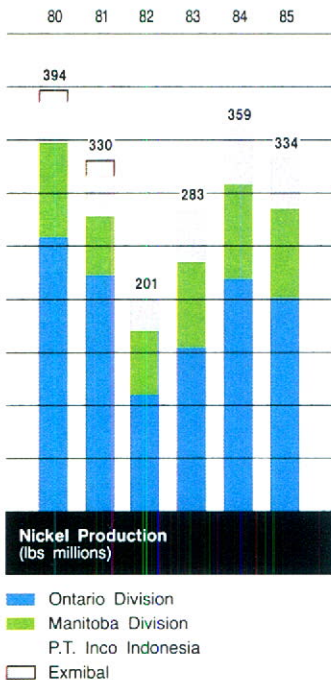
Research and Development

Primary metals research and development expenditures were \$17 million.





Production capacity was increased to three million pounds per year at the Ontario Division's electrolytic cobalt refinery at Port Colborne. Above, in the product packaging area, is electrolytic cobalt refinery operator Bernard Gervais.



Development of a new process for upgrading and separating precious metals was completed. This process will enable Inco to recover essentially all of the gold and silver in its Ontario ores, at either Copper Cliff or Port Colborne, and ship a semi-refined concentrate containing approximately 80 per cent platinum-group metals to the Company's refinery in Acton, England. During the year, a new method of extracting platinum was developed and implemented at Port Colborne, permitting direct shipment of a purified platinum solution to a catalyst manufacturer in Ontario.

In addition to its own research and development programs, Inco participates with three other Canadian metals producers in HDRK Mining Research Limited, an Ontario-based company seeking new methods of automation and cost reduction in mining.

Product Development

Inco markets a broad line of commodity nickel products, as well as emphasizing proprietary forms of nickel commanding higher prices and offering above-average growth prospects. HDNP*, a new high-density nickel powder, was introduced in December for use in metallurgical and polymer/resin applications.

Technical Services

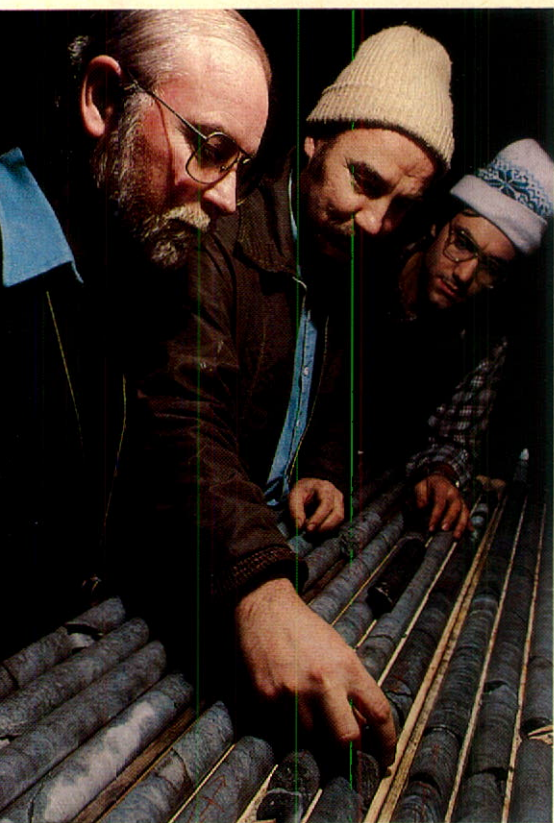
Through INCO TECH*, the Company markets its technology and provides technical services. Inco oxygen flash furnace smelting technology, already installed at two locations, continues to attract potential users worldwide.

Ore Reserves

At year end, Inco had proven and probable ore reserves in Canada of 482 million short tons, containing 6.9 million tons of nickel and 4.2 million tons of copper. This compares with year-earlier proven and probable reserves of 479 million tons, containing 7.0 million tons of nickel and 4.3 million tons of copper. Only material that is economically viable and has been sampled in sufficient detail to permit a reliable calculation is included in reserves. Significant quantities of platinum-group metals, gold, silver and cobalt are also contained in the Canadian ore reserves.

At P.T. Inco Indonesia, proven and probable ore reserves of 79 million short tons, containing 1.5 million tons of nickel, had been delineated at year end. This compares with year-earlier reserves of 76 million tons containing 1.4 million tons of nickel.

*Trademark of the Inco family of companies.



Examining diamond drill core at the Golden Pond property in Casa Berardi Township, Northern Quebec are, left to right, Inco Senior Staff Geologist Don Phipps, Project Geologist Jorma Hannila and Geological Technician Joe Roque.

Inco's exploration continues to be directed toward gold, using joint ventures to broaden the exploration base and reduce financial risk. In 1985, primary metals exploration expenditures totalled \$15 million, 85 per cent of which was devoted to exploring for gold in Canada, the United States and Brazil.

The Company's leading gold projects are in Casa Berardi Township, northwestern Quebec, and at Crixas in central Brazil. These two projects could potentially yield more than 100,000 ounces of annual gold production for Inco by 1990.

Inco holds a 60 per cent interest in a property in the Casa Berardi area, covering 143 square kilometres. Drilling from surface has outlined more than six million tons of gold-bearing mineralization averaging 0.24 ounces gold per ton in two deposits. This includes some three million tons of drill-indicated reserves averaging 0.29 ounces of gold per ton in the Golden Pond East deposit where a ramp is being driven to access a portion of the orebody and obtain a bulk sample. This underground program is scheduled to be completed in 1986 at a cost of \$5 million.

A ramp is also being driven to access and sample the Crixas deposit in Brazil, where there is a drill-indicated reserve of some seven million tons averaging 0.34 ounces gold per ton. Underground exploration and the preparation of a feasibility study will continue through 1986. Kennecott Minerals Company has an option to earn a 50 per cent interest in the Crixas project.

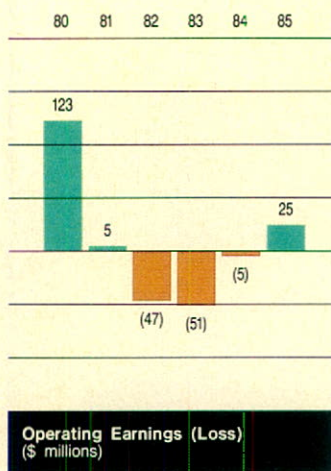
In Manitoba, Inco has begun the first phase of a program to earn an equity interest in the former San Antonio gold mine property at Bissett. In the United States, the first stage of underground exploration is nearing completion at the Jardine gold project in Montana, in a joint venture with Homestake Mining Company. The objective in both cases is to confirm indicated reserves and explore for additional reserves which would be required to establish commercial operations.

Total production at the McBean Mine in Northern Ontario was 19,500 ounces of gold in 1985. Current exploration is seeking to extend the life of the project beyond 1986. Inco holds a 65 per cent interest in this mine.

Production at the Tiebaghi chromite mining facility in New Caledonia was 79,000 tonnes of high-quality chromite ore. Ongoing exploration has identified extensions of the orebody. Inco holds a 55 per cent interest and manages this operation.

Electroslag Furnace Operator Joe Fannin checks the progress of a heat at Inco Alloys International's Burnaugh, Kentucky plant. Improved yield is the key feature of electroslag remelting (ESR). The new ESR furnaces allow computer-controlled melt rates, a critical factor in producing alloys with good surface quality and a sound internal structure. An ESR furnace is also being installed at Wiggin Alloys in England, providing the company with the best furnace of this type in Europe.





Inco's alloy products and engineering businesses achieved further gains in 1985, following a long period of difficult market conditions. Operating earnings were \$25 million. Sales increased seven per cent to \$422 million.

Improved financial results have been achieved during the past two years through the consolidation of operating management and research activities, tight control of working capital, reduced production costs and concentration on the development and marketing of higher margin, proprietary products. These products include new high-strength, low-expansion superalloys for aero engines.

Inco Alloys International

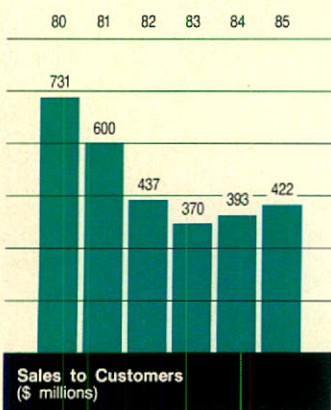
Inco Alloys International (IAI) is the world's largest supplier of wrought nickel alloys, serving the aerospace, marine, energy, petrochemical and thermal processing markets. Operating units are Huntington Alloys in the United States and Wiggin Alloys in the United Kingdom. IAI markets its products through offices and distributors worldwide and in Japan through a joint venture, Daido Inco Alloys Ltd.

Sales were \$315 million in 1985, up three per cent from 1984. Operating results were positive even though competition remained intense. Early in 1986, IAI reduced prices on a majority of its product line to regain market share in North and South America. The bulk of the price decreases was in high-volume general engineering alloys where price competition is most severe.

IAI continued to invest in the modernization of its facilities to reduce costs and enhance product quality. Additional electroslag remelting capacity was installed at IAI's Burnaugh, Kentucky facility, and a similar project is under way at Hereford, England.

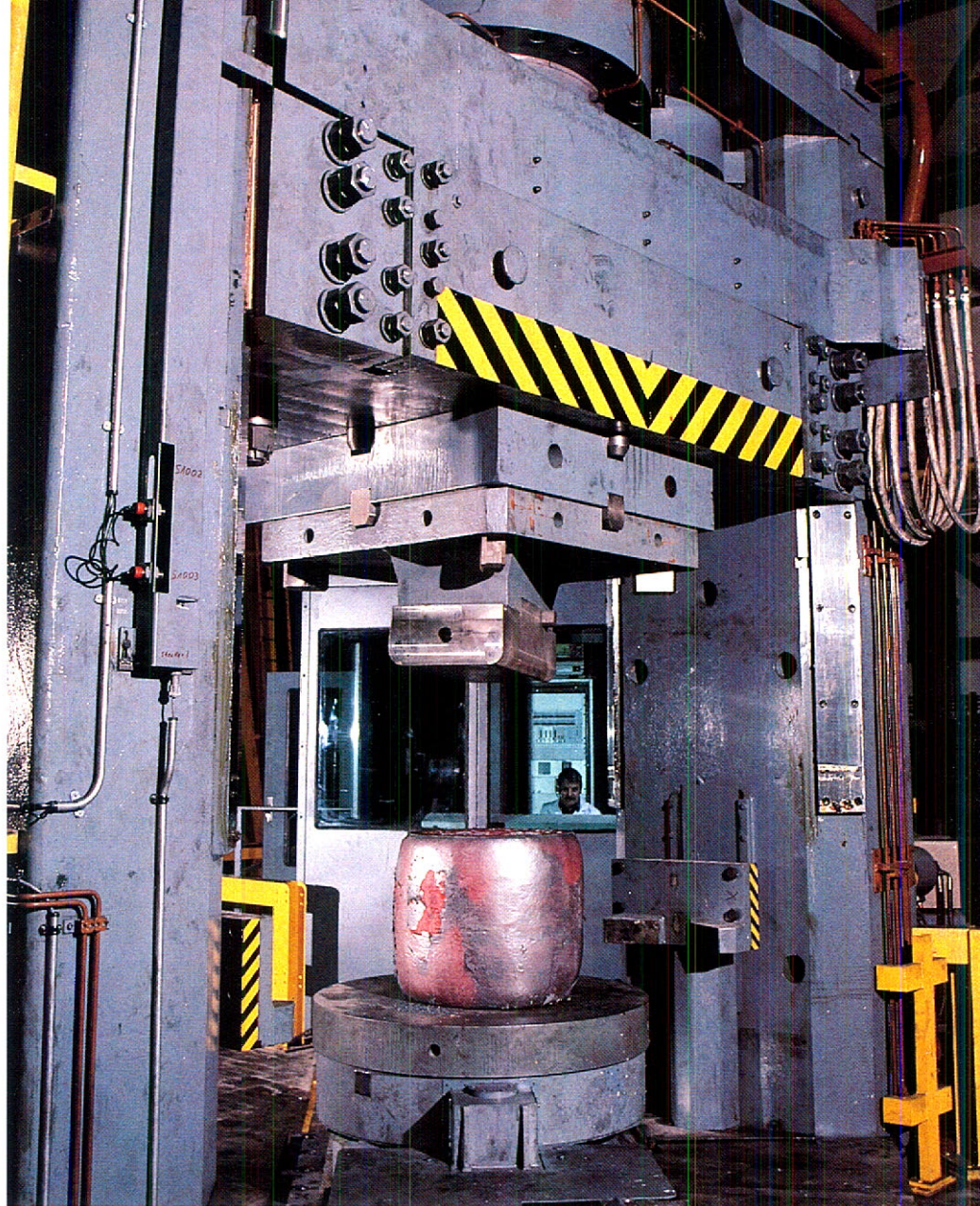
Sales of mechanically alloyed materials increased, reflecting the growing acceptance of these products for use in aero engines and other high-performance applications. Additional capacity was installed to support continued sales growth. IAI plans to scale up its development work on mechanically alloyed reactive metal alloy systems. This technology holds promise initially for aluminum-lithium high-strength forged components for aircraft.

