

INCO. 100 YEARS STRONG.



DEC 1 5 2002

McGILL UNIVERSITY

STRATEGIC OVERVIEW We continue to make progress toward our goal of being the world's most profitable nickel producer through our three-part strategy:

- · To be a low-cost producer at all of our operations.
- · To pursue profitable growth.
- · To enhance our strong global marketing position, including value-added products.

INCO TECHNOLOGY CENTRE

Mississauga, Ontario, Canada 100 per cent owned Research: Engineering, process research and metallurgical and nickel product research. Carries out 90 per cent of the research for Inco's worldwide operations.

MINES TECHNOLOGY Sudbury, Ontario, Canada 100 per cent owned

Research: Develops and transfers technology and process innovations to improve safety, productivity and costs. Research areas include mining and process improvements, automation and tele-operation and decision support systems.



THE INTERNATIONAL METALS RECLAMATION COMPANY, INC. Ellwood City, Pennsylvania, U.S.A. 100 per cent owned Products Recycles nickel, chromium and cadmium.





INCO TNC LIMITED Matsuzaka, Japan 67 per cent owned Products... Tonimet™, Nickel Oxide Sinter 75 for stainless steel.

JINCO NONFERROUS METALS CO., LTD. Kunshan, People's Republic of China 65 per cent owned Nickel chloride and nickel sulphate for plating applications and consumer products.

TAIWAN NICKEL REFINING CORPORATION Kaohsiung, Taiwan 49.9 per cent owned Product Nickel for stainless steel.

KOREA NICKEL CORPORATION Onsan, South Korea 25 per cent owned Products Nickel for stainless steel.

™Inco trademark

INCO EUROPE LIMITED London, England

Marketing Region: Europe, Middle East, Africa, India and Pakistan

INTERNATIONAL NICKEL GMBH Düsseldorf, Germany

Marketing Region, Germany and Austria

INTERNATIONAL NICKEL INC. Saddle Brook, New Jersey, U.S.A. acketing Region: United States, Canada, Mexico, South America and Central America

INCO PACIFIC SALES LIMITED Hong Kong

Asia (except China, Japan, India and Pakistan), Australia and New Zealand

Kaohsiung, Taiwan Marketing Region: Taiwan

Bangkok, Thailand

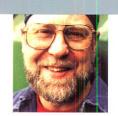
Marketing Region: Southeast Asia, Australia and New Zealand

INCO ASIA LIMITED Bridgetown, Barbados Marketing Region Korea and Taiwan

INCO CHINA

Shanghai, People's Republic of China Marketing Region China

INCO TNC LIMITED Tokyo, Japan Marketing Region Japan



CORPORATE PROFILE Inco Limited is one of the world's premier mining and metals companies and the world's second largest producer of nickel. Today we're poised for the biggest growth period in our history, supported by a global marketing strategy and the most enviable portfolio of orebodies in the nickel industry. We are also an important producer of copper, cobalt and precious metals and a major producer of value-added specialty nickel products.

We are a Canadian-based company with global operations and a marketing network that extends to over 40 countries. In 2001, Inco employed 10,258 people and sales revenue totalled \$2 billion. We are celebrating our centennial in 2002.

For more information about Inco worldwide, see the interactive map at our inco.com web site.

All figures in U.S. dollars unless stated otherwise.

PT INTERNATIONAL NICKEL INDONESIA TBK (PT INCO) Sorowako, Indonesia 59 per cent owned Products/Minerals: Nickel in matte to Inco TNC Limited and to Sumitomo Metal Mining Co., Ltd.



INCO SPECIAL PRODUCTS Toronto, Ontario, Canada 100 per cent owned

Products: Nickel powders, foams, oxides, flakes, coated particles and fibres for consumer electronics, rechargeable batteries, fuel cells, powder metallurgy, automotive parts, EMI shielding for computers and cellular telephones, special catalysts and salts and metal injection moldings.

NOVAMET SPECIALTY PRODUCTS CORPORATION

Wyckoff, New Jersey, U.S.A.

100 per cent owned

Products: A wide range of special nickel powders, flakes and nickel oxides for a variety of applications.



CANADIAN AND UNITED KINGDOM OPERATIONS

INCO SPECIAL PRODUCTS



SUDBURY OPERATIONS Sudbury, Ontario, Canada 100 per cent owned

Products/Minerals: Nickel and specialty nickel products, copper, cobalt, platinum-group metals, gold, silver, sulphuric acid and liquid sulphur dioxide. Primary nickel applications include stainless steel, high-nickel alloys, melting and plating.

THOMPSON OPERATIONS Thompson, Manitoba, Canada

100 per cent owned Products/Minerals: Electrolytic nickel products for plating and melting applications, copper and cobalt.

PORT COLBORNE REFINERY Port Colborne, Ontario, Canada

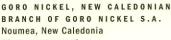
100 per cent owned Products: Finished nickel, electrocobalt, and precious metals upgrading.

ACTON REFINERY

London, England 100 per cent owned Products: Full range of platinum-group metals from Canadian feed and from toll-refined and purchased materials.

CLYDACH REFINERY Swansea, Wales

100 per cent owned Products: Finished nickel and specialty nickel products from Canadian feed.



85 per cent owned

Products/Minerals: Nickel-cobalt laterite ore. Construction of a commercial scale operation to begin in 2002. Production is expected to come on stream in late 2004.

VOISEY'S BAY NICKEL COMPANY LIMITED St. John's. Newfoundland and

Labrador, Canada 100 per cent owned

Products/Minerals: Nickel-copper-cobalt sulphide ore. A decision on commercial production is subject to reaching an agreement with the province and the Innu Nation and Labrador Inuit Association.



INCO: AT A GLANCE

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REMARKABLE PAST. PROMISING FUTURE.

Few modern companies can draw a straight line from their birth to their 100th anniversary. Inco is proud to be one of the few.

Our story is one of good fortune well managed, a fortune launched in two distant parts of the world. First, in the 1880s, when the Canadian Pacific Railway was being extended through Northern Ontario's Sudbury Basin, a blacksmith recognized an outcropping of copper sulphide – the visible tip of one of the world's great nickel deposits. The second was Inco's acquisition of the Clydach Refinery in Wales where Ludwig Mond developed our proprietary carbonyl process, from which so much value continues to be added to Inco products.

Good management includes the willingness to innovate, to develop new products and to support new technologies in the hope of achieving competitive advantage. Inco has been a technology leader throughout its history. We perfected many smelting and refining processes throughout the past century, and continue today with hydrometallurgical processes being developed for Goro in the French Overseas Territory of New Caledonia and Voisey's Bay in Newfoundland and Labrador, Canada.

As our century has progressed, Inco has focused increasing attention on our environmental footprint, discovering and developing innovative techniques to limit our impact on air and water quality and to revegetate the areas we have mined. Our commitment to continuous improvement is unequivocal.

Throughout our history, Inco has attracted talented people. Our innovations are the result of creative thinkers given the tools and support they need. Our position as one of the world's premier producers of nickel is the result of prudent management and the courage to take risks that add value.

With its global reach extending from North America to Asia, Inco is truly a valuable company today, and it has the prospect of increasing that value tremendously in the years to come. Durable, resourceful, well-financed and well-managed, Inco is a company that can legitimately claim to have a remarkable past and a promising future.

MICHAEL D. SOPKO Telesof D. Loplo CHAIRMAN

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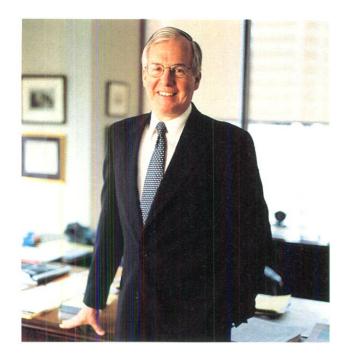
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MICHAEL DI SOPKO Meles A. Lople CHAIRMAN

100 YEARS STRONG

LETTER TO SHAREHOLDERS

This year we commemorate 100 years of operation, an auspicious milestone for Inco. In 1902, our Company was launched in Sudbury, Ontario, the site of one of the world's richest sulphide nickel deposits. It's rare these days that any company is able to celebrate a centennial, and rarer still to find one that has remained in the same business for an entire century, as Inco has.



SCOTT M. HAND
DEPUTY CHAIRMAN
AND CHIEF EXECUTIVE OFFICER

Inco is a leader in nickel. Our enviable portfolio of orebodies, formidable marketing position, profitable low-cost operations and continuing environmental health and safety efforts are our core strengths. But we are much more than that. Inco stands out in the global mining industry as a company with an exceptional combination of assets and opportunities. Our development properties in Goro, New Caledonia and Voisey's Bay, Newfoundland and Labrador provide us with the leading growth opportunities not only in the nickel industry but also across the whole spectrum of mining companies.

These strengths, combined with a favourable outlook for the nickel business over the medium term, bode well for the start of our next century. The supply of many metals is adequate over the next five years. The predicted supply of nickel is not. The nickel market is expected to grow, and Inco is ideally positioned to take full advantage of that growth. Furthermore, we consistently enjoy a premium over London Metal Exchange (LME) commodity prices for our nickel because of our strong sales in plating and nickel alloy applications and for specialty nickel products. We are focusing our efforts on

revenue and margin enhancement as well as cost reduction, achieving more predictable and profitable growth while increasing the value of our Company for our shareholders.

This past year has been a challenging one. The tragic events of September 11 tested all of us, particularly our friends and associates in the United States, in ways we've never experienced before. Yet, in spite of these challenges, the tensions on the international scene and a much weaker economy, we made substantial progress on our plans for profitable growth.

Effectively Weathering the Downturn in the Economy

Our greatest challenge was the dramatic downturn in the world economy and the resulting decline in the price of nickel. The economic contraction began well before September 11 but the uncertainties were exacerbated by the events that occurred that day.

The LME cash nickel price declined 37 per cent from \$6,995 per tonne to a low of \$4,420 per tonne in late October. By year end, it had improved to \$5,680 per tonne. Inco's average realized nickel

price per tonne for the year was down by 28 per cent. This decline resulted in net earnings of \$305 million, or \$1.52 per share. Our 2001 results were down from net earnings of \$400 million, or \$2.06 per share, in 2000. Taking out two non-cash items – deferred tax benefits of \$173 million in 2001 and \$38 million in 2000 related to future provincial tax rate reductions, and favourable currency translation adjustments recorded in both of these years – our net earnings for 2001 were \$93 million, or 35 cents per share, compared with net earnings of \$347 million, or \$1.77 per share, for 2000.

While we have no control over the price of nickel, we can significantly influence other parts of our business to mitigate the impact of adverse price movements. The way to extract greater value in soft nickel markets is to control costs, maintain reliable production and improve margins. In 2001, Inco continued to deliver that value by remaining at the low end of the nickel industry cost curve and the high end of realized prices with the best margins among nickel producers.

Our balance sheet is the strongest it has been since the 1970s. Mindful of the financial commitments we intend to make in major growth projects over the next few years, we paid down our debt by \$190 million in 2001. At year end, our debt to capitalization, net of cash, fell significantly to 9 per cent from 15 per cent a year earlier, down considerably since the early 1990s. Our cash increased to \$306 million at the end of 2001, up from \$193 million a year ago.

Economic downturns are a reality of our business and their effects must be managed. Inco was well prepared to weather this latest one, not only because of the health of our balance sheet, and the fact that we prudently curtailed our capital spending last year on non-growth projects, but because we were able to maintain positive cash flow throughout the year to provide the necessary working capital to finance our operations.

The Resources to Meet Demand

We are at the start of the greatest growth phase in our Company's history. We have two world-class properties – Goro and Voisey's Bay – which together have the potential to increase Inco's overall production by approximately 40 per cent. These are truly exceptional nickel deposits that offer outstanding profitable growth.

PT Inco, our operation in Sorowako on the Indonesian Island of Sulawesi, has been mining for over 20 years an extensive nickel deposit that has very significant mineral reserves and resources. And while Indonesia has been politically volatile since the fall of President Suharto in 1998, thanks to the efforts of our PT Inco management team, the



PETER C. JONES PRESIDENT AND CHIEF OPERATING OFFICER

From my perspective, our greatest accomplishments this year were the safety and business results our people achieved because they were more thoroughly engaged in their work. In 2001, our employees took a lot of cost out of this Company and found ways to take even more out in the years to come. Cost reduction for Inco is a relentless pursuit. We spend money when it adds value, but we reduce costs no matter what. Our culture is becoming results-based and the results are coming from motivated employees.



GEORGE C. HALATSIS
EXECUTIVE VICE-PRESIDENT
AND CHIEF FINANCIAL OFFICER

I am frequently asked about our ability to develop Goro and Voisey's Bay simultaneously. If the opportunity presents itself, and we conclude that the marketplace will comfortably absorb the additional production, we are in a position to make it happen. We have the balance sheet and the plan to finance both projects but we also have the discipline that we will not bet the Company to achieve this.

effect on PT Inco has to date been minimal. At every stage in our over 30-year involvement, we have conducted ourselves with integrity. We have earned the respect of local communities and leaders in Sorowako. We have cultivated professional relations with succeeding administrations in Jakarta and the regions of Sulawesi.

We have been mining in Canada for a century. Our orebodies continue to contribute to our profitability – in large part due to our exploration program, one of the most successful of its kind in Canada. In the Sudbury Basin, we continue to discover new nickel deposits and major extensions near existing mines that can be mined profitably and should sustain the region well into our next century.

Delivering on Our Growth Strategy

Goro represents a huge orebody that will feature prominently in Inco's future and the long-term prosperity of the French Overseas Territory of New Caledonia. After satisfying ourselves during 1999 and 2000 that our pressure-acid leach hydrometal-lurgical process will be commercially successful at Goro, we spent \$84 million during 2001 testing ores in our pilot plant, completing a new feasibility study, proceeding with advanced engineering and making commitments to purchase major process equipment.

The total projected investment in a fully integrated mining and processing operation in Goro will be approximately \$1.4 billion, which makes proper execution and cost control during construction and commissioning our top priority. During 2001, we established a first-class international engineering, construction and project management group, renowned for delivering major mining projects on time and on budget. Financial incentives have been built into our arrangements with this consortium to further align the interests of everyone involved.

We are frequently asked, in light of the current economic downturn, whether Inco's development plans for Goro should be scaled back. To answer that question, one has to look ahead to economic circumstances in late 2004 when the first production from Goro is expected to come on stream. We are not aware of any other major nickel project on the scale of Goro being undertaken within the next few years. If you assume the long-run average growth rate for nickel demand continues at the historical level of four per cent per year, by 2004 the world will need considerably more nickel than the output of Goro to meet demand. Even if nickel demand grows at only three per cent, that demand is still expected to absorb the entire nickel production from the initial phase of our project.



PETER J. GOUDIE
EXECUTIVE VICE-PRESIDENT. MARKETING

When nickel markets are more promising in one part of the world than another, our global marketing organization is a tremendous asset. It gives us the flexibility to move nickel into markets where demand remains strong. Add to that our strong sales in plating and nickel alloy applications and specialty nickel products and the extra margins they command, and we are a company able to weather economic cycles better than most of our competitors.



MARK J. DANIEL
VICE-PRESIDENT, HUMAN RESOURCES

You have to cultivate excellence at all levels of the Company, in a variety of ways. One way is to clarify the pathways to more senior roles for outstanding employees. In our Trailblazer program, we work with a group of 15 people over 18 months, giving them assignments that stretch their talents. There's education, mentoring and lots of feedback. In a sense, we want them to build a "model of Inco" – what this company will need to look like to be successful as their careers develop.

While Goro is our number one priority, we remain hopeful that we will be able to reach a development agreement with the Government of Newfoundland and Labrador for the deposits at Voisey's Bay. Earlier negotiations with the government deadlocked over issues relating to processing in the province. In June 2001, talks resumed with the aim of reaching an agreement that meets the needs of the Company, the province and the aboriginal people of the north coast of Labrador. The negotiations have been cordial and constructive and have narrowed the gap for development of a project that is technically and economically feasible. Next to Goro, Voisey's Bay is the best undeveloped orebody in the world, with high grades and an open pit for the initial stages of development. With the right deal, prudent management and flexibility in the timing of the project, we are confident that we can proceed with both projects simultaneously.

Low-Cost Production: Lowest Quartile Performance

We are gratified that our strategic drive toward low-cost production strengthens our position as a leader in the nickel industry. According to a recent independent industry survey, Inco was one of the lowest cost nickel producers in the Western World in 2001. Our cost-reduction program remains on track.

We take special pride in the cost-reduction achievements at our mature Canadian operations. Both our Sudbury and Thompson operations have successfully reduced their costs since the mid-1990s despite having to mine at greater depths and, hence, at greater cost. This is a prime example of what can happen when employees take on a challenge and get engaged in finding a solution. A case in point: an employee-based energy awareness program implemented in early 2001 at the Copper Cliff Smelter has resulted in savings of over \$6 million, far exceeding the original target of \$2 million. We are rolling this program out to other Sudbury operations.

In a larger initiative, we consolidated our Manitoba and Ontario divisions and our United Kingdom refining operations in November 2001 to create one business unit. Representing over 70 per cent of our 2001 net sales, this new unified organization now has an opportunity to operate in an integrated fashion, share best practices, improve operating efficiencies and achieve dramatic performance improvements by optimizing our core assets.

Looking further ahead, our low-cost position will get a major boost when expected production from Goro and Voisey's Bay comes on stream.

Capitalizing on Our Market Strength

But low-cost production is just part of Inco's story. What continues to distinguish us from other nickel producers is the formidable market position we've secured through product diversification and our international marketing network. We consistently enjoy premiums over the LME cash nickel price because of our strong sales of value-added specialty nickel products and plating products. As a result, we benefit from the higher revenue and margins, greater price stability and high growth rates that these products offer.

Our global marketing network gives us the flexibility to switch products and geographic markets in response to changing market dynamics. Even in the difficult markets of 2001, we did not increase inventory and we did not sacrifice premiums for products sold.

Our value-added specialty nickel products are used in products such as batteries and cellular telephone components, and are often in a different business cycle to commodity nickel. Unfortunately, during 2001, the world industrial slowdown coincided with a severe decline in volume from the electronics industry. Nevertheless, our specialty nickel products business made an important contribution to our returns. Inco Special Products remains focused on achieving growth through the long-term markets it has selected.

The Nickel Leader in Asia

With four joint venture refining operations and an over 30-year history of strong marketing relationships in Asia, we have effectively become local players in the Asian market. Our presence in China, Taiwan, Korea and Japan has enabled us to take advantage of the growth opportunities in those key markets. Our Asian sales accounted for 55 per cent of total nickel deliveries in 2001, up from 41 per cent a decade ago.

The Market Outlook

The uncertain economic conditions forecast for the first half of 2002 have naturally affected our outlook on nickel demand.