Welding products operations were moved from West Virginia to a new facility in North Carolina, reducing costs and setting the stage for expansion of that business.





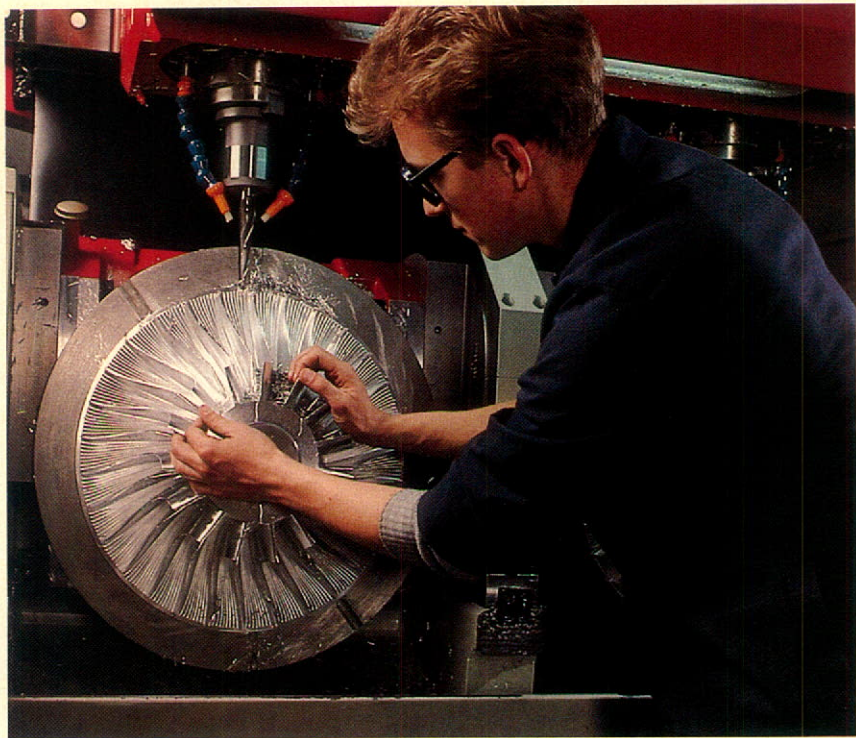
Above, Mike Harris operates a computer numerically controlled vertical borer at Inco Engineered Products' Doncasters Blaenavon facility in South Wales. This new high technology machine improves efficiency and accuracy in machining rings and casings. Right, Forgemaster Tony Meredith (in operating booth in background) is at the controls of a newly-installed computerized 2,500-tonne forging press at Blaenavon.



Inco Engineered Products Limited

The Inco Alloy Products Limited group of businesses is being renamed Inco Engineered Products Limited (IEPL) to emphasize the nature of its activities. IEPL manufactures blades, discs, rings, casings and other forged and precision-machined components from special alloy materials, including superalloys of nickel, aluminum and titanium. Technically demanding products meet specialized needs in aero and industrial gas turbines and for the aerospace, military, marine, energy and engineering markets. Operating units include the Doncaster companies and Beaufort Engineering in the United Kingdom and Turbo Products International in the United States. All were profitable in 1985.

Ron Moore operates a five axis twin spindle milling machine at Beaufort Engineering in England. On the miller is an aluminum blank impeller for a turbo prop aircraft engine.



Sales in 1985 were \$107 million, a 22 per cent increase over 1984. This improvement reflected increased demand for all products, particularly those used in aerospace. IEPL ended the year with a strong order backlog, indicating the prospect for further sales growth in 1986.

IEPL has consolidated its U.K. ring rolling and special alloy open die forging businesses at a single site, in Blaenavon, and discontinued ring rolling operations at two other locations. The Company is investing in new technology to improve product quality and reduce costs.

In line with its strategy to expand into higher technology products, IEPL is purchasing isothermal forging equipment for installation at the Doncasters Monk Bridge plant. Following process and product development, the Company expects in 1988 to begin supplying advanced technology superalloy components such as discs for gas turbines and critical air frame parts.

Early in 1986, IEPL acquired a majority interest in a small titanium precision casting facility, SETTAS S.A., in Jumet, Belgium. This facility serves the aerospace, process plant and marine industries. Plans are under way to install lost wax casting and ceramic shell moulding equipment in response to increased demand for precision castings. Also in 1986, IEPL divested its fastener business, based in Oldham, England.

Venture Capital

Inco's venture capital unit, Inco Venture Capital Management, realized record operating earnings of about \$10 million in 1985 from its highly successful investment program. Through this program, equity capital and strategic direction is provided to start-up and early stage companies having the potential for significant growth and investment returns. Investment activity accelerated in 1985 as several attractive investment opportunities in the life sciences, artificial intelligence and telecommunications areas were pursued.

Since 1973, Inco has invested \$37 million through its venture capital program and generated \$42 million from dispositions. The Company's portfolio had a book value of \$25 million at the end of 1985. Based on methods employed in the venture capital industry, these investments might be valued at \$70 million.

Inco's portfolio encompasses investments in over 50 companies spread among a wide range of technologies. The Company's largest investment remains a 17 per cent interest in Biogen N.V., a leading biotechnology company developing several therapeutic products.

Inco Venture Capital Management also participates in the management of \$45 million raised from institutional investors through two limited partnerships, North American Ventures Fund and North American Ventures Fund II.

Mining Equipment

Continuous Mining Systems Limited achieved an operating profit in its first full year of operation. The company designs, manufactures and markets innovative mining equipment.

Reprocessing Facilities

Results of Inco's metals reprocessing and recycling subsidiaries, The International Metals Reclamation Company, Inc. (Inmetco) and Pittsburgh Pacific Processing Co., remained unsatisfactory. This business will be restructured in 1986.

Oil and Gas

During the year, Inco sold virtually all its remaining exploratory properties in Western Canada, essentially completing its withdrawal from direct participation in oil and gas exploration and production. Inco holds a 28 per cent interest in Morgan Hydrocarbons Inc. and a 3.7 per cent interest in Panarctic Oils Ltd.

Corrosion Research and Consulting

The LaQue Center for Corrosion Technology, Inc. offers independent corrosion research, testing, consulting and training to customers worldwide.

Principal Officers

Stuart F. Feiner

President
Inco Venture Capital Management
New York

R. Todd Grant

President
The International Metals Reclamation
Company
Ellwood City, Pennsylvania

Wilber W. Kirk

President
LaQue Center for Corrosion Technology
Wrightsville Beach, North Carolina

Dale D. Letts

President
Continuous Mining Systems Limited
Sudbury, Ontario

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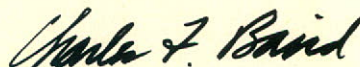
Management's Statement on Financial Reporting

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

Systems of internal accounting control are maintained in order to assure on a reasonable basis the reliability of this financial information. These systems include formal policies and procedures, the careful selection and training of qualified personnel, and an organization providing for appropriate delegation of authority and segregation of responsibilities. These systems are monitored by our internal auditors who perform extensive tests and related procedures at major locations worldwide. Our independent auditors, whose report on their examinations of the consolidated financial statements appears on page 33, also review our systems of internal accounting control in accordance with generally accepted auditing standards for the purpose of expressing their opinion on the consolidated financial statements.

Financial management personnel, our internal auditors and our independent auditors meet with the Audit Committee of the Board of Directors at least three times a year to report on accounting, auditing, internal accounting control and financial reporting matters. The Audit Committee also has other duties which are described on page 38.

This Annual Report has been reviewed and approved by the Board of Directors.



Chairman and
Chief Executive Officer



Executive Vice-President
(Chief Financial Officer)

Charts have been provided to assist the reader in reviewing the Company's results of operations and its financial position.

Results of Operations

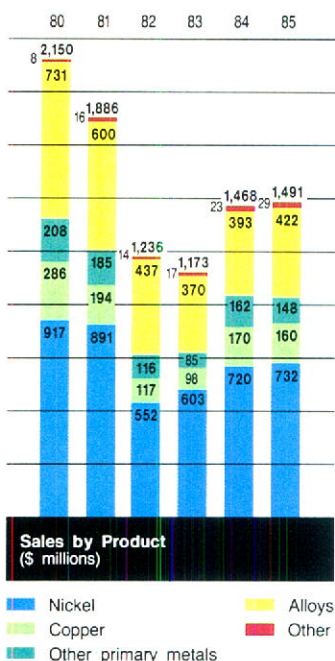
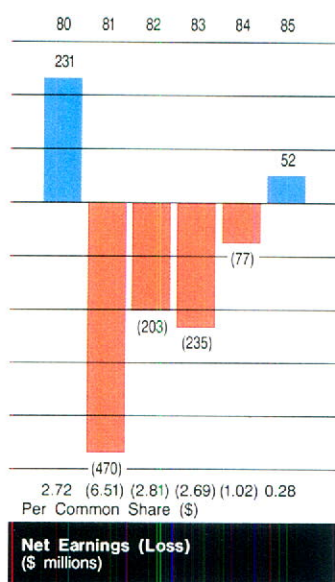
Primary Metals

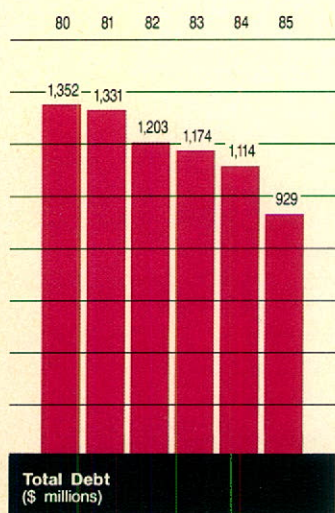
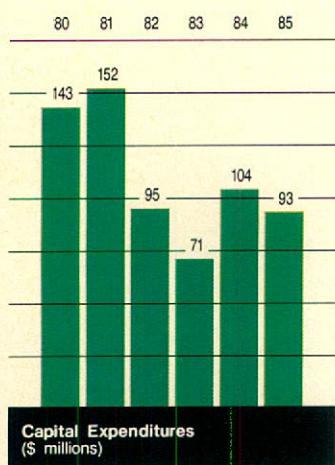
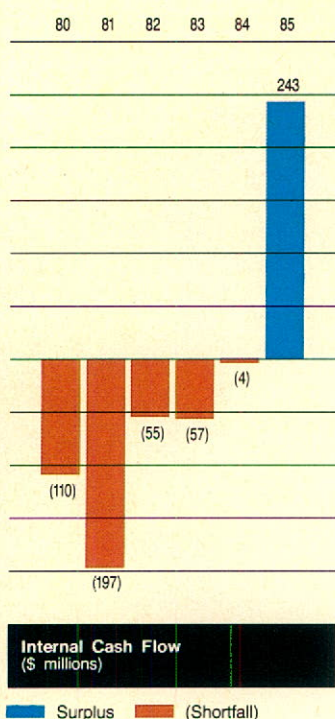
The Company's nickel business is the principal determinant of its profitability. Primary nickel sales revenue increased by 2 per cent in 1985 over 1984, which had increased by 19 per cent over 1983. Although demand was strong and prices increased in the first half of 1985, demand weakened and prices declined in the last half and, for the year, both Inco's nickel deliveries and realized prices were only marginally higher than in 1984. Nickel demand in the non-communist world is provisionally estimated at slightly less than 1.25 billion pounds for 1985, down 3 per cent from 1984, which had increased by 13 per cent over 1983. The Company's average realized prices per pound of nickel, including intermediates, were: 1985 - \$2.31, 1984 - \$2.28 and 1983 - \$2.17, while prices excluding intermediates were: 1985 - \$2.39, 1984 - \$2.37 and 1983 - \$2.25.