Over the short term, we are forecasting some recovery in stainless steel production in Europe and the United States, but production cuts are expected in Japan in response to weak domestic economic conditions. However, scrap availability is low, primarily due to lower nickel prices in 2001. LME inventories, and those of major nickel consumers, are also low as consumers have been liquidating inventories in the face of uncertainty. All these factors bode well for future nickel demand, and for Inco, as the economic recovery begins to take hold in the second half of 2002.

Over the longer term, we remain confident that the nickel market will maintain its historical annual growth rate of four per cent, creating a need for additional nickel production capacity.

Environmental Performance

Inco is committed to doing the right thing when it comes to the environment.

Since the early 1990s, we have spent more than \$530 million to reduce sulphur dioxide (SO_2) emissions. In 2001, we proposed spending an additional \$65 million (Cdn.\$100 million) at our Sudbury operations to make a further 34 per cent reduction in SO_2 emissions. This investment will bring our total reduction to over 70 per cent since Inco's SO_2 abatement program began in the early 1990s and to over 90 per cent since the 1960s – the largest single tonnage reduction of SO_2 for any organization in North America.

At our development properties, we are focused on environment, health and safety excellence. In 2001, we completed our Environmental Impact Assessment for the Goro project, including extensive studies of marine and terrestrial environments. Public opinion surveys and open houses have been conducted throughout New Caledonia. We are designing the Goro project to be world class in every respect including environmental compliance and performance.



ALAN C. STUBBS
VICE-PRESIDENT, PUBLIC
AND GOVERNMENT AFFAIRS

Involving and assisting the communities in which we operate has been important to our success over the years and will be doubly so in this period of growth. People want to know what is going on. They want to participate.



STUART F. FEINER
EXECUTIVE VICE-PRESIDENT,

GENERAL COUNSEL AND SECRETARY

We are a company with major growth projects on two continents, a diverse global marketing structure, and dozens of initiatives involving everything from cost reduction to environmental improvement. In all this, one must remember it's ultimately about value – value for our shareholders. While managing prudently today to maintain and strengthen our position in the industry, we are working aggressively to add shareholder value in the years ahead.

While marine disposition of tailings is carried out in many mining operations in the world, we instead decided to contain the tailings on land using a state-of-the-art system that will also address concerns about tailings dam safety.

Recognizing Our Responsibility

Inco has operated for 100 years, and our environmental legacies are a fact of life. During 2001, we addressed such issues in Port Colborne, Ontario, the site of the world's largest nickel refinery during World War II. While we believe they pose no health concerns, we are accepting our responsibility for surface level nickel concentrations and are working with the community to find solutions. A similar review of nickel in the soil is underway in Sudbury, involving the active participation of government, the public, Inco and another company.

Safety is a Major Priority

Overall, safety performance at Inco improved during the year. Tragically, at the Copper Cliff Nickel Refinery in July, that performance improvement was overshadowed by a fatality.

Our Safety Charter includes an employee-based awareness and empowerment program and is helping to guide our efforts to improve safety across the Company. In 2001, we reduced our disabling injury rate per 100 employees to 1.8 from 2.5. We are targeting a further 25 per cent reduction during 2002.

Inco's safety record is among the best in our industry and we are committed to continuous improvement. The better you get at operating safely, the more exacting your expectations become of everyone involved. Our goal is zero injuries.

Celebrating Our Human Spirit

On this 100th anniversary, it's important to look back at what has made Inco the company it is today. In a word, it's been our people. You can have great orebodies and great technology but good and motivated people turn them into reality. The people of Inco have, over the years, had to reinvent this Company to deal with new market realities, new technologies and new opportunities for growth throughout the world. Our people have been, and will continue to be, the engine of our success.

Engagement is the single most important quality that will lead us into this next stage of growth. It means understanding our Company, its operations, its challenges and its mandate to grow profitably – and applying that knowledge in everything we do to the benefit of all stakeholders. It means coming up with the ideas and the innovations and the answers that have built this Company and will improve performance in every part of Inco's world.

There is evidence of this every day at Inco. Our people exemplify it. Our results show it. Our future depends on it.

Scott M. Hand, Deputy Chairman and Chief Executive Officer

Peter C. Jones, President and Chief Operating Officer

ANNUAL REPORT 2001 : INCO : 7

OPERATING HIGHLIGHTS 2001 During 2001, our operations made continued progress to strengthen our low-cost position, increase production, operate profitably and improve overall performance. We produced over 207,000 tonnes of finished nickel products – our highest production in 25 years – and achieved our best safety performance company-wide over the same period of time. Meanwhile, we laid the foundation for even more dramatic operational improvements in the future by consolidating our Ontario, Manitoba and United Kingdom operations into a new business unit known as Inco Canadian and UK Operations.

THOMPSON OPERATIONS

- Successfully deepened Birchtree Mine and began processing the first ore from that operation.
- Produced 49,000 tonnes of electrolytic nickel, the highest level since 1993.
- Achieved a 40 per cent reduction in disabling injury frequency.

PORT COLBORNE REFINERY

 Production of platinum-group metals increased by 94,000 troy ounces, a 20 per cent increase over 2000 levels.



HIGHLIGHTS

CANADIAN AND UNITED KINGDOM OPERATIONS

SUDBURY OPERATIONS

- Commissioned a new \$21 million copper anode refining and casting facility to improve anode quality and improve environmental performance.
- Achieved nickel production of 95,000 tonnes.
- Produced 404,000 troy ounces of platinum-group metals from Inco ores and purchased materials, up from 344,000 troy ounces in 2000.
- Initiated a major redesign project at the Clarabelle Mill to improve metals recovery, with completion expected in 2002.
- Discovered new high-grade platinumgroup ore deposits at Copper Cliff North Mine, mineable at low cost with existing infrastructure.
- Discovered high-grade nickel, copper and platinum-group mineralization at McCreedy East Mine.
- Reduced energy use in Ontario to 10 per cent below 1990 levels through our energy awareness program and improved operational controls.



CLYDACH REFINERY

- Completed ISO 14001 certification.
- Achieved strong performance in nickel production and costs.

ACTON REFINERY

 Achieved the highest precious metals production and safety performance in the history of the Refinery.

GORO NICKEL

- Hired construction and engineering consortium of international companies.
- Began training and educating local workforce.
- Submitted an environmental assessment and continued public consultation.
- Submitted applications for construction and operating permits to the New Caledonian government.
- Continued successful testing of pressureacid leach solvent extraction process at the Goro pilot plant.

VOISEY'S BAY NICKEL COMPANY LIMITED

- Completed a five-year, \$69 million exploration program at Voisey's Bay and other claim areas in Labrador.
- Resumed formal negotiations with the Government of Newfoundland and Labrador and the Innu Nation and Labrador Inuit Association concerning the terms of the commercial development of the Voisey's Bay deposit.



INCO TNC LIMITED

- Achieved the highest production and the lowest operating costs ever.
- Achieved excellence in safety performance with only one medical aid during the year and no lost-time injuries.

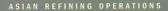
JINCO NONFERROUS METALS CO., LTD.

- · Achieved ISO 14001 certification.
- Achieved higher production of nickel salts than the design capacity and significantly reduced operating costs.
- Achieved excellence in safety performance with only one medical aid during the year and no lost-time injuries.



DEVELOPMENT PROPERTIES

INDONESIAN OPERATIONS





PT INCO

- Produced 62,600 tonnes of nickel in matte, the highest annual production ever as the ramp up to the expanded design capacity continues.
- Accelerated sampling, drilling and stripping to improve ore grades.
- Established new records in calcine production and furnace feed rates.
- Installed a new electrostatic precipitator on number two dryer for \$9 million –
 \$2 million under budget – reducing total dust emissions by approximately
 40 per cent.



TAIWAN NICKEL REFINING CORPORATION

- · Achieved ISO 14001 and ISO 9001.
- Achieved higher than planned annual production and sales and lowered operating costs.
- Achieved excellence in safety performance with no medical aids and no lost-time injuries.

KOREA NICKEL CORPORATION

 Initiated an ISO 9001 certification program with completion anticipated in the first half of 2002. PERFORMANCE SCORECARD Three years ago, we introduced our performance scorecard to track our progress on a number of objectives. In spite of the steep decline in nickel and other metal prices during 2001, and the general downturn in the world economy, we made progress in a number of critical areas while maintaining profitability. We met our goals on the development of the Goro project in New Caledonia. We also made significant strides in 2001 in strengthening our environmental management systems, improving compliance and furthering our excellent safety record.

2001 MAJOR OBJECTIVES	2001 PERFORMANCE	2002 WALOR ORIFOTHER
	2001 FERFORMANCE	2002 MAJOR OBJECTIVES
PROFITABILITY Continue to improve profitability through margin improvement. Solidify gains to enable profitable operation even in a commodity down cycle.	A major decline in world nickel prices affected results. Profitability was maintained through cost controls and global marketing flexibility.	 Increase profitability as the economy and nickel prices improve. Maintain focus on cost reduction and margin improvement.
COST REDUCTION Continue cost reduction, targeting the area of procurement as well as specific cost reduction at the Thompson Mine and the Sudbury smelter and nickel refinery. Achieve \$33 million in cost reductions, including \$14 million in energy savings from other initiatives.	Achieved annualized savings of \$36 million including \$12 million savings in energy costs. Consolidated Canadian and UK operations to enhance value through cost reductions and margin improvements.	 Continue to identify opportunities to lower costs, particularly in selling, general and administrative areas worldwide. Further implement worldwide procurement initiative, with best practices applied across global operations. Build on employee incentives to achieve cost reductions such as earnings-based compensation. Realize benefits of consolidating Canadian and UK operations by optimizing assets and sharing best practices.
Implement the Safety Charter across the Company. Reduce our disabling injury rate worldwide to below 1.9 in 2001.	 After a successful pilot project, began to implement the Safety Charter throughout the Company, bringing a heightened focus on safety as a core value. Disabling injury frequency per 100 employees was reduced to 1.8 in 2001 from 2.5 in 2000. 	· Achieve an additional 25 per cent reduction in disabling injury rate.
ENVIRONMENT AND HEALTH Expand and improve Environmental, Health and Safety audit program. Continue improvements in compliance worldwide.	 Expanded safety audit program. Proposed an investment of \$65 million (Cdn.\$100 million) for \$0₂ abatement program to reduce emissions by another 34 per cent in Sudbury. Improved performance in water management at Sudbury operations despite significantly higher rainfall. Improved emissions control through the new copper anode casting facility. Installed new electrostatic precipitator at PT Inco, reducing dust emissions by 40 per cent. Initiated voluntary soil remediation program 	Roll out updated Environmental, Health and Safety Policy. Improve environmental compliance at all operations. Achieve further reductions in greenhouse gas emissions. Reduce nickel emissions from the Copper Cliff Nickel Refinery. Upgrade and repair the dust collection system at Thompson operations. Develop and implement a consolidated workplace health management system for Canadian and UK operations.

in Port Colborne, Ontario.

· Commence SO2 and metal emissions abatement

program at Copper Cliff.

2001 MAJOR OBJECTIVES

2001 PERFORMANCE

2002 MAJOR OBJECTIVES

PT INCO

- Plan is for an average 66,000 tonnes (145 million pounds) annual production rate in 2001, producing at a rate of over 68,000 tonnes (150 million pounds) in the latter part of the year before starting a furnace rebuild.
- Production was 62,600 tonnes (138 million pounds) due to lower than expected ore grades.
- Process plant set new production records in calcine production and improvements in dust recycling.
- Improve production rate with higher ore grades from lower dilution through extensive drilling, test pit sampling and mine planning program with accelerated stripping. However, a furnace rebuild in the fourth quarter of the year will limit production to about 59,000 tonnes (130 million pounds).

GORO NICKEL

- · Continue to operate pilot plant.
- · Test a variety of lateritic ores.
- Complete a bankable feasibility study to enable the making of a decision on a commercial project.
- · Finalize fiscal regime.

- Continued to operate pilot plant successfully using a variety of lateritic ores.
- Completed bankable feasibility study and announced intention to proceed with commercial project.
- Obtained fiscal regime, including a 15-year, 100 per cent tax holiday and a 5-year, 50 per cent tax holiday.
- Established senior management team, including new President for Goro Nickel.
- · Selected construction and engineering consortium.
- · Applied for construction and operating permits.
- Initiated training programs for local workforce.
- Obtained agreement in principle for favourable \$350 million Pons Act financing.

- Begin construction of an integrated mining and processing operation due to come into full commercial production in late 2004.
- · Maintain strict budget controls.
- Complete partnership discussion to support long-term development of Goro.
- Continue to establish training and education programs for local workforce to support commercial development.
- · Obtain construction and operating permits.
- · Complete financing of the project.

VOISEY'S BAY

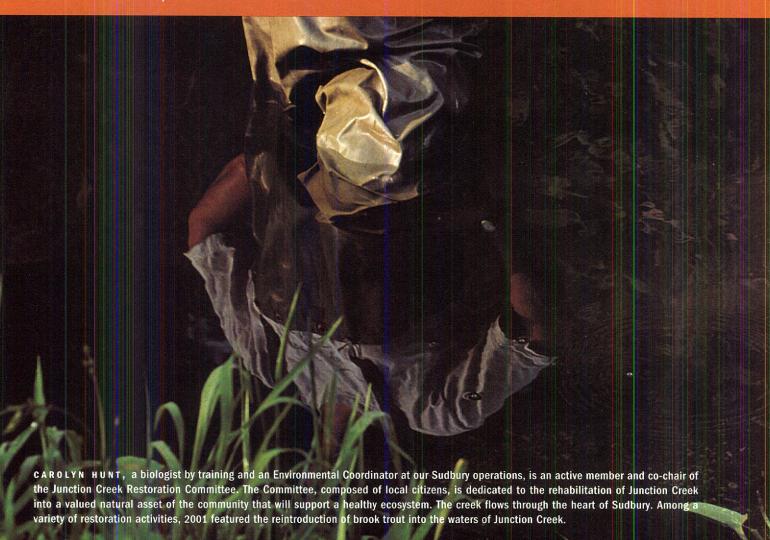
- Continue exploration of the deposit and research effort on the hydrometallurgical process.
- Seek necessary agreements to move forward with the project.
- Completed exploration program, including drilling and sampling underground resources.
- Formally reopened negotiations with the Government of Newfoundland and Labrador on the terms of an agreement for the commercial development of the Voisey's Bay deposit.
- Made good progress in negotiations with the Innu Nation and the Labrador Inuit Association on impact and benefits agreements.
- Resolve outstanding issues to develop a project development framework that will allow us to proceed with Voisey's Bay in a prudent and measured fashion.
- Initiate work at Voisey's Bay, Labrador and Argentia, Newfoundland.
- · Consider options regarding a possible partner.

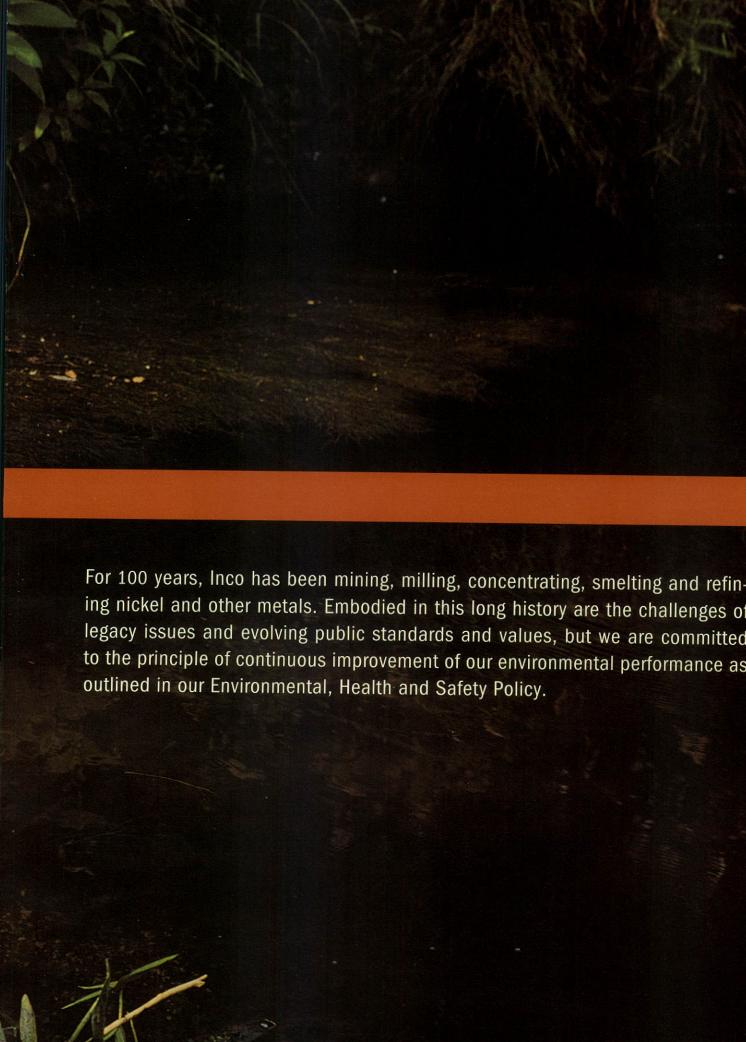
SPECIALTY PRODUCTS

- Continue to pursue growth in selected industries with a target revenue goal of \$400 million by 2004.
- World economic decline affected the electronics and telecommunications sectors, resulting in reduced demand and, hence, lower revenues for our specialty nickel products. The unit did, however, make an important contribution to our profitability at these times of low nickel prices.
- Continue to develop new markets for growth in value-added nickel products, including plating products, nickel powders, foams and coatings.



ENVIRONMENT, HEALTH AND SAFETY





A YEAR OF ACHIEVEMENT

We made steady progress on many fronts in 2001. We strengthened our environmental management systems, improved our environmental performance in most parts of the Company and advanced our understanding and management of our legacy issues.

We continued to work successfully with community stakeholders in our existing operations around the world and our new development properties. Our aim continues to be to strengthen the level of public dialogue, to responsibly address concerns where they exist and to earn the respect of the communities where we operate.

In December 2001, the Board of Directors approved an updated Environmental, Health and Safety Policy for the Company. This policy underlines our ongoing commitment to sustainable development, recognizing that sustainable development includes commitments to environment, health and safety through a balanced approach to economic, technical and social issues.

ENVIRONMENTAL MANAGEMENT

THE OVERARCHING FRAMEWORK

Inco's Environmental Management System (EMS) provides a comprehensive, overarching management system to ensure that the overall goals of environmental protection are integrated into every phase of our existing operations as well as our development projects.