Primary Metals (\$ millions)	1985	1984	1983
Sales by product			
Primary nickel	\$ 732	\$ 720	\$ 603
Refined copper	160	170	98
Precious metals	97	110	56
Cobalt	29	24	10
Other products	22	28	19
Net sales to customers	\$1,040	\$1,052	\$ 786
Operating earnings (loss)	\$ 174	\$ 100	\$(138)
Deliveries (pounds in millions)			
Primary nickel and intermediates	317	316	278
Nickel contained in alloys	41	40	36
Total nickel	358	356	314
Copper	251	273	140

In 1985, deliveries of copper decreased while deliveries of precious metals and cobalt increased. The increase in cobalt deliveries was primarily due to an increase in production capacity at the Company's cobalt refinery in Port Colborne, Ontario. The availability of these metals for delivery to customers had sharply increased in 1984 after reductions in prior years due to production shutdowns at the Ontario Division. The Company's average realized price per pound of copper was 64 cents in 1985, 63 cents in 1984 and 72 cents in 1983; cobalt price realizations per pound were \$11.74 in 1985, \$10.13 in 1984 and \$6.02 in 1983.

Due to continuing productivity improvements, unit production costs for nickel and copper were again lowered in 1985, as they had been in each of the prior two years. These productivity improvements were the major contributors to an almost 74 per cent increase in operating earnings from primary metals in 1985 and were primarily the result of the application of safer, less costly bulk mining methods and the use of automated mining equipment combined with productivity improvements at processing facilities. During 1985, the Company's primary metals work force was reduced by about 9 per cent worldwide through early retirement incentives, voluntary severance and leave of absence programs; comparable reductions were 12 per cent and 4 per cent in 1984 and 1983, respectively. Production at the Clydach, Wales nickel refinery was suspended for the first quarter of 1985, after having operated at 50 per cent of capacity in 1984. Except for normal vacation shutdowns, other primary metals production facilities operated during all of 1985. Rationalization of the Company's nickel refining operations in 1984 resulted in the shutdown of Inco's highest cost refinery, the electrolytic nickel refining section at Port Colborne,





Ontario. Due to depressed market conditions, lengthy production shutdowns had been required in 1983. Costs associated with such shutdowns and other cutbacks at all primary metals locations totalled \$23 million in 1985, \$47 million in 1984 and \$85 million in 1983.

Primary metals operating results include operating losses from the Indonesian nickel operations of \$17 million in 1985, \$33 million in 1984 and \$69 million in 1983. In 1985, the operating loss was again cut in half, as it had been in 1984, primarily due to lower unit production costs with some improvement in realized prices in Japan, where the finished nickel was sold.

Alloy and Engineered Products

Sales of alloy and engineered products increased 7 per cent to \$422 million in 1985, after having increased 6 per cent in 1984; in 1983 sales dropped 15 per cent from the already depressed level of 1982. Operating earnings were \$25 million in 1985, compared to operating losses of \$5 million in 1984 and \$51 million in 1983. The improvement, which began in 1984, continued to reflect cost reductions and the benefits from the integration of the Company's worldwide alloy producing businesses as well as the development and marketing of higher margin, proprietary products. Additionally, increased sales of alloy and engineered products to the aerospace market also contributed to the improved results. Operating results for 1984 were adversely affected by property write-offs and severance costs totalling \$10 million. Operating results for 1985 were also adversely affected by the declining value of the pound sterling relative to the U.S. dollar, but to a much lesser extent than in 1984 and 1983.

Alloy and Engineered Products (\$ millions)	1985	1984	1983
Net sales to customers	\$422	\$393	\$370
Operating earnings (loss)	\$ 25	\$ (5)	\$ (51)

Other Business

The principal units included in this segment are Inco Venture Capital Management; Inmetco, involved in metals reclamation and recycling; and Continuous Mining Systems (CMS), involved in the design, manufacture and marketing of innovative mining equipment. Venture capital operating earnings, which consist of investment income and net gains from sales of securities less administrative expenses, totalled \$10 million in 1985, \$2 million in 1984 and \$0.1 million in 1983. Inmetco had an operating loss of \$7 million in 1985, compared with losses of \$7 million in 1984 and \$9 million in 1983. The unsatisfactory results were due primarily to low realized prices and, in 1984, also reflected start-up problems with a new product line. The metals reclamation and recycling business will be restructured in 1986. In 1985, its first full year of operation, CMS had operating earnings of \$0.4 million. In 1985, the Company essentially completed its withdrawal from direct participation in oil and gas exploration and production by selling virtually all of the remaining exploratory properties of Inco Energy Resources in Western Canada. Inco had sold all of its producing and proven oil and gas reserves in 1984 for cash and common stock of Morgan Hydrocarbons Inc. Operating losses of Inco Energy Resources were \$1 million in both 1985 and 1984 and \$10 million in 1983; 1984 results reflected a gain of \$4 million from the sale of property.

Other Business (\$ millions)	1985	1984	1983
Net sales to customers	\$29	\$23	\$ 17
Operating earnings (loss)	\$ 2	\$ (6)	\$ (19)

Interest and Taxes

Interest expense in 1985 totalled \$102 million compared to \$122 million and \$111 million in 1984 and 1983, respectively. The decrease in 1985 resulted from lower interest rates and a decline in the amount of debt outstanding. The increase in 1984 reflected higher interest rates, the effect of which was partially offset by a reduction in debt.

The relationship of income and mining taxes to pretax earnings or losses (the effective tax rate) is largely influenced by the level of losses of the nickel operations in Indonesia, on which no tax benefit is recognized. Adjustments related to prior years have been unfavorable, particularly in 1984. The effective tax rate was reduced in 1985 by currency translation factors, after having been increased by such factors in 1984 and 1983.

Financial Position

Cash Flow, Capital Resources and Liquidity

During 1985, the Company made significant progress in strengthening its balance sheet and reducing its reliance on debt and preferred shares. As of December 31, 1985, the Company's total debt, preferred shares and common shareholders' equity constituted 42 per cent, 13 per cent and 45 per cent, respectively, of the Company's total capitalization. At December 31, 1984, these percentages were 46 per cent, 17 per cent and 37 per cent, respectively.

In 1985, the Company generated an internal cash surplus of \$243 million as compared with shortfalls of \$4 million in 1984 and \$57 million in 1983. Included in the \$243 million surplus was \$198 million from the reversion of surplus funds from two pension plans. In March 1985, the Company received \$77 million of surplus funds from the non-contributory pension plan for salaried employees in Canada. In September 1985, the Company received \$121 million of surplus funds from its non-contributory plan for certain employees in the United States. Both of these reversions were possible because of substantial surpluses in the plans.

In addition to the internal cash surplus, the Company received \$40 million in 1985 from the exercise of 3.4 million common share purchase warrants. As a result of the internal cash surplus and the funds received from the exercise of the common share purchase warrants, the Company was able to reduce its level of total debt outstanding by \$185 million to \$929 million at December 31, 1985, as compared with reductions of \$60 million in 1984 and \$29 million in 1983.

In addition to the Company's continuing efforts to increase productivity, reduce production costs and other expenses, the Company has made progress towards strengthening its financial position by reducing the level of debt and reducing its after-tax cost of financing. On September 27, the Company retired one-half of its \$250 million (Cdn.) issue of Series A Floating Rate Preferred Shares. The shares were purchased at a cost of \$102 million based on Canadian dollar purchase contracts entered into in prior years; the shares were carried at a book value of \$120 million based on the Canadian

	1985
Summary of operations (in thousands)	
Net sales	\$1,490,500
Cost of sales and operating expenses	\$1,205,200
Selling, general and administrative expenses	\$ 90,600
Interest, net of amounts capitalized	\$ 101,600
Income and mining taxes	\$ 49,400
Earnings (loss) from continuing operations before extraordinary charges	\$ 52,200
Net earnings (loss)	\$ 52,200
Net earnings (loss) applicable to common shares	\$ 27,800
Per common share	\$ 0.28
Common dividends	\$ 19,900
Per common share	\$ 0.20
Common shares outstanding (weighted average)	99,626
Other financial data (in thousands)	
Capital expenditures	\$ 93,200
Depreciation and depletion	\$ 143,300
Pension expense	\$ 34,700
Research and development expense	\$ 21,900
Exploration expense	\$ 17,100
Working capital	\$ 505,300
Net property, plant and equipment	\$1,910,600
Total assets	\$3,082,600
Total debt	\$ 929,400
Preferred shares	\$ 278,400
Common shareholders' equity	\$ 987,100
Return on total assets	1.7%
Return on common shareholders' equity	2.8%
Operating data (in thousands)	
Ore mined – short tons	15,300
Nickel production – pounds	334,000
Nickel deliveries – pounds	357,800
Copper deliveries – pounds	251,500
Platinum-group metals and gold deliveries – troy ounces	384
Other statistics	
Employees at year end	20,828
Common shareholders at year end	39,829

dollar exchange rate prevailing when the shares were issued in 1977. The difference of \$18 million has been credited directly to Retained Earnings. At the option of the holders, the Company may be required to redeem the remaining \$125 million (Cdn.) Series A Preferred Shares in March 1987. At the end of 1985, the Company had unutilized committed credit facilities of \$440 million. Substantially all of these facilities contain a covenant which requires that the ratio of the Company's consolidated debt to its net worth not exceed 50:50; at December 31, 1985, this ratio was 43:57. Because of this covenant, the maximum that the Company could have borrowed under these unutilized facilities was \$310 million at December 31, 1985. The Company believes that its cash flow from operations, together with

1984	1983	1982	1981	1980	1979	1978	1977	1976
1,468,000	1,173,400	1,236,000	1,885,900	2,150,000	1,611,300	1,298,000	1,247,800	1,442,600
1,317,100	1,257,700	1,277,000	1,454,600	1,329,900	1,105,600	1,001,500	899,100	926,000
100,800	102,500	123,200	144,400	144,500	109,400	102,500	97,200	91,000
122,100	111,400	148,300	147,100	124,800	109,900	59,000	52,600	56,500
22,200	(91,300)	(119,900)	81,100	260,700	126,200	68,500	74,400	140,100
(77,300)	(234,900)	(203,300)	20,400	261,700	141,600	57,200	97,400	189,200
(77,300)	(234,900)	(203,300)	(469,600)	231,500	147,500	73,300	109,600	207,500
(100,100)	(256,800)	(231,400)	(497,600)	205,300	124,300	52,800	102,000	207,500
(1.02)	(2.69)	(2.81)	(6.51)	2.72	1.66	0.71	1.37	2.78
19,500	19,100	16,100	45,000	52,100	37,400	52,200	93,200	119,300
0.20	0.20	0.20	0.59	0.69	0.50	0.70	1.25	1.60
97,710	95,451	82,247	76,395	75,464	74,762	74,595	74,593	74,576
103,600	71,100	95,300	152,200	143,300	85,400	193,400	402,500	434,900
140,000	126,100	110,300	139,900	142,500	111,000	89,700	96,900	98,100
34,500	45,400	34,300	59,800	61,600	54,700	47,900	46,500	47,400
22,400	29,400	35,800	37,000	34,100	26,600	31,400	39,400	34,200
15,800	20,300	19,200	32,700	26,900	13,900	14,200	22,400	34,100
494,400	528,100	789,400	1,023,200	1,081,300	972,900	985,900	854,600	614,000
1,972,900	2,035,500	2,109,000	2,136,100	2,542,400	2,523,400	2,540,500	2,436,700	2,119,400
3,110,400	3,183,200	3,472,500	3,856,400	4,720,900	4,392,200	4,191,600	4,130,400	3,664,300
1,113,900	1,174,300	1,203,400	1,331,400	1,351,700	1,274,100	1,307,000	1,315,600	1,251,600
401,300	335,300	338,600	341,800	345,000	348,300	351,600	353,300	—
914,300	1,027,400	1,215,600	1,332,900	1,859,100	1,687,700	1,590,700	1,590,000	1,581,100
—	—	—	—	4.9%	3.4%	1.7%	2.7%	5.7%
—	—	—	—	11.0%	7.4%	3.3%	6.4%	13.1%
16,100	10,400	7,500	13,400	16,400	9,600	10,900	19,600	19,800
358,500	282,500	201,300	330,100	393,800	255,000	267,300	416,700	461,600
356,200	314,100	250,800	341,800	345,400	393,600	377,400	312,300	409,800
272,900	140,000	167,400	239,800	288,300	129,100	224,600	341,200	356,000
379	201	310	317	349	326	468	438	554
22,239	24,866	25,798	31,678	33,975	33,864	33,326	38,216	38,696
45,789	49,653	55,759	62,054	67,609	74,541	75,067	77,875	78,014

these unutilized credit facilities, should provide sufficient liquidity to meet operating requirements and the redemption of the remaining Series A Preferred Shares.