Inco's EMS is based on the Mining Association of Canada's (MAC) Environmental Management framework, which conforms to ISO 14001 Environmental Management Systems. Our EMS integrates Inco's management strategies in four priority areas of concern: air, water, land reclamation and environmental assessment at our new mine development sites.

During 2001, we made substantial progress at our Canadian operations implementing the EMS framework. Environmental impacts have been ranked according to established criteria and action plans to address these impacts will be developed through 2002.

AUDITING OUR PERFORMANCE

Inco's Environmental, Health and Safety audit program, in place since 1990, provides assurance to management that effective systems are in place to manage environmental, health and safety risks. It verifies compliance with laws and regulations, and conformance with operational policies and procedures. It also helps operating units identify opportunities to improve management systems and prioritize actions.

We completed seven audits in 2001. Programs audited in 2001 included:

- spill prevention and control, air and waste management;
- a new protocol for occupational medicine;
- safe work practices, emergency planning and response, training, and operating procedures.

Progress was made over the past year in addressing prior audit findings. During 2001, the audits identified the need to focus on internal verification such as monitoring, assessment and follow-up of health and safety programs.

ENVIRONMENTAL, HEALTH AND SAFETY AUDITS - LOCATION AND FREQUENCIES - FIVE-YEAR

YEAR		1996	1997	1998	1999	2000	2001	
CANADA	Sudbury operations	X		x	х	X	х	
	Port Colborne Refinery	X			X		X	
	Thompson operations	X	X	X	X	X	X	
	Voisey's Bay	X		X				
	Inco Technology Centre			X			X	
	Exploration sites		X					
U.S.A.	Novamet Specialty Products	X			X			
	Inmetco	X						
	Exploration sites		X					
EUROPE	Clydach Refinery			Х		x	x	
	Acton Refinery			X		X	X	
MIDDLE EAST	Exploration - Turkey				Х			
ASIA	PT Inco	X	х			х		
	Inco TNC		X			X		
	Jinco			X		X		
	Taiwan Nickel			X				
	Goro Nickel						X	

AIR QUALITY

SUDBURY SO, ABATEMENT: TAKING THE NEXT STEP

For the past thirty years, Inco's SO_2 abatement program has been one of the largest environmental mitigation projects of its kind in the global mining industry. Between 1985 and 1994, after investments totalling more than \$530 million, we reduced SO_2 emissions in Sudbury from almost 700,000 tonnes per year to the abatement target of 265,000 tonnes per year. Since that limit was established, our emissions have not exceeded 235,000 tonnes per year. At the same time, we have dramatically reduced emissions of nitrogen oxides (NO_x), which contribute to the formation of acid rain and smog.

During 2001, our Sudbury operations released approximately 232,000 tonnes of SO_2 , compared with 223,000 tonnes in 2000. The increase in SO_2 emitted in 2001, while well within regulatory limits, was attributable to increases of sulphur in the smelter feed and to recovering excess copper inventory generated during the repair period for the copper anode circuit.

In September 2001, the Ontario Ministry of the Environment (MOE) released a draft control order that would replace the existing SO_2 control order issued in 1983. The draft control order proposes a reduction in Inco's allowable SO_2 emissions from the current 265,000 tonnes per year to 175,000 tonnes per year by the end of 2006, a reduction of 34 per cent. Additionally, the draft control order proposes reducing the permissible levels of ground level concentrations (GLCs) of SO_2 averaged over one hour from 0.5 parts per million (ppm) to 0.34 ppm.

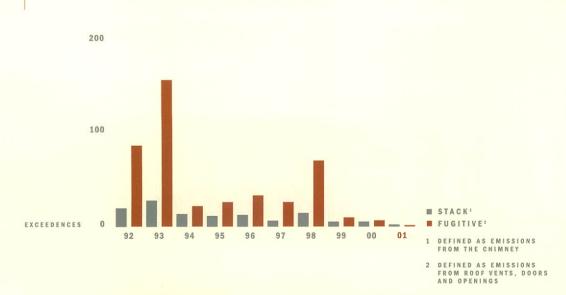
To meet the new SO_2 emissions target, Inco announced in September 2001 that we would invest \$65 million (Cdn. \$100 million) in fluid bed roaster off-gas scrubbing technology, which would convert the SO_2 to sulphuric acid in its acid plant. The installation of advanced controls on the fluid bed roasters will not only reduce SO_2 annual emissions but will also remove approximately 80 to 100 tonnes of metals per year. We also took immediate steps to comply with the new standards for SO_2 and GLCs, which would become effective in April 2002.

The draft control order also proposes that Inco provide the public with up-to-date information on SO_2 concentrations from existing air monitoring stations. We are engaging the community in this process. At our Copper Cliff Smelter, a web site being developed will inform the community of the current dispersion levels 24 hours a day, seven days a week.

REDUCING METALS AND PARTICULATES AT SUDBURY

During 2001, we took steps to improve dust collection efficiency and reduce emissions in our Sudbury operations. A \$21 million investment in relocating the copper anode casting facility to the Copper Cliff Smelter complex is designed to reduce metal emissions while eliminating plume opacity and improving local air quality. Also during 2001, the electrostatic precipitators (ESPs) at the Copper Cliff Smelter were rebuilt and the converter hoods repaired.

TEN-YEAR REVIEW OF SO, GLC EXCEEDENCES AT SUDBURY OPERATIONS



ANNUAL REPORT 2001 : INCO : 15

IMPROVING DUST COLLECTION AT THOMPSON OPERATIONS

In Thompson, we operated during 2001 under a Manitoba Department of the Environment regulation limiting emissions of SO_2 from Thompson ores to 220,000 tonnes per year. Inco was under this limit with total SO_2 emissions of 217,000 tonnes, compared with 215,000 tonnes in 2000.

In response to a rise in particulate emissions at the Thompson operations during the early part of 2001, actions were taken to eliminate leaks in the dust collection system, reduce the re-suspension of settled dust and repair electrical contacts within the ESP. The investment in upgrades and repairs to the dust collection system was \$4 million.

REDUCING DUST EMISSIONS AT PT INCO

Dust emissions at PT Inco have been a persistent challenge. In 2001, with the commissioning of a new ESP on number two dryer, annual ambient dust loadings were reduced by approximately 40 per cent.

PT Inco's operations are subject to environmental permits issued by the Government of Indonesia, the most recent of which was issued in 1998. The emissions of SO_2 from PT Inco's operations vary with production levels and have been in the range of 50,000 to 77,000 tonnes per year over the past several years.

GREENHOUSE GASES AND ENERGY CONSUMPTION

Inco is an active participant in the Voluntary Challenge and Registry (VCR) Inc. program to reduce greenhouse gas (GHG) emissions, as part of Canada's effort to meet its GHG reduction commitments as set out in the Kyoto Protocol. Inco has maintained its status as a Gold Champion reporter to the VCR and in 2001 received the mining sector VCR Leadership Award.

Our innovative Energy Breakthrough initiative, coordinated across all operations, focuses on efficient energy use and greenhouse gas reduction. Employees at all levels receive training in Energy Breakthrough concepts and conduct brainstorming sessions to identify energy-saving ideas that are developed, implemented and monitored through a rigorous five-stage tracking system. A total of 782 proposed energy-saving projects were tracked in 2001.

As a result of these efforts, we have reduced our energy index to 10 per cent below 1990 levels, meeting our long-standing target of a one per cent performance improvement per year. Since 1990, we have reduced absolute emissions of GHG by nearly six per cent. Without energy conservation measures, GHG emissions for 2001 would have been about five per cent above 1990 levels.

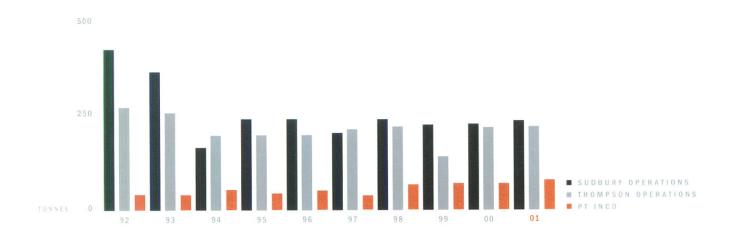
WATER QUALITY

SUDBURY OPERATIONS: ELIMINATING SPILLS

Following the completion of a water management study for the Sudbury operations in 2000, a \$2 million project was initiated to eliminate spills from tailings area seepage stations by increasing the surge capacity of water retention areas. Periodic discharges of untreated effluent, caused by excessive precipitation and spring melt, have been eliminated. In 2001, construction began on a \$3 million surge pond at the Copper Cliff wastewater treatment plant. This project will reduce the need to bypass the treatment facility during periods of intense precipitation, power outages and spring melt.

Inco operates five water treatment facilities in the Greater Sudbury area. In addition, Inco operates two potable water treatment plants that provide drinking water to the communities of Lively, Copper Cliff and Levack. In 2001, the Sudbury operations treated an estimated 15 million cubic metres of fresh water and a total 55 million cubic metres of wastewater.

ANNUAL SO, EMISSIONS (T/Y X1000)



THOMPSON OPERATIONS

The Thompson operations operate one water treatment facility. In 2001, there were no violations of effluent regulations.

Inco's Thompson operations contribute to the treatment of potable water for the Thompson community.

PT INCO

PT Inco is making good progress towards meeting its effluent requirements. In 2001, the Fiona Dam was elevated at a cost of \$2 million to increase its capacity to capture additional sediment and further improve effluent quality.

LAND RECLAMATION

SUDBURY OPERATIONS

Through our Ontario Tailings Management Program, we have stabilized and rehabilitated the tailings in the Sudbury area. Tailings storage, divided into a number of cells, covers an area of approximately 3,000 hectares. The tailings are confined by a series of dams constructed from de-watered tailings. Effluent from the settled tailings flows to the effluent treatment plant.

By 2001, more than 1,500 hectares of inactive tailings had been vegetated for stabilization as part of Inco's ongoing rehabilitation program. Some of the seedlings we use are grown in Inco nurseries, located underground in Creighton Mine. In 2001, our Sudbury operations continued their program of progressive decommissioning and mine closures. During the year, we also resubmitted closure plans for 15 properties to the Ontario Ministry of Northern Development and Mines (MNDM). Inco spent in excess of \$10 million in the Sudbury region in 2001 on decommissioning and reclamation projects that included the Shebandowan Mine, Levack Mine, closure of the Whistle open pit mine and tailings reclamation and tree planting.

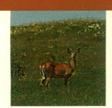
THOMPSON OPERATIONS

During the fall of 2000, Inco submitted reclamation plans for the SOAB Mines to the Manitoba government and reclamation work began in the summer of 2001.

Also in 2001, we submitted reclamation plans for the Pipe Mine and Birchtree Mine. The Thompson Mine reclamation plans will be submitted in the third quarter of 2002.

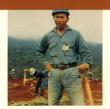
PT INCO

PT Inco maintains an active land reclamation program with the objective of minimizing the size of the mined area. Over the past five years, we have reduced the mined area by 21 per cent. By the end of 2001, 2,351 hectares had been mined and 1,868 hectares had been revegetated. Bogor Agricultural University provides Inco with technical advice on vegetation enhancement.



TAILINGS AREAS REGENERATED

In Sudbury, Inco maintains an extensive revegetation program to reclaim tailings areas where waste materials from the milling process are impounded. The majority of Inco's inactive tailings in Sudbury have been successfully revegetated and wildlife is returning to these areas.



MINIMIZING THE MINE FOOTPRINT

Muslimin, Mine Rehabilitation Foreman, PT Inco. PT Inco's extensive revegetation program aims to minimize the amount of land disturbed by mining activity. Over the past five years, PT Inco has reduced its mining footprint by 21 per cent.

ADDRESSING OUR PAST RESPONSIBLY

Like many industrial companies with a long history, Inco has environmental legacies at some of our operations. We recognize these legacies and we are dealing with them responsibly.

PORT COLBORNE SOILS

Inco has been refining nickel and cobalt at our Port Colborne refinery since 1919. During World War II, Port Colborne was the world's largest nickel refinery and a major contributor to the Allied war effort. Those many years of operation resulted in airborne deposition of nickel, copper and cobalt compounds onto surface soils.

In 1998, the Company began discussions with the City of Port Colborne and the MOE regarding the potential risks posed by metal content of soils downwind of the refinery. MOE soil testing results, released in January 2000, indicated that a wide area has surface soils with levels of nickel, copper and cobalt requiring ecological and human health assessment. Responding to these findings, in 2000 Inco retained consultants to do air sampling around neighbourhood schools to measure whether there existed a health risk to children from windblown soil material. The results, released later that year, showed very low concentrations of nickel, copper, cobalt and arsenic, which were well below the safe ambient air quality criteria.

Recognizing our responsibility to the community, we took two significant steps in 2001. In the spring of 2001, we established a Company-funded Community Based Risk Assessment (CBRA) process that will identify areas of concern for both the environment and human health and recommend a remediation plan if required. Citizens have been engaged through a Public Liaison Committee, a Technical Steering Committee (including

Inco, several consultants, the MOE, and employees of the Niagara Region Public Health Department and the City of Port Colborne) and through open houses and public updates. Discussions with city officials and provincial and federal legislators have been held.

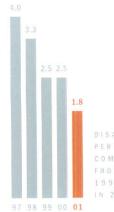
In addition, during 2001 we volunteered to remediate the soils on 25 properties identified by the MOE as having elevated metal concentrations in subsurface soil. We undertook this action despite analysis that suggested the metals present were the result of landfill from an unknown source undertaken early in the 20th century. To date, we have received the consent of five property owners and have completed remediation of their properties.

Inco is committed to support the work of the CBRA process and to work with the community of Port Colborne to understand the risks associated with our historical operations.

SUDBURY SOILS

As a part of its normal sequence of investigating industrial areas, the MOE released a soils survey of Sudbury in September 2001. It found nickel and other metals were elevated over a wide region. The MOE concluded that Inco and Falconbridge Limited, after operating in the area for over a century, shared responsibility for these levels. The MOE and the local Medical Officer of Health also concluded that there was likely no near-term risk to human health as a result of the metal levels that were found in soils, but they requested that both companies conduct a thorough human health risk assessment. Inco and Falconbridge have agreed to share the cost of this study.

DISABLING INJURY FREQUENCY



DISABLING INJURIES
PER 100 EMPLOYEES
COMPANY-WIDE DECLINED
FROM 4.0 PER CENT IN
1997 TO 1.8 PER CENT
IN 2001.



A COMMUNITY BASED APPROACH

Through a Community Based Risk Assessment (CBRA) process, Inco is funding a variety of studies aimed at determining the impact of nickel and certain other metals in Port Colborne surface soils. Above, a researcher collects insects as part of an ecosystem study.

A Public Advisory Committee is being appointed as part of the assessment process under the auspices of Earthcare Sudbury, a unique partnership between the City of Greater Sudbury and the community, focusing on enhancing the Sudbury environment. A technical committee was also formed to steer the process. It consists of representatives of the two companies, MOE, Ministry of Health, the Region of Sudbury Health Department and Health Canada. In cooperation with the MOE, Inco and Falconbridge are participating in collecting additional samples to augment MOE data.

Inco is taking a proactive role in providing information to the community on the assessment process and its results as they are determined. Open house events have been held in the community and a soils telephone "hotline" and web site have been established.

HEALTH AND SAFETY

Health and safety are a vital part of Inco's global operations. We are committed to protecting the health and safety of our workers, and assisting our customers in protecting their workforces and providing sound stewardship of nickel-containing products.

SAFETY AT INCO OPERATIONS

During 2001, there were over 20 million hours worked at our operations. Inco reduced its disabling injury rate per 100 employees (full-time equivalents) to 1.8 in 2001 from 2.5 in 2000. Notwithstanding the many improvements we have made over the past several years, our 2001 safety performance was overshadowed by a fatality. In July 2001, at the Copper Cliff Nickel Refinery, Gord Heffern, a supervisor, died in an accident while isolating an oxygen line. We extend our deepest regrets to his family.

WORKPLACE HEALTH AT INCO OPERATIONS

Inco is committed to protecting the health of employees and others who may be exposed to chemical, physical and biological health risks by integrating sound health management practices into all activities at Inco workplaces and continuously improving these practices.

In 2001, a core working group was established to undertake an analysis of current health practices and activities at our Canadian and UK operations with a view to creating a unified Health Management System (HMS). The HMS will provide a mechanism for workplace health management to assist in meeting health requirements.

METALS RECYCLING

End of life recycling is a cornerstone of the metal industry's life cycle program and sustainable development efforts.

Metals such as nickel are recycled because they are valued throughout society and possess the physical traits amenable

for recycling. In addition to our Inmetco recycling facility, Inco supports the efforts of the Nickel Development Institute (NiDI) in advancing the knowledge and understanding of nickel recycling. For information on NiDI's work in this area, visit their web site at http://www.nidi.org/environment/recycle/index.htm.

RECYCLING AT INMETCO

Our subsidiary, The International Metals Reclamation Company, Inc. (Inmetco), in Ellwood City, Pennsylvania, is the largest nickel, chromium and cadmium recycling facility in North America. During 2001, Inmetco converted over 57,000 tonnes of waste into over 23,000 tonnes of metal for reuse in stainless and specialty steel production and in the manufacture of nickel-cadmium batteries. It is the only facility in North America that provides high-temperature metals recovery for nickel-cadmium batteries, and its process has been designated as Best Demonstrated Available Technology by the United States Environmental Protection Agency (EPA). In addition, Inmetco produces a non-hazardous slag that is valued by the construction industry for its excellent physical strength. All of Inmetco's activities are conducted pursuant to stringent regulatory standards and permit conditions imposed by the Pennsylvania authorities and the EPA.

DEVELOPMENT PROJECTS

GORO NICKEL

Strong environmental protection practices are paramount in the engineering and construction management and design features of the Goro project in the French Overseas Territory of New Caledonia. As with our other operations and development properties, Goro's environment, health and safety management system provides the mechanism to integrate the overall goals of pollution prevention and environmental protection in the design and engineering of the project.

Concurrent with the completion of the Goro project feasibility study, Goro undertook a comprehensive Environmental Assessment (EA). The collection of environmental baseline data commenced in 1994 and is continuing. For the past two years the EA has included:

- · consultation and communication with the local population;
- · gathering environmental baseline information and modelling;
- · identifying where potential environmental effects will occur;
- planning and design of a site and facilities that will minimize the disturbances to the biophysical environment.

In September 2001, a series of open houses were conducted in communities located near the project and in the capital city of Noumea, New Caledonia. Our communication effort is ongoing. Later in the year, Goro submitted the required construction and operating permits. These submissions include four components: the Project Summary; detailed project description; the Environmental Assessment; and the health and environmental risk assessment. The required public review process is expected to commence in early 2002.