In order for the Company to reduce its reliance on its bank credit facilities, the Company reentered the public debt markets during 1985. In April 1985, the Company issued in the Euromarkets \$100 million Floating Rate Notes due 1995 and £50 million 12.75% Notes due 1993. In July 1985, the Company also issued in the Euromarkets \$75 million 11% Notes due 1992. In February 1986, the Company announced plans to issue 200 million Swiss Franc 5³/₄% bonds due March 1996 and 70 million European Currency Unit 9¹/₂% notes due March 1994.

Other Information

Reference is made to pages 34 and 37 of this Report for certain information on the effects of inflation and governmental and other policies and factors affecting the Company's operations and investments by non-Canadians in the Company's securities.

Consolidated Statement of Operations*(in thousands)*

Inco Limited and Subsidiaries

Year ended December 31	1985	1984	1983
Revenues			
Net sales	\$1,490,516	\$1,467,984	\$1,173,421
Other income	34,407	48,276	21,428
	1,524,923	1,516,260	1,194,849
Costs and expenses			
Cost of sales and operating expenses	1,205,180	1,317,110	1,257,689
Selling, general and administrative expenses	90,635	100,814	102,460
Research and development	21,852	22,395	29,405
Exploration	17,107	15,772	20,294
Interest expense	101,650	122,145	111,441
Currency translation adjustments	(13,093)	(6,803)	(254)
	1,423,331	1,571,433	1,521,035
Earnings (loss) before income and mining taxes	101,592	(55,173)	(326,186)
Income and mining taxes	49,380	22,170	(91,292)
Net earnings (loss)	52,212	(77,343)	(234,894)
Dividends on preferred shares	(24,387)	(22,807)	(21,882)
Net earnings (loss) applicable to common shares	\$ 27,825	\$ (100,150)	\$ (256,776)
Net earnings (loss) per common share	\$ 0.28	\$ (1.02)	\$ (2.69)

Consolidated Statement of Retained Earnings*(in thousands)*

Year ended December 31	1985	1984	1983
Retained earnings at beginning of year	\$ 486,975	\$ 606,658	\$ 882,533
Net earnings (loss)	52,212	(77,343)	(234,894)
Gain on retirement of preferred shares	18,045	—	—
Preferred dividends	(24,387)	(22,807)	(21,882)
Common dividends – \$.20 per share	(19,938)	(19,533)	(19,099)
Retained earnings at end of year	\$ 512,907	\$ 486,975	\$ 606,658

The Explanatory Financial Section on pages 25 through 32 is an integral part of these statements.

Consolidated Balance Sheet*(in thousands)*

December 31	1985	1984	1983
Current assets			
Cash	\$ 7,051	\$ 6,005	\$ 6,756
Marketable securities, at cost (market 1985 - \$14,100,000, 1984 - \$13,200,000, 1983 - \$9,700,000)	13,579	9,287	8,996
Accounts receivable	256,640	248,826	249,925
Income tax refunds receivable	17,798	18,838	19,009
Inventories	696,995	672,576	692,733
Prepaid expenses	9,404	9,661	7,165
Total current assets	1,001,467	965,193	984,584
Property, plant and equipment	3,690,021	3,652,143	3,601,588
Less - Accumulated depreciation and depletion	1,779,384	1,679,198	1,566,074
	1,910,637	1,972,945	2,035,514
Other assets			
Investments in and advances to affiliates, on an equity basis	24,250	24,519	14,255
Miscellaneous securities	125,428	130,617	133,201
Deferred charges	20,795	17,145	15,635
	170,473	172,281	163,091
Total assets	\$3,082,577	\$3,110,419	\$3,183,189
Current liabilities			
Notes payable	\$ 12,346	\$ 23,291	\$ 19,446
Long-term debt due within one year	57,956	40,295	99,162
Accounts payable	102,349	108,450	128,330
Accrued payrolls and benefits	149,298	135,541	101,945
Other accrued liabilities	82,690	93,138	88,465
Income and mining taxes payable	91,528	70,117	19,151
Total current liabilities	496,167	470,832	456,499
Other liabilities and deferred credits			
Long-term debt	859,059	1,050,350	1,055,705
Deferred income and mining taxes	200,900	201,100	241,400
Deferred credit from reversions of surplus pension funds	173,150	—	—
Pension benefits	83,415	67,552	61,290
Minority interest	4,334	4,962	5,570
	1,320,858	1,323,964	1,363,965
Preferred shares issued, \$25 (Cdn.) issue price:			
Series A floating rate	119,625	239,250	239,250
Series B 7.85%	89,493	92,770	96,086
Series C 10%	69,300	69,300	—
	278,418	401,320	335,336
Common shareholders' equity			
Common shares issued, without nominal or par value	413,191	366,292	359,695
Capital surplus	61,036	61,036	61,036
Retained earnings	512,907	486,975	606,658
Total common shareholders' equity	987,134	914,303	1,027,389
Total liabilities and shareholders' equity	\$3,082,577	\$3,110,419	\$3,183,189

Approved by the Board of Directors: **Charles F. Baird**
Ian McDougall

Year ended December 31	1985	1984	1983
Cash provided by operations			
Net earnings (loss)	\$ 52,212	\$ (77,343)	\$ (234,894)
Charges (credits) not affecting working capital			
Depreciation	118,254	116,676	112,904
Depletion	25,082	23,324	13,161
Deferred income and mining taxes	(200)	(40,300)	(105,400)
Pension benefits	6,291	9,387	25,687
Loss on disposals of property, plant and equipment	5,539	15,781	10,175
Currency translation adjustments not affecting working capital	(6,697)	(8,082)	(283)
Other – net	(2,356)	(874)	(641)
Working capital provided by (used for) operations	198,125	38,569	(179,291)
Decrease (increase) in working capital			
Accounts and tax refunds receivable	(6,774)	1,270	(27,431)
Inventories	(24,419)	20,157	158,498
Prepaid expenses	257	(2,496)	1,089
Investment in discontinued business segments	—	—	70,000
Payables and accrued liabilities	(2,792)	35,312	26,541
Income and mining taxes payable	21,411	50,966	(8,474)
Decrease (increase) in working capital	(12,317)	105,209	220,223
Cash provided by operations	185,808	143,778	40,932
Investment activities			
Proceeds from pension fund reversions	197,886	—	—
Capital expenditures	(93,229)	(103,578)	(71,079)
Other – net	(2,594)	(3,108)	13,775
Cash provided by (used for) investment activities	102,063	(106,686)	(57,304)
Preferred and common dividends paid	(44,407)	(40,647)	(40,981)
Internal cash flow – surplus (shortfall)	243,464	(3,555)	(57,353)
Financing activities			
Long-term borrowings	345,872	204,754	153,760
Reduction in long-term debt	(532,756)	(199,215)	(221,852)
Net addition (reduction) to short-term debt	6,716	(71,945)	38,162
Net proceeds from preferred and common shares issued	47,001	72,958	87,781
Preferred shares redeemed	(104,959)	(3,457)	(3,397)
Cash provided by (used for) financing activities	(238,126)	3,095	54,454
Increase (decrease) in cash and marketable securities	\$ 5,338	\$ (460)	\$ (2,899)

The Explanatory Financial Section on pages 25 through 32 is an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries and are prepared in conformity with generally accepted accounting principles as established in Canada which, in the Company's case, generally conform with those established in the United States, except as explained in Note 2.

Translation of Financial Statements into United States Dollars

The financial statements are expressed in United States currency. Cash, accounts receivable, current liabilities, the liability for pension benefits and unhedged long-term debt are translated at year-end rates of exchange. The translation of all other assets and liabilities generally recognizes the rates historically applicable, except for hedged long-term debt which is translated at the rates established by related forward exchange contracts. Revenues, expenses and certain costs are translated at monthly average rates during each year; inventoried costs, depreciation and depletion, and deferred tax drawdowns are translated at historical rates. Realized exchange gains and losses and currency translation adjustments are included in earnings currently except for currency translation adjustments relative to long-term monetary items with a fixed and ascertainable life which are deferred and amortized on a straight-line basis. Gains and losses on forward exchange contracts entered into to hedge future local currency transactions are deferred. The Company has entered into contracts to purchase \$232 million (Cdn.) at an average rate of \$1.00 (Cdn.) to \$.725 (U.S.) to hedge a portion of its 1986 Canadian production costs.

Inventories

Inventories are stated at the lower of cost or 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 is stated at cost. Such cost in the case of the Company's mines represents related acquisition and development expenditures. Expenditures for mineral exploration are expensed as incurred.

Depreciation and Depletion

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

Income and Mining Taxes

Deferred taxes are provided in recognition of timing differences that arise in reporting depreciation and other expense and revenue items for financial statement and income and mining tax purposes. Effective January 1, 1985, the Company changed its method of accounting for investment tax credits, from the "flow-through" to the "cost reduction" method, as required by the Canadian Institute of Chartered Accountants. As a result of this change, investment tax credits are deferred and recognized in earnings as the related assets are depreciated. This change, which has been applied prospectively, did not have a material effect on earnings. Income taxes have not been provided on undistributed earnings of subsidiaries because only a minor portion of such earnings has not been or will not be permanently reinvested.

Pension Plans

The Company has pension plans covering essentially all employees. Pension costs are calculated and funded based on actuarial estimates, except that funding is subject to limitations under applicable tax regulations. Prior service costs, which are being charged to operations over periods not exceeding 15 years, approximated \$130 million at December 31, 1985.

Net Earnings per Common Share

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

Statement of Changes in Financial Position

As required by the Canadian Institute of Chartered Accountants, the format of this Statement has been changed in 1985 to show changes in cash flows; prior years have been restated.

Note 2. Differences Between Canadian and United States Generally Accepted Accounting Principles

United States accounting practices relating to foreign currency translation are not entirely compatible with Canadian accounting practices which the Company follows and which are described in Note 1. Under United States practices, all currency translation adjustments related to assets and liabilities are included in earnings currently whereas Canadian practices require that currency translation adjustments related to long-term monetary items with a fixed and ascertainable life be deferred and amortized over the life of the item. In addition, deferred income and mining taxes and the Series A and Series C Preferred Shares are translated at year-end rates of exchange under United States practices rather than historical rates of exchange which are required by Canadian practices.

The following table compares the Company's results reported under Canadian practices with those that would have been reported under United States practices, together with the cumulative effect on selected balance sheet accounts.

	Year 1985 Accounting Practices		Year 1984 Accounting Practices		Year 1983 Accounting Practices	
(in millions)	Canadian	United States	Canadian	United States	Canadian	United States
Net earnings (loss)						
First Quarter*	\$ 12.1	\$ 16.2	\$(35.1)	\$(31.2)	\$ (81.9)	\$ (73.9)
Second Quarter*	20.9	18.3	(15.1)	(7.4)	(37.1)	(54.4)
Third Quarter*	11.6	6.7	(31.6)	(26.5)	(61.3)	(63.0)
Fourth Quarter*	7.6	7.7	4.5	(2.9)	(54.6)	(53.5)
Year	\$ 52.2	\$ 48.9	\$(77.3)	\$(68.0)	\$(234.9)	\$(244.8)
Earnings (loss) per common share	\$ 0.28	\$ 0.28	\$(1.02)	\$(0.92)	\$ (2.69)	\$ (2.79)
*Unaudited						
December 31	1985		1984		1983	
Deferred Income and Mining Taxes	\$200.9	\$145.9	\$201.1	\$146.6	\$ 241.4	\$194.0
Series A Preferred Shares	119.6	89.5	239.3	189.3	239.3	201.0
Series C Preferred Shares	69.3	64.4	69.3	68.1	—	—
Retained Earnings	512.9	592.0	487.0	583.8	606.7	692.8

The difference in net earnings (loss) for these years would have been reflected in the Consolidated Statement of Operations as follows:

(in millions)	Year 1985	Year 1984	Year 1983
Increased (reduced) currency translation gains	\$ (2.4)	\$18.7	\$ 7.9
Increased income and mining taxes	.9	9.4	17.8
Increased (reduced) earnings	\$ (3.3)	\$ 9.3	\$ (9.9)

The results for 1985 include after-tax gains of \$11,060,000 (1984 - \$8,770,000) from the retirement of long-term debt; such gains would be classified as extraordinary items under United States practices.

Note 3. Discontinued Business Segments

The Company completed the withdrawal from discontinued business segments in 1983. As part of the proceeds from the disposition of these businesses, the Company received notes and preferred shares which are included in the Consolidated Balance Sheet as miscellaneous securities of \$62 million at December 31, 1985.

Under agreements with the purchasers of these businesses, the Company made certain representations concerning the condition of the businesses and assumed, or agreed to assume, certain liabilities. The Company may therefore be required in future years to provide indemnification to the purchasers under these agreements or make payments in connection with assumed liabilities. Any indemnification would be made primarily through the reduction of notes received by the Company in connection with such sales and, to a lesser degree, in cash. The Company cannot presently estimate the amount of possible note reductions or payments which might be required, but believes that the total amount of such indemnification or payments would not be material in relation to the Company's financial position.

Note 4. Other Income

Other income includes net gains on sales of assets, gains on retirement of long-term debt, interest, dividends, results of equity interests in affiliates and joint ventures, and realized exchange gains and losses, which were losses of \$2,190,000 in 1985 and \$7,240,000 in 1984 and a gain of \$295,000 in 1983. Also included in other income are gains on sales of securities, principally marketable equity securities, of \$11,930,000 in 1985 (1984 - \$2,300,000; 1983 - \$1,100,000).

Note 5. Inventories

Inventories consist of the following:

December 31 (in thousands)	1985	1984	1983
Metals, finished and in-process	\$606,939	\$576,773	\$590,750
Supplies	90,056	95,803	101,983
	\$696,995	\$672,576	\$692,733

Note 6. Property, Plant and Equipment

Property, plant and equipment consists of the following:

December 31 (in thousands)	1985	1984	1983
Mines and mining plants	\$1,294,273	\$1,257,182	\$1,214,772
Processing facilities	1,525,927	1,517,438	1,517,098
Other	334,387	326,459	329,106
Primary metals facilities	3,154,587	3,101,079	3,060,976
Alloy and engineered products facilities	450,021	457,823	436,337
Other	85,413	93,241	104,275
Total property, plant and equipment	3,690,021	3,652,143	3,601,588
Accumulated depreciation	1,408,274	1,331,927	1,245,258
Accumulated depletion	371,110	347,271	320,816
	1,779,384	1,679,198	1,566,074
Net property, plant and equipment	\$1,910,637	\$1,972,945	\$2,035,514

Net property, plant and equipment at December 31, 1985 includes \$668 million relative to the Indonesian nickel operations, and \$108 million applicable to standby mines in Canada.

Note 7. Income and Mining Taxes

The provisions for income and mining taxes (tax relief) for the years 1983-1985 were as follows:

(in thousands)	1985	1984	1983
Current taxes	\$57,880	\$66,670	\$10,608
Current deferred	(8,300)	(4,200)	3,500
Future deferred	(200)	(40,300)	(105,400)
Total deferred taxes	(8,500)	(44,500)	(101,900)
Total income and mining taxes	\$49,380	\$22,170	\$(91,292)
Canada	\$39,025	\$15,885	\$(74,401)
Other (principally United States and United Kingdom)	10,355	6,285	(16,891)
	\$49,380	\$22,170	\$(91,292)

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

(in thousands)	1985	1984	1983
Canada	\$91,212	\$(26,705)	\$(263,494)
Other*	10,380	(28,468)	(62,692)
Total	\$101,592	\$(55,173)	\$(326,186)

*Includes the losses of the Indonesian nickel operations.

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

(in thousands)	1985	1984	1983
Tax effects of timing differences for:			
Depreciation	\$63,200	\$(28,000)	\$(105,500)
Pension reversions	(87,900)	—	—
Employee benefits	(8,500)	(14,600)	(1,300)
Inventories	27,100	(3,500)	(1,100)
Other	(2,400)	1,600	6,000
Total	\$(8,500)	\$(44,500)	\$(101,900)

The deferred tax benefits relative to the excess of book over tax depreciation recognized in 1984 and 1983 reflect the reversal of deferred tax liabilities established in prior years and give effect to similar excesses, totalling \$88 million, becoming available in future years. In 1985, a portion of these deferred tax liabilities was restored upon realization of these tax benefits by the Company.

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

Year ended December 31	1985	1984	1983
	Provision (Relief)		
Combined Canadian federal-provincial statutory income tax rate	49.3 %	(49.1)%	(48.9)%
Resource and depletion allowance	(19.6)	(25.4)	—
Adjusted income tax rate	29.7	(74.5)	(48.9)
Mining taxes	21.1	21.6	(2.1)
	50.8	(52.9)	(51.0)
Effects of losses of nickel operations in Indonesia	15.0	44.5	14.7
Currency translations	(8.7)	22.9	1.2
Prior year tax adjustments	4.6	54.6	2.6
Investment tax credits	—	(8.5)	(0.1)
Tax rate differential	(7.5)	(5.8)	6.8
Inventory allowance - Canada	(4.2)	(4.6)	(1.4)
U.K. stock relief	—	(1.3)	(1.1)
Other	(1.4)	(8.7)	0.3
Effective income and mining tax rate	48.6 %	40.2 %	(28.0)%

In the three-year period 1983 through 1985, the effective income and mining tax rate was adversely affected by the losses of the Indonesian nickel operations, on which no tax benefit is recognized, and by adjustments related to prior years, particularly in 1984. Since interest expense is statutorily excluded from the determinations, resource and depletion allowances were earned and mining taxes were incurred in 1984. The effective tax rate was reduced in 1985 by currency translation factors, after having been increased by such factors in 1984 and 1983. The percentages for 1984 reconciling items were accentuated significantly by the relatively low level of pretax loss. The Company has yet to receive assessments relative to certain tax returns, but believes that the settlement of any such assessments would not have a material adverse effect on its financial position. Under the "cost reduction" method, the amortization of investment tax credits reduced costs and expenses by \$1.4 million in 1985. At December 31, 1985, the Company had approximately \$20 million of investment tax credits which will be amortized over 15 years. Under the "flow-through" method, investment tax credits reduced income and mining taxes by \$5 million in 1984 and \$.2 million in 1983.

The cumulative tax effect of timing differences relating to items of a non-current nature is shown separately as deferred income and mining taxes of \$200,900,000 in the Consolidated Balance Sheet at December 31, 1985. The cumulative tax effect of timing differences relating to items of a current nature of \$20,200,000 at December 31, 1985 is reflected as a reduction in the current liability for income and mining taxes payable.

Losses and unutilized investment tax credits relative to the Company's nickel operations in Indonesia totalling \$314 million and \$56 million, respectively, can be carried forward indefinitely to reduce future taxes. The Company has approximately \$36 million of capital losses available to offset capital gains in the United States through 1989.

Note 8. Long-Term Debt

The Company's long-term debt consists of the following (the applicable weighted average interest rates and repayment periods as at December 31, 1985 are shown in parentheses):

December 31 (in thousands)	1985	1984	1983
Inco Limited			
6.85% U.S.\$ Debentures (1991-1993)	\$ 50,668	\$ 87,765	\$ 97,293
8.25% U.S.\$ Notes (1989-1991)	35,350	40,278	47,660
9.0% U.S.\$ Debentures (1989-1992)	65,313	69,672	80,936
9.25% Cdn.\$ Debentures (1990)	33,380	38,599	46,019
11.0% U.S.\$ Notes (1992)	75,000	—	—
12.375% U.S.\$ Debentures (2000-2010)	59,150	100,000	100,000
12.75% Sterling Notes (1993)	61,010	—	—
15.75% Sterling Unsecured Loan Stock (2006)	48,193	49,500	49,500
U.S.\$ Floating Rate Notes (8.5%) (1995)	100,000	—	—
U.S.\$ Term loans (8.7%) (1986-1989)*	182,700	85,100	100,000
U.S.\$ Revolving loans (8.9%) (1986-1993)*	86,500	393,500	287,000
Cdn.\$ Revolving loans	—	3,785	34,796
P.T. International Nickel Indonesia			
Export & supplier credits (8.9%) (1986-1989)	82,692	94,516	100,010
U.S.\$ Bank loans (9.0%) (1986-1987)*	3,333	75,000	75,000
8.0625% U.S.\$ Production sharing loan (1986)	1,800	5,400	6,750
Exmibal			
Export & supplier credits (8.1%) (1986-1988)	14,312	19,403	26,246
9.5% U.S.\$ International agency loans (1986-1988)	1,500	3,600	5,700
Other Indebtedness (9.3%) (1986-2001)	16,114	24,527	49,623
	917,015	1,090,645	1,154,867
Long-term debt due within one year	57,956	40,295	99,162
Long-term debt	\$859,059	\$1,050,350	\$1,055,705

*Interest is based on Eurocurrency rates.

The average interest rate on long-term debt at December 31, 1985 was 9.7%. Approximately 41% of such debt carries interest rates that are subject to periodic adjustments based on market interest rates. Interest expense on long-term debt for the years 1985, 1984 and 1983 was \$99,348,000, \$119,302,000 and \$108,508,000, respectively. After reflecting forward exchange hedging contracts, 99% of the long-term debt is payable in U.S. dollars.

In April 1985, the Company issued in the Euromarkets \$100 million Floating Rate Notes due 1995 and £50 million 12.75% Notes due 1993. In July 1985, the Company also issued in the Euromarkets \$75 million 11% Notes due 1992.

The Company has not extended a financial guarantee of the debt of P.T. Inco. However, under the terms of a Completion Guarantee Agreement, the Company has agreed, subject to force majeure, to provide sufficient funds in the form of equity and/or loans to enable P.T. Inco to meet its financial obligations as they become due, including scheduled debt service payments, until all existing senior funded debt of P.T. Inco, \$87,825,000 at December 31, 1985, has been repaid.

At the end of 1985, the Company had unutilized committed credit facilities of \$440 million. Substantially all of these facilities contain a covenant which requires that the ratio of the Company's consolidated debt to its net worth not exceed 50:50; at December 31, 1985, this ratio was 43:57. Under these facilities, net worth is essentially defined as the sum of preferred shares and common shareholders' equity, and consolidated debt is defined to include borrowings, guarantees and certain other minimal obligations. Because of this covenant, the maximum that the Company could have borrowed under its unutilized credit facilities was \$310 million at December 31, 1985. The Company believes that its cash flow from operations, together with these unutilized credit facilities, should provide sufficient liquidity to meet operating requirements and the redemption of the remaining Series A Preferred Shares. During 1985 the Company incurred fees of \$1,175,000 to compensate banks for undrawn credit facilities.

Long-term debt maturities and sinking fund requirements for each of the five years through 1990 are: 1986 - \$57,956,000; 1987 - \$48,762,000; 1988 - \$47,546,000; 1989 - \$113,177,000; 1990 - \$126,535,000.

Note 9. Preferred and Common Shares

At December 31, 1985, the authorized share capital of the Company consisted of 30,000,000 preferred shares and an unlimited number of common shares.

The Series A Preferred Shares, which do not have general voting rights, have a cumulative floating rate dividend equal to half of the Canadian bank prime rate plus $1\frac{1}{4}$ per cent. In September 1985, the Company retired 5 million of its Series A Floating Rate Preferred Shares at a cost of \$101,580,000, based on Canadian dollar purchase contracts entered into in prior years; the shares were carried at \$119,625,000, based on the Canadian dollar exchange rate prevailing when the shares were issued in 1977. The difference of \$18,045,000 has been credited directly to Retained Earnings. The remaining 5 million shares outstanding are redeemable at the option of the Company and are retractable at the option of the holders in 1987 at \$25 (Cdn.) per share. The purchase price of the Canadian dollars required to redeem these shares is hedged by forward exchange contracts at an effective average rate of \$1.00 (Cdn.) to \$.81 (U.S.). The dividends of \$11,899,000 paid in 1985 on these preferred shares reflected an average annual dividend rate of approximately 7.0% (1984 - 7.0%; 1983 - 7.4%).

The 7.85% cumulative Series B Preferred Shares have general voting rights and were redeemable at \$25.40 (Cdn.) commencing December 1, 1985, such price decreasing annually to \$25.00 (Cdn.) by December 1, 1987. The Company is required to repurchase 150,000 Series B Preferred Shares annually if such shares are available at a price not greater than \$25.00 (Cdn.) per share.

The 10% Cumulative Redeemable Commodity-Indexed Series C Preferred Shares, which have general voting rights, are retractable at \$25 (Cdn.) per share at the option of the holders in 1991. The commodity-indexed exchange feature gives each holder the right to receive the cash equivalent of specified amounts of either nickel or copper, provided that, if exchanges are made prior to August 1, 1987, the Company may make payments in cash or common shares, at its option. The exchange privilege may not be exercised prior to August 1,

1987, unless the average London Metal Exchange cash price exceeds U.S. \$2.90 per pound for nickel or U.S. \$.80 per pound for copper.