The following table, discussion and notes set forth the Company's estimates of Proven and Probable Mineral Reserves and Measured, Indicated and Inferred Mineral Resources and related data as of year-end 2001 for its operating units in Canada and Indonesia, its Goro nickel-cobalt project in the French Overseas Territory of New Caledonia and its Voisey's Bay nickel-copper-cobalt project in Canada. The table also separates data on Mineral Reserves and Mineral Resources for sulphides and laterites.

On a global basis, Inco's strategy continues to be to increase our low-cost, high-quality and high-volume Mineral Reserves and Resources.

		Sulph	ides			Laterites		
	Ontario Operations	Manitoba Operations	Voisey's Bay ²	Total Sulphides	Indonesia ³	New Caledonia ^{2, 3}	Total Laterites	
Percentage Ownership ¹ Mine type ⁴	100% UG	100% UG	100% OP	100% OP/UG	59% OP	85% OP	OP	
MINERAL RESERVES ¹								
(tonnes in millions) Proven	107	10	21	1 5 6	E E	40	0.7	
Probable	89	18 22	31	156 111	55 42	42 12	97 54	
Total Proven and Probable	196	40	31	267	97	54	151	
AVERAGE GRADES ⁵	-							
(principal metals only) Proven								
% Nickel	1.40	2.42	2.88	1.81	1.66	1.41	1.55	
% Copper % Cobalt	1.40	0.16	1.69 0.14	1.31	-	0.13		
g/mt Platinum	0.58	_	0.14	_	_	0.13	_	
g/mt Palladium	0.65		-	-	-	-		
g/mt Gold	0.24	-	-		-	-	-	
Probable								
% Nickel	1.23	2.08	12	1.40	1.74	1.94	1.79	
% Copper	1.17	0.13	-	0.97	-	-	-	
% Cobalt	0.70	-	-	-		0.08	-	
g/mt Platinum g/mt Palladium	0.79 0.86	_	-	-	-	-	_	
g/mt Gold	0.34	_	_	_	-		_	
Average Grades: Proven and Probable ⁵	0.54							
% Nickel	1.32	2.23	2.88	1.64	1.70	1.53	1.64	
% Copper	1.30	0.14	1.69	1.17	70	-	-	
% Cobalt	-	-	0.14	1.00	-	0.12	-	
g/mt Platinum	0.69	-	-	-	-	-	-	
g/mt Palladium	0.75		170	_	77.0	1.5	-	
g/mt Gold	0.27				-	-	-	
MINERAL RESOURCES 1								
(tonnes in millions)	110	00/110	00/110	00/110	0.0	0.0	0.0	
Mine type ⁴	UG	OP/UG	OP/UG	OP/UG	OP	OP	OP	
Measured Indicated	16	2	- 0.7	18	70	56	56	
	31	45 47	97	173	70	43	113	
Total Measured and Indicated	47		97	191	70	99	169	
Inferred	30	8	14	52	267	143	410	
AVERAGE GRADES ⁵								
(principal metals only)								
Measured % Nickel	1.39	1.42		1.39		1.40	1.40	
% Copper	1.13	0.11	_	1.01	_	1.40	1.40	
% Cobalt	-	-	-	-	-	0.14		
g/mt Platinum	0.45	-	-	-	-	=	2	
g/mt Palladium	0.41	-	-	-		-	-	
g/mt Gold	0.17	=	-		-	87	-	
Indicated	1 22	0.77	1 20	1.16	1 70	1.00	1 70	
% Nickel % Copper	1.32 2.26	0.77	1.29 0.61	1.16 0.76	1.78	1.80	1.79	
% Cobalt	2.20	0.00	0.08	0.70	-	0.13		
g/mt Platinum	1.34	_	-	-	-	-		
g/mt Palladium	1.41	-	-	10	570	-		
g/mt Gold	0.51	=		-	-	-	-	
Average Grades: Measured								
and Indicated ⁵ % Nickel	1.34	0.80	1 20	1.18	1 70	1.58	1.00	
% Copper	1.88	0.06	1.29 0.61	0.79	1.78	1.30	1.66	
% Cobalt	1.00	-	0.08	-	-	0.14	_	
g/mt Platinum	1.03	-	-	-	-	-	_	
g/mt Palladium	1.06	-	(-)	-	-	-	-	
g/mt Gold	0.41	=	1-1	-	-	-	-	
Average Grades: Inferred ⁵	4.0	4.0	4.0					
% Nickel % Copper	1.3	1.6	1.0	1.3	1.8	1.7	1.8	
% Copper	1.6	0.1	0.7	1.1	-	0.12		
g/mt Platinum	1.2		0.00			0.12	_	
g/mt Palladium	1.4	-	-		-	-	-	
g/mt Gold	0.7	~	-	_	-	2	-	

Proven and Probable Mineral Reserves and Measured, Indicated and Inferred Mineral Resources in the adjacent table have been estimated as of December 31, 2001 in accordance with the definitions of these terms adopted by the Canadian Institute of Mining, Metallurgy and Petroleum in August 2000 and incorporated by reference in applicable Canadian regulatory requirements, National Instrument 43-101, "Standards of Disclosure for Mineral Projects."

These definitions are as follows:

Mineral Reserve

A "Mineral Reserve" is the economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A Mineral Reserve includes diluting material and allowances for losses that may occur when the material is mined. Mineral Reserves are sub-divided in order of increasing confidence into Probable Mineral Reserves and Proven Mineral Reserves. A Probable Mineral Reserve has a lower level of confidence than a Proven Mineral Reserve.

Probable Mineral Reserve

A "Probable Mineral Reserve" is the economically mineable part of an Indicated and, in some circumstances, a Measured Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that can demonstrate, at the time of reporting, that economic extraction can be justified.

Proven Mineral Reserve

A "Proven Mineral Reserve" is the economically mineable part of a Measured Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.

Mineral Resource

A "Mineral Resource" is a concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the Earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories. Mineral Resources which are not Mineral Reserves do not have demonstrated economic viability.

Inferred Mineral Resource

An "Inferred Mineral Resource" is that part of a Mineral Resource for which quantity and grade or quality can be estimated on the basis of geological evidence and limited sampling and reasonably assumed, but not verified, geological and grade continuity. The estimate is based on limited information and sampling through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes.

Indicated Mineral Resource

An "Indicated Mineral Resource" is that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics can be estimated with a level of confidence sufficient to allow the appropriate application of technical and economic parameters, to support mine planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough for geological and grade continuity to be reasonably assumed.

Measured Mineral Resource

A "Measured Mineral Resource" is that part of a Mineral Resource for which quantity, grade or quality, densities, shape and physical characteristics are so well established that they can be estimated with confidence sufficient to allow the appropriate application of technical and economic parameters to support production planning and evaluation of the economic viability of the deposit. The estimate is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that are spaced closely enough to confirm both geological and grade continuity.

ASSUMPTIONS USED IN ESTIMATES

A number of assumptions have been used in calculating the estimates set forth in the table, including long-term prices for the metals indicated, mining methods, metals recovery rates, dilution factors, mining recovery factors, production costs, the long-term U.S.-Canadian dollar exchange rate and cut-off grades. Mineral Resource estimates are determined from an interpretation of the chemistry and physical dimensions of the particular mineral deposit. For the majority of these deposits, the metal grades and specific gravity are estimated based upon recognized geostatistical methods. In some deposits, conventional extension methods are also used in calculating the estimates. In accordance with National Instrument 43-101, Mr. Robert A. Horn, Vice-President, Exploration, and Dr. Lawrence B. Cochrane, Director, Mines Exploration, with the Company, have each as a qualified person within the

meaning of such National Instrument supervised the preparation of the calculation of the Mineral Reserve and Mineral Resource estimates and other information set forth in the table and notes thereto. Mr. Horn and Dr. Cochrane have, in accordance with the requirements of such National Instrument, each conducted either directly by himself or indirectly through employees of the Company reporting directly or indirectly to him, a comprehensive review and confirmation of the application of the detailed procedures, systems and processes the Company has developed and implemented for the purposes of verifying such data. Mr. Horn and Dr. Cochrane and their staffs also periodically check the adequacy of such procedures, systems and processes which are intended to provide sufficient verification of such data based upon recognized sampling, analytical testing, modelling and other procedures in the mining industry.

MINERAL RESERVES

ONTARIO, MANITOBA AND INDONESIA

The Proven and Probable Mineral Reserve estimates for the Ontario and Manitoba operations have been calculated utilizing an established record of costs and cut-off grades on a breakeven basis. A breakeven basis represents a calculation whereby revenue from the sale of the recovered metal is expected to be at least equal to all operating, mine development and processing costs, including depreciation, marketing and certain corporate administrative and overhead costs, incurred in producing the metals. During 2001, new mine plans developed for certain of the Company's Ontario operations' lower grade deposits had the effect of reducing the Proven and Probable Mineral Reserves for these operations at year-end 2001 from year-end 2000 by about 20 million tonnes, with a portion of this reduction being transferred into Mineral Resource estimates as of year-end 2001. For the Mineral Reserve estimates for Indonesia, during 2001 the Company and PT Inco revised the applicable cut-off grades by adopting the breakeven analysis and procedures that have been applied at the Ontario and Manitoba operations. As a result of this change, the average grade for PT Inco's Mineral Reserve estimates decreased as of year-end 2001 by approximately 0.1% with the tonnage remaining relatively unchanged after accounting for mining removal. Revenue assumptions are calculated using certain long-term metals prices (For nickel: \$3.20 per pound (LME cash nickel price), with adjustments made for special product premiums realized in Ontario and Manitoba; copper: \$1.00 per pound; cobalt: \$10.00 per pound; platinum: \$360 per ounce; palladium: \$250 per troy ounce; and gold: \$300 per troy ounce) and a long-term

U.S. dollar-Canadian dollar exchange rate of \$1.00 = \$1.43 and a long-term U.S. dollar-Indonesian rupiah exchange rate of \$1.00 = 9,500 Rp. Metal recoveries are estimated based on current operating plans. Operating costs include mining, processing, marketing, division and corporate administrative costs and certain development expenditures. Cut-off grades may vary for each ore block within a deposit depending on the mining method, mineralogy, ore chemistry and short-term variations in metals prices and/or production objectives during operations. Mining recovery and dilution factors have been assessed based on actual operating results adjusted for the particular mining method.

GORO AND VOISEY'S BAY

The cut-off grades used to estimate the Proven and Probable Mineral Reserves at the Voisey's Bay and Goro projects are based on the estimated operating and administrative costs from the most current feasibility assessments for these projects. Metal recoveries are estimated based on results from pilot plant tests at Goro. Mining methods, metals recovery rates and dilution factors are based on assessments made from mine design.

MINERAL RESOURCES

Mineral Resources as reported are in addition to the Mineral Reserves. Cut-off grades for such Mineral Resources are based on cost estimates appropriate to the mining and processing methods currently used to estimate the reported Mineral Resources, but may change with additional data and economic evaluations.

RISKS AND UNCERTAINTIES

Mineral Reserves and Mineral Resources are estimates of the size and grade of the deposits based on the assumptions and the parameters currently available. The level of confidence in the estimates depends upon a number of uncertainties. These uncertainties include, but are not limited to, future changes in metals prices and/or production costs, differences in size and grade and recovery rates from those expected, and changes in project parameters due to changes in production plans. The volume and grade of Mineral Reserves and Mineral Resources actually recovered from the Company's current Mineral Reserve and Mineral Resource estimates may be less than the estimates due to these uncertainties. In addition, market price fluctuations in nickel, other metals and exchange rates. and changes in operating and capital costs may in the future render certain Mineral Reserves uneconomic to mine. No assurance can be given that the estimates of Mineral Reserves or Mineral Resources will be recovered or that the Mineral Resources will be recovered at the rates anticipated by the Company. Mineral Reserve and Mineral Resource estimates are based on limited sampling and, consequently, are uncertain because the samples may not be representative of the entire orebody. As more knowledge and understanding of the orebody is obtained, the Mineral Reserve and Mineral Resource estimates may change significantly, either positively or negatively.

There are no known environmental, permitting, legal, ownership, taxation, political or other relevant issues that would materially affect the estimates of the Mineral Reserves and Mineral Resources at Ontario and Manitoba. Indonesia continued to be impacted by political and economic uncertainty during 2001. While recently enacted legislation covering protected forests in Indonesia would include some areas in PT Inco's "Contract of Work" concessionary areas, the Indonesian government has indicated that it is reviewing the scope of this legislation. The Company cannot determine at this time whether this legislation will have any significant effect on the PT Inco Mineral Reserve or Mineral Resource estimates. With respect to the Voisey's Bay estimates, the project's environ-

mental assessment process was completed in 1999 and approved by the Canadian federal and Newfoundland and Labrador provincial governments. Certain legal actions contesting this process were filed in 1999 but have been stayed through February 2002. While the Company does not believe that those legal actions, or the terms of any agreements with the Province of Newfoundland and Labrador on the development of the Voisey's Bay project and impact and benefit agreements with aboriginal groups covering the project, could materially affect these estimates, it cannot predict at this time whether such actions or agreements will have any material effect on the Mineral Reserve and Mineral Resource estimates for the project referred to in the table above. The required environmental and other permits and applications have been submitted to the appropriate regulatory authorities in New Caledonia covering the development of the Goro project. The public and governmental reviews of these permits and applications are expected to take place during the first half of 2002 and the Company does not currently believe that these reviews will have a significant effect on the Goro project's Mineral Reserve and Mineral Resource estimates.

NOTES

- 1 Mineral Reserves and Mineral Resources estimates listed are totals for the operation/projects indicated and assume that Inco owns all of such Mineral Reserves and Mineral Resources and, accordingly, are not based upon Inco's ownership interest in the operation or project or properties. Mineral Resources which are not Mineral Reserves have not been fully evaluated and do not have demonstrated economic viability as of December 31, 2001.
- 2 Completion of bankable feasibility studies, permitting and/or significant capital expenditures would be required before operations could commence at these locations.
- 3 The Company has additional possible mineral deposits in Indonesia and New Caledonia which have not yet been fully explored.
- 4 Mine type: OP = Open Pit, UG = Underground. With respect to the OP/UG Mineral Resources at the Manitoba operations, the UG Measured Mineral

Resource is 2 million tonnes grading 1.42% nickel and 0.11% copper, the UG Indicated Mineral Resource is 7 million tonnes grading 1.69% nickel and 0.12% copper, and the UG Inferred Mineral Resource is 8 million tonnes grading 1.6% nickel and 0.1% copper. The OP Indicated Mineral Resource at Manitoba is 38.0 million tonnes grading 0.61% nickel and 0.05% copper. At Voisey's Bay, the UG Indicated Mineral Resource is 88 million tonnes grading 1.33% nickel, 0.59% copper and 0.08% cobalt, the UG Inferred Mineral Resource is 14 million tonnes grading 1.0% nickel, 0.7% copper and 0.06% cobalt, and the OP Indicated Mineral Resource is 10 million tonnes grading 0.96% nickel, 0.72% copper and 0.05% cobalt.

5 Data is shown for the principal metals found at particular operations and project/properties. Average grades are shown either as a percentage (%) or in grams per tonne (g/mt).

FINANCIAL REVIEW

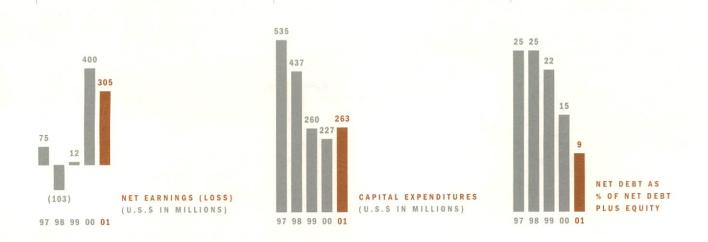
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FINANCIAL HIGHLIGHTS

(in millions of United States dollars except per share data and other information)		2001	2000	1999
FINANCIAL RESULTS				
Net sales	\$	2,066	\$ 2,917	\$ 2,113
Operating earnings		274	743	120
Net earnings		305	400	12
Net cash provided by operating activities		360	842	128
Capital expenditures		263	227	260
Return on year-end common shareholders' equity (%)	_	6.0	8.7	-
FINANCIAL POSITION				
Total assets	\$	9,587	\$ 9,676	\$ 9,560
Common shareholders' equity		4,571	4,290	3,291
Total debt		840	1,030	1,344
Net debt as % of net debt plus equity	9	9	15	22
DATA PER COMMON SHARE				
Net earnings (loss)	\$	1.52	\$ 2.06	\$ (0.08)
OTHER INFORMATION				
Employees at year-end		10,258	10,143	10,198
Common shareholders at year-end		20,837	21,607	22,481



OVERVIEW

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

2001

The nickel market in 2001 was a very challenging one compared with 2000 when total world demand for primary nickel achieved a record level. Market fundamentals weakened during 2001 as the world's major economies experienced softness and recessionary conditions intensified in the manufacturing sectors of virtually all of the OECD member countries. This weakness in demand was primarily concentrated within the Western World¹ where nickel demand declined significantly. While there was continued strength in nickel demand in China, for 2001 the Company estimates that there was an overall decline in nickel demand, on a Western World-plus-China basis, of approximately 3.2 per cent to 1,047,000 tonnes.

Virtually all major applications for nickel were adversely affected by the economic slowdown experienced in the Western World, including significant weakness in non-stainless applications. Non-ferrous nickel alloys and special powder applications were negatively affected by the substantial decline in electronic and telecommunication applications as manufacturing activity contracted largely in order to liquidate excess inventories that had been built up, particularly in Western World countries. Stainless steel, the largest end use of primary nickel, was also affected. Stainless steel producers in all major producing countries except Japan responded to the slowdown in demand with production cutbacks in order to prevent an accumulation of finished stainless steel inventory.

Western World-plus-China stainless steel production declined by 3.8 per cent to 18.4 million tonnes following an increase of 8.8 per cent in 2000. Primary nickel consumption in stainless steel applications, however, declined only slightly, aided by a reduction in the supply of stainless steel scrap to stainless steel producers in the second half of the year.

Growth in primary nickel supply² continued in 2001 as most producers increased production, particularly in the first half of the year. However, with the decline in nickel prices and weak market conditions, a number of production cutbacks were announced over the second half of 2001. Taking into account these production cutbacks, 2001 reflected a net increase in Western World-plus-China primary nickel production of 36,000 tonnes to 855,000 tonnes. The largest sources of this increase in supply were the continued ramping up of certain laterite projects in Australia and the commissioning of new capacity in Venezuela and Colombia. Western World-plus-China supply rose to 1,090,000 tonnes, reflecting increases in net supply from Russia, Cuba and Eastern Europe of 235,000 tonnes.