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

Changes in the Series B Preferred Shares and Common Shares for the years 1983-1985 are shown below. There were no changes in the 3,600,000 Series C Preferred Shares issued in 1984.

	Series B Preferred Shares		Common Shares	
	Number of shares	\$ in thousands	Number of shares	\$ in thousands
December 31, 1982	4,359,841	\$99,344	90,342,647	\$272,053
Shares purchased	(149,000)	(3,397)	—	—
Options exercised	—	—	43,877	442
Shares issued in lieu of cash dividends	6,867	139	424,907	6,004
Shares sold under:				
Share Purchase Plan	—	—	50,435	749
Public offering	—	—	6,600,000	80,435
Warrants exercised	—	—	925	12
December 31, 1983	4,217,708	96,086	97,462,791	359,695
Shares purchased	(151,600)	(3,457)	—	—
Options exercised	—	—	7,170	65
Shares issued in lieu of cash dividends	7,297	141	550,833	6,048
Shares sold under Share Purchase Plan	—	—	41,480	484
December 31, 1984	4,073,405	92,770	98,062,274	366,292
Shares purchased	(148,200)	(3,379)	—	—
Options exercised	—	—	45,196	467
Shares issued in lieu of cash dividends	5,562	102	405,548	5,107
Shares sold under:				
Exploration program	—	—	57,196	732
Share Purchase Plan	—	—	26,408	346
Warrants exercised	—	—	3,412,082	40,247
December 31, 1985	3,930,767	\$89,493	102,008,704	\$413,191

Note 10. Stock Option Plans

The Company's 1968, 1979 and 1984 stock option plans each authorized the granting of options to key employees to purchase up to 1,000,000 Common Shares at prices not less than 100% of their market value on the day the option is granted. The plans provide that no shares subject to option shall be purchasable after ten years from the date of grant. The 1968 plan was terminated in 1978 and the 1979 plan was terminated in 1984 except as to options and share appreciation rights then outstanding. At December 31, 1985, outstanding options for 613,625 shares under these plans also carry share appreciation rights.

Changes during the year 1985 in options outstanding are summarized as follows:

	Number of Shares		
	1984 Plan	1979 Plan	1968 Plan
Outstanding at December 31, 1984	341,750	795,690	252,628
Options exercised at average option price of \$9.41 a share	(4,975)	(32,055)	—
Options terminated	(14,300)	(76,475)	(40,345)
Outstanding at December 31, 1985	322,475	687,160	212,283
Available for grant at December 31, 1985	672,550	—	—
Exercisable as at December 31, 1985	152,400	671,910	212,283

At December 31, 1985, the average option price per share of options outstanding was \$15.93 (range \$15.57 – \$15.94) under the 1968 plan, \$16.91 (range \$9.13 – \$23.94) under the 1979 plan and was \$11.00 under the 1984 plan. The expiration dates of options outstanding at December 31, 1985 ranged from April 30, 1988 to September 11, 1992. At December 31, 1985, there were 533 employees participating in the plans.

Note 11. Financial Data by Business Segment

Financial data by business segment and geographic area, for the years 1985, 1984 and 1983 follow (in millions of dollars):

Data by Business Segment

Net sales to customers
Intersegment sales
Total net sales
Operating earnings (loss)
Non-operating expenses*
Earnings (loss) before income and mining taxes
Capital expenditures
Depreciation and depletion
Identifiable assets at December 31
Other assets
Total assets at December 31

Data by Geographic Area

Net sales to customers
Sales between geographic areas
Total net sales
Operating earnings (loss)
Identifiable assets at December 31

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

**Includes assets of \$731 million relating to the Company's nickel operations in Indonesia.

The Company's business is organized around two principal product groups: primary metals and alloys, including engineered products. The Company's principal primary metals are nickel and copper. Wrought nickel, high-nickel alloys in rolling mill forms, and forgings are the Company's major alloys. Other business includes the Company's venture capital program, metals reprocessing operations, and oil and gas interests.

Other assets consist of corporate assets, principally cash, securities, and certain receivables and fixed assets.

The Company's intersegment sales are generally made at approximate prices used for sales to unaffiliated customers. Sales between geographic areas are generally made at prevailing market prices, except that sales of primary metals from

Year 1985					Year 1984					Year 1983				
Primary metals	Alloys	Other	Eliminations	Total	Primary metals	Alloys	Other	Eliminations	Total	Primary metals	Alloys	Other	Eliminations	Total
\$1,040	\$422	\$ 29	\$ —	\$1,491	\$1,052	\$ 393	\$ 23	\$ —	\$1,468	\$ 786	\$ 370	\$ 17	\$ —	\$1,173
83	—	4	(87)	—	89	4	—	(93)	—	60	5	—	(65)	—
\$1,123	\$422	\$ 33	\$ (87)	\$1,491	\$1,141	\$ 397	\$ 23	\$ (93)	\$1,468	\$ 846	\$ 375	\$ 17	\$ (65)	\$1,173
\$ 174	\$ 25	\$ 2	\$ (3)	\$ 198	\$ 100	\$ (5)	\$ (6)	\$ (14)	\$ 75	\$ (138)	\$ (51)	\$ (19)	\$ 20	\$ (188)
				96					(130)					(138)
				\$ 102					\$ (55)					\$ (326)
\$ 68	\$ 21	\$ 4	\$ —	\$ 93	\$ 74	\$ 27	\$ 3	\$ —	\$ 104	\$ 48	\$ 18	\$ 5	\$ —	\$ 71
\$ 116	\$ 21	\$ 6	\$ —	\$ 143	\$ 109	\$ 22	\$ 9	\$ —	\$ 140	\$ 93	\$ 23	\$ 10	\$ —	\$ 126
\$2,307**	\$540	\$104	\$ (40)	\$2,911	\$2,346	\$ 542	\$ 100	\$ (39)	\$2,949	\$2,388	\$ 516	\$ 99	\$ (20)	\$2,983
				172					161					200
				\$3,083					\$3,110					\$3,183

Canada	United States	Europe	Other	Total after eliminations	Canada	United States	Europe	Other	Total after eliminations	Canada	United States	Europe	Other	Total after eliminations
\$ 246	\$539	\$487	\$ 219	\$1,491	\$ 265	\$ 526	\$ 460	\$ 217	\$1,468	\$ 178	\$ 457	\$ 375	\$ 163	\$1,173
695	18	10	—	—	711	21	9	9	—	479	5	5	1	—
\$ 941	\$557	\$497	\$ 219	\$1,491	\$ 976	\$ 547	\$ 469	\$ 226	\$1,468	\$ 657	\$ 462	\$ 380	\$ 164	\$1,173
\$ 196	\$ 17	\$ 18	\$ 2	\$ 198	\$ 101	\$ 7	\$ (10)	\$ (1)	\$ 75	\$ (108)	\$ (25)	\$ (21)	\$ (54)	\$ (188)
\$1,423	\$478	\$295	\$ 836**	\$2,911	\$1,463	\$ 462	\$ 277	\$ 878	\$2,949	\$1,418	\$ 438	\$ 281	\$ 910	\$2,983

Canada to other primary metals affiliates are net of discounts. In 1985, sales to customers include \$45 (1984 - \$57; 1983 - \$49) exported from Canada and \$14 (1984 - \$12; 1983 - \$11) exported from the United States. In 1985, total sales by Canadian companies include \$326 (1984 - \$322; 1983 - \$231) exported to the United States and \$332 (1984 - \$330; 1983 - \$232) exported to Europe. Geographic Area - Other includes sales to affiliated companies in Japan as follows: Shimura Kako Company, Ltd. - \$61 in 1985 (1984 - \$103; 1983 - \$118) and Tokyo Nickel Company, Ltd. - \$88 in 1985 (1984 - \$54; 1983 - \$1).

Note 12. Retirement Benefits

Pension expense totalled \$34,661,000 in 1985, \$34,503,000 in 1984 and \$45,382,000 in 1983. A comparison of accumulated plan benefits and plan net assets for the Company's Canadian, United States and United Kingdom pension plans is shown below. The actuarial present value of accumulated plan benefits and the net assets available for benefits have not been calculated for other pension plans; such benefits and related net assets are not material. At December 31, 1985, vested and nonvested benefits exceeded the related net assets of the Ontario Pension Plan for hourly-paid employees by approximately \$54 million.

December 31 (<i>in thousands</i>)	1985	1984	1983
Actuarial present value of accumulated plan benefits, using an assumed discount rate of 7.4% (1984 - 7.4%; 1983 - 7.3%):			
Vested benefits	\$501,500	\$670,400	\$674,800
Nonvested benefits	117,000	127,400	132,400
	\$618,500	\$797,800	\$807,200
Net assets, at market value, available for benefits	\$694,000	\$962,500	\$989,200

The Company's obligation for vested and nonvested benefits, and the net assets related thereto, decreased significantly during 1985 through the purchase for \$185 million of annuity contracts from insurance companies to provide for the future payment of pension benefits earned through December 31, 1984. During 1985, the Company received \$198 million of surplus funds from its non-contributory pension plans for certain employees in the United States and Canada. This reversion of funds was possible because of substantial surpluses in the plans. The proceeds of \$198 million are being amortized as credits to pension expense over 16 years.

The Company provides certain health care and life insurance benefits for retired employees. Substantially all employees in Canada, the United States and the United Kingdom may become eligible for these benefits upon retirement from the Company. The cost of these benefits, which are generally provided through insurance companies, approximated \$12 million in 1985 and \$9 million in 1984.

To the Shareholders of Inco Limited:

We have examined the consolidated financial statements and explanatory financial section appearing on pages 22 through 32 of this report. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Inco Limited at December 31, 1985, 1984 and 1983 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles as established in Canada applied on a consistent basis.

Pricewaterhouse

Toronto, Ontario
New York, New York
February 20, 1986

Supplementary Financial Information

Quarterly Financial Information

Quarterly financial information follows:

(in thousands, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
1985					
Net sales	\$ 383,748	\$ 408,202	\$ 313,929	\$ 384,637	\$1,490,516
Cost of sales and operating expenses	\$ 319,709	\$ 319,338	\$ 250,238	\$ 315,895	\$1,205,180
Earnings before income and mining taxes	\$ 25,056	\$ 38,192	\$ 23,610	\$ 14,734	\$ 101,592
Net earnings	\$ 12,071	\$ 20,888	\$ 11,664	\$ 7,589	\$ 52,212
Net earnings per common share	\$.05	\$.15	\$.05	\$.03	\$.28
Dividends per common share	\$.05	\$.05	\$.05	\$.05	\$.20
1984					
Net sales	\$ 371,005	\$ 385,288	\$ 322,910	\$ 388,781	\$1,467,984
Cost of sales and operating expenses	\$ 356,451	\$ 331,093	\$ 297,586	\$ 331,980	\$1,317,110
Earnings (loss) before income and mining taxes	\$ (36,454)	\$ (239)	\$ (27,840)	\$ 9,360	\$ (55,173)
Net earnings (loss)	\$ (35,145)	\$ (15,054)	\$ (31,598)	\$ 4,454	\$ (77,343)
Net loss per common share	\$ (.41)	\$ (.21)	\$ (.38)	\$ (.02)	\$ (1.02)
Dividends per common share	\$.05	\$.05	\$.05	\$.05	\$.20

Note: Year 1985 results reflect \$26 million of unusual charges relating to severance costs and production shutdowns as follows: first quarter - \$7 million, second quarter - \$3 million, third quarter - \$11 million and fourth quarter - \$5 million. Year 1985 results also reflect gains of \$12 million in the first quarter from the retirement of long-term debt and sale of venture capital securities.

Year 1984 results reflect \$61 million of unusual charges relating to severance costs, production shutdowns and property write-offs due to rationalization of certain operations, as follows: first quarter - \$23 million, second quarter - \$11 million, third quarter - \$20 million and fourth quarter - \$7 million. Year 1984 results also reflect gains of \$11 million in the third quarter from the sale of a royalty interest in a gold property and \$10 million in the fourth quarter from the retirement of long-term debt and the sale of oil and gas properties.

The following supplementary information is supplied in accordance with the requirements of the Canadian Institute of Chartered Accountants (CICA). The purpose is to measure the effects of inflation on the Company's operations and to provide financial information adjusted for inflation based on the effects of changes in the specific prices (current cost) of resources used by an enterprise. Certain additional supplementary information which would be supplied in strict compliance with the requirements of the U.S. Financial Accounting Standards Board has not been disclosed since, in the Company's view, it would not materially enhance the disclosures which follow.