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

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

- 1 The world excluding the Russian Federation ("Russia") and other members of the former Commonwealth of Independent States ("CIS"), the People's Republic of China ("China"), Cuba and Eastern Europe given limited available data from these countries and regions.
- 2 Supply is defined as production of nickel in the Western World plus net trade in nickel with the former East Bloc countries (Russia, other members of the CIS, China and Eastern Europe).

The LME cash nickel price was \$5,680 per tonne (\$2.58 per pound) as of December 31, 2001. As of February 5, 2002, the LME cash nickel price was \$6,270 per tonne (\$2.84 per pound). The uncertain global economic environment that existed at the end of 2001 and into early 2002, to the extent it continues, would be expected to have a significant adverse effect on the Company's business and financial results given the correlation between industrial production and demand for primary nickel and the Company's other products.

2000

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

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

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

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

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

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

LME Average Cash Nickel Price

	2	2001	2000	1999	
Per tonne	\$ 5,	948	\$ 8,642	\$	6,015
Per pound	2	.70	3.92		2.73

RESULTS OF OPERATIONS

2001 COMPARED WITH 2000

Earnings Summary

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

Net Sales

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

Primary nickel sales decreased by 36 per cent in 2001 due to a 28 per cent decline in the Company's average realized price and an 11 per cent decline in deliveries. Total deliveries of nickel were lower in 2001 due to lower deliveries of purchased finished nickel, reflecting lower demand in all markets across the Western World due principally to the weakness experienced in the manufacturing sectors of virtually all of the OECD member countries. However, deliveries of Inco-source nickel increased by 4 per cent in 2001, reflecting higher production at the Company's 59 per cent-owned subsidiary, PT International Nickel Indonesia Tbk ("PT Inco"), and the

Company's Manitoba operations. Deliveries of finished nickel purchased from external sources, used by the Company to supplement Inco-source production as required, declined in 2001 as a result of higher Inco-source production in 2001 and lower demand.

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

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

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

Realized Prices

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

Deliveries and Net Sales by Product

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

¹ Excludes toll-refined materials.

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

increased by 17 per cent in 2001 due to higher deliveries from increased production.

Costs and Expenses/Other Income

(\$ millions)	20	01	2000	1999
Cost of sales and operating expenses	\$ 1,4	14	\$ 1,774	\$ 1,602
Depreciation and depletion	2	63	265	248
Selling, general and administrative	1	11	105	99
Research and development		20	22	21
Exploration		23	23	23
Currency translation adjustments	(39)	(15)	1-
Interest expense		56	83	73
Other income, net	(13)	(10)	(5)
Income and mining taxes	(84)	226	26
Minority interest		10	44	9

Cost of Sales and Operating Expenses

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

Depreciation and Depletion

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

Selling, General and Administrative

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

Research and Development

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

Exploration

Exploration expense in 2001 was comparable with the 2000 expense.

Currency Translation Adjustments

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

Interest Expense

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

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

Other Income, Net

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

Income and Mining Taxes

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

Minority Interest

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

Nickel Unit Production Costs

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

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

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

Energy Cost Advantages

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

Approximately 95 per cent of PT Inco's power requirements are met from its 165-megawatt hydroelectric generating facility at Larona and the newer facility at Balambano, which has an average design capacity of 93 megawatts. The availability of captive hydroelectric power decreased cash energy costs of PT Inco in 2001 by about 50 per cent, compared with about 52 per cent in 2000 and 53 per cent in 1999, relative to the energy costs that would have been incurred had PT Inco been totally energy dependent on oil.

Labour Contracts

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

Nickel Production

Nickel production increased by two per cent to 207,077 tonnes in 2001 from 202,806 tonnes in 2000. The increase was due to higher production from the Manitoba operations and PT Inco, partially offset by lower production from the Ontario operations. Production from the Manitoba operations increased as a result of processing higher volumes of purchased intermediates and the higher production at PT Inco reflected

the continuing ramp up to design capacity of the expanded processing facilities. The lower production at the Ontario operations was primarily due to the adverse impact of unexpected production disruptions in the third quarter of 2001, which were rectified. Finished nickel inventories were 26,517 tonnes at December 31, 2001, compared with 26,582 tonnes at the end of 2000.

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

Copper Production

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

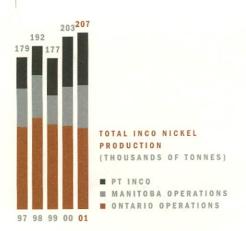
2000 COMPARED WITH 1999

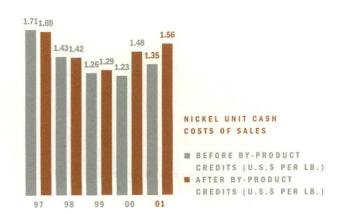
Earnings Summary

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

Net Sales

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





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

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

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

Cost of Sales and Operating Expenses

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

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

Depreciation and Depletion

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

Selling, General and Administrative

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

Research and Development

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

Exploration

Exploration expense in 2000 was comparable with 1999.

Currency Translation Adjustments

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

Interest Expense

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

Other Income, Net

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

Income and Mining Taxes

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

Minority Interest

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

Nickel Unit Production Costs

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

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

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

Nickel Production

Nickel production increased by 14 per cent to 202,806 tonnes in 2000 from 177,253 tonnes in 1999. This increase was due to higher production at PT Inco, as a result of the completed expansion, and higher production at the Manitoba operations where a three-month work stoppage in 1999 adversely

affected production levels. The Company's finished nickel inventories were 26,582 tonnes at December 31, 2000, compared with 24,333 tonnes at the end of 1999.

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

Copper Production

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

CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES

2001 COMPARED WITH 2000

Operating Activities

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

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

Investing Activities

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

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

Financing Activities

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

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

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

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

To provide liquidity for its operations, the Company maintains committed bank credit facilities aggregating \$575 million at

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

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

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

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

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

The Company's only significant off-balance sheet financing arrangements, in addition to the derivative instruments referred to under "Risks and Uncertainties" below, involved (i) accounts receivable securitized financing arrangements with unrelated entities under which up to approximately \$85 million in eligible receivables may be sold by the Company to these entities at any time and (ii) standby letters of credit and similar forms of security pledged to secure up to \$57 million in currently estimated pension obligations which are outside of the Company's funded pension plans referred to in Note 9 to the Consolidated Financial Statements. In addition, reference is made to Note 9 to the Consolidated Financial Statements for information concerning the Company's pension benefit obligations under its pension plans. Under the accounts receivable financing arrangements, a downgrading in the Company's credit ratings could give the purchaser of such receivables the right not to renew the arrangements. At December 31, 2001, the Company had a limited recourse liability of \$41 million in respect of the sale of undivided interests in certain accounts receivable in connection with these accounts receivable financing arrangement.

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

With respect to the Company's debt repayment obligations and mandatory redemption requirements over the 2002-2006 period, reference is made to (i) the discussion above relating

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

2000 COMPARED WITH 1999

Operating Activities

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

Investing Activities

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

Financing Activities

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

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

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

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

RISKS AND UNCERTAINTIES

MARKET RISK

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

The Company has engaged in transactions to reduce the impact of certain of these market risks to which it is exposed to a significant degree on its earnings and cash flows. The Company has established policies and procedures governing the use of derivative instruments to address certain market risks. These policies and procedures are intended to reduce certain of the uncertainties associated with the market risks specific to the Company's business and operations and reduce the effect of market fluctuations on its earnings and cash flows. The Company does not use these instruments for trading or speculative purposes. The Company only uses

derivative instruments based on an economic analysis of the underlying exposures, anticipating that adverse effects on future earnings and cash flows due to fluctuations in metals and commodities prices, foreign currency exchange rates and interest rates will be offset by proceeds from, and changes in the fair value of, the derivative instruments. The Company does not, however, hedge its exposure to all market risks and does not hedge its exposure to any market risk in a manner that completely eliminates the effects of changing market conditions on its earnings or cash flows.

METALS AND COMMODITIES RISK

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

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

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

PRINCIPAL DERIVATIVE INSTRUMENT POSITIONS

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

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

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

FOREIGN EXCHANGE RISK

By virtue of its international operations, the Company conducts business in a number of foreign currencies other than the U.S. dollar. These exchange rates have varied substantially in the last three years. A substantial portion of the Company's revenue is received in U.S. dollars since the price of nickel and other metals produced are generally referenced in U.S. dollars, while a significant portion of its costs and expenses are incurred in Canadian dollars. Fluctuations in

exchange rates between the U.S. dollar and the Canadian dollar and between the U.S. dollar and other currencies will give rise to foreign currency exposure, either favourable or unfavourable, which have materially affected and may in the future impact the Company's results of operations and financial condition. The Company's primary foreign exchange risk is to changes in the value of the Canadian dollar relative to the U.S. dollar. The Company reduces, from time to time, the impact of this risk by entering into forward currency contracts and foreign currency options. At the end of 2001, these contracts took the form of "range forward options," which effectively establish a minimum and maximum exchange rate for the Canadian dollar, and forward currency contracts that establish a fixed price for the future purchase of certain currencies in connection with the Goro project. The purpose of the Company's Canadian dollar hedging activities is to reduce the risk that the eventual U.S. dollar cash flows relating to a portion of its future Canadian production costs will be adversely affected by an appreciation of the Canadian dollar. The purpose of the Company's Euro and Australian dollar forward currency contracts is to hedge a portion of the future construction costs of the planned production facilities for the Goro project in the French Overseas Territory of New Caledonia.

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

INTEREST RATE RISK

The Company's exposure to changes in interest rates results from investing and borrowing activities undertaken to manage its liquidity and capital requirements. The Company generally has used fixed-rate debt to finance long-term investments, while variable-rate debt has been used to meet working capital requirements and related requirements on a more near-term basis. At December 31, 2001, approximately 55 per cent of the

Company's total debt, or \$460 million, was subject to variable interest rates. The impact of a 10 per cent change in interest rates, or 19 basis points, would change interest expense by \$1 million over a full year. At the end of 2001, the Company had entered into an interest rate swap agreement to manage the interest rate risk associated with a portion of its fixed-rate debt. The interest rate swap effectively changes the Company's exposure to interest rate risk by converting a portion of its fixed-rate debt to a floating rate.

SENSITIVITIES

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

Impact on

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

The changes in realized prices noted above reflect approximately 16 per cent of the value of nickel, 15 per cent of the value of copper, 14 per cent of the value of cobalt, 10 per cent of the value of platinum, 11 per cent of the value of palladium, 9 per cent of the value of fuel oil and 4 per cent of the

value of natural gas at the end of 2001. In respect of foreign currency dollar sensitivities, the changes reflect approximately two per cent of the value of the U.S. dollar relative to the Canadian dollar and 10 per cent of the value of the U.S. dollar relative to the Rupiah at the end of 2001.

Environmental Risk

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

Although the ultimate amount to be incurred is uncertain, the total liability for future removal and site restoration costs in respect of the Company's worldwide operations, to be incurred primarily after cessation of operations, is estimated to be approximately \$315 million at December 31, 2001. In recognition of this future liability, the Company, starting in 1995, has annually provided an accounting provision of \$10 million for future removal and site restoration costs, which is included in cost of sales and operating expenses. This amount is based upon the estimated remaining lives of the Company's applicable ore reserves and facilities and is in addition to ongoing operating and capital expenditures. The estimate of the total liability for future removal and site restoration costs has been developed from independent environmental studies, which include an evaluation of, among other factors, currently available information with respect to closure plans and closure alternatives, the anticipated method and extent of site restoration using current costs and existing technology, and compliance required by presently enacted laws, regulations and existing industry standards. The total liability for future removal and site restoration costs represents estimated expenditures associated with closure, progressive rehabilitation and post-closure care and maintenance. Potential recoveries of funds from the future sale of assets upon the ultimate closure of operations have not been reflected in the estimate of the total liability or related annual provision. Future changes, if any, to the estimated total liability, as a result of amended requirements, laws, regulations and operating assumptions may be significant and would be recognized prospectively as a change in accounting estimate, when applicable. Environmental laws and regulations are continually evolving in all areas in which the Company operates. Recent changes in mining regulations in the Province of Ontario have required the Company to provide letters of credit or other forms of financial security to fund the Company's future reclamation and restoration costs which are not expected to be incurred for many years if the Company were to no longer meet certain minimum investment-grade credit ratings for its outstanding publicly traded debt securities. Although the Company's debt securities are currently rated investment-grade, they were rated below investment-grade in recent times and there can be no assurance that this situation will not reoccur. If the Company were not able to maintain such ratings, it is currently estimated that such letters of credit or other forms of financial security associated with the currently estimated costs of the eventual future closure of mines and other facilities in Ontario would have to cover approximately \$290 million in such costs. Given the recent closure of two mines and the pending closure of another mine in Ontario, the Company was required under such mining regulations to provide surety bonds in the amount of \$23 million as of December 31, 2001 to secure such closure costs. In the case of the Manitoba operations, it is expected that, based upon recently enacted regulations in the Province of Manitoba, the Company will be required to provide some form of financial security for future reclamation and restoration costs. However, at these operations it is not currently expected that such security will be significant. These potential costs might not be incurred until many years in the future. If these requirements for letters of credit or other forms of financial security had to be satisfied, they could have an adverse effect on the amounts available for borrowing under the Company's bank credit facilities.

In September 2001, the Ontario Ministry of the Environment (MOE) issued a draft control order which will require reductions of sulphur dioxide (SO_2) emissions at the Ontario smelting operations by 34 per cent, from the current 265,000 tonnes to 175,000 tonnes annually, by the end of 2006. The Company has proposed a \$65 million (Cdn.\$100 million) investment in fluid bed roaster (FBR) off-gas scrubbing technology intended to reduce SO_2 emissions to the new levels mandated by the MOE by the end of 2006. The FBR technology would have the added benefit of decreasing total metal emissions of nickel, copper, arsenic and lead by 80 to 100 tonnes per year. The FBR project involves installation of water scrubbers that capture the SO_2 gases and particles before they escape the emissions stack.

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

Other changes in environmental legislation could have a material adverse effect on product demand, product quality and methods of production and distribution. The complexity and breadth of these issues make it difficult to predict their future impact on the Company. It is currently anticipated that capital expenditures and operating expenses will increase in the future as a result of the implementation of new and increasingly stringent environmental regulations. Compliance with environmental legislation can require significant expenditures and failure to comply with environmental legislation may result in the imposition of fines and penalties, liability for

clean-up costs, damages and the loss of important operating permits. Although the Company is committed to meeting environmental requirements, there can be no assurance that the Company will be able at all times to be in compliance with all environmental regulations or that steps to bring the Company into compliance would not materially adversely affect its business, financial condition or results of operations.

Other Risks

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

CRITICAL ACCOUNTING POLICIES

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

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

ACCOUNTING CHANGES IN 2001

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

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

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

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

ACCOUNTING CHANGES IN 2002

The Company will be adopting new standards of the CICA in respect of business combinations and goodwill for Canadian reporting purposes commencing in the first quarter of 2002. These standards conform substantially to new United States standards, which the Company will also adopt for United States reporting purposes commencing in the first quarter of 2002. In addition, the Company will be adopting a new United

States standard in respect of accounting for the impairment or disposal of long-lived assets for United States reporting purposes commencing in the first quarter of 2002. The effect of adopting these standards is described in Note 20 to the Consolidated Financial Statements.

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

ACCOUNTING CHANGES IN 2003

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

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

OTHER INFORMATION

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

Reference is made to "Investor Information" on page 73 of this Report for certain information on governmental and other policies and factors affecting the Company's operations and investments by non-Canadians in the Company's securities. Reference is also made to "Quarterly Financial Information" on page 73 of this Report for the Company's quarterly net sales, net earnings and earnings per share data for 2001 and 2000.

OUTLOOK

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

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

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

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

At the Ontario operations, work continued on development of the new area of mineralization near the existing Totten Mine which was discovered in 1999. The environmental permitting process for this deposit began in 2001 and initial production is currently estimated for 2005. In addition, development continued on the Creighton Deep project, with \$13 million of capital expenditures in 2001. Initial ore production began in 2001. In 2002, annual production from Creighton Deep is expected to be 2,300 tonnes of nickel, 1,200 tonnes of copper and 2,200 troy ounces of platinum-group metals. This production level is expected to increase in later years to 8,200 tonnes of nickel, 4,000 tonnes of copper and 7,100 troy ounces of platinum-group metals annually. Ore development of a second area of Creighton Deep is expected to begin in 2003 with production beginning in 2006 at similar annual production rates. The Company decided in 2000 to proceed with development of a low-grade zone at Stobie Mine. This development is expected to result in Stobie production of approximately 23,000 tonnes of contained nickel per year from 2002 to 2005. In 2000, the Company announced plans for a \$33 million development of a high-grade nickel deposit

at McCreedy East Mine. This project is underway and will allow McCreedy East Mine to gradually increase its production by approximately 55 per cent from current levels by 2004.

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

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

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

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

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

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

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

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

TO THE SHAREHOLDERS OF INCO LIMITED:

We have audited the consolidated balance sheet of Inco Limited as at December 31, 2001, 2000 and 1999 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended appearing on pages 45 through 71 of this Annual Report. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

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Chartered Accountants Toronto, Ontario

February 5, 2002

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 accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgements. The financial information presented throughout this Annual Report is consistent with the data presented in the consolidated 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 audit examinations of the consolidated financial statements appears above, also review our systems of internal accounting control in

accordance with Canadian and United States generally accepted auditing standards for the purpose of expressing their opinion on the consolidated financial statements.

Financial management personnel, our internal auditors and our independent auditors meet with the Audit Committee of the Board of Directors at least four times a year to report on accounting, auditing, internal accounting control and financial reporting matters. The Audit Committee also has other duties which are summarized on page 74. This Annual Report has been reviewed and approved by the Board of Directors.

Scot M. Hand

Deputy Chairman and Chief Executive Officer

Executive Vice-President and Chief Financial Officer

February 5, 2002

CONSOLIDATED STATEMENT OF EARNINGS

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

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

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

The Notes to Consolidated Financial Statements on pages 48 through 71 are an integral part of these statements.

CONSOLIDATED BALANCE SHEET

December 31 (in millions of United States dollars)		2001		2000		1999 Restated)
ASSETS						/
CURRENT ASSETS						
Cash and marketable securities (Notes 17 and 19)	\$	306	\$	193	\$	38
Accounts receivable		277	Ψ	310	Þ	318
Inventories (Note 6)		500		520		472
Other (Note 3)		44		33		472
Total current assets		1,127		1.056		872
Property, plant and equipment (Note 7)		8,217		8.352		8,472
Deferred charges and other assets		243		268		216
Total assets	S	9,587	\$	9,676	S	
	\$	3,301	Ф	9,070	Э	9,560
LIABILITIES AND SHAREHOLDERS' EQUITY CURRENT LIABILITIES						
Long-term debt due within one year (Notes 8 and 17)	\$	81	\$	78	\$	190
Accounts payable		132		163	Ψ	120
Accrued payrolls and benefits		107		106		118
Other accrued liabilities		189		159		152
Income and mining taxes payable		58		185		152
Total current liabilities	10	567		691		580
DEFERRED CREDITS AND OTHER LIABILITIES		001		001		500
Long-term debt (Notes 8 and 17)		759		952		1.154
Deferred income and mining taxes (Note 3)		2,117		2,401		2.475
Post-retirement benefits (Note 9)		451		469		479
Future removal and site restoration costs (Note 10)		49		47		46
Minority interest		350		334		289
Total liabilities		4,293		4,894		5.023
Contingencies (Note 18)		.,		1,001		5,025
SHAREHOLDERS' EQUITY						
Notes (Note 11)		231		_		_
Preferred shares (Note 12)		472		472		471
Class VBN shares (Note 13)		_		_		753
Common shareholders' equity						
Common shares issued and outstanding 182,192,732						
(2000 - 181,807,214; 1999 - 181,569,141) (Notes 14 and 15)		2,756		2.751		2,747
Warrants (Note 13)		62		62		
Contributed surplus (Note 13)		559		559		_
Retained earnings		1,194		918		544
		4,571		4.290		3,291
Contingently issuable equity (Notes 12 and 14)	-	20		20		22
Total shareholders' equity		5,294		4,782		4,537
Total liabilities and shareholders' equity	S	9,587	\$	9,676	\$	9,560
		-,	Ψ	0,010	Ψ	0,000

The Notes to Consolidated Financial Statements on pages 48 through 71 are an integral part of these statements.

Approved by the Board of Directors:

Scot m. Hand

SCOTT M. HAND

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

The Notes to Consolidated Financial Statements on pages 48 through 71 are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

PRINCIPLES OF CONSOLIDATION

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

ESTIMATES

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

TRANSLATION OF CONSOLIDATED FINANCIAL STATEMENTS INTO UNITED STATES DOLLARS

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

CASH AND MARKETABLE SECURITIES

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

INVENTORIES

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

PROPERTY, PLANT AND EQUIPMENT

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

REVENUE RECOGNITION

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

EXPLORATION

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

DEPRECIATION AND DEPLETION

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

ENVIRONMENTAL EXPENDITURES

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

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

INCOME AND MINING TAXES

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

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

FINANCIAL INSTRUMENTS AND COMMODITIES CONTRACTS

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

POST-RETIREMENT BENEFITS

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

STOCK COMPENSATION PLANS

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

NET EARNINGS (LOSS) PER COMMON SHARE

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

2. CHANGES IN ACCOUNTING POLICIES

(a) EARNINGS PER SHARE

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

(b) INTERIM FINANCIAL STATEMENTS

Effective January 1, 2001, the Company adopted, retroactively, a new accounting standard of the CICA in respect of interim financial statements. As a consequence, the Company changed its accounting policy, for interim reporting purposes only, in connection with the timing of recognizing the costs associated with its planned annual shutdown of operations for maintenance. Previously, these costs were expensed evenly over the year whereas under the new standard such costs are expensed in the period in which they are incurred. Certain quarterly 2000 and 1999 comparative figures have been restated in connection with the retroactive adoption of this new accounting standard.

(c) STOCK-BASED COMPENSATION

Effective January 1, 2001, the Company adopted, retroactively, a new accounting standard of the CICA in respect of stock-based compensation and other stock-based payments. The standard requires either the recognition of a compensation expense for grants of stock, stock options and other equity instruments to employees, based on the estimated fair value of the instrument at the grant date, or, alternatively, the disclosure of pro forma net earnings and earnings per share data, as if stock-based compensation had been recognized in earnings. As the Company elected to disclose pro forma net

earnings and earnings per share data there was no effect of adopting this change in accounting on the Company's results of operations and financial position.

(d) INCOME AND MINING TAXES

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

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

(e) POST-RETIREMENT BENEFITS

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

3. INCOME AND MINING TAXES

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

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

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

Year ended December 31	2	001	2000	1999
Canada	\$	144 87	\$ 392 278	\$ (106) 158
Foreign	\$	231	\$ 670	\$ 52

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

Year ended December 31	2001	2000	1999 (Restated)
Provision (relief)			
Combined Canadian federal-provincial statutory		277 - 247	
income tax rate	40.6%	41.5%	41.7%
Resource and depletion allowances	(10.2)	(8.7)	(26.5)
Adjusted income tax rate	30.4	32.8	15.2
Mining taxes	7.5	8.9	19.7
Willing taxes	37.9	41.7	34.9
Currency translation adjustments	0.5	1.6	45.3
Foreign tax rate differences	(4.3)	(5.1)	(32.1)
Effect of tax rate changes on deferred taxes	(74.8)	(10.0)	_
	4.3	5.5	1.9
Other Effective income and mining tax rate	(36.4)%	33.7%	50.0%

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

December 31		2001		2000		1999
Liabilities:		0.047	Ć.	0.500	\$	2,683
Property, plant and equipment	\$	2,247	\$	2,562	P	Actual Actual Species
Post-retirement benefits		29		24		27
Other		3		2		10
Other	_	2,279		2,588		2,720
Assets:		4		100		178
Accounting provisions not currently deductible for tax		157		182		-
Tax loss carryforwards		53		17		81
Other		5		5		3
Other		215		204		262
Valuation allowance		(53)		(17)		(17)
Yanaanon anomanoo	·	162		187		245
Net deferred income and mining tax liability	\$	2,117	\$	2,401	\$	2,475

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

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

4. NET EARNINGS (LOSS) PER COMMON SHARE

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

Year ended December 31		2001	(1	2000 Restated)	(1999 Restated)
BASIC EARNINGS (LOSS) PER SHARE COMPUTATION						•
Numerator:						
Earnings from continuing operations	S	305	S	400	\$	17
Dividends on preferred shares	*	(26)	•	(26)	Ψ	(26)
Accretion of notes		(3)		(20)		(20)
Earnings (loss) from continuing operations applicable to common shares	\$	276	\$	374	\$	(9)
Denominator:	-			011	Ψ	(3)
Weighted-average common shares outstanding (millions)		182		182		176
Basic earnings (loss) per common share	\$	1.52	S	2.06	\$	(0.05)
DILUTED EARNINGS (LOSS) PER SHARE COMPUTATION	-					(0.00)
Numerator:						
Earnings (loss) from continuing operations applicable to common shares						
Dilutive effect of:	\$	276	\$	374	\$	(9)
Convertible debentures				4.0		
Earnings (loss) from continuing operations	_	6		13		
applicable to common shares, assuming dilution	ć	202	•	207		(0)
Denominator:	\$	282	\$	387	\$	(9)
Weighted-average common shares outstanding (millions)		182		182		176
Dilutive effect of:		102		102		1/0
Class VBN shares				12		
Convertible debentures		6		10		-
Stock options		1		1 0		
Weighted-average common shares outstanding, assuming dilution	10	189		205		176
Diluted earnings (loss) per common share	\$	1.49	\$	1.89	\$	(0.05)

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

5. DISCONTINUED OPERATIONS

On October 28, 1998, the Company completed the sale of its 100 per cent interest in Inco Alloys International (IAI), its former alloys business segment, for gross proceeds of \$365 million. An after-tax gain of \$20 million from the sale of

IAI was recorded in the fourth quarter of 1998. In accordance with the terms of the definitive agreement covering the sale, the sale price was subject to a post-closing adjustment based upon certain changes in IAI's net worth up to closing. The process for determining this adjustment was completed in October 1999, resulting in a \$5 million effective reduction in the sale price and a corresponding \$5 million loss from discontinued operations recorded in the third quarter of 1999.

6. INVENTORIES

Inventories consisted of the following:

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

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

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

The Company reviews and evaluates its property, plant and equipment for impairment when events or changes in economic and other circumstances indicate that the carrying value of such assets may not be fully recoverable. The net recoverable value of an asset is calculated by estimating undiscounted future net cash flows from the asset together with the asset's residual value. Future net cash flows are developed using assumptions that reflect the Company's planned course of action for an asset given the Company's best estimate of the most probable set of economic conditions. Evaluation of the future cash flows from major development projects such as the Voisey's Bay and Goro projects entails a number of assumptions regarding project scope, the timing, receipt and terms of regulatory approvals, estimates of future metal prices, estimates of the ultimate size of the deposits, ore grades and recoverability, commercial viability of new technological processes, timing of

commercial production, production volumes, operating and capital costs, and foreign currency exchange rates. Inherent in these assumptions are significant risks and uncertainties. It is possible that events such as any eventual agreements with governments and other interested parties to enable the development of the Voisey's Bay project to proceed or changes in future economic conditions and other circumstances, and the resulting adverse impact on some or all of these assumptions, may require a significant reduction in the carrying value of the Voisey's Bay project.

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

8. LONG-TERM DEBT

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

December 31	2001		2000		1999
INCO LIMITED					
U.S.\$ bank credit facilities (a)	\$ -	\$	34	S	109
5.75% Convertible U.S.\$ Debentures (2004)(b)	173	1,000	173		173
15.75% Sterling Unsecured Loan Stock (2006)(c)	45		45		45
7.75% Convertible U.S.\$ Debentures (2002-2016)(d)	160		160		160
9.6% U.S.\$ Debentures (2022)(e)	159		159		181
9.875% U.S.\$ Debentures (f)	_		91		143
Other	-		-		104
PT INTERNATIONAL NICKEL INDONESIA TBK					
U.S.\$ Loan facility (3.5%)(2002-2006)(g)	292		356		421
OTHER					
Other (5.1%)(2002-2010)	11		12		8
	840		1,030		1,344
Long-term debt due within one year	81		78		190
	\$ 759	\$	952	\$	1,154

- (a) The Company maintains committed bank credit facilities aggregating \$575 million at December 31, 2001. The facilities are provided by a group of banks under separate agreements. the terms of which are substantially the same. The facilities are divided equally between a five-year revolving commitment and a 364-day revolving commitment. The revolving period of each of the facilities may be extended for an additional 364day period at the discretion of the respective bank and any amounts outstanding at the maturity of the revolving period are repayable at that time. In addition, the Company maintains committed four-year revolving bank credit facilities aggregating \$75 million at December 31, 2001. The revolving period of the facilities may be extended for an additional 364-day period at the discretion of the respective bank and any amounts outstanding at the maturity of the revolving period are repayable at that time. The facilities currently bear interest, when drawn, at one per cent over the London Interbank Offered Rate (LIBOR). Each such credit facility provides that, so long as advances are outstanding, the Company will be required to maintain a ratio of Consolidated Indebtedness to Tangible Net Worth, as defined, not to exceed 50:50 and ensure that its Tangible Net Worth, as defined, is not less than \$1,500 million. At December 31, 2001, the ratio of Consolidated Indebtedness to Tangible Net Worth was 14:86 and Tangible Net Worth was \$4,781 million.
- (b) The 5.75 per cent Convertible U.S.\$ Debentures, which are listed on the New York Stock Exchange, are convertible, at the option of the holders, into Common Shares of the Company, at a conversion price of U.S.\$30 per share. The Debentures are redeemable, at the Company's option, commencing in 1999 at an initial premium of 2.875 per cent, declining annually to redemption at par in 2004.
- (c) The 15.75 per cent Sterling Unsecured Loan Stock is redeemable in 2006 in sterling or, at the option of the holders, in U.S. dollars at a fixed exchange rate of one pound sterling to \$1.98.
- (d) The 7.75 per cent Convertible U.S.\$ Debentures, which are listed on the New York Stock Exchange, are convertible, at the option of the holders, into Common Shares of the Company at a conversion price of U.S.\$38.25 per share. The Debentures are redeemable, at the Company's option, in 1999 at a premium of 1.55 per cent, declining annually to redemption at par in 2001 and thereafter.
- (e) The 9.6 per cent U.S.\$ Debentures are redeemable, at the Company's option, commencing in 2002 at an initial premium of 4.8 per cent, declining annually to redemption at par in 2012 and thereafter. The Company has swapped the interest payments under the Debentures in exchange for a floating rate of 3.05 per cent over LIBOR.

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

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

Interest expense on long-term debt for the years 2001, 2000 and 1999 was \$54 million, \$76 million and \$67 million,

respectively. The average effective interest rate on long-term debt at December 31, 2001 was 5.5 per cent. Approximately 55 per cent of long-term debt bears interest at rates that are subject to periodic adjustments based on market interest rates. Approximately 99 per cent of long-term debt is effectively payable in U.S. dollars.

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

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

9. POST-RETIREMENT BENEFITS

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

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

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

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

		Pensio	n benefits		Po	st-retiremer	nt ben	efits other	than p	ensions
December 31	2001		2000	1999		2001		2000		1999
Deferred charges and other assets Accrued payrolls and benefits Post-retirement benefits	\$ 120 (12) -	\$	97 (12)	\$ 79 (12)	\$	- (29) (451)	\$	(19) (469)	\$	(19) (479)
Net post-retirement benefits asset (liability)	\$ 108	\$	85	\$ 67	\$	(480)	\$	(488)	\$	(498)

Post-retirement benefits expense included the following components:

		Pensio	n benefits		Pos	t-retireme	nt bene	efits other	than pe	ensions
Year ended December 31	2001		2000	1999		2001		2000		1999
Service cost	\$ 27	\$	29	\$ 27	\$	6	\$	6	\$	6
Interest cost	138		138	128		39		38		37
Expected return on plan assets	(150)		(146)	(132)		_		_		-
Amortization of actuarial and investment losses	17		9	24		4		3		7
Amortization of unrecognized prior service costs	18		24	20		_		_		_
Curtailment loss	-		-	25		_		_		_
Defined benefit pension and post-retirement				55,100						
benefits other than pensions expense	50		54	92		49		47		50
Defined contribution pension expense	4		4	4		_		=		_
Post-retirement benefits expense	\$ 54	\$	58	\$ 96	\$	49	\$	47	\$	50

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

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

	Pen	Post-retirement b	enefits other than	pensions		
December 31	2001	2000	1999	2001	2000	1999
Discount rate	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Expected return on plan assets	9.0%	9.0%	9.0%			
Rate of compensation increase	3.0%	3.0%	3.0%			

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

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

		Pensi	on benefits	
December 31	2001		2000	1999
Projected benefits obligation	\$ 1,940	\$	1,947	\$ 1.295
Fair value of plan assets	1,415		1,562	1,046
Unfunded status	\$ (525)	\$	(385)	\$ (249)

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

	Post-retire other th		
	1% Increase	1% [ecrease
Effect on accumulated benefits obligation	\$ 85	\$	(69)
Effect on net periodic expense	7		(6)

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

10. FUTURE REMOVAL AND SITE RESTORATION COSTS

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

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

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

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

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

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

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

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

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

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

11. NOTES

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

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

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

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

Changes in the LYON Notes were as follows:

	A	Amount
DECEMBER 31, 2000	\$	_
Notes Issued		226
Accretion of notes		5
DECEMBER 31, 2001	\$	231

12. PREFERRED SHARES

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

PREFERRED SHARES SERIES E

On August 21, 1996, the Company issued 9,424,657 5.5 per cent Convertible Redeemable Preferred Shares Series E ("Preferred Shares Series E"), with an issue price of U.S.\$50 per share, for an aggregate face value of \$471 million as partial consideration for the acquisition of Diamond Fields Resources Inc. ("Diamond Fields"). The Preferred Shares Series E have an annual cumulative dividend of 5.5 per cent payable in U.S. dollars or the equivalent in Canadian dollars. The Preferred Shares Series E are convertible at any time into Common Shares of the Company at a conversion rate, subject to certain adjustments in the event of stock splits, stock dividends, certain exchange or tender offers and certain fundamental corporate changes, of 1.19474 Common Shares for each Preferred Share Series E and are redeemable at the option of the Company after five years at an initial premium of 2.75 per cent, declining annually to 0.55 per cent in 2005, and are subject to mandatory redemption at the \$50 issue

price (or the equivalent in Canadian dollars at the option of the holder), together with all then accrued and unpaid dividends, on August 21, 2006. The Company has the right, subject to certain exceptions, to satisfy the optional or mandatory redemption price payable by issuing Common Shares of the Company based upon a formula equivalent to 95 per cent of a weighted-average trading price for the Common Shares over a 20-day period ending five days prior to the particular redemption date. The Preferred Shares Series E have general voting rights on the basis, subject to certain adjustments in the event of certain fundamental corporate changes, of one vote per share and have a separate series vote in the event of certain fundamental changes which require a series vote under applicable corporate laws. The Preferred Shares Series E also have a right to elect two Directors in the event that, and so long as, cumulative quarterly dividends on the series are in arrears for six or more quarters.

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

Changes in the Preferred Shares Series E were as follows:

	Number of shares	Amou
DECEMBER 31, 1998	9,427,261	\$ 47
Shares issued upon exercise of		
former Diamond Fields' stock options	3,367	
DECEMBER 31, 1999	9,430,628	47
Shares converted to Common Shares	(3)	
Shares issued upon exercise of former Diamond Fields' stock options	9,100	
DECEMBER 31, 2000	9,439,725	47
Shares converted to Common Shares	(25)	
DECEMBER 31, 2001	9,439,700	\$ 47

13. CLASS VBN SHARES AND WARRANTS

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

Effective December 14, 2000, pursuant to amendments to the terms of the Class VBN Shares approved at the special shareholders' meeting held on November 28, 2000, the Company redeemed each of its Class VBN Shares for Cdn.\$7.50 cash (or the equivalent in U.S. dollars) and a fraction, 0.45, of an Inco Common Share purchase warrant (a "Warrant") having an exercise price, for each whole Warrant, of Cdn.\$30.00 (or the equivalent in U.S. dollars) for the purchase of one Common

Share at any time on or before August 21, 2006. The exercise price and/or the number and kind of securities issuable on the exercise of the Warrants are subject to adjustment in certain events, as set forth in the Warrant Agreement dated as of December 1, 2000 among the Company, CIBC Mellon Trust Company and ChaseMellon Shareholder Services LLC, as Canadian and U.S. Warrant Agents, respectively, covering the issuance of the Warrants. These adjustments include, among others, certain changes in the capital structure of the Company such as any subdivision or consolidation of Common Shares, stock dividends or other distributions, the consolidation, amalgamation or merger of the Company with another company, or the transfer of all or substantially all of the Company's assets.