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

The current cost of property, plant and equipment has been determined principally by the application of specific indices to the historical cost/nominal dollar value of the assets. The current cost of inventories and cost of sales and operating expenses is based on recent production or manufacturing costs appropriately adjusted. Current cost values for depreciation and depletion are used in these calculations. The current cost information has been estimated initially in local currency and translated into U.S. dollars using year-end exchange rates for property, plant and equipment and inventories and average exchange rates for cost of sales and operating expenses and depreciation and depletion. Depreciation and depletion have been calculated by applying the methods used in historical cost/nominal dollar accounting to the values of property, plant and equipment expressed at current cost. Net assets at year end on a current cost basis is a restatement of common shareholders' equity at year end, as reported in the primary financial statements, adjusted to reflect the excess of the current cost values for inventories and property, plant and equipment over the respective historical cost/nominal dollar amounts. Prior year comparative amounts have been restated, where indicated, into average 1985 dollars or, for balance sheet items, December 1985 dollars, by applying the U.S. Consumer Price Index for All Urban Consumers (CPI-U). Mining and income taxes are included at their reported historical cost/nominal dollar amounts, as required.

debt.) The use of net monetary liabilities to finance these assets reduces the amount of the increase in their current cost which must be charged against revenues in determining income attributable to common shareholders. The financing adjustment is calculated by first determining the ratio of the average amount of net monetary liabilities for the period to the total of the average current cost of shareholders' equity and such average net monetary liabilities. That ratio is then applied either to the amount of changes during the period in the current cost of inventories and property, plant and equipment or to the current cost adjustments made in determining income on a current cost basis to provide alternative financing adjustments. The financing adjustment (either alternative) is credited to income or loss on a current cost basis to determine the income or loss attributable to common shareholders. Such determination must also take into account dividends on preferred shares which totalled \$24 million in 1985.

Year ended December 31 (in millions)

Financing adjustments based on:		
Changes in current cost of inventories and property, plant and equipment	\$ 44	\$ (52)
Current cost adjustments to income	\$ 41	\$ 25
Gain from decline in purchasing power of net amounts owed	\$ 53	\$ 61
Increase (decrease) in specific prices (current cost) of inventories and property, plant and equipment held during the year**	\$ 121	\$ (140)
Effect of change in general price level	154	175
Excess of change in general price level over specific prices	\$ 33	\$ 315

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In keeping with the concept that inflation affects the value of monetary assets and liabilities, the CICA also requires a direct calculation of the gain or loss applicable to net monetary assets or liabilities. The gain from decline in the purchasing power of net amounts owed is determined by calculating the net monetary assets or liabilities at the beginning and end of the year, stating these amounts in average 1985 dollars for that period, and deriving the change therefrom. At each year end, 1985 and 1984, the Company's monetary liabilities remained in excess of its monetary assets, resulting in purchasing power gains in net amounts owed. Under the CICA's financial concept of capital (the capacity to maintain the general purchasing power of shareholders' equity), current cost income or loss must be adjusted by this gain, as well as by the excess of the change in the general price level over the change in specific prices and preferred dividends.

Comments on Inflation-Adjusted Data

With respect to pretax operating results, the inflation-adjusted amounts are influenced by the same factors that affected the historical cost/nominal dollar results. Although 1985 earnings in terms of historical cost/nominal dollars are restated into a loss at current cost, the results remain favorable whether compared to 1984's historical cost/nominal dollar loss or the same loss restated at current cost. This improvement primarily reflects continuing productivity improvements and cost reduction efforts implemented over the past few years. In fact, on a current cost basis, cost of sales and operating expenses for these years, excluding depreciation and depletion, were lower than the comparative historical cost/nominal dollar amounts. The losses in terms of current cost for both years are further accentuated by the requirement that income and mining taxes be reported in the historical cost/nominal dollar amounts used in the primary financial statements.

Supplementary Operating Statistics

The accompanying summary of operating statistics is provided to assist users of mining company financial statements in assessing a company's ability to maintain operating capability.

Of the Company's 482 million short tons of proven and probable ore reserves in Canada at December 31, 1985, a total of 352 million tons were in mines which were producing in 1985 and 130 million tons were in mines under development and in non-producing mines. Only material that is economically viable and has been sampled in sufficient detail to permit a reliable calculation is included in reserves. Ore grades are shown for both nickel and copper. The Canadian ore reserves also contain significant quantities of platinum-group metals, gold, silver and cobalt.

At the end of 1985, at the Company's Indonesian nickel operations, detailed sampling of the large nickeliferous laterite resources had been extended to increase the proven and probable ore reserves to 79 million short tons containing 1.5 million tons of nickel from 76 million tons containing 1.4 million tons of nickel at the end of 1984.

Supplementary Operating Statistics

Year ended December 31	1985	1984
Canadian Operations:	(tons in millions)	
Proven and probable ore reserves at year end	482	479
Nickel content	6.9	7.0
Copper content	4.2	4.3
Ore mined	13.7	14.6
Average grade of ore mined - Nickel	1.49%	1.42%
- Copper	1.12%	1.03%
Indonesian Operations:	(tons in millions)	
Proven and probable ore reserves at year end	79	76
Nickel content	1.5	1.4
Ore mined	1.6	1.5
Average grade of nickel in ore mined	1.89%	2.09%
Combined Canadian and Indonesian Operations:	(pounds in millions)	
Production - Nickel	334	359
- Copper	264	259
Average prices realized	(per pound)	
Nickel - Historical/nominal dollars	\$2.31	\$2.28
- Average 1985 dollars	\$2.31	\$2.36
Copper - Historical/nominal dollars	\$0.64	\$0.63
- Average 1985 dollars	\$0.64	\$0.65

Shareholders

At year-end 1985, of the shareholders having general voting rights (the Common and the Series B and Series C Preferred shareholders), 67 per cent had addresses in Canada, 30 per cent in the United States and 3 per cent elsewhere. Of these voting shares, Canadian residents of record held 35 per cent, United States residents of record 57 per cent, and residents of record in other countries 8 per cent.

Warrants

During 1985, warrants were exercised to purchase 3,412,082 Common Shares at \$16.00 (Cdn.) per share, or the equivalent in U.S. dollars. Unexercised warrants expired on August 20, 1985.

Dividends

On February 3, 1986, the Board of Directors declared a regular quarterly dividend of 5 cents a common share, payable March 14 to shareholders of record on February 13. The Company paid total dividends per common share of 20 cents both in 1985 and in 1984. The Board of Directors on February 3 also declared a quarterly dividend at an annual rate of 6.31 per cent on the Company's floating rate Series A Preferred Shares, payable March 3 to shareholders of record on February 19 and declared quarterly dividends on the Company's 7.85% Series B Preferred Shares, payable March 3 to shareholders of record on February 13, and 10% Series C Preferred Shares, payable May 1 to shareholders of record on April 1.

Optional Stock Dividend Program

Under the Company's Optional Stock Dividend Program, common shareholders have the right to elect to receive a stock dividend, valued at a 5 per cent discount from the market price of the Company's Common Shares, in lieu of a cash dividend. Holders of about 20 per cent of the Company's outstanding Common Shares are now participating in the Program. The Program provides common shareholders with a simple and convenient method of obtaining additional Common Shares at a 5 per cent discount and without payment of brokerage commissions or service charges.

Share Purchase Plan

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

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

Other Information

Canadian federal legislation generally requires a 15 per cent withholding from cash dividends paid to common shareholders resident in the United States, the United Kingdom and most western European countries. Similarly, depending upon applicable tax treaties, cash dividends paid to other non-residents of Canada are subject to a withholding tax at a maximum rate of 25 per cent. 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. Proposals in 1985, which recently have been enacted into law, will result in the treatment of all stock dividends declared after May 23, 1985 as ordinary taxable dividends. Accordingly, stock dividends paid to non-residents will be subject to withholding tax at the same rate as cash dividends. Under present legislation in the United States, the Company is not subject to the backup withholding rules, which would require withholding at a rate of 20 per cent on dividends and interest paid to certain United States persons who have not provided the Company with a taxpayer identification number.

The Company has three classes or series of securities which have general voting rights, its Common Shares, its 7.85% Series B Preferred Shares and its 10% Series C Preferred Shares. At shareholders' meetings, each holder of these securities is entitled to one vote for each share held and there are no cumulative voting provisions. In addition, the institutional holders of the Company's Series A Preferred Shares have certain limited rights to elect two directors if dividends thereon are in arrears. At December 31, 1985, the number of Series A Preferred shareholders totalled 21, all Canadian residents; the number of Series B Preferred shareholders totalled 1,355, principally Canadian residents and the number of Series C Preferred shareholders totalled 1,420, principally Canadian residents.

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

its Common Shares or the right of non-residents of Canada to hold or vote any of the Common Shares of the Company.

There are certain restraints on the holding of Inco's voting equity securities. The Company's Series B Preferred Shares and Series C Preferred Shares were issued and sold in underwritten public offerings in Canada only and no market for such shares exists outside Canada. The Investment Canada Act (the "Act") came into force on June 30, 1985 and replaces the Foreign Investment Review Act of Canada. 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.

Through subsidiaries and affiliates, the Company's operations are conducted in numerous countries; some \$1,100 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.

Market Price Range for Common and Preferred Shares

Year ended December 31	1985	1984
- Common Shares -		
New York Stock Exchange (Composite transactions)		
First quarter	\$14 ³ / ₈ -11 ³ / ₄	\$15 ¹ / ₄ -12 ¹ / ₄
Second quarter	14 ⁵ / ₈ -12 ¹ / ₂	14 ⁵ / ₈ -9 ¹ / ₂
Third quarter	15 ³ / ₈ -12 ³ / ₈	12 ¹ / ₂ -8 ⁵ / ₈
Fourth quarter	13 ³ / ₈ -10 ³ / ₈	12 ⁵ / ₈ -9 ³ / ₄
Toronto Stock Exchange (Canadian dollars)		
First quarter	\$19 ¹ / ₈ -15 ³ / ₈	\$19 -15 ¹ / ₄
Second quarter	19 ⁷ / ₈ -17 ¹ / ₈	18 ¹ / ₂ -12 ³ / ₈
Third quarter	20 ³ / ₄ -17	16 ¹ / ₈ -11 ³ / ₈
Fourth quarter	18 ⁵ / ₈ -14 ³ / ₈	16 ³ / ₈ -13
- Series B Preferred Shares -		
First quarter	\$20 ¹ / ₂ -18 ³ / ₄	\$19 ¹ / ₂ -18 ¹ / ₄
Second quarter	22 -19 ³ / ₈	19 -17 ¹ / ₂
Third quarter	20 ³ / ₄ -20	18 ⁷ / ₈ -16 ³ / ₄
Fourth quarter	20 ⁷ / ₈ -20	19 -18
- Series C Preferred Shares - (issued in August 1984)		
First quarter	\$29 ¹ / ₂ -26 ⁵ / ₈	-
Second quarter	30 ¹ / ₈ -28	-
Third quarter	29 ⁷ / ₈ -26 ⁵ / ₈	25 ⁷ / ₈ -25 ¹ / ₄
Fourth quarter	27 ³ / ₄ -26 ¹ / ₂	27 ⁷ / ₈ -25 ¹ / ₄

(Term expires 1986)

Harold Bridges

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

Purdy Crawford, Q.C.

President and Chief Operating Officer
Imasco Limited (consumer products
and services corporation)
Montreal, Quebec

Walter F. Light

Retired Chairman
Northern Telecom Limited
(manufacturer of telecommunications
equipment)
Mississauga, Ontario

Robert P. Luciano

Chairman and Chief Executive
Officer
Schering-Plough Corporation (ethical
and proprietary drugs, other health
care products, cosmetics and
toiletries)
Madison, New Jersey

Ian McDougall

Executive Vice-President
New York, New York

The Rt. Hon. Lord Nelson of Stafford

Former Chairman of the Board
The General Electric Company, p.l.c.
London, England

George T. Richardson

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

Lucien G. Rolland, O.C.

Chairman and Chief Executive Officer
Rolland inc. (manufacturer and
distributor of fine papers)
Montreal, Quebec

Richard M. Thomson

Chairman and Chief Executive Officer
The Toronto-Dominion Bank
Toronto, Ontario

(Term expires 1987)

Charles F. Baird

Chairman and Chief Executive Officer
Toronto, Ontario

Reva Gerstein, O.C.

Psychologist and educator
Toronto, Ontario

J. Peter Gordon, O.C.

Former Chairman, Stelco Inc.
(producer of iron, primary steel and
finished steel products)
Toronto, Ontario

Alexander D. Hamilton

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

Edward R. Kane

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

Stephen F. Keating

Former Chairman, and
Chief Executive Officer
Honeywell Inc. (manufacturer of
computers and control systems)
Minneapolis, Minnesota

Donald J. Phillips

President and Chief Operating Officer
Toronto, Ontario

Donald G. Willmot

Honorary Chairman of the Board
The Molson Companies Limited
(brewing, retailing and distribution)
Toronto, Ontario

Board of Directors

The Board of Directors presently consists of 17 members of whom three are officers of the Company. In 1985, the Board held 11 meetings. The activities of the Board are supported by its various committees.

Executive Committee

The Executive Committee, which held five meetings during 1985, consists of Mr. Baird, Chairman, and Messrs. Bridges, Gordon, Phillips, Richardson, Rolland and Willmot. During intervals between meetings of the Board, the Executive Committee, with certain exceptions, has all the powers vested in the Board.

Audit Committee

The Audit Committee, which held three meetings during 1985, consists of Mr. Light, Chairman, and Dr. Gerstein, Messrs. Crawford, Kane and Keating. This committee meets with the Company's financial management personnel, its internal auditors and its independent auditors at least three times a year to review and appraise the Company's financial reporting practices and procedures, the adequacy of the system of internal accounting control, the planned scope of examinations by both auditing groups and their findings and recommendations. It also reviews the Company's financial statements and monitors various other internal control policies.

Nominating Committee

The Nominating Committee, which held two meetings during 1985, consists of the same Directors who comprise the Executive Committee and has the function of recommending to the Board nominees for election as Directors.

Management Resources and Compensation Committee

This committee, which held four meetings during 1985, consists of Mr. Willmot, Chairman, and Messrs. Bridges, Gordon, Richardson and Rolland. This committee advises and consults with the Chairman of the Board and makes recommendations to the Board on the remuneration of senior executives of the Company and on the Company's various incentive plans. The committee also reviews the management development programs and the succession plans relating to senior management.

Pension Committee

The Pension Committee, which held five meetings during 1985, consists of Mr. Hamilton, Chairman, and Dr. Gerstein, Mr. Luciano, Lord Nelson and Mr. Thomson. This committee advises the Board regarding the financial aspects of the pension programs of the Company and its subsidiaries, including actuarial assumptions, the adequacy of funding and the implementation of sound investment of pension funds.

Directors

Purdy Crawford, Q.C., President and Chief Operating Officer of Imasco Limited, Montreal, was elected to Inco's Board of Directors on December 2, 1985. With his election, the Board was expanded to 17 members from 16.

John H. Page retired March 1985 as President of Inco Alloy Products Company and as President of Inco United States, Inc. He served Inco in various positions for 20 years.

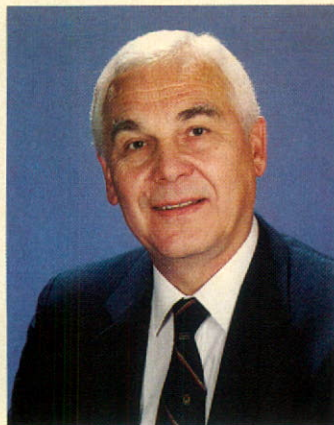
With Mr. Page's retirement, two senior officers in Inco's alloys businesses now report to President and Chief Operating

Officer Donald J. Phillips. They are William F. Bissett, President of Inco Alloys International, and I. David Balchin, Group Managing Director, Inco Engineered Products Limited.

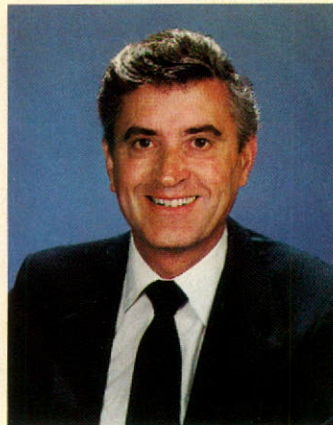
Samuel Goldberg was appointed President of Inco United States, succeeding Mr. Page in that capacity.



W.R.O. Aitken
Executive Vice-President
(corporate public affairs,
planning, human resources,
industrial relations and
environmental affairs)



Walter Curlook
Executive Vice-President
(primary metals production,
exploration and technology)



Ian McDougall
Executive Vice-President
(chief financial officer)

Charles F. Baird
Chairman and Chief Executive Officer

Donald J. Phillips
President and Chief Operating Officer

Executive Vice-Presidents

W.R.O. Aitken

Walter Curlook

Ian McDougall

Charles E. O'Neill, Senior
Vice-President, Technology

William F. Bissett, President
Inco Alloys International

I. David Balchin, Group Managing
Director
Inco Engineered Products Limited

Vice-Presidents

Scott M. Hand, General Counsel
& Secretary

John J. Moran, Planning

Terrence Podolsky, Exploration
and Mineral Resource Development

Peter B. Salathiel, Nickel Marketing

Donald G. Walker, Human Resources

J. Stuart Warner, Occupational Health

Anthony J. Sabatino, Comptroller

Ian G. Austin, Treasurer

Principal Regional Officers

Kevin H. Belcher, President
Inco Australasia Limited

Samuel Goldberg, President
Inco United States, Inc.

Dean D. Ramstad, Vice-President
Inco Limited
General Manager, Inco Limited
Japan Branch

Operations

Edward R. Burrell, President
International Nickel Inc.

William P. Clement, President
Manitoba Division

Brian K. Davison, Production Director
Inco Europe Limited

James D. Guiry, President and
Managing Director
P.T. Inco Indonesia

Ivor Kirman, Marketing Director
Inco Europe Limited

Michael D. Sopko, President
Ontario Division

Principal Executive Offices

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

Other Executive Offices

One New York Plaza
New York, New York 10004
U.S.A.
(212) 612-5500

Primary Metals

Principal Operating Units

Ontario Division
Copper Cliff, Ontario
Port Colborne, Ontario

Manitoba Division
Thompson, Manitoba

P.T. International Nickel
Indonesia
Soroako, Indonesia

Clydach Refinery
Clydach, Swansea, Wales

Acton Refinery
London, England

International Nickel
Océanie S.A.
Noumea, New Caledonia

Principal Sales Offices

Inco Limited
Toronto, Ontario
(416) 361-7511

International Nickel Inc.
Saddle Brook, New Jersey
U.S.A.
(201) 843-8600
Troy, Michigan, U.S.A.
(313) 643-7510
Pittsburgh, Pennsylvania
U.S.A.
(412) 281-9546

Inco Europe Limited
London, England
(44) 1-834-3888
International Nickel France,
S.A., Paris, France
(33) 14 563 03 66
International Nickel G.m.b.H.
Düsseldorf, West Germany
(49) 211-32 91 77
International Nickel
Services (U.K.) Limited
New Delhi, India
660060

Inco Limited, Japan Branch
Tokyo, Japan
(81) 245-0621

Inco Australasia Limited
Melbourne, Australia
(61) 3267 3666
Hong Kong
(852) 5-212-333

Taipei, Taiwan,
Republic of China
(886) 2 503-0022

Alloy and Engineered Products

Inco Alloys International

Principal Operating Units

Inco Alloys International, Inc.
Huntington, West Virginia
U.S.A.

Wiggin Alloys Limited
Hereford, England

Additional Operating Units

Burnaugh, Kentucky, U.S.A.
Newton, North Carolina, U.S.A.

Sales Offices

United States

Atlanta, Georgia
(404) 255-8996
Chicago, Illinois
(312) 825-0161
Cincinnati, Ohio
(513) 771-1970
Cleveland, Ohio
(216) 464-8705
Detroit, Michigan
(313) 643-7788
Hartford, Connecticut
(203) 242-0514
Houston, Texas
(713) 440-6600
Huntington, West Virginia
(304) 526-5100
Natick, Massachusetts
(617) 655-1220
Newton, North Carolina
(704) 465-0352
St. Louis, Missouri
(314) 569-0515
Union, New Jersey
(201) 687-0050
Upland, California
(714) 946-0803
Wheeling, West Virginia
(304) 233-6620

Canada

Toronto, Ontario
(416) 361-7808

England

Hereford, England
(44) 432-272777

Northern England
(44) 61 236 5438

West Midlands
(44) 21 556 4774

Europe

Versailles, France
(33) 1 950 57 62

Düsseldorf, West Germany
(49) 211 3790 78 79

Milan, Italy
(39) 2 65 950 82

Pacific

Melbourne, Australia
(61) 3267 3666

Hong Kong
(852) 5 212-333

Taipei, Taiwan,
Republic of China
(886) 2 503-0022

Japan

Daido Inco Alloys Ltd.
50% owned

Tokyo
(03) 504-0921

Osaka
(81) 6-202-4951

Inco Engineered Products Limited

Birmingham, England
(44) 21454-4871

Beaufort Engineering Limited
Kirkby-in-Ashfield, England
(44) 623 754355

Doncasters Blaenavon Limited
Blaenavon, South Wales
(44) 495 790345

Doncasters Monk Bridge Limited
Leeds, England
(44) 532 446262

Doncasters Moorside Limited
Oldham, England
(44) 61 624-8005

Doncasters Sheffield Limited
Sheffield, England
(44) 742 349444

Whittingham & Porter Limited
Hull, England
(44) 482 23089

Turbo Products International, Inc.
Ivoryton, Connecticut, U.S.A.
(203) 767-0161

SETTAS S.A.
Jumet, Belgium
(32) 71 344488

Other Subsidiaries and Units

Canadian Nickel Company
Limited
Sudbury, Ontario

Continuous Mining Systems
Limited
Sudbury, Ontario
(705) 682-0623

INCO TECH*
Sheridan Park, Mississauga
(416) 822-3323

American Copper & Nickel
Company, Inc.
Golden, Colorado, U.S.A.

Inco United States, Inc.
New York, New York, U.S.A.

Inco Venture Capital
Management
New York, New York, U.S.A.

The International Metals
Reclamation Company, Inc.
Ellwood City, Pennsylvania
U.S.A.
(412) 758-5515

LaQue Center for Corrosion
Technology, Inc.
Wrightsville Beach
North Carolina, U.S.A.
(919) 256-2271

Pittsburgh Pacific Processing Co.
Pittsburgh, Pennsylvania
U.S.A.
(412) 771-2654

Mineração Serras do Sul
Limitada
Rio de Janeiro, Brazil
Exmibal
Guatemala, Central America

*Trademark of the Inco
family of companies.

Milestones

Counsel

Osler, Hoskin & Harcourt
Toronto

Sullivan & Cromwell
New York

Auditors

Price Waterhouse
Toronto and New York

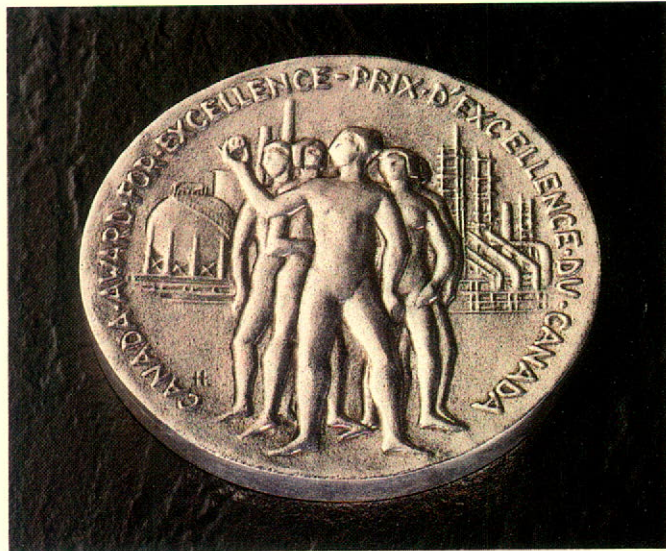
Transfer Agents and Registrars

The Royal Trust Company
Toronto, Calgary, Montreal
and London, England

Morgan Guaranty Trust
Company of New York
New York

Two important anniversaries will occur in 1986: the 100th year of mining in the Sudbury District and the 25th year of nickel production at Inco's Thompson, Manitoba facility.

Wiggin Alloys Limited marked its 150th anniversary in 1985. Now forming the European element of Inco Alloys International, Wiggin traces its history back to the earliest days of nickel technology.



Highlighting the Company's success in improving productivity and reducing costs, the Ontario Division won the Silver Medallion in the 1985 Canadian Awards for Excellence Competition, sponsored by the Federal Government.

Inco