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

Changes in the Class VBN Shares were as follows:

	Number of shares	Amount
DECEMBER 31, 1998	25,902,468	\$ 753
Shares issued upon exercise of former Diamond Fields' stock options	9,250	-
DECEMBER 31, 1999	25,911,718	753
Shares issued upon exercise of former Diamond Fields' stock options	25,000	1
Shares redeemed	(25,936,718)	(754)
DECEMBER 31, 2000 AND 2001	-	\$ -

Changes in the Warrants were as follows:

	Number of warrants	Ar	mount
DECEMBER 31, 1999	-	\$	_
Warrants issued	10,997,903		62
DECEMBER 31, 2000	10,997,903		62
Warrants issued	26,987		-
Warrants exercised	(2,943)		
DECEMBER 31, 2001	11,021,947	S	62

14. COMMON SHARES

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

Changes in the Common Shares were as follows:

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

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

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

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

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

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

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

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

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

15. STOCK COMPENSATION PLANS

The Company's stock option plans authorize the granting of options to key employees to purchase Common Shares and Class VBN Shares at prices not less than 100 per cent of their market value on the day the option is granted. The 2001 plan, which replaced the 1997 plan and has a term of five years, authorized the granting of options to purchase up to 6,000,000 Common Shares.

The Company's stock option plans provide that no shares subject to option shall be purchasable after 10 years from the date of grant and also include an anti-dilution provision to protect the option-holder in the event of stock splits or other significant capital changes.

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

One-half of stock options granted are exercisable on or after 6 months from the grant date, with the remaining options exercisable on or after 18 months from the grant date.

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

Changes in Common Share options outstanding are summarized as follows:

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

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

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

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

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

The expiration dates of Common Share options outstanding at December 31, 2001 ranged from April 21, 2003 to February 6,

2011. At December 31, 2001, there were 317 employees participating in the Common Share option plans.

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

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

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

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

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

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

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

16. NATURE OF OPERATIONS AND SEGMENT INFORMATION

The Company is a leading producer of nickel and an important producer of copper, precious metals and cobalt. The Company's operations consist of the finished products segment, which comprises the Company's mining and processing operations in Ontario and Manitoba, Canada, the Company's refining operations in the United Kingdom and interests in refining operations in Japan and other Asian countries, and

the intermediates segment, which comprises the Company's mining and processing operations in Indonesia, where nickel in matte, an intermediate product, is produced and sold primarily into the Japanese market. In addition, the Company holds mineral claims and licenses covering the undeveloped Voisey's Bay nickel-copper-cobalt deposit in the Province of Newfoundland and Labrador.

Net sales to customers by product were as follows:

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

Net sales to customers include sales at market prices to affiliates in Taiwan and South Korea aggregating \$245 million in 2001, \$556 million in 2000 and \$456 million in 1999. No single non-affiliated customer accounted for more than

10 per cent of the Company's total sales in 2001, 2000 or 1999. At December 31, 2001, accounts receivable included amounts due from affiliates of \$23 million (2000 - \$57 million; 1999 - \$76 million).

DATA BY OPERATING SEGMENTS

Year ended December 31		Finis	shed pro	ducts		In	termedia	ites		Voise	y's Bay p	project		Eli	mination	15			Total		
		2001	2000	1999 Restated		2001	2000	1999		2001	2000 (F	1999 Restated)	:	2001	2000	1999		2001	2000	1999 Restated	
Net sales to customers	\$2	2,007	2,836	2,069	\$	59	81	44	\$		-	-	\$	-	-	-	\$2	2,066	2,917	2,113	
Intersegment sales		-	-	-		237	321	165		-	-	-		(237)	(321)	(165))	_	-	_	
Net sales	\$2	2,007	2,836	2,069	\$	296	402	209	\$	-	2		\$	(237)	(321)	(165)	\$2	2,066	2,917	2,113	
Segment operating															-						
earnings (loss)	\$	255	636	178	\$	34	151	36	\$	(6)	(7)	(8)	\$	15	5	(26)	\$	298	785	180	
Currency translation adjustments																		(39)	(15)	-	
Corporate selling, general and administrative expenses																		63	57	60	
Operating earnings																		274	743	120	
Interest expense																		56	83	73	
Other income, net																		(13)	(10)	(5	
Earnings before income and mining taxes and minority interest																	5	231	670	52	
Depreciation and depletion	S	190	196	196	Ś	73	68	52	S	_	1	_	s	_	_		5	263	265	248	
Capital expenditures	s	225	183	114	-		33	130	_	9	11	16	\$	_	_		5	263	227	260	
Identifiable assets	_				_			100					_				_	200	221	200	
at December 31	\$2	,309	2,445	2,343	\$	1,230	1,301	1,310	\$5	.532	5,647	5,712	\$	(5)	(20)	(25)	SS	9,066	9.373	9,340	
Other assets														, - /	,/	- (100)		521	303	220	
Total assets at December 31																	\$5	9,587	9.676	9,560	

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

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

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

17. FINANCIAL INSTRUMENTS AND COMMODITIES CONTRACTS

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

December 31	2001			2000			1999					
		Carrying value		Fair value		Carrying value		Fair value		Carrying value		Fair value
Financial assets:												
Cash and marketable securities	\$	306	\$	307	\$	193	\$	195	\$	38	\$	38
Deferred charges and other assets		243		221		268		249		216		204
Financial liabilities:												
Long-term debt including amount due												
within one year		840		832		1,030		1,016		1,344		1,312
Derivatives:												
LME forward nickel contracts		-		1		-		(3)		·-		(7)
Nickel put options		-		-		11-		5		s. -		-
Palladium swaps				21		-		(10)		-		-
Platinum swaps		-		3		-		-		-		-
Oil swaps		-		(2)		-		_		_		2
Forward currency contracts		-		(4)		_		1		_		2
Currency call option contracts		-		-		-		-		-		1
Interest rate swap		-		(4)		_		-		1 -		_

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

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

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

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

At December 31, 2001, the Company had outstanding currency call option contracts, giving it the right but not obligation, to purchase Cdn.\$20 million at an average rate to U.S. dollars of \$0.655 in the first quarter of 2002, and outstanding currency put option contracts, giving the buyer the right but not obligation, to sell to the Company Cdn.\$20 million at an average rate to U.S. dollars of \$0.638 in the first quarter of 2002. The purpose of the Company's Canadian dollar hedging activities is to reduce the risk that the eventual U.S. dollar cash flows relating to a portion of its future Canadian production costs will be adversely affected by an appreciation of the Canadian dollar.

18. CONTINGENCIES

In the course of its operations, the Company is subject to environmental and other claims and legal proceedings.

At December 31, 2001, the Company had outstanding forward currency contracts to purchase Aus.\$290 million, EUR 305 million and Cdn.\$35 million at average exchange rates of \$0.505, \$0.892 and \$0.643, respectively, during 2002 and 2003. The purpose of these contracts is to hedge a portion of the future construction costs of the Company's planned production facilities for the Goro project in New Caledonia.

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

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

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

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

The Company does not believe that any such pending claims or proceedings will significantly impair its operations or have a material adverse effect on its financial position.

19. CASH FLOWS

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

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

20. SIGNIFICANT DIFFERENCES BETWEEN CANADIAN AND UNITED STATES GAAP

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

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

Year ended December 31		2001	2000	1999
Earnings from continuing operations - Canadian GAAP	\$	305	\$ 400	\$ 17
Increased post-retirement benefits expense (a)		(13)	(13)	-
Increased interest expense (b)		(7)	-	-
Unrealized net loss on derivative instruments (c)		(2)	-	-
Earnings from continuing operations - United States GAAP	9	283	387	17
Discontinued operations		-	-	(5)
Net earnings - United States GAAP	\$	283	\$ 387	\$ 12
Other comprehensive income (loss) (h):				
Unrealized net loss on derivatives designated				
as cash flow hedges at January 1, 2001 (c)		4	-	-
Reclassification to earnings of net loss on				
derivatives designated as cash flow hedges (c)		(4)	-	-
Changes in fair value of derivatives designated as cash flow hedges (c)		23	-	1.
Unrealized gains (losses) on long-term investments (e)		(3)	(7)	(12)
Unrealized gains (losses) on marketable securities (e)		(1)	2	
Long-term investments reclassifications (e)		-	-	6
Minimum additional pension liability adjustment (a)		(180)	(155)	(17)
Taxes on other comprehensive income (loss)		56	65	8
Other comprehensive loss - United States GAAP (h)		(105)	(95)	(15)
Comprehensive income (loss) - United States GAAP (h)	\$	178	\$ 292	\$ (3)
Earnings (loss) from continuing operations per share - United States GAAP (d)	*			
Basic	\$	1.41	\$ 1.99	\$ (0.05)
Diluted	\$	1.39	\$ 1.82	\$ (0.05)
Net earnings (loss) per share - United States GAAP (d)				
Basic	\$	1.41	\$ 1.99	\$ (0.08)
Diluted	\$	1.39	\$ 1.82	\$ (0.08)

(a) POST-RETIREMENT BENEFITS

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

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

United States GAAP also require the recognition of a minimum additional pension liability in the amount of the excess of the Company's unfunded accumulated benefits obligation over

the recorded pension benefits liability; an offsetting intangible pension asset is recorded equal to the unrecognized prior service costs, with any difference recorded as a reduction in accumulated other comprehensive income. At December 31, 2001, the minimum additional pension liability would have been \$582 million (2000 - \$423 million; 1999 - \$232 million) and the intangible pension asset would have been \$67 million (2000 - \$88 million; 1999 - \$52 million), resulting in a \$309 million reduction, after taxes, (2000 - \$194 million; 1999 - \$105 million) in accumulated other comprehensive income.

(b) NOTES

Under Canadian GAAP, the LYON Notes are classified as an equity instrument. The LYON Notes accrete over the 20-year term of the LYON Notes to their value at maturity through periodic after-tax charges to retained earnings. Under United States GAAP, the LYON Notes would be accounted for as debt and, accordingly, accretion charges and amortization of debt issuance costs would be recorded as interest expense. The holders of LYON Notes have a special conversion right exercisable on April 1, 2002, and on March 29 in 2007, 2011 and

2016, giving such holders the right to convert the then accreted value of their LYON Notes into Common Shares. For United States GAAP, the LYON Notes would be classified as current debt in the 12-month periods in advance of such special conversion dates and as long-term debt during the remainder of their 20-year term.

(c) DERIVATIVE INSTRUMENTS

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

The Company uses LME forward nickel contracts to hedge the effect of fluctuations in the price of nickel with respect to sales of Inco-source nickel to customers for delivery three or more months in the future. These LME forward nickel contracts have been designated as fair value hedges in connection with firm sale commitments. For the year ended December 31, 2001, a gain of \$0.9 million before taxes (\$0.5 million after taxes) was credited to net sales due to the ineffectiveness of such outstanding fair value hedges and a gain of \$0.1 million was credited to other income, net due to hedged firm commit-

ments no longer qualifying as a fair value hedge. The Company also entered into an interest rate swap agreement for interest rate risk exposure management purposes, which has been designated as a fair value hedge of a portion of its fixed-rate debt. The interest rate swap agreement utilized by the Company effectively modifies the Company's exposure to interest risk by converting a portion of the Company's fixed-rate debt to a floating rate.

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

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

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

(d) EARNINGS (LOSS) PER SHARE

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

Year ended December 31		2001	2000		1999
BASIC EARNINGS (LOSS) PER SHARE COMPUTATION					
Numerator:				928	
Earnings from continuing operations	\$	283	\$ 387	\$	17
Dividends on preferred shares		(26)	(26)		(26)
Earnings (loss) from continuing operations applicable to common shares	\$	257	\$ 361	\$	(9)
Denominator:					
Weighted-average common shares outstanding (millions)		182	182		176
Basic earnings (loss) per common share	\$	1.41	\$ 1.99	\$	(0.05)
DILUTED EARNINGS (LOSS) PER SHARE COMPUTATION					
Numerator:					
Earnings (loss) from continuing operations applicable to common shares	\$	257	\$ 361	\$	(9)
Dilutive effect of:					
Convertible debentures		6	13		-
Earnings (loss) from continuing operations	-				
applicable to common shares, assuming dilution	\$	263	\$ 374	\$	(9)
Denominator:					
Weighted-average common shares outstanding (millions)		182	182		176
Dilutive effect of:					
Class VBN shares		_	12		8-
Convertible debentures		6	10		
Stock options		1	1		-
Weighted-average common shares outstanding, assuming dilution		189	205		176
Diluted earnings (loss) per common share	Ś	1.39	\$ 1.82	\$	(0.05)

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

(e) INVESTMENTS

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

(f) STOCK-BASED COMPENSATION

Effective January 1, 2001, the Company adopted a new accounting standard of the CICA in respect of stock-based compensation. This new standard is substantially identical to United States GAAP. For further information, reference is made

to Note 2(c). Under United States GAAP, had the Company elected to recognize the cost of its stock-based compensation based on the estimated fair value of stock options granted, the Company's results would have been as follows:

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

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

(d) PREEERRED SHARES

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

(h) COMPREHENSIVE INCOME

United States accounting standards for reporting comprehensive income are set forth in SFAS No. 130. Comprehensive income represents the change in equity during a reporting

period from transactions and other events and circumstances from non-owner sources. Components of comprehensive income include items such as net earnings (loss), changes in the fair value of investments not held for trading, minimum pension liability adjustments, derivative instruments and certain foreign currency translation gains and losses.

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

			Canad	dian GAAP			U	nited S	States GAA	P	
Year ended December 31		2001	(F	2000 Restated)	(1999 Restated)	2001	(R	2000 estated)	(1	1999 Restated)
Net earnings (loss)											
First quarter	\$	85	\$	101	\$	(18)	\$ 81	\$	101	\$	(18)
Second quarter		192		154		(19)	174		154		(19)
Third quarter		33		62		5	39		53		5
Fourth quarter		(5)		83		44	(11)		79		44
Year	\$	305	\$	400	\$	12	\$ 283	\$	387	\$	12
Net earnings (loss) per common share	-										
Basic	\$	1.52	\$	2.06	\$	(0.08)	\$ 1.41	\$	1.99	\$	(0.08)
Diluted	\$	1.49	\$	1.89	\$	(0.08)	\$ 1.39	\$	1.82	\$	(0.08)

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

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

(i) RECENT ACCOUNTING PRONOUNCEMENTS

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

The Company will also adopt, for United States reporting purposes, SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, in the first quarter of 2002 which supersedes SFAS No. 121, Accounting for the

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

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

		2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
				(Rest	ated) ²				(Rest	ated)3		
SUMMARY OF OPERATIONS 1												
(in millions of United States dollars												
except per share data)												
Net sales	\$	2,066	2,917	2,113	1,766	2,367	2,460	2.764	1,935	1,619	2,002	2.346
Cost of sales and operating expenses	S	1,414	1,774	1,602	1,473	1,816	1.693	1.866	1,541	1,288	1,464	1,715
Depreciation and depletion	S	263	265	248	244	226	240	227	224	216	224	206
Selling, general and administrative	S	111	105	99	96	109	111	116	104	109	116	120
Research and development	S	20	22	21	18	28	23	21	29	34	37	45
Exploration	\$	23	23	23	29	38	40	32	25	32	33	40
Currency translation adjustments	\$	(39)	(15)	-	_	-	-	-	-	- 52	-	40
Operating earnings (loss)	\$	274	743	120	(94)	150	353	502	12	(60)	128	220
Interest expense	S	56	83	73	86	81	85	88	89			220
Income and mining taxes	\$	(84)	226	26	(67)	30				99	112	117
Net earnings (loss)	S	305	400	12	(103)	75	107	177 227	(67) 7	(13)	28	12
Net earnings (loss) applicable to	J	303	400	12	(103)	13	179	221	/	13	(18)	83
common shares	S	276	274	(1.4)	(121)	4.4	157	045	0	0	(00)	7.0
Per common share - basic	\$	1.52	374	(14)	(131)	41	157	215	3	9	(22)	78
Common dividends declared	S	1.52	2.06	(0.08)	(0.79)	0.25	1.17	1.82	0.03	0.08	(0.21)	0.74
Per common share				-	16	67	51	47	47	44	92	105
	\$	-	0.7	-	0.10	0.40	0.40	0.40	0.40	0.40	0.85	1.00
Common shares outstanding		400	100	470	4.00							
(weighted-average, in millions)		182	182	176	166	167	134	118	116	110	108	105
OTHER FINANCIAL DATA ¹												
(in millions of United States dollars)												
Net cash provided by (used for)												
operating activities	\$	360	842	128	174	243	378	631	230	(20)	402	265
Capital expenditures	\$	263	227	260	437	535	425	304	126	168	216	404
Working capital	\$	560	365	292	283	690	805	766	905	678	598	508
Property, plant and equipment	\$	8,217	8,352	8,472	8,327	6,252	6,010	2,507	2,440	2,507	2,576	2,598
Total assets	\$	9,587	9,676	9,560	9,397	7,772	7,642	4,693	4,028	3,902	4,161	4,495
Total debt	\$	840	1,030	1,344	1,523	1,549	1,290	974	993	1,059	1,141	1,270
Preferred shares	\$	472	472	471	471	471	471	387	56	60	63	66
Common shareholders' equity	\$	4,571	4,290	3,291	3,024	3,225	3,268	1,601	1,450	1,304	1,608	1,668
Return on year-end common												
shareholders' equity		6.0%	8.7%	-	-	1.3%	4.8%	13.4%	0.2%	0.7%	=	4.79
Net debt as % of net debt plus equity		9%	15%	22%	25%	25%	21%	29%	36%	43%	40%	429
OPERATING DATA												
Ore mined (tonnes in millions)		14	13	13	14	14	16	16	13	14	14	15
Nickel production (tonnes in thousands)		207	203	177	192	179	187	183	156	167	182	174
Copper production (tonnes in thousands)		116	114	116	121	103	117	109	87	118	107	111
Nickel deliveries (tonnes in thousands)		230	259	258	253	266	253	270	235	212	215	230
Copper deliveries (tonnes in thousands)		117	118	120	133	138	142	117	105	112	111	115
Cobalt deliveries (tonnes)		1,454	1,422	1,568	2.004	2,295	1,846	1.712	1,304	1,297	1.402	1,393
Platinum-group metals deliveries		1,454	1,422	1,300	2,004	2,253	1,040	1,/12	1,304	1,201	1,402	1,353
		405	242	217	224	262	204	200	240	200	214	222
(troy ounces in thousands)		405	342	347	334	263	294	298	249	289	314	332
REALIZED PRICES PER TONNE (U.S. \$)											_	
Primary nickel, including intermediates	\$	6,468	9,007	6,415	5,291	7,407	7,959	8,510	6,614	5,997	7,452	8,466
Copper	\$	1,668	1,908	1,631	1,852	2,359	2,469	2,844	2,381	1,940	2,271	2,359
Cobalt	\$	23,216	29,475	30,556	44,577	48,457	56,945	63,801	51,433	31,592	49,317	25,904
OTHER STATISTICS												
Employees at year-end		10,258	10,143	10,198	11,007	14,278	16,308	15,818	15,709	16,337	17,724	18,369
Common shareholders at year-end		20,837	21,607	22,481	23,401	23,382	24,819	26,075	28,691	31,224	33,345	36,009

¹ Certain information for the years 1991 through 1996 has been reclassified to reflect the results of the Company's former alloys and engineered products business segments as discontinued operations (see Note 5 to the Consolidated Financial Statements).

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

³ Certain information for 1993 and 1994 has been restated to reflect the retroactive application of accrual accounting in respect of post-retirement benefits other than pensions. Years prior to 1993 have not been restated because the impact of the change in accounting policy is not reasonably determinable.

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

INVESTOR INFORMATION

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

Interest payable on the Company's debt securities held by non-Canadian residents may also be subject to Canadian withholding tax, depending upon the terms and provisions of such securities and any applicable tax treaties.

The Company's common shares and Preferred Shares Series E have general voting rights. At shareholders' meetings, each holder of these securities is entitled, subject to certain adjustments in the case of Preferred Shares Series E, to one vote for each share held and there are no cumulative voting provisions.

Subject to the preferential rights of the holders of the Company's Preferred Shares and any other prior ranking shares, the holders of common shares are entitled to such dividends as may be declared by the Board of Directors out of funds legally available therefor. No dividends or other distribution of 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 voting securities of the Company.

There are certain restrictions on the holding of Inco's voting equity securities. The *Investment Canada Act* (the "Act") limits the number of shares of a Canadian corporation, which may be acquired by a non-Canadian without approval under the Act. The effect of the Act is to prohibit the acquisition of control by a non-Canadian of certain Canadian businesses, such as the Company, unless such acquisition is found by the responsible Minister of the Government of Canada to be of net benefit to Canada.

Through subsidiaries and affiliates, the Company's operations are conducted in numerous countries and some \$1,800 million of the Company's consolidated total assets are located outside Canada and the United States. Accordingly, operations are subject to various governmental policies or regulations and changes therein and the risks associated with doing business in many overseas locations.

At year-end 2001, of the shareholders having general voting rights, 63 per cent had addresses in Canada, 28 per cent in the United States and 9 per cent elsewhere. Of these voting shares, Canadian residents of record held 45 per cent, United States residents of record 54 per cent and residents of record of other countries one per cent.

INTERNET/TELEPHONE VOTING

As a convenience, most Inco shareholders will be able to vote their shares through the use of proxies via the Internet, or by telephone, in addition to voting by mail. Instructions will be contained in the proxy materials that you will receive.

The Board of Directors consists of 13 members, one of whom is a full time employee of the Company. In 2001, the Board held 10 meetings. The activities of the Board are supported by its various committees.

CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

The Corporate Governance and Nominating Committee held three meetings in 2001. This committee has responsibility for reviewing and making recommendations with respect to developments in the area of corporate governance. As part of its responsibilities, it also makes recommendations to the Board with respect to candidates for nomination as new Board members, evaluates and recommends nominees for all Board committees, recommends incumbent Directors for nomination as continuing Board members and oversees Board tenure, compensation and resignation policies. It also annually evaluates the overall performance of the Board. This committee also evaluates nominations submitted by shareholders for election to the Board of Directors. This committee currently has the following members: Mr. Crawford, Chair, and Messrs. Bruneau, Barton and O'Brien. The Chief Executive Officer of the Company serves as an ex-officio and non-voting member of the committee.

PENSION COMMITTEE

The Pension Committee held three meetings during 2001. The committee consists of Mr. Hantho, Chair, Mr. Bruneau, Mrs. Erola and Mr. Glavin. It 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 policy.

MANAGEMENT RESOURCES AND COMPENSATION COMMITTEE

The Management Resources and Compensation Committee held two meetings in 2001. Committee membership includes Mr. Thomson, Chair and Messrs. Crawford, O'Brien and Stanford. 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.

AUDIT COMMITTEE

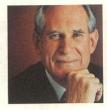
The Audit Committee held four meetings during 2001. The members of this committee include Mr. Glavin, Chair, Ms. Clitheroe, Mrs. Erola and Mr. Barton. The committee meets with the Company's financial management personnel, its internal auditors and its independent auditors at least four times a year to assist the Board of Directors in oversight responsibilities relating to, among other duties, (i) accounting and financial reporting principles and procedures for the Company, (ii) the adequacy of the Company's systems of internal accounting control and (iii) the quality and integrity of the Company's financial statements. Given the function of the committee is one of oversight, the members are not accountants or auditors and rely on the integrity of management, the internal audit staff and the independent auditors from whom they receive information, the accuracy of the information provided to them by such persons and organizations and representations made by management. In connection with the discharge of its duties and responsibilities, the committee reviews, among other areas, the Company's financial reporting practices and procedures, the Company's quarterly and annual financial statements prior to filing with regulatory agencies and the actual and prospective changes in significant accounting policies and their effect, the adequacy of the systems of internal accounting control, the planned scope of examinations by both auditing groups and their findings and recommendations and the scope of audit and non-audit services provided by the independent auditors.

ENVIRONMENT, HEALTH AND SAFETY COMMITTEE

In February 2002, the Board created the Environment, Health and Safety Committee to assist in its oversight responsibilities relating to, among other duties, (i) the review of the Company's environmental, health and safety policies, (ii) monitoring compliance with applicable environmental, health and safety laws and regulations relating to the Company's businesses and operations and (iii) the review of the Company's environmental, health and safety goals and objectives. This committee, as constituted by the Board in February 2002, is composed of the following four Directors: Mr. Bruneau, Chair, Mrs. Hošek and Messrs. Hantho and Thomson. No formal meetings of this committee have been held since it was created.













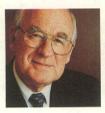














LEFT TO RIGHT, TOP TO BOTTOM Michael D. Sopko, Glen A. Barton, Angus A. Bruneau, O.C., Eleanor R. Clitheroe, Purdy Crawford, O.C., Q.C., The Honourable Judith A. Erola, P.C., William F. Glavin, Scott M. Hand, Charles H. Hantho, Chaviva M. Hošek, David P. O'Brien, James M. Stanford, Richard M. Thomson, O.C.

Chairman and Chief Executive Officer Caterpillar Inc. (heavy equipment manufacturer) Peoria, Illinois, U.S.A.

ANGUS A. BRUNEAU, O.C. Chairman Fortis Inc. (energy, utilities and services) St. John's, Newfoundland and Labrador, Canada

President and
Chief Executive Officer
Hydro One Inc.
(transmission, distribution and energy services)
Toronto, Ontario, Canada

PURDY CRAWFORD*, O.C., Q.C. Former Chairman Imasco Limited (consumer products and services) Toronto, Ontario, Canada THE HONOURABLE JUDITH A.
EROLA, P.C.
Retired President
Pharmaceutical Manufacturers
Association of Canada
Ottawa, Ontario, Canada

WILLIAM F. GLAVIN*
President Emeritus
Babson College
Wellesley, Massachusetts, U.S.A.

Deputy Chairman and Chief Executive Officer Inco Limited Toronto, Ontario, Canada

CHARLES H. HANTHO, C.M.
Chairman
Dofasco Inc.
(producer of iron, primary
steel and finished steel products)
Hamilton, Ontario, Canada

CHAVIVA M. HOŠEK
President and Chief Executive Officer
Canadian Institute for
Advanced Research
Toronto, Ontario, Canada
(organization supporting collaborative
research and related programs)

DAVID P. O'BRIEN
Chairman and Chief Executive Officer
PanCanadian Energy Corporation
(exploration, development,
production and marketing of natural
gas, crude oil, natural gas liquids
and electricity)
Calgary, Alberta, Canada

MICHAEL D. SOPKO Non-Executive Chairman Inco Limited Toronto, Ontario, Canada

Retired Chairman, President and Chief Executive Officer Petro-Canada (integrated oil and gas producer) Calgary, Alberta, Canada

RICHARD M. THOMSON, O.C. Retired Chairman and Chief Executive Officer The Toronto-Dominion Bank Toronto, Ontario, Canada

* These Directors will be retiring from the Board under the Board's retirement policy immediately prior to the Annual and Special Meeting of Shareholders in April 2002.

OFFICERS OF THE COMPANY AND SUBSIDIARY UNITS

SCOTT M HAND*

Deputy Chairman and Chief Executive Officer

PETER C. JONES"

President and Chief Operating Officer

EXECUTIVE VICE-PRESIDENTS

STUART F. FEINER

General Counsel and Secretary

PETER J. GOUDIE*

Marketing

GEORGE C. HALATSIS*

Chief Financial Officer

VICE-PRESIDENTS

WM. GORDON BACON

Technology and Engineering

SUBI BHANDARI

Chief Information Officer

BRUCE R. CONARD

Environmental and Health Sciences

MARK J. DANIEL*

Human Resources

ROBERT A. HORN

Exploration

DONALD T. HURLEY

Treasurer

INHN B INNES

Inco Special Products

CADV C KATWAY

Taxation

RONALD A. LEHTOVAARA

Comptroller

WILLIAM A NAPIES

Environment and Health

TERRY OWEN

Capital Projects

ALAN C. STUBBS'

Public and Government Affairs

OPERATIONS AND REGIONAL OFFICERS

RONALD C. AFLICK

President, Canadian and United Kingdom Operations

PIERRE ALLA

President and Directeur General Goro Nickel S.A.

DAVID J. ANDERSON

President

International Nickel, Inc.

R. ALLAN BALE

Production Director Inco Europe Limited

A. STEWART GENDRON

President

Voisey's Bay Nickel Company Limited

RICHARD I GUIDO

President

Inco United States, Inc.

EDWARD W. HODKIN

Senior Vice-President and Chief Operating Officer

PT International Nickel Indonesia Tbk

SHOZO KAWAGUCHI

President and Representative Director Inco TNC Limited

K.C. (DAVID) LUO

President Inco China

DAVID C. MAYNARD

Marketing Director Inco Europe Limited

KENNETH L. MONEY

President

The International Metals Reclamation Company, Inc.

RUMENGAN MUSU

President and Chief Executive Officer
PT International Nickel Indonesia Tbk

C.M. (JAMES) SHIH

President

Inco Asia Limited and Inco Pacific

Sales Limited

RIC STRATTON-CRAWLEY

Director General and Chief Operating Officer Goro Nickel S.A.

* Member of Management Committee

EXECUTIVE OFFICE

145 King Street West Suite 1500 Toronto, Ontario Canada M5H 4B7 (416) 361-7511 e-mail: inco@inco.com Web site: inco.com

PRINCIPAL OPERATING UNITS

Canadian and United Kingdom Operations

Sudbury, Ontario, Canada Thompson, Manitoba, Canada Port Colborne, Ontario, Canada Clydach, Swansea, Wales Acton, London, England

PT International Nickel Indonesia Tbk Sorowako, Indonesia 59 per cent owned

Inco TNC Limited Matsuzaka, Japan 67 per cent owned

PRINCIPAL SALES OFFICES

Inco Limited Toronto, Ontario, Canada (416) 361-7511

International Nickel, Inc. Saddle Brook, New Jersey U.S.A. (201) 368-4800

San Antonio, Texas U.S.A. (210) 366-8734

Inco Europe Limited London, England (44) 207 931-7733

International Nickel GmbH Dusseldorf, Germany (49) 211 17396-0

Inco TNC Limited Tokyo, Japan (81) 33-245-0621

Inco Asia Limited Bridgetown, Barbados (246) 228-0468

Inco Pacific Sales Limited Hong Kong, People's Republic of China (852) 2521-2333

Bangkok, Thailand ■ (66) 2 285-4414

Kaohsiung, Taiwan & (886) 7-787-0320

Inco China Shanghai, People's Republic of China ■ (86) 21 6249-2100

OTHER SUBSIDIARIES AND UNITS

Inco Special Products Toronto, Ontario, Canada (416) 361-7778

Inco United States, Inc. Saddle Brook, New Jersey U.S.A. (201) 843-8600

Novamet Specialty Products Corporation Wyckoff, New Jersey U.S.A. (201) 891-7976 The International Metals Reclamation Company, Inc. Ellwood City, Pennsylvania U.S.A. (724) 758-5515

Goro Nickel S.A. Paris, France 85 per cent owned by Inco S.A.

Goro Nickel, New Caledonian Branch of Goro Nickel S.A. Noumea, New Caledonia

Jinco Nonferrous Metals Co., Ltd. Kunshan, People's Republic of China 65 per cent owned

Voisey's Bay Nickel Company Limited St. John's, Newfoundland and Labrador, Canada (709) 758-8888

Exploraciones y Explotaciones Mineras Izabel, S.A. (Exmibal) Guatemala 70 per cent owned

2001 COMMON SHARE TRADING INFORMATION

	Quarter	Share trading volume (millions)	Share price high	Share price low
Toronto Stock Exchange	First	53	Cdn.\$29.09	Cdn.\$22.10
	Second	59	30.70	22.54
	Third	36	27.10	17.90
	Fourth	52	27.05	19.50
		200		
New York Stock Exchange	First	41	U.S.\$18.83	U.S.\$14.60
	Second	48	20.51	14.25
	Third	42	17.70	11.35
	Fourth	49	16.94	12.20
		180		

COMMON SHARES TRADED ON SEVEN MAJOR INTERNATIONAL STOCK EXCHANGES

Ticker Symbol

TICKET SYMBOT	
Toronto	N
New York	N
London	N
Paris	INCL
Swiss	N
Brussels	NT
Frankfurt	INC
Toronto	
Common Shares:	N
Series E Preferred Shares:	N. Pr. U
Common Share	
Purchase Warrants:	N. WT
New York	
Common Shares:	N
Series E Preferred Shares:	N. Pr. E
Common Share	
Purchase Warrants:	NWG

INDEX LISTINGS

S&P 500 TSE 35 Official TSE 100 TSE 300 S&P/TSE 60 TSE Metal & Mines S&P Metals - Misc.

NUMBER OF COMMON SHAREHOLDERS

(December 31, 2001)

20,837

(millions)

COMMON SHARES

Outstanding at
December 31, 2001
Weighted-average:
basic 182
diluted 189

VOLUME OF COMMON SHARES TRADED

(millions)	2001	2000
TSE	200	171
NYSE	180	139

Closing Price of Common Shares (December 31, 2001)

TSE	Cdn.\$27.05
NYSE	U.S.\$16.94

TRANSFER AGENTS AND REGISTRAR

CIBC Mellon Trust Company is
the registrar, transfer agent and
disbursing agent for the Common and
Series E Preferred Shares of Inco
Limited. As such, it handles all
dividend disbursing and shareholder
recordkeeping functions for Inco
shareholders, including activities
related to the Company's Optional
Stock Dividend Program and
Share Purchase Plan.

TRANSFER AGENTS

CIBC Mellon Trust Company Toronto, Montreal and Vancouver, and London, England ChaseMellon Shareholder Services, L.L.C., New York

EGISTRAR

CIBC Mellon Trust Company, Toronto

CORPORATE ADDRESS

Inco Limited 145 King Street West Suite 1500 Toronto, Ontario

Canada M5H 4B7

CONTACT INFORMATION

GENERAL INQUIRIES

For general inquiries:

Phone: (416) 361-7511 Facsimile: (416) 361-7781 e-mail: inco@inco.com Web site: inco.com

MEDIA INQUIRIES

For media inquiries contact:

Steve Mitchell Director, Public Affairs Phone: (416) 361-7950 Facsimile: (416) 361-7736 e-mail: smitchell@inco.com

INVESTOR INQUIRIES

For investor inquiries contact:

Sandra E. Scott
Director, Investor Relations
Phone: (416) 361-7758
Facsimile: (416) 361-7736
e-mail: sescott@inco.com

SHAREHOLDER INQUIRIES

For shareholder inquiries contact:

Catherine O'May Manager, Shareholder Services Phone: (416) 361-7844 Facsimile: (416) 361-7736 e-mail: comay@inco.com

or

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario M5C 2W9
Phone: (416) 643-5500
1-800-387-0825 (North America)
Facsimile: (416) 643-5501
e-mail: inquiries@cibcmellon.com

Web site: cibcmellon.com

ANNUAL MEETING

The Company's Annual and Special Meeting of Shareholders will be held at 10:00 a.m. on April 17, 2002 at the Metro Toronto Convention Centre, Constitution Hall on the Lower Level in Toronto, Ontario, Canada.

PUBLICATIONS

10-K REPORT AVAILABLE

A copy of the 2001 Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission, may be obtained in a downloadable format from our web site at inco.com. We will provide, without charge, a copy upon request or by writing to the: Office of Secretary, Inco Limited at our corporate address.

ANNUAL REPORT

report, please contact Inco Public Affairs at: Phone: (416) 361-7676 Facsimile: (416) 361-7736 This Report is also available in a downloadable format on our web site at inco.com

To receive additional copies of this

RAPPORT ANNUEL

La version française du Rapport annuel sera disponible en ligne en format téléchargeable à inco.com. Vous pouvez également communiquer avec le service des Affaires publiques d'Inco au (416) 361-7676.

Information contained in or otherwise accessible through our web site or any other web site referred to herein does not form a part of this Report. All references in this Report to our web site are inactive textual references only.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements are contained in this Report under "Corporate Profile," "Letter to Shareholders," "Operating Highlights," "Mineral Reserves and Resources." "Performance Scorecard," "Environment, Health and Safety" and "Management's Discussion and Analysis" with respect to projections for nickel supply and demand and stainless steel and stainless steel scrap, the Company's nickel, copper and precious metals production levels and costs, its position as a low-cost producer of nickel, its strategies and objectives, capital expenditures, expenses, premiums realized on its metals prices, its sales organization, personnel requirements, sensitivity of financial results to changes in metals prices, exchange rates and other costs, environmental, health and safety initiatives, sales of specialty nickel products, cost reduction and other financial and operating objectives for 2002 and beyond, the timing of construction and production at the Goro, Voisey's Bay, and other projects, mineral reserve and resource estimates, research and development initiatives, environmental proceedings, and other issues and aspects relating to its business and operations and other statements are "forward-looking statements" (as defined in the U.S. Securities Exchange Act of 1934 and related U.S. securities laws). Inherent in these statements are known and unknown risks, uncertainties and other factors well beyond the Company's ability to control or predict. Future results may differ materially from those contemplated by these statements depending on, among others, such key factors as business and economic conditions, the supply and demand for its products, deliveries, production levels, production and other anticipated and unanticipated costs and expenses, metals prices, premiums realized over London Metal Exchange cash and other benchmark prices, tax benefits, the Canadian-U.S. dollar and other exchange rates, the timing of the development of, fiscal and regulatory regimes, and capital costs and financing and partner arrangements associated with, the Goro and Voisey's Bay projects, the timing of the receipt of governmental and other approvals, the resolution of environmental and other proceedings, political instability in Indonesia and other countries, risks involved in mining, processing, exploration and research and development, competition and labour relations.